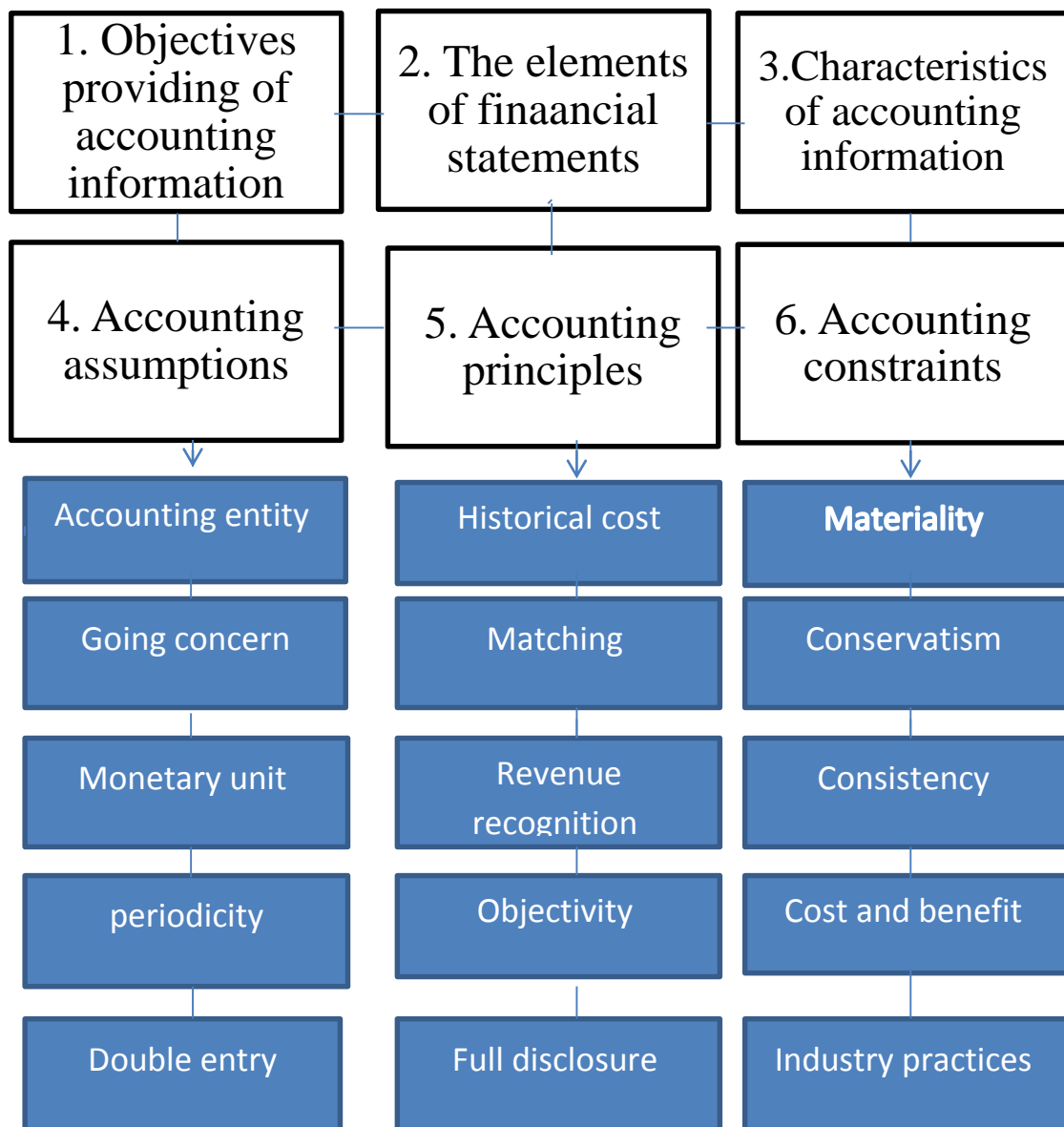


قسم المحاسبة
المرحلة الثانية
محاسبة باللغة الإنجليزية 1

المحاضرة الأولى

The theory framework of accounting



Objectives providing of accounting information:

1. Useful to investment and credit decision .
2. Estimation of future cash flows .
3. Determination of resources and its changes .

