

# ACCOUNTING AND FINANCE

## LEVEL - III

**Based on March, 2022 curriculum V - I**



shutterstock.com · 1092085442

**Module title: Preparing financial reports**

**Module code: LSA ACF3 M03 1122**

**Nominal duration: 100hrs**

**Prepared by: Ministry of labor and skills**

**November, 2022**

**Adama, ethiopia**

Page 1 of 95	Author/Copyright : Ministry of Labor and Skills	Prepare financial reports Level- III	Version - I March, 2022
--------------	--	---	----------------------------

## Tables of content

## page

Acknowledgment.....	3
Introduction to the Module .....	4
1.1.4 Prepare a Fixed Assets Register .....	13
1.1.8 Recognize the use of property, plant and equipment (PPE).....	15
Unit Two: Adjusting and journal entries .....	29
2.1.1 Disposal of Plant Asset.....	30
2.1.2 Discarding Plant Asset.....	30
First: record the 3-month depreciation: .....	30
Second: journal disposal .....	30
2. 2.3 Adjusting Entry.....	38
Unit Three: Preparing final general ledger accounts .....	49
i. Quantity, description and price of items.....	60
3.3 Prepare final general ledger accounts .....	<b>Error! Bookmark not defined.</b>
1. Close revenue account .....	67
2. Close expense account .....	67
3. Close income summery account .....	67
I. CLOSING PROCESS.....	68
On January 31, 2002 .....	69
1. Adjusting journal entries .....	70
2. Adjusted trial balance .....	71
3. Closing entries .....	72
4. Post closing trial balance .....	72
1. Recorded on the left of a ledger sheet .....	76
2. Increase an asset account.....	76
3. Decrease an equity or liability account.....	76
4. Decrease revenue .....	76
5. Increase expense accounts .....	76
Universal Stationary .....	85
Income Statement .....	85
A change in the amount of capital occurs: .....	86
1. the withdrawals during the fiscal period, and.....	86
2. the net income or net loss for the fiscal period.....	86
Universal Stationary .....	87
Capital statement .....	87
For the month ended Tir 30, 19X7 .....	87
Balance Sheet .....	88
Universal Stationary .....	90
Post – Closing Trial Balance .....	91
4.3.1 Error Resolution .....	91

## Acknowledgment

**Ministry of Labor and Skills** wish to extend thanks and appreciation to the many representatives of TVT instructors and respective industry experts who donated their time and expertise to the development of this Teaching, Training and Learning Materials (TTLM).

Page 3 of 95	Author/Copyright : Ministry of Labor and Skills	Prepare financial reports Level- III	Version - I
			March, 2022

## Introduction to the Module

You'll develop knowledge and skills in understanding and applying accounting standards and the theoretical framework in the preparation of financial statements of entities, including groups and how to analyses and interpret those financial statements in any industry, whether manufacturing or service, we have multiple departments, which function day in day out to achieve organizational goals. The functioning of these departments may or may not be interdependent, but at the end of the day they are linked together by one common thread – Accounting & Finance department. The accounting & financial aspects of each and every department are recorded and are reported to various stakeholders. There are two different types of reporting – **Financial reporting for various stakeholders & Management Reporting for internal Management** of an organization.

**This module covers the units:**

- Maintaining asset register.
- Record general journal entries for balance day adjustment
- Preparing final general ledger accounts
- Preparing end of period financial reports

### Learning Objective of the Module

- Maintain asset register.
- Record general journal entries for balance day adjustment
- Prepare final general ledger accounts
- Prepare end of period financial reports

### Module Instruction

For effective use this modules trainees are expected to follow the following module instruction:

1. Read the information written in each unit
2. Accomplish the Self-checks at the end of each unit
3. Perform Operation Sheets which were provided at the end of units
4. Red the identified reference book for examples and exercise

Page 4 of 95	Author/Copyright : Ministry of Labor and Skills	Prepare financial reports Level- III	Version - I March, 2022
--------------	--	---	----------------------------

## Unit One: maintaining Asset register

This unit is developed to provide you the necessary information regarding the following content coverage and topics:

- Preparing a register of property, plant and equipment
- Methods of calculating depreciation
- Maintaining asset register

This unit will also assist you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- register of property, plant and equipment from fixed asset
- calculate depreciation
- identify types of depreciation
- maintain Asset register

## 1.1 Introduction to asset

### Definition of asset

An asset is a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit. Assets are reported on a company's balance sheet. They're classified as current, fixed, financial, and intangible. They are bought or created to increase a firm's value or benefit the firm's operations. An asset can be thought of as something that, in the future, can generate cash flow, reduce expenses, or improve sales, regardless of whether it's manufacturing equipment or a patent.

#### 1.1.1 Understanding Assets

An asset represents an economic resource owned or controlled by, for example, a company. An economic resource is something that may be scarce and has the ability to produce economic benefit by generating cash inflows or decreasing cash outflows.

#### 1.1.2 Types of Assets order

##### A. Current Assets

in accounting, some assets are referred to as current. Current assets are short-term economic resources that are expected to be converted into cash or consumed within one year. Current assets include cash and cash equivalents, accounts receivable, inventory, and various prepaid expenses.

##### B. Fixed Assets

Fixed assets are resources with an expected life of greater than a year, such as plants, equipment, and buildings. An accounting adjustment called depreciation is made for fixed assets as they age. It allocates the cost of the asset over time. Depreciation may or may not reflect the fixed asset's loss of earning power.

##### C. Financial Assets

Financial assets represent investments in the assets and securities of other institutions. Financial assets include stocks, sovereign and corporate bonds, preferred equity, and other, hybrid securities. Financial assets are valued according to the underlying security and market supply and demand.

##### D. intangible Assets

Page 6 of 95	Author/Copyright : Ministry of Labor and Skills	Prepare financial reports Level- III	Version - I March, 2022
--------------	--	---	----------------------------

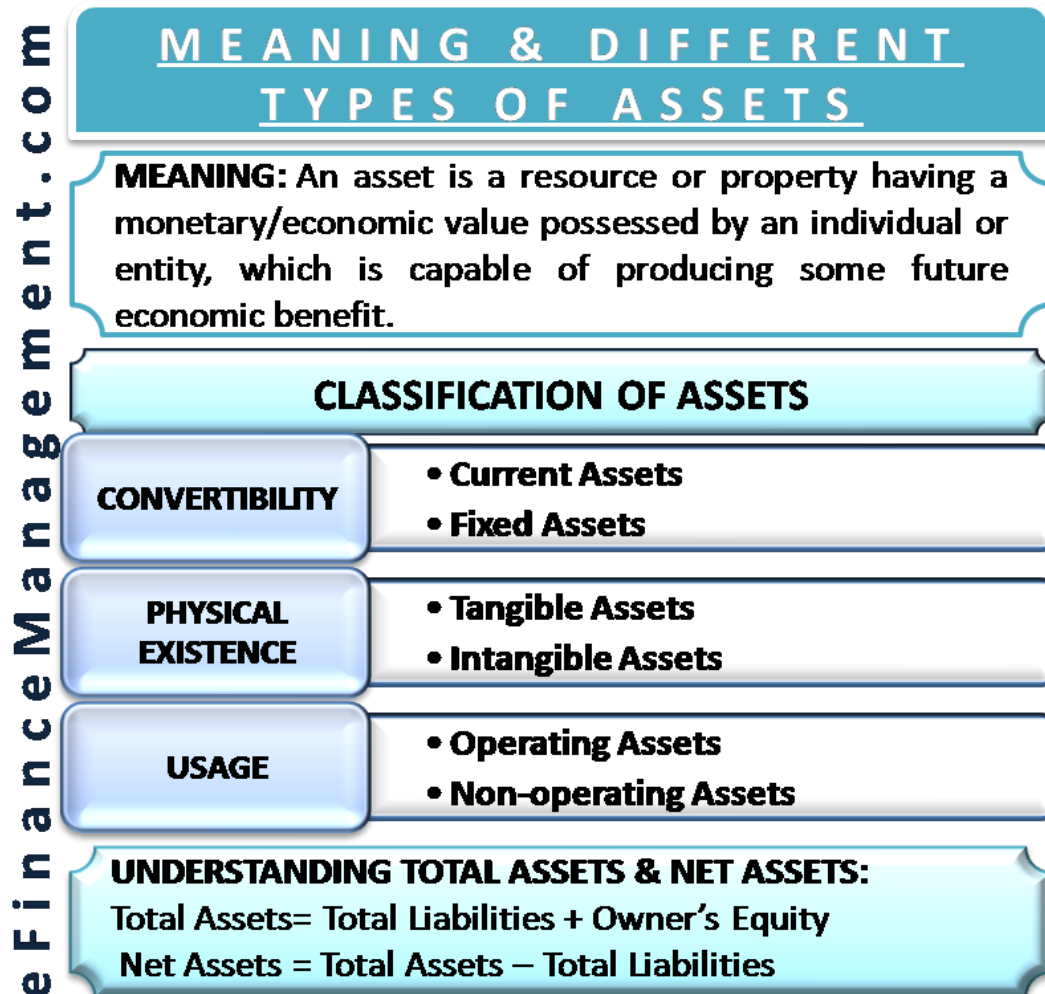
Intangible assets are economic resources that have no physical presence. They include patents, trademarks, copyrights, and goodwill. Accounting for intangible assets differs depending on the type of asset. They can be either amortized or tested for impairment each year.

### 1.1.3 Properties of an Asset

There are three key properties of an asset:

- **Ownership:** Assets represent ownership that can be eventually turned into cash and cash equivalents
- **Economic Value:** Assets have economic value and can be exchanged or sold
- **Resource:** Assets are resources that can be used to generate future economic benefit

### 1.3.4 Classification of Assets-assets are generally classified in three ways:



- **Convertibility:** Classifying assets based on how easy it is to convert them into cash.
- **Physical Existence:** Classifying assets based on their physical existence (in other words, tangible vs. intangible assets).
- **Usage:** Classifying assets based on their business operation usage/purpose.

### Classification of Assets: Convertibility

If assets are classified based on their convertibility into cash, assets are classified as either **current assets** or **fixed assets**. An alternative expression of this concept is short-term vs. long-term assets

#### 1. Current Assets

Current assets are assets that can be easily converted into cash and cash equivalents (typically within a year). Current assets are also termed liquid assets and examples of such are:

- Cash
- Cash equivalents
- Short-term deposits
- Accounts receivables
- Inventory
- Marketable securities
- Office supplies

#### 2. Fixed or Non-Current Assets

Non-current assets are assets that cannot be easily and readily converted into cash and cash equivalents. Non-current assets are also termed fixed assets, long-term assets, or hard assets. Examples of non-current or fixed assets include:

- Land
- Building
- Machinery
- Equipment
- Patents
- Trademarks

### Classification of Assets: Physical Existence

If assets are classified based on their physical existence, assets are classified as either **tangible assets** or **intangible assets**.

#### 1. Tangible Assets

Tangible assets are assets with physical existence (we can touch, feel, and see them). Examples of tangible assets include:

Page 8 of 95	Author/Copyright : Ministry of Labor and Skills	Prepare financial reports Level- III	Version - I March, 2022
--------------	--	---	----------------------------



- Land
- Building
- Machinery
- Equipment
- Cash
- Office supplies
- Inventory
- Marketable securities

### **Intangible Assets**

Intangible assets are assets that lack physical existence. Examples of intangible assets include:

- Goodwill
- Patents
- Brand
- Copyrights
- Trademarks
- Trade secrets
- Licenses and permits
- Corporate intellectual property

### **Classification of Assets: Usage**

If assets are classified based on their usage or purpose, assets are classified as either **operating assets** or **non-operating assets**.

#### **1. Operating Assets**

Operating assets are assets that are required in the daily operation of a business. In other words, operating assets are used to generate revenue from a company's core business activities. Examples of operating assets include:

- Cash
- Accounts receivable

Page 9 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Level III	Version -1 March, 2022
--------------	--	--	---------------------------

- Inventory
- Building
- Machinery
- Equipment
- Patents
- Copyrights
- Goodwill

## 2. Non-Operating Assets

Non-operating assets are assets that are not required for daily business operations but can still generate revenue. Examples of non-operating assets include:

- Short-term investments
- Marketable securities
- Vacant land
- Interest income from a fixed deposit

### 1.1.5 Importance of Asset Classification-

classifying assets is important to a business. For example, understanding which assets are current assets and which are fixed assets is important in understanding the net working capital of a company. In the scenario of a company in a high-risk industry, understanding which assets are tangible and intangible helps to assess its solvency and risk. Determining which assets are operating assets and which assets are non-operating assets is important to understanding the contribution of revenue from each asset, as well as in determining what percentage of a company's revenues comes from its core business activities

#### 1. Asset Management Software

Asset Management Software Is highly beneficial to maintain the accuracy of an asset register. Most modern asset register software is cloud-based, which means multiple teams from multiple locations can edit data at the same time.

#### 2. depreciation method

Page 10 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Level III	Version -1 March, 2022
---------------	--	--	---------------------------

The depreciation method is another factor that needs to be recorded to better manage fixed asset management strategies. Quite often tax authorities dictate the type of depreciation method to be applied to assets. The four most popular depreciation methods are:

- Straight-Line
- Double Declining Balance
- Units of Production
- Sum of Years digits

### **The Importance of an Asset Audit**

- Increase a register's effectiveness.

#### **1.1.6 Preparing a register of property, plant and equipment**

##### **Physical audits: -**

Provide vital “What you see is what you get” information, which can be difficult to capture digitally. For example, environmental wear and tear are almost impossible to fully describe without a physical audit.

Provides significant confidence in the accuracy of a business's asset register. As a result, they're better equipped to handle external audits and compliance-related situations

##### **Property**

Property is a term describing anything that a person or a business has legal title over, affording owners certain enforceable rights over said items. Examples of property, which may be tangible or intangible, include automotive vehicles, industrial equipment, furniture, and real estate—the last of which is often referred to as "real property."

##### **Plant**

A plant asset, also known as a fixed asset, is an asset whose benefit is spread out for more than a year, helping businesses generate revenue and carrying out the main operations for which it has been established.

Capitalized plant assets include Land, Land Improvements, Buildings, Building Improvements, Fixed Equipment, Moveable Equipment, Software, Donated Equipment, other assets,

Property owners may also have liabilities, which is the case if a business owner is on the hook for medical expenses resulting from a customer incurring an injury on his company's grounds.

Page 11 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Level III	Version -1 March, 2022
---------------	--	--	---------------------------

## Equipment

Any asset that can be used productively to generate sales for the company can be categorized as a plant asset. Plant assets are referred to as such because of the term's origin during the Industrial Revolution, when plants and factories were the most common form of production for large businesses of that day. Computers, trucks and manufacturing machinery are all examples of equipment. They are tangible because they have a physical form—unlike intangible assets (such as patents, trademarks or copyrights) that do not. The most common types of property are real, private, government-owned, and personal property.

Equipment, machinery, buildings, and vehicles are all types of PP&E assets. Property, Plant, and Equipment (PP&E) is a non-current, tangible capital asset shown on the balance sheet of a business and is used to generate revenues and profits. The PP&E account is often denoted as net of accumulated depreciation. PP&E is a tangible fixed-asset account item and the assets are generally very illiquid. Property, plant, and equipment (PP&E) are long-term assets vital to business operations and the long-term financial health of a company.

### PP&E Formula

Formula:  $\text{Net PP\&E} = \text{Gross PP\&E} + \text{Capital Expenditures} - \text{Accumulated Depreciation}$

To illustrate:

In May 2017, Factory Corp. owned PP&E machinery with a gross value of \$5,000,000. Accumulated depreciation for the same machinery was \$2,100,000. Due to the wear and tear of the machinery, the company decided to purchase another \$1,000,000 in new equipment. For this period, the depreciation expense for all old and new equipment is \$150,000.

