

MODULE 3: ACCOUNTING INFORMATION SYSTEM

Chapters 7 & 8

Learning Objectives:

1. Complete the steps in the accounting cycle in order to prepare the financial statements
2. Apply generally accepted accounting principles to the purchasing (inventory) process for merchandising companies

Student Outcomes:		Topic*	Ch & Time
3.1	Describe the purpose of the accounting system.	F	Ch 7 12 hours
3.2	Describe the purpose of journals and ledgers and their relationship.	F	
3.3	Analyze and describe how business transactions impact the accounting equation.	F	
3.4	Apply the double-entry system of accounting to record business transactions and prepare a trial balance.	F	
3.5	Explain the need for adjusting entries and record adjusting entries.	F	
3.6	Prepare the financial statements for the different types of business operations and ownership structures.	F	
3.7	Explain the purposes of the closing process and record closing entries.	F	
3.8	Complete the steps in the accounting cycle and prepare financial statements.		
3.9	Describe the differences between the periodic and perpetual inventory systems.	F	Ch 8 5 hours
3.10	Record business transactions using the periodic inventory system and the perpetual inventory system.	F	
3.11	Describe the difference between the gross price method and the net price method.	F	
3.12	Record business transactions using the gross price method and the net price method.	F	
3.13	Determine cash paid for inventory and operating expenses.	F	
3.14	Calculate payroll taxes.	F	
		Module 3 Total Hours = 17	

MODULE 3 | CHS 7, 8

NOTES:

MODULE 3 | CHS 7, 8

LEARNING OBJECTIVE 3.1:

Describe the purpose of the accounting system.

Accounting is the information infrastructure of the firm/economy that permits it to achieve its objectives.

What are the three characteristics of an Accounting Event?

1. Specific to business
2. Measureable in monetary terms
3. Impacts assets, liabilities, and/or owner's equity

LEARNING OBJECTIVE 3.2:

Describe the purpose of journals and ledgers and their relationship.

LEARNING OBJECTIVE 3.3:

Analyze and describe how business transactions impact the accounting equation.

LEARNING OBJECTIVE 3.4:

Apply the double-entry system of accounting to record business transactions and prepare a trial balance.

LEARNING OBJECTIVE 3.5:

Explain the need for adjusting entries and record adjusting entries.

LEARNING OBJECTIVE 3.6:

Prepare the financial statements for the different types of business operations and ownership structures.

LEARNING OBJECTIVE 3.7:

Explain the purposes of the closing process and record closing entries.

LEARNING OBJECTIVE 3.8:

Complete the steps in the accounting cycle and prepare financial statements.

MODULE 3 | CHS 7, 8

NOTES:

MODULE 3 | CHS 7, 8

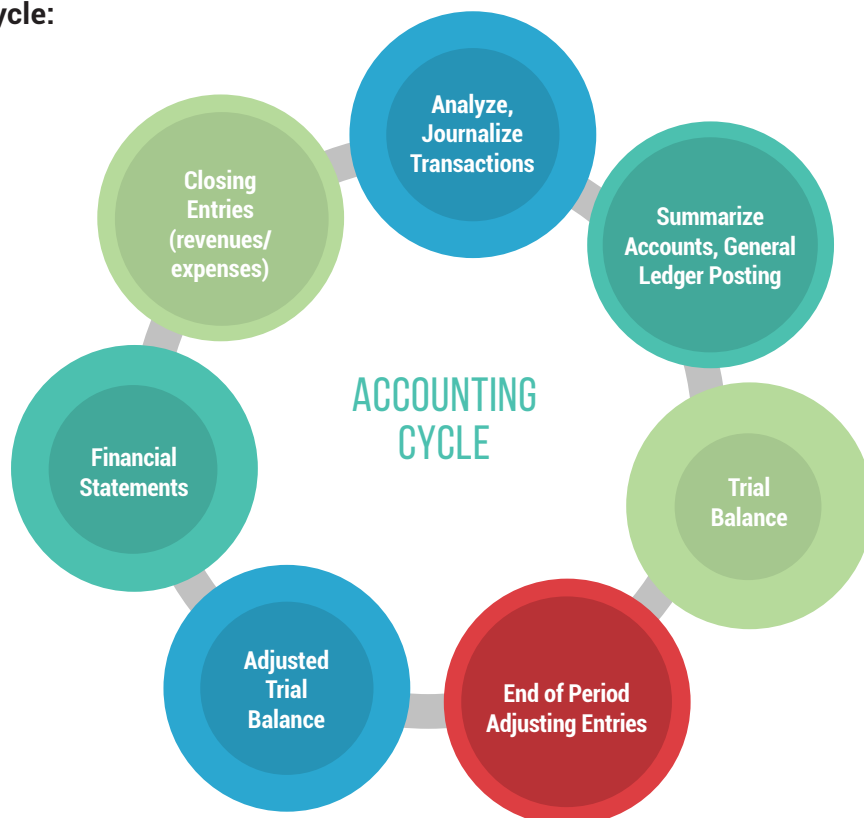
Accounting Equation:



Notes:

- ✓ Every Accounting Event has two effects, one *sacrifice* and one *benefit*.
- ✓ Assets are *economic resources*.
- ✓ Both liabilities and owner's equity are *equities*.
- ✓ Liabilities are the *creditor's* claims.
- ✓ Owner's equity is the *owner's* claims.
- ✓ A balance sheet communicates the *accounting equation* in report form.

Accounting Cycle:



MODULE 3 | CHS 7, 8

From www.mhhe.com/ainsworth7e - Chapter 7 Additional Problems

- P7.1 Kendall Corporation began operations on March 1, 2016 and completed the following transactions during its first month of operations.
- A. Issued common stock for \$100,000.
 - B. Paid \$18,000 for a one-year lease on office space.
 - C. Purchased office equipment costing \$35,000 by paying \$5,000 cash and signing a five-year note for the balance.
 - D. Purchased office supplies on account, \$750.
 - E. Sent a bill for \$4,500 to a customer for services performed.
 - F. Received \$1,000 from a customer for services to be performed next month.
 - G. Paid employees for hours worked, \$1,025.
 - H. Paid half of the amount owed for office supplies in transaction (D), \$375.
 - I. Received, but did not pay, the monthly telephone bill, \$275.
 - J. Paid a dividend to owners, \$2,000.

Required:

1. Determine the effect of each of the preceding events on the accounting equation.
2. Prepare the general journal entries to record each of these events. Use T-accounts (see next page) to keep track of balances. Do not prepare the adjusting entries.
3. Prepare the income statement for the period.
4. Prepare the statement of cash flows for the period.
5. Prepare the statement of retained earnings for the period.
6. Prepare the balance sheet at the end of the period.
7. Prepare the closing entries—use T-accounts.

MODULE 3 | CHS 7, 8

2. & 7. T-Accounts

Assets

Cash	
Accounts Rec.	
Office Supplies	
Prepaid Rent	
Office Equipment	

Liabilities

Acct. Payable	
Notes Payable	
Unearned Fees	

Stockholder's Equity

Common Stock	
Retained Earnings	
Dividends	
Income Summary	
Fees earned	
Wages Expense	
Telephone Expense	

MODULE 3 | CHS 7, 8

3.

KENDALL CORPORATION

Income Statement

For the month ended March 31, 2016

Revenue

Fees earned _____

Expenses

Telephone expense _____

Wages expense _____

Total expenses _____

Net Income _____

4.

KENDALL CORPORATION

Statement of Cash Flows

For the month ended March 31, 2016

Cash flows from operating activities

Cash received from customers _____

Cash paid for rent _____

Cash paid to suppliers _____

Cash paid to employees _____

Net cash flows _____

Cash flows from investing activities

Cash paid for office equipment _____

Net cash flows _____

Cash flows from financing activities

Cash received from issuing stock _____

Cash paid for dividends _____

Net cash flows _____

Increase (decrease) in cash flows _____

Cash, March 1, 2016 _____

Cash, March 31, 2016 _____

0

MODULE 3 | CHS 7, 8

5.

KENDALL CORPORATION
 Statement of Retained Earnings
 For the month ended March 31, 2016

Beginning balance	\$ 0
Add net income	_____
Less dividends	_____
Ending balance	_____

6.

KENDALL CORPORATION
 Balance Sheet
 March 31, 2016

Assets

Cash	_____
Accounts receivable	_____
Prepaid rent	_____
Office supplies	_____
Office equipment	_____
Total assets	_____

Liabilities

Accounts payable	_____
Unearned fees	_____
Notes payable	_____
Total liabilities	_____

Owners' equity

Common stock	_____
Retained earnings	_____
Total owners' equity	_____
Total liabilities and owners' equity	_____

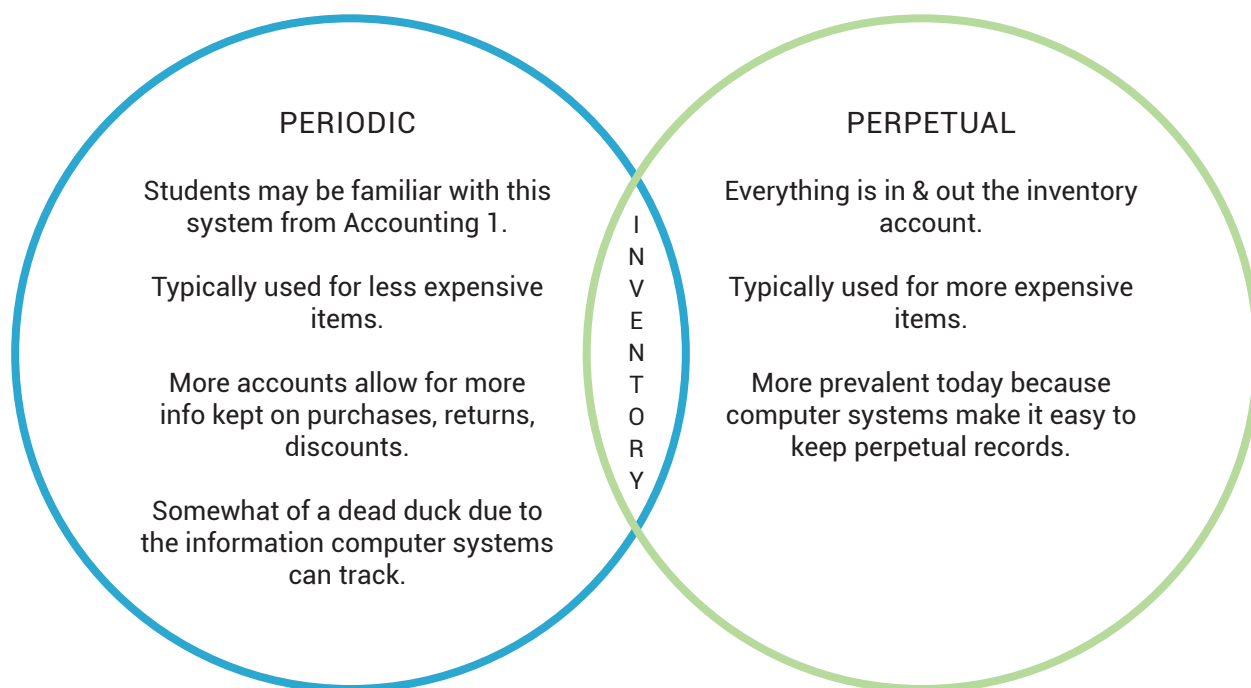
7. Record the closing entries on the t-accounts.

MODULE 3 | CHS 7, 8

LEARNING OBJECTIVE 3.9:

Describe the differences between the periodic and perpetual inventory systems.

PERIODIC VS. PERPETUAL INVENTORY SYSTEMS

Accounts used:

Purchases
 Purchases Returns and Allowances
 Purchases Discount
 Discount Lost (net method)

Accounts used:

Inventory (asset)
 Discount Lost (net method)

MODULE 3 | CHS 7, 8

LEARNING OBJECTIVE 3.10:

Record business transactions using the periodic inventory system and the perpetual inventory system.

Chapter 8 - Perpetual vs Periodic; Gross vs Net				
Complete the analysis of the following transactions in all four methods: Perpetual, Gross; Periodic, Gross; Perpetual, Net; and Periodic, Net				
	A. Purchase \$1,000 of inventory with terms 2/10, n/30			
	B. Returned \$200 of inventory			
	C. Paid for inventory within discount period			
	D. Paid for inventory after discount period			
	Perpetual, Gross	Periodic, Gross	Perpetual, Net	Periodic, Net
A.				
B.				
C.				
D.				

LEARNING OBJECTIVE 3.11:

Describe the difference between the gross price method and the net price method.

LEARNING OBJECTIVE 3.12:

Record business transactions using the gross price method and the net price method.

MODULE 3 | CHS 7, 8

LEARNING OBJECTIVE 3.13: Determine cash paid for inventory and operating expenses.

Financial statements and the expenditure process

The following information was taken from the accounting records of Trego Farms in 2016. For each of the following determine the amount of cash Trego Farms paid for the item given the data presented below.

A.	Beginning balance Prepaid Insurance	\$1,000			
	Ending balance Prepaid Insurance	\$1,400			
	Insurance Expense for 2016	\$2,000			
B.	Beginning Balance Salaries Payable	\$20,000			
	Ending Balance Salaries Payable	\$15,000			
	Salaries Expense for 2016	\$150,000			
C.	Beginning Balance Supplies	\$4,000			
	Ending Balance Supplies	\$5,000			
	Supplies Expense for 2016	\$2,800			
	Answer:				
A.				Prepaid Insurance:	
	Cash paid for insurance by Trego Farms =				
B.				Salaries Payable:	
	Cash paid for salaries by Trego Farms =				
C.				Supplies:	
	Cash paid for supplies by Trego Farms =				

LEARNING OBJECTIVE 3.14:
Calculate payroll taxes.