The elements of financial statements:

Assets , liabilities , owner's equity , investments , dividends ,
income , revenues , expenses , gain , loss , inventory , etc.

The characteristics of accounting information :

1. Fundamental characteristics :

-Relevance .

-Reliability .

2. Secondary characteristics :

- Comparability .

- Consistency .

Chart of accounts

Current assets	Liabilities & owner's equity
Cash	Liabilities :

Bank Accounts receivable Inventory	Creditors Accounts payable Loan short-term Loan long-term
Fixed assets	owner's equity
Lands Buildings Office equipment Furniture Machines	Capital Retained earnings
Expenses	Revenues
Salaries Wages Advertisement Telephone Rent Insurance Depreciation	Fees earned Interest received Discount received
Total	Total

المحاضرة الثانية

Accounting concepts (Assumptions) :

1. Accounting entity concept :

Accounting entity are separate economic units that control resources and obligations and that have separate and distinct record.

2. Going concern (continuity) :

This concept assumes that a particular business will continue in existence for a long enough period of time to carry out its objectives and commitments (the life is indefinite).

3.Monetary unit concept :

The monetary unit of a country means that the money are used to measure the assets, liabilities , and owner's equity and to measure the changes that occur in them as a result of these changes , the net income of accounting entity is measured and determined for specific period of time.

4. Periodicity concept :

The periodicity concept assume that the business has an indefinite life , the measurement of the firm's financial condition and operations must be made a relatively short intervals such as quarterly or yearly . The life of firm is divided into periods equal length such as a month , three months or a year , annual accounting periods are the most common .

5. Double entry concept :

Double entry means that all transactions in accounting unit are recorded in two accounts , the first is debit and second is credit .

Accounting principles

1. Historical cost principle :

The assets are recorded at their acquisition cost and are usually not adjusting for increases in value until a sale has occurred .The

accounting rule requires assets and services plus any resulting liability to be taken into the accounting record at cost .

2. Matching principle :

The expenses must be recorded against the revenues earned during the period . The expenses of the period are matched against the revenue of the same period and the result in net income or loss for the period .

3. Revenue recognition principles :

Revenue is recognized for accounting purposes when it is realized . For the vast majority of firm's revenues is realized when the sale occurs .

4. Objectivity principle :

The accounting rule requiring that wherever possible the amounts used in recording transactions based on objective evidence (for example : sales invoice) rather than subjective judgments.

5. Full disclosure principle :

All information that can be useful to decision makers must be disclosed .All material information should be disclosed in the financial statements to make these statements clear and understandable to the readers of these statements in the end of financial year.

المحاضرة الثالثة

Accounting constraints

1. Materiality :

Materiality relates to an items impact on firm's overall financial condition and operations .

2. Conservatism (prudence) :

Conservatism means when in doubt choose the solution that will be least likely to overstate assets and income.

3. Consistency :It's means that once an accounting method used must not change from period to period . This convention is necessary used for doing proper comparisons .

4. Cost and benefit :

Means the cost of providing the information must be weighed against the benefits that can be delivered from using the information .

5. Industry practices :

Means the particular nature of some industries and business concerns sometimes required department from basic theory .

Definition of accounting :

" Is the process of identifying , measuring and communicating economic information to permit judgments and decisions by users of the information " .

Questions

Q 1/ Define the following :

1. Going-concern .
2. Conservatism.
3. Matching principle .
4. Double entry concept .
5. Accounting .

Q2 / Draw a diagram shows the theory framework of accounting .

المحاضرة الرابعة

Q3/ Fill in the blanks with the proper terms from the list below

:-

A. price B. dividend C. partnership D. income

E. unlimited responsibility F. shares G. stock exchanges

H. liability I. business firms J. proprietorship

1.----- means that the personal assets of the owners of a firm can be taken when the firm goes bankrupt .

2. The word "limited" means that the owners of the company have limited ----- .

3. The shares of a public limited company can be bought and sold on a ----- .

4. ----- are individual who have organized to produce goods and services in the hope of making a profit .

