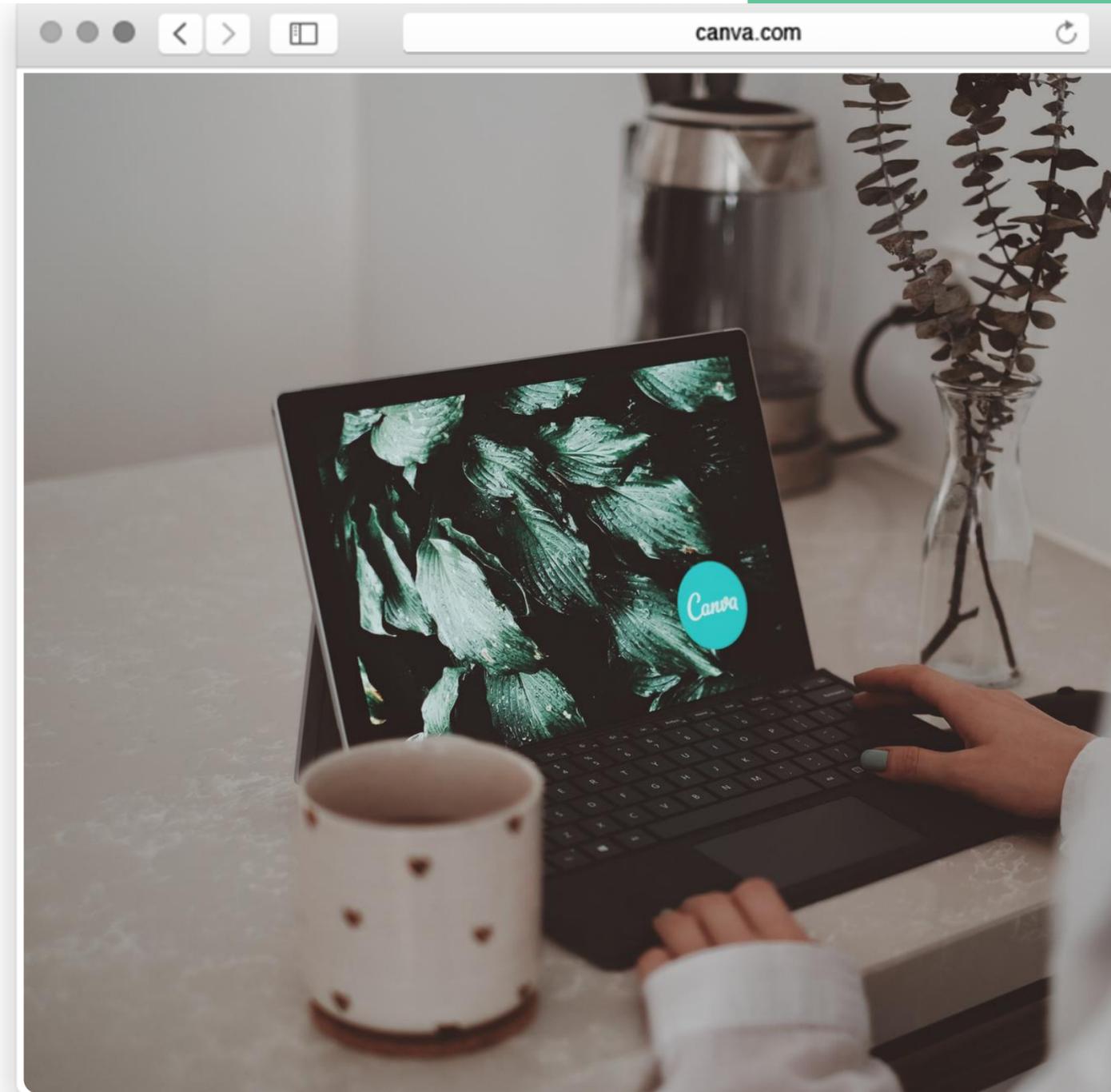


Chapter 4 : Basic of Accounting Systems

Dr. Phannee Rojanabenjakun



Objectives of Learning

After finished this Chapter, student should know as below;

- **Meaning of accounting systems**
- **The process of accounting**
- **Business Transactions Analysis**
- **Accounting recording**
- **Performance Report**

1. Meaning of accounting systems

An accounting system

- It's a system that is employed in a company to organize financial information.
- It can be either manual or computerized.
- It's to keep track of expenses, income, and other activities. Basically keep an eye (watch) on all data that affect the finances of a business organization.

