



Principles of Accounting (a simplified and concise explanation)

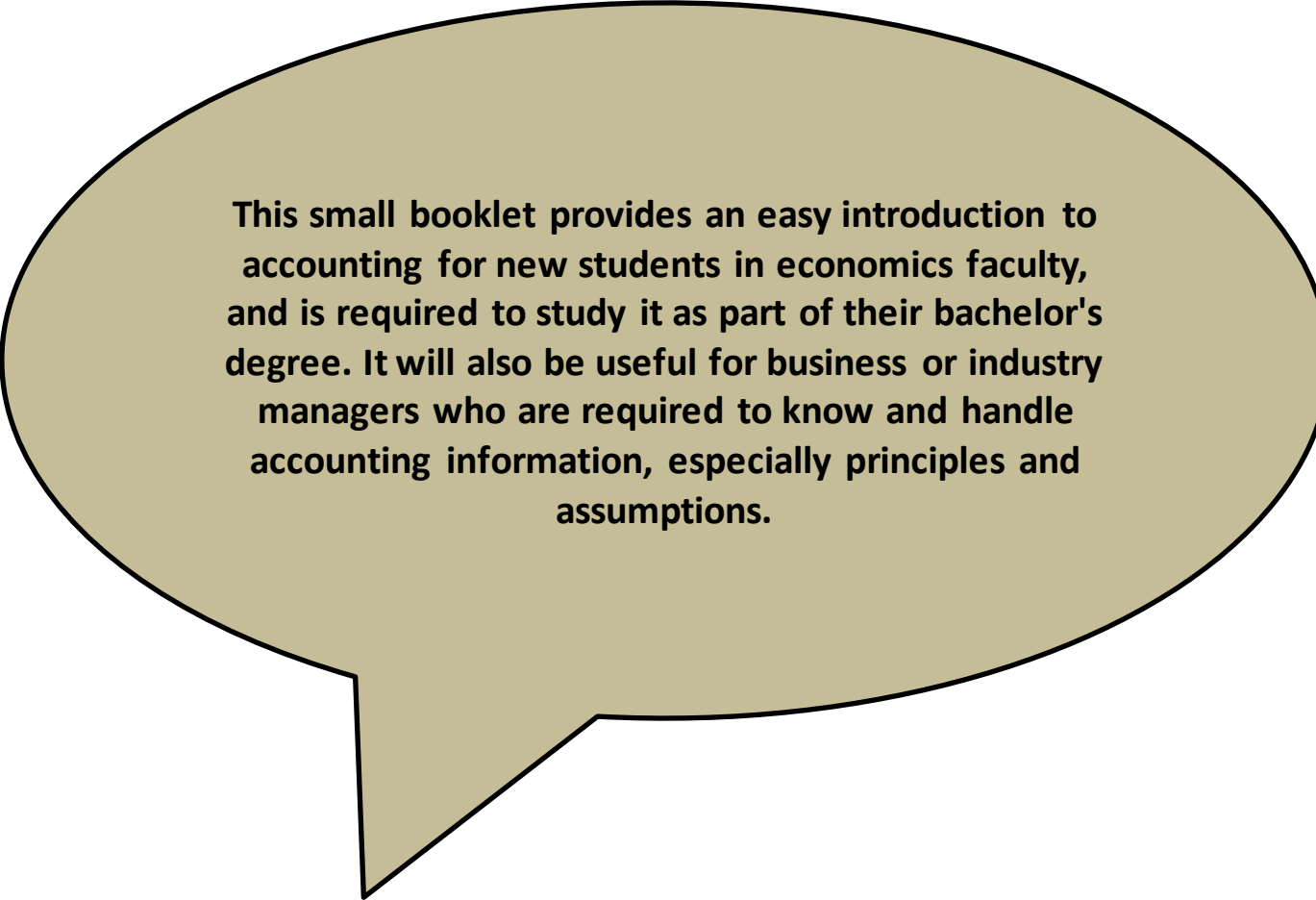
By

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**Why do we
study
accounting?**



This small booklet provides an easy introduction to accounting for new students in economics faculty, and is required to study it as part of their bachelor's degree. It will also be useful for business or industry managers who are required to know and handle accounting information, especially principles and assumptions.

