

وزارة التعليم العالي والبحث العلمي الجامعة التقنية الجنوبية المعهد التقني العمارة قسم تقنيات المحاسبة



الحقيبة التدريسية لمادة

Accounting Readings

المعف الاول

تدريسى المادة مم على حسن غاجى

الفصل الدراسي الاول

جدول مفردات مادة accounting readings

الجانب النظري

Theoretical vocabulary		
Weeks	Description	
Week 1	Learn basic terms in accounting	
Week 2	Accounting definition , types of accounting	
Week 3	The recording process	
Week 4	The basic accounting equation	
Week 5	Accounting for merchandising operations	
Week 6	Reading in inventory &depreciation	
Week 7	Reading in accounting information system	
Week 8	Reading in trading account	
Week 9	Reading in profit &loss topics	
Week 10	The terms of assets, natural resources, and	
	intangible assets	
Week 11	Reading in financial position statements	
Week 12	Terms of cost accounting	

Week 13	Reading in cost accounting
Week 14	Terms of auditing and internal control
Week 15	Reading in auditing and internal control

جدول مفردات مادة accounting readings

الجانب العملي

Practical Topics		
Weeks	Description	
Week 1	Basic accounting terms usage	
Week 2	Readingaccounting definition and the types of accounting	
Week 3	Practice the recording process	
Week 4	PracticeThe basic accounting equation	
Week 5	Practicethe income measurement for merchandising company	
Week 6	Usage of inventory & depreciation terms	
Week 7	Usage ofaccounting information system terms	
Week 8	Usage of trading account	
Week 9	Usage ofprofit &loss topics	
Week 10	Usage ofassets, natural resources, and intangible assets	
	terms	
Week 11	Usage offinancial position statements	
Week 12	Usageof cost accounting terms	
Week 13	Usage ofcost accounting	
Week 14	Usage ofauditing and internal control terms	
Week 15	Usage ofauditing and internal control	

B- <u>DEFINITIONS OF ACCOUNTING</u> تعاريف المحاسبة

There are more definitions of accounting:

1-Accounting

The accounting is the art of recording, classifying, reporting, and interpreting (تسجیل ،تصنیف، تقریر ، وتفسیر) the financial data of an organization. (منظمة)

2- Accounting

The accounting is the act of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.

3- Accounting

The accounting is a services activity function of which is to provide quantities information about economic entities. The information is primarily financial in nature and is intended to be useful in making rational economic decisions (قرارات اقتصادیة).

4- Accounting

The accounting is a social science (علم اجتماع) has its concepts and principles that used in applying the accounting cycle (الدورة الدورة) to achieve accounting functions and objectives.

5- Accounting

The accounting is an information system (نظام معلومات) that processes business transactions (عمليات تجارية) to various interested parties for making business and economic decisions.

فوائد المحاسبة <u>USEFULNESS OF ACCOUNTING</u>

The main usefulness of accounting can be given as follows:

- (1) The accounting keeps a systematic and permanent record (سجل دائم) of all financial transactions of a business.
- (2) The accounting keeps a record of revenues and expenses so that the net results of the business can be quickly known for any period.
- (3) The accounting keeps a record of assets and liabilities (الأصول والخصوم) projecting the financial position (الأصول والخصوم) (لحظة زمنية) of the business at any moment of time (لحظة زمنية).
- (4) The accounting protects (تحمي) the property of the business by designing the required system of accounting.
- (5) The accounting keeps a control on expenses to minimize the same.
- (6) The accounting provides information for meeting various legal requirements such as realization of the income tax purposes (أهداف ضريبة الدخل).

أنواع المحاسبة D-<u>KINDS OF ACCOUNTING</u>

In general, There are two kinds of accounting:-

1- Financial Accounting المحاسبة المالية

Financial Accounting is the process of supplying (تجهيز) financial information to parties external.

2- Managerial Accounting المحاسبة الإدارية

Managerial Accounting is the process of supplying financial information for internal management use.

Figure (1)

Accounting system: collection and processing of financial information about an organization and reporting of that information to decision makers.



The accounting can be also, classified into the following categories:

(1) Financial Accounting	المحاسبة المالية
(2) Cost Accounting	محاسبة التكاليف
(3) Managerial Accounting	المحاسبة الإدارية
(4) Government Accounting	المحاسبة الحكومية
(5) Tax Accounting	المحاسبة الضريبية

This classification can be distributed between two main categories of accounting according the following diagram:



Figure (2)

E- THE MAIN USERS OF ACCOUNTING INFORMATIONS

المستخدمون الرئيسيون للبيانات المحاسبية

There are many potential users of accounting information, including shareholders, lenders, customers, suppliers, government institutions, employees and their organizations, and society at large significant. Anyone attached with an interest in the performance and activities of a company is traditionally called a stakeholder (حصة).

For a business or organization to communicate its results and position to stakeholders, it needs a language that is understood by all in common. Hence, accounting has come to be known as the "language of business". لغة الأعمال.

The different users of accounting information can be classified as follow:-

- المساهمين Shareholders
- المستثمرين Investors
- الدائنين Creditors
- الحكومة Government
- العاملين Labors
- الباحثين Researchers
- Management (Administration) الإدارة
- Other Groups

The Users of Accounting Information can be explained as follow:

(1) Shareholders المساهمين

The shareholders, in the company, are interested to know the results of operations of the company through the annual financial position statements showing the profit earned or loss suffered and the assets and liabilities.

(2) Investors المستثمرين

Those who are interested in buying the shares in a company, and advancing money to the company are also naturally interested in the financial statements to know how safe the investment already made is, and how safe the proposed investment will be.

(3) Creditors الدائنين

A number of suppliers make supplies on credit; they would like to be satisfied that they will be paid in time. The financial statements greatly help them in properly assessing property and the capability of the firm on payment.

(4) Government الحكومة

All the governments in the worlds are using financial statements for preparing statistics concerning business. The statements are of great importance for ascertaining the income tax payment.

(5) Labor (5) العاملين

Workers are entitled for payment of bonus (المكافأة،الإضافي), which depends on the size of profit earned. Therefore, they would 24 like to be satisfied that the bonus being paid to them is correct. They are much interested in knowing the profit earned or loss suffered by the firm. This knowledge helps them in asking for their revision of their wages which need improvement.

الباحثين Researchers (6)

The financial statements, being a mirror of business conditions, these statements are, therefore, of great interest to scholars undertaking research in accounting theory as well as business affairs and practices.

(7) Management (Administration) الإدارة

Management, collectively, is the people who have overall responsibility for operating a business and for meeting its profitability goals.Succefully management consistently make the right decisions based on timely and valid information.

مجموعات أخرى Other Groups (8)

- Labor unions study the financial statements of corporations as part of preparing for contract negotiations.
- Financial analysts and advisers, brokers, underwriters, lawyers, economists and the financial press, also have an indirect interest in the financial performance and prospects of a business.
- Consumer groups, customers, and the general public have become more concerned about the financing and earnings of corporations as well as the effects that corporations have inflation, the environment, social problems, and the quality of life.

F-QUALITATIVECHARACTERISTICSOFACCOUNTINGINFORMATIONالخصائص النوعية للمعلومات المحاسبية

1- Decision makers and their characteristics (Understandability)		
	متخذو القرار وخصائصهم (القابلية للفهم)	
2- Constraints	المحددات الرئيسية	
(1) Cost is less than Benefits,	التكلفة اقل من المنفعة	
(2) Materiality	الأهمية النسبية	
3- Primary qualities	الخصائص الرئيسية	
(1) Relevance,	الملائمة	
(1) Relevance, (2) Reliability	المو ثو قية	
(2) Kenabinty	المولوقية-	
4- Ingredients of primary qualities:	مكونات الخصائص الرئيسية	
(1) Relevance	الملائمة	
a) Predictive value,	القيمة التنبؤ ية	
b) Feedback value,	القيمة الاستر جاعية	
c) Timeliness,	التوقيت المناسب	
(2) Reliability	الموثوقية	
a) Verifiability,	القدرة على التحقق	
b) Representational faithfulness,	الصدق في العرض	
c) Neutrality	الحيادية	
5- Secondary qualities	الخصائص الثانوية	
(1) Comparability,	القدرة على المقارنة	
(2) Consistency	الثبات	

G-ACCOUNTING ASSUMPTIONS, PRINCIPLES,AND CONSTRAINTSالفروض والمبادئ والمحددات المحاسبية

In the most modern classification of accounting concepts and principles in the world, accounting principles can be classified as follow:

Assumptions (Concepts) الفروض (المفاهيم)	Principles المبادىء	Constraints المحددات (القيود)
-Accounting entity	-Historical cost	-Materiality
-Going – concern	-Matching	-Conservatism
-Monetary Unit	-Revenue	-Consistency
-Periodicity	Recognition	-Cost & Benefit
- Double Entry	-Objectivity	-Industry practices
	-Full disclosure	

1- Accounting Concepts (Assumptions)

Accounting concepts refer to the nature of economic environment in which accounting operates. The most significant of these concepts (assumptions) are:

(1) Accounting entity concept	مفهوم الوحدة المحاسبية
(2) Going – concern concept	مفهوم الاستمرارية
(3) Monetary unit concept	مفهوم وحدة القياس
(4) Periodicity concept	مفهوم الدورية

Those concepts are essential to the understanding of accounting principles and distinguish between the assumptions and principles.

(1) Accounting entity الوحدة المحاسبية

Accounting entities are separate economic units that control resources and obligations and that have separate and distinct records.

Also the economic entity can be defined as any legal or unit accounting that has control over resources, accepts responsibilities for making and carrying out commitments, and conducts economic activity, such a corporation or a consolidated group.

For accounting purposes, every business is conceived to be and treated as a separate entity, separate and distinct from its owner and from every other business.

مفهوم الاستمرارية Going Concern (continuity) concept

This concept assumes that a particular business will continue in existence for a long enough period of time to carry out its objectives and commitments (the life is indefinite).

مفهوم الوحدة النقدية Monetary Unit Concept (3)

The monetary unit of a country means that the money is used to measure the asset (الأصول), liabilities (الخصوم), and owner's equity (حقوق الملكية) and to measure the changes that occur in them as a result of these changes, the net income of accounting entity is measured and determined for a specific period of time.

Stable monetary unit concept means that purchasing power (القوة الشرائية) of the unit of measure used in accounting does not change; this concept is not practically accepted since the accounting information provided is not represented the economic reality (الاقتصادية).

مفهوم الدورية Periodicity concept (4)

The periodicity concept assume that the business has an indefinite life .The measurement of the firm's financial condition and operations must be made a relatively short intervals such as quarterly or yearly.

The life of a firm is divided into periods equal length, such as a month, three months, or a year; annual accounting periods are the most common.

Under this assumption, the accounting periods with equal length allow for comparison of expenses, revenues and income earned by the firm in one period with the same in another period.

مفهوم القيد المزدوج Double Entry concept (5)

Double entry means that all transactions are recorded in two accounts, the first is debit and the second is credit.

المبادئ المحاسبية Accounting principles

Accounting principles are broad rules (قواعد واضحة) adopted by the accounting profession as guides for use in recording and reporting the financial affairs and activities of a business to its owners, investors, creditors, and other outsiders.

Generally Accepted Accounting Principles (GAAP) المبادئ (GAAP) المحاسبية المقبولة قبو لا عاما refers to conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Accounting principles are the following:

مبدأ التكلفة التاريخية Historical cost principle (1)

The assets are recorded at their acquisition cost and are usually not adjusted for increases in value until a sale has occurred. The accounting rule requires assets and services plus any resulting liability to be taken into the accounting record at cost.

(2) Matching principle مبدأ المقابلة

The expenses must be recorded against the revenues earned during the period. Thus, expenses of the period are matched against the revenues of the same period, and the result is net income or loss for the period.

The accounting rule shows that all expenses incurred in earning revenues are deducted from the revenues for determining the net income. Revenue is recognized for accounting purposes when it is realized. For the vast majority of firms revenue is realized when the sale occurs.

The accounting rule defines revenue as an inflow of assets, not necessarily cash, in exchange of goods and services and requires the revenue to be recognized at the time, but not before, it is earned.

مبدأ الموضوعية Objectivity principle (4)

The accounting rule requiring that wherever possible the amounts used in recording transactions based on objective evidence (for example: sales invoice) rather than subjective judgments.

مبدأ الإفصاح التام Full disclosure principle (5)

All information that can be useful to informed decision makers must be disclosed. All material information should be disclosed in the financial statements to make these statements clear and understandable to the readers of these statements.

المحددات (القيود) المحاسبية Accounting Constraints

(1) Materiality الأهمية النسبية

The Material information must be given more attention than immaterial. Immaterial items should be combined with other items.

Materiality relates to an item's impact (يونٹر) on a firm's overall financial condition and operations. An item is material when it is likely to influence the decision of reasonably prudent investor or creditor.

(2) Conservatism (Prudence) الحيطة والحذر أو التحفظ

The accountants should be conservative in their estimates (تقديرات) and opinions and in their selection procedures, choosing

those that neither understate nor overstate situation. For example, the accountant takes in compute the future expenses or losses, and another side he ignores the future revenues or profits.

Conservatism means when in doubt choose the solution that will be least likely to overstate assets and income.

التحفظ (الحيطة والحذر) يعني بأنه عند تولد أي شك فانه يجب اخّتيار ذلك الحل الذي لا يغالي في تقدير الأصول والدخل.

(3) Consistency الاتساق أو الثبات

The consistency means that once an accounting method used must not be changed from period to period. This convention (تقليد) is necessary used for doing proper comparisons.

(4) Cost and Benefit التكلفة والمنفعة

All the accounting information must be established according to its cost and their future benefits.

Cost-Benefit Relationship means that the cost of providing the information must be weighed against the benefits that can be derived from using the information.

علاقة التكلفة والمنفعة تعني بأنه يجب موازنة تكلفة تزويد المعلّومات بالمنفعة المترتبة على استخدامها.

الممارسات الصناعية Industry Practices (5)

Industry practices means the particular nature of some industries and business concerns sometimes requires departure from basic theory.

محددات الصناعة تعني بان طبيعة بعض الصناعات والتجارة تجعلها تحيد عن النظرية العامة.

Questions and Exercises

- 1- Define the Book- keeping?
- 2- What are the objects Book- keeping?
- **3-** Mention the importance of Book- keeping.
- 4- Distinguish between book-keeping and accountancy.
- 5- Write the definitions of the accounting.
- **6** What is the usefulness of accounting?
- 7- What are the Qualitative characteristics of accounting information?
- 8- Define the following:
 - a. Continuity (going-concern) concept.
 - b. Cost principle.
 - c. Monetary unit concept.
 - d. Conservatism constraint.
- 9- Name only the assumptions and principles accounting.
- **10-** Name the accounting concepts and explain two from them.
- 11- Name the accounting principles and explain two from them.
- **12-** Choose the correct answer of the following questions:
- (1) State whether each of the following statements are true or false.
- a. Accounting is a language of business.
- b. Accounting principles are referred to as rules of action on conduct.
- c. Assets are always valued at market price as per the basis of the going concern concept.
- d. As per the convention of disclosure, some material information should be disclosed by the accountants.

- (2) State whether each of the following statements are true or false.
- a. Book- keeping is an art of recording financial transactions in a set of books.
- b. The main objectives of book- keeping are to keep permanent records of business transactions.
- c. Preparing of account does not require specific skills and knowledge (مهارات ومعرفة).
- d. The accounting keeps a control on expenses to maximize the same.
- (3) The time period assumption states that:
- a. Revenues should be recognized in the accounting period in which it is earned.
- b. Expenses should be matched with revenues.
- c. The economic life of a business can be divided into artificial time periods.
- d. The fiscal year should be corresponds with the calendar year.
- (4) The principle that dictates that efforts (expenses) be matched with accomplishments (revenues) is the:
- a. Matching principle.
- b. Cost principle.
- c. Revenue recognition principle.
- d. Full disclosure principle.
- (5) Accounting includes:
 - a. Measurement
 - b. Verification
 - c. Reporting
 - d. All of the above

(6) The Company opens drawings and capital account as an application entity assumption (concept).

- a. Continuity
- b. Periodicity
- c. The entity
- d. The monetary unit

(7) All costs paid to buy a car to make ready for intended use, is an application of:

- a. Revenue recognition principle.
- b. Continuity Concept.
- c. Full-disclosure principle.
- d. Cost principle.

(8) Using the accounting procedures from year to year means:

- a. Conservatism
- b. Matching
- c. Consistency
- d. Materiality

(9) All material information should be disclosed in the financial statements to make these statements clear and understandable for the reader is:

- a. Materiality
- b. Consistency
- c. Matching
- d. Full disclosure

(10) All of the following represents outside party that interest in accounting reporting except:

- a. Management.
- b. Debtors

- c. Creditors.
- d. Taxation authorities.

Answers question (12):

Question	a	b	С	d
No.				
(1)	true	true	False	false
(2)	true	false	False	false
(3)			X	
(4)	X			
(5)				X
(6)			X	
(7)				X
(8)			X	
(9)				x
(10)	X			



CHAPTER

<u>(2)</u>

ACCOUNTING TRANSACTIONS ANALYSIS AND RECORDING

المعاملات المحاسبية تحليل وتسجيل

The previous chapter explained that the Book-Keeping is an art of recording accounting transactions in a set of books, while the Accounting is the language of business for all activities and practices. Accounting is a standard set of rules for measuring a firm's financial performance. This measurement pass through the accounting cycle which contains the record keeping process used during and at the end of accounting period that result in financial statements.

الدورة المحاسبية <u>A-ACCOUNTING CYCLE</u>

The process of accounting consists (تتضمن) the steps involved in the complete treatments (معالجات كاملة) of business transactions which incurred through an accounting period, starting with analyzing, recording the transactions in a journal (سجل اليومية), preparing a trial balance (ميزان المراجعة), and then ending with preparing the financial statements.

The accounting cycle can be divided into the following steps:

(1) Analyze transactions from source documents.

(2) Record in journal.

(3) Post to general ledger accounts.

(4) Adjust the general ledger accounts.

(5) Prepare financial statements.

(6) Close temporary accounts.

Figure (3)

The steps of accounting cycle appear as the following diagram:



B-BUSINESS AND ACCOUNTING TRANSACTIONS

المعاملات التجارية والمحاسبية

1- Definition of business transaction

Business transaction is an activity which involves money or money's worth is known as a "transaction" something having value is received, and something having value is given out (e.g. Bought furniture for cash).

Business transaction is defined as an exchange of goods, services, money between two or more parties. Transaction is a measurable event internal to a business, such as adjustments for the use of assets in operation.

Any business transaction is an accounting transaction if:

- (1) There is a real exchange between two parties.
- (2) There is an effect for this transaction on any of the elements of accounting: assets, liabilities, and / or owner's equity.

Accounting transactions are recoded using entries in accounting Journal,(سجل محاسبي) the process is called journalization (التسجيل في اليومية). The general procedure is to record revenues and expenses as they arise (تنشأ) from external transaction (i.e. Dealing with outsiders and transfer of assets and liabilities to / or from the firm).

2- Transaction analysis تحليل المعاملة 43

Transaction analysis is first step to identify the type of account involved and then to determine whether a debit or a credit (مدين أو دائن) to the account is required, and then prepare the journal entry (قيد اليومية).

Debit is the name for the left side of an account .Debit represents increase in assets and decrease in liabilities and stockholder's equity. Credit is the name for the right side of an account. Credit represents decrease in assets and increase in liabilities and stockholder's equity.

Transaction Analysis is the process studying a transaction to determine its economic effect on the business in terms of the accounting equation (المعادلة المحاسبية).

Apply transaction analysis to analyze simple business transactions in terms of the accounting model:

Assets = Liabilities + Stockholder's Equity(capital)

(1) Every transaction affects at least two accounts (duality of effects): it is critical to identify correctly the accounts affected and the direction of the effect (increase or decrease). زيادة أو نقصان
(2) The accounting equation must remain in balance after each transaction.

3- Classification of the accounts

The accounts are classified into three groups as follow:

Personal accounts

	Real accounts	الحسابات الحقيقية
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Nominal accounts

(1) Personal accounts

Personal accounts are defined by personal names including all types of economic entities such as corporations, Firms , universities... etc.

الحسابات الشخصبة

(a) Ali's account (A/c).

- (b) Al-Muthana university (A / c).
- (c) Customers of credit sales (debtors).
- (d) Suppliers of credit purchases (creditors).

(2) Real accounts الحسابات الحقيقية

Real accounts are the assets accounts either tangible or intangible assets (أصول ملموسة أو غير ملموسة).

Examples: Cash, Building, furniture, land.

(3) Nominal accounts الحسابات الاسمية

Nominal accounts are the accounts of revenues, gains, expenses, losses. At the end of the accounting period nominal accounts are closed in final accounts (الحسابات الختامية) : Trading account (حساب أرباح وخسائر), profit and loss account(حساب أرباح وخسائر), or income statement (قائمة الدخل).

Examples:

(1) Sales (A/c).
 (2) Purchases (A/c).
 (3) Utilities (A/c).
 (4) Rent (A/c).

(5) Losses from selling a fixed asset (A/c).

For application of the accounting purposes (profit or loss, financial position, financial reports etc.), it would be daily recording the transactions in the accounting books with its monetary value and by systematic and chronological manner.

These accounting procedures are incurred by using the two following systems:

- 1) Single Entry System
- 2) Double entry system

نظام القيد المفرد <u>SINGLE ENTRY SYSTEM</u>

Single entry system may be defined as a system which does not strictly conform to the double entry system of bookkeeping. As a general rule under the single entry practice only the personal aspects of the transactions are recorded and the nominal and real aspects are omitted altogether. As the name implies, the single entry system does not take into account the double affect of every transaction. The ledger contains only the personal accounts of debtors and creditors, all impersonal accounts such as purchases, sales, wages, carriage, rent etc., are not recorded. Thus the system does not consider the two fold aspect of every transaction. In short single entry system may be called a mix of double entry, single entry and no entry.

1- Definition and Explanation of Single Entry System:

تعريف وتوضيح نظام القيد المفرد

تعريف نظام القيد المفرد Definition of Single Entry System (1)

A system of accounting in which each transaction is recorded only once. In this system, separate records showing amounts due and amounts owed are kept on customers, creditors, and cash.

(2) Explanation of Single Entry System
 (a) The books used
 السجلات المستخدمة

Cash Movement Book (سجل حركة النقد): it contains the transactions of receipts and payments.
- Debtors Book (سجل المدينين): an account is opened for each client or customer, and recorded in this account the sales on credit deducted the amounts paid and returned by him.
- Creditors Book (سجل الدائنين): an account is opened for each supplier (creditors), and recorded in this account the purchases on credit deducted the amounts paid to him.

(b) Summary of Single Entry System ملخص نظام القيد المفرد

At the end of each period shows the following:

1- Balance of cash: balance of cash at the end of the period (Beginning balance 1/1 + receipts – payments).

2- Balance of debtors: Balance of clients at the end of the period (Beginning balance 1/1 + transactions on credit – Amounts received).

3- Balance of creditors: Balance of suppliers at the end of financial period (Beginning balance 1/1 + transactions on credit – amounts paid).

The next steps must follow to know how the profit and loss of enterprise is determined:

(1) Prepare a statement of assets by overall physical inventory, because the enterprise do not kept the systematic records, cash, bank, furniture, equipment, and building.

(2) Prepare a statement of debtors (clients): this statement is extracted from the debtors' records.

(3) Prepare a statement of creditors (suppliers): this statement is prepared by help of the supplier's record (liability for others)(4) Make the total of assets

Total Point (1) + Total Point (2)

These two totals represent together the total worth of enterprise's property.

(5) Determine the total of creditors or suppliers' statement, point three, that means the total of accrued liabilities (creditors) on enterprise.

(6) Determine the difference between the total of Point (4) and the total of Point (5). This difference represents the capital at the end of the financial period.

Capital 31/12 = Point (4) - Point (5)

(7) The difference between capital (31/12) and capital (1/1) represents the profit or loss of the enterprise.

Profit or loss = Capital 31/12 – Capital 1/1

Note: The financial period different from enterprise to another, it can be three months, six months, one year (usually).

Exercise (1)

• September 1, 2011 Ahmed started his business by capital IQD 10000 (in thousands IQD).

• December 31, 2011 an inventory made for the assets and liabilities as follow:

Assets	IQD	Liabilities	IQD
Cash	3000	Creditors	6500
Debtors	5500	Loans	5000
Goods	9000		
Furniture	4500		
Equipments	2000		
Machines	14500		

<u>Required</u>: determine the profit or loss of the enterprise.

Solution:

Total Assets = 3000+5500+9000+4500+2000+14500= 38500 IQD

Total liabilities = 6500 + 5000 = 11500 IQD Capital 31/12 = 38500 - 11500 = 27000 IQD

Profit or loss = capital 31/12 – capital 1/1

27000 – 10000 = 17000 IQD

Note: The additions to capital or deductions from capital during the financial period, and the drawings per personal use, either cash or goods, must consider for determination the real result (profit or loss) as follow:

(1) Increase of capital - additions + drawings = Real profit

(2) Decrease of capital + additions - Drawings = Real loss

The above equations can be explained by the following equations:

Real Profit = Capital 31/12 – (Capital 1/1 + Additions – Drawings) Real Profit = Capital 31/12 – Capital 1/1 – Additions + Drawings

Real Loss = Capital 1/1 - (Capital 31/12 - Additions + Drawings)

Real Loss = Capital 1/1 – Capital 31/12 + Additions – Drawings

Exercise (2)

- October 1, 2011 Amjed started his business by cash IQD 50000 (in thousands IQD).
- December 31, 2011 he made an inventory of the assets and liabilities as follow :

Assets	IQD	Liabilities	IQD	
	15000		15000	
Cash	15000	Creditors	15000	
Bank	10000	Loans	25000	

Goods	30000	
Furniture	5000	
Cars	20000	
Equipments	25000	

Additional information: The Additions and drawings through the period were as follow:

- Additions IQD 10000
- Drawings IQD 5000

<u>Required</u>: Compute the profit or loss of the enterprise.

Solution:

Total Assets = 15000 + 10000 + 30000 + 5000 + 20000 + 25000 = 105000 IQD

Total liabilities = 15000 + 25000 = 40000 IQD Capital 31/12 = Total Assets - Total liabilities Capital 31/12 = 105000 - 40000 = 65000 IQD Increase of capital = Capital 31/12 - Capital 1/1Increase of capital = 65000 - 50000 = 15000 IQD Real Profit = Increase of capital - Additions + Drawings Real Profit = 15000 - 10000 + 5000Real Profit = 10000 IQD

```
Or, we can use the following equation:
Real Profit = Capital 31/12 – (Capital 1/1 + Additions – Drawings)
Real Profit = Capital 31/12 – Capital 1/1 – Additions + Drawings
Real Profit = 65000 - 50000 - 10000 + 5000 = 10000 IQD
52
```

2- Defects/Limitations/Disadvantages of Single Entry System:

The limitations or defects or disadvantages of single entry system may be summed up as follows:

(1) Limitations of single entry system محددات نظام القيد المفرد المفرد

We can see that the single entry system not practice in the great and middle projects which require the results of their performance because of the following reasons:

- 1) The single entry system not usually uses "systematic records ".
- 2) The records of assets (fixed assets, current asset, liabilities, expenses, losses, revenues and gains) do not exist in the single entry system.
- 3) It is difficult to know accurately and quickly the results of profits and losses of the projects by using this system.
- 4) It is difficult to know accurately at any time we want know the financial position of the project by using this system because the inventory overall process spent more time and efforts.
- 5) The single entry system not corresponds with the generally accepted accounting principle.
- 6) The application of single entry system due to some problems while we determine the taxes ,selling or liquidation of the project ,demand of the loan because of not using the systematic records which are necessary to get the real situation of financial position and revaluation of assets for example .

عيوب نظام القيد المفرد Disadvantages of Single Entry System 2) عيوب نظام القيد المفرد

The disadvantages of single entry system may be summed up as follows:

- (1)Under this system only partial and incomplete record is maintained because two aspects of transactions are generally ignored.
- (2) As the two aspects of every transaction are not recorded, a trial balance cannot be drawn up to test the arithmetical accuracy of the records.
- (3) A nominal accounts are not maintained, a profit and loss account cannot be prepared for want of information regarding the various income and expenditures.
- (4) As no real accounts are maintained, the preparation of balance sheet is not possible.

نظام القيد المزدوج <u>DOUBLE ENTRY SYSTEM</u>

Double- Entry accounting is an accounting system in which each transaction affects and is recorded in two or more accounts with equal the debits and credits.

Double - Entry system considers that each account related with the transaction should be affected, separately, either increases or decreases.

In order to identify the debit accounts and credit accounts, there are two approaches:

المدخل التقليدي Traditional approach

The traditional approach is based on the concept of "Personification "(الشخصنة). It deals with the accounts receiving benefit is debit and the account which issues benefit is credit, in other words:" <u>The Debit is the receiver and the credit is the giver".</u> (المدين هو الأخذ والدائن هو العاطي)

The followings are the main principles of double entry system:-

- Every transaction has two sides.
- One account is the receiver of benefit.
- Other account is the given of benefit.

2- Modern approach المدخل الحديث

This approach of double entry for identifying the debit account and credit account according to the following rules concerning the components (elements) of **accounting equation** (Balance sheet equation) المعادلة المحاسبية:

Assets = Liabilities + owner's equity

Assets represent uses (applications) of funds while equities (liabilities and owner's equity) represent sources of funds. For every use of fund there is a source of fund.

E- ACCOUNTING EQUATION المعادلة المحاسبية

Owner's equity is defined as the difference between the total of business assets and liabilities. The definition of owner's equity can be stated in the following equation:-

Assets – Liabilities = Owner's Equity (capital)

Expenses decrease owner's equity and revenue increase owner's equity. Thus profit increase capital and loss decrease capital. The owner's equity can be represented in the following equation:-

```
Owner's Equity = Total of Assets – Creditors (Current Liabilities)
```

Owner's Equity can also be expressed as proprietor's funds.

Proprietor's funds = (Fixed assets+ Stock+ Liquid Assets) – (Current Liabilities).

<u>Or:</u>

Owner's Equity= Capital + Retained earnings + Reserves and Surplus.

The same can be expressed in terms of an equation:-

C = A - L

Where:-

C = capital, A = Assets, L = Liabilities

Thus

C + L = A

A = C + L

The above equations can further be explained as follows:-

Assets + Expenses = Capital + Liabilities + Revenue

F- GENERAL RULES OF RECORDING

قواعد عامة للتسجيل

1- General Rules of Accounting Equation

قواعد عامة للمعادلة المحاسبية

(1) Assets

(1) All assets accounts normally have debit balances.

(2) An increase in an asset is recorded on the left (debit) side of the account.

(3) A decrease in an asset is recorded on the right (credit) side of the account.

Any Asset Account

مدين (.Debit (Dr	دائن (.Credit (Cr
Increase	Decrease
زیادۃ	نقصان

(2) All liabilities and Owner's Equity

(1) All liability and owner's equity accounts have credit balance.

(2) An increase in a liability or an owner's equity is recorded on the right (credit) side of the account.

(3) A decrease in a liability or an owner's equity is recorded on left (debit) side of the account.

Any liability account or owner's equity account.

مدين (.Debit (Dr	دائن (.Credit (Cr
Decrease	Increase
نقصان	زيادة

Summary statement of the rules of **debit** and **credit**:

Assets Accounts	Liabilities and Owner's Equity
	Accounts
-Increases are recorded by debit	-Increases are recorded by credit
sides.	sides.
-Decreases are recorded by credit	- Decreases are recorded by debit
sides.	sides.

The following exercises illustrate the previous rules:

Exercise (3)

Assume that AL- Quds Company decided to purchase a building for IQD 100000 (in IQD Thousands). The company has the following sources of financing:

- 1- Paid the price cash or by check.
- 2- Received a loan from the bank.
- 3- Purchased building on credit which means there is a new liability.
- 4- Signed a note payable to pay an amount in the future.The following shows the effect on balance sheet equation:

Assets = liabilities + owner's equity

- (1)+ Building cash = No effect
- (2) + Building = + loan from bank
- (3)+ Building = + accounts payable
- (4)+ Building = + Notes payable

We debit building account since assets are increased by the value of the building and:

- 1- Cash (A/c) is credited since cash (asset account) is decreased.
- 2- Loan (A/c) is credited since loan is increased as liability account.
- 3- Accounts payable is credited since it is increased as a liability account.
- 4- Notes payable for same reason showed in (3) above.Here the journal entries for the four cases of financing the transaction of purchase a building:

No.	Debit	``````````````````````````````````````	Debit	Credit
	Credit			
1:	Dr.	Building A/c	100000	
	Cr.	Cash A/c		100000
2:	Dr.	Building A/c	100000	
	Cr.	Bank's loan A/c		100000
3:	Dr.	Building A/c	100000	
	Cr.	Accounts Payable A/c		100000

(Amounts in thousands)

4:	Dr.	Building A/c	100000	
	Cr.	Notes payable A/c		100000

قواعد عامة لليومية General Rules of Journal قواعد عامة لليومية

The following table summarizes the debit and credit rules on the affected accounts:

Category	Increase	Decrease
Assets	Debit	Credit
Liabilities	Credit	Debit
Capital	Credit	Debit
Expenses & Losses	Debit	Credit
Revenues & gains	Credit	Debit

Exercise (4)

Mustafa started his business by the following transactions (Amounts in Thousands) :-

- 1- Capital invested by Mustafa for cash IQD 100000.
- 2- Purchased land for cash IQD 15000.
- 3- Purchased furniture from Suhail on account for IQD 900.
- 4- Paid for sundry expenses IQD 270.
- 5- Purchased goods from Al-Amanah Company for IQD 3400, paying cash IQD 1400, and the balance on credit.
- 6- Received cash as commission IQD 70.
- 7- Sold goods to Zuher on account IQD 2650.

<u>Required</u>: Use accounting equation to show their effects on assets, liabilities and capital.

No	Explanation			As		ilities 's equity		
		Cash	Goods	Account receivable	Furniture	Land	Account Payable	Mustafa capital
1 2	Capital invested cash Purchased land cash	+ 100000 (-) 15000				+ 15000		+ 100000
3	Balances purchased furniture on account	85000			+ 900	15000	+ 900	100000
4	Balances Paid sundry expenses	85000 (-) 270			900	15000	900	100000 (-) 270
5	Balances Purchased goods for cash and on account	84730 (-) 1400	+ 3400		900	15000	900 + 2000	99730
6	Balances Received cash as commission	83330 + 70	3400		900	15000	2900	99730 + 70
7	Balances Sold goods on account	83400	3400 (-)2650	+ 2650	900	15000	2900	99800
	Total	83400	750	2650	900	15000	2900	99800

Solution: Accounting Equation (Amounts in Thousands)

Assets = Liabilities + Owner's equity Total Assets =Total Liabilities (83400 + 750+2650 + 900 +15000) = 2900 + 99800

102700 = 102700

We can prepare this accounting equation by simple balance sheet:

Assets	IQD	Liabilities & Owner's equity	IQD
Cash	83400	Account Payable	2900
Goods	750	Mustafa capital	99800
Account receivable	2650		
Furniture	900		
Land	15000		
Total	102700	Total	102700

Balance sheet

Exercise (5)

- September 1: Amar had opening his services office by brought IQD 50000 cash (Amounts in Thousands).
- Sep.10: he had a Loan from the bank of investment IQD 20000, and deposited it in his account.
- Sep.12: bought furniture for IQD 13000 and paid the amount cash.
- Sep.15: provided services to clients for cash IQD 3000.
- Sep.19: bought stationery from Al-Muthana Trading for IQD 250 on credit.
- Sep.20: amount IQD 200 paid to AL-Muthana Trading .
- Sep.21: performed services to AL-Warkaa' stores for IQD 2500, collection IQD 1500 cash.
- Sep.22: paid by check IQD 800 for office rent.
- Sep.26: IQD 500 another amount collected from AL-Warkaa' stores.
- Sep.30: drawn amount of IQD 400 cash for person use.

<u>Required:</u> Prepare tabular summary of the transactions under form of Accounting Equation.

Solution:

Accounting Equation (Amounts in Thousands)

	1	lecoun	ing L	<u>.</u>	<u> </u>	unts m			
N0	Explanation	Assets					Liab	ilities + owner	rs equity
		Cash	Bank	Furniture	stationery	Account Receivable	Loan	Accounts Payable	AMAR'S Capital
1 10	Capital invested cash Loan from bank deposit In account	+50000	+20000				+ 20000		+ 50000
12	Balances Bought furniture cash	50000 (-)13000	20000	+13000			20000		50000
15	Balances Provided services cash	37000 +3000	20000	13000			20000		50000 + 3000
19	Balances Bought stationery on Credit from Al-Muthana Trading	40000	20000	13000	+ 250		20000	+ 250	53000
20	Balances Paid cash to AlMuthana Trading	40000 (-) 200	20000	13000	250		20000	250 (-) 200	53000
21	Balances Performed service to AL-Warkaa' on cash on credit	39800 + 1500	20000	13000	250	+ 1000	20000	50	53000 + 2500
22	Balances Paid the rent by check	41300	20000 (-) 800	13000	250	1000	20000	50	55500 (-) 800
26	Balances Amount collected from AL-Warkaa'	41300 + 500	19200	13000	250	1000 (-) 500	20000	50	54700
30	Balances Drawings cash for Personal use	41800 (-) 400	19200	13000	250	500	20000	50	54700 (-) 400
Total		41400	19200	13000	250	500	20000	50	54300

Assets = Liabilities + Owner's equity

Total Assets =Total Liabilities (41400 + 19200 + 13000 + 250 + 500) = 20000 + 50 + 5430074350 = 74350

Balance sheet

Assets	IQD	Liabilities & Owner's equity	IQD
Cash	41400	Loan	20000
Bank	19200	Accounts payable	50
Account receivable	500	AMAR'S Capital	54300
stationery	250		
Furniture	13000		
Total	74350	Total	74350

عناصر القوائم المحاسبية

الأصول (الموجودات) Assets

Assets are items with money value that are owned by a business. Some examples are: cash, accounts receivable (selling goods or services on credit), equipment (office, store, delivery, etc.), and supplies (office, store, delivery, etc.).

♦ Fixed Assets الأصول الثابتة

Fixed assets are acquired by the firm its productive operations and not for resale. Fixed Assets include land, building, fixtures, and equipment. Sometimes called long-term assets, longlived assets, or plant and equipment.

الأصول المتداولة Current Assets +

FASB was defined the current assets as follows: they are economic benefits owned by a firm which are reasonably expected to be converted into cash or used up during the entity's normal operating cycle or one year, whichever is longer.

Current assets constitute cash, items expected to be realized in cash, sold or consumed during operating cycle of the business or one year, whichever is longer. Current assets are defined "Cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business". Items are included under current assets on the basis of whether they are expected to be realized within one year or within the normal operating cycle of the enterprise, whichever is the longer.

The classification of current assets, one typically finds the following:

المخزون Inventories +

Inventories include those items of tangible property that are:

(1) Held for sale in the ordinary course of business,

(2) Used in process of production for such sale.

The cost of inventory includes all expenditures that were incurred directly or indirectly to bring an item to its existing condition and location.

الحسابات المدينة Accounts Receivables

Accounts receivables encompass (يشمل) monetary claims against debtors of the firm. The term of accounts receivable is commonly used to refer to (يوصف، يشير إلى) receivables from trade customers that are not supported by written notes (أوراق مكتوبة).

الأسبهم القابلة للتسويق Marketable Securities ♦

Marketable securities represent temporary investments made to secure (ضمان) a return on funds. To be considered a temporary investment, a security must not only be marketable, but 69 management must plan to dispose it if the management needs to obtain cash.

♦ Cash النقد

Cash is the most liquid asset owned by a firm. Cash Includes coin and currency on hand, bank deposits (if subject to immediate withdrawal, (e.g. checking accounts), negotiable paper (i.e., transferable by endorsement(تظهير), in including bank checks, money orders, bank drafts, etc.).

خقوق الملكية Owner's Equity ♦

Owner's Equity is sum of funds owned by the proprietors of firm for financing its activities .The difference between total of Assets and Liabilities is Owner's Equity. They can also be called capital, or net worth.

Owner's Equity = total of Assets - Liabilities

الخصوم (المطلوبات) Liabilities

Liabilities are debts owed by the business. Paying cash is often not possible or convenient, because the firms purchase goods and services on credit. The name of the account used is Accounts Payable. Another type of liability is Notes Payable. This is a formal written promise ($a_2 = a_2 = a_2$) to pay a specific amount of money at a definite future date.

Chart of Accounts خريطة الحسابات

Accounts in the Ledger are normally arranged in the following order: Assets, Liabilities, Owner's equity, revenues and expenses and for quick and easy reference, each account is numbered according to the accounting system applied. A complete listing of these numbers along with the respective account titles is known as a chart of accounts. The chart of accounts is shown in the following table.

Current Assets	Liabilities			
- Cash	- Creditors			
- Accounts receivable	- Accounts Payable			
- Inventory	- Loan Short-Term			
	- Loan Long-Term			
Fixed Assets	Owner's Equity			
- Land	- Capital			
- Building	- Retained Earnings			
- Office Equipment	- Reserves			
- Furniture				
Expenses	Revenues			
- Salaries	- Sales			
- Electricity	- Fees Earned			
- Supplies	- Interest Received			
- Advertisement	- Discount Received			
- Telephone	- Commission Received			
- Rent				
- Insurance				
- Depreciation				

Chart of Accounts

H-BASIC ACCOUNTING STATEMENTS

القوائم المحاسبية الأساسية

The accounting analyzes, interprets financial information, and prepares financial statements. Under those large functions of accounting, the organizations audit, design accounting system, and prepare forecasts (الموازنات) and budgets (الموازنات). The accounting process (also called the accounting cycle) consists of the following groups of functions:-

- (1) Accounting observes many events and identify and measure in financial terms those events considered evidence of economic activity.
- (2) The evidence events are recorded, classified into meaningful groups (مجمو عات ذات معنی), and summarized for conciseness.
- (3) Accountants report a business activity by preparing financial statements (قوائم مالية) and special reports.

The purpose of financial accounting statements is mainly to show the financial position of a business at a particular point in time and to show how that business has performed over a specific period.

The three basic financial accounting statements that help achieve this function are:

(1) The trading account and the profit and loss account (حساب الأرباح والخسائر) for the reporting period: an analysis of revenue and expenses of a business, exactly at the end of the year.

(2) A balance sheet (الميزانية) for the business at the end of the reporting period: a statement showing the assets, liabilities and capital of a business.

(3) A cash flow statement (قائمة التدفق النقدي) for the reporting period: a statement showing how cash is generated and how it has been spent by the business.

Final statements consist of trading account and profit & loss account and balance sheet. All the amounts from trial balance are taken to prepare these statements.

Trading account (حساب المتاجرة)

All the business transactions which are related to a firm are recorded such as sales, purchases, freight-in etc. the result in this account is known as gross profit and it is carried forwarded to Profit & Loss account.

Profit & Loss account (حساب الأرباح والخسائر)

All the transactions which are related to administration or offices are recorded, such as office expenses, salaries, interest on investments. The result in this account after balancing is known as net profit which is added to the capital in the balance sheet. If there's loss it's known as net loss and it is deducted from the capital.

Balance sheets (الميزانية)

There are assets and liabilities, assets include buildings stock, debtors etc. Liabilities include loans, creditors, notes payable etc.

Profit & Loss account shows whether a firm has earned profit or not where as balance sheet shows to the reader the overall position of the firm. Objectives of financial statements are to provide information that is:

(1) Useful to those making investment and credit decisions,

(2) Helpful to present and potential investors, creditors, and other users in assessing the amounts, timing, and uncertainty of future cash flows, and (3) about economic resources, the claims to those resources and the changes in them.

Questions and Exercises

- 1- Define the following:-
 - (1) Accounting cycle.
 - (2) Business Transaction
 - (3) Accounting Transaction
- **2-** Arrange the steps of accounting cycle.

3- Choose the correct Answer

- (1) Interest expense is an example on accounts.
 - a. real.
 - b. personal.
 - c. nominal.
 - d. all of the above.

(2) If a company purchased building cash:

No.	Assets	Liabilities	Owner's equity
a	Increase	Increase	
b	Increase		Increase
c	Increase		
	Decrease		
d		Increase	Decrease

(3) Business transaction is an accounting transaction if:

- a. It effects on balance sheet elements.
- b. There is a real exchange with outside party.
- c. Both (a) and (b).

d. Neither (a) nor (b).

(4) If an engineering office rendering a service on credit this:

No.	Assets	liabilities	owner's equity	
а		Increase	Increase	
b	Increase	Increase		
c	Increase	Increase		
d	decrease		Decrease	

(5) Office supply is accounts.

- a. an expense
- b. an asset
- c. a liability.
- d. a revenue.

(6) When a computer is purchased on credit we debit:

- a. Accounts receivable.
- b. Cash.
- c. Accounts payable.
- d. Computer

(7) When we record the entry:

Marketable securities A/c Dr. xxx

To capital A/c Cr

XXX

- a. Marketable securities are purchased.
- b. Marketable securities are sold.
- c. Starting a new business by Marketable securities or increase the capital by that amount.
- d. Marketable securities is exchanged by bonds

(8) When the owner drew goods for his personal use at cost we credit:

- a. Drawings A/c
- b. sales A/c
- c. purchases A/c
- d. capital A/c

(9) We debit account when we repay the loan.

- a. Loan
- b. interest expense
- c. cash
- d. capital
- (10) Credits:
 - a. Increase both assets and liabilities.
 - b. Decrease both assets and liabilities.
 - c. Increase assets and decrease liabilities.
 - d. Decrease assets and increase liabilities.
- (11) All the following account has credit normal balance <u>except:</u>(a) Revenues (b) Liabilities (c) Gains (d) Losses

(12) All of the following represents outside party that interest in accounting reporting **except**:

- e. Management.
- f. Debtors
- g. Creditors.
- h. Taxation authorities.

4- State whether the following statements are "True" or "False" :-

- (1) Real A/c is debited when it is sold.
- (2) Nominal A/c, is A/c of a person.
- (3) Depreciation A/c is a nominal A/c.
- (4) Goodwill A/c is a real A/c.
- (5) Accrued wages A/c is a nominal A/c.
- (6) Buildings A/c is a personal A/c.
- (7) Advertisement A/c is a nominal A/c.
- (8) Debtor's A/c is a real A/c.
- (9) Bad debts A/c is a personal A/c.
- (10) Printing and stationery A/c is a nominal A/c.

5- Prepare a table with columns, headed (1) Personal (2) Real (3) Nominal, and contains the following accounts:-

 Basrah Oil Company (2) Machinery (3) AL-Sadoon Hospital (4) Building (5) Advertising (6) Electricity charges (7) Land (8) Stationery (9) Salaries (10) Interest.

6- Discuss the classification of an account and write an explanatory notes on (1) personal A/c (2) Real A/c (3) Nominal A/c

7- Explain the rules of journalisation for debiting and crediting the personal A/c, Real A/c and nominal A/c.

8- What is meant by double entry system?

9- The following information are extracted from the books of trading Ibrahim & Sons (Amounts in IQD Thousands)

- January 1, 2012 he commenced his business by cash IQD 125000.
- June 30, 2012 he made a periodic inventory for his assets and liabilities as follow:
- Assets: cash 12000, debtors 8000, goods 15000, furniture 5000, cars 20000, equipments 10000, building 55000.
- Liabilities: Accounts payable 14000, notes payable 6000, loans 5000.
- Additional information: Additions to capital 10000, drawings 15000.

<u>Required</u>: Compute the profit or loss of the enterprise by using the single entry system.

10- State which account should be debited and which account should be credited from the following transactions:-

- (1) Paid by cheque to Rahim IQD 1500000.
- (2) Cash withdrawn from the Bank IQD 750000.
- (3) Received cheque from Mohammed IQD 900000.

11- State with the help of a table which A/c should be debited and which A/c should be credited:-

- (1) Started Business with IQD 3000000 cash.
- (2) Opened Bank A/c by depositing IQD 200000.
- (3) Purchased Machinery for cash IQD 5000000.
- (4) Paid for office stationery IQD 50000.
- (5) Bank collected interest on our investment IQD 400000.
- (6) Paid rent IQD 100000 to the lessor.
- (7) Sold goods worth IQD 1000000 cash.
- (8) Cash purchases IQD 3000000.
- (9) Cash withdrew for personal use IQD 100000.

12- Prepare a Balance sheet Equation in table with columns for each of the following transactions:

1.Started business with IQD 10000000 cash.

2.Deposited IQD 5000000 into bank.

3.Purchased goods for cash IQD 4000000.

4. Purchased (on credit) goods of IQD 8000000 from Mahmud.

5.Sold goods for IQD 8000000 cash.

6.Paid rent IQD 500000.

7.Received interest IQD 50000.

8.Bought (on credit) Furniture of IQD 500000 from Ibrahim.

9. Withdrawing IQD 50000 (from office cash) for personal use.

10.Returned Furniture of IQD 100000 to Ibrahim.

13- Abd-Alsalam had the following transactions (Amounts in Thousands):

(1) Capital invested IQD 250000 cash.

(2) Purchased equity shares of Baghdad limited for cash IQD 20000.

(3) Purchased land and buildings for IQD 25000 paying IQD 5000 in cash and the balance through a loan.

(4) Sold shares of Baghdad Limited Co. costing IQD 5000 for IQD 6000.

(5) Purchased a secondhand car for IQD 5000 cash.

(6) Paid cash as commission IQD 500.

(7) Paid cash IQD 1000 for loan and IQD 50 for interest.

(8) Paid cash for sundry expenses IQD 200.

(9) Received dividends IQD 100.

<u>Required</u>: Use accounting Equation to show their effect on his assets, liabilities and capital.

14- Write the elements accounting statements.

15- Name the financial statements and define them. ⁸⁰

	or question			
No.	а	b	с	d
(1)			Х	
(2)			Х	
(3)			Х	
(4)			Х	
(5)		Х		
(6)				Х
(7)			Х	
(8)			Х	
(9)	X			
(10)				Х
(11)				X
(12)	X			

Answers of question (3):

Chapter

<u>(3)</u>

Accounting Procedures

And Financial Statements

- The Journalisation
- Posting and Balancing in the ledger
- Trial Balance
- Financial Statements
- Questions and Exercises?
CHAPTER

<u>(3)</u>

ACCOUNTING PROCEDURES

AND FINANCIAL STATEMENTS

الإجراءات المحاسبية والقوائم المالية

The accounting is defined as an information system (نظام معلومات) that processes financial transactions (عمليات تجارية) to various interested parties for making business and economic decisions. This Chapter presents relationship between the various records started by journalisation until to preparing of the financial statements.

التسجيل في اليومية A-<u>THE JOURNALIZATION</u>

Entering the business transaction in the journal is called journalizing.

اليومية 1-The Journal

The journal is a book in which the every first record of any business transaction is made. Business Transaction is an exchange between a business and one or more external parties.

Business transactions are first entered in this book and subsequently (وبالتتابع) they are posted (ترحل) to another book known as ledger.

Date	Particulars	Voucher No	Ledger Folio	Debit (Dr) IQD	Credit (Cr) IQD
Date of the Transaction	Name of the A/c Dr To Name of the A/c (Being)			XX	XX

The Format of Journal is given below

(A) Interests of Journal فوائد سجل اليومية

The Journal helps to achieve the following interests:-

- (1) The Journal has a great utility to various interested users, because it provides complete, accurate, date wise permanent records of business transactions with different parties on every day.
- (2) In the Journal, information is noted date wise systematically, which is useful to find out reference of transactions easily and immediately by the concerned party.
- (3) The Journal is written on the basis of waste book and different source documents. Narration is written below the entry which is useful for understanding the nature of business transactions.
- (4) By referring ledger folio, the accountants can find out the reference of a particular Ledger account.
- (5) When business information is recorded systematically in the Journal, ledger can be written easily.
- (6) From the legal point of view also, a Journal becomes necessary. Courts (المحاكم) recognize the Journal as evidence (دليل إثبات) in approving or disapproving claims.
- (7) With the help of the Journal and ledger, cross-checking of the business transactions, can be done. It helps to locate (بحدد) and prevent (بمنع) errors.

(B) Steps of Journalisation

خطوات التسجيل في سجل اليومية

The Process of recording the business transactions in the Journal is known as journalizing. The steps should be followed for Journalizing:-

(1) First read the transaction carefully. Find out the accounts involved in the transaction.

(2) Ascertain (حدد) the types of those accounts. Apply (طبق) the rules of debit and credit.

(3) Write down the date of the transaction in the date column. In particulars column, name of the A/c to be debited is written on the first line. The word \underline{Dr} " is to be written against the name of the account to be debited and the word "To" to be written preceding the name of the A/c to be credited.

(4) Write down the amount in figures in debit column and credit column, write down the brief explanation of the transaction in the brackets in particular column after the entry. Such explanation توضيح (أو شرح) is called narration.

(5) After the narration a line should be drawn between the two transactions.

Exercise (1)

Analyze the following transactions and record them in the Journal:-

(1) 1-1-2012 IQD 5000000 received from Ahmed as loan to start business.

(2) 2-1-2012 Deposited IQD 5000000 in the Bank.

(3) 5-1-2012 Purchased of furniture for IQD 500000 on credit from Mr. Salam Co.

Solution:

•Analysis (1)

Date	Accounts affected	Nature of Account	Debit or Credit	Rule applicable	Amount IQD
1- 1-2012	Cash A/c	Real	Debit	Debit what comes in	50000 00
	Ahmed's loan A/c	Personal	Credit	Credit The giver	5000000

• Recording in the Journal

Date	Particulars	L.F.	Debit	Credit IQD
			IQD	
1-1-2012	Cash A/c Dr.		5000000	
	To Ahmed's Loan A/c			5000000
	(Being Cash received from Mr.			
	Ahmed as loan)			

• Analysis (2)

Date	Accounts affected	Nature of Account	Debit or Credit	Rule applicable	Amount IQD
2-1- 2012	Bank A/c	Personal	Debit	Debit the Receiver	5000000
	Cash A/c	Real	Credit	Credit what goes out	5000000

•Recording in the Journal

Date	Particulars	L.F.	Debit IQD	Credit IQD
2-1-	Bank A/c Dr.		5000000	
2012	To Cash A/c			5000000
	(Being Cash deposited in the			
	Bank)			

• Analysis (3)

Date	Accounts affected	Nature of Account	Debit or Credit	Rule applicable	Amount IQD
5-1-2012	Furniture A/c	Real	Debit	Debit what comes in	500000
	Mr. Salam Co.	Personal	Credit	Credit the giver	500000

•Recording in the Journal

Date	Particulars	L.F.	Debit	Credit
			IQD	IQD
5-1-	Furniture A/c Dr.		500000	
2012	To Mr. Salam Co. A/c			500000
	(Being Furniture purchased on credit from			
	Mr. Salam Co.)			

Exercise (2)

Journalize the following transactions in the Journal maintained by Nehad through the month of January 2012 (The amounts in thousands IQD).

- January 1. Mr. Nehad started business by bringing in cash IQD 50000
- January 2. Bank account opened IQD 10000
- January 5. Loan received from Ahmed by cheque deposited in the bank IQD 60000
- January 9. Goods purchased from Raheem on credit IQD 30000
- January 10. Sold goods to Salam on credit IQD 50000
- January 16. Stationery items purchased in cash IQD 30000
- January 17. Received cheque from Salam on account IQD 50000
- January 28. Paid by cheque to Raheem on account IQD 30000
- January 30. Cash withdrawn from Bank IQD 10000

Journal Nehad

Date	Particulars	L.F.	Debit	Credit
			IQD	IQD
2012 Jan	Cash A/c Dr		50000	
1	To Mr. Nehad's Capital A/c			50000
	(Being business started by Mr. Nehad bringing in			
	cash)			
2	Bank A/c Dr		10000	
	To Cash A/c			10000
	(Being Bank account opened by depositing cash in			
	the Bank)			
5	Bank A/c Dr		60000	
	To Ahmed's loan A/c			60000
	(Being loan received from Ahmed deposited in the			
	Bank)			
9	Goods A/c Dr		30000	
	To Raheem's A/c			30000
	(Being goods purchased from Raheem on credit)			
10	Salam's A/c Dr		50000	
	To Goods A/c			50000
	(Being goods sold to Salam on credit)			
16	Stationery A/c Dr		30000	
	To Cash A/c			30000
	(Being stationery items purchased in cash)			
17	Bank A/c Dr		50000	
	To Salam's A/c			50000
	(Being cheque received from Salma on account)			
28	Raheem's A/c Dr		30000	
	To Bank A/c			30000
	(Being payment made by cheque to Raheem on			
	account)			
30	Cash A/c Dr		10000	
	To Bank A/c			10000
	(Being cash withdrawn from Bank)			
	TOTAL		320000	320000

أنواع القيود (C) Kinds of Entries

Entries recorded in the Journal are classified into two kinds:

القيد البسيط 1. Simple Entry

In this type of entry, only two accounts are affected. One account is debited and another account is credited like the entries mentioned previously.

القيد المركب 2. Compound Entry

In a compound entry, more than two accounts are affected. In this kind of entry there may be:-

(1) Several Accounts are to be debited and one account is to be credited.

(2) One Account is to be debited and several other accounts are to be credited.

(3) Several Accounts are to be debited and several accounts are to be credited.

Exercise (3)

Walled started business with Cash IQD 15000000, Goods worth IQD 3000000 and Machinery worth IQD 2000000.

No	Particulars	Debit	Credit
		IQD	IQD
1	1. He brings cash in business:-		
	ash A/c Dr	15000000	
	To Capital A/c		15000000
2	2.He brings goods in business:-		
	Goods A/c Dr	3000000	
	To Capital A/c		3000000
3	3He brings machinery in business :-		
	Machinery A/c Dr	2000000	

To Capital A/c	2000000

In all the previous transactions, the capital account is commonly credited. Hence, instead of making three entries separately, a combined entry may be conveniently passed as follows:-

Particular	Dr.	Cr.
Cash A/c Dr	15000000	
Goods A/c Dr	3000000	
Machinery A/c Dr	2000000	
To Capital A/c		20000000

16- State whether the following statements are True or False:

(1) Financial statements are the group of two statements: trading A/c and profit and Loss a/c.

(2) Trading A/c gives result of gross profit earned or gross loss suffered in the trading year.

(3) Trading A/c is prepared on the basis of indirect expenses and revenues.

(4) Debit balance of trading A/c indicates gross loss.

(5)Credit balance of trading A/c shows gross profit.

(6) Profit and Loss A/c is prepared on the basis of direct expenses and revenues.

(7) Debit balance of P.L A/c shows net profit.

(8) Credit balance of P/L A/c indicates net profit.

(9) Balance sheet is a statement and not an account.

(10)If Trial Balance is not tallied, balance sheet prepared on it, will not be balanced.

Answers of question (10):

No	а	b	с	d
(1)		X		
(2)	X			
(3)	Х			
(4)	Х			
(5)				X
(6)			X	
(7)				X

(8)		X	
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> Answers of questions (11,12,13,,14,15,16):

No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
11	c	a	a	c	b	b	c	с		
12	c	d	c	a	b	a	a	b	c	с
13	e	f	d	a	c	b				
14	c	e	d	b	f	a				
15	F	F	Т	Т	Т	Т				
16	F	Т	F	F	F	F	Т	F	Т	Т

Exercises

1- Prepare cash account from the following transactions:-

- 1.1.2012 Purchased goods for cash IQD 2000000.
- 5.1.2012 Sold goods for cash IQD 20000000.
- 25.1.2012 Paid salaries IQD 3000000

Balance the account on 31.1.2012.

2- Pass journal entries in each of the following cases

- (1) Purchased goods from Jabber for cash IQD 1000000 and he allowed a cash discount of IQD 50000.
- (2) Sold goods to Nasser for cash IQD 800000 and allowed for him IQD 50000 as discount on sales.

<u>2012</u>		IOD
March 1.	Opening balance of cash	3200000
5.	Cash sales	4000000
6.	Cash purchases from Tahseen	2000000
8.	Paid for advertisement	200000
<i>9</i> .	Paid for News papers	120000
10.	Received from Hashim	1650000
<i>12</i> .	Paid Telephone Bill	250000
22.	Sold goods to kareem	6700000
28.	Received cash from kareem in full settlement	6500000

3-PREPARE CASH ACCOUNT AND BALANCES IT ON 31st MARCH 2012.

4-Enter the following transactions in the journal of Walled and prepare the necessary ledger accounts and balance them as on 30th April 2012.

April .1 Walled brought cash IQD 10000000 stock worth IQD 7000000 into his business.

April 7. Purchased office Furniture for cash IQD 2000000

April 12. Bought stationery on credit from Mr. Ismail IQD 50000

April 18. Sold goods to Ahmed for IQD 1000000

April 24. Received cash from Salam IQD 2000000.

April 26. Paid commission to Sammy IQD 250000

April 30. Paid salaries for the Month of April IQD 1500000.

5- Pass Journal entries of the following transactions and prepare necessary ledger accounts. Balance the ledger accounts on 28th February 2012.

Feb. 1 2012 Started business with cash IQD 10000000 and machinery worth IQD 5000000.

5. Purchased Car for IQD 5000000.

8. Cash purchases IQD 2000000.

10. Purchased goods from Khalid IQD 8000000.

20. Paid Travelling expenses IQD 100000.

25. Sold goods for IQD 15000000.

6- The following balances extracted from the books of Ibrahim as on 31st December 2011

Names of Accounts	IQD	Names of Accounts	IQD
OPENING STOCK	15000	PRINTING AND STATIONERY	3400
BILLS PAYABLE	6000	INSURANCE	750
ACCRUED WAGES	1700	SALARIES	10000
PURCHASES	45700	CREDITORS	12000
WAGES	9900	BANK OVERDRAFT	3000
MARKETABLE SECURITIES	3500	POSTAGE AND TELEPHONE	700
SALES	79800	MACHINERY	26800
CAPITAL	65000	Furniture	6400
CARRIAGE INWARDS	2600	DEBTORS	25000
CARRIAGE OUTWARDS	2000	CASH AT BANK	10500
BAD DEBTS	250	ADVERTISEMENT	2000
BILLS RECEIVABLE	4000	RESERVES	1000

Required: Prepare a trial balance.

IQD
1000000
8000000
2000000
1000000
1000000
2500000
12000000
3000000
2000000
20000000
500000

7- From the following information prepare a Trial Balance as on 31st March 2012:

8- The following information is extracted from Hassan's Books as on 31st December 2011 (Amounts in thousands).

Particulars	IQD
Purchases	20500
Sales	22000
Returns Inwards	1800
Returns Outwards	1000
Carriage Inward	600
Carriage Outward	400
Bank Overdraft	5400
Loan	1200
Commission (Dr.)	800
Drawings	2000
Marketable Securities	8000
Debtors	12000
Creditors	4000
Lighting	1000
Cash in hand	4500
Capital	18000

<u>Required</u>: Prepare a Trial Balance.

9- Enter the following transactions in a Journal and prepare Ledger accounts. Also balance the ledger accounts and draw a Trial Balance:-

	particulars	
2012		IQD
March.		
1	Started business with cash	25000000
4	Cash Deposited in AL-Rasheed Bank	1000000
8	Purchased goods for cash	7000000
12	Purchased goods from Bushra Stores	5000000
15	Sold goods to Maher	8000000
16	Purchased goods from Amar	12000000
20	Cash paid to Bushra	4000000
22	Received cash from Maher	8000000
23	Cash withdrawn from the Bank for office use	5000000
24	Purchases made by cheque	2000000
25	Cash sales	15000000
26	Cash Purchases	2000000
27	Paid office rent	1500000
29	Paid salaries	2000000

10- Journalize the following transactions and prepare necessary ledger accounts and draw a Trial Balance:-

2012		<u>IQD</u>
Jan. 1.	Started business with cash	15000000
2.	Sold goods for cash	25000000
4.	Purchased goods from Abdul-Kareem	1000000
6.	Purchased goods	5000000
12.	Cash withdrew from the Bank for Personal use	12000000
15.	Paid to Abdul- Kareem	1000000
16.	Sold goods to Hytham and received a cheque	7800000
19.	The above cheque deposited in the bank	7800000
20.	Purchased Furniture from Shareef	2000000
22.	Purchased goods from Amine	5000000
25.	Cash received as loan from Amine	3000000
26.	Paid General expenses	2000000
28.	Paid wages	100000
30.	Purchased Machinery for cash	1500000
31.	Paid wages for the erection of new Machinery	100000

11- Razak started business on 1st January 2012 with IQD 5000000 as cash in hand, IQD 25000000 in Bank account, IQD 8000000 as stock in hand, and IQD 10000000 as the value of Furniture. His transactions for the month were as follows:-

<u>2012</u>		IQD
Jan. 1.	Bought goods from Hider on credit	1500000
5.	Paid Travelling expenses	500000
7.	Sold goods to Nasser for cash	2500000
15.	Paid cash to Hider	1000000
17.	Cash purchases	8000000
17.	Cash sales	25000000
20.	Deposited into bank	5000000
20.	Bought goods from Salam on account	1500000
23.	Paid for postage and stationery	50000
25.	Paid cash to Salam	1300000
28.	Paid for Advertisement	250000
31.	Paid for Sundry Expenses	200000

<u>Required:</u>

Pass Journal entries for the above transactions and prepare necessary ledger accounts, balance them, and prepare Trial balance on 31^{st} Jan. 2012.

12-The following information about the first half of 2012 for Quick meal restaurant:

Particulars	<u>Amounts IQ</u> D
Purchases	10000
Sales	25000
Purchases returns	1000
Sales returns	6000
Opening stock	6000
Closing stock	4000
Freight – in	2000
Selling expenses	3000
Administrative expenses	500

Required:

A: Determine the following:

1- The cost of goods purchased.

2- The cost of goods sold.

3- Gross profit.

4- Net income.

B: Prepare trading account for quick meal for the half ended June 30, 2012.

C: Record the closing entries.

Particulars	Amounts IQD
Merchandise stock 1/1	15000
Sales	101000
Sales returns	1000
Debtors (Accounts receivables)	7000
Purchases	60000
Freight - in	2000
Fright - out	4000
Cash	21000
Equipments	20000
Administrative expenses	7000
Notes receivables	12000
Creditors (Accounts payable)	5000
Notes payable	1000
Capital	????
Closing stock at cost	20000
Closing stock at market	18000

13- The following balances are showed at Dec. 31, 2011 for Bilady company:

Required:

1- Prepare the trial balance at the end of 2011.

2- Prepare trading account, profit and loss account for the year ended Dec. 31, 2011

- 3- Prepare the balance sheet as of Dec. 31, 2011.
- 4- Record the closing entries.







- Definition of Business Correspondences.
- The Qualities required by a good Business Letters.
- The parts of Business Letters.
- Correspondences by internet

CHAPTER

(4)

AN INTRODUCTION

TO BUSINESS CORRESPONDENCES

مدخل للمراسلات التجارية

Commercial correspondences or business letters are a written communication between two parties. Businessmen may write letters to supplier of goods and also receive letters from the suppliers. Customers may write letters to businessmen seeking information about availability of goods, price, quality, sample etc. or place order for purchase of goods. Thus, business letters may be defined as a media or means through which views are expressed and ideas or information is communicated in writing in the process of business activities.

The business letters are the principal mean used by firms to keep-in relations with their customers and suppliers, so they are very important for a businessman to know how to write an effective business letter. A- DEFINITION OF BUSINESS CORRESPONDENCES تعريف المراسلات

The whole secret behind good business letter-writing is to write simply, in an easy and natural way, which makes the letter sounds as much as possible like good conversation (محادثة).

1- Definition of a Business Letter تعريف الرسالة التجارية

A business letter is defined as "a message that attempts (تحاول) to influence its reader to take some actions or attitudes desired by the sender".

In other words the correspondent tries to get his reader to agree with him, this attempt at agreement should always be part of the letter, whether the desired result is an immediate importance, such as collecting of a bill, or it is an intangible attitude like goodwill(السمعة، الشهرة).

2- Kinds of Correspondences انواع المراسلات

There are three kinds of correspondences as shown are designed in following figure:



(A) Private (personal) correspondences المراسلات الخاصة

They are defined as letters exchanged between friends, relatives, and acquaintances (احد المعارف) for personal or social matters.

(B) Official correspondences المراسلات الرسمية

They are defined as letters exchanged between governmental institutions, offices or agencies, at the national or local levels, concerning official matters.

مراسلات الأعمال (C) Business Correspondences

They are defined as letters exchanged between business firms or businessmen, Sellers and Buyers, or they are exposed to carry out (نِنْفُنْ) commercial transactions.

وظائف رسائل الأعمال 3- Functions of Business Letters

Business letters have three general functions:

a- They provide (give) information to the reader.

b- They obtain (get) information from the reader.

c- They build goodwill for the sender.

Goodwill is defined as" the disposition of customers to return to the place where they have been treated well", also it can be defined as "a feeling of confidence in a firm that makes a customer trades with rather than with another".