Thus, the ending balance is \$3,750,000. This is found by taking  $\$5,000,000 + \$1,000,000 - \$2,100,000 - \$150,000$ .

### Depreciation of PP&E

The other major component of the PP&E formula is depreciation. Depreciation reduces the value of property, plant, and equipment on the balance sheet as the value of assets is lowered over time due to wear and tear and the reduction of their useful life. The depreciation expense is used to reduce the value of the net balance and it flows to the income statement as an expense.

Page 12 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Level III	Version -1 March, 2022
---------------	--	--	---------------------------

### 1.1.87 Understanding Fixed Assets Registers

A business owner deals with different **types of assets** such as machinery, vehicles, current stock, cash, etc., to produce goods and services. Any equipment or property that a company owns and uses over a long period to generate income or keep itself operational is known as a **fixed asset**.

As such, you must maintain a fixed assets register, regardless of the size of your business. It helps enhance efficiency, maximize the utility of an asset, avoid duplicate purchases and attain hassle-free auditing.

However, some typical assets included in the register are –

- Building, land, and property owned by the business, such as factories, office buildings, retail outlets, and warehouses.
- Office tools and equipment like telephones, photocopiers, printers, and computers.
- Air-conditioning, furniture, water coolers, etc.
- Cars, trucks, vans, and other vehicles are used for operational purposes.

### 1.1.8 Benefits of Fixed Assets Register

There are numerous ways in which your business will benefit from having an accurate and up-to-date fixed assets register. Some of these ways are as follows:

1. Provides Comprehensive Data
2. Enhances Asset Security
3. Evaluates Maintenance Costs
4. Keeps Track of Depreciation
5. Facilitates Legal Compliance
6. Accelerates the Audit Process

### 1.1.9 Prepare a Fixed Assets Register

There is many software **applications** to help with the management of fixed assets. Some popular names are Upkeep, Asset Cloud, etc.

Depending on your business's size and nature, you can choose to maintain your register on an excel **spreadsheet** or a **specialized fixed asset management software**. The method that enhances the efficiency and cost-effectiveness of your business is the one that you should opt for.

### Format of a Fixed Assets Register

There are, however, certain categories that are found in most registers. This is because these categories have proven useful in keeping track of assets and calculating their value over time. They are listed below.

1. Serial numbers to help you keep a count of the entries.
2. A unique identification code to help find each asset quickly when required.
3. An asset description can be as brief or detailed as you need it to be.
4. Purchase date (or invoice date) of the asset to determine the remaining lifespan and the extent of depreciation.
5. The cost of purchase will include any associated installation or construction costs. It helps calculate any subsidies or **tax benefits** you can avail of while making its purchase.
6. Depreciation rate and method to help auditors understand which method of depreciation was used for **financial reporting**. It also brings to light how much depreciation has occurred throughout asset ownership.
7. Gross and **net book value**, are, respectively, the asset's value before and after applying depreciation.

### Recording transactions related to non-current assets

Non-current assets are those assets we think will have a life and provide economic value to the business for longer than a 12-month period. Inventory is a current asset because we expect to sell that inventory within the next 12 months (things like wine and art are a little more complicated but we don't delve into those!). **Non-current assets** include property, plant and equipment (often shortened to PPE) or an intangible asset like a patent for a new form of medication. Non-current assets also include items like land

### Purchasing of non-current assets

In essence, purchase non-current assets, like purchasing other items – they are an increase in the asset, and either:

- a decrease in the cash asset
- increase in a liability because of a loan taken out for purchase

There is some more complex accounting related to how we record the purchase of non-current assets, especially PPE, but we will not cover that in this introductory text. You'll learn more about this in Accounting, Business and Society.

Below is an example where the business has purchased a motor vehicle for \$20,000 in cash. We decrease our cash asset and increase our motor vehicle asset.

Asset			=	Liabilities	+	Equity			
Cash	Inventory	Motor vehicles		Account payable		Share cap	Dividend	Revenue	Expense
(2000)		+2000							

Since both transactions are on the assets side of the equation, we need a positive and negative amount that will sum to zero because the liabilities plus equities side of the transaction is also zero.

### Recognize the use of property, plant and equipment (PPE)

Imagine the business has purchased a delivery truck. Every day that you use that truck, you use up some of the truck's useful life until one day, the truck is too old to run. How do we recognize that over a longer period of time, we slowly use up our PPE? There is an accounting accrual concept called "**depreciation**". There are both simple and complex formulas to calculate how much depreciation should be recognize each month or year – you'll learn this in Accounting, Business and Society. However, at the introductory level, it is sufficient to know that depreciation exists and to understand the basic process to record depreciation.

The process to record depreciation looks like this:

Asset			=	Liabilities	+	Equity			
Cash	Inventory	Motor vehicles		Account payable		+Share cap	-Dividend	+Revenue	-Expense
(2000)		(1000)							(1000)

### Simplified process to record depreciation

If you've already studied some accounting – the transaction above might not look correct. And you'd be technically right – in practice, accountants create a sub-account under motor vehicle called accumulated depreciation for the asset. It acts like a tally of all depreciation over the life of the asset – allowing us to

keep the original value of the asset recorded, and then a sub-tally of all of the depreciation recorded over time.

Recording using the accumulated depreciation process looks like this: Technically accurate, but more complex, method to record depreciation when we report the value of the asset in our financial statements – we report the NET value – the original asset amount minus the accumulated depreciation.

## 1.2 calculating depreciation

### 1.2.1 Definition of depreciation

**Definition:** The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation. Description: Depreciation, i.e., a decrease in an asset's value, may be caused by a number of other factors as well such as unfavorable market conditions, etc. The term depreciation refers to an accounting method used to allocate the cost of a tangible or physical asset over its useful life. Depreciation represents how much of an asset's value has been used. It allows companies to earn revenue from the assets they own by paying for them over a certain period of time

### 1.2.2 Nature of depreciation

As time passes, all plant assets with the exception to land lose their capacity to yield service. Therefore, the cost of these plant assets should be transferred to the related expense account in an orderly manner during their expected useful life. The periodic cost expiration is called **Depreciation**

Depreciation results from: -

- ✓ Physical wear and tear
- ✓ Obsolescence
- Depreciation is an allocation of the cost of an asset over its useful life.
- We accumulate the assets depreciation in a Contra-Asset account Accumulated Depreciation

### Factors for depreciation

#### Physical

- Wear out
- Deterioration

#### Functional

- Obsolescence
- Inadequacy



- Depreciation does not mean a decline in market value of asset, but the periodical cost expiration due to physical and functional reasons.
- Depreciation is NOT a process of valuation.
- Depreciation does NOT mean setting aside cash to replace assets as they wear out.

### Accounting for depreciation

In determining the amount of *depreciation* three factors are required

- ✓ Initial cost
- ✓ Estimated Useful life of Plant Asset
- ✓ Estimated residual value: the plant asset's estimated value at the time that it is to be retired from service. Also is called Scrap Value or a Trade in Value. Neither the residual value nor useful life is known for sure but they have to be estimated.

**Appreciable cost = Initial cost – Residual value**

#### 1.2.3 Depreciation formula

1. Straight Line Depreciation Method = (Cost of an Asset – Residual Value)/Useful life of an Asset.
2. Diminishing Balance Method = (Cost of an Asset \* Rate of Depreciation/100)
3. Unit of Product Method = (Cost of an Asset – Salvage Value)/ Useful life in the form of Units Produced.

#### 1.2.4 Types of depreciation

The four most common methods used for determining expired cost of plant assets:

- A. straight line method
- B. units of production method
- C. Double declining balance method
- D. sum of years digit method

##### A. Straight Line Depreciation

Provides for equal periodic charges of depreciation expense over the estimated life of the asset

**Annual depreciation/The Periodical Depreciation =  $\frac{\text{Cost} - \text{Residual value/salvage value}}{\text{Useful life}}$**

Page 17 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Level III	Version -1 March, 2022
---------------	--	--	---------------------------

#### Example

- The cost of depreciate asset is 16,000.00
- Estimated residual value is Br.1, 000.00
- Estimated useful life 5 years

Annual depreciation (periodical depreciation):

$$= 16,000.00 \text{ (cost)} - 1,000.00 \text{ (residual value)} = \mathbf{3000.00 \text{ BR, / year}}$$

5 years (estimated useful life)

If the asset is purchased and was first used on October 12, 2002 and assuming the period ends on December 31, 2002.

The period's depreciation of the product =  $3,000 \times \frac{3}{12} = \mathbf{750}$

On the other hand, if the asset was first placed into use on October 16, 2002, then the depreciation would be the period's depreciation of the product =  $3,000 \times \frac{2}{12} = \mathbf{500}$

Furthermore, in a straight-line depreciation method; we could use %age depreciation; using the cost and the useful life of the asset, with no regard to the residual value of the asset.

Example: for the former example

$$\frac{1}{5} \text{ years} \times 100\% = 20\%$$

Each year 20% of the total cost will be the depreciation expense.

The straight-line method is the most widely used method because of its simplicity. Furthermore, this method justifies a reasonable allocation of costs when the usage is relatively the same from period to period.

#### **B. Units of production method:**

This method provides depreciation that varies with the units produced, with the amount of asset usage.

In this method, the useful life of the asset is expressed in terms of productive capacity asset, like Hours Miles, and Number of units ... etc.

#### **Example:**

Assume a machine with a cost of Br. 16,000.00 and estimated residual value of Br. 1,000.00 is expected to have estimated life of 10,000 operating Hrs.

The depreciation is

Page 18 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Level III	Version -1 March, 2022
---------------	--	--	---------------------------

### Cost – Residual

Estimated production capacity = 16,000.00 (cost) – 1,000.00 (residual value) 10,000 hrs.  
(Estimated capacity production capacity)

$$= \text{Br. } 1.5/\text{hr.}$$

Assume that during the year 2002, the machine was in operation for 2,200 hrs., therefore, the depreciation for the year will be

$$2,200\text{hr} \times 1.5 \text{ hr.} = 3,300.00 \text{ Br}$$

This method is more logical when amount of usage of plant asset changes from period to period.

### C. Double declining method

Declining method yields a declining periodic depreciation charge over the estimated life of a plant asset, of all other declining method, **double declining method** is the most popular one.

Mostly is calculated by doubling the straight-line depreciation rate, which is computed as a percentage of useful life of the plant asset.

#### Illustration

Assume on January 01, 2000 a machine with a cost of Br.16, 000.00 and estimated residual value of Br.1, 500.00 is expected to have estimated life of 5 years.

The depreciation using double declining method is calculated as shown below

No	Cost	Accumulated Depreciation of the Year	Book value at Beginning of the year	Rate	Deprecation for the year	Book value at the end of the year
1	16,000.00	--	16,000.00	40%	6,400.00	9,600.00
2	16,000.00	6,400.00	9,600.00	40%	3,840.00	5,760.00
3	16,000.00	10,240.00	5,760.00	40%	2,304.00	3,456.00
4	16,000.00	12,544.00	3,456.00	40%	1,382.40	2,073.50
5	16,000.00	13,926.40	2,073.50	40%	573.60	1,500.00

Fifth year Deprecation:  $2,073.50 - 1,500 = 573$

Double declining rate  $\Rightarrow 1/5 \times 2 = 20\% \times 2 = 40\%$

Now assume that the asset in the above example was placed into use on March 20, 2002, the depreciation would be

	Cost	Accumulated Depreciation of the Year	Book value at Beginning of the year	Rate	Deprecation for the year	Book value at the end of the year
1	16,000.00		16,000.00	40%	4,800.00	11,200.00
2	16,000.00	4,800.00	11,200.00	40%	4,480.00	6,720.00
3	16,000.00	9,280.00	6,720.00	40%	2,680.00	4,032.00
4	16,000.00	11,968.00	4,032.00	40%	1,612.80	2,419.32
5	16,000.00	13,580.80	2,419.20	40%	919.00	1,500.00

#### D. Sum of the year's digits method

This method yields results like those obtained by use of the decline-balance method. The periodic charge for depreciation declines steadily over the estimated life of the asset because successively smaller fraction is applied each year to the original cost of the asset less the residual value. The denominator fraction, which remains constant, represents the sum of the digits represented by year's life.

Example: An asset has a cost of Br 16,000.00 and residual value Br 1,000.00 and useful life of five year.

Year	Cost less residual value	Rate	Depreciation for the year	Accumulated. Depreciation at the end of the year	Book value at the end of the year
1 <sup>st</sup>	15,000.00	5/15	5,000.00	5,000.00	11,000.00
2 <sup>nd</sup>	15,000.00	4/15	4,000.00	9,000.00	7,000.00
3 <sup>rd</sup>	15,000.00	3/15	3,000.00	12,000.00	4,000.00
4 <sup>th</sup>	15,000.00	2/15	2,000.00	14,000.00	3,000.00
5 <sup>th</sup>	15,000.00	1/15	1,000.00	15,000.00	1,000.00

**The depreciation for the five useful lives is presented as follows: -**

The above depreciation was calculated for an asset which was acquired in the beginning of the year. But if the first use of the asset does not coincide with the beginning of the fiscal year; it is necessary to allocate each full year's depreciation between two fiscal years benefited.

Example:

Assume that the asset in the above example was placed in service after three months after fiscal year elapsed, the depreciation for the fiscal year could be: -

Year	Total Depreciation
1	$9/12 \times 5/15 \times 15,000.00 = 3,750.00$
2	$3/12 \times 5/15 \times 15,000.00 = 1,250.00$
	$9/12 \times 4/15 \times 15,000.00 = 3,000.00$
3	$3/12 \times 4/15 \times 15,000.00 = 1,000.00$
	$9/12 \times 3/15 \times 15,000.00 = 2,250.00$
4	$3/12 \times 3/15 \times 15,000.00 = 750.00$
	$9/12 \times 2/15 \times 15,000.00 = 1,500.00$

5	$3/12 \times 2/15 \times 15,000.00 = 500.00$
	$9/12 \times 1/15 \times 15,000.00 = 750.00$
6	$3/12 \times 1/15 \times 15,000.00 = 250.00$

The double declining method and the sum of the years digit method provides the highest depreciation in first year of the asset use and gradually declining thereafter; for this reason, they are called **Accelerated Depreciation Method**.

The straight-line method provides a uniform expense over the periods, and the units of production method provide periodical depreciation charges, that vary considerably, depending on the amount of usage of the asset.

### 1.2.5 Revision of Periodic Depreciation

We have seen how when assets are placed into use that the residual value and the useful life is estimated. Minor errors resulting from the use of these estimates are normal and tend to be recurring.

- If during the eleventh year it's estimated that the remaining useful life is 25 years (instead of 20). And that the residual value is Br. 5,000.00 (instead of Br. 10,000.00); the depreciation of the remaining 25 years would be as follows.

#### Depreciation for the previous 10 year

$$\begin{array}{lcl} \text{Asset cost} - \text{residual value} & = & \text{Br}130,000.00 - \text{Br}10,000.00 \\ \text{30 years} & & \text{30Years} \end{array} \quad \text{Br } 4,000.00/\text{year}$$

Thus, the accumulated depreciation for 10 years

$$10 \text{ Years} \times \text{Br } 4,000.00 = 40,000.00$$

$$\text{The book value is} \quad \text{Br } 130,000.00 - \text{Br } 40,000.00 = \text{Br } 90,000$$

$$\text{Cost} - \text{Accumulated Depreciation} = \text{Book Value}$$

But revised depreciation for the coming 25 years =

$$\text{Br } 90,000.00 - \text{Br } 5,000.00 = \text{Br } 85,000.00$$

$$\text{Book Value} - \text{Revised Residual Value} = \text{Revised Remaining}$$

Depreciation:

$$\text{Br } 85,000.00 / 25\text{year} = \text{Br}3,400.00/\text{year}$$

Revised Remaining Depreciation / revised useful Life = Revised Depreciation per Year

**Note;** when error in estimate of depreciation factors occur, the amount recorded for depreciation expense in the past period are not corrected, only the future. Depreciation expense amount are affected.

