Ministry of Higher Education and Scientific Research, Algeria
University of Continuing Education

Financial Accounting 1 (Course and quizzes)

For 1st year Common Core Accounting and Finance Students

المحاسبة المالية 1 باللغة الإنجليزية (دروس وتمارين) موجهة لطلبة السنة 1 ل م د جذع مشترك فرع المحاسبة والمالية

Prepared by Dr. DOUICI Zohra

وزارة التعليم العالي و البحث العلمي * جامعة التكوين المتواصل *
المجلس العلمي

Academic year: 2023/2024

Introduction:

Accounting, The Universal Language of Business

Accounting is called the "language of business," for good reason. Warren Buffett wisely said, *"If you are in business and don't know accounting, it's similar to being in a foreign country and not knowing the language."* Accounting goes far beyond just numbers; it is the foundation of decision-making and the key to understanding the financial workings of any organization. It helps track every transaction, assess performance, and answer essential questions: Is the company thriving or struggling? Is it making money or losing it?

For first-year economics and accounting students aspiring to become entrepreneurs or planning to enter the business world, accounting is not just a subject—it's a crucial skill that must be mastered. Whether you're looking to become a future entrepreneur, a manager, or a seasoned executive, understanding accounting is indispensable. It ensures clarity, fosters transparency, and ultimately empowers individuals to interpret and manage the financial story of any business.

Accounting is more than a technical discipline—it is a universal tool that translates the complexities of business into clear, actionable insights. This is why future professionals need to gain a solid foundation in accounting. Knowledge of this "business language" is essential for making informed decisions and navigating the challenges of today's dynamic economic environment.

In Algeria, following the 2010 financial reform, the introduction of the Financial Accounting System (FAS) has significantly increased the demand for high-quality accounting information from both users and economic entities. This shift underscores the importance of understanding the FAS's principles and practices.

The target audience for this course material, which includes the **Financial Accounting 1** curriculum and various exercises and answers, is first-year business students who aspire to build a strong foundation in accounting. By mastering these principles, you will be equipped with the necessary tools to confidently enter the business world with a solid understanding of its universal language—accounting.

Learning Objectives:

After completing Financial Accounting 1, students should be able to:

- ✓ **Analyze the company's core financial report: the** balance sheet
- ✓ **Understand Core Accounting Elements**: Comprehend the fundamental accounting concepts: assets, liabilities, equity, revenues, and expenses, and their impact on financial reports.
- ✓ **Accurately Record Transactions** using the double-entry accounting system, ensuring that the accounting equation (Assets = Liabilities + Equity) is always balanced.
- ✓ **Account for Fixed Assets**: Gain knowledge of how to record, depreciate, and account for fixed assets (such as property, plant, and equipment) on the balance sheet.
- ✓ **Manage Inventory Accounting**: Understand the methods for valuing and recording inventory
- ✓ **Prepare Basic Financial Statements**: Develop the skills to prepare simple financial statements and understand their role in presenting a business's financial position and performance.

This will help you get a solid foundation in financial accounting, enabling you to analyze and interpret financial data confidently. It will also set the stage for more advanced study and practical applicationin the business world!

Happy Accounting learning!

Course Content

Figes and Tables

Chapter 1

Introduction to Financial Accounting

Chapter 1: Introduction to Financial Accounting

In this chapter, you will learn what accounting is, what led to its development into what it is today, who uses accounting information, and the relationship between the various components that comprise what is known as the 'accounting equation.'