In fact, knowledge of accounting is required in every field. Managers need to know accounting data so that they can make good management decisions, and sales staff must have a broad knowledge, especially in costs and returns. Therefore, accounting enables them to understand and measure those costs and returns. And also in our time and public life we need to know the basic principles of accounting.

In any project we need to know the basic principles and financial reports of accounting.

Accounting

principles

&

rules

&

foundatio
ns

Which are used to analyze financial processes when it occur and record those processes from the documents and then the classification and transmission them to records In order to identify the outcome of the project works (profit or loss) that achieved through a particular financial period, usually one financial year.



Objectives of Accounting

Provision of financial information

Determining the financial position of the institution

Determine the outcome of an activity during a particular period

Sources

Using

profit

Loss

Who Uses Accounting Data?

Internal Users

External Users

Management

Human Resources

Finance

Marketing

Internal Revenue Service

Investors

Creditors

Labor Unions

Customers

Securities and Exchange Commission



financial

Auditing

**types of
accounting**

Management

government

**taxes and
Zakat**

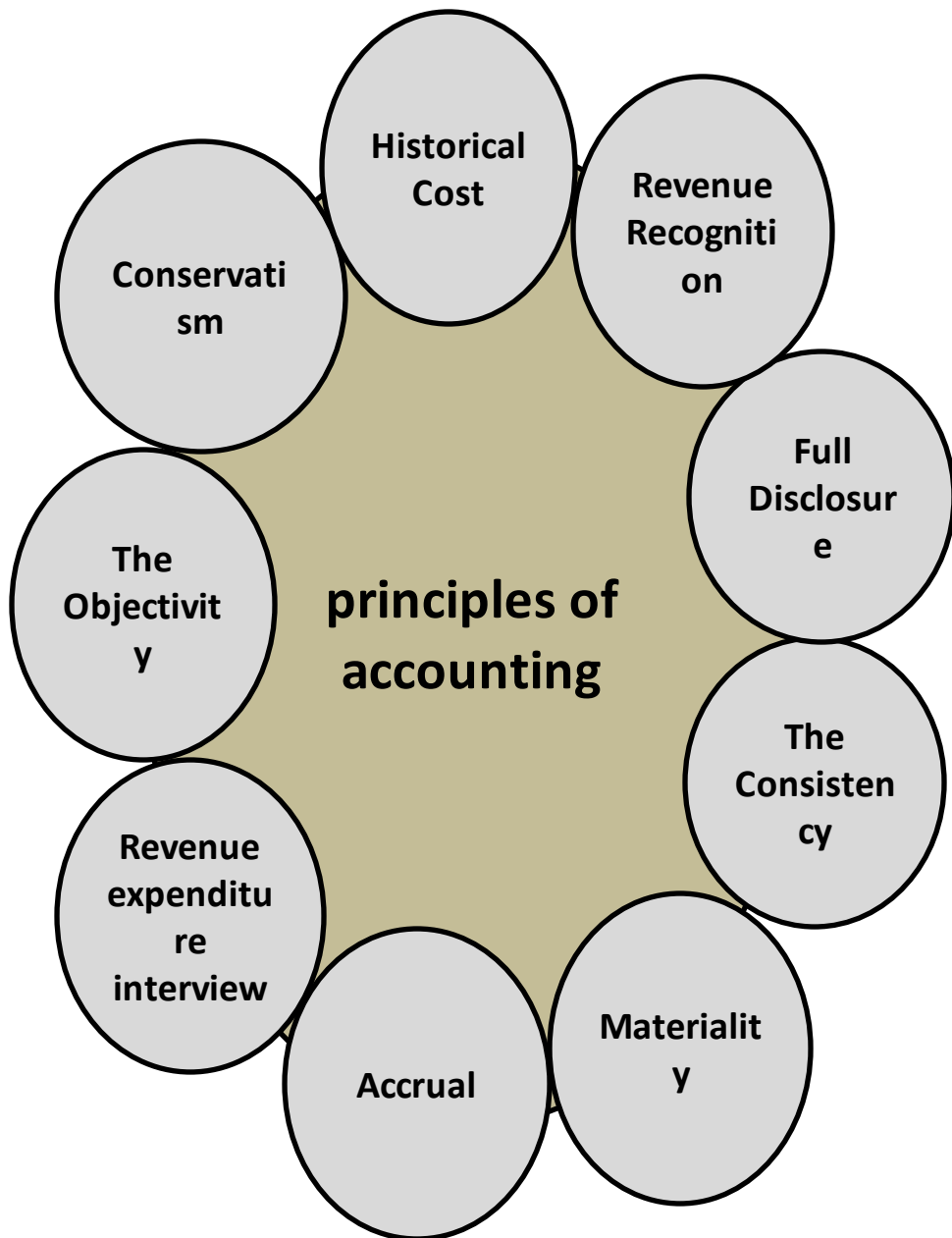
Costs

Companies

Petroleum

A wooden easel with a green sign on top. The sign has a black border and contains the text "Principles and Assumptions Accounting".