5. Generally speaking ----- is the amount of money left from profit after all expenses have been paid .

6. A ----- is a business firm owned by two or more persons who share the profit or the loss .

7. A----- is a business firm organized and owned by one person .

8. People who own ----- in a company are known as shareholders .

9. A----- is the amount of money exchanged between buyer and seller when goods or services are bought or sold.

10. A----- is payment of a portion of company's profits to its shareholders .

Q4/ State whether each of the following sentences are **True** or **False** :

1. Accounting is a language of business .
2. Accounting principles are referred to as rules of action and conduct .
- 3.Assets are always valued at market price as per the basic of the going-concern concept.
- 4.As per the convention of the disclosure, all material information should be disclosed by the accountant .

Q5/Select the correct answer from the options :

1.The principle that dictates that efforts (expenses) be matched with an accomplishment (revenues) is :

- a. matching principle b. cost principle c. revenue recognition principle d. full disclosure principle.

2.Accounting include :

- a. measurement b. verification c. reporting
d. all of the previous .

3.The company opens drawings and capital account as an application assumption :

- a. continuity b. periodicity c. the entity d. the unit of measurement .

4. All costs paid to buy a machine to make for intended use is an application of :

a. revenue recognition principle b. continuity concept c.
full disclosure principle d. cost principle

5.Using the accounting procedures from year to year means :

a. conservatism b. matching c. consistency d.
materiality

المحاضرة السادسة

ACCOUNTING PROCEDURES

Double entry :

The entry made for each transaction is composed of two parts : one or more debit and one or more credit , all accounting entries are made within the framework of the fundamental accounting equation (assets equal liabilities plus owners' equity) , each transaction must therefore be analyzed of its effects on the elements of this equation.

The balance sheet equation is :

Assets = liabilities + owners' equity

Which is expanded into :

Fixed assets +stock +liquid assets (debtors , cash , notes receivable) = (creditors + note payable + long-term loan) + owners' equity

Which is expanded into :

Assets + expenses = liabilities + owners' equity + revenues

General rules :

A : Assets :-

-All assets accounts normally have debit balances.

-An increase in an assets is recorded on the debit side of the account.

-A decrease in an assets is recorded in the credit side of the account.

B : Liabilities and owners' equity :

-All liabilities accounts normally have credit balances .

-An increase in a liability or an owner's equity is recorded on the credit side of the account.

-A decrease in a liability or an owner's equity is recorded on the debit side of the account.

المحاضرة السابعة

Example :September transactions of Al- Mada company to show the effect of each transaction on the accounting equation :

1. September 1 began the business by depositing 180000 IQD cash .
2. 3 purchased land for 141000 IQD cash.
3. 5 purchased a building for 36000 IQD , paying 15000 cash and incurring a liability of 21000 IQD.
4. 10 Sold part of the land at a price 11000 IQD , collectible within three months .
5. 14 Purchased office equipment on credit for 5400 IQD .
6. 20 Received 1500 IQD cash as partial collection of the 11000 IQD account receivable .
7. 30 Paid 3000 IQD on accounts payable.

Transaction	Assets					Liabilities + owners' equity	
	Cash	Receivable	Land	Building	Equipme nt	Payable	Capital
Sep.1	18000+ 0						1800+ 00

Sep.3	-141000		14100+ 0				
Sep.5	15000-			36000+		21000 +	
Sep.10		11000 +	11000-				
Sep.14					5400 +	5400 +	
Sep.20	1500 +	1500 -					
Sep.30	-3000					-3000	
Balances	22500	9500	130000	36000	5400	23400	180000
Total	203400					203400	

المحاضرة الثامنة

ACCOUNTING FOR FIXED ASSETS AND DEPRECIATION

Definition of assets :

"probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events".

Fixed assets :

"are assets that are held by a firm for use in the production or supply of goods and services and not intended for sale with the ordinary course of business " .

Classification of fixed assets :

1. Tangible assets :

Are fixed assets that have a physical existence and can be seen and felt and include: land , buildings , equipment .

2. Intangible assets :

Are fixed assets that haven't a physical existence .They represent legal rights or economic benefits , trademarks and goodwilletc. are examples of intangible assets .

Definition of depreciation :

Is a systematic and rational method of allocating costs to periods in which benefits are received .