### Recording Depreciation

Depreciation after being determining by using the above methods will be recorded as a periodical expense and as a deduction to the particular asset. The decrease in the plant asset is credited to a contra asset account entitled *accumulated depreciation or allowance for depreciation*

#### 1.2.6 natural asset

Acquired for use in normal business operations and not for resale. Tangible assets that are permanent in nature and usually subject to depreciation Have an expected life of more than one year.

Example: Equipment, Furniture, Machinery, Building, etc.

#### Intangible assets:

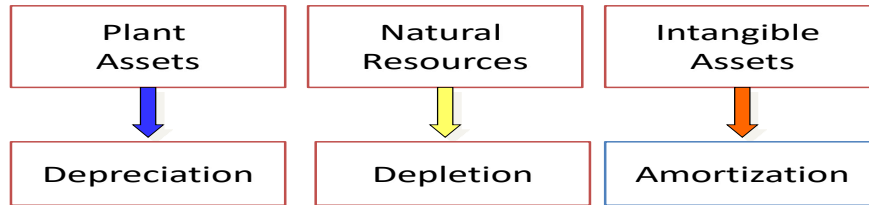
- Long lived (long term) assets those are intangible in nature, without physical characteristics, and which are not held for sale, but are useful in the operation of the enterprise

Example: Patents, Copyrights and Good will

Assets acquired for re-sale in the normal course of business cannot be characterized as plant asset, regardless of their durability or the length of time they are held.

For example, undeveloped land or other real estate acquired as a speculation should be listed on the balance sheet in the asset section entitled “investment”.

## Long-lived Assets



### 1.2.7 Cost of Plant Assets

Plant assets are valued in the accounts at historical cost; the cost necessary to get it and place it ready for use.

- Costs associated with the acquisitions of a plant asset but which does not increase the usefulness of the asset should not be included as the cost of the plant asset.

Example: Costs which result from carelessness, error in installation or for any other unusual occurrence

#### (a) The cost of constructing a building includes

- Material costs
- Fees paid to architects, engineers for plans and supervisions,
- Insurance incurred during construction
- Interests incurred to finance the construction

#### (b) The cost of land

- Negotiated price
- Broker's commission
- Title fees
- Surveying fee
- Related imposed tax on the purchase title transfer
- The cost of leveling
- The cost of removing the unwanted building less any salvage value must also be charged to



Other expenses related to the change in land may be charged to land, building or land improvement depending on the circumstance.

Example:

- Public street may be paved fully by the cost of the properly owner (directly or indirectly) in such a case the cost of the street may be added to the cost of the land because the paving may be considered as permanent as the land.
- The cost of constructing a side walk to and around the building may be considered to last as the building, thus could be added to the cost of the building.
- Expenditures for improvement that are neither as permanent as the land, nor directly associates with the building may be set as land improvement separately, and depreciated over their expected life span (time).

Example: trees, shrubs, fences, outdoor lighting system and paved parking lots

*Example:* - A business signs a Br.300, 000 note payable to purchase land for a new store site. It also pays: Br.10,000 in back property tax, Br.8,000 in transfer taxes, Br.5,000 for removal of an old building, Br.1,000 survey fee, and Br.260,000 to pave the parking lot.

What is the cost of the land?

Purchase price of land	Br.300, 000
Add , related costs:	
Back property taxes	Br.10, 000
Transfer taxes	8,000
Removal of buildings	5,000
Survey fees	1,000
	24,000
Total cost of land	Br.324, 000

What about Br.260, 000 for Paving? Land Improvements

Land	324,000
Note Payable	300,000
Cash	24,000

### 1.3. Asset register

In its simplest form, an asset register is a detailed list compiled of all business assets. It includes details on assets such as location, condition, and owner. The purpose of an asset register is to enable businesses to know the status, procurement date, location, price, depreciation, and the current value of each asset.

Although building and maintaining a complete asset register on a day-to-day basis may seem like a lot of admin work, it can have an overall positive impact on a business's bottom line. So much so, that an accurate register can increase business revenue and cash flow by 5 – 18

**Other benefits of an accurate asset register include:**

- Providing complete transparency of all asset data
- Ensuring all assets remain compliant with regulatory standards
- Providing an accurate audit trail
- Helping to track and identify assets
- Preventing assets from being lost or stolen with accurate location data
- Allowing you to calculate depreciation
- Estimating maintenance and repair costs
  - ✓ What is the asset?
  - ✓ The exact location of each asset
  - ✓ Procurement details including purchase date and price
  - ✓ Estimated life expectancy
  - ✓ Depreciation value
  - ✓ Insurance and compliance details
  - ✓ Maintenance history including repairs and downtime

### Self-check 1:- multiple choice Questions

**Part I: - choice the best answer from among the given alternatives and put the answer on the space provide.**

———1. What is the amount of depreciation, using the sum- of- years – digits method? For the first year of use for equipment costing \$9,500, with an estimated residual value of \$500 and an estimated life of 3 years. (1 pts.)

Page 26 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

- A. \$4,500.00
- B. \$3,166.67
- C. \$3000.0
- D. None of the above

———2. Which depreciation methods that varies with the units produced, with the amount of asset usage?

- A. Unit production method
- B. Sum-off – year method
- C. Double decline method
- D. Straight line method

———3. Which off the following depreciation method are the most accelerated depreciation method

- A. Unit production method
- B. Sum-off – year method
- C. Double decline method

## Part II: - Demonstration

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are fixed assets? (5 points)

---



---



---

2. Demonstrate and discuss the difference and similarities between Fixed Assets vs. Current Assets and Noncurrent Assets? (10 pts.)

---



---



---

3. List some examples of fixed asset? (5pts)

---



---

1. Explain difference between four depreciation methods? (5pts)

## Operation - sheet 1 calculate periodic depreciation expense

1. Calculate the depreciation expenses using Unit of production method and straight

line method?

- i. Straight line method

Periodic depreciation method =  $\frac{\text{cost value} - \text{residual value}}{\text{Use- full life}}$

Use- full life

- ii. Unit of production method =  $\frac{\text{Cost} - \text{Residual}}{\text{Estimated production capacity}}$

Estimated production capacity

#### INSTRUCTION

1. Calculate periodic depreciation expense using **straight line methods and unit of production depreciation methods, based on the given formula?**

On April 1, 2011, Company A purchased an equipment at the cost of \$140,000. This equipment is estimated to have 5-year useful life. At the end of the 5th year, the salvage value (residual value) will be \$20,000. Company A recognizes depreciation to the nearest whole month.

2. Calculate the depreciation expenses for 2011, 2012 and 2013 using straight line depreciation method.

Assume a machine with a cost of Br. 20,000.00 and estimated residual value of Br. 2,000.00 is expected to have estimated life of 12,000 operating Hrs.

## Unit Two: Adjusting and journal entries

This unit to provide you the necessary information regarding the following content coverage and topics:

- Recording depreciation of non-current assets and disposal of fixed assets
- Adjusting expense *accounts* and *revenue accounts*
- Recording bad *and doubtful debts*
- Adjusting ledger accounts for *inventories* and transfer to *final accounts*

This guide will also assist you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- Record Depreciation of non-current assets and disposal of fixed asset
- Adjust expense account and revenue account for prepayment and accrual
- Accounting Terms and Definitions
- Accounting Periods concept, assumption and principles
- Define Basis of Accounting
- Record bad and doubtful accounts
- Adjusting Ledger accounts and transfer to final account

## 2.1 Recording Depreciation of non-current assets and disposal of fixed asset

### 2.1.1 Disposal of Plant Asset

Plant asset which are not useful may be discarded, sold or applied towards purchase of another asset. For any reason, when plant assets are disposed, it is necessary to remove the book value of the asset from the accounts.

### 2.1.2 Discarding Plant Asset

When plant assets are no longer useful to the business and have no market value, they are discarded. If the asset has been fully depreciated; no loss is realized.

Example: - Assume that an item of equipment acquired at a cost of Br 6, 000.00 becomes fully depreciated at December 31, the end of the preceding fiscal year. And now it is discarded as it is worth less on March 24, 2003.

The journal entry would be:

March 24, 2003	Accumulated Depreciation- Equipment	6,000.00	
	Equipment		6,000.00

But if the equipment was not fully depreciated, (i.e., the accumulated depreciation was not Br. 6,000.00), first the three-month depreciation has to be calculated and recorded. Furthermore, there might be a possible loss in disposal.

Example:

Assume that for the previous example that the accumulated depreciation balances as of Dec. 31 2002 was Br. 4,750.00. And a straight-line depreciation of 10% of cost per annual is used. And the equipment was disposed on March 24, 2003, the journal entry would be: -

First: record the 3-month depreciation:

March 24	Depreciation expense	150.00	
	Accumulated Depreciation		150.00

(Calculated: - 6,000.00 X 10%/3/12 = 150.00)

Second: journal disposal

	Accumulated depreciation	4,900.00	
	Loss on disposal by equipment	1,100.00	
	Equipment		6,000.00



### 2.1.3 Exchanging Similar Fixed Assets

Old equipment is often traded in for new equipment having a similar use. In such cases, the seller allows the buyer an amount for the old equipment traded in. This amount, called the **trade-in allowance**, may be either greater or less than the book value of the old equipment. The remaining balance the amount owed is either paid in cash or recorded as a liability. It is normally called **boot**, which is its tax name.

Accounting for the exchange of similar assets depends on whether the transaction has *commercial substance*. An exchange has commercial substance if future cash flows change as a result of the exchange. If an exchange of similar assets has commercial substance, a gain or loss is recognized based on the difference between the book value of the asset given up (exchanged) and the fair market value of the asset received. In such cases, the exchange is accounted for similar to that of a sale of a fixed asset.

#### Gain on Exchange

To illustrate a gain on an exchange of similar assets, assume the following:

*Similar equipment acquired (new):*

Price (fair market value) of new equipment . . . . .	\$5,000
Trade-in allowance on old equipment . . . . .	<u>1,100</u>
Cash paid at June 19, date of exchange . . . . .	\$3,900

*Equipment traded in (old):*

Cost of old equipment . . . . .	\$4,000
Accumulated depreciation at date of exchange . . . . .	<u>3,200</u>
Book value at June 19, date of exchange . . . . .	<u>\$800</u>

The entry to record this exchange and payment of cash is as follows:

June 19	Accumulated Depreciation—Equipment . . . . .	3,200
	Equipment (new equipment) . . . . .	5,000
	Equipment (old equipment) . . . . .	4,000
	Cash . . . . .	3,900
	Gain on Exchange of Equipment . . . . .	300

The gain on the exchange, \$300, is the difference between the fair market value of the new asset of \$5,000 and the book value of the old asset traded in of \$800 plus the cash paid of \$3,900 as shown below.

Price (fair market value) of new equipment . . . . . \$5,000



Less assets given up in exchange:

Book value of old equipment (\$4,000-\$3,200) . . . \$ 800

Cash paid on the exchange . . . . . 3,900 4,700

Gain on exchange of assets . . . . . \$300

### Loss on Exchange

To illustrate a loss on an exchange of similar assets, assume that instead of a trade-in allowance of \$1,100, a trade-in allowance of only \$675 was allowed in the preceding example.

In this case, the cash paid on the exchange is \$4,325 as shown below.

Price (fair market value) of new equipment . . . . . \$5,000

Trade-in allowance of old equipment . . . . . 675

Cash paid at June 19, date of exchange . . . . . \$4,325

The entry to record this exchange and payment of cash is as follows:

June 19      Accumulated Depreciation—Equipment . . . . . 3,200  
                  Equipment (new equipment) . . . . . 5,000  
                  Loss on Exchange of Equipment . . . . . 125  
                  Equipment (old equipment) . . . . . 4,000  
                  Cash . . . . . 4,325

The loss on the exchange, \$125, is the difference between the fair market value of the new asset of \$5,000 and the book value of the old asset traded in of \$800 plus the cash paid of \$4,325 as shown below.

Price (fair market value) of new equipment . . . . . \$5,000

Less assets given up in exchange:

Book value of old equipment (\$4,000-\$3,200) . . . . . \$ 800

Cash paid on the exchange . . . . . 4,325 5,125

Loss on exchange of assets . . . . . \$(125)

In those cases where an asset exchange *lacks commercial substance*, no gain is recognized on the exchange. Instead, the cost of the new asset is adjusted for any gain. For example, in the first illustration, the gain of \$300 would be subtracted from the purchase price of \$5,000 and the new asset would be recorded at \$4,700. Accounting for the exchange of assets that lack commercial substance is discussed in more advanced accounting texts.

**Depletion:** - are the periodic allocation of the cost of material ores and other minerals removed from the earth. The depletion is allocated based on the relationship of cost of the estimated size

of mineral deposit on the quantity extracted during the particular period.

Example:

Assume that the cost of certain minerals right is Br 400,000.00 and that the deposit is estimated at 1,000,000 tons of one of uniform grade.

The depletion per ton =  $\frac{\text{Br } 400,000.00}{1,000,000}$  = Br 0.40/ tone

If during 2002, 90,000 thousand tons of ores were extracted the depletion expense, journal entry

December 31,	Depletion Expense	36,000.00	
	Accumulated Depletion		36,000.00

(Calculation= 90,000 X Br 0.40 = 36,000.00)

Accumulated depletion account is contra asset account. It is presented in the balance sheet as a deduction form the cost of mineral deposit.

**Intangible Asset:** - The basic principle of accounting for intangible assets are like those described earlier for plant assets. The major concerns are the determination of the acquisition costs and the recombination of periodic cost expiration. These periodic costs expiration are called **amortization**.

**Patent:** rights to inventors, evidenced by patent. Some organization may acquire (Purchase).The cost of airing the patent is debited to an asset account; and then written off or amortized over its expected useful life. A separate contra account is not used mostly for amortizing intangible assets. Periodical amortizations are directly written off to the asset account.

Example: Assume that on January 01, 2000, an enterprise acquired a patent for Br 100,000.00 a patent is granted, six years earlier.

Although the patent has eleven years legally, it is expected to be of value for only five years: -

The entry to record the amortization for 2000 is: -

Dec. 31, 2000	Amortization Expense	20,000.00	
	Patent		20,000.00

Furthermore, assume at the end of the year 2002 year it was known that the patent will not be useful after two years;

Journal the amortization of the year ended 2003

Book value of patent = Br 100,000.00 – 40,000.00 = 60,000.00

= Cost - Two years accumulated deprecation

The revised amortization /year = Br  $\frac{60,000.00}{2}$  (Book Value)

2Years (revised expected useful life)

= Br 30,000.00

Journal entry: -

Dec 31, 2003	Amortization Expense	30,000.00	
	Patent		30,000.00

**Copy Rights:** - These are exclusive rights to publish and sell literary, artistic or musical compositions. The cost assigned to copy rights included all costs of creating the work plus the cost of obtaining the copy right. The copy right that is purchased from another should be debited at a price paid for it. Copy rights are issued by federal government and extend for 50 years beyond the authors death. But because of uncertainty regardless of useful life they are usually amortized in a short period of time.