**Principles and Assumptions
Accounting**



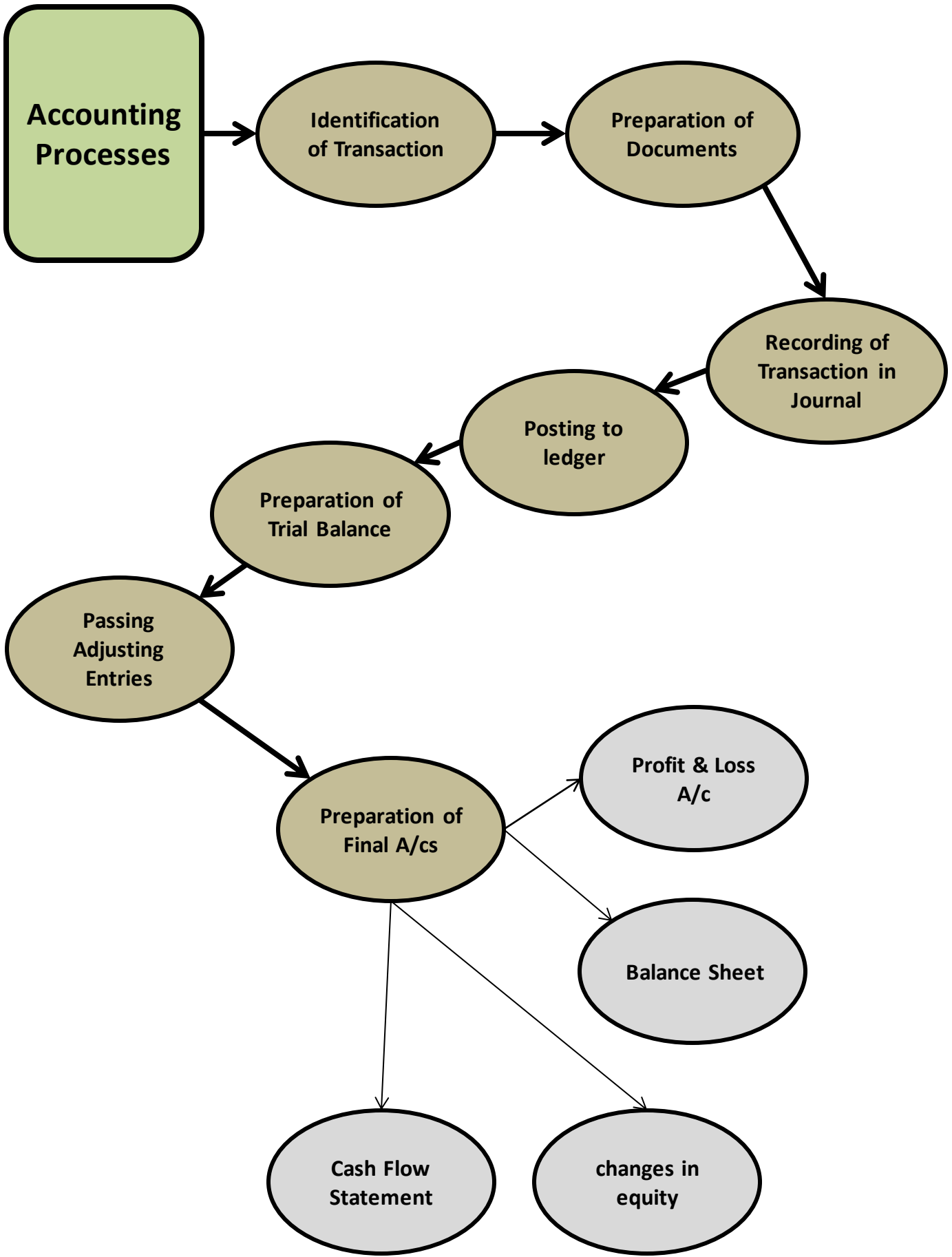
**going concern
assumption**

**Accounting
Entity**

**Assumptions
of Accounting**

Periodicity

Monetary unit



Journal Entries

The recording of financial data pertaining to business transactions in a journal such that the debits equal credits. Journal entries provide an audit trail and a means of analyzing the effects of the transactions on an organization's financial position.

Document number	Date	Particulars	Debit	Credit
1	1/1/2019	From Debited account To Credited account (Narration/Explanation for journal entry)	xxxx	xxxx

Note

- assets is debit in case of increase and credit in case of shortage.
- Liabilities is debit in case of shortage and credit in case of increase

Assets and Liabilities Accepted

Assets

Current Assets

- Cash
- Bank
- Debtors
- Notes Receivable
- Short Term Investment
- Prepaid Expenses
- Accrued Revenues
- Other Current Assets

Fixed Assets

- Lands
- Cars
- Furniture
- Other Fixed Assets

Intangible Assets

- Goodwill
- Patent
- Franchises
- Others

Liabilities

The Commitments

- Creditors
- Notes Payable
- Prepaid Revenues
- Accrued Expenses
- Other Commitments

Equity

- Capital
- Personal withdrawals
- Profit

General ledger

A general ledger account is a record in which is recorded a specific type of transaction, and all transactions are taken from the journal entry, These transactions can relate to sales, expenses, assets, liabilities, equity, and other accounts that existing in the journal entry.

Debit			Account name	Credit		
Date	Description	Amount		Date	Description	Amount
			Cash			xxxx
		xxxx	Balance c/d			
		xxxx				xxxx
			Balance b/d			xxxx

Note

c/d = Balance Carried down
b/d = Balance Brought down

- If the total debit side is higher than the credit side the balance (c/d) shall be on the debit side.
- If the total debit side is smaller than the credit side, the balance (c/d) shall be on the credit side.
- If the two sides equal the debit and the credit in this case the account is closed.

unadjusted trial balance

is the listing of general ledger account balances at the end of a reporting period, before any adjusting entries are made to the balances to create financial statements. The unadjusted trial balance is used as the starting point for analyzing account balances and making adjusting entries.