Accounting & Organization

Accounting can serve for

- 1. General Management** General managers need to understanding accounting data in order to make wise business decisions.
- 2. Marketing** to help sales making a sale and profitable sale.
- 3. Finance** to analyze financial statement
- 4. Real Estate** to invest some value stocks.

Accounting & Organization



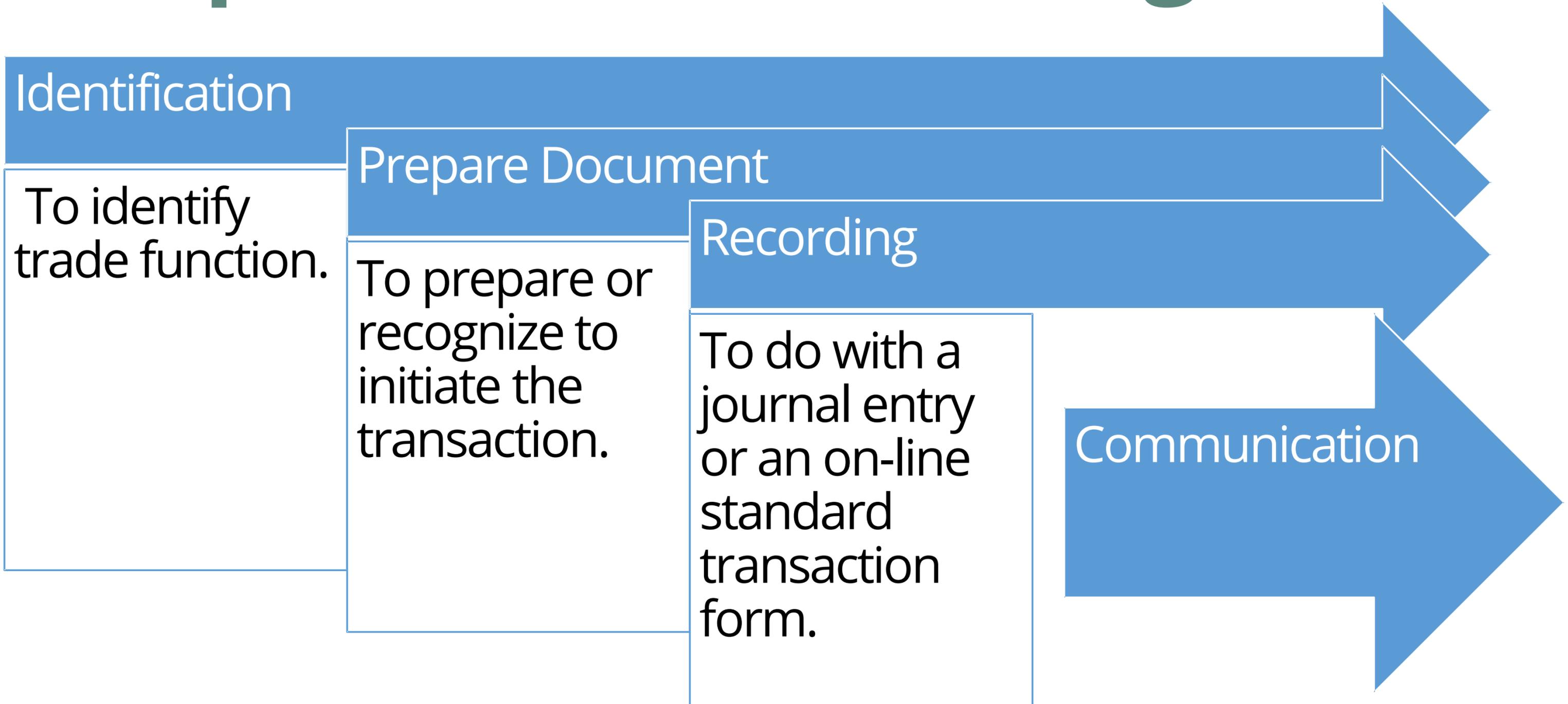
2. The process of accounting

- To identify trade function.**
 - > Examples are buying goods from suppliers, selling products to customers, paying employees, and recording the receipt of cash from customers, which call transaction.**

2. The process of accounting

- **Prepare Document** To be prepared or recognized to initiate the transaction, such as an invoice.