**Good Will:** - is an intangible asset that attaches to a business as a result of such favorable factors as location, product superiority, reputation, and managerial skill. Its existence is evidenced by the ability of the business to earn a rate of return on the investment that is in excess of the normal rate for other firms in the same line of business. Good will is recorded only if it could be objectively measured, then it will be depreciated over its expected period of time

## 2.2 Adjust prepayment and accrual accounts

### 2.2.1 Adjusting Process

#### Nature of the Adjusting Process

- Accounting Terms and Definitions
- Accounting Periods
- Basis of Accounting
- Types of account requiring adjustment
- Adjust revenue and expense account

### 2.2.2 Terms and Definitions

**Revenue Recognition Principle** – Recognize revenues when earned, not when cash is received

**Matching Principle** – Requires expenses be recognized when incurred and in the same period expenses were used to derive revenues

**Revenue Recognition Principle** requires that revenues are reported in the period in which they are earned, regardless of when payment is received.

**Matching Principle** requires that all expenses incurred (whether paid or not) are recorded in the same accounting period as the revenues earned as a result of these expenses.

Page 35 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

**Basis of Accounting** – How you construct financial statements.

**Financial Statements** – Income Statement, Statement of Owner’s Equity, Balance Sheet, and Statement of Cash Flows.

### **GAAP – Generally Accepted Accounting Principles**

When preparing financial statements, the economic life of the business is divided into time periods.

**A. This accounting period concept** requires that revenues and expenses be reported in the proper period.

1. Calendar Year
2. Fiscal Year

**Calendar Year:** The companies that follow the calendar year, their accounting period starts from 1st January to 31st December of the same year.

**Fiscal Year:** For companies that follow the fiscal year, the accounting period starts from the first day of any other month apart from January.

### **B. accounting period**

#### **Definition of Accounting Period**

An accounting period is the period of time covered by a company's financial statements. Common accounting periods for external financial statements include the calendar year (January 1 through December 31) and the calendar quarter (January 1 through March 31, April 1 through June 30, July 1 through September 30, October 1 through December 31). It is common for these companies to also have monthly accounting periods. However, the financial statements for the monthly accounting periods are likely to be used only by the companies' managements.

Examples of Accounting Periods

- The following are some examples of accounting periods used by U.S. companies:
- Annual calendar year of January 1 through December 31
- Annual fiscal year such as July 1, 2020 through June 30, 2021; April 1, 2020 through March 31, 2021; etc.
- 52- or 53-week fiscal year such as the 52 or 53 weeks ending on the last Saturday of January, etc.
- Calendar quarters such as January 1 through March 31, April 1 through June 30, etc.
- Fiscal quarters such as May 1 through July 31, August 1 through October 31, etc.

- 13-week fiscal quarters such as the 13 weeks ending on the last Saturday in April, etc.
- Calendar months such as March 1 through March 31, November 1 through November 30, etc.
- 4- or 5-week fiscal months such as the 4 weeks ending the last Saturday of February, etc.

### C. Principles of accounting

**Matching principle:** - The matching principle says that revenue is recognized when earned and expenses when they occur (not when they're paid).

This principle only applies to the accrual basis of accounting, however. If your business uses the cash basis method, there's no need for adjusting entries.

### D. Basis of Accounting

- A foundation for financial transactions
- Focuses accountant on how to apply rules
- several different types of bases, Examples include Cash, Accrual, and Tax basis for accounting

#### Cash Basis

- Record revenues when cash is received
- Record Expenses when cash is paid
- Not approved for use by GAAP

#### Accrual Basis

- Record revenues when earned
- Record expenses when incurred
- Approved by GAAP
- More accurately reflects business performance

### E. Fundamental Accounting Assumption:

Fundamental accounting assumptions are the assumptions which are presumed to have been followed while preparing the books of accounts. If they are not followed, then reasons should be disclosed for not following them.

**There are 3 basic Accounting Assumptions:**

#### Going Concern Assumption

**The concept of going concern** assumes that a business firm would continue and carry out its operations for a foreseeable future. There is no intention to close down the business, not any necessity to scale down its business activities.

Page 37 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

### Consistency Assumption

According to this assumption, accounting policies and practices once selected and adopted are followed every year. They should be applied consistently over the period of time. It helps in the comparative study of financial statement of the current year with that of the previous year.

- It eliminates the factor of personal bias.
- Previous policies can be changed if:
  - ✓ Required by law or accounting standards
  - ✓ It will result in a more meaningful presentation.
- Changes should be disclosed.

### Accrual Basis Assumption

- Revenue and expenses are recognized in the period in which they occur rather than when they are received or paid cash.
- It is an important concept because it recognizes the assets, liabilities, incomes and expenses only when transactions related to it are entered into.
- Profit is recognized when the sale of goods & services has been made, and obligation is transferred to the customer to pay in return.
- Similarly, Expense is also recognized when goods and services are purchased, and obligation is created to pay for them.

### Adjusting process

The life of a business is divided into accounting periods, which is the time frame (usually a fiscal year) for which a business chooses to prepare its financial statements.

- At the end of each accounting period, businesses need to make **adjusting entries**.
- Adjusting entries update previously recorded journal entries, so that revenue and expenses are recognized at the time they occur.

#### 2. 2.3 Adjusting Entry

A crucial step of the accounting cycle is making adjusting entries at the end of each accounting period. An adjusting entry is an entry made to assign the right amount of revenue and expenses to each accounting period. It updates previously recorded journal entries so that the financial statements at the end of the year are accurate and auto-da-fe adjusting entry in this case is made to convert the receivable into revenue.

#### 2.2.4 Types of Adjusting Entries

We divide adjusting entries into three main types:

A. accruals,

Page 38 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

- B. Deferrals
- C. Non-cash expenses.

#### A. Deferral

- **Deferral refers to the payment of an expense** made in one period, but the reporting of that expense is made in some other period.
- Deferral accounts are an advance receipt, before providing and deliver services
- Deferral accounts Future and advance payment before using or delivering services payment of cash basis

**Deferred revenue** is sometimes known as unearned revenue, i.e., not earned by the company. The company owes goods or services to the customer, but the cash has been received.

**For example**, the company XYZ gets \$10,000 for service over ten months from January to December. The money has been accepted in advance by the company. In that scenario, the accountant should defer \$9,000 from the books of account to a liability account known as “unearned revenue” and should only record \$1,000 as revenue for that period. The remaining amount should be adjusted every month and deducted from the **Unearned Revenue** monthly as their customers will render the services.

Examples of **deferrals (expenses)**

- Insurance
- Rent
- Supplies
- Equipment

**Unearned revenue account** is liability account before delivering or rendering services, but after performing services it become revenue account. **Unearned revenue** is the number of advance payments which the company has received for the goods or services which are still pending for the delivery and includes transactions like Amount received for the goods delivery of which is to be made on the future date etc. **It** is a category of accrual under which the company receives cash before it provides goods or renders services. Under this, the exchange happens before actual goods or service delivery, and as such, no revenue is recorded by the company. The company, however, is under an obligation to provide the goods or render the service, as the case may be, on due dates for which advance payment has been received by it. As such, the **Unearned Revenue is a Liability** till the time it doesn't completely fulfill the same, and the amount gets reduced proportionally as the business is providing the service. It is also known by the name of Unearned Income, **Deferred Revenue**, and Deferred Income as well.

#### Table 2.1 Accrual vs. Deferral Head-to-Head Difference

Let us now look at the head-to-head differences between accrual and deferral.

Page 39 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022



Accrual	Deferral
Accrual occurs before a payment or receipt.	Deferral occurs after a payment or receipt.
<b>Accrued expenses</b> are already incurred but not yet paid.	<b>Deferral expenses</b> are already paid off but not yet incurred.
Accrual is related to the postponement of an expense or revenue, leading to cash receipt or expenditure.	Deferral leads to postponing an expense or revenue, which puts that amount in liability or an <b>asset account</b> .
Accrual is incurring expenses and earning revenue without paying or receiving cash.	Deferral is paying or receiving cash in advance without incurring the expenses or earning the revenue.
The accrual method leads to an increase in revenue and a decrease in cost.	The deferral method leads to a decrease in revenue and an increase in cost.
The end objective of the <b>accrual system</b> is to recognize the revenue in the <b>income statement</b> before the money is received.	The end objective is to decrease the <b>debit</b> account and credit the <b>account Revenue examples. Read..</b>

### Accrual

- A firm delivering a good or service before receiving cash
- A firm generating a salary expense before paying the employee in cash

**Examples of Accrual accounting** include the following: –

- Interest expense and interest income

### F. Non-Cash Expenses

The most common method used to adjust non-cash expenses in business is **depreciation**.

### 2..2.5 Types of Accounts Requiring Adjustment

Four basic types of accounts require adjusting entries as shown below.

1. Prepaid expenses



2. Accrued revenues
3. Unearned revenue
4. Accrued expenses

### 1. Prepaid expense

Prepaid expenses are the advance payment of future expenses and are recorded as assets when cash is paid. Prepaid expenses become expenses over time or during normal operations

Example, Dec. 1 XYZ company paid birr3, 600 as a premium on a one-year insurance policy

On December 1, prepaid insurance .....birr3600

Cash.....birr3600

At the end of December, only birr300 (birr3,600 divided by 12 months) of the insurance premium is expired and has become an expense. The remaining birr3,300 of prepaid insurance will become an expense in future months. Thus, the birr300 is insurance expense

On December 31, insurance expense.....birr300

Prepaid insurance ..... birr300

### 2. Unearned revenues

Unearned revenues are the advance receipt of future revenues and are recorded as liabilities when cash is received. Unearned revenues become earned revenues over time or during normal operations.

Example, Dec. 1 XYZ company s received birr360 from a local retailer to rent land for three months

Cash.....birr360

Unearned rent .....birr360

At the end of December, birr120 (birr360 divided by 3 months) of the unearned rent has been earned. The roaming birr240 will become rent revenue in future months. Thus, the birr120 is rent revenue of December and should be recorded with an adjusting entry.

On December 31, unearned rent .....birr120

Rent income..... birr120

### 3. Accrued revenues/revenues/another name

Accrued revenues are unrecorded revenues that have been earned and for which cash has yet to be received. Fees for services that an attorney or a doctor has provided but not yet billed are accrued revenues

Example: - Dec. 15 XYZ signed an agreement with ABC Co. on December 15 under which XYZ company will bill ABC Co. on the fifteenth of each month for services rendered at the rate of birr20 per hour. From December 16–31, XYZ provided 25 hours of service to ABC Co. Although the revenue of

birr500 (25 hours × birr20) has been earned, it will not be billed until January 15. Likewise, cash of birr500 will not be received until ABC pays its bill. Thus, the birr500 of accrued revenue and the birr500 of fees earned should be recorded with an adjusting entry on December 31.

FROM December 16 – 31, fees receivables .....birr500

Fee earned .....birr500

Other examples of accrued revenues include accrued interest on notes receivable and accrued rent on property rented to others.

## 2.3 Record bad and doubtful debts

### 2.3.1 Bad Debt

A bad debt is an account receivable that has been clearly identified as not being collectible. This means that a specific account receivable is removed from the accounts receivable account, usually by creating a credit memo in the billing software and then matching the credit memo against the original invoice; doing so removes both the credit memo and the invoice from the accounts receivable report.

### 2.3.2 Doubtful Debt

A doubtful debt is an account receivable that might become a bad debt at some point in the future. You may not even be able to specifically identify which open invoice to a customer might be so classified.

### 2.3.3 Accounting for a Bad Debt

When you create the credit memo, credit the accounts receivable account and debit either the bad debt expense account (if there is no reserve set up for bad debts) or the allowance for doubtful accounts (which is a reserve account that is set up in anticipation of bad debts). The first alternative for creating a credit memo is called the direct write off method, while the second alternative is called the allowance method for doubtful accounts.

### Example of a Bad Debt and Doubtful Debt

ABC International has birr 100,000 of accounts receivable, of which it estimates that birr 5,000 will eventually become bad debts. It therefore charges birr5, 000 to the bad debt expense (which appears in the income statement) and a **credit** to the allowance for doubtful accounts (which appears just below the accounts receivable line in the balance sheet). A month later, ABC knows that a birr1, 500 invoice is indeed a bad debt. It creates a **credit memo** for birr1,500, which reduces the accounts receivable account by birr1,500 and the allowance for doubtful accounts by birr1,500. Thus, when ABC recognizes the actual bad debt, there is no impact on the income statement - only a reduction of the accounts receivable and allowance for doubtful accounts line items in the balance sheet (which offset each other)

## 2.4 Adjusting inventories

Inventories: inventories a raw material that can be available for sale or used for production purpose.

A merchandising business manufactures products, marks them up, and sells them to customers. A merchandiser may therefore be either the buyer or the seller in a given transaction. **Inventory** is items that are purchased for resale. The process of inventory valuation involves determining the quantities and dollar value of the inventory that a company owns. The **perpetual inventory system** is the process of keeping a current running total of inventory, both in number of units on hand and its dollar value, at all times. When product is purchased for resale, inventory immediately increases. When inventory is sold, its total value is immediately reduced. Items in inventory are not always purchased at the same price; the same items may cost different amounts at different times. Therefore, a business needs a system of deciding which cost to select as its expense amount for **Cost of Merchandise Sold** when it sells an item

Page 43 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

## 2.4. 1 Inventory Adjustments

The inventory account's initial balance stays the same until the accounting period is over. Then, there are physical counts of the inventory to determine its value at that time. The inventory account's balance is then updated with inventory adjustment entries. There are specific ways to do this, depending on the type of accounting system in use.

When an accounting period ends, inventory account adjustments are made to show the correct value of the company's remaining inventory. The adjustments reconcile any discrepancies that arise from inventory losses. In addition, journal entries are updated to reconcile changes in current inventory compared to what is left over from the previous year.

## 2.3.2 Inventory Adjustment Examples

Inventory adjustments are usually part of the company's closing entry process. When adjusting entries are needed, two separate entries must be made. The first one clears out the inventory account's beginning balance, and the second credits it. Here are two examples.

### Example

On December 1, 2019, ABC Company purchased merchandise, invoice price Birr25,000, and issued a 6%, 120-day note to Ringo Chemicals Company ABC uses the calendar year as its fiscal year and uses the perpetual inventory system.

Adjusting entries can be defined as the journal entries which are made to recognize the expired revenue and expenditures in the current financial year. The adjusting entries are made at the end of the financial year.

Date	Particulars	Debit (BIRR)	Credit (BIRR)	Calculation
Dec. 1, 2019	Merchandise inventory	25,000		
	Notes payable		25,000	
Dec. 31, 2019	Interest expenses	125		Birr25,000 * 6% * 30/360
	Interest payable		125	
Apr. 1, 2020	Interest expense	375		Birr25,000 * 6% * 90/360
	Interest payable	125		
	Notes payable	25,000		

	Cash		25,500	
--	------	--	--------	--

Example:

At the beginning of the new accounting period, the cost of ABC Company's goods/inventory is birr80, 000. At the end of the period, the general ledger shows an increase, and it stands at birr130, 000. Credit entries are made to adjust for the birr50, 000 increase. The new totals accurately reflect the value of the inventory that the company owns

### 2.3.4 Adjusting the Inventory Account

Under the periodic system of accounting for inventory, the inventory account's balance remains unchanged throughout the accounting period and must be updated after a physical count determines the value of inventory at the end of the accounting period. The inventory account's balance may be updated with adjusting entries or as part of the closing entry process. When adjusting entries are used, two separate entries are made. The first adjusting entry clears the inventory account's beginning balance by debiting income summary and crediting inventory for an amount equal to the beginning inventory balance.

Adjusting entries can be defined as the journal entries which are made to recognize the expired revenue and expenditures in the current financial year. The adjusting entries are made at the end of the financial year.

