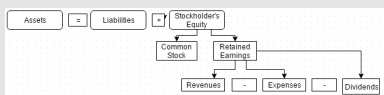


### Pictures

Account Classification	Normal Balance
Assets	Debit
Contra asset	Credit
Liability	Credit
Contra liability	Debit
Owner's Equity	Credit
Stockholders' Equity	Credit
Owner's Drawing or Dividends Account	Debit
Revenues (or Income)	Credit
Expenses	Debit
Gains	Credit
Losses	Debit

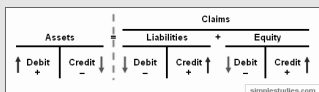
Account normal balances

### Pictures



Basic Equation

### Pictures



Basic Equation

### Pictures

**Paul's Guitar Shop, Inc.**  
**Adjusted Trial Balance**  
**December 31, 2015**

Account	Debit	Credit
Cash	\$ 32,800	
Accounts Receivable	300	
Prepaid Rent	1,000	
Inventory	39,800	
Leasehold Improvements	100,000	
Accumulated Depreciation		2,000
Accounts Payable		\$ 49,000
Accrued Expenses		450
Unearned Income		1,000
Long-term Liabilities		99,500
Common Stock		10,000
Dividends	1,000	
Revenues		27,800
Cost of Goods Sold	10,200	
Depreciation Expense	2,000	
Rent Expense	500	
Supplies Expense	500	
Utilities Expense	400	
Wages Expense	750	
Interest Expense	500	
<b>Totals</b>	<b>\$ 189,750</b>	<b>\$ (189,750)</b>

Adjusted Trial Balance

### Pictures

GENERAL JOURNAL				
Date	Account Titles and Explanation	Ref.	Debit	Credit
2004 Adjusting Entries				
Oct. 31	Supplies Expense	611	1,500	
	Supplies	129		1,500
	(To record supplies used)			
31	Insurance Expense	722	50	
	Prepaid Insurance	130		50
	(To record insurance expired)			
31	Depreciation Expense	711	40	
	Accumulated Depreciation—Office Equipment	158		40
	(To record monthly depreciation)			
31	Unearned Revenue	209	400	
	Service Revenue	400		400
	(To record revenue for services provided)			
31	Accounts Receivable	112	200	
	Service Revenue	400		200
	(To record revenue for services provided)			
31	Interest Expense	905	50	
	Interest Payable	250		50
	(To record interest on notes payable)			
31	Salaries Expense	726	1,200	
	Salaries Payable	212		1,200
	(To record accrued salaries)			

Adjusting Entries

### Pictures

Date	Description	Post	Debit	Credit	
Sep. 20	Bad Debt Expense		135		
	Accounts Receivable			135	
	To record account determined to be uncollectible.				

direct write-off method

### Pictures

General Journal					
Date	Accounts	Debit	Credit		
Dec. 31	Bad Debt Expense	1,000			
	Allowance for Doubtful Accounts		800		
	To estimate the bad debts likely to occur next year.				

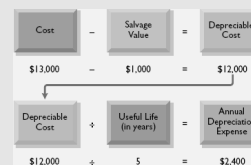
allowance method

### Pictures

$$\text{Annual Depreciation Expense} = \frac{\text{Cost of Fixed Asset} - \text{Residual Value}}{\text{Useful Life of Asset (years)}}$$

straight-line formula

### Pictures



Units-of-activity depreciation

### Terms

Fees Earned      Service Revenue

Common Stock      Capital Stock

FASB      Determine Accounting principles

Cost Principle      Record assets at their cost

### Terms (cont)

Fair value principle

DEA

CLR

Journalizing

ALORE

Terms (cont)	
Accrual-basis accounting	Record transactions that change a company's financial statements in the period they occur
Cash-basis accounting	Record revenue when they receive cash, not in accordance with GAAP
Revenue-recognition principle	Recognize revenue in the accounting period in which the service is performed
Expense-recognition principle (matching principle)	expenses follow revenues, match expenses with revenues
Adjusted trial balance	trial balance - accumulated depreciation

Terms (cont)	
FOB shipping	buyer pays
FOB destination	seller pays
Transactionns	
Investment by stockholders	Dr Cash, Cr Common stock
Purchase of equipment for cash	Dr Equipment, Cr Cash
Purchase of supplies on account (credit)	Dr Supplies, Cr Accounts payable
Services provided for cash	Dr Cash, Cr Revenue
Purchase of advertising on credit	Dr Advertising Expense, Cr Accounts payable
Services rendered for cash and credit	Dr Cash, Dr Accounts receivable, Cr Cash
Payment of expenses	Dr Expense, Cr Cash

Transactionns (cont)	
Payment of Accounts payable	Dr Cash, Cr Accounts receivable
Receipt of cash on account	Dr Accounts payable, Cr Cash
Dividends	Dr Dividend, Cr Cash

### Pictures

## Simple Interest Formula

$$I = P \times R \times T$$

**Where:**  
**I** = the Interest Money created in dollars  
**P** = the "Principal" starting amount of money  
**R** = the Interest Rate per year (in decimal form)  
**T** = the Time the money is Invested, or Borrowed, in Years

### Interest

### Pictures

**Cash Receipts Controls**

Establishment of Responsibility	Preparation of Receipts	Independent Internal Verification
Requires an authorized person to receive cash and issue receipts.	Requires that receipts be prepared and recorded in the cash receipts journal.	Requires that receipts be prepared and recorded in the cash receipts journal.
Requires that receipts be prepared and recorded in the cash receipts journal.	Requires that receipts be prepared and recorded in the cash receipts journal.	Requires that receipts be prepared and recorded in the cash receipts journal.