The process of accounting



3. Business Transactions Analysis

- Analysis of business transactions □ **observing** the change in financial position of the business because of business transactions which concern Assets, Liabilities, Capital, Expenses and Revenue.

การวิเคราะห์รายการค้าในรูปสมการบัญชี

วันที่	สินทรัพย์					=	หนี้สิน		+	ส่วนของผู้ถือหุ้น				ชื่อบัญชี		
	เงินสด	+ ลูกหนี้การค้า	+ วัสดุสิ้นเปลือง	+ อุปกรณ์			+ เจ้าหนี้การค้า	+ เงินกู้		+ ทนค่าโรสะสม	+ รายได้	- ค่าใช้จ่าย	- เงินปันผล			
มี.ค.-01	100,000									100000					ทุนเรือนหุ้น	
	30,000									30000					ค่าโรสะสม	
3	- 6,000											-6000			ค่าสาธารณูปโภค	
6	45,000							45000								
9	- 60,000				60000											
12	16,000										16000				รายได้ค่าบริการ	
15			4700			4700										
18	- 5,200											-5200			ค่าเช่า	
21		40000									40000				รายได้ค่าบริการ	
27	- 28,000											-28000			เงินเดือนและค่าแรง	
31	- 5,000												-5000		เงินปันผล	
	86,800	+ 40,000		4,700	60,000		4,700	45,000		130,000	+ 56,000	- 39,200	- 5,000			
	191,500						191500									

Analysis of business transactions in Accounting Equation

Date	Asset						=	Liabilities			+	Shareholders' Equity					Books of Account
	Cash	+ Accounts receivable	+ Supply	+ Equipment	+ Accounts Payable	+ Loan		+ Capital Retained Earnings	+ Income	- Expenses		- Dividend					
มี.ค.-01	100,000										100,000					capital stock	
	30,000										30,000					Retained Earnings	
3	- 6,000												- 6,000			Utility Bills	
6	45,000							45,000									
9	- 60,000				60,000												
12	16,000											16,000				Income from seivices	
15			4,700			4,700											
18	- 5,200												- 5,200			Rent	
21		40,000										40,000				Income from seivices	
27	- 28,000												- 28,000			Salary and Wage	
31	- 5,000													- 5,000		Dividend	
	86,800	+ 40,000	4,700	60,000	4,700	45,000	130,000	+ 56,000	- 39,200	- 5,000							
	191,500							191,500									

Analysis of business transactions



The five basic elements of accounting are: Assets, Liabilities, Capital, Expenses and Revenue.

4. Accounting recording

- Accounting is the recording, analysis and reporting of events that are materially significant to a company.
- Accounts contain records of changes to assets, liabilities, shareholders' equity, revenues and expenses.