Date	Particulars	Debit (BIRR)	Credit (BIRR)	Calculation
Dec. 1, 2019	Merchandise inventory	25,000		
	Notes payable		25,000	
Dec. 31, 2019	Interest expenses	125		Birr25,000 * 6% * 30/360
	Interest payable		125	
Apr. 1, 2020	Interest expense	375		Birr25,000 * 6% * 90/360
	Interest payable	125		
	Notes payable	25,000		

	Cash		25,500	
--	------	--	--------	--

Example:

At the beginning of the new accounting period, the cost of ABC Company's goods/inventory is birr80, 000. At the end of the period, the general ledger shows an increase, and it stands at birr130, 000. Credit entries are made to adjust for the birr50, 000 increase. The new totals accurately reflect the value of the inventory that the company owns

### Self – check 2, Part I: - written test

1. Why inventories adjusted at the end of accounting periods?
2. What are inventories does it mean?
3. On December 1, 2019, ABC Company purchased merchandise, invoice price Birr30, 000, and issued a 5%, 90-day note to Ringo Chemicals Company ABC uses the calendar year as its fiscal year and uses the perpetual inventory system.

A. Prepare adjusting entries at the end of accounting period?

### Part II: - workout question

#### Instruction:-

1. Samson and Senayt has launched '2S private clinic' During April 2017 2S private clinic completed the following transactions in her practice of its service.

April 1. Samson and senayt , invest to '2s private clinic' br. 100,000 cash

From personal account

1. Paid office rent for April, Br.800
3. Purchase equipment on account, Br.2, 100
4. Billed customers for fee earned birr2000
4. Purchase supplies birr800 paying a half payment.
5. Received cash on account from patients, Br.3, 150
8. Purchase X-ray film and other supplies on account, Br.245
12. Paid cash to creditors on account, Br.1, 250.
13. Determined supplies used in the operation process birr200.

17. Paid cash for renewal of a six-month property Insurance policy, Br.360.
20. Paid cash for laboratory analysis, Br.545

### Operation sheet 2 prepare adjusting entries

**step 1: Recording accrued revenue. ...**

**Step 2: Recording accrued expenses. ...**

**Step 3: Recording deferred revenue. ...**

**Step 4: Recording prepaid expenses. ...**

**Step 5: Recording depreciation expenses**

#### Instruction: -

1. Samson and Senayt has launched '2S private clinic' During April 2017 2S private clinic completed the following transactions in her practice of its service.

April 1. Samson and senayt , invest to '2s private clinic' br. 100,000 cash

From personal account

1. Paid office rent for April, Br.800
3. Purchase equipment on account, Br.2,100
4. billed customers for fee earned birr2000
4. purchase supplies birr800 paying a half payment.
5. Received cash on account from patients, Br.3,150
8. Purchase X-ray film and other supplies on account, Br.245
12. Paid cash to creditors on account, Br.1,250.
13. determined supplies used in the operation process birr200.
17. Paid cash for renewal of a six-month property Insurance policy, Br.360.
20. Paid cash for laboratory analysis, Br.545
21. paid salary expense birr800, truck expense birr650, paid rent expense birr980.
23. Paid cash for business bank account for personal and family expense. Br.1,250.
24. Recorded the cash received in payment of service (on a cash basis) to patients during April, Br.1,720.
27. Paid salaries of receptionist and nurses, Br.1,725.
29. Paid various utility expenses, Br.260.
30. Recorded fees charge to patients on account for service performed in April, Br.5,145.

Page 47 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

30. Paid miscellaneous expenses, Br.132.

**Instructions**

1. Journalize each transaction in a two-column journal.
  2. Post the journal to the ledger, extending the month-end balance to the appropriate balance's columns after each posting.
  3. Prepare unadjusted trial balance for April 31
  4. Prepare adjusted trial balance as of April 31, using the following adjustment data
    - a. Insurance expired during April 31-----Br60
    - b. Inventory of supplies on April 31-----100
    - c. Depreciation of service equipment for April--600
    - d. Accrued salary on April 31----- 700
- Rent expired during April ----- 200



### Unit Three: Prepare final general ledger accounts

This unit to provide you the necessary information regarding the following content coverage and topics:

- Entering General journal entries for balance day adjustments
- Posting Revenue and expense account balances
- Preparing Final general ledger accounts
- Applying the accounting and Auditing standards.
- Applying double entry principles

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Record General journal entries for balance day adjustments
- Post Revenue and expense account balances
- Prepare Final general ledger accounts
- accounting and Auditing standards.
- Apply double entry principles

### 3.1 General journal entries at balance day adjustments

A balance day adjustment is an adjustment you need to make at the end of the reporting period. That is, we need to have an accurate calculation for profit (or loss). Note: These are only needed when the accrual accounting system is used. In accrual accounting, we log revenue and expenses when they happen, not when

#### Additional information

4-Apr	The following assets were received from John Addams: cash, \$10,000; accounts receivable, \$1,500; supplies, \$1,250; and office equipment, \$7,500. There were no liabilities received
4-Apr	Paid three months' rent on a lease rental contract, \$4,500.
4-Apr	Paid the premium on property and casualty insurance policies for the year, \$1,800.
6-Apr	Received cash from clients as an advance payment for services to be provided, 3000
7-Apr	Purchased additional office furniture on account from Morrilton Company, \$1,800.
8-Apr	Received cash from clients on account, \$800.
11-Apr	Paid cash for newspaper advertisement, \$120.
12-Apr	Paid Morrilton Company \$800 for debt incurred on April 7.
15-Apr	Recorded services provided on account for the period April 4-15, \$2,250
15-Apr	Paid part-time receptionist for two weeks salary, \$400.
15-Apr	Recorded cash from cash clients for fees earned April 4-15, \$3,175.
18-Apr	Paid cash for supplies, \$750.
22-Apr	Recorded services provided on account for April 18-22, \$1,100.
22-Apr	Recorded cash from cash clients for fees earned April 18-22, \$1,850.
25-Apr	Received cash from clients on account, \$1,600.
27-Apr	Paid part-time receptionist for two week's salary, \$400.
28-Apr	Paid telephone bill for April, \$130.
29-Apr	Paid electric bill for April, \$200.
29-Apr	Recorded cash from cash clients for fees earned April 25-29, \$2,050.
29-Apr	Recorded services provided on account for April 25-29, \$1,000.
29-Apr	John received \$4,500 from the company as his salary.

A. Insurance expired \$150.

- B. Supplies on hand April 29, \$1,020.
- C. Depreciation for the office equipment in April, \$500.
- D. Accrued receptionist salary on April 30, \$20.
- E. Rent expired in April, \$1,500. Earned \$2,000 of services that were previously paid for on 4/6

Instructions)

**1. Record general journal entries and adjusted entries**

**Record the transactions stated above in good general journal**

General Journal					
Date	Description/account title	Debit		Credit	
4-Apr	Cash	10,000			
	Accounts Receivable	1,500			
	Supplies	1,250			
	Office Equipment	7,500			
	Contributed Capital			20,250	
4-Apr	Prepaid Rent	4,500			
	Cash			4,500	
4-Apr	Prepaid Insurance	1,800			
	Cash			1,800	
6-Apr	Cash	3,000			
	Unearned Revenue			3,000	
7-Apr	Office Equipment	1,800			
	Accounts Payable			1,800	
8-Apr	Cash	800			
	Accounts Receivable			800	

11-Apr	Advertising Expense	120			
	Cash			120	
12-Apr	Accounts Payable	800			
	Cash			800	
15-Apr	Accounts Receivable	2,250			
	Service Revenue			2,250	
15-Apr	Salaries Expense	400			
	Cash			400	
15-Apr	Cash	3,175			
	Service Revenue			3,175	
18-Apr	Supplies	750			
	Cash			750	
22-Apr	Accounts Receivable	1,100			
	Service Revenue			1,100	
22-Apr	Cash	1,850			
	Service Revenue			1,850	
25-Apr	Cash	1,600			
	Accounts Receivable			1,600	
27-Apr	Salaries Expense	400			
	Cash			400	
28-Apr	Telephone Expense	130			
	Cash			130	
29-Apr	Utilities Expense	200			

	Cash			200	
	Service Revenue			2,050	
29-Apr	Accounts Receivable	1,000			
	Service Revenue			1,000	
29-Apr	Salaries Expense	4,500			
	Cash			4,500	
	Service Revenue			2,050	
29-Apr	Accounts Receivable	1,000			
	Service Revenue				
				1,000	
	Service Revenue			2,050	
29-Apr	Accounts Receivable	1,000			
	Service Revenue			1,000	
29-Apr	Salaries Expense	4,500			
	Cash			4,500	
	Service Revenue			2,050	
29-Apr	Accounts Receivable	1,000			
	Service Revenue			1,000	
29-Apr	Salaries Expense	4,500			
	Cash			4,500	

**Table adjusting journal entries**

Date	Account Title	Debit		Credit
------	---------------	-------	--	--------

30-Apr	Insurance Expense	150		
(a)	Prepaid Insurance			150
30-Apr	Supplies Expense	980		
(b)	Supplies			980
30-Apr	Depreciation Expense	500		
(c)	Accumulated Depreciation			500
30-Apr	Salaries Expense	20		
(d)	Salaries Payable			20
30-Apr	Rent Expense	/,500		
(e)	Prepaid Rent			1,500
30-Apr	Unearned Revenue	2,000		
(f)	Service Revenue			2,000

### Adjusted trial balance

Addams & Family Inc.			
Adjusted Trial Balance			
For the Year Ended December 31st, 2010			
		Credit	
Cash			
Accounts Receivable	3,450		
Prepaid Rent	3,000		
Prepaid Insurance	1,650		
Supplies	1,020		
Office Equipment	9,300		

Accumulated Depreciation, Equipment		\$500	
Accounts Payable		1,000	
Salaries Payable		20	
Unearned Revenue		1,000	
Contributed Capital		20,250	
Retained Earnings		0	
Dividends Declared		0	
Service Revenue		13,425	
Insurance Expense	150		
Depreciation Expense	500		
Rent Expense	1,500		
Supplies Expense	980		
Salaries Expense	5,320		
Telephone Expense	130		
Utilities Expense	200		
Advertising Expense	120		
	\$36,195	\$36,195	

### Income statement

Addams & Family Inc.			
income statement			
For the Year Ended April 30, 2010			
Revenues			
Service Revenue	\$13,425		
Total Revenues	13,425		
Expenses			
Insurance Expense	150		

Depreciation Expense	500		
Rent Expense	1,500		
Supplies Expense	980		
Salaries Expense	5,320		
Telephone Expense	130		
Utilities Expense	200		
Advertising Expense	120		
Total Expenses	8,900		
Net Income (Loss)			
	\$4,525		

#### Statement of retained earning

<b>Addams 4 Family Inc.</b>			
<b>Statement of Retained Earnings</b>			
<b>For the Year Ended April 30, 2010</b>			
Beg Retained Earnings, 4/1/10	\$0		
Add: Net Income	4,525		
Less: Dividends	0		
End Retained Earnings, 4/30/10	\$4,525		

#### Balance sheet

<b>Addams &amp; Family Inc.</b>			
<b>Balance sheet</b>			
<b>at April 30, 2010</b>			
Assets			
Current Assets			
Supplies		1,020	



Total Current Assets			\$17,995
Property Plant & Equipment			
Office Equipment†		9,300	
Accumulated Depreciation		-500	
Property Plant & Equipment, Net			8,800
Total Assets			26,795
Liabilities & Stockholders' Equity			
Current† Liabilities			
Accounts Payable		1,000	
Salaries Payable		\$20	
total Current† Liabilities			1,020
Unearned Revenue			1,000
Total Liabilities			2,020
Stockholders' Equity			
Contributed Capital			20,250
Retained Earnings			4,525
Total Stockholders' Equity			24,775
Total Liabilities & Stockholders'	Equity		\$26,795

### Closing entries journal entries

General Journal				
Closing Journal Entries				
	Account Title			
30- Apr	Service Revenue	13,425		
CJE II	Insurance Expense		150	
	Depreciation Expense		500	
	Rent Expense		1,500	

	Supplies Expense		980	
	Salaries Expense		5,320	
	Telephone Expense		130	
	Utilities Expense		200	
	Advertising Expense		120	
	Retained Earnings		4,525	
	(To close Revenues and Expenses to Retained Earnings)			
30-Apr	Note, we did record any dividends during the period and therefore does not have an entry to close dividends to retained earnings. If we had declared and paid a dividend during the period, we would simply:			
	Dr. Retained Earnings and Cr. Dividends Declared			
	Remember, dividends are not an expense:			
	they are a distribution to the owner(s).			

### Analyzing Business Transactions

Business transactions when occurs should be analyzed in order to determine the accounts to be debited and credited in the journals. Analyzing purchases of merchandises (Accounting for purchases), The value of the goods a business purchases for resell to customers is the cost of merchandises. If the merchandises are resold, the cost of merchandises is a deduction from sales as expenses. Therefore, cost of merchandise is kept in a separate division of the ledger next to **Revenue**. The account that shows the cost of merchandise purchased only for resale to customers is titled **purchases**.

The purchases account has a normal debit balance like any other expense account. Therefore, an increase in the purchases account will be recorded on the debit side and a decrease in the purchases account will be recorded on its credit side.

+	Purchases	-
Dr		Cr

\* A merchandising business may purchase merchandises for cash or on account (credit)

### 3.1.1 Analyzing purchases of merchandise on account

A transaction in which merchandise is purchased with an agreement to pay at a later date is called a purchase of merchandise on account. The business from which merchandise is purchased on account is known as a creditor. The agreement between the buyer and the seller as to payment for merchandise is called Terms of Sales. Merchandise firms maintain a single general ledger account for all creditors, unlike to service rendering firms. Service rendering firms that have few creditors may keep a separate account for each creditor. However, a merchandise business that purchase merchandise on account from many firms cannot keep separate accounts for the numerous creditors. Instead, the total amounts owed to all creditors is summarized in a single ledger account. The general ledger account that summarized the amount owed to all creditors is called Accounts payable. Accounts payable is a liability account

### 3.1.2 Journalizing Business Transactions in special Journals

A special journal is a journal in which only one kind of business transaction is recorded

#### EXAMPLE

Universal Stationary since it has several accountants it uses the following five journals to record its transactions. These are: -

1. Purchases journal – for all purchases of merchandise on account
2. Cash payments journal – for all cash payments.
3. Sales journal – for all sales of merchandise on account
4. Cash receipts journal – for all cash receipts
5. General journal – for all other transactions

### 3.1.3 Recording Purchases of Merchandises on Account

**Buying Procedure** \_ Merchandise may be bought either in cash or on credit. Universal Stationary buys merchandises from different importers, manufacturers, wholesalers and other organizations for cash on credit. Merchandises may be ordered by letter or other form.

**A Purchase Order** is a business form prepared by a buyer on which is described the merchandise he desires to buy. The original copy is sent to the firm from which the merchandise is to be purchased. The carbon copy of the purchase order is kept for further use. It is usual for businesses to purchase goods on account. A transaction in which merchandise is purchased with an agreement to pay for it at a later date is called *purchases of merchandises on account*. The business from which merchandise is

purchased on account is known as a *creditor*.

### 3.1.4 Source Document for Purchases of Merchandises

A business form listing goods sold, the method of transport or shipment and the quantity & cost of the item is called an **Invoice**. Universal Stationary receives an invoice from the seller for each order it places. The copy of the invoice that the buyer receives and uses as a source document for recording the purchase of merchandise is called a *purchase invoice*.

Invoices differ from enterprises to enterprises. Most invoices however include in addition to the address of the address of the seller and the buyer,

- i. Quantity, description and price of items
- ii. Terms of Sale
- iii. Method of transport
- iv. Seller invoice number
- v. Buyer's purchase order number etc.