Note
Preparing the unadjusted trial balance is a crucial step in making a company's financial statements. It helps the accountant to detect errors and carry out the necessary corrections.

Unadjusted Trial Balance by balances

Debit	Account name	Credit
XXXX		XXXX
		Balance c/d
		Balance b/d

According to this type, the accounts that are written are the balance b/d only. If the balance b/d is debit, shall be written it in the trial balance in the debit side, and the remaining side is empty and vice versa

Unadjusted Trial Balance by Total sides

Debit	Account name	Credit
XXXX		XXXX

According to this type, the accounts are written as they are in the debit and credit balance, where the debit balance is written in the debit side in trial balance and the credit balance is written on the credit side

adjusting entries

An accounting adjustment is a business transaction that has not yet been included in the accounting records of a business as of a specific date. Most transactions are eventually recorded through the recordation of (for example) a supplier invoice, a customer billing, or the receipt of cash.

The objective of adjustments

- **Know the business activity profit or loss.**
- **Know the financial position of the project properly and correctly.**
- **Check balances in the trial balance.**

adjusted trial balance

An adjusted trial balance is a listing of all the account titles and balances contained in the general ledger after the adjusting entries for an accounting period have been posted to the accounts, This is the last stage of the accounting processes prior to the preparation of the financial statements. .

Note

The adjusted trial balance is an internal document and is not a financial statement. The purpose of the adjusted trial balance is to be certain that the total amount of debit balances in the general ledger equals the total amount of credit balances.

Financial statements

Reports are prepared by the Company's management to provide financial performance and financial position through a period of time, These financial statements are prepared so that the beneficiaries, such as investors, creditors and others, can obtain all information about the company's status. There are several recognized financial statements but there are three main financial statements that the student and the accountant must recognize.