### Pictures

Date	Account	Post	Debit	Credit
20XX	Petty cash		\$200	
	Cash			\$200
	Establish a petty cash fund			

### Petty cash

### Pictures

Date	Account	Post	Debit	Credit
	Staff Expenses		\$40	
	Office Supplies		15	
	Transportation Expense		35	
	Cash Over and Short		10	
	Cash			\$100
	Replenish petty cash fund			

### Petty cash2

### Pictures

Nugget Mining Company Bank Reconciliation Denver National Bank, November, 30				
Balance per bank statement (end of period)				\$22,190
Add:				
Deposit in transit				
Bank error: incorrect check charged to account by bank	(1)	\$5,680		
Office Supplies	(7)	175		26,045
Deduct: Outstanding checks	(2)		5,001	
Correct cash balance				\$21,044
Balance per books				\$20,502
Add:				
Interest collected by the bank	(3)	\$600		
Error in recorded check #7322	(6)	180		780
Deduct:				
Bank service charges	(4)		18	
NSF check returned	(5)		220	238
Correct cash balance				\$21,044

### Pictures

Depreciation Journal Entry			
Date	Account Name	Debit	Credit
December 31	Depreciation Expense	1,000.00	
	-Accumulated Depreciation		1,000.00

To record depreciation expense on newly purchased oven.

### Depreciation

### Pictures

#### Plant Asset Disposals - Sale

Cost of office furniture	\$60,000
Less: Accumulated depreciation (\$41,000 + \$8,000)	49,000
Book value at date of disposal	11,000
Proceeds from sale	16,000
Gain on disposal	\$ 5,000

**Illustration:** Wright records the sale as follows.

July 1	Cash	16,000
	Accumulated depreciation	49,000
	Office equipment	60,000
	Gain on disposal	5,000

Slide 9-47 **SO 6 Explain how to account for the disposal of a plant asset.**

### Gain on sale

### Pictures

**Paul's Guitar Shop, Inc.**  
**Income Statement**  
**For the Year Ended December 31, 2015**

Revenues	
Merchandise Sales	\$ 24,800
Music Lesson Income	3,000
<b>Total Revenues:</b>	<b>\$ 27,800</b>
Expenses	
Cost of Goods Sold	10,200
Depreciation expense	2,000
Wage expense	750
Rent expense	500
Interest expense	500
Supplies expense	500
Utilities expense	400
<b>Total Expenses:</b>	<b>14,850</b>
<b>Net Income</b>	<b>\$ 12,950</b>

### Income Statement

### Pictures

Account Name	Debit	Credit
1. Cash		
2. Accounts Receivable		
3. Inventory		
4. Prepaid Insurance		
5. Equipment		
6. Accumulated Depreciation		
7. Accounts Payable		
8. Wages Payable		
9. Interest Payable		
10. Common Stock		
11. Retained Earnings		

### New Accounts

### Pictures

Account Name	Debit	Credit
1. Cash		
2. Accounts Receivable		
3. Inventory		
4. Prepaid Insurance		
5. Equipment		
6. Accumulated Depreciation		
7. Accounts Payable		
8. Wages Payable		
9. Interest Payable		
10. Common Stock		
11. Retained Earnings		

### Loss on sale

### Pictures

**GOOF UP CORPORATION**  
**Statement of Retained Earnings**  
**For the Year Ending December 31, 20X5**

Retained earnings - January 1, 20X5 - as previously reported	\$500,000
Less: Effect of correction of depreciation error from 20X4	(50,000)
Corrected beginning retained earnings	\$450,000
Plus: Net income	125,000
	\$575,000
Less: Dividends	(25,000)
Retained earnings - December 31, 20X5	\$550,000

### Retained earnings

### Pictures

Account Name	Debit	Credit
1. Cash		
2. Accounts Receivable		
3. Inventory		
4. Prepaid Insurance		
5. Equipment		
6. Accumulated Depreciation		
7. Accounts Payable		
8. Wages Payable		
9. Interest Payable		
10. Common Stock		
11. Retained Earnings		

### Loss on sale

### Pictures

$$D = 1 - \frac{n}{\sqrt{c}}$$

### Double declining-balance method

### Pictures

Date	Account	Debit	Credit
12-31-01	Retained Earnings	5,000	
	Income Statement		5,000
12-31-02	Retained Earnings	10,000	
	Income Statement		10,000
12-31-03	Retained Earnings	15,000	
	Income Statement		15,000
12-31-04	Retained Earnings	20,000	
	Income Statement		20,000
12-31-05	Retained Earnings	25,000	
	Income Statement		25,000

### Closing entries

### Pictures

Date	Account	Debit	Credit
12-31-01	Retained Earnings	5,000	
	Income Statement		5,000
12-31-02	Retained Earnings	10,000	
	Income Statement		10,000
12-31-03	Retained Earnings	15,000	
	Income Statement		15,000
12-31-04	Retained Earnings	20,000	
	Income Statement		20,000
12-31-05	Retained Earnings	25,000	
	Income Statement		25,000

### Merchandising entries

C

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