### A. Purchase of merchandise on Account

The value of goods a business buys to resale to customers is called the *cost of merchandises*. All costs of merchandise are recorded as debit because they are deductions from income. A separate ledger account is kept to record the costs of merchandises purchased. The account that shows the cost of merchandise bought for resale to customers is called **purchases**.

A business may buy many items such as merchandise, supplies and equipment. However, only merchandise bought for resale to customers is recorded in the purchases account.

**Purchases Journal** – Whenever an enterprise buys merchandises or goods for resale whether it pays immediately or buys on credit it is the purchases account which is always debited. If the transaction is cash one, the cash account is credited. If the transaction is on credit basis the suppliers or creditors account is credited/.

When an enterprise makes many purchases on account, time can be saved by recording all purchases of merchandises in a separate journal. A special journal for recording purchases on account is called a purchase journal.

\* Therefore, All purchases of merchandise on account is recorded in a one-column purchases journal.

### B. Recording Cash Payments Transactions

The most frequent transactions of enterprises be it private or state owned are the payment of cash

Page 60 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

and/or the receipts of cash.

**Making Cash Payments:** A transaction in which cash is paid is known as cash payment transactions.

Many modern enterprises issue a check for each cash payment transactions. Small expenses are however paid in cash from a petty cash fund. Checks are issued because;

- A. It is unsafe to keep large amount of money
- B. A check is good evidence that payments have been made.

**The Source Document for Recording Cash Payments-the Check Stub** is the source document for cash payment and is prepared when each check is written. Each check stub should be filled out completely so that the accountant will have the information needed for making the journal entry.

### **The cash payments journal**

A special journal in which only cash payments are recorded is called *a cash payment journal*. Every cash payment made by Universal Stationary is recorded in the cash payments journal. Cash payments are most frequently made for cash purchases of merchandise, for various expenses, for payments of debts or for withdrawal of money from the enterprise. Space, time and work are saved by using the cash payments journal. Because only the total of the cash credit column is posted at the end of the period, using special amount column saves time in posting.

### **problems related to sales and purchases**

- Sales Returns and Allowances
- Sales Returns

The merchandises that are sold to customers might sometimes be found un satisfactory by the customer. The return of goods previously sold to a customer for which, the customer is allowed to collect his cash refund or allowed credit or account is called *Sales Return*. Merchandises may be returned if a customer buys wrong type of goods or unwanted goods, wrong size, etc.

**Sales Allowances** is a credit given or a cash refund to a customer for part of sales price of goods that are not to be returned because of damage or imperfectness. The sales allowances are usually the result of goods that are defective, imperfect, damaged or delay in shipment.

Sales returns and allowances are decrease in sales. Thus, returns and allowances of sales are debited to 'Sales Returns and Allowances' account. This account is placed under income division and the account number of this account is 41.1. The Sales Returns and Allowances account is a contra Sales account and sometimes called Minus Sales account because it decreases the sales.

Page 61 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

### The Credit Memorandum

The credit memorandum is a special business form that contains a record of the amount of credit that the seller consent to give or allow for over charges, returns, allowances and similar cases.

- **Purchase Returns and Allowances**
- **Purchase Returns**

The term purchase return used when a buyer received a credit because he has returned merchandise bought. The return could be because of defectiveness, inferior in quality or damage in transit.

### The Purchase Allowance

Credit that is allowed for merchandise that is not returned to the seller is called **Purchase Allowance**. Purchase Returns and Allowances are recorded in the contra Purchase account called Purchase 'Returns and Allowances' account. Sometimes this account is called Minus Purchases Account and is placed under expense division. The account number of this account is 51.1.

### DISCOUNT

**Trade Discount-** This is a reduction in the list price given (granted) to a customer.

**List Price** – is a manufacturer's or wholesaler's catalogue price that is subject to reduction. No journal entry is made to show the amount of trade discount. Only the net amount of the invoice is used in a journal entry.

### TERMS OF SALE

The agreement between the buyer and the seller as to the payment on merchandise is known as **Terms of Sale (Credit Term)**.

- If the payment is made immediately in terms of sale it is said to be "Cash", "Net Cash" or "Cash Basis".
- When the buyer is allowed a period of time before payment must be made the sale is called "Credit Sale".

### Cash Discount

A deduction that the seller allows on the amount of invoice to encourage the buyer to make a quick or prompt payment is called a *cash discount*. Cash discount is usually expressed as a percentage that can be deducted from the amount of invoice. A cash discount is usually stated as a percentage of the invoice price.

### EXAMPLE

Page 62 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1 November, 2022
---------------	--	---	------------------------------

The terms of sales may be written as

**Case I – 2/10, n /30 (Two ten, Net thirty)**

**Two ten-** means the buyer may deduct 2 % of the invoice if payment is made within 10 days from the date of the invoice.

**Net thirty** – means the buyer may pay the total amount within **30 days**, if he fails to pay within 10 days.

**Case II EOM (End of Month)**

EOM means that full payment is expected not later than the end of month.

**Case III 2/10, n/30 EOM (Two ten, Net thirty End of month)**

2/10, n/30 EOM means a 2% discount may be taken if the invoice is paid with in the 10 days after the end of the month in which the invoice is dated or the full amount must be paid on or before 30 days after the end of the month.

**1. Purchase Discount**

A cash discount taken by the buyer on purchases is called *Purchases Discount*. When the buyer takes advantage of a purchase discount, he pays less than the purchase price recorded on his books. Purchases Discount are recorded by the buyer in the contra purchases account called *Purchases Discount*. The account number of purchases discount is 51.2.

**2. Sales Discount**

A cash discount granted to a customer by the seller is called a *Sales Discount*. When the customer takes this advantage, the seller receives a sum less than sales price recorded on his books. Thus, a sales discount is a deduction from sales. Sales Discount are recorded in the contra Sales account called Sales Discount and the account number of this account is 41.2.

**Examples**

DINO Enterprise issued a credit memorandum No.13 to ZEMA Plc. a credit of Br 450. The source document for this transaction is the carbon copy of the credit memorandum.

**Analyzing the Sales Returns and Allowances Transactions**

The merchandise returned by ZEMA Plc. represents a decrease in the sale of the enterprise. The debit and credit sides are treated as follows.

- To record the debit-** Sales Returns and Allowances account is debited. If combination journal is used, Sales Returns and Allowances is written in the Account Title Column and

Page 63 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022



the amount is written in the General Debit Column.

2. **To record the credit** – customer's account in the subsidiary ledger and A/R in the general ledger are credited. If combination journal is used, the name of the customer is written in the account title column by indenting some spaces as follows. (partial combination journal)
3. **To record the debit**- The account to be debited is the A/P account in the general ledger and BALL Trading in the subsidiary ledger. If a combination journal is used, the name of the business, BALL Trading is written in the Account Title Column. And the amount is written in the A/P Debit Column.
4. **To record the credit**- The account to be credited is cash. No need to write the account title in the 'Account Title Column' of a combination Journal.

If special journals and a general journal are used, cash payments journal is used to record this transaction.

### **Transportation Charges on Merchandise Purchased**

Transportation charges on incoming shipments are a part of the total cost of purchases and hence may be recorded as a debit to the purchases account or may be recorded in a separate account titled Transportation in or Freight in or Delivery In. Therefore, Net sales = Gross sales – (sales returns and allowances + sales discount)

Net purchase = Gross purchase + Transportation cost – (purchase returns and allowances + purchase discount)

### **Transportation charges on merchandise sold**

1. **FOB Destination** – the seller agrees to pay the transportation Charges
2. **FOB Shipping point** - the buyer agrees to pay the transportation charges

Transportation charges, if paid by the buyer, should be included as a part of the cost of merchandise.

### **EXAMPLE**

Tir 8 sold merchandise on account to St. Mary's College Br 1,180 under terms FOB Destination S12 and the seller transportation charges of Br 50

### **Adjustment for Merchandise Company**

Changes in the general ledger accounts that are recorded at the end of a fiscal period to bring the accounts up-to-date are called **adjustments**. Planning the adjustments on the worksheet provides a check on the accuracy of the adjusting entries before they are actually recorded in the journal.

Page 64 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022



Some general ledger accounts do not show a true, up-to-date balance. For example, an enterprise records the buying of an asset account supplies each time supplies are bought. It is not [practical, however, to credit supplies a pencil or writing paper, or ink is issued. The balance of the supplies account; therefore, need to be brought up to date at the end of each fiscal period.

**Adjusting Entries-** Journal entries made to bring general ledger accounts up to date are Called **adjusting entries**.

### Adjusting for the Merchandise Inventory Account

Merchandise inventory is an asset account recording in monetary terms the merchandises held for resale. An itemized list of goods on hand showing the value is called an **inventory**.

#### 1. Adjustments for the Merchandise Inventory account

Merchandise inventory is an itemized list of goods on hand for resale to customers. Each purchase increases the amount of merchandise on hand and each sale decreases the amount of merchandise on hand but neither is recorded in the merchandise inventory account. Therefore, the Merchandise Inventory account must be on hand.

The total original purchase price of all merchandise sold is called: - **cost of merchandise sold, cost of goods sold or cost of sales**.

Cost of merchandise sold is computed as: -

Merchandise Inventory (beginning)	xxx
+ Purchases	<u>xx</u>
= Cost of merchandise available for sale	xxx
- Merchandise Inventory (ending)	<u>(xx)</u>
= <b>Cost of merchandise sold</b>	<b><u>xxx</u></b>

The two accounts used to adjust the Merchandise Inventory account are: -

1. Income Summary
2. Merchandise Inventory

#### EXAMPLE

The actual count of goods on hand shows that the inventory is valued at Br. 24,851

1.1. Adjustment for the beginning Merchandise Inventory = 23,250

(a) Income Summary	23,250
Merchandise Inventory Beginning	23,250

\* The labeling helps to locate the two parts of the adjustment when the adjustment entries are made.

### 1.2. Adjustment for the ending Merchandise Inventory

(b) Merchandise inventory      24,851

(b) Income Summary                      24,851

## 3.2 Posting Revenue and expense account balances

### 3.2.1 General ledger overview

Your general ledger is a record used to sort and summarize business transactions. In your ledger, record transactions using debits and credits. Debits and credits must always balance. They are equal but opposite entries. If they don't balance, your books and financial statements will be inaccurate.

There are five main account types in a general ledger:

- assets
- Liabilities
- Equity
- Revenue / Income
- Expenses

General ledger provides a record of all financial transactions that affect your business. There are five different types of general ledger accounts, with each financial transaction or journal entry entered using at least one of these account types:

1. Assets: Anything of value that your business owns.
2. Liabilities: Anything that your business owes.
3. Owner's Equity: Owner's equity shows how much a business is worth after liabilities are subtracted from assets.
4. Revenue: Revenue is received from the sales of goods and/or services. It's important to use the revenue recognition principle when recording revenue.
5. Expenses: Expenses are the cost of doing business and include rent, utilities, payroll expenses, postage, and professional services fees to name just a few

### Example of a general ledger

All financial activities in your business are recorded in the general ledger. This activity includes:

- Deposits made to your bank accounts
- Checks written to various vendors for operating expenses

Page 66 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

- Payroll checks issued to your employees
- Payroll taxes paid to both state and federal agencies
- Sales activity and related accounts receivable activity
- Recording of payments received from customers and clients
- Inventory adjustments such as receiving product or adjusting inventory levels
- Bills received and recorded in accounts payable
- Any owner contributions to the business or owner withdrawals
- Any journal entries to record transactions such as interest and bank fees

### 3.3 Prepare final general ledger accounts

#### 3.3.1 Preparing closing entries and post-closing trial balance

**Closing entries:** Revenues, expenses and drawing /dividend account are temporary accounts used to accumulated effects of some transaction on owner's equity account for a specific period. At the end of the accounting period the balances of revenue and expense accounts are summarized in one another temporary account called the **income summary**. The balance in the income summary is transferred/closed to the capital (owner's equity) account. The balance on the drawing /divided account is directly closed to the capital (retained earnings account).

#### Recording Closing Entries

##### Include

1. Close revenue account
2. Close expense account
3. Close income summary account

##### Close dividend account

The process of transferring balances of temporary accounts to the capital account is called closing entry; and these entries should be posted to the respective ledgers after journalizing. This closing of accounts is used to transfer net income or net loss and drawing /dividend to capital/retained earnings, account. Moreover; it is used to reduce the balance of temporary accounts to zero so that they will be ready for the next accounting period.

To illustrate assume a shopping service named by ABG-shopping service, the closing entries are journalized on the journal and posted to the respective ledgers. The entries to close the temporary accounts are summarized as follows:

Page 67 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

Income summary.....XXXX

Expenses (all by name/list) .....XXXXX

This is to close the expenses accounts

Revenue ..... XXXX

Income summary.....XXXX

This is to close the revenue account

Capital ..... XXXXXXXX

Drawing .....XXXXXX

This is to close the drawing account

Finally, the balance on the income summary account will be closed to the capital account either as debit or credit it depending on its balance.

## I. CLOSING PROCESS

### A. Temporary and Permanent Accounts

Temporary (or Nominal) accounts—are income statement accounts that get closed out at the end of the period. They are temporary accounts that are brought to zero at the end of the accounting cycle. They include: all income statement accounts, the dividends account, and the Income Summary account. Permanent (or Real) accounts—are balance sheet accounts whose account balances are from the end of one period are carried over into the next period.

Retained Earnings are accumulated income from prior periods. At the end of the accounting cycle, we must make one final adjustment to move the accounts that make up income into retained earnings hence; we must zero out all income statement accounts (revenue and expense) and move their balance to retained earnings. The income statement accounts that get closed out at the end of the period. The assets, liabilities and equity accounts are **NOT CLOSED**.