Income statement

This report reveals the financial performance of an organization for the entire reporting period. It begins with sales, and then subtracts out all expenses incurred during the period to arrive at a net profit or loss.

Not

This is usually considered the most important financial statement, since it describes performance.

balance sheet statement

This report shows the financial position of a business as of the report date, where The information is aggregated into the general classifications of assets, liabilities, and equity.

Not

the balance sheet covers a specific point in time.

statement of changes in equity

The statement of changes in equity is a reconciliation of the beginning and ending balances in a company's equity during a reporting period. It is not considered an essential part of the monthly financial statements, and so is the most likely of all the financial statements not to be issued. However, it is a common part of the annual financial statements. The statement starts with the beginning equity balance, and then adds or subtracts such items as profits and dividend payments to arrive at the ending balance.

Not

e

The balances of equity accounts are transferred from the trial balance to statement of changes in equity, also The result of the income statement is also transferred from profit or loss to this list (statement of changes in equity).

A comprehensive example of the accounting cycle

The following financial transactions were carried out by the company Spoon Gold for the year ended 31.12.2018:

On 1.1 the company started its work with a capital of 15000 \$ deposited 8000 \$ in the bank and the rest in the treasury.

On 11.2 the purchase of furniture from Al-Shahad Company for a value of 4000 \$ paid 2000 \$ cash and the rest on the account.

On 1.3 the company paid 2000 \$ rent expense for one year by bank check.

On 5.4 the company received revenues of 12,000 \$ in cash.

On 5.5 the company paid the salaries expense for employees value 800 \$ in cash.

On 1.6 the company withdrawal the amount of 3000 \$ from cash and deposited it in the bank.

On 21.7 the company paid part of the debt to the Al-Shahad company of the value of 1000 \$ by bank check.

On 1.8 the company received revenues of 4000 \$ in cash.

On 21.8 the company paid 200 \$ cash as a stationery expense.

On 3.9 the company paid 200 \$ electricity bills by bank check.

On 31.10 the company paid 300 \$ of advertising expense by bank check.

On 6.12 a personal amount was withdrawn from the bank by the director of the company for a value of 400 \$.

At the inventory on 31/12/2018, the following was found:

- The rental contract is paid for the period from the date of 1.3.2018 till the date of 1.3.2019.
- There is an electricity bill that has not been recorded for 200 \$ accrued in 12 months.
- There are accrued revenues of 400 \$ not recorded in the records.

Required

- Writing previous processes in the Journal entries.
- posting the financial processes to the ledger.
- Preparing the trial balance before and after the adjustments entries.
- Writing of inventory adjustments entries.
- Preparation of financial statements and closing entries.

Writing previous processes in the Journal entries

Date	Debit	Cred it	The Details
1.1.2018	7000 8000	15000	Cash The bank capital Capital formation of the company
11.2.2018	4000	2000 2000	The furniture Cash Creditors (Al-Shahad company) purchase of furniture from Al-Shahad Company for a value of 4000 \$
1.3.2018	2000	2000	Rent expense The bank payment rent expense for one year
5.4.2018	12000	12000	Cash revenues received revenues in cash
5.5.2018	800	800	salaries expense Cash payment the salaries expense for employees
1.6.2018	3000	3000	The bank The treasury withdrawal amount from cash and deposit it in the bank
21.7.2018	1000	1000	Creditors (Al-Shahad company) The bank Payment of 1000 d to Al-Al-Shahad Company
1.8.2018	4000	4000	Cash revenues received revenues in cash
21.8.2018	200	200	stationery expense Cash payment 200 \$ cash as a stationery expense.

