

(Accounting Readings)

The conceptual framework of accounting :

A conceptual framework is like constitution that leads the accounting system .

The conceptual framework of accounting is made of three levels :

First level : is presented the objectives of financial reporting .

Second level : is presented two types

- a) Qualitative characteristics of accounting information.
- b) Elements of financial statements .

Third level : is presented the recognition and measurement concepts such as

(Assumptions , Principles and Constraints) .

Concept of Book keeping :

Book-keeping is an art of business transaction in a set of books .

Book-keeping is a mechanical process that records the routine economic activities of business .

Is defined as the process of analyzing , classifying and recording transactions in a systematic manner and of providing information about the financial affairs of business concern .Also defined as the art of recording in the in the books of accounts , the monetary aspect of commercial or financial transactions .

Features of Book-keeping :

- 1- Book-keeping is an art of recording transactions scientifically .
- 2- The recording required a documentary support for every transactions .
- 3- The system of recording should be universal .
- 4- The recording is made of monetary transactions only .

Objects of Book-keeping :

- 1- To know profit and loss.
- 2- To know financial position .
- 3- To have a systematic record.
- 4- To know debtors and creditors .
- 5- To know capital invested .
- 6- To know cash and stock .

Importance of Book-keeping :

- 1- facilitates planning.
- 2- Decision making .
- 3- Controlling.
- 4- Aid of memory .
- 5- Comparative study.
- 6- sale of business.
- 7- Helpful in getting loans.
- 8- protection against theft .

Comparison between Book-keeping and Accounting :

- 1- Book-keeping is an art of recording business transactions in a set of books while Accounting is concerned with the design of the system of record .
- 2- Book-keeping recording and maintaining books of original entries while Accounting preparing of accounts to find out profit or loss and financial position.
- 3- Book-keeping recording the business transactions in a set books while Accounting prepare the trade , profit and loss account and Balance sheet .

Definition of Accounting :-

There are more definition of accounting and we take same from these as follows :-

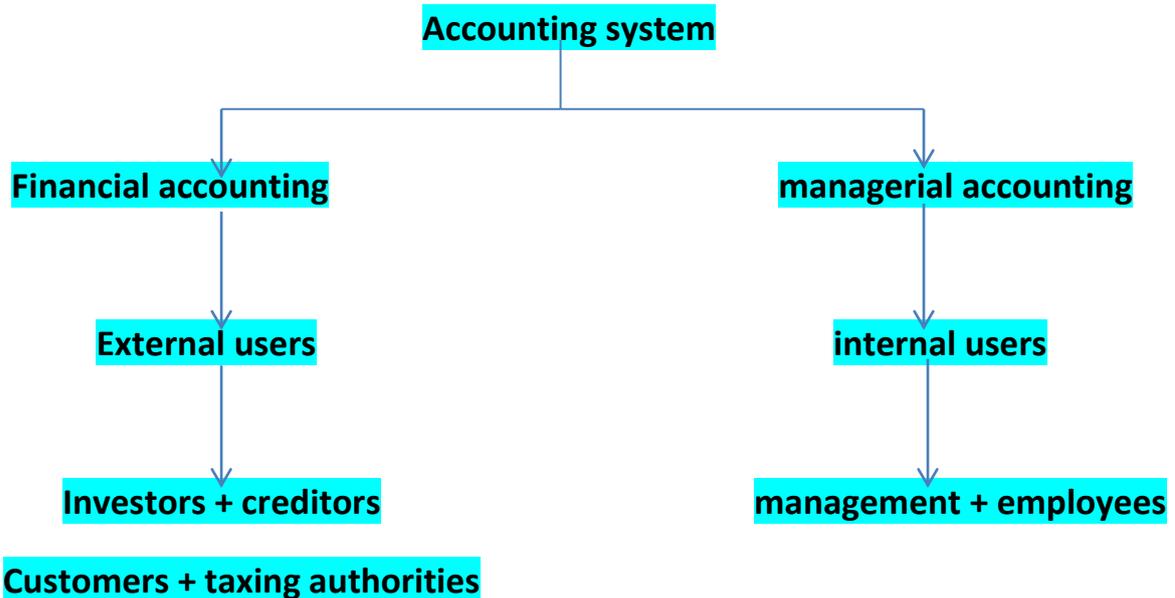
1-The accounting is the art of recording , classifying , reporting , and interpreting the financial data of and organization .

2-The accounting is a social science has its concepts and principles that used in applying the accounting cycle to achieve accounting function and objectives .

Types of accounting :

- 1- Financial accounting : is the process of supplying financial information to parties external .
- 2- Managerial accounting : is the process of supplying financial information for internal management use .
- 3- Cost accounting : this type study cost of product units in the economic entities .
- 4- Government accounting : this type study the accounting process in government units .
- 5- Tax accounting : this type used in taxing department to calculated the tax on the individuals and companies .

Figure of Accounting System :



Usefulness of accounting :

- 1- Record all financial transactions of a business .
- 2- Record all the revenues and expenses for any period .
- 3- Record the assets and liabilities of companies to know the financial position in the period end .
- 4- Provided the information to multiple parties .
- 5- To control on expenses and minimize .

The main users of accounting information :

The different users of accounting information can be classified as follows :

- Shareholders .
- Investors .
- Creditors .
- Government .
- Labors .
- Researchers .
- Management (administration) .
- Other parties .

Accounting assumptions , principles , and constraints :-

First : Accounting assumption :- الفروض المحاسبية

- 1- Accounting entity . الوحدة المحاسبية
- 2- Going – concern . مفهوم الاستمرارية
- 3- Monetary unit . مفهوم وحدة القياس
- 4- Periodicity . مفهوم الدورية
- 5- Double entry . مفهوم القيد المزدوج

Second : Accounting principle :- المبادئ المحاسبية

- 1- Historical Coat . مبدأ التكلفة التاريخية
- 2- Matching . مبدأ المقابلة
- 3- Revenue Recognition . مبدأ تحقق الإيراد
- 4- Objectivity . مبدأ الموضوعية
- 5- Full disclosure . مبدأ الإفصاح التام

Third : Accounting constraints :- المحددات (القيود) المحاسبية

- 1- Materiality . الأهمية النسبية
- 2- Conservatism . الحيطة والحذر او التحفظ
- 3- Consistency . الاتساق او الثبات
- 4- Cost and benefit . التكلفة والمنفعة
- 5- Industry practices . الممارسات الصناعية

Accounting Transactions Analysis and Recording :-

Accounting is the language of business for all activities and practices . Accounting is a standard set of rules for measuring a firms 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 statement.

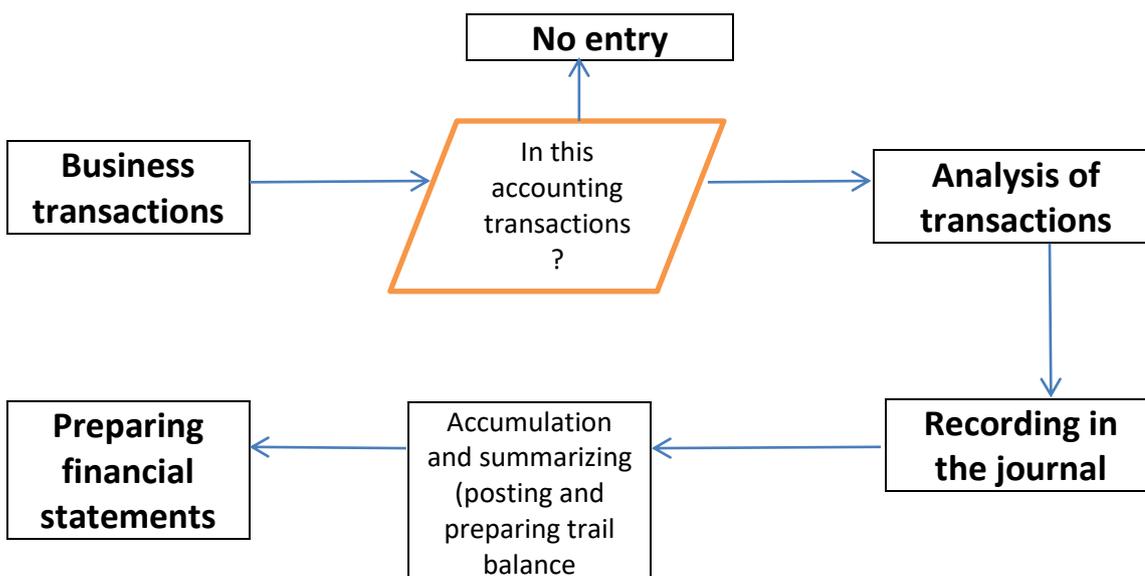
Accounting Cycle :-

The process of accounting consists the steps involved in the complete treatment of business transactions which incurred through an accounting period, starting with analyzing , recording the transaction in journal, preparing a trial balance , 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 of accounting cycle :



Business and Accounting Transactions :

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 for example (Bought furniture for cash).

Business transaction is defined as an exchange of goods, services, money between two or more parties .

Accounting transactions are recorded using entries in accounting book , this book called journalization .

2- Transaction analysis :

Transaction analysis is first step to identify the type of account involved and then to determine whether a debit or credit to the account is required, and then prepare the journal entry .

Debit is the name for the left side of an account .

Credit is the name for the right side of an account .

Transaction analysis its economic effect on the business in terms of the accounting equation .

Accounting equation :

$$\text{ASSETS} = \text{LIABILITIES} + \text{STOCKHOLDERS EQUITY (CAPITAL)}$$

Classification of the accounts :

The accounts are classified into three groups as follows :

Personal accounts . الحسابات الشخصية

Real accounts . الحسابات الحقيقية

Nominal accounts . الحسابات الاسمية

Personal accounts are defined by personal names including all types of economics entities such as (corporation , firms , universities ... etc)

Example (Alis account, al-Muthana university , Debtors , Creditors).

Real accounts are the assets accounts either tangible or intangible assets .

Example : (cash , building , furniture , land) .

Nominal accounts are the accounts of revenues , gains , expenses , losses .

Example : (sales, purchases, benefits, rent , losses from selling a fixed asset) .

And this accounts closed in the end period in final accounts (trading , profit and loss accounts , or income statement).

The accounting procedures are incurred by using the two following systems :-

- 1) **Single entry system** .
- 2) **Double entry system** .

SINGLE ENTRY SYSTEM :-

Single entry system may be defined as a system which does not strictly conform to the double entry system of book-keeping .

And this system recording only the personal accounts of debtors and creditors .

All impersonal accounts such as purchases , sales, wages, carriage, rent etc., are not recorded .

Definition of single entry system :-

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 .

Explanation of single entry system :-

a) The books used :

- Cash movement book : record transaction of receipts and payments .
- Debtors books : an account is opened for each client or customer.
- Creditors books : an account is opened for each supplier .

b) Summary of single entry system :

- 1- Cash balance : (balance in beginning + receipts – payments) .
- 2- Debtors balance : (beginning balance + transaction on credit – amounts received) .
- 3- Creditors balance : (beginning balance + transaction on credit – amounts paid) .
- 4- Determined profit and loss for the company as follows :
 - Prepare a statement of assets by overall physical inventory such as (cash, bank, furniture, and building) .
 - Prepare a statement of debtors(client) .
 - Prepare a statement of creditors(suppliers).
 - Make the total of assets :(total point 1 + total point 2)
 - Determine the total of creditors or suppliers .(point 3)
 - Determine the difference between the total of point 4 and total of point 5(capital)
Capital = point 4 – point 5 .
 - Determine difference between the capital at 31/12 and the capital at 1/1 (profit and loss) . profit and loss = capital 31/12 – capital 1/1 .

Example 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 follows :

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

If you know the additional during the period was 15000 IQD and the drawings was 5000 IQD .

Required : Determine the profit and loss of the firm ?

Note : the profit and loss Real determined as follows :

Real profit = capital 31/12 – (capital 1/1 + additional – drawings) .

Real loss = capital 1/1 – (capital 31/12 – additional + drawings) .

DOUBLE ENTRY SYSTEM :-

Definition of double entry system :

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

The main principles of double entry system :-

- 1- Every transaction has two sides .
- 2- One account is the receiver of benefit .
- 3- Other account is the giver of benefit .

Modern approach of double entry represents by accounting equation:

$$\text{ASSETS} = \text{LIABILITIES} + \text{OWNERS' EQUITY}$$

Note : every side received called debit and any side giver called credit .

Accounting Equation :-

Owners' equity is defined as the difference between the total of business assets and liabilities . as follows :

$$\text{ASSETS} - \text{LIABILITIES} = \text{OWNERS' EQUITY (CAPITAL)}$$

Expenses decrease owners' equity and revenues increase owners' equity .

Profit increase owners' equity and loss decrease owners' equity .

Accounting equation can be explained as follows :-

ASSETS + EXPENSES = CAPITAL + LIABILITIES + REVENUES

1- GENERAL RULES OF ACCOUNTING EQUATION :

ASSETS :

Debit (Dr.) مدین	Credit (Cr.) دائن
Increase زيادة	Decrease نقصان

ALL LIABILITIES AND OWNERS' EQUITY :

Debit (Dr.) مدین	Credit (Cr.) دائن
Decrease نقصان	Increase زيادة

Example 2 :-

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 .

Required : shows the effect on balance sheet equation ?

General rules of journal :

category	Increase	Decrease
Assets	Debit	Credit
liabilities	Credit	Debit
capital	Credit	Debit

Expenses & losses	Debit	Credit
Revenues & profit or gains	Credit	Debit

Example 3 :

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 IQD as commission IQD 70 .
- 7- Sold goods to Zuher on account IQD 2650 .

Required : use accounting equation to show their effects on assets, liabilities, and capital?

2-Elements of accounting statements :-

- a) **Assets (الموجودات) :** assets are items with money value that are owned by a business such as (cash, accounts receivable, equipment, ... etc.)
- b) **Fixed assets :** (الموجودات الثابتة):fixed assets are acquired by the firm its productive operations and not for resale .
- c) **Current assets (الموجودات المتداولة) :** are defined economic benefits owned by a firm which are reasonably expected to be converted onto cash or used up during the entity's normal operation cycle or one year, whichever is longer .

And can be classifying current assets to :

- 1- Inventories. (المخزون)
 - 2- Accounts receivables. (الحسابات المدينة)
 - 3- Marketable securities . (الاسهم القابلة للتسويق)
 - 4- Cash . (النقدية)
- Owners' equity = (total of assets – liabilities). (حقوق الملكية)
 - Liabilities . (المطلوبات)
 - Chart of accounts . (خريطة الحسابات)

Chart of accounts

Current assets	liabilities
<ul style="list-style-type: none">- Cash- Accounts receivable- Inventory	<ul style="list-style-type: none">- Creditors- Accounts payable- Loan short-term- Loan long-term
Fixed assets	Owners' equity
<ul style="list-style-type: none">- Land- Building- Office equipment- furniture	<ul style="list-style-type: none">- capital- retained earnings- reserves
Expenses	Revenues
<ul style="list-style-type: none">- salaries- electricity- supplies- advertisement- telephone- rent- insurance- depreciation	<ul style="list-style-type: none">- sales- fees earned- interest received- discount received- commission received

3-Basic accounting statements :

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

a)The trade account (حساب المتاجرة) : recorded sales and purchases, freight-in .. etc. this account is known as gross profit or gross loss and closed in profit and loss account .

b)Profit and loss account (حساب الارباح والخسائر) : recorded office expenses, salaries, and all revenues such as interest on investments and this account is known as net profit or net loss and closed in balance sheet .

c)Balance sheet (الميزانية العمومية) : there are assets and liabilities .and this list shows to the reader the overall position of the firm .

d)A cash flow statements (قائمة التدفقات المالية) for the reporting period:

A statements showing how cash is generated and how it has been spent by the business .

4-Objectives of financial statements :

- 1- Useful to those making investment and credit decisions .
- 2- Helpful to present and potential investors, creditors, and other users in assessing the cash flows in the futures .
- 3- About economic resources of cash if stay on this sources or change it .

Example :-

The following information are extracted from the books of trading Jamal :-

(amounts in IQD thousands).

- January 1, 2011 he started his business by cash IQD 125000 .
- June 30, 2011 he made a periodic inventory for his assets and liabilities as follows :
 - a) Assets (cash 12000, debtors 8000, goods 15000, furniture 5000, cars 20000, equipment 10000, building 55000) .
 - b) Liabilities (accounts payable 14000, notes payable 6000, loans 5000) .
- Additional information : additions to capital 10000, drawings 15000 .

Required :

Compute the profit or loss of the enterprise by using the single entry system and double entry ?

Accounting procedures and financial statements :-

A) The Journalization (التسجيل في اليومية):-

Entering the business transaction in the journal is called journalizing.

- 1) The journal :- is a book in which the every first record of any business transaction is made .

The format of journal book :

Date	Particulars	Voucher. No	Ledger. Folio	Debit IQD	Credit IQD
Date of the transaction	Name of the A/C Debit To name of the A/C Credit (Being -----)			xxx	xxx

Example 1 :-

Analyze the following transaction and record them in the journal :

- 1) 1-1-2010 IQD 5000000 received from Ahmed as loan to start business .
- 2) 2-1-2010 Deposited IQD 5000000 in the bank .
- 3) 5-1-2010 purchased of furniture for IQD 500000 on credit from Mr. Saleem Co.

Example 2 :

Recorded the following transactions in the journal by Saeed through the month of January 2013 (the amounts in thousands IQD).

- Jan. 1\2013 Mr. Saeed started business by bringing in cash IQD 50000 .
- Jan. 2\2013 bank account opened IQD 10000 .
- Jan. 5\2013 loan received from Ahmed by cheque deposited in the bank IQD 60000.
- Jan. 9\2013 goods purchased from Raad on credit IQD 30000.
- Jan. 10\2013 sold goods to Salam on credit IQD 50000.
- Jan. 16\2013 stationery items purchased in cash IQD 30000.
- Jan. 17\2013 received cheque from salam IQD 50000.
- Jan. 28\2013 paid by cheque to Raad IQD 30000.
- Jan. 30\2013 cash withdrawn from bank IQD 10000.

Kinds of Entries :-

- 1- **Simple entry** :- in this type of entry, only two accounts are affected. One debit and another credit .
- 2- **Compound entry** : in this type of entry, more than accounts are affected.

Example 3 :-

Walled started business with cash IQD 15000000, goods worth IQD 3000000, and machinery IQD 2000000 .

Required :-Recording this exercise by two kinds ?

Posting and balancing the ledger :-

Process of transferring the entries from the journal to the ledger is called posting .

1- Ledger :-

The ledger is a book which records all transactions from the journal into a classified form .

Each ledger account is totaled and balanced at the end of the accounting period . this book contains many pages . and each page of ledger book is numbered .

FORMAT OF LEDGER :-

Name of the account							
Debit		-----A/C		Credit			
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount

Example 4:-

The following transactions are recording in the journal book :

1- Of A/C cash 5000000
 To A/C capital 5000000

2- Of A/C furniture 3000000
 To A/C cash 3000000

3- Of A/C purchases 1500000
 To A/C Salam's 1500000

Required :- post the above transactions into ledger accounts .

The Trial Balance :

Trail balance is a list of accounts having balances in ledger .the debit or credit balance of each accounts, the total of debit balance and the total of credit balance are equal . if the trial balance does not agree , it means that there are some errors to be detected and rectified .

Trial balance link tool between ledger accounts and financial statements . and prepare at end of period .

Example 5:-

The following balance are extracted from the books of Al- Hussian co.

Serial NO.	Name of accounts	Amount IQD
1	Stock(1.1.2011)	46800000
2	Returns inwards	8600000
3	Purchases	321700000
4	Freight and carriage	18600000
5	Rent and taxes	5700000
6	Salaries and wages	9300000
7	Sundry debtors	24000000
8	Interest on loan	900000
9	Printing and advertising	14600000
10	Cash at bank	8000000
11	Furniture	5000000
12	Discount allowed(payable)	1800000
13	General expenses	11450000
14	Insurance	1300000
15	Postage and telegram	2330000
16	Cash in hand	380000
17	Travelling expenses	870000
18	Drawings	40000000
19	Capital	86690000
20	Sales	389600000
21	Returns outwards	5800000
22	Sundry creditors	14800000
23	Loan @ 6%	20000000
24	Various revenues	250000
25	Discount earned (received)	4190000

Required : prepare a trial balance of Al- Hussian co. as at 31st December 2011 .

Exercise 1:-

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 company purchase building cash :
a) Assets increase. b) liabilities increase c) owners' equity decrease
d) assets increase and decrease .
- 3- Business transaction is :
a) Exchange goods b) exchange services and money c) both a & b d) nether a & b
- 4- Office supply is ----- accounts .
a) An expense b) an asset c) a liability d) a revenue
- 5- Purchased computer on credit :
a) Cash b) bank c) on account d) computer

Exercise 2 :-

State whether the following statements are " true" or "false" .

- 1) Real A/C is debit when it is sold .
- 2) Nominal A/C, is A/C is of a person .
- 3) Depreciation A/C is a nominal A/C .
- 4) Good will A/C is a real A/C .
- 5) Accrued wages A/C is a nominal A/C .
- 6) Building A/C is a personal A/C .
- 7) Advertisement A/C is a nominal A/C .
- 8) Debtors A/C is a real A/C .
- 9) Bad debit A/C is a personal A/C .
- 10) Printing and stationary A/C is a nominal A/C .

Exercise 3:-

Prepare a table with columns , headed (1) personal (2) real (3) nominal, and contains the following accounts :

- (1) Basrah oil company. (2) machinery. (3) AL-Sadoon hospital. (4) building.
- (5) advertising. (6) electricity charges. (7) land. (8) stationary. (9) salaries. (10) interest.

FINANCIAL STATEMENTS :- (القوائم المالية)

Financial statements are the final outputs for applying the accounting cycle which supply with creditable(المصدافية), relevant(الملانمة), and timely financial information to take rational(عقلائي) economic decision .

These statements contains both debit and credit balance of all ledger accounts.

Financial statements contains of trading account , profit and loss account and balance

- 1- **Trading account** shows the gross of profit or loss .
- 2- **Profit and loss account** shows net of profit or loss .
- 3- **Balance sheet** shows assets and liabilities and owners' equity to economic entity.

This statements reflected the financial position of the business .

- 1) Trading account :- this account is a nominal account , it is showing the results of buying and selling of goods . it is shows how much gross profit of the business has earned . the purpose for preparing trade account to find profit or loss gross by the difference between sales and cost of goods sold .

Cost of goods sold = opening stock + purchases + direct expenses on purchases – closing stock

Trading A/C

Particulars	Amount IQD	Particulars	Amount IQD
To opening stock	xxx	By sales	xxx
To purchases	xxx	By purchases returns	xxx
To sales returns	xxx	By closing stock	xxx
To freight-in		By P. & L . A/C	
To P.& L. A/C	xxx	(gross loss c/d (if there is a loss)	
(gross profit c/d (if there is a profit)			
	xxx		xxx

Closing entries of trading account :

- 1) Xxx of A/C \Trading Account
Xxx To A/C opening stock
Xxx To A/C Purchases
Xxx To A/C Sales returns
Xxx To A/C Freight-in

- 3) **closing stock :**
xxx of A/C Closing stock
xxx To A/C Trading

- 2) Xxx of A/C Sales
Xxx of A/C Purchases returns
Xxx To A/C Trading account

If the total credit more than total debit realized gross profit and closed in profit & loss A/C by the entry :-

Xxx of A/C Trading account
Xxx To A/C profit and loss

If the total debit more than total credit realized gross loss and closed In profit & loss A/C by the entry :

Xxx of A/C profit and loss
Xxx To A/C Trading

1- **PROFIT & LOSS ACCOUNT :**

This account related to the expenses and revenues to find out the net profit or loss, and the steps for preparing this account as follows :

- a) Close the result of gross profit or loss .
- b) Close all expenses by crediting expenses accounts and debiting profit and loss account.
- c) Close other revenues and gains by debiting these accounts and crediting profit and loss account .

If there net profit the closing entry is :

Xxx of A/C P. & L
Xxx To A/C owners' equity (capital)

If there net loss the closing entry is :

Xxx of A/C owners' equity (capital
Xxx To A/C P. & L

2- BALANCE SHEET :

This list represents accounts of assets and Liabilities and Owners' equity (Capital) for the economic entities .

And this list preparing in the end of period to shows the financial position of organizations . A Balance sheet has two sides :

- a) The right side is liabilities side .
- b) The left side is Assets side .

Figure of balance sheet :

Assets	IQD	Liabilities	IQD
Cash in office	Xxx	Accrued creditors	Xxx
Cash in bank	Xxx	Revenue received in advance	Xxx
Bills receivable	Xxx	Sundry creditors	Xxx
Marketable securities	Xxx	Bills payable	Xxx
Sundry debtors	Xxx	Loans	Xxx
Closing stock	Xxx	Capital	Xxx
Prepaid expenses	Xxx	Add net profit	Xxx
Furniture and fixtures	Xxx	Add additional capital	Xxx
Plant and machinery	Xxx	Add interest on capital	Xxx
Land and building	Xxx	Less drawings	(Xxx)
		Less interest on drawings	(Xxx)
		Less net loss	Xxx
		Reserves	Xxx
Total	xxx	Total	xxx

Example 5:

The following is a Trial balance for Salah company . Dec, 31,2011 (amounts in thousands):

Names of accounts	Debit	Credit
Opening stock	2000	
Purchases	6000	
Sales		14000
Freight-in	2000	
Sales returns	3000	
Rent expense	1000	
Salaries expense	2000	
Purchases discount		1000
Purchases returns		1000
Gains of sale of fixed assets		500
Creditors(account payable)		2000
Freight-out	2000	
Advertising expenses	1000	
Sales discount	500	
furniture	1000	
Debtors (account receivable)	4000	
cash	5000	
Drawings	2000	
cars	6000	
Notes receivable	2500	
Notes payable		1500
capital		????
Total	40000	40000

Closing stock at cost IQD 4000, at market IQD 5000.

Required :

- 1- Prepare trading account, profit and loss account for the year ended Dec,31,2011.
- 2- Prepare balance sheet as of Dec, 31,2011.
- 3- Record the closing entries at Dec,31,2011.