**Post-closing trial balance:** It is a trial balance prepared after all adjusting and closing entries is posted. It is prepared to check the equality of the total debit and the total credit of the balance of the real accounts. It is the last step on the accounting cycle/ process the post-closing trial balance for the ABG-shopping service is prepared and presented as follows. Note that the accounts are assumed ones. This is simply to show you the sample post-closing trial balance

**ABG- shopping service**  
**Post-closing trial balance**  
**On January 31, 2002**

Account title	Debit	Credit
Cash	Br. xxx	
Accounts receivable	xxx	
Supplies	xxx	
Prepaid rent	xxx	
Prepaid insurance	xxx	
Service equipment	xxx	
Accumulated dep. Service	( xxx)	
Accounts payable		
Salary payable		
ABG- capital		
Total		xxx
	xxx	xxx
		xxx

**Example**

- 1) Journalize the adjusting entries and label them as accruals or deferrals.
- 2) Update the account balances of the selected accounts given below.
  - a) Supplies on hand on August 31\$800
  - b) Depreciation of equipment during the year\$3,400
  - c) Rent expired during the year\$11,000
  - d) Wages accrued, but not paid at August 31\$2,500
  - e) Unearned fees at August 31\$1,500
  - f) Unbilled fees at August 31\$5,260
  - g) Supplies on hand on August 31\$800

Selected Account Balances	Current Balance		Adjust. Entry (+ / -)	Adjusted Balance	
	Debit	Credit		Debit	Credit
Accounts Receivable	12,350				
Supplies	1,980				
Prepaid Rent	20,000				
Equipment	73,800				
Accumulated Depreciation- Equipment		24,700			
Capital Stock	2,000				
Dividends		7,500			
Unearned Fees		99,650			
Fees Earned	42,200				
Wages Expense					
Rent Expense					
Depreciation Expense					
Supplies Expense					

### Solution

#### 1. Adjusting journal entries

a) <b>Deferred Expense</b>		
Supplies Expense	1,180	
Supplies		1,180
b) <b>Deferred Expense</b>		
Depreciation Expense-Equip	3,400	
Accum. Depr.- Equip		3,400
c) <b>Deferred Expense</b>		
Rent Expense	11,000	

Prepaid rent		11,000
d) <b>Accrued Expense</b>		
Wages Expense	2,500	
Wages Payable		2,500
e) <b>Deferred Revenue</b>		
Unearned Revenue	6,000	
Fees Earned		6,000
f) <b>Accrued Revenue</b>		
Accounts Receivable	5,260	
Fees Earned		5,260

## 2. Adjusted trial balance

Selected Account Balances	Current Balance		Adjustment (+ / - )	Adjusted Balance	
	Debit	Credit		Debit	Credit
Accounts Receivable	12,350		+5,260	17,610	
Supplies	1,980		-1,180	800	
Prepaid Rent	20,000		-11,000	9,000	
Equipment	75,800		-----	75,800	
Accumulated Depreciation- Equipment	24,700		+3,400	0	28,100
Capital Stock	20,480			0	20,480
Wages Payable	0		+2,500	0	2,500
Unearned Fees	7,500		-6,000	0	1,500
Fees Earned	99,650		+11,260	0	110,910
Wages Expense	42,200		+2,500	44,700	0
Rent Expense			+11,000	11,000	0
Depreciation Expense			+3,400	3,400	0

Supplies Expense		+1,180	1,180	0
	152,330	152,330	163,490	163,490

### 3. Closing entries

1.	Fees Earned	110,910	
	Income Summary		110,910
2.	Income Summary	60,280	
	Wages Expense		44,700
	Rent Expense		11,000
	Depreciation Expense		3,400
	Supplies Expense		1,180
3.	Income Summary	50,630	
	Retained Earnings		50,630
4.	Retained Earnings	2,000	
	Dividends		2,000

### 4. Post-closing trial balance

Post-Closing Trial Balance		
Accounts Receivable	17,610	
Supplies	800	
Prepaid Rent	9,000	
Equipment	73,800	
Accumulated Depreciation-Equip		28,100
Capital Stock		20,480
Wages Payable		2,500
Unearned Fees		1,500



Retained Earnings		48,630
Total	101,210	101,210

### 3.4 Preparing final general ledger accounts

#### 3.4.2 Preparing closing entries and post-closing trial balance

**Closing entries:** Revenues, expenses and drawing /dividend account are temporary accounts used to accumulated effects of some transaction on owner's equity account for a specific period. At the end of the accounting period the balances of revenue and expense accounts are summarized in one another temporary account called the **income summary**. The balance in the income summary is transferred/closed to the capital (owner's equity) account. The balance on the drawing /dividend account is directly closed to the capital (retained earnings account).

Records the current year's net income and dividends in retained earnings and zeros-out the balance in all revenue, expense and dividend accounts at year-end.

Revenue and expense account balances are transferred into the Income Summary account. The balance in the income summary represents net income (revenues minus expenses) which is then transferred into retained earnings.

Dividends are transferred directly into retained earnings, bypassing the income summary because dividends are not part of the calculation of net income and donot appear on the income statement.

The process of transferring balances of temporary accounts to the capital account is called closing entry; and these entries should be posted to the respective ledgers after journalizing. This closing of accounts is used to transfer net income or net loss and drawing /dividend to capital/retained earnings, account. Moreover; it is used to reduce the balance of temporary accounts to zero so that they will be ready for the next accounting period.

To illustrate assume a shopping service named by ABG-shopping service, the closing entries are journalized on the journal and posted to the respective ledgers. The entries to close the temporary accounts are summarized as follows:

The closing process involves four entries:

- 1) Zeroing-out the balance in each revenue account and transferring the total revenues to the Income Summary account as a credit.

- 2) Zeroing-out the balance in each expense account and transferring the total revenues to the Income Summary account as a debit.
- 3) Zeroing-out the balance in Income Summary, the net income (credit) or net loss (debit) for the period, to the Retained Earnings account.
- 4) Zeroing-out the balance in each dividend account and transferring the total dividends directly into retained earnings as a debit. Income Summary is not used because dividends are not used to determine Net Income.

Income summary.....XXXX

Expenses (all by name/list) .....XXXXX

This is to close the expenses accounts

Revenue ..... XXXX

Income summary.....XXXX

This is to close the revenue account

Capital ..... XXXXXXXX

Drawing .....XXXXXX

This is to close the drawing account

Finally, the balance on the income summary account will be closed to the capital account either as debit or credit it depending on its balance.

**Post-closing trial balance:** It is a trial balance prepared after all adjusting and closing entries is posted. It is prepared to check the equality of the total debit and the total credit of the balance of the real accounts. It is the last step on the accounting cycle/ process the post-closing trial balance for the ABG-shopping service is prepared and presented as follows. Note that the accounts are assumed ones. This is simply to show you the sample post-closing trial balance.

### 3.4.2 Accounting and Auditing standards.

Accounting standards relate to all aspects of an entity's finances, including assets, liabilities, revenue, expenses, and shareholders' equity. Specific examples of accounting standards include revenue recognition, asset classification, allowable methods for depreciation, what is considered appreciable, lease classifications, and outstanding share measurement

Accounting standards specify when and how economic events are to be recognized, measured, and

Page 74 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

displayed. External entities, such as banks, investors, and regulatory agencies, rely on accounting standards to ensure relevant and accurate information is provided about the entity.

Accounting standards ensure the financial statements from multiple companies are comparable. Because all entities follow the same rules, accounting standards make the financial statements credible and allow for more economic decisions based on accurate and consistent information.

### **Financial Accounting Standards Board (FASB)**

An independent nonprofit organization, the Financial Accounting Standards Board (FASB) has the authority to establish and interpret generally accepted accounting principles (GAAP) in the United States for public and private companies and nonprofit organizations

GAAP refers to a set of standards for how companies, nonprofits, and governments should prepare and present their financial statements.

### **Generally Accepted Accounting Principles (GAAP)**

generally accepted accounting principles (GAAP) form the set of accounting standards widely accepted for preparing financial statements. Its aim is to improve the clarity, consistency, and comparability of the communication of financial information. Basically, it is a common set of accounting principles, standards, and procedures issued by the Financial Accounting Standards Board (FASB)

### **International Financial Reporting Standards (IFRS)?**

International companies follow the International Financial Reporting Standards (IFRS), which are set by the International Accounting Standards Board and serve as the guideline for non-U.S. GAAP companies reporting financial statements. They were established to bring consistency to accounting standards and practices, regardless of the company or the country. IFRS is thought to be more dynamic than GAAP in that it is regularly being revised in response to an ever-changing financial environment.

### **3.5 double entry principles**

Double entry accounting goes a step further. Every time an income or expense transaction occurs and an entry is made, the net worth statement is updated at the same time.

The two financial statements encompassed in double entry accounting are the net worth statement (also called the balance sheet or equity statement) and the income statement (also called the profit and loss statement).

Actually the income statement becomes part of the net worth statement, as described below.

Traditionally, in single entry accounting, the net worth statement is only prepared or updated at a specific

Page 75 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

point in time. In double entry accounting, the net worth statement is constructed using *cost basis* values rather than *market* values. This means that assets are valued at their original cost (adjusted for depreciation) rather than their current market value.

### Net Worth Statement (Balance Sheet)

In its standard format, assets are listed on the left side of the net worth statement and liabilities and equity are listed on the right side. The statement balances (hence the balance sheet title) because the assets on the left side equal liabilities plus equity on the right side.

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity (net worth)}$$

This equation is the foundation for accounting. If this equation or balance doesn't hold true, then an error has occurred.

- **Assets** - An asset is a resource owned by the business from which future economic benefits are expected to flow to the business. In short, something that adds value to your business.
- **Liabilities** - A liability is a present obligation of the business arising from past events. It is a claim against the business. Meeting these claims will result in an outflow from the business. In short, it is something that subtracts from the value of the business.
- **Owner's Equity (net worth)** - By manipulating the equation above, it also holds true that assets less liabilities equals owner's equity, as shown below. Owner's equity is what remains after the liabilities (claims against the business by outsiders) are subtracted from assets. Owner's equity is the owner's claim against the business.

$$\text{Assets} - \text{Liabilities} = \text{Owners Equity (net worth)}$$

If assets exceed liabilities, the business is *solvent* (has sufficient assets to meet the claims against the business by outsiders). If liabilities exceed assets the business is *insolvent* (cannot meet the financial claims by outsiders against the business).

### Debits:

1. Recorded on the left of a ledger sheet
2. Increase an asset account
3. Decrease an equity or liability account
4. Decrease revenue
5. Increase expense accounts

Page 76 of 95	Ministry of Labor and Skills Author/Copyright	Prepare financial reports Accounting and finance level - III	Version -1
			November, 2022

### Credits:

1. Recorded on the right of a ledger sheet
2. Decrease an asset account
3. Increase an equity or liability account
4. Increase revenue
5. Decrease expense accounts

### Asset Accounts

A debit in an asset account will *increase* the account balance. Conversely, a credit in an asset account will *decrease* the account balance.

### Example Transaction 1

Debit      Credit

+                      -

For example, a farmer purchases \$1,000 of seed corn and writes a check for the amount. The Cash asset account is credited (decreased) by \$1,000 and the Seed Corn Inventory asset account is debited (increased) by \$1,000. This results in a \$1,000 decrease in Cash and \$1,000 increase in Seed Corn Inventory.

Cash

Debit (+) Credit (-)

**\$1,000**

Seed                  Corn

Inventory      Debit

(+)      Credit (-)

**\$1,000**

Likewise the farmer purchases \$2,000 of fertilizer. The Cash asset account is credited (decreased) by \$2,000 and the Fertilizer Inventory asset account is debited (increased) by \$2,000. The result is a \$2,000 decrease in Cash and a \$2,000 increase in Fertilizer Inventory.

Cash

Debit (+) Credit (-)

**\$2,000**

Fertilizer Inventory      Debit (+) Credit (-)

**\$2,000**

At this time, profit (loss) is generated and transferred to the income statement portion of the equity account.

### Liability Accounts

Contrary to an asset account, a debit in a liability account will *decrease* the account. Conversely, a credit in a liability account will *increase* the account.

<u>Assets</u>		<u>Liabilities</u>	
<u>Account 1</u>		<u>Account 2</u>	
<u>Debit</u>		<u>Credit</u>	<u>Debit</u>
+	-	-	+

### Example Transaction 2

Using the example above, assume that the seed corn is purchased on *account* rather than by using cash. Once again the Seed Corn Inventory asset account is debited and *increased*. But now the Accounts Payable liability account is credited and also *increased*.

<u>Seed Corn Inventory</u>		<u>Accounts Payable</u>	
<u>Debit (+)</u>	<u>Credit (-)</u>	<u>Debit (-)</u>	<u>Credit (+)</u>
<b>\$1,000</b>			<b>\$1,000</b>

Using the equation “Assets – Liabilities = Equity”, note that when the Seed Corn Inventory asset account is increased, the Accounts Payable liability account is also increased by the same amount. So the increase in assets is offset by an equal increase in liabilities, leaving equity unchanged.

### Example Transaction 3

When the seed corn is paid for, the Accounts Payable liability account is debited (*decreased*) and the Cash asset account is credited (*decreased*). The Accounts Payable liability account is now zero.

<u>Cash</u>		<u>Accounts Payable</u>	
<u>Debit (+)</u>	<u>Credit (-)</u>	<u>Debit (-)</u>	<u>Credit (+)</u>

**\$1,000**

**\$1,000**

\$1,000

Once again the two entries offset each other leaving equity unchanged.

### ***Single Entry (cash) Accounting***

#### **Advantages**

- Simple – accounting entries limited to recording cash transactions (except for capital assets)
- Provides information for income taxes purposes
- Is familiar to the agricultural community.

#### **Disadvantages**

- Limited ability to track financial performance through the year.
- Limited ability to do financial analysis.
- Does not provide net worth analysis (unless balance sheet is updated independently)

#### **Advantages**

#### ***Double Entry Accounting***

- Net worth statement is always up-to-date
- Same data builds both the income statement and the net worth statement.
- Accrual adjustments are made automatically
- Provides access to current and detailed financial information throughout the year to track financial performance and conduct financial analysis.

#### **Disadvantages**

- More complex and time consuming than cash account.
- Is an unfamiliar system to most agricultural producers.
- Many of the traditional “tax” adjustments methods used in cash accounting (e.g. purchasing inputs in the previous year, delayed payment of grain sales, cannot be used)

**As a general rule**, single entry accounting may be best if you have a simple business and your main purpose for keeping records is for income tax purposes. Conversely, if you have a complex business and want to perform financial analysis throughout the year, the double entry system may be best. If you just want to do year-end financial analysis, single entry accounting with accrual adjustments at the end of the year may be preferred.

### **Self – check 3, written test**

1. Journal entries made to bring general ledger accounts up to date are called \_\_\_\_\_

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1
			November, 2022

- A. **adjusting entries**
  - B. **journal entries**
  - C. **closing entries**
  - D. **none of the above**
2. Which statement is true about FOB destination?
- 2. the seller aggressors to pay the transportation Charges
  - 3. the buyer aggressors to pay the transportation Charges
  - 4. ownership titles pass to the buyer at shipping point
  - 5. all of the above
3. A cash discount granted to a customer by the seller is called\_\_\_\_\_.
- A. Sales discount
  - B. Purchase discount
  - C. Purchase return and allowance
  - D. Sales return and allowance
4. Cash payments journal states\_\_\_\_\_
- A. All cash receipt
  - B. All cash payment
  - C. Sale on account
  - D. Purchase on account

### **Operational sheet 3      prepare format of balance sheet**

1. Show the necessary template or format of balance sheet using the following steps for preparations of balance sheet

Steps in preparing the balance sheet: -

- 1. Write the heading of the balance sheet on three lines
- 2. Prepare the assets section of the balance sheet
- 3. Prepare the liabilities section of the balance sheet
- 4. Prepare the capital section of the balance sheet
- 5. Total the liabilities and capital section of the balance sheet

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1
			November, 2022



## Unit Four: Prepare end of period financial reports

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Prepare revenue statement
- Prepare balance sheet
- errors for resolution

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Understand of financial accounting and management
- Prepare revenue statement
- Prepare balance sheet
- identify and correct, or refer errors resolution's

## 4.1 Prepare revenue statement

### 4.1.1 introduction

**Financial report** reporting period is the span of time covered by a set of financial statements. It is typically either for a month, quarter, or year. Organizations use the same reporting periods from year to year, so that their financial statements can be compared to the ones produced for prior years.

Financial reporting is the comprehensive review of monthly, quarterly, or yearly financial data to drive better business performance and results. A timely and accurate financial reporting process helps you understand your company's performance and identify opportunities to make the right business decisions for future growth

#### Financial Reporting Important

The main goal of financial reporting is to help finance, business partners, department leaders, and stakeholders make strategic decisions about a company's operations, growth, and future profitability based on its overall financial health and stability.

At a minimum, quarterly financial reports and annual reports are required for public companies, while internal measurement is typically performed monthly.

A periodic valuation of a company's financial performance and stability helps to accomplish the following

### 4.1.2 Preparing financial statements

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. For-profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity. Nonprofit entities use a similar but different set of financial statements.

Three financial statements report the financial progress and condition of merchandising firms.

1. The income statements/ profit or loss statement
2. The capital statement and
3. The balance sheets

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1
			November, 2022

### 4.1.3 Preparing the income statement

Income statement reports the revenue, the cost of merchandise sold, and the expenses of operating the business and the Net Income.

