Q: Briefly discuss about the four types of Financial Statements.

Companies prepare four financial statements from the summarized accounting data:

1. An income statement presents the revenues and expenses and resulting net income or net loss for a specific period of time.

2. An owner's equity statement summarizes the changes in owner's equity for a specific period of time.

3. A balance sheet reports the assets, liabilities, and owner's equity at a specific date.

4. A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

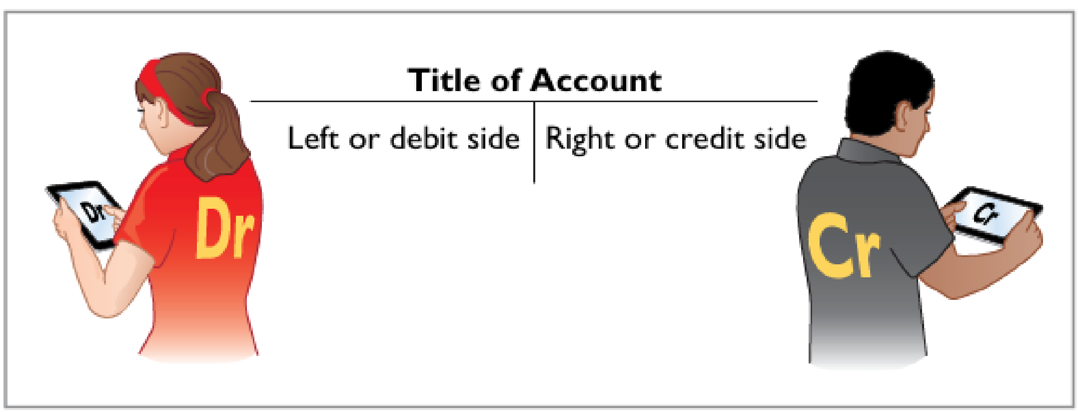
Q: What is an account?

An account is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item. For example, the last tabular analysis would have separate accounts for Cash, Accounts Receivable, Accounts Payable, Service revenue Accounts, Salaries, utilities Expense, and so on.

Q: Briefly discuss the concept of Debits and credits.

The term debit indicates the left side of an account, and credit indicates the right side. They are commonly abbreviated as Dr. for debit and Cr. for credit. They do not mean increase or decrease, as is commonly thought. We use the terms debit and credit repeatedly in the recording process to describe where entries are made in accounts. For example, the act of entering an amount on the left side of an account is called debiting the account. Making an entry on the right side is crediting the account.

When comparing the totals of the two sides, an account shows a debit balance if the total of the debit amounts exceeds the credits. An account shows a credit balance if the credit amounts exceed the debits

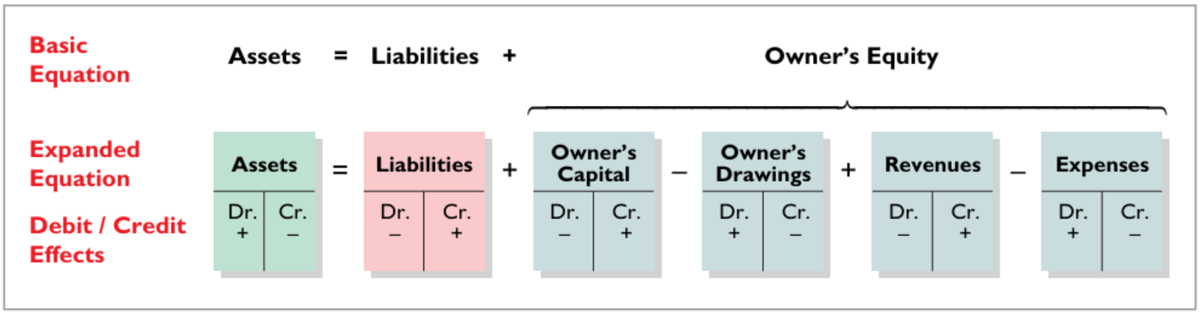


Basic Form of account

Q: What is double entry system?

The equality of debits and credits provides the basis for the double-entry system of recording transactions. Under the double-entry system, the dual (two-sided) effect of each transaction is recorded in appropriate accounts. This system provides a logical method for recording transactions and also helps ensure the accuracy of the recorded amounts as well as the detection of errors. If every transaction is recorded with equal debits and credits, the sum of all the debits to the accounts must equal the sum of all the credits.

Q: Summary of Debit/Credit rules



Summary of Debit/Credit

Q: The accounting cycle

The accounting cycle is a structured, multi-phase system that records, processes, and reports a company's financial activities to provide accurate financial statements. There are several steps in a complete accounting cycle. All steps in the accounting cycle are briefly discusses below:

1. Identify and analyze transactions: This process involves the identification of financial events relevant to business operations and analysis.

2. The Journal entries: Companies initially record transactions in chronological order (the order in which they occur). Thus, the journal is referred to as the book of original entry. For each transaction, the journal shows the debit and credit effects on specific accounts.

3. The ledger: The entire group of accounts maintained by a company is the ledger. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances.

4. A trial balance: A trial balance is a list of accounts and their balances at a given time. Companies usually prepare a trial balance at the end of an accounting period. They list accounts in the order in which they appear in the ledger. Debit balances appear in the left column and credit balances in the right column. The totals of the two columns must equal.

5. Journalize and post adjusting entries: Adjusting entries are performed to account for accruals, deferrals, and other things that must be recorded to update account balances prior to the preparation of financial statements.