1. Using Financial Accounting for Wise Decision-Making:

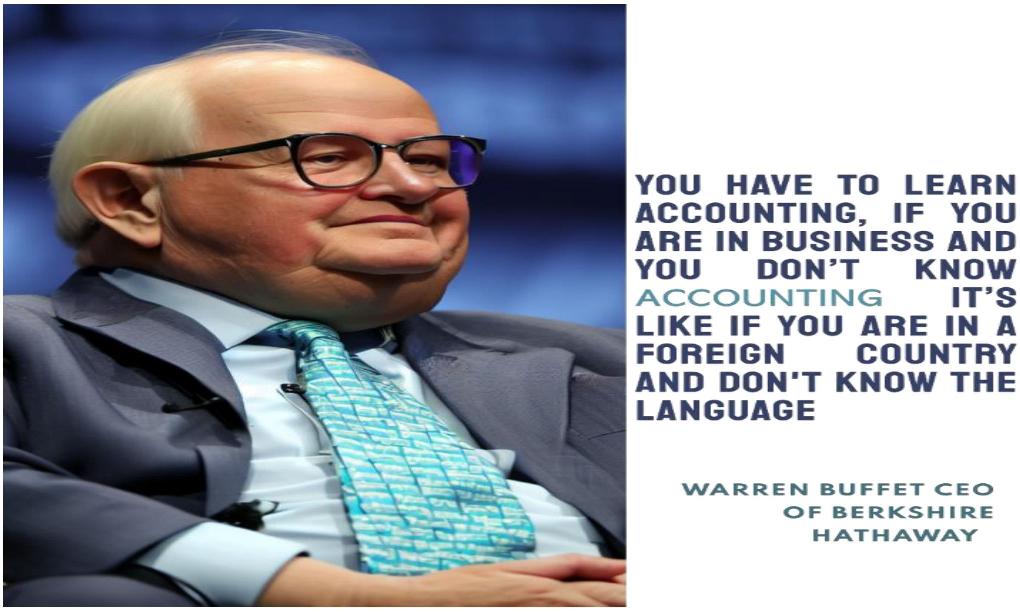
Throughout the world, investors buy and sell the capital stock of thousands of businesses. Others choose to loan money to these same organisations. Such decisions are based on assessing potential risks and rewards; financial accounting provides such information. This underscores the crucial role of financial accounting in real-world decision-making.

If we compared Financial Accounting to Soccer….

In soccer, coaches and team staff keep track of various statistics during the game, such as shots on goal, fouls, and possession time. These statistics are recorded using specific symbols or codes, which are then summarized and presented in a final report at the end of the game. This final report provides valuable information to the coach and team staff, allowing them to make informed decisions about their team's performance and strategy. Similarly, transactions are identified and recorded in accounting using specific symbols or codes. These transactions are then summarized in financial statements, which provide a clear and concise overview of a company's financial performance. These financial statements provide valuable information to the company's management, allowing them to make informed decisions about its operations and strategy. Just as in soccer, where accurate recording of statistics is crucial for decision-making and analysis, accurate recording of transactions is crucial in accounting. The use of standardized symbols and abbreviations allows for precise and consistent communication of information. It is the communication of business information so individuals can assess its financial health and prospects.

Accounting, the language of business……

Warren Buffet[1] says;



The importance of financial information provided by accounting

In today's world, information is critical. Financial accounting provides the rules and structure for the conveyance of financial information about businesses (and other organizations). At any point in time, some businesses are poised to prosper while others teeter on the verge of failure. Many people are seriously interested in evaluating the degree of success achieved by a particular organization as well as its prospects for the future. They seek information. Financial accounting provides data that these individuals need and want[2]

[1] Warren Buffett is a legendary investor who has built a fortune and a reputation by applying the principles of value investing. He is the chairman and CEO of Berkshire Hathaway, a holding company that owns many successful businesses in various sectors. He is also a generous philanthropist who has pledged to donate most of his wealth to charitable causes.

[2] Libby, R., Libby, P. A., & Hodge, F. (2020). *Financial accounting* (10th ed.). McGraw-Hill Education, P4.

Organization → reports information based on the principles of financial accounting → individual assesses financial health.

Are we making money or losing it?

Do we loan money to Company C?

Do we sell on credit to Company C?

Do we recommend that our clients buy the ownership shares of Company C?

The Accountants

Accountants, also known as bookkeepers, play a crucial role in managing all financial data for companies. Their high level of power within a company, given their access to and knowledge of all its financials, underscores the importance of their work in decision-making. Good accounting enables companies to track all information in the company's books to help make critical decisions, which include operating, investing, and financing operations. In addition, today's accountants are also expected to interpret the information they produce, all to assist in decision-making. It is necessary to be a member of a professional accountancy body to work as an independent accountant; without such membership, you can only work for a company.

Without bookkeepers, companies would have no idea about their current financial position and any transactions that occur within the company. Accurate bookkeeping is crucial to internal and external users, such as investors, financial institutions, or the government, who need reliable information to make better investment or lending decisions.[3]

[3] Sangster, A., & Wood, F. (2014). *Business accounting* (13th ed.). Pearson Education.

Accounting Standardization in Algeria

Accounting standardization emerged from the need to establish standard rules for maintaining accounting records and preparing financial statements. This allowed preparers and users to communicate in a consistent accounting language.

In 1973, the creation of the national accounting plan marked Algeria's first step toward standardization since independence. This initiative was carried out under the auspices of the Higher Council of Accounting, an entity overseen by the Ministry of Finance that monitored the accounting profession. The Higher Council of Accounting mission, later renamed the Higher Council of Accounting Techniques, concluded in 1991 after the enactment of Law 91-08. This law entrusted the organization and oversight of the accounting profession to the National Council of Chartered Accountants, Auditors, and Certified Accountants without explicitly addressing accounting standardization.

