

2012

# Your gateway to the world of accounting 1

## Accounting 212

Explain all the lessons of Accounting 212 for the third grade of secondary

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## Income Statement for Merchandise Business

### Rules in the Income Statement for Merchandise business

- Net Sales = Sales – (Sales Returns & Allowance + Sales Discount)
- Net Purchase = Purchase – (Purchase Returns & Allowance + Purchase Discount)
- Cost of Purchase = Net Sales + Purchase Expenses
- Cost of goods available for sale = Cost of Purchase + Opening Inventory
- Cost of goods sold = Cost of goods available for sale – Closing Inventory
- Gross Profit/Loss = Net Sales – Cost of Goods Sold
- Total Revenue = Gross Profit/Loss + Other Revenue
- Net Profit/Loss = Total Revenue – Operation Expenses

## Income Statement Layout

Sales		XXXX	
Sales Returns & Allowance		-XXX	
Sales Discounts		-XXX	
Net Sales			XXXXX
Opening Inventory		XXXXX	
Purchases	XXXXX		
Purchases Returns & Allowance	-XXX		
Purchases Discounts	-XXXX		
Net Purchases	XXXXX	+	
Fright in	+XXXX		-
Import Tax	+XXX		
Cost of Purchases		XXXXX	
Cost Of Goods Available For Sale		XXXXX	
Closing Inventory		-XXXX	
Cost of Goods Sold			XXXX
Gross Profit/loss			XXXXX
Add other revenue:-			
Commission Income		+XXXX	
Rent Revenue		+XXX	+
Interest Received ..... Etc.		+XXXX	
Total other Revenue			XXXXX
Total Revenue			XXXXXX
Less Operation Expense			
Salaries Expenses		+XXX	
Rent Expenses		+XXX	-
Interest Expenses ... Etc.		+XXX	
Total Expenses			XXXX
Net Profit/Loss			XXXXXX

## Work Sheet for Service & Merchandise Business

### Distribution Accounts

#### Debit or Credit

Dr. = Assets, Expenses, Withdraws.

Cr. = Liabilities, Revenue, Capital.

#### Income Statement or Balance Sheet

Income Statement = Revenue, Expenses, Sales, Purchases

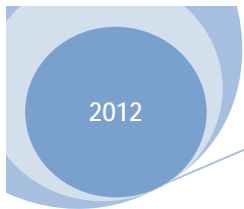
Balance Sheet = Assets, Liabilities, Capital, Withdraws

#### Important Rule

- In Income Statement If Total Cr > Dr, Then there is Net Profit
- In Income Statement If Total Cr < Dr, Then there is Net Loss

## Work Sheet Layout

Account Title	Trail Balance		Income Statement		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr
<u>Assets:-</u>						
Cash	XXX				XXX	
Account receivable	XXX				XXX	
Accrued Revenue	XXX				XXX	
Buildings, Trucks, Ect...	XXX				XXX	
<u>Liabilities:-</u>						
Account Payable		XXX				XXX
Notes Payable		XXX				XXX
Loan		XXX				XXX
Unearned Revenue		XXX				XXX
<u>Capital</u>		XXX				XXX
<u>Drawing</u>	XXX				XXX	
<u>Revenue:-</u>						
Service Revenue		XXX		XXX		
Fees Income		XXX		XXX		
Rent Received		XXX		XXX		
Interest Revenue		XXX		XXX		
<u>Expenses:-</u>						
Salaries Expenses	XXX		XXX			
Wages Expenses	XXX		XXX			
Rent Expenses	XXX		XXX			
<u>Merchandise:-</u>						
Opening Inventory	XXX		XXX			
Sales		XXX		XXX		
Sales Return & Allowance	XXX		XXX			
Sales Discount	XXX		XXX			
Purchases	XXX		XXX			
Purchases Return & Allow.		XXX		XXX		
Purchases Discount		XXX		XXX		
Fright In	XXX		XXX			
Freight Out	XXX		XXX			
Ending Inventory				XXX	XXX	
Total	Dr. = Cr.		Dr. </> Cr.		Dr. </> Cr.	
Net Profit/Loss						
Grand Total			Dr =	= Cr	Dr =	= Cr



## Property, Plant, Equipment Depreciation

# Straight Line Method

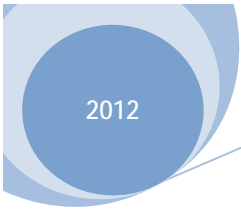
### Important Rules

- Acquisition Cost = Purchase cost of Plant + (Purchase Expenses)
  - Deprecation Base = Acquisition Cost – Salvage Value
  - Depreciation Expense = Deprecation Base × Rate
- Depreciation Rate in Straight Line Method =  $100 \div \text{Useful life}$

### Layout

Year	Calculation	Dep. Exp.	Acc. Dep.	Net Book Value
1	Dep. Base × Rate	The Answer From Calculation	In the First Year only Dep. Exp. = Acc. Dep.	Acquisition Cost – Acc. Dep.
2	Dep. Base × Rate	The Answer From Calculation ←	↑ +	Acquisition Cost – Acc. Dep.
3	Dep. Base × Rate	The Answer From Calculation ←	↑ +	Acquisition Cost – Acc. Dep.
4	Dep. Base × Rate	The Answer From Calculation ←	↑ +	Acquisition Cost – Acc. Dep.

If the Last Net Book Value = Salvage Value, Then your Answer is Right



# Declining Balance Method

## Important Rule

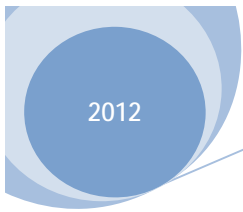
Depreciation Rate in Declining Balance Method =  $100 \div \text{Useful life} \times 2$

## Layout

Year	Calculation	Dep. Exp.	Acc. Dep.	Net Book Value
1	Acquisition Cost $\times$ (Rate $\times$ 2)	The Answer From Calculation	In the First Year only Dep. Exp. = Acc. Dep.	Acquisition Cost – Acc. Dep.
2	Net Book Value from Y1 $\times$ (Rate $\times$ 2)	The Answer From Calculation	↑ +	Acquisition Cost – Acc. Dep.
3	Net Book Value from Y2 $\times$ (Rate $\times$ 2)	The Answer From Calculation	↑ +	Acquisition Cost – Acc. Dep.
4	The Last Net Book Value – Salvage Value	The Answer From Calculation	↑ +	Acquisition Cost – Acc. Dep.

If the Last Net Book Value = Salvage Value, Then your Answer is Right





## Bad Debts and Provision for D/D

# Direct Write-Off Method

### Step 1: Write-Off the Debts

Date	Explanation	Dr.	Cr.
14 <sup>th</sup> Feb	Bad Debts Expense	XX	
	Account Receivable - NAME		XX

### Step 2: Cancel the Write-Off

Date	Explanation	Dr.	Cr.
1 <sup>st</sup> March	Account Receivable - NAME	XX	
	Bad Debts Expense		XX

### Step 3: Collect the Money

Date	Explanation	Dr.	Cr.
1 <sup>st</sup> March	Cash	XX	
	Account Receivable - NAME		XX

You do Step 2 & 3 If the Debtor have a money and want to pay his Debt

## Provision Method for D/D

### Step 1: Record Estimated Bad Debts Expense

Date	Explanation	Dr.	Cr.
1 <sup>st</sup> Jan	Bad Debts Expense	XX	
	Provision For D/D		XX

### Step 2: Write-Off the Debts under Allowance Method

Date	Explanation	Dr.	Cr.
14 <sup>th</sup> Feb	Provision For D/D	XX	
	Account Receivable - NAME		XX

### Step 3: Cancel the Write-Off

Date	Explanation	Dr.	Cr.
1 <sup>st</sup> March	Account Receivable - NAME	XX	
	Provision For D/D		XX

### Step 4: Collect the Money

Date	Explanation	Dr.	Cr.
1 <sup>st</sup> March	Cash	XX	
	Account Receivable - NAME		XX

## Ending Part 1

We hope you understand that you will have all the required lessons in this section

And stay tuned the second part of Your gateway to the World of Accounting

We wish you Success and luck

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