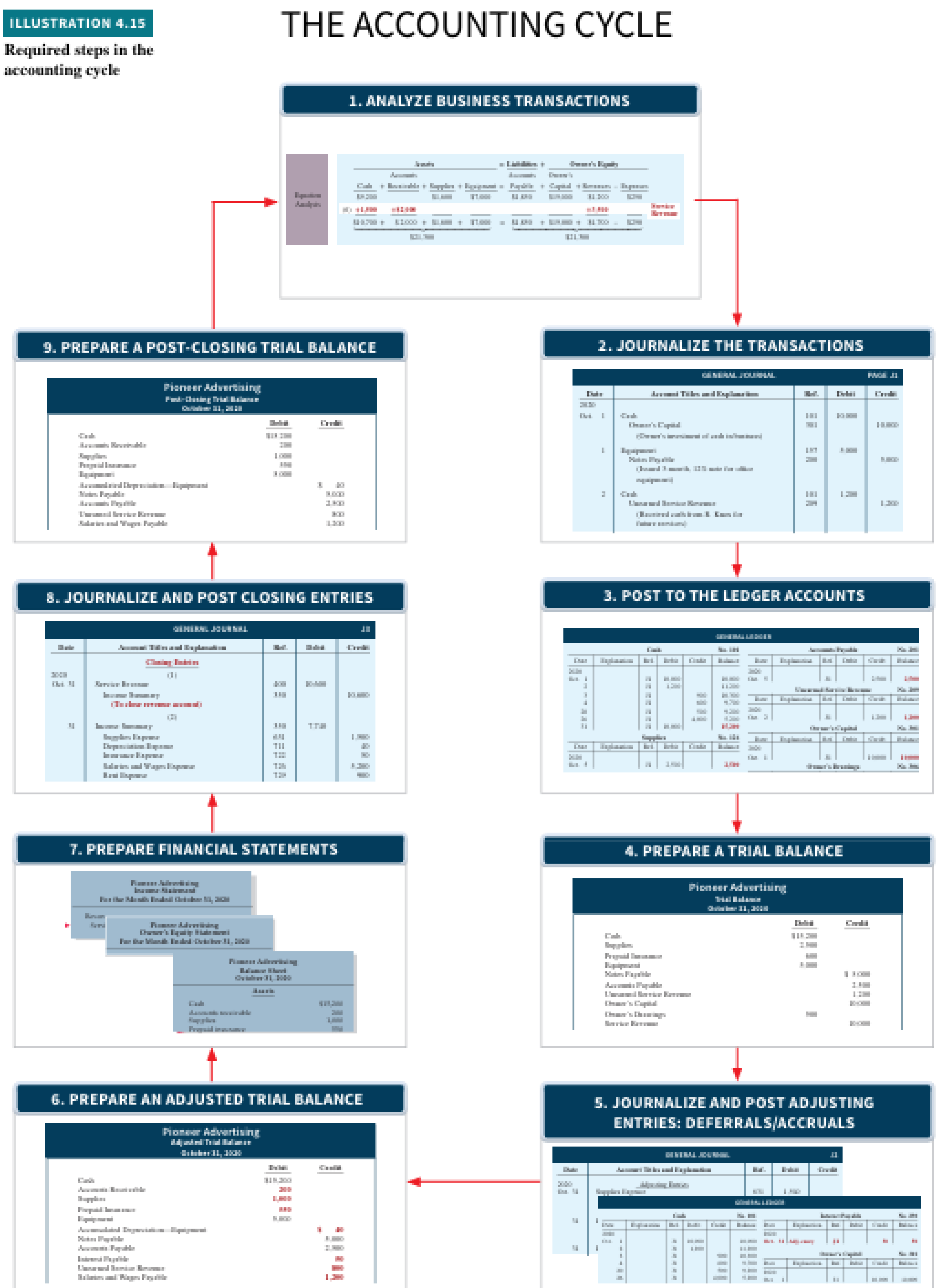
6. Prepare an adjusted trial balance: After a company has journalized and posted all adjusting entries, it prepares another trial balance from the ledger accounts. This trial balance is called an adjusted trial balance. It shows the balances of all accounts, including those adjusted, at the end of the accounting period. The purpose of an adjusted trial balance is to prove the equality of the total debit balances and the total credit balances in the ledger after all adjustments.

7. Prepare financial statements: On the basis of adjusted trial balance, company intends to prepare financial statements consisting of Income statement, owner's equity statement, balance sheet, and statement of cash flows.

8. Journalize and prepare a post-closing entries: At the end of the accounting period, the company transfers temporary account balances to the permanent owner's equity account, Owner's Capital, by means of closing entries. Closing entries formally recognize in the ledger the transfer of net income (or net loss) and owner's drawings to owner's capital. The owner's equity statement shows the results of these entries. Closing entries also produce a zero balance in each temporary account. Permanent accounts are not closed.

9. Post-closing trial balance: The post-closing trial balance lists permanent accounts and their balances after the journalizing and posting of closing entries. The purpose of the post-closing trial balance is to prove the equality of the permanent account balances carried forward into the next accounting period. Since all temporary accounts will have zero balances, the post-closing trial balance will contain only permanent balance sheet accounts.

ILLUSTRATION 4.15
Required steps in the accounting cycle



*** This lecture material is mostly derived from the book of Weygandt, kimmel, and Kieso. In addition few internet materials is also used as a source of material.