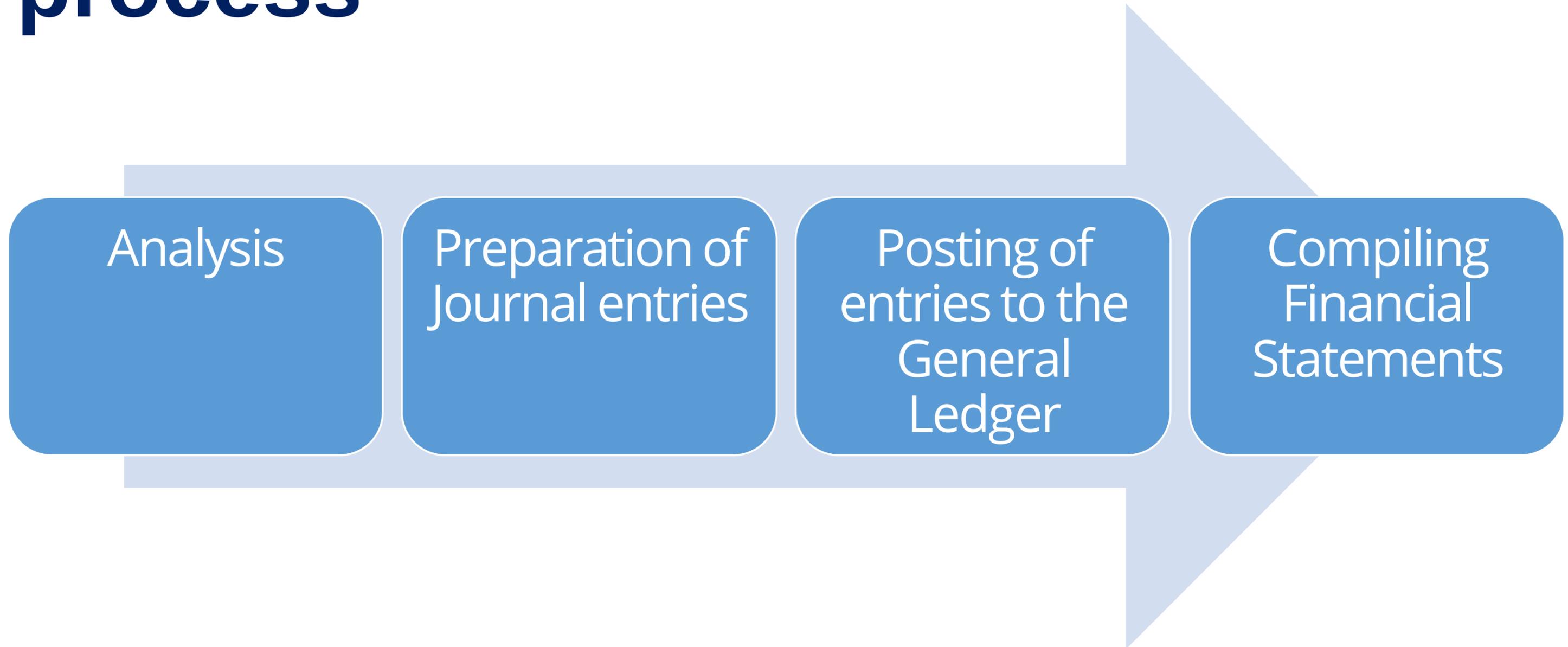


Learning Objectives

After studying this chapter, you should be able to:

- Explain what an account is and how it helps in the recording process.
- Define debits and credits and explain their use in recording business transactions.
- Identify the basic steps in the recording process.
- Explain what a journal is and how it helps in the recording process.
- Explain what a ledger is and how it helps in the recording process.
- Explain what posting is and how it helps in the recording process.
- Prepare a trial balance and explain its purposes.

Sequence of steps in the recording process



Basics: Debits and Credits

Debits and credits are the basic accounting tools for changing accounts.

Debits increase the asset and expense accounts, and they decrease the liability, equity and revenue accounts.

Credits increase the liability, equity and revenue accounts, and they decrease the asset and expense accounts.

Debits and credits are on the left and right sides, respectively, of a T-account, which is the most basic form of representing an account.

