Grade 11 Accounting Review

Review Topics

1. The Basics
2. The Chart of Accounts
3. The Accounting Cycle

1. Basics

a) Definitions
b) GAAPs
c) Equations
   a. A = L + E
   b. Revenue – Expense = Net Income
   c. Begin. Capital + Revenue – Expenses – Drawings = Ending Capital
   d. Begin. Inventory + Purchases –. Disc. – Purch. Returns + Freight-in – End. Inv. = COGS
   e. Year's Depreciation (straight line) = (Purchase Price – Salvage Value)/Useful Life
   f. Year's Depreciation (Declining Balance) = [Purchase Price – Accumulated Depreciation] x Rate
   g. Ratios
d) Debits & Credits
e) Boulton's Law (Only fin. trans./At least 2 acc./Dr=Cr)
f) Format
   a. I/S, B/S
   b. Trial Balance
   c. $ Signs
   d. Underlining
   e. Dates
   f. Ordering and numbering of accounts (see chart of accounts)

2. The Chart of Accounts

Shows: Financial *Position* — **Balance Sheet**

Shows: Financial *Performance* — **Income Statement**

To balance, you must have all accounts on your **Trial Balance**

No.	Account	Type	Time	Ordered By:	
100s	**Assets**	Short Term Long Term	< 1 year > 1 year	Liquidity (how quickly they can be sold for cash) – quickest first Longevity (useful life) – longest lasting first	Assets
					=
200s	**Liabilities**	Short Term Long Term	< 1-2 yrs > 2 yrs	Maturity (those due first are listed first)	Liabilities
300s	**Capital** **Drawings**	N/A	N/A	Only one of each account (except in a partnership – then by alpha order by partner's name)	+ Owner's Equity
400s	**Revenues**	N/A	N/A	Most significant to the business (List core revenues first)	
500s	**Expenses**	N/A	N/A	Alphabetical order	

Temporary Accounts

HINT: Accounts in the Chart of Accounts are *already listed in order*. This is the same order that they need to appear on the Trial Balance, Balance Sheet and Income Statement. Furthermore, the accounts are listed in numerical order by account number. This means that on a test you can easily order your accounts just by placing them in numerical order! For example, don't put an account numbered 125 before an account numbered 110, because (quite obviously) 125 comes AFTER 110.

3. Accounting Cycle: Merchandise Accounting

In grade 11 you learn accounting for three types of businesses.

1. A Service Business
2. Merchandise Business – Periodic
3. Merchandise Business – Perpetual

Certain aspects of the accounting cycle for a merchandise business vary from a service business. They are:

Service	Merchandise	
	Periodic	Perpetual
Journalise	New Accounts	New Accounts
Post to Ledger Accounts		
Balance (Trial Balance)		
Adjustments		Inventory Shortfall
Complete Worksheet	Inventory adjustment	
Prepare Financial Statements	Income Statement	Income Statement
Journalise Adjustments and Closing Entries	Closing Entries	

<u>Periodic</u> vs. <u>Perpetual</u>

NOTE: The two methods differ only when the "costing" of inventory occurs.

Recall: All accounts associated with COGS (i.e. the cost of inventory) in the Periodic method are gone; all charges are made to the Merchandise Inventory account.

Here you use:	**Here you just use:**
Merchandise Inventory (Shows period's beginning balance)	(Always shows current up-to-date balance) Merchandise Inventory
Purchases	Cost of Goods Sold
Purchase Returns and Allowances	Inventory Shortage
Purchase Discounts	
Freight-in	

The steps in the accounting cycle that differ between the two methods are bolded below:

1. **Journalise**
2. Post
3. Balance on the Worksheet
4. **Adjustments**
5. **Completing the Worksheet**
6. Prepare the Balance Sheet and **Income Statement**
7. Journalise Adjusting and **Closing Entries**

Each "bolded" step will now be illustrated.

Periodic vs. Perpetual

1. Journal Entries

The following types of journal entries differ

Purchase of Inventory

Apr	17	Purchases		1 0 0 0 ~	
		GST Recoverable		7 0 ~	
		Cash			1 0 7 0 ~
		Bought $1,000 of inventory (+GST)			

Apr	17	Merchandise Inventory		1 0 0 0 ~	
		GST Recoverable		7 0 ~	
		Cash			1 0 7 0 ~
		Bought $1,000 of inventory (+GST)			

Return of an Inventory Purchase

Apr	18	Cash		1 0 7 0 ~	
		GST Recoverable			7 0 ~
		Purchase Returns			1 0 0 0 ~
		Returned $1,000 of inventory (+GST)			

Apr	18	Cash		1 0 7 0 ~	
		GST Recoverable			7 0 ~
		Merchandise Inventory			1 0 0 0 ~
		Returned $1,000 of inventory (+GST)			

Discount on a Purchase

Apr	19	Accounts Payable		1 0 7 0 ~	
		Purchase Discounts			2 1 40
		Cash			1 0 4 9 60
		Payment on account for $1070. Terms taken: 2/10, n30.			

Apr	19	Accounts Payable		1 0 7 0 ~	
		Merchandise Inventory			2 1 40
		Cash			1 0 4 9 60
		Payment on account for $1070. Terms taken: 2/10, n30.			

Periodic vs. Perpetual

Freight-in

Periodic

Apr	19	Freight-in	1 0 0 ~	
		GST Recoverable	7 ~	
		Cash		1 0 7 ~
		Payment for shipping inventory to us from supplier.		

Perpetual

Apr	19	Merchandise Inventory	1 0 0 ~	
		GST Recoverable	7 ~	
		Cash		1 0 7 ~
		Payment for shipping inventory to us from supplier.		

Sale

Periodic

Apr	20	Cash	1 1 5 0 ~	
		GST Payable		7 0 ~
		PST Payable		8 0 ~
		Sales		1 0 0 0 ~
		Sold $1,000 of inventory (+GST & PST). Goods cost $700.		

Perpetual

Apr	20	Cash	1 1 5 0 ~	
		Cost of Goods Sold	7 0 0 ~	
		Merchandise Inventory		7 0 0 ~
		GST Payable		7 0 ~
		PST Payable		8 0 ~
		Sales		1 0 0 0 ~
		Sold $1,000 of inventory (+ GST & PST). Goods cost $700.		

Sale Return

Periodic

Apr	21	Sales Returns and Allowances	1 0 0 0 ~	
		GST Payable	7 0 ~	
		PST Payable	8 0 ~	
		Cash		1 1 5 0 ~
		Customer returned $1,000 of inventory (+ GST & PST). Goods cost $700.		

Perpetual

Apr	21	Sales Returns and Allowances	1 0 0 0 ~	
		Merchandise Inventory	7 0 0 ~	
		GST Payable	7 0 ~	
		PST Payable	8 0 ~	
		Cost of Goods Sold		7 0 0 ~
		Cash		1 1 5 0 ~
		Customer returned $1,000 of inventory (+GST & PST). Goods cost $700.		

Periodic vs. Perpetual

4. Adjustments

The only difference is the adjustment to correct inventory (if necessary)

Apr	22	Inventory Shortage		250~	
		Merchandise Inventory			250~
		To adjust inventory account to reflect actual merchandise on hand.			

5. Complete the Worksheet

The periodic method is different. Perpetual is the same as service.

A Partial Worksheet for a **Merchandising** Company

Accounts	Trial Balance DR	Trial Balance CR	Adjustments DR	Adjustments CR	Income Statement DR	Income Statement CR	Balance Sheet DR	Balance Sheet CR
Merchandise Inventory	13500~				13500~	15250~	15250~	
Purchases	5000~				5000~			
Purchase Discounts		250~				250~		
Purchase Returns and Allowances		500~				500~		
Freight-in	500~				500~			

Periodic vs. Perpetual

6. Prepare Financial Statements

The Balance Sheet is the same. Only the COGS section on the Income Statement differs.

A Merchandising Company
Income Statement
Month Ended January 31, 2003

Revenue			
Sales		$ 10,000	
Less: Sales Discounts	(100)		
Less: Sales Returns and Allowances	(400)	(500)	
Net Sales			$ 9,500
Cost of Goods Sold			
Merchandise Inventory, January 1		$ 13,500	
Add: Purchases	$ 5,000		
Less: Purchase Discounts	(250)		
Less: Purchase Returns and Allowances	(500)		
Net Purchases		4,250	
Add: Freight-in		500	
Goods Available for Sale		18,250	
Less: Merchandise Inventory, January 31		(15,250)	
Cost of Goods Sold			3,000
Gross Profit			$ 6,500
Operating Expenses			
Auto Expense		$ 1,000	
Delivery Expense		100	
Depreciation Exp. - Auto		300	
Insurance Expense		200	
Salaries Expense		1,500	
Supplies Expense		500	
Total Operating Expenses			3,600
Income before Interest, Taxes (and Extraordinary Items)			**$ 2,900**
Loss on Disposal of Asset		$ 1,000	
Total Non-Operating Expenses			1,000
Net Income			**$ 1,900**

A Merchandising Company
Income Statement
Month Ended January 31, 2003

Revenue			
Sales		$ 10,000	
Less: Sales Discounts	(100)		
Less: Sales Returns and Allowances	(400)	(500)	
Net Sales		9,500	
Less: Cost of Goods Sold		3,000	
Gross Profit			$ 6,500
Operating Expenses			
Auto Expense		$ 1,000	
Delivery Expense		100	
Depreciation Exp. - Auto		300	
Insurance Expense		200	
Salaries Expense		1,500	
Supplies Expense		500	
Total Operating Expenses			3,600
Income before Interest, Taxes (and Extraordinary Items)			**$ 2,900**
Loss on Disposal of Asset		$ 1,000	
Total Non-Operating Expenses			1,000
Net Income			**$ 1,900**

Periodic vs. Perpetual

7. Journalise Closing Entries

Since Merchandise Inventory is perpetually updated, it doesn't need to be adjusted in the closing entries for the Perpetual Method.

General Journal PAGE: ______

Date 2003		Particulars	P.R.	Debit	Credit
Jan	31	Sales		10 000~	
		Purchase Discounts		250	
		Purchase Returns & Allowances		500~	
		Merchandise Inventory (ending)		15 250~	
		Income Summary			26 000~
	31	Income Summary		24 100~	
		Merchandise Inventory (begin.)			13 500~
		Auto Expense			1 000~
		Delivery Expense			100~
		Depreciation Exp. - Auto			300~
		Insurance Expense			200~
		Loss on disposal of Asset			1 000~
		Purchases			5 000~
		Freight-in			500~
		Salaries Expense			1 500~
		Sales Discounts			100~
		Sales Returns & Allowances			400~
		Supplies Expense			500~
	31	Income Summary		1 900~	
		J. Smith, Capital			1 900~
	31	J. Smith, Capital		500~	
		J. Smith, Drawings			500~

General Journal PAGE: _____

Date 2003		Particulars	P.R.	Debit	Credit
Jan	31	Sales		20 000~	
		Income Summary			20 000~
	31	Income Summary		10 350~	
		Auto Expense			1 000~
		Cost of Goods Sold			5 000~
		Delivery Expense			100~
		Depreciation Exp. - Auto			300~
		Insurance Expense			200~
		Inventory Shortage			250~
		Loss on disposal of Asset			1 000~
		Salaries Expense			1 500~
		Sales Discounts			100~
		Sales Returns & Allowances			400~
		Supplies Expense			500~
	31	Income Summary		9 650~	
		J. Smith, Capital			9 650~
	31	J. Smith, Capital		500~	
		J. Smith, Drawings			500~