The income statement prepared for a merchandising business has 3 main sections:

- A. Revenue section
- B. Cost of merchandise sold section and
- C. Expenses section

## I. Multiple-Step Income Statement

A **multiple-step income statement**, contains several sections, subsections, and subtotals.

**Revenue from Sales** This section of the multiple-step income statement consists of sales, sales returns and allowances, sales discounts, and net sales. Cost of merchandise sold

- Operating expenses:
  - ✓ Selling expenses:
    - ✓ Sales salaries expense
    - ✓ Advertising expense
    - ✓ Depreciation expense—store equipment
    - ✓ Delivery expense
    - ✓ Miscellaneous selling expense
- Administrative expenses:
  - ✓ Office salaries expense
  - ✓ Rent expense
  - ✓ Depreciation expense—office equipment
  - ✓ Insurance expense
  - ✓ Office supplies expense
  - ✓ Misc. administrative expense

**Sales** is the total amount charged customers for merchandise sold, including cash sales and sales on account.

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1
			November, 2022

**Sales returns and allowances** are granted by the seller to customers for damaged or defective merchandise. In such cases, the customer may either return the merchandise or accept an allowance from the seller

**Sales discounts** are granted by the seller to customers for early payment of amounts owed.

**Net sales** are determined by subtracting sales returns and allowances and sales discounts from sales. Some companies report only net sales and report sales, sales returns and allowances, and sales discounts in notes to the financial statements.

**Cost of Merchandise Sold** The cost of merchandise sold is the cost of the merchandise sold to customers. Sellers may grant a buyer sales returns and allowances for returned or damaged merchandise. From a buyer's perspective, such allowances are called **purchases returns and allowances**. Likewise, sellers may grant a buyer a sales discount for early payment of the amount owed. From a buyer's perspective, such discounts are called **purchases discounts**. Purchases returns and allowances and purchases discounts are subtracted from purchases to arrive at **net purchases** as shown below for In the preceding computation, merchandise inventory at the end of the period is subtracted from the merchandise available for sale to determine the cost of merchandise sold. The merchandise inventory at the end of the period is determined by taking a physical count of inventory on hand. This method of determining the cost of merchandise sold and the amount of merchandise on hand is called the

**Periodic inventory system.** Under the periodic inventory system, the inventory records do not show the amount available for sale or the amount sold during the period. Instead, the cost of merchandise sold is computed and reported as shown in

Under the **perpetual inventory system** of accounting, each purchase and sale of merchandise is recorded in the inventory and the cost of merchandise sold accounts. As a result, the amounts of merchandise available for sale and sold are continuously (perpetually) updated in the inventory records. Because many retailers use computerized systems, the perpetual inventory system is widely used. For example, such systems may use bar codes, such as the one on the back of this textbook. An optical scanner reads the bar code to record merchandise purchased and sold. Businesses using a perpetual inventory system report the cost of merchandise sold as a single line on the income statement.

**Gross Profit** Gross profit is computed by subtracting the cost of merchandise sold from net sales, as shown below.

**Income from Operations** **Income from operations**, sometimes called **operating income**, is determined by subtracting operating expenses from gross profit. Operating expenses are normally classified as either selling expenses or administrative expenses.

**Selling expenses** are incurred directly in the selling of merchandise. Examples of selling expenses include sales salaries, store supplies used, depreciation of store equipment, delivery expense, and advertising.

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1
			November, 2022

**Administrative expenses**, sometimes called **general expenses**, are incurred in the administration or general operations of the business. Examples of administrative expenses include office salaries, depreciation of office equipment, and office supplies used. Each selling and administrative expense may be reported separately as show

**Other Income and Expense** other income and expense items are not related to the primary operations of the business. **Other income** is revenue from sources other than the primary operating activity of a business. Examples of other income include income from interest, rent, and gains resulting from the sale of fixed assets. **Other expense** is an expense that cannot be traced directly to the normal operations of the business. Other income and other expense are offset against each other on the income statement. If the total of other income exceeds the total of other expense, the difference is added to income from operations to determine net income. If the reverse is true, the difference is subtracted from income from operations

## II. Single-Step Income Statement

The single-step form emphasizes total revenues and total expenses in determining net income. A criticism of the single-step form is that gross profit and income from operations are not reported.

**EXAMPLE** Prepare an income statement for Universal Stationary for the month ended Tir 30, 19X7

**Universal Stationary**  
**Income Statement**  
**For the month ended Tir 30,19X7**

<b>Revenue</b>		
Sales		7,910.00
<b>Cost of merchandise sold</b>		
Merchandise inventory, Tir 1,19X7	23,250.00	
Purchases	3,650.00	
Cost of merchandise available for sale	26,900.00	
Less of merchandise inventory, Tir 30 19X7	24,851.00	
<b>Cost of merchandise sold</b>		
<b>Gross profit on sales</b>		<b>2,049.00</b>

<b>Expense: -</b>		
Delivery Expense		<b>5,861.00</b>
Insurance Expense	300.00	
Supplies Expense	450.00	
Rent Expense	250.00	
Salary Expense	1,000.00	
Miscellaneous Expense	150.00	
Total Expense	<u>110.00</u>	
<b>Net Income</b>		1,990.00
		<b>3,871.00</b>

#### 4.1.4 Preparing the capital statement

**Capital Statement/Owners' Equity statement:** A financial statement that summarizes the changes in capital during the fiscal period is called a capital statement. An owner of a business can review the capital statement to determine if and why the capital is increasing or decreasing.

A change in the amount of capital occurs:

1. When additional capital is invested
2. When cash, merchandise or other assets are withdrawn
3. When the business earns a profit or incurs a loss from its operation

**Preparing the capital statement:** Data needed to prepare the capital statement are obtained from the capital account in the general ledger and from the balance sheet column of the worksheet. Data from the general ledger capital account include:

- 1) the beginning balance of capital
- 2) the additional investments made during the fiscal period

**Data from the worksheet include:**

1. the withdrawals during the fiscal period, and
2. the net income or net loss for the fiscal period

**The Steps in preparing the Capital Statement are:**

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1 November, 2022
-------------	--	--	------------------------------

1. Writing the heading of the capital statement in three lines
2. Write the, name of the owner, capital, and date
3. Calculate the increase in capital in the following manner:

Net income/Net loss ----- xxx  
 Less: Withdrawal ----- xxx  
 Net change in capital ----- xxx

4. Make sure that all figures on the capital statement have been transferred correctly from the capital account and the work sheet to the capital statement re checks the additions and the subtractions.

### EXAMPLE

Prepare a capital statement for universal Stationary for the month ended Tir 30, 19X7

**Universal Stationary**  
**Capital statement**  
**For the month ended Tir 30, 19X7**

Diro Kiflu, Capital, Tir 1, 19X7		31,950.00
Net Income for Tir,19X7		
Less: - Withdrawals for Tir,19X7	3,871.00	
<b>Net Increase in capital</b>		<b>2,881.00</b>
Diro Kiflu, capital, Tir 30, 19X7	990.00	
		34,831.00

### 4.1.5 prepare balance sheet

#### Preparing the Balance Sheet

**Balance sheet** is a financial statement that reports the assets, liabilities and capital of a business on a specific date.

#### Forms of Balance Sheet

- **Account Form**

✓ Reports the assets on the left-hand and the liabilities and capital on the right – hand side.

- **Report Form**

✓ Reports the assets, liabilities and capital in a vertical arrangement.

Steps in preparing the balance sheet: -

1. Write the heading of the balance sheet on three lines
2. Prepare the assets section of the balance sheet
3. Prepare the liabilities section of the balance sheet
4. Prepare the capital section of the balance sheet
5. Total the liabilities and capital section of the balance sheet or double line

#### EXAMPLE

Prepare a Report Form of Balance Sheet for universal Stationary as of Tir 30, 19X7.

#### Universal Stationary

#### Balance Sheet

**Tir 30,19X7**

<b>1. Assets</b>		
Cash	10,880.00	
Accounts Receivable	1,050.00	
Merchandise Inventory	24,851.00	
Supplies	1,000.00	
Prepaid Insurance	<u>1,150.00</u>	
<b>Total Assets</b>		<b>Br. 38,931.00</b>



<b>2. Liabilities</b>		
Accounts payable		4,100.00
<b>3. Capital</b>		
Diro Kiflu, Capital		34,831.00
<b>Total Liabilities and Capital</b>		<b>Br. 38,931.00</b>

### Journalizing and posting closing entries

Closing entries are prepared: -

1. To transfer the balances of the revenue, the cost and the expense accounts to the income summary account
2. To bring the owners capital account up – to –date
3. Transferring the balance of the income summary account
4. Transferring the balance of the drawing account

#### Closing entry, No 1 Closing Income Statement accounts with credit Balances.

1. Sales
2. Purchases Return and allowance
3. Purchases Discount is closed by transferring its balance to the credit side of Income Summary account.

#### Closing entry, No 2. Closing Income Statement accounts with debit balance

1. Expense
2. Sales returns and allowances
3. Sales Discounts
4. Purchases are closed by transferring their balances to debit side of the income summary account in one journal entry.

#### Closing entry, No 3. Closing the income summary account

By recording the NI (NL), balance of the income summary account in the capital account.

**Closing entry, No 4. Closing the drawing account into owner's capital account** by transferring its balance to debit side of the capital account.      **General Journal**      **Page 1**

A/P						Post	General		A/R
Dr	genera l Dr		Date		Account Title	Ref	Cr		Cr
			19X7		Closing Entries				
	7,910		Tir	30	Sales				
					Income Summary		7,910		
	5,640			30	Income Summary			00	
					Purchases		3,650	00	
					Delivery expense		30	00	
					Insurance expense		450	00	
					Supplies expense		250	00	
					Rent expense		1,000	00	
					Salary expense		150	00	
					Miscellaneous expense		110	00	
								00	
	3,871			30	Income Summary			00	
					Diro Kiflu, Capital		3,871	00	
								00	
	990			30	Diro Kiflu, Capital			00	
					Diro Kiflu, Drawing		990	00	

#### 4.1.4 Post – Closing Trial Balance

A Post – closing trial balance is taken to prove the equality of debits and credits in the ledger

#### Universal Stationary

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1
			November, 2022

## Post – Closing Trial Balance

Tir 30, 19X7

Account Title	Acc No	Debit		Credit
Accounts Receivable	12	1,050		
Merchandise Inventory	13	24,851		
Supplies	14	1,000		
Prepaid Insurance	15	1,150		
Accounts payable	21			4,100
Diro Kiflu. Capital	22			34,831
		38,931		38,931

### 4.3 correct, or refer errors

#### 4.3.1 Error Resolution

Error resolution is a procedure that allows consumers to dispute bookkeeping errors or unauthorized transactions related to their bank accounts.

- Error resolution is the formal process followed by banks in response to errors reported by customers.
- Banks are required to investigate the error within a limited period of time, and they may also need to reimburse the customer for any affected funds while the investigation takes place.
- Customers, meanwhile, are required to notify the bank promptly when an error has occurred, while also providing supporting information to help the bank investigate the error.

#### 4.3.2 Understanding Error Resolution

Regulation E requires that financial institutions investigate all complaints and re-credit all funds debited in error. The financial institution usually has between 10 and 45 days to investigate complaints. Federal

regulations limit consumers' account liability to \$50 if the bank is notified of the error, but it can go as high as \$500 otherwise.

There are many types of errors that can trigger the requirements of Regulation E. These include incorrect electronic funds transfers (EFTs) to or from a customer's account; unauthorized withdrawals, whether electronically or through an automated teller machine (ATM); inaccurate withdrawals from an ATM, such as when the ATM dispenses less funds than were requested by the customer; inaccurate or incomplete account statements; and mistakes in the bank's bookkeeping or calculations.

When customers wish to initiate the error resolution process, they must issue a notice of error to the bank, which includes their name and account number as well as any additional information about the error they can provide. The customer should identify the nature of the error, the date at which it occurred, and the amount of money affected. Customers have 60 days in order to make such claims, counting from the first day in which the error appeared on the customer's bank statements.

#### 4.1.3 Real World Example of Error Resolution

Generally, banks have 10 days in which to complete their investigation of the error once appropriate notice has been given by the customer. Although some banks may require customers to give additional written notice even if they have already given notice of the error verbally, the 10-day time limit nonetheless begins once the verbal notice is given.

Under certain circumstances, banks can extend their investigation deadline to 45 days. However, this is only permitted under situations in which the bank has already provisionally approved a reimbursement to the customer which resolves the effects of the error. Moreover, in order to benefit from an extension, the bank would need to have notified the customer that such a reimbursement has been given, and the reimbursed funds would need to be available to the customer during the period in which the investigation takes place.

If, however, the error in question was related to an out-of-state EFT, a debit card transaction at a point of sale (POS) terminal, or an account which was opened within 30 days of the reported error, then the bank can take up to 90 days to complete its investigation. Nevertheless, the bank would need to abide by all of the above conditions in order to benefit from this extended timeframe.

### Self - check 4, written test

#### 1. What Is Error Resolution? (5pts)

Page 1 of 1	Ministry of Labor and Skills Author/Copyright	Module title: Preparing, Matching and Processing Receipts Accounting & finance level - III	Version -1
			November, 2022

2. List types of errors? (5pts)

**Operation sheet 4 Prepare income statement project**

1. Show steps for preparation of income statement?

A. Income statement

- Revenue section
- Cost of merchandise sold
- Expense section

**Company name**

**Name of form (income statement)**

**Date of form**

Revenue section		
Sale		Xx
Add, other income		Xx
Commission received		Xx
Less, sales return and allowance		(Xx)
Commission paid		(Xx )
Sales discount		(Xx)
Net sale		Xxx
Cost of good sold		
Beginning merchandise inventory	Xx	
Add, purchase	Xx	
Purchase in	Xx	
Purchase available for sale	Xx	
Less, ending merchandize inventory	(xx )	
Cost of goods sold		Xxx

Gross profit (net sale –cost of goods sold)		<u><b>Xxx</b></u>
Expense section		
Advertizing expense	Xx	
Sales Salaries expense	Xx	
Rent expense	Xx	
Salary expense	Xx	
Wage expense	Xx	
Utility expense	Xx	
Miscellaneous expense	Xx	
Depreciation expense	Xx	
Supplies expense	Xx	
Insurance expense	Xx	
Interest expense	Xx	
Total expense	Xx	
Net income or net loss before tax (net sale –total expense)		<u><b>Xxx</b></u>
Tax payable (NIBT OR NLBTX TAX -If company are sole proprietorship and partnership, calculate tax based on schedule (10%- 35%) -If company are corporation based on flat rate of 30%		<u><b>Xx</b></u>
Net income after tax (NIBT OR NLBT – TAX PAYABLE)		<u><b>Xxxx</b></u>

### Reference book

Financial accounting I and II, fees and warren 23<sup>th</sup> edition, intimidating accounting, fundamental accounting , principles of accounting 1&2 ET.C

### Developers' profile

No	Name	Qualification (Level)	Field of Study	Organization/ Institution	Mobile number	E-mail
1	Lammi Dhuguma	MBA In finance	Accounting & finance	Ambo TVT	0913723393	Lammidhuguma@gmail.com
2	Ejigu Tarafe	MA	Accounting & finance	Barayu PT	0913440478	kenaketejigu@gmail.com
3	Asnake Abay	MSc	Accounting & finance	Adama RVUTc	0912224442	Asnakeabay142@gmail.com
4	Kasa Tarafe	BA	Accounting & finance	A.A KMCTVT	0912780259	kssterefe@gmail.com
5	Tilahun Walde	BA	Accounting & finance	Afar Adadle PT	0942817075	Telegram
6	Mokanant Mulu	MSc	Accounting & finance		0975105823	Telegram
7						