Date	Debit	Credit	The Details
3.9.2018	200	200	electricity expense. The bank payment 200 \$ by bank check as a electricity expense
31.10.2018	300	300	advertising expense The bank payment 300 \$ by bank check as a advertising expense
6.12.2018	400	400	Personal withdrawals The bank personal amount was withdrawn from the bank

Posting the financial processes to the ledger

Debit		Cash		Credit	
capital	7000	The furniture	200		0
	12000	salaries expense	800		
revenues	4000	The bank	300		0
revenues		stationery	200		
		Debit balance	17000		
23000		23000			

Debit		The bank		Credit	
capital	8000	Rent expense	20		00
Cash	3000	Creditors	10		00
		electricity expense.	20		0
		advertising	30		0
		Debit balance	7100		
		Withdrawals			0
11000		11000			

Creditors (Al-Shahad company)			
Debit		Credit	
The bank	1000	The furniture	2000
Credit balance			
1000			
2000		2000	

revenues			
Debit		Credit	
		Cash	12000
		Cash	4000
Credit balance			
16000			
16000		16000	

Rent expense			
Debit		Credit	
The bank	2000		
		Debit balance	
		2000	
2000		2000	

The furniture			
Debit		Credit	
Cash	2000		
Creditors	2000		
		Debit balance	
		4000	
4000		4000	

capital			
Debit		Credit	
		Cash	7000
		The bank	8000
Credit balance			
15000			
15000		15000	

salaries expense			
Debit		Credit	
Cash	800		
		Debit balance	
		800	
800		800	

Debit stationery expense Credit

Cash 200

Debit balance 200

200

200

Debit electricity expense Credit

The bank 200

Debit balance 200

200

200

Debit advertising expense Credit

The bank 300

Debit balance 300

300

300

Debit Personal withdrawals Credit

The bank 400

Debit balance 400

400

400

Preparing The Trial Balance Before The Adjustments entries

Unadjusted Trial Balance By Total Sides		
Account Name	Debit	Credit
Cash	23000	6000
The Bank	11000	3900
Creditors (Al-shahad Company)	1000	2000
Revenues	-----	16000
Rent Expense	2000	-----
The Furniture	4000	
Capital	-----	15000
Salaries Expense	800	-----
Stationery Expense	200	-----
Electricity Expense	200	-----
Advertising Expense	300	-----
Personal Withdrawals	400	-----
Total Amount	42900	42900

Unadjusted Trial Balance By Balances

Account Name	Debit	Credit
Cash	17000	-----
The Bank	7100	-----
Creditors (Al-shahad Company)	-----	1000
Revenues	-----	16000
Rent Expense	2000	-----
The Furniture	4000	-----
Capital	-----	15000
Salaries Expense	800	-----
Stationery Expense	200	-----
Electricity Expense	200	-----
Advertising Expense	300	-----
Personal Withdrawals	400	-----
Total Amount	32000	32000

Writing of adjustments entries

first: Rent expense:

The paid rent is 2000 \$ for one year, from 1.3.2018 until 1.3.2019, and upon closing the accounts on 31.12.2018 the remaining rent is two months in 2019.

$12 = 166.66$ per month, so the month 1 and months 2 for 2019 paid prepaid 166.66
 $2000 \div 2 = 333.33$ The adjustment is as follows:

Debit	Credit	The Details
333.33	333.33	Prepaid Rent Expense Rent Expense Recording of prepaid rent expense

Second: Electricity expense

Here recording of electricity expense special a month 12 , which have not yet paid and amounts to 200 \$.

Debit	Credit	The Details
200	200	Electricity Expense Accrued Electricity Expense recording of electricity expense special a month 12

Third: Revenues:

The accrued revenues which has not yet been received and which has not been recorded in the company records 2018, amounting to 400 \$.

Debit	Credit	The Details
400	400	Accrued revenues revenues recording accrued revenues

posting of adjustments entries to the ledger

Note

according this case, the accounts whose balances have been adjustments will change according to the inventory adjustments :

Debit	Rent expense	Credit
The bank	2000	Prepaid rent expense
		333.33
		Debit balance
		1666.67
<hr/>		
2000		2000

Debit	Prepaid rent expense	Credit
Rent expense	333.33	
		Debit balance
		333.33
<hr/>		
333.33		333.33

Debit	Electricity expense	Credit
The bank	200	
accrued electricity expense	200	
		Debit balance
		400
<hr/>		
400		400

Debit	accrued electricity expense	Credit
		Electricity expense
		200
Credit balance		
200		
<hr/>		
200		200

Debit	revenues	Credit
	Cash	12000
	Cash	4000
	Accrued revenues	400
Credit balance		
16400		
16400		16400

Debit	Accrued revenues	Credit
revenues	400	
		Debit balance 400
400		400

Preparing The Trial Balance After The Inventory Adjustments.

Unadjusted Trial Balance by Total sides

Unadjusted Trial Balance by Total sides		
Account Name	Debit	Credit
Cash	23000	6000
The Bank	11000	3900
Creditors (Al-shahad Company)	1000	2000
Revenues	-----	16400
Rent Expense	2000	333.33
The Furniture	4000	-----
Capital	-----	15000
Salaries Expense	800	-----
Stationery Expense	200	-----
Electricity Expense	400	-----
Advertising Expense	300	-----
Personal Withdrawals	400	-----
Accrued Electricity Expense	-----	200
Prepaid Rent Expense	333.33	-----
Accrued Revenues	400	-----
Total Amount	43833.33	43833.33

Unadjusted Trial Balance By Balances

Account Name	Debit	Credit
Cash	17000	-----
The Bank	7100	-----
Creditors (Al-shahad Company)	-----	1000
Revenues	-----	16400
Rent Expense	1666.67	-----
The Furniture	4000	-----
Capital	-----	15000
Salaries Expense	800	-----
Stationery Expense	200	-----
Electricity Expense	400	-----
Advertising Expense	300	-----
Personal Withdrawals	400	-----
Accrued Electricity Expense	-----	200
Prepaid Rent Expense	333.33	-----
Accrued Revenues	400	-----
Total Amount	32600	32600

Preparation Of Financial Statements And Closing Entries.

Income Statement

Account name	The partial amount	Total Amount
Revenues	-----	16400
minus (the administrative expenses and marketing expenses)		
Rent Expense	1666.67	
Salaries Expense	800	
Stationery Expense	200	
Electricity Expense	400	
Advertising Expense	300	
Total expenses		(3366.67)
Total Amount (profit)		13033.33

Closing Entries

Note
 revenues and expense accounts are closed in Income summary account , or so-called profit and loss account. the income summary account is then transferred to the ledger, and recorded as follows:

First: Closing the revenues account in the income summary account:
 Here revenues are normally credit, and when closed should make them a debit and income summary account be credit.

Debit	Credit	The Details
16400	16400	Revenues Income summary Closing the Revenues in the income summary account

Second: Closing the expense account in the income summary account:
 Expenses are normally a debit, and when closed should make them a credit, and income summary account be debit.

Debit	Credit	The Details
3366.67	1666.67 800 200 400 300	Income summary Rent Expense Salaries Expense Stationery Expense Electricity Expense Advertising Expense Closing the expense in the income summary account

statement of changes in equity

The Details	Amount
Capital beginning of financial year	15000
Minus (Personal Withdrawals)	(400)
Add Net income (profit)	13033.33
Net equity (capital at the end of the financial year)	27633.33

Closing the income summary account in the owner's equity or the company's capital as the following:

Debit	Credit	The Details
13033.33		income summary
	13033.33	owner's equity
Closing the income summary account in the owner's equity		

Closing the personal withdrawals in the owner's equity or the company's capital as the following:

Debit	Credit	The Details
400		owner's equity
	400	personal withdrawals
Closing the personal withdrawals in the owner's equity		

**balance sheet
statement**

Assets	The Partial Amount	Total Amount	Liabilities	The Partial Amount	Total Amount
Current Assets			Commitments		
Cash	17000		Creditors (Al-shahad Company)	1000	
The Bank	7100		Total Commitments		1000
Total Current Assets		24100	Other Credit Balances		
Fixed Assets			Accrued Electricity Expense	200	
The Furniture	4000		Total Other Credit Balances		200
Total Fixed Assets		4000	Equity		
Other Debit Balances			Capital	15000	
Prepaid Rent Expense	333.33		Owner's Equity	12633.33	
Accrued Revenues	400		Net Equity		27633.33
Total Other Debit Balances		733.33			
Total Assets		28833.33	Total Liabilities		28833.33

Accounting



Investing activities
Capital expenditures
Purchases of restaurant businesses
Cash used for investing activities

Financing activities
Long-term financing issuances
Long-term financing repayments
Common stock purchases
Common stock dividends
Cash tax benefit on share

Cash and equivalents
Cash and equivalents
Cash and equivalents
Interest income
See