Methods of depreciation :

- 1.Stright-line (SL)**
- 2.Declining balance (DB) .**
- 3.Sum of year digits (SYD) .**
- 4.Machine hour rate .**
- 5.Units of production .**
- 6.Revaluation method .**

المحاضرة التاسعة

$$\mathbf{1.Stright\ line = \frac{\mathbf{Historical\ cost - salvage\ value}}{\mathbf{Estimated\ useful\ life}}}$$

Example : (ABC) company purchased a machine for IQD 10000 , estimated useful life 5 years , no salvage value .The company use straight line depreciation method.

Required : Find the amount of depreciation for each year and record a journal entry .

Solution :

Stright line = $\frac{\text{Historical cost} - \text{salvage value}}{\text{Estimated useful life}}$

$$SL = \frac{10000-0}{5} = 2000 \text{ IQD}$$

Depreciation expense 2000

To accumulated depreciation 2000

Year	Cost	Depreciation	Accumulated depreciation	Book value
1	10000	2000	2000	8000
2	10000	2000	4000	6000
3	10000	2000	6000	4000
4	10000	2000	8000	2000
5	10000	2000	10000	Zero

2. Declining balance :

$$\text{Double} \quad 1 \div N \quad \times 2$$

declining rate =

N= useful life

Example : Maher's company purchased a machine at 10000 IQD , the useful life is 10 years ,the company decided to use double declining balance method.

Required :find depreciation for the first three years.

Solution :

$$\text{Double} \quad 1 \div N \quad \times 2$$

declining rate =

$$= 1 \div 10 \quad \times 2$$

$$= 10\%$$

x2

$$= 20\%$$

Year	Book value at the beginning of a year	Depreciation rate	Depreciation amount	Book value at the end of a year
1	10000	20 %	2000	8000

2	8000	20 %	1600	6400
3	6400	20 %	1280	5120

المحاضرة العاشرة

3. Sum of year digits :

Example : assume that the estimated useful life for a fixed asset is 4 years and its cost 12000 IQD , the salvage value is 2000 IQD .

Required : compute the depreciation for the four years by using the sum of the year digits method .

Solution:

$$1+2+3+4 = 10$$

First year : (12000 – 2000) x 4/ 10

10000 x 0.4 = 4000 IQD

Second year = 10000 x 3/10

= 10000 x 0.3

= 3000 IQD

Third year = 10000 x 2/10

= 10000 x 0.2

= 2000 IQD

Fourth year = 10000 x 1/10

= 10000 x 0.1

= 1000 IQD

المحاضرة الحادية عشرة

4. Machine hours rate method :

Depreciation per hour = (cost – scrap value)

Machine hours

Example : (ABC) company acquired a machine on 1st April 2016 at a cost 30000 IQD , the cost of instillation 10000 IQD, it is expected that is life will be 20000 hours , the machine worked for 1500 hours during 2016 and 2500 hours during 2017.

Required : find the amount of depreciation for 2016 and 2017 .

Solution :

$$\text{Cost of machine} = 30000 + 10000 = 40000$$

$$\text{Depreciation per hour} = \frac{\text{cost} - \text{scrap value}}{\text{Machine hours}}$$

$$= \frac{40000 - 0}{20000}$$

$$= 2 \text{ IQD per hour}$$

$$\text{Depreciation for 2016} = 1500 \times 2 = 3000 \text{ IQD}$$

$$\text{Depreciation for 2017} = 2500 \times 2 = 5000 \text{ IQD}$$

المحاضرة الثانية عشرة

5. Units of production method (units of activity):

Depreciation per = (cost – salvage) / estimated units of production
unit production

Example : A company purchased a car at IQD 12000 , its salvage value is IQD 2000 , the number of kilometers estimated during the useful life is 100000 km .

Required : Compute the depreciation amount for the first two years if it went 20000 km, 15000 km respectively .

Solution :

Depreciation per = (cost – salvage) / estimated units of production
unit production

Depreciation per km = (12000- 2000) / 100000
= 10000/ 100000 = 0.10 IQD per km

First year = 20000 x 0.10 = 2000 IQD

Second year = 15000 x 0.10 = 1500 IQD