Account

Account

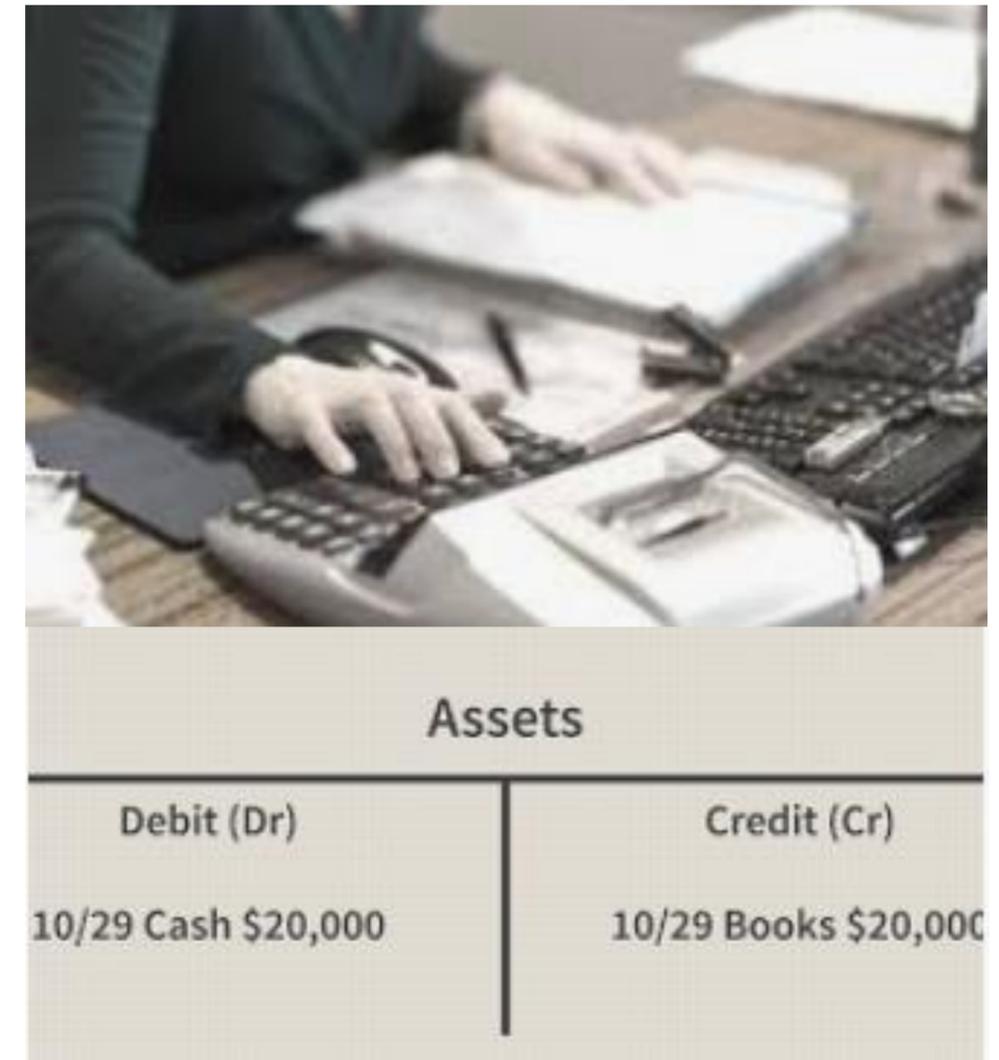


- ◆ Record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- ◆ Debit = "Left"
- ◆ Credit = "Right"

An account can be illustrated in a T-account form.



Account Name	
Debit / Dr.	Credit / Cr.



Debits and Credits

Double-entry system

- **Each transaction must affect two or more accounts to keep the basic accounting equation in balance.**
- **Recording done by debiting at least one account and crediting another.**

DEBITS must equal CREDITS.

Debits and Credits

If Debit amounts are greater than Credit amounts, the account will have a debit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
Transaction #3	8,000		
Balance	\$15,000		

Debits and Credits

If Debit amounts are less than Credit amounts, the account will have a credit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
		8,000	Transaction #3
Balance		\$1,000	

Debits and Credits : Concept

Debits increase assets and decrease liabilities. Accounts that normally have debit balances are; assets, owner's drawing, and expenses.

Analysis

- **Is the first step** in the recording process is to analyze the transaction, determine the accounting entries and record them in the appropriate accounts.
- **Includes an examination of the paper** or electronic record of the transaction, such as an invoice, a sales receipt or an electronic transfer.
- **To analyze transactions** include sales of products, delivery of services, buying supplies, paying salaries, buying advertising and recording interest payments.
- **To record transactions** of the accrual accounting in the same period they occur.

Journal Entries

Journal entries are the second step in the recording process.

- To do a chronological (sequence) record of transactions.**
- An entry consists of the transaction date, the debit and credit amounts for the appropriate accounts and a brief memo explaining the transaction.**

Journal Entries :Steps in the Recording Process

Business documents, such as a sales slip, a check, a bill, or a cash register tape, provide evidence of the transaction.

Book of original entry.

- Transactions recorded in chronological order.
- Contributions to the recording process:
 - Discloses the complete effects of a transaction.
 - Provides a chronological record of transactions.
 - Helps to prevent or locate errors because the debit and credit amounts can be easily compared.

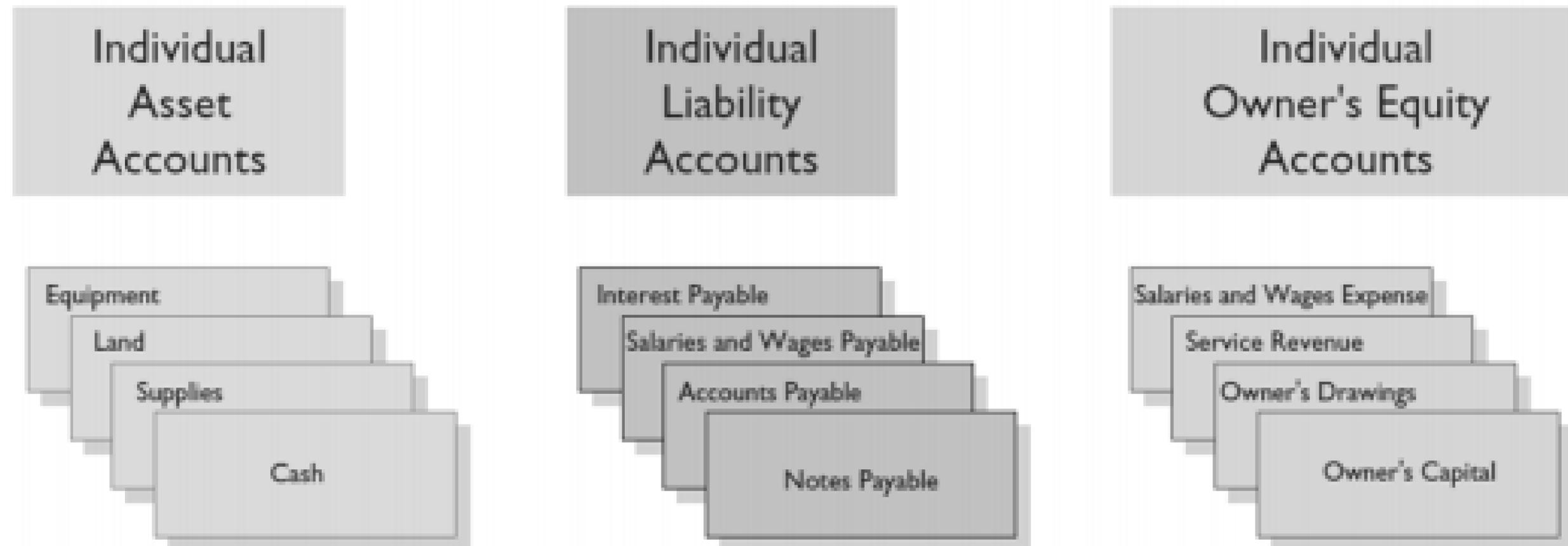
Example

Journalizing - Entering transaction data in the journal. □ On September 1, Ray Neal invested \$15,000 cash in the business, and Softbyte purchased computer equipment for \$7,000 cash.

Date	Account Title	Ref.	Debit	Credit
Sept. 1	Cash		15,000	
	Owner's Capital			15,000
	Equipment		7,000	
	Cash			7,000

Ledger : Steps in the Recording Process

General Ledger contains the entire group of accounts maintained by a company.



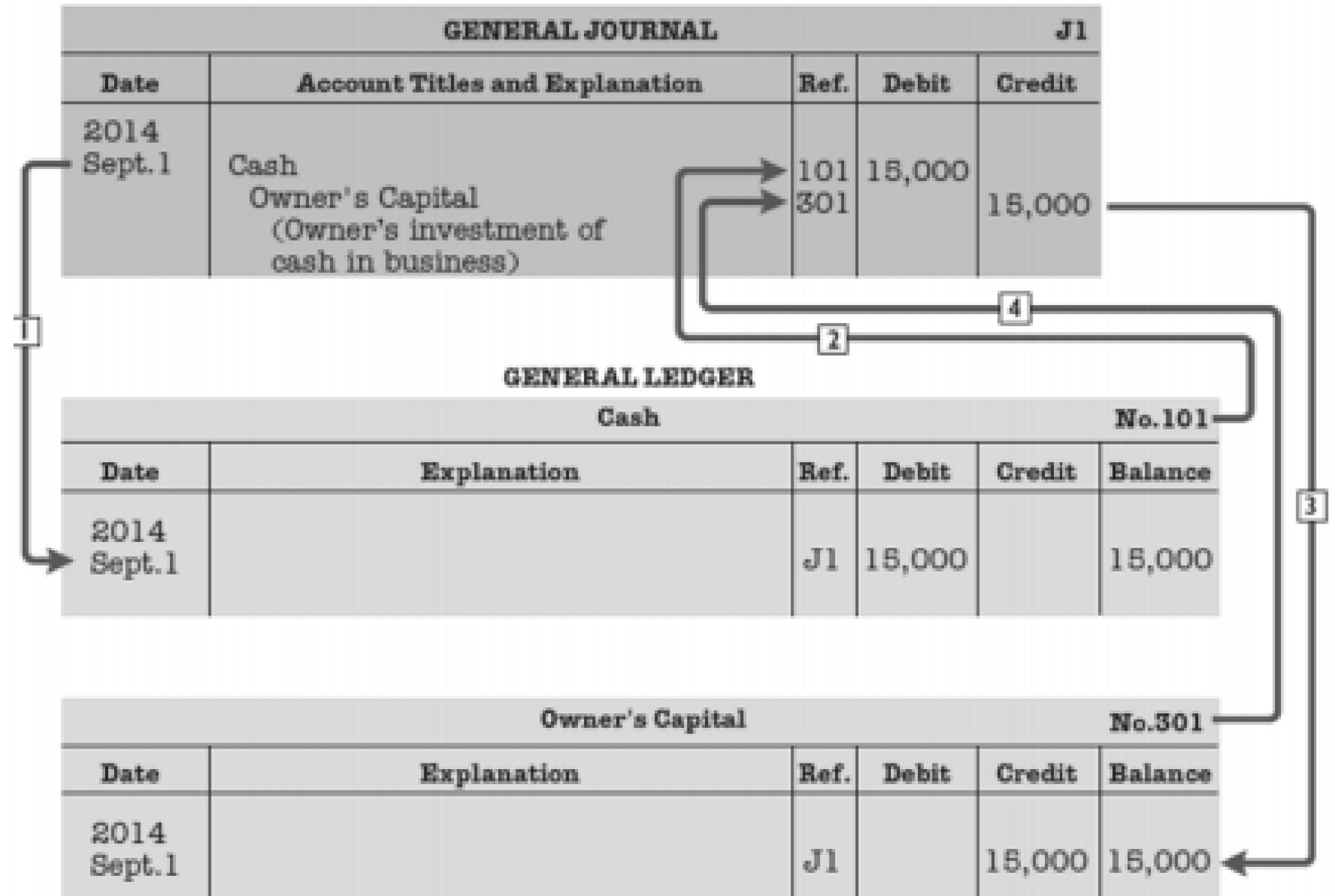
Posting to Ledger

The third and final step in the recording process

- Is to post the journal entries to the general ledger.
- To contain summary records of all accounts. □ Each record has fields for transaction date, comments, debits, credits and outstanding balance, a credit amount for the sales account, a debit amount for the cash account and updating the respective balances.
- The general ledger may be in the form of a binder, index cards or a software application.

Step of Posting

process of transferring amounts from the journal to the ledger accounts.



- Key;** 1= Post to debit account-date, journal page number, and amount.
 2= Enter debit account number in journal reference column.
 3= Post to credit account-date, journal page number, and amount.
 4= Enter credit number in journal reference column.

Chart of Accounts

Accounts and account numbers arranged in sequence in which they are presented in the financial statements.



<https://accountingforeducation.weebly.com/36273609365636233618360736373656-2.html>

CHART OF ACCOUNTS

100 Assets		400 Revenues	
110	Cash	410	Sales
111	Notes receivable	411	Sales returns and allowances
112	Accounts receivable	412	Sales discount
113	Interest receivable		
115	Merchandise inventory		500 Costs and expenses
116	Office supplies	510	Cost of goods sold
117	Prepaid insurance	520	Sales salaries expense
120	Land	521	Advertising expense
123	Store equipment	522	Depreciation expense - store equipment
124	Accumulated depreciation - store equipment	529	Miscellaneous selling expense
125	Office equipment	530	Office salaries expense
126	Accumulated depreciation - office equipment	531	Rent expense
	200 Liabilities	532	Depreciation expense - office equipment
210	Accounts payable	533	Insurance expense
211	Salaries payable	534	Office supplies expense
212	Unearned rent	539	Miscellaneous admin. expense
215	Notes payable		
	300 Stockholder's equity		600 Other income
310	Capital stock	610	Rent income
311	Retained earnings	611	Interest income
312	Dividends		
313	Income summary		700 Other expenses
		710	Interest expense

Compiling Financial Statements

A **compilation** refers to a company's **financial statements**; **H**ave been prepared or **compiled** by an outside accountant.



Trial Balance

A trial balance

- Is a bookkeeping worksheet in which the balance of all ledgers are compiled into debit and credit account column totals that are equal.
- A company prepares a trial balance periodically, usually at the end of every reporting period.
- The general purpose of producing a trial balance is to ensure the entries in a company's bookkeeping system are mathematically correct.

Win Company

Adjusted Trial Balance

December 31, Year 1

	Debit	Credit
Cash	16,350	
Accounts receivable	37,050	
Supplies	1,650	
Land	120,000	
Accounts payable		27,000
Common stock		60,000
Retained earnings		35,400
Dividends	7,500	
Consulting revenue		292,500
Salaries expense	180,000	
Supplies expense	5,850	
Insurance expense	10,500	
Rent expense	36,000	
Totals	414,900	414,900

5. Performance Report

What is a Performance Report?

To address the outcome of an activity or the work of an individual.

- **To compare actual outcomes to a budget or standard, as well as the variance between the two figures.**
- **The recipient of a performance report is expected to take action when there is an unfavorable variance.**

Performance Report

A company makes a valid analysis of expense controls by comparing actual results with a flexible operating budget based on the levels of sales and production that actually occurred.

Exhibit 22.2 Responsibility Accounting Performance Reports

Executive Vice President, Operations	For July		
	Budgeted Amount	Actual Amount	Over (Under) Budget
Controllable Costs			
Salaries, VPs	\$ 80,000	\$ 80,000	\$ 0
Quality control costs	21,000	22,400	1,400
Office costs	29,500	28,900	(700)
Southwest region	276,700	279,500	2,800
Northwest region	290,000	280,600	(9,400)
Totals	\$ 797,300	\$ 791,300	\$ 6,000

Vice President, Southeast Region	For July		
Budgeted Amount	Actual Amount	Over (Under) Budget	
Controllable Costs			
Salaries, department managers	\$ 75,000	\$ 76,500	\$ 1,500
Depreciation	10,600	10,600	0
Insurance	6,800	6,300	(500)
Beverage department	79,600	79,900	300
Food department	61,500	64,200	2,700
Service department	43,200	42,000	(1,200)
Totals	\$ 276,700	\$ 279,500	\$ 2,800

Plant Manager, Beverage Department	For July		
Budgeted Amount	Actual Amount	Over (Under) Budget	
Controllable Costs			
Direct materials	\$ 51,600	\$ 52,500	\$ 900
Direct labor	20,000	19,600	(400)
Overhead	8,000	7,800	(200)
Totals	\$ 79,600	\$ 79,900	\$ 300

ABC Company

Comparison of planned operating budget and actual results

For quarter ended 2020 March

	Planned budget	Actual
Sales (budgeted 20,000 units, actual 19,000 units)	\$400,000	\$380,000
Cost of goods sold:		
Beginning finished goods inventory	\$130,000	\$130,000
Cost of goods manufactured (25,000 units):		
Direct materials	\$ 50,000	\$ 62,500
Direct labor	150,000	143,750
Variable manufacturing overhead	25,000	31,250
Fixed manufacturing overhead	75,000	75,000
Cost of goods manufactured	\$300,000	\$312,500
Cost of goods available for sale	\$430,000	\$442,500
Ending finished goods inventory	180,000	200,000
Cost of goods sold	\$250,000	\$242,500
Gross margin	\$150,000	\$137,500
Selling and administrative expenses:		
Variable	\$ 40,000	\$ 28,500
Fixed	100,000	95,000
Total selling and administrative expenses	\$ 140,000	\$123,500
Income before income taxes	\$ 10,000	\$ 14,000
Deduct: Estimated income taxes (40%)	4,000	5,600
Net income	\$ 6,000	\$ 8,400

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Q & A