

<b>Beginning Inventory</b>	
<b>Purchases</b>	
	<b>Purchase Discount</b>
<b>Duty</b>	
<b>Freight-In</b>	
	<b>Purchase Return and Allowances</b>
<b>COGAFS</b>	
	<b>COGS (PLUG)</b>
<b>Ending Inventory</b>	

Purchase Discounts

Accounts Payable	100	
Inventory (discount – see above)		20
Cash		80

Purchase Returns & Allowances:

Accounts Payable or Cash	100	
Inventory		100

Merchandise Inventory

- **Specific Identification:** value everything at their unique market value price
- **FIFO:** Oldest inventory is sold first and E/B is valued at most recent price (if you have a whole order, then you take the full amount owing and half orders you treat like weighted averages)
- **Average Cost:** (COGAFS/UAFS [total units available for sale]) x E/B in Units
- **LCNRV Rule:** record inventory at lower of cost vs. net realizable value

Depreciation

- Straight line and units of production do not depreciate past its useful life
- Diminishing balance cannot depreciate beyond its estimated residual value
- **Once an asset is fully depreciated BV should equal RV**

Straight Line Depreciation

$-(HC-RV) / UL * n/12$

Units of Production Method

$-(HC-RV) / Total Units * Units Used$

(Double) Diminishing/Declining Balance

(For last year of assets life:  $Depreciation = (HC-AD) - RV$ )

$-(HC-AD) / UL * n/12$

Or

$-(HC-AD) / UL * 2 * n/12$

Closing Entries

	<b>Expenses</b>	<b>Revenue</b>
		<b>Subtotal Net Income</b>
	<b>Income Tax Expense</b>	
		<b>Net Income after Taxes</b>
	<b>Close to Retained Earnings</b>	

- C1. Revenue (credit) to income summary (same #)**
- C2. Income Summary (debit) to expenses (essentially revenue – expenses)**
- C3. Subtotal Income Summary and record taxes to income tax expense and income tax payable (revenue – expenses \* given %)**  
A) \* Have to create new Income Tax Expense/Income Tax Payable accounts\*
- C4. Income summary (debit) to income tax**
- C5. Income Summary (debit/credit) to retained earnings (close both out to \$0)**  
(Omit 3 and 4 if there is a net loss)

LCNRV

Inventory should not be carried over at a value greater than the amount expected to be realized from sale. If  $NRV < Cost$  then inventory is written down to NRV

Bank Rec Journal Entries

1. Bank Error

Cash	100	
Accounts Payable		100

2. NSF Cheque

Accounts Receivable (including service charge)	100	
Cash		100

3. Bank Service Charges

Bank charges expense	100	
Cash		100

4. Debit/credit card expense (if applicable)

Debit card expense (100 x .20)	20	
Cash		80
Sales		100

Bank Rec Steps

(Opening balance taken from last adjusted balance on bank rec)

- Go to last month's bank rec, ensure outstanding cheques and late deposits are listed. Circle ones that aren't
- Go to cash disbursement list (cheques register) and check off each check as it appears
- Go to cheques receipts list (bank deposits), check off each deposit as it appears in the bank
- Go to bank statement, and circle items not checked off

-  $NRV \text{ of } A/R = E/B \text{ Accounts receivable (minus) } E/B \text{ A4DA} = \text{Net Realizable Value}$   
**Sales and Accounts Receivables**

Aging of accounts receivable (Periodic)

- ending balance in A4DA = ending balance in AR x % estimated uncollectable
- $Bad \text{ debt expense} = T/B \text{ in } A4DA - E/B \text{ A4DA (calculated) PLUG \#}$

Journal entry:

Bad debt expense	100	
A4DA		100

Notes Receivable

Creation of Note: **DR Notes Receivable** and **CR cash or Accounts Receivable**

Interest Accrual (Only at fiscal year-end)

- If fiscal period ends **before** the maturity date of the Note we must accrue interest
- To Record: (otherwise you don't touch interest receivable)

Interest Receivable	100	
Interest Revenue		100

( $Note \text{ receivable} * interest \text{ rate} * n/12$ )

Note Maturity:

- **Customer pays on time:**

Cash	120	
Note Receivable		100
Interest Receivable		13
Interest Revenue		7

- **Customer Doesn't Pay on Maturity**

Accounts Receivable	120	
Notes Receivable		100
Interest Revenue		13
Interest Receivable		7

- A) If company pays after it has been changed to AR: **you DR Cash and CR A/R**
- B) If note is then decided to be *uncollectable*: **you DR A4DA and CR A/R**

Sales Discounts & Returns and Allowances

Discounts:

Cash	80	
Sales Discounts	20	
Accounts Receivable		100

Sales R&A:

Sales R&A	100	
AR or Cash		100

Contra Accounts

Assets:

- Accumulated depreciation (credit balance)
- Allowance for doubtful accounts (credit balance)

Revenue:

- Sales returns and allowances (debit balance)
- Sales Discounts (debit balance)

Expenses:

Gain on trade-in (Credit)

**Sales Retirements and Trade-ins**

1. Depreciate asset up to point of sale, retirement or Trade-in
2. Calculate and compare the asset's book value with cash received or trade in allowance granted
  - a) If book value is **Greater** than cash or trade in allowance, then a **LOSS** has occurred.
  - b) If book value is **LESS** than cash or trade in allowance then a **gain** has occurred (reduction in expenses – contra expense account).

**A) Loss on trade-in Journal entry**

(Trade-in allowance of \$20)

A/D of old Asset	60		
Loss on Trade-in	20		
New Asset	200		
		Old Asset	100
		Cash	180

**B) Gain on trade-in Journal entry**

(Trade-in allowance of \$60)

A/D of old asset	60		
New Asset	200		
		Old Asset	100
		Cash	140
		Gain on Trade-in	20

**C) Loss on sale Journal Entry**

Cash	200		
A/D of old asset	60		
Loss on Disposal/Sale	20		
		Old Asset	280

**D) Gain on sale Journal Entry**

Cash	240		
A/D of old asset	60		
		Old Asset	280
		Gain on Disposal/Sale	20

**Impairment of an Asset**

- If the carrying amount ever exceeds its recoverable amount, then the asset is impaired (Can be returned to its original value if it has been impaired in the past – **opposite transaction of below**).

Carrying Amount:  $BV - Recoverable\ amount = Impairment\ Loss$

Impairment loss journal entry:

Impairment Loss	20		
		A/D of Asset	20

**Intangible Assets**

**(ALL AMORTIZATION IS DONE IN SAME T-ACCOUNT AS THE INTANGIBLE ASSET ITSELF AND ITS MATHCING ENTRY IS POSTED IN AMMORTIZATION EXPENSE)**

- **Finite Lives:** Patents, Copyrights, Research and Development Costs

(Uses amortization instead of depreciation)

**Amortization = Cost – Residual Value / UL \* n/12**

(Useful Life = shorter of estimated useful life and legal life)

- **Research expense** (costs are incurred but it is **not** known if they will have a future benefit) – **MUST BE INTERNAL**

- **Development Costs (Asset)** – known **future benefit** which is defined if:

1. Project is technically feasible
2. Company has the desire to complete the project
3. Company is able to complete the development
4. A market exists for the product

- **Infinite Lives:** Trademarks, Trade Names, Brands, Franchises and Licenses

- i) If **trademarks** are developed internally rather than purchased, they **cannot** be recognized as an asset on the statement of financial position
- ii) **Goodwill** is calculated upon purchase of a business [cost paid to acquire business vs. the fair value of its net identifiable assets (assets less liabilities)]. If the cost is higher, then the difference is the newly acquired goodwill]

**Petty Cash**

- To establish/increase the level of a fund:

Petty Cash	100		
		Cash	100

- To replenish a fund:

Miscellaneous expenses used	118		
		Cash	118

**Rounding:** Round any unit costs to 3 decimal places (merchandise inventory)

**Income Statement:**

		Name of Comp Income Statement For the fiscal year end 20**		Name of Comp Bank Reconciliation As of Month, date, 20**
				<u>Balance per records</u>
Revenue			100	Balance (Last month end date)
Gross sales			100	Add: Cash receipts
Less: Sales Discounts	10		(20)	Less: Cash Disbursements
Sales R & A	10		(20)	Cash Balance (This month end date)
Net Sales			80	Add: credit memo – interest earned
Less: Cogs			(40)	Less: debit memos - Service charges
Gross Profit			40	Error
Less: Operating Expenses				NSF Cheque
Depreciation	2			Withdrawals
Repairs	3			Adjusted cash balance per comp records
Bad debt expense	4			
Service charges	5			<u>Balance per bank</u>
****	1		(16)	Bank statement balance (Current date)
****	1		(16)	Add: Late deposits
Other Revenue				Less: Outstanding cheques
Interest Revenue			5	Adjusted Cash balance
Other Expenses				
Interest expenses			(5)	BLUE = area that gets converted into journal entries
Loss on Trade-in			(3)	Error = (Recorded less than bank)
Net Income before tax			21	DR A/P + CR Cash
Less: Income tax expense			(6)	(Recorded more than the bank)
Net Income after tax			15	DR Cash + CR A/P

**Extras**

1. When recording initial gross credit sales + discounts, the transaction is:
 

Accounts receivable	80		
Sales discounts	20		
		Sales	100
2. If you purchase a long lived asset (ex. Equipment) and there are freight and installation costs, then those contribute to its book value
3. **You always have to clear past payables.** When paying salaries you *debit salaries payable and credit cash (not salaries expense) – Must clear bank loans, income tax payables and mortgages*
4. When dealing with mortgages, (current and long term accounts) you first deal with the current account which will be posted on the **bank reconciliation** and then you deal with the long term account:
  - i) Mortgage payable (current) 100  
Interest expense 10  
Cash 110
  - ii) Mortgage Payable (long-term) 100  
Mortgage payable (current) 100
5. **Bank Rec**  
Less = debit to expense and credit to cash (or DR A/R and CR Cash)  
- NSF = debit to A/R and credit to cash
6. **When calculating ending inventory, always account for the boxes in transit (if FOB shipping point THEN YOU HAVE CURRENT OWNERSHIP OVER THEM)**  
- Account for the boxes in transit at full inventory price (including duty, freight ...etc.)
7. Ending supplies inventory (you are told you have \$10 of supplies left):  
Supplies 10  
Supplies expense 10
8. When paying interest on a bank loan, or mortgage, you owe interest on the current PLUS the long term-amount (both equal the full amount).