In 1996, a new accounting standardization body, the National Accounting Council, was established by Decree No. 96-318. One of its essential tasks was to initiate a reform of the National Accounting Plan, aligning it with the evolving economic, legal, and social environment of businesses and international accounting standards. This reform led to implementation of the Financial Accounting System (F.A.S), as mandated by Law 07-11 on November 25, 2007, effective from January 1, 2010.

Primary sources of accounting law in Algeria

Algerian accounting law mainly draws on the following sources:

- November 25, 2007, Law 07-11: establishing the Financial Accounting System.
- The regulatory texts issued for its execution: the ministerial order of July 26, 2008, Executive Decree No. 08-156 dated May 26, 2008, and

No. 09-110 dated April 7, 2009. These provisions became operative on January 1st, 2010.

- The Commercial Code.

Accounting's magic, as revealed by the world collapses

Accounting is a crucial component of any successful business, including startups. A well-designed and properly implemented accounting system can provide valuable insights into a company’s financial performance, allowing management to make informed decisions about the company’s operations and strategy.

In contrast, a poorly designed or poorly implemented accounting system can lead to inaccurate financial reporting, which can have severe consequences for a company. For example, if a company’s accounting system does not accurately track its expenses and revenues, it may be difficult for management to determine its profitability. This can lead to poor decision-making and ultimately fail the company.

Large companies disappeared due to poor accounting; what history taught us:

- **Enron:** The Enron affair was a sequence of events involving questionable accounting methods that led to the dissolution of the accounting firm Arthur Andersen and the bankruptcy of the American energy, commodities, and services corporation Enron Corporation1. With more than 60 billion in assets, Enron's collapse resulted in one of the most prominent bankruptcy cases in American history. Fraudulent financial reporting caused billions of dollars in losses, which in turn caused the scandal.

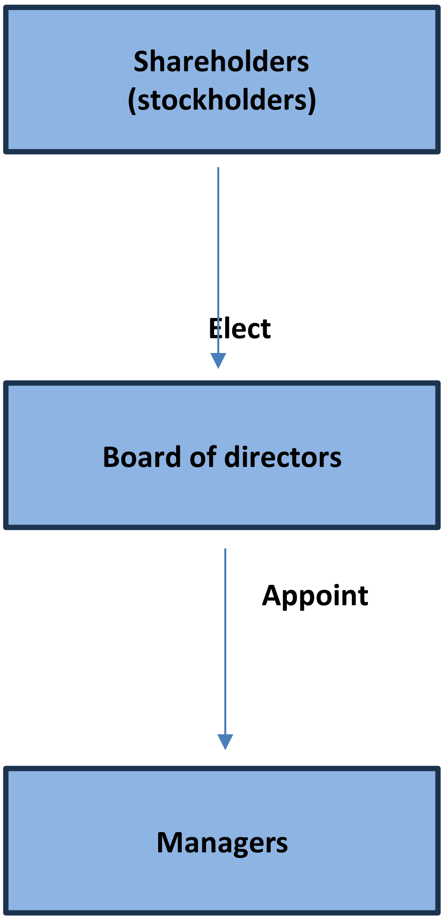
- **Waste Management Inc.:** Waste Management Inc. is a US waste management firm that is listed on a public exchange. Maurice Meyers, the company's new CEO, and his management team found in 1998 that the business had overstated its earnings by approximately 1.7 billion.

These incidents are harsh reminders of how crucial precise and open accounting procedures are to a business's long-term viability. They draw attention to how lousy accounting can have severe repercussions, such as monetary losses and damaged reputations.[4]

[4] **Adapted by the author from:**
Friedman, S. D., & Thompson, J. B. (2012). *Financial accounting: The role of accounting in corporate governance and risk management*. Journal of Applied Accounting Research, 13(2), 123-140.

Who needs Accounting? information users

Fig 1: accounting users



Source: created by the author

Fig 2 managers and shareholders

<u>Stockholders, board of directors, and managers of Coca-Cola</u>

The stockholders *are the business owners who buy and sell shares of Coca-Cola stock on the open market. They can vote on significant company decisions such as the board of director elections, mergers and acquisitions, and dividend distributions. The top five Coca-Cola stockholders are Berkshire Hathaway Inc., Stockholders are the company's owners who buy and sell Coca-Cola stock on the open market. They can vote on significant company decisions such as the board of director elections, mergers and acquisitions, and dividend distributions. Coca-Cola's five investors include Berkshire Hathaway Inc., The Vanguard Group, Inc., BlackRock Fund Advisors, SSgA Funds Management, Inc., and Geode Capital Management LLC. 1e The Vanguard Group, Inc., BlackRock Fund Advisors, SSgA Funds Management, Inc., and Geode Capital Management LLC*

The board of directors *is the company's governing body, overseeing Management and strategy. The board is elected by stockholders and is made up of 14 members, including James Quincey, the chairman and CEO. The board includes Herb Allen, Marc Bolland, Ana Botín, Richard Daley, Christopher Davis, Barry Diller, Helene Gayle, Alexis Herman, Robert Kotick, Maria Elena Lagomasino, Sam Nunn, David Weinberg, and Ronald Williams.*

The managers are *the employees of the company who are responsible for the day-to-day operations and performance of Coca-Cola. They report to the board of directors and the executive leadership team, which is composed of the senior vice presidents and presidents of the various business units and functions of Coca-Cola. Some of the members of the executive leadership team are John Murphy, Manuel Arroyo, Stacy Apter, Henrique Braun, Selman Careaga, Lisa Chang, Monica Howard Douglas, Matrona Filippou, Jorge Garduño, and Nancy Quan.*

Source: Investopedia. (n.d.). *Coca-Cola company profile*. Retrieved

February 1, 2024, from https://www.investopedia.com

External and internal users

Financial accounting provides information primarily to people outside the company Provides information that would help attract capital Equity and debt (useful in debt contracts), Credit from suppliers, Customers Employees Provides information helpful in monitoring and evaluating management performance

Table N 1 : Accounting users

Internal users	Managers	Use accounting information in makinginvestment decisions
External users	Investors	Use accounting information in valuing stocks to decide whether to buy shares in the company
	Bankers	Rely on accounting information in deciding whether to lend money to a business and in assessing the risk of the loan
	Suppliers	

Source : created by the author

Series of

exercises N 1

Series of exercises N 1: Introduction to financial accounting

Exercise 1: Accounting principles and concepts

Match the correct term with its definition

1. cost principle	A. also referred to as the matching principle, matches expenses with associated revenues in the period in which the revenues were generated
2. Full disclosure principle	B. The company must report any business activities that could affect what is reported on the financial statements
3. Separate entity concept	C. also known as the historical cost principle, states that everything the company owns (assets) must be recorded at their value at the date of acquisition
4. monetary measurement concept	D. The period in which you performed the service or gave the customer the product is the period in which revenue is recognized
5. expense recognition principle	E. business may only report activities on financial statements that are specifically related to company operations, not those activities that affect the owner personally
6. revenue recognition principle	F. All the transactions should be recorded at their Algerian Dinar values
7. Accrual accounting	G. *accrual accounting is a method used in financial accounting that records revenues and expenses when the transaction occurs, even if cash is not exchanged.*

Answers

1. Cost Principle (Historical Cost Principle):

C: Also referred to as the matching principle, it matches expenses with associated revenues in the period in which the revenues were generated.

2. Full Disclosure Principle:

B: The company must report any business activities that could affect what is reported on the financial statements.

3. Separate Entity Concept:

C: Also known as the historical cost principle, it states that everything the company owns (assets) must be recorded at their value at the date of acquisition.

4. Monetary Measurement Concept:

D: The period in which you performed the service or gave the customer the product is the period in which revenue is recognized.

5. Expense Recognition Principle:

G: Businesses may only report activities on financial statements that are specifically related to company operations, not those activities that affect the owner personally.

6. Revenue Recognition Principle:
    - H: All transactions should be recorded at their Algerian Dinar values.

7. Accrual Accounting:

I: Accrual accounting is a method used in financial accounting that records revenues and expenses when the transaction occurs, even if cash is not exchanged.

Exercise 2

State whether each of the following statements is correct

A . Accounting is the language used by companies to communicate with one another and with the investors' true

B. Potential investors are the shareholders

No, that is not correct. Potential investors are not the same as shareholders. Potential investors are people or entities who are interested in buying shares of a company.

C. financial accounting provides its users with summarized reports about the financial situation and the performance of the company's true

D. financial accounting provides users with detailed information about the costs and margins p of it of each product of the company's false

This is internal information that is not meant to be revealed to external people.

E. According to the monetary value principle, if a company buys two pieces of equipment in two distinct foreign currencies, it should record them in one of the currencies.

False; all the transactions should be recorded in the Algerian currency.

F. financial accounting entries (recordings in the journal) are based on the cash basis

False, // // // accrual basis

G. According to the intangibility of the opening balance sheet principle, the opening balance sheet of a period must be identical to the closing balance sheet of the prior period.

H. A company with cash less than total loans loses money (its result is a deficit)

Exercise 3: classify the following items into assets and liabilities (fill in the tables below)

- **<u>Company A: a toy manufacturer</u>**

Plastic (raw material) 300.000, Toys 200.000, Machines 2.000.000, Transportation equipment1.000.000, Cash 1.500.000, Capital 5.000.000

- **<u>Company B: a retailer</u>**

Land 5.000.000, Building 6.000.000, Cash 7.000.000, Goods ………. management software 1.000.000, Current bank account 8.000.000, bank loans 7.000.000, Capital 10.000.000

Company A

Assets	**Liabilities**
Plastic (raw material) 300.000 Toys 200.000 Machines 2.000.000 Transportation equipment 1.000.000 Cash 1.500.000	Capital 5.000.000

Company B

Assets	**Liabilities**
Goods 10.000.000 Land 5.000.000 Building 6.000.000 Cash 7.000.000 management software 1.000.000 Current bank account 8.000.000	Capital 10.000.000 bank loans 7.000.000

Chapter 2:

Core Financial Statement:

The Balance Sheet

Chapter 2: Core Financial Statement: The Balance Sheet

The financial statements that any entity subject to the Financial Accounting System must produce at least annually, as referenced in Article 25 of Law 07.11, are:

- Balance Sheet
- Income Statement
- Statement of Changes in Equity
- Cash Flow Statement
- Notes to the Financial Statements)

These statements provide a comprehensive view of the entity's financial position and performance.

1. Content and format of the Balance Sheet

The balance sheet shows the company's Assets, liabilities, and owner's equity, fundamental accounting equation:

Assets = Liabilities + Equity

Assets:

- ✓ Assets consist of resources the entity controls due to past events and intended to provide future economic benefits.
- ✓ Control over an asset corresponds to the ability to obtain future economic benefits from that asset.
- ✓ Asset elements are presented in the balance sheet by reclassifying them as either "Non-current Assets" or "Current Assets."
- ✓ Non-current assets are intended to serve the entity's activity durably, while current assets do not have this purpose due to their nature or destination.

Equity (Shareholders' Equity):

- ✓ Equity represents the excess of the entity's assets over its current and non-current liabilities, as defined below.
- ✓ It mainly includes issued capital, reserves, retained earnings, etc.

Liabilities:

- Liabilities consist of the entity's current obligations resulting from past events. Their settlement would lead to an outflow of resources representing economic benefits.
- liabilities are broken down into:
  - Non-current interest-bearing liabilities
  - Suppliers and other creditors
  - Tax liabilities (distinguishing deferred taxes)
  - Provisions for expenses and similar liabilities (unearned revenue)
  - Negative cash and negative cash equivalents[5]

2. Presentation of the balance sheet

Simplified Presentation of the Balance Sheet

Assets (owns)	**Liabilities + equity (owes)**
Fixed assets	**Equity** **Long term liabilities**
Current assets	**Short term liabilities**

[5] Weygandt, J. J., Kimmel, P. D., & Kieso, D. E. (2018). *Principles of financial accounting* (13th ed.). Wiley;; P53.

Detailed presentation of the Balance Sheet (required format in Algeria)

ASSETS	EQUITY and LIABILITIES
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR **• INTANGIBLE (NON-PHYSICAL):** Patents, franchises, software…. **• TANGIBLE (PHYSICAL):** Buildings Land Equipment Office furniture…… **SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR** **Inventory** Raw material Final products goods **Accounts receivable** **Current bank account** **Cash**	**EQUITY > 1 YEAR** Paid-in capital Retained earnings Profit **LONG-TERM LIABILITIES > 1 YEAR:** Long-term loans **SHORT-TERM LIABILITIES <1 YEAR :** Accounts payable: suppliers payable wages payable, taxes payable….
Total Asset	**Total Equity and Liabilities**

Series of

exercises N2

Series of exercises N2: The Balance Sheet

Exercise 1:

Noor Company is a truck reseller. Its balance sheet on March 31st, 2020, contained the following items (arranged below randomly)

Cash 250.000

Current bank account 5.750.000

Bank credit repayable in 9 months 5.000.000

trucks 20.000.000

capital 48.000.000

clients receivable 2.000.000

Building 13.000.000

Lands 16.000.000

Furniture and fixture 5.000.000

Management Software 3.000.000

Accounts payable 2.000.000

Retained earnings 10.000.000

The following transactions took place from April to December 2020:

- bought some trucks for 2,500,000 DZD by bank check.
- contracted a five-year loan of 4,000,000 DZD.
- got paid off by the customers in cash.
- withdrew 500,000 DZD from our bank account and put it in the cash box
- sold all the trucks on credit for 15,000,000 DZD

Requested:

1. Prepare the company's December 31, 2020 balance sheet

2. Has the Noor company made a profit or a loss? Why?

Answers

Noor Company's Balance sheet as of March 31,2020

ASSETS	EQUITY and LIABILITIES
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR **• INTANGIBLE (NON PHYSICAL):** - Management Software 3.000.000 **• TANGIBLE (PHYSICAL):** - Building 13.000.000 - Lands 16.000.000 - Furniture and fixture 5.000.000 **SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR** **Inventory:** - Trucks 20.000.000 **Accounts receivable** 2.000.000 **Cash** 250.000 **Current bank account** 5.750.000	**EQUITY > 1 YEAR** - Capital 48.000.000 - Retained earnings 10.000.000 **LONG TERM LIABILITIES > 1 YEAR:** **SHORT TERM LIABILITIES <1 YEAR :** - Bank credit 5.000.000 - Accounts payable 2.000.000
Total Assets: 65.000.000	**Total Equity and Liabilities 65.000.000**

Noor Company's Balance sheet as of December 31,2020

ASSETS	EQUITY and LIABILITIES
<u>LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR</u> • **INTANGIBLE (NON PHYSICAL):** - Management Software 3.000.000 • **TANGIBLE (PHYSICAL):** - Building 13.000.000 - Lands 16.000.000 - Furniture and fixture 5.000.000 **<u>SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR</u>** **<u>Inventory</u>:** **Accounts receivable** 15.000.000 **Cash** 2.750.000 **Current bank account** 6.750.000	**<u>EQUITY > 1 YEAR</u>** - Capital 48.000.000 - Retained earnings 10.000.000 - Result (loss) -7.500.000 **<u>LONG TERM LIABILITIES > 1 YEAR:</u>** - Loans 4.000.000 **<u>SHORT TERM LIABILITIES <1 YEAR :</u>** - Bank credit 5.000.000 - Accounts payable 2.000.000
Total Assets: 61.500.000	**Total Equity and Liabilities 61.500.000**

<u>**Exercise 2**</u> **El Waha is a chocolate manufacturer** on June 1st, 2020. with the following items appearing in its balance sheet :

- Cash: 200.000 DZD
- Bank account: 240.000 DZD
- Lands : 210.000 DZD
- Buildings: 250.000 DZD
- Machines and Equipment: 90.000 DZD
- Transportation equipment: 110.000 DZD
- Furniture and fixture: 110.000 DZD
- Suppliers payable: 410.000 DZD
- Chocolate: 70.000 DZD

- Accounts receivable: 60.000 DZD
- Cacao: 40.000 DZD
- Milk: 15.000 DZD
- Sugar 5.000 DZD
- Bank Loans: 20% of short-term liabilities
- Capital ??????

from June to December 2020, the following transactions took place

- Bought a building for 20,000 DZD to be used as a warehouse on credit.
- Sold 20,000 DZD worth of chocolate for 50,000 DZD in cash.
- Bought transportation equipment for 40,000 DZD by bank check.
- Bought furniture for 20,000 DZD on credit.
- Received 20,000 DZD from the customers in cash.
- Bought cacao for 30,000 DZD in cash.

Requested:

- **Prepare the company's Balance Sheet as of June 1st, 2020**
- **Prepare the company's Balance Sheet as of December 31, 202)**

Answers

El Waha's Balance sheet as of June 1st,2020

ASSETS	EQUITY and LIABILITIES
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR • **INTANGIBLE (NON PHYSICAL):** • **TANGIBLE (PHYSICAL):** - Lands : 210.000 DZD - Buildings: 250.000 DZD - Machines and Equipment: 90.000 DZD - Transportation and equipment: 110.000 DZD - Furniture and fixture: 110.000 DZD **SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR** **Inventory:** - Raw materials "Cacao, Milk, Sugar": 60.000 DZD - Final products "Chocolate": 70.000 DZD **Accounts receivable** 60.000 DZD **Cash** 20 0.000DZD **Current bank account** 240.000 DZD	**EQUITY > 1 YEAR** - Capital 908.000 DZD **LONG TERM LIABILITIES > 1 YEAR:** - Bank loans: 82.000 DZD **SHORT TERM LIABILITIES <1 YEAR :** - Suppliers payable: 410.000 DZD
Total Assets: 1.400.000	**Total Equity and Liabilities 1.400.000**

El Waha's Balance sheet as of December 31, 2020

ASSETS	EQUITY and LIABILITIES
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR **• INTANGIBLE (NON PHYSICAL):** **• TANGIBLE (PHYSICAL):** - Lands : 210.000 DZD - Buildings: 270.000 DZD - Machines and Equipment: 90.000 DZD - Transportation equipment: 150.000 DZD - Furniture and fixture: 130.000 DZD **SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR** **Inventory:** - Raw materials “Cacao, Milk, Sugar”: 90.000 DZD - Final products “Chocolate”: 50.000 DZD **Accounts receivable**: 40.000 DZD **Cash:** 240.000 DZD **Current bank account**: 200.000 DZD	**EQUITY > 1 YEAR** - Capital : 908.000 DZD - Profit : 30.000 DZD **LONG TERM LIABILITIES > 1 YEAR:** - Loans: 82.000 DZD **SHORT TERM LIABILITIES <1 YEAR :** - Suppliers payable: 450.000 DZD
Total Assets: 1.470.000 DZD	**Total Equity and Liabilities 1.470.000 DZD**

Exercise 3

Consider the plant and equipment (fixed assets) in the balance sheet of the following companies (in million DZD)

	Total assets	Plant and equipment	
		Total	Percentage
Djezzy	29.458	20.250	69%
Uno	17.029	6.280	……
Bnp paribas	250.489		2%

Requested

Using the definitions of assets, current assets, long-term assets, and fixed assets that you learned in class, and concerning the activity of each company mentioned in the table, analyze and comment on the data presented in the table above.

Chapter 3

The account and the journal

(Recording the Transactions)

Chapter 3 The account and the journal

(Recording the transactions)

This chapter walks you through how to use debit and credit techniques to record any transactions using specific accounts.

1. The account

An account is a storage unit used to classify and summarize money measurements of similar business activity. Each account has a title and a specific code.[6]

T-Account Used for illustrative and pedagogical purposes Has two sides Debit means Left Credit means Right Created for each type of Asset Liability Stockholders' equity
Bookkeeping Recording changes in Assets and Liabilities, expenses and revenues in the journal

Account code and name

debit	Credit
total	Total

[6] Stickney, C. P., Weil, R. L., & Schipper, K. (2010). *Financial accounting: An introduction to concepts, methods, and uses* (13th ed.). South-Western Cengage Learning, P 77.

2. The debit and credit technique

	Increase	decrease	Balance
Asset	Debit	credit	Debit
Expense	Debit	credit	debit
Liability	credit	Debit	credit
Equity or capital	credit	debit	Credit
Revenue	credit	debit	credit

3. Algeria Chart of Accounts

1 LONG TERM FUNDING

10 capital

11 retained earnings

12 RESULT

16 Long term debts

2 LONG TERM ASSETS

20 intangible assets

204 SOFTWARE

205 patents, copyrights, and franchises

207 goodwill

21 tangible (fixed) assets

211 land

213 buildings

215 machines and equipment

218 other fixed assets

3 INVENTORY

30 goods

31 raw materials

32 supplies

35 final products

380 purchases of goods

381 purchases of raw materials

4 ACCOUNTS PAYABLE/ RECEIVABLE

401 accounts payable (supplier of goods).

403 trade bill payables

404 accounts payable (supplier of long-term assets)

411 accounts receivable

413 trade bills receivable

445 value-added tax

5 cash accounts

512 bank check

53 cash

6 expenses

600 cost of goods sold

601 cost of raw materials used

607 purchases of nonstorable goods

61 cost of external services (services provided to us by people who don't work for our company)

613 rental expenses

615 repairs and maintenance expenses

repairs are performed to fix existing problems (when a machine breaks down), and maintenance is routine actions performed to prevent future problems (cleaning, inspections..).

617 Insurance costs

62 other external services

621 Remuneration of non-company personnel

626 communication expenses (fax, telephone bills…)

63 remuneration of personnel (employees' salaries)

<u>7 revenues</u>

700 goods sales revenues

701 final product sales revenues

702 residual product sales revenues

72 changes in final product

Third-parties accounts class 4

Table 2: Accounts payable and accounts receivable

Accounts payable also called PAYABLES	Accounts receivable also called RECEIVABLES
-They appear on the company's balance sheet as a current liability - short-term obligations of the company owed to its creditors or suppliers which have not yet been paid For example; company Z bought equipment at dzd 200.000 on account Here we have an account payable of 200.000 As it is a liability and it has been increased it should be CREDITED	-They appear on the company's balance sheet as a current asset - money due to the company for goods and services, sold but not yet paid for by customers For example; company Z PROVIDED a service at dzd 200.000 on account Here we have an account receivable of 200.000 As it is an asset and it has been increased it should be DEBITED

Source: created by the author

4.The Journal

No one can remember all the transactions made by the company, so detailed records of all those are necessary. These records contain accounting data and serve as a comprehensive record of an entity's financial activities.

What should be recorded by accounting

Entities (companies) have to record cash inflows and actual inflows and outflows, such as purchasing and selling goods and acquiring assets.

The Journal contains a chronological record of those relevant transactions.

Debit	**Credit**	**07/ 05**	**Amounts**	**Amounts**
21	401	fixed asset Supplier payables[14] Purchase invoice[15] number	300.000	300.000

Series of

exercises N3

Series of exercises N3 : The account and the journal

Exercise 1:

Based on the definition of the basic accounting elements, classify the following items into ASSETS, LIABILITIES, EXPENSES, REVENUES, and EQUITY for each company (fill out the following table).

	Long term assets	**Short term assets**	**Long term liabilities**	**Short term liabilities**	**equity**	**expenses**	**revenues**
Company A							
Company B							
Their **increase** must be recorded on the **DEBIT/CREDIT** side							
Their **decrease** must be recorded on the **DEBIT/CREDIT** side							

- ✓ Company A is a toy manufacturer:

  Plastic (raw material) 60000 DZD

  Toys 20000 DZD

  Machines 2000000 DZD

Transportation equipment 1000000 DZD

Cash 1500000 DZD

Capital 3000000 DZD

Accounts payable 40000 DZD

Electricity bill 80000 DZD

Sales revenues 500000 DZD

✓ <u>Company A is a machine retailer:</u>

Machines 8000000 DZD

Land 5000000 DZD

Building 6000000 DZD

Cash 7500000 DZD

Current bank account 8000000 DZD

Accounts receivable 1000000 DZD

Long-term loans 7000000 DZD

Capital 3000000 DZD

Retained earnings 9000000 DZD

Accounts payable 40000 DZD

Employees' wages (salaries) 1000000 DZD

The total selling price of the machines 10000000 DZD

The cost of machines sold: 2000000 DZD

<u>Exercise 2</u>

Identify whether a DEBIT or a CREDIT would yield the indicated change.

- To increase land ………………….
- To decrease industrial equipment …………….

- To decrease office furniture and fixture ……………..
- To increase capital ……………
- To increase wages **payable………………**
- To increase transportation equipment ……………
- To increase Rent expenses ……………….
- To increase inventory …………………..
- To increase cash ………………………..
- To increase electricity expenses ……………………
- To increase the capital …………………
- To increase the retained profits ……………………
- To decrease the bank loans ……………….

<u>Exercise 3</u>

For the following transactions, indicate whether the accounts in parenthesis are to be debited or credited.

Merchandise was sold on credit. (accounts receivable)……………….

Dividends were declared and paid to shareholders in cash. (cash)……………………

Wages were paid to employees. (wages expense)……………………..

A newsstand sold magazines. (sales revenue)………………………………….

A fire insurance policy was acquired. (insurance expenses)…………………..

Received cash from customers on accounts due. (accounts receivable) ………..

Sold merchandise. (merchandise inventory)………

Borrowed money from a bank. (long-term debts)…………….

Exercise 4:

Record the following transactions of company Dolly using T-accounts.

- **September 2, 2020**: The company purchased goods for 25000 DZD in cash.
- **September 6, 2020**: The company purchased land for 25,000,000 DZD, paying 5,000,000 DZD in cash and taking a five-year loan for the rest.
- **September 15, 2020**: The company sold an obsolete delivery bus for 600,000 DZD in cash.
- **September 20, 2020**: The company purchased some new delivery buses for 2,500,000 DZD by bank check.
- **October 2, 2020**: The company contracted a three-year loan of 4,000,000 DZD.
- **October 21, 2020**: The company withdrew 500,000 DZD from its bank account and put it in the cash box.
- **December 6, 2020**: The company sold all its goods on credit for 60,000 DZD.
- **December 10, 2020**: The company received a 20,000 DZD payment from customers in cash.

Exercise 5

Adawati Company specializes in purchasing school supplies from its supplier Techno and reselling them for a profit.

Requested: **As a junior accountant for Adawati Company, you are tasked with recording all transactions for April.**

- **April 2**: ADAWATI company acquired a new store valued at 10,000,000 DZD.
- **April 4**: The company purchased two delivery buses to transport its goods. The first bus, a Mercedes, cost 6,000,000 DