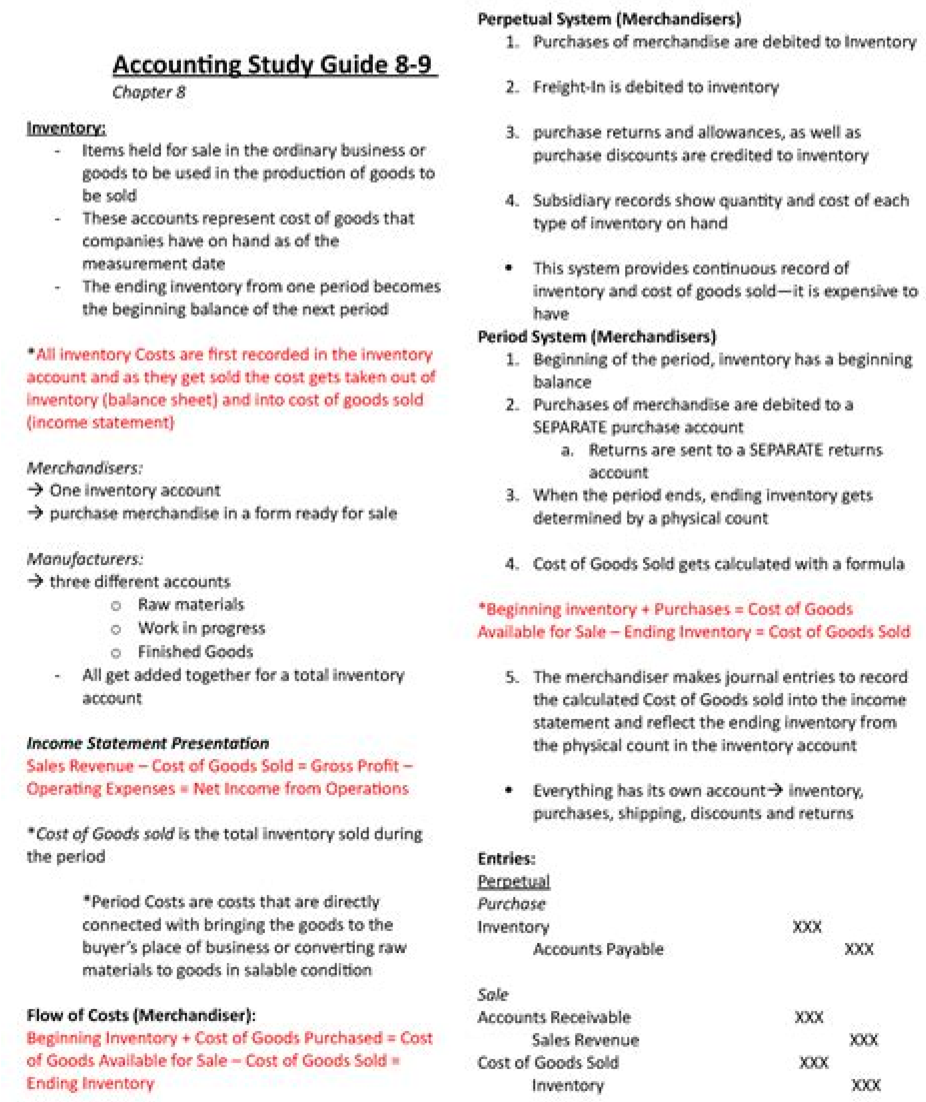
Basic Accounting Study Guide Answers



Accounting Study Guide 8-9

Chapter 8

Inventory:

- Items held for sale in the ordinary business or goods to be used in the production of goods to be sold
- These accounts represent cost of goods that companies have on hand as of the measurement date
- The ending inventory from one period becomes the beginning balance of the next period

*All inventory Costs are first recorded in the inventory account and as they get sold the cost gets taken out of inventory (balance sheet) and into cost of goods sold (income statement)

Merchandisers:

→ One inventory account

→ purchase merchandise in a form ready for sale

Manufacturers:

→ three different accounts

- Raw materials
- Work in progress
- Finished Goods

- All get added together for a total inventory account

Income Statement Presentation

Sales Revenue – Cost of Goods Sold = Gross Profit – Operating Expenses = Net Income from Operations

**Cost of Goods sold* is the total inventory sold during the period

*Period Costs are costs that are directly connected with bringing the goods to the buyer's place of business or converting raw materials to goods in salable condition

Flow of Costs (Merchandiser):

Beginning Inventory + Cost of Goods Purchased = Cost of Goods Available for Sale – Cost of Goods Sold = Ending Inventory

Perpetual System (Merchandisers)

1. Purchases of merchandise are debited to Inventory
2. Freight-In is debited to inventory
3. purchase returns and allowances, as well as purchase discounts are credited to inventory
4. Subsidiary records show quantity and cost of each type of inventory on hand

- This system provides continuous record of inventory and cost of goods sold—it is expensive to have

Period System (Merchandisers)

1. Beginning of the period, inventory has a beginning balance
2. Purchases of merchandise are debited to a SEPARATE purchase account
   a. Returns are sent to a SEPARATE returns account
3. When the period ends, ending inventory gets determined by a physical count
4. Cost of Goods Sold gets calculated with a formula

*Beginning inventory + Purchases = Cost of Goods Available for Sale – Ending Inventory = Cost of Goods Sold

5. The merchandiser makes journal entries to record the calculated Cost of Goods sold into the income statement and reflect the ending inventory from the physical count in the inventory account

- Everything has its own account→ inventory, purchases, shipping, discounts and returns

Entries:

Perpetual

Purchase

Inventory	XXX	
Accounts Payable		XXX

Sale

Accounts Receivable	XXX	
Sales Revenue		XXX
Cost of Goods Sold	XXX	
Inventory		XXX

Basic accounting study guide answers are essential for anyone looking to grasp the fundamentals of accounting. Whether you're a student preparing for exams, a professional seeking to refresh your knowledge, or simply curious about how accounting works, having a comprehensive understanding of basic concepts is crucial. This article will provide a detailed overview of key accounting principles, important terminology, and practical examples to guide you through your studies.

Understanding Basic Accounting Principles

Accounting is often referred to as the "language of business." It involves recording, classifying, and interpreting financial information to help stakeholders make informed decisions. Here are some of the fundamental principles of accounting:

1. The Accounting Equation

The accounting equation is the foundation of double-entry bookkeeping, and it states that:

Assets = Liabilities + Owner’s Equity

This equation illustrates that everything a company owns (assets) is funded either by borrowing money (liabilities) or by the owner's investment (equity). Understanding this relationship is crucial for analyzing financial statements.

2. Double-Entry Accounting

Double-entry accounting is a system that records each transaction in two accounts: a debit in one account and a credit in another. This method helps maintain the accounting equation's balance. Key points include:

- Debits are entries on the left side of an account that increase assets or decrease liabilities and equity.
- Credits are entries on the right side that decrease assets or increase liabilities and equity.

Every transaction affects at least two accounts, ensuring that the accounting equation remains balanced.

3. The Accrual Principle

Under the accrual basis of accounting, revenues and expenses are recorded when they are earned or incurred, regardless of when cash is exchanged. This principle ensures that financial statements reflect the true financial position of a business.

4. The Matching Principle

The matching principle states that expenses should be matched with the revenues they help to generate within the same accounting period. This principle allows businesses to accurately assess profitability.

Key Financial Statements

Understanding basic accounting also involves familiarizing yourself with the primary financial statements that provide insight into a company’s financial health.

1. The Balance Sheet

The balance sheet provides a snapshot of a company's assets, liabilities, and equity at a specific point in time. It is structured as follows:

- Assets: What the company owns (e.g., cash, inventory, equipment).
- Liabilities: What the company owes (e.g., loans, accounts payable).
- Owner’s Equity: The residual interest in the assets after liabilities are deducted.

2. The Income Statement

The income statement, also known as the profit and loss statement, summarizes revenues and expenses over a period of time, showing how much money a company made or lost. Key components include:

- Revenue: Total sales or income generated from operations.
- Expenses: Costs incurred in the process of earning revenue.
- Net Income: The profit or loss calculated as Revenue - Expenses.

3. The Cash Flow Statement

The cash flow statement tracks the flow of cash in and out of a business, categorized into three sections:

- Operating Activities: Cash generated from day-to-day operations.
- Investing Activities: Cash used for investments in assets or received from the sale of assets.
- Financing Activities: Cash received from borrowing or cash paid to repay debts and pay dividends.

Basic Accounting Terminology

Familiarity with accounting terminology is essential for understanding and communicating financial concepts effectively. Here are some key terms:

1. Assets

Assets are resources owned by a business that have economic value. They can be classified into:

- Current Assets: Cash and other assets expected to be converted into cash within one year (e.g., accounts receivable, inventory).
- Non-current Assets: Long-term investments that are not expected to be liquidated within a year (e.g., property, equipment).

2. Liabilities

Liabilities are obligations or debts owed by the business. They can be categorized as:

- Current Liabilities: Obligations due within one year (e.g., accounts payable, short-term loans).
- Long-term Liabilities: Obligations due in more than one year (e.g., long-term loans, bonds payable).

3. Owner's Equity

Owner's equity represents the owner's claim on the assets of the business after all liabilities are deducted. It includes:

- Common Stock: The value of shares issued to investors.
- Retained Earnings: Cumulative profits retained in the business instead of distributed as dividends.

4. Journal Entries

Journal entries are the primary method of recording financial transactions in accounting. A typical journal entry includes:

- The date of the transaction
- The accounts affected

- The amounts being debited and credited
- A brief description of the transaction

Common Accounting Procedures

To maintain accurate financial records, accountants follow specific procedures. Here are some common practices:

1. Recording Transactions

Every financial transaction must be recorded promptly and accurately. This includes sales, purchases, receipts, and payments. The process typically involves:

- Identifying the accounts affected.
- Determining whether to debit or credit each account.
- Recording the transaction in the journal.

2. Posting to the Ledger

After recording transactions in the journal, the next step is posting them to the general ledger. The ledger organizes account balances and transactions by account type.

3. Trial Balance

A trial balance is prepared to ensure that total debits equal total credits, indicating that the books are balanced. It lists all accounts and their balances at a specific date.

4. Adjusting Entries

Adjusting entries are made at the end of an accounting period to account for accrued revenues and expenses, as well as deferrals. These adjustments ensure that financial statements reflect accurate financial positions.

Conclusion

In conclusion, basic accounting study guide answers serve as a valuable resource for anyone interested in mastering the principles of accounting. Understanding the accounting equation, familiarizing oneself with key financial statements, and grasping essential terminology are fundamental steps in achieving proficiency in accounting. By following the outlined procedures and concepts, learners can build a strong foundation that will benefit them in both academic and professional pursuits. Whether you are preparing for exams or seeking to enhance your career prospects, a solid grasp of basic accounting will undoubtedly serve you well.

Frequently Asked Questions

What are the three main financial statements in accounting?

The three main financial statements are the Balance Sheet, Income Statement, and Cash Flow Statement.

What is the accounting equation?

The accounting equation is Assets = Liabilities + Equity.

What is the difference between accounts payable and accounts receivable?

Accounts payable refers to money owed by a business to its suppliers, while accounts receivable refers to money owed to a business by its customers.

What is accrual accounting?

Accrual accounting is an accounting method where revenue and expenses are recorded when they are earned or incurred, regardless of when cash is exchanged.

What is the purpose of a trial balance?

The purpose of a trial balance is to ensure that the total debits equal the total credits in the accounting records, helping to identify any discrepancies.

Basic Accounting Study Guide Answers

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What are all the custom URL schemes supported by the Facebook ...
Note These URL's are likely not available. Facebook has been updated a number of times and did not officially support any of these. /Note I am trying to see what information is available about...

How to embed a facebook page in an iframe? - Stack Overflow
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May 9, 2013 · Note that with using the Facebook SDK your users are being tracked only by visiting your site; they don't even need to click any of your Share or Like buttons. The answers below ...

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