

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	

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NOTES:

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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.

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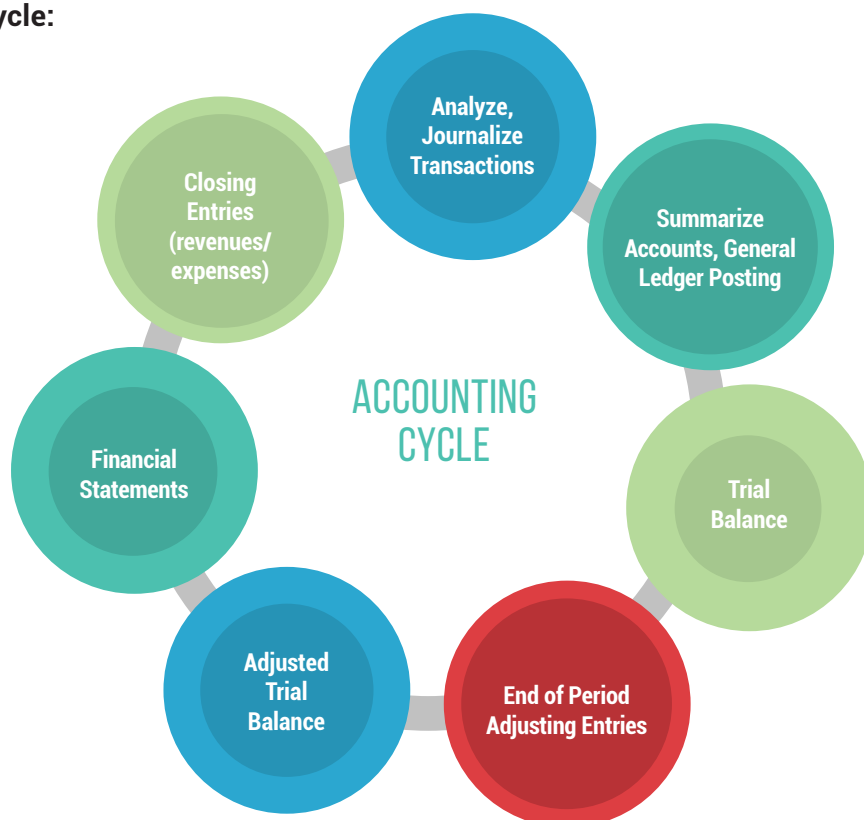
Accounting Equation:



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:



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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.

1. P7.1

1.
 - A. Assets increase, owners' equity increase
 - B. Assets increase, assets decrease
 - C. Assets increase, assets decrease, liabilities increase
 - D. Assets increase, liabilities increase
 - E. Assets increase, owners' equity increase
 - F. Assets increase, liabilities increase
 - G. Assets decrease, owners' equity decrease
 - H. Assets decrease, liabilities decrease
 - I. Liabilities increase, owners' equity decrease
 - J. Assets decrease, owners' equity decrease

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2..	A.	Cash	100,000	
		Common stock		100,000
	B.	Prepaid rent	18,000	
		Cash		18,000
	C.	Office equipment	35,000	
		Cash		5,000
		Note payable		30,000
	D.	Office supplies	750	
		Accounts payable		750
	E.	Accounts receivable	4,500	
		Fees earned		4,500
	F.	Cash	1,000	
		Unearned fees		1,000
	G.	Wages expense	1,025	
		Cash		1,025
	H.	Accounts payable	375	
		Cash		375
	I.	Telephone expense	275	
		Accounts payable		275
	J.	Retained earnings	2,000	
		Cash		2,000

3. KENDALL CORPORATION
Income Statement
For the month ended March 31, 2016

Revenue

Fees earned	\$4,500
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Expenses

Telephone expense	\$275
Wages expense	<u>1,025</u>
Total expenses	<u>1,300</u>
Net Income	<u>\$3,200</u>

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4.

KENDALL CORPORATION
Statement of Cash Flows
For the month ended March 31, 2016

Cash flows from operating activities		
Cash received from customers	\$1,000	
Cash paid for rent	(18,000)	
Cash paid to suppliers	(375)	
Cash paid to employees	(1,025)	
Net cash flows		(18,400)
Cash flows from investing activities		
Cash paid for office equipment	(5,000)	
Net cash flows		(5,000)
Cash flows from financing activities		
Cash received from issuing stock	100,000	
Cash paid for dividends	(2,000)	
Net cash flows		98,000
Increase (decrease) in cash flows		\$74,600
Cash, March 1, 2003		0
Cash, March 31, 2003		\$74,600

5.

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

Beginning balance	\$0
Add net income	3,200
Less dividends	(2,000)
Ending balance	\$1,200

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6.

KENDALL CORPORATION
Balance Sheet
March 31, 2016

Assets

Cash	\$74,600	
Accounts receivable	4,500	
Prepaid rent	18,000	
Office supplies	750	
Office equipment	<u>35,000</u>	
Total assets		<u>\$132,850</u>

Liabilities

Accounts payable	\$650	
Unearned fees	1,000	
Notes payable	<u>30,000</u>	
Total liabilities		\$31,650

Owners' equity

Common stock	\$100,000	
Retained earnings	<u>1,200</u>	
Total owners' equity		<u>101,200</u>
Total liabilities and owners' equity		<u>132,850</u>

7.

March 31	Fees earned	4,500	
	Retained earnings		4,500
March 31	Retained earnings	1,300	
	Telephone expense		275
	Wages expense		1,025
March 31	Retained earnings	3,200	
	Dividends		3,200

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2. & 7. T-Accounts

Assets

Cash	
A. 100,000	B. 18,000
F. 1,000	C. 5,000
	G. 1,025
	H. 375
	J. 2,000

Accounts Rec.	
E. 4,500	

Office Supplies	
D. 750	

Prepaid Rent	
B. 18,000	

Office Equipment	
C. 35,000	

Liabilities

Accts. Pay.	
H. 375	D. 750
	I. 275

Unearned Fees	
	F. 1,000

Notes Pay.	
	C. 30,000

Owner's Equity

Common Stock	
	A. 100,000

Retained Earnings	
Clo. 1,300	Clo. 4,500
Clo. 2,000	
	1,200

Dividends	
J. 2,000	Clo. 2,000

Fees Earned	
Clo. 4,500	E. 4,500

Telephone Expense	
I. 275	Clo. 275

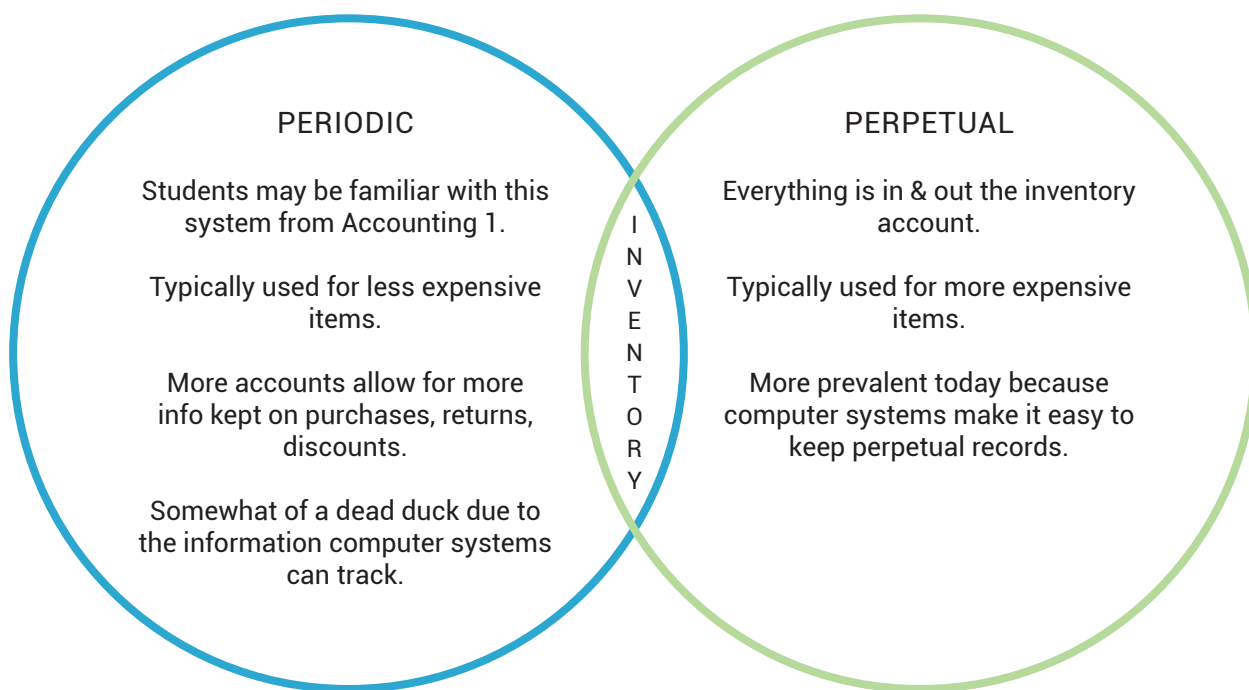
Wages Expense	
G. 1,025	Clo. 1,025

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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)

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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		

4 Combos Example

	Perpetual, Gross		Periodic, Gross		Perpetual, Net		Periodic, Net	
A.	Inventory	1000	Purchases	1000	Inventory	980	Purchases	980
	A/P	1000	A/P	1000	A/P	980	A/P	980
B.	A/P	200	A/P	200	A/P	196	A/P	196
	Inventory	200	Purch R&A	200	Inventory	196	Purch R&A	196
C.	A/P	800	A/P	800	A/P	784	A/P	784
	Cash	784	Cash	784	Cash	784	Cash	784
	Inventory	16	Purch Disc	16				
D.	A/P	800	A/P	800	A/P	784	A/P	784
	Cash	800	Cash	800	Disc Lost	16	Disc Lost	16
					Cash	800	Cash	800

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.

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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 =			

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Financial statements and the expenditure process

A.	Beginning balance Prepaid Insurance	\$1,000
	Add: Cash Paid for Insurance	?
	Total Possible Expense	?
	Less: Insurance Expense Incurred	\$2,000
	Ending Balance of Prepaid Insurance	\$1,400

$$1,000 + ? - 2,000 = 1,400$$

$$? = 2,400$$

Prepaid Insurance:	
1,000	
2,400	2,000
1,400	

B.	Beginning Balance Salaries Payable	\$20,000
	Add: Salary Expense Incurred	\$150,000
	Total Possible Liability	\$170,000
	Less: Cash Paid	?
	Ending Balance of Salaries Payable	\$15,000

$$20,000 + 150,000 - ? = 15,000$$

$$? = 155,000$$

Salaries Payable:	
	20,000
155,000	150,000
	15,000

C.	Beginning Balance Supplies	\$4,000
	Add: Cash Paid for Supplies	?
	Total Possible Expense	?
	Less: Salaries Expense Incurreed	\$2,800
	Ending Balance of Salaries	\$5,000

$$4,000 + ? - 2,800 = 5,000$$

$$? = 3,800$$

Supplies	
4,000	
3,800	2,800
5,000	

LEARNING OBJECTIVE 3.14:

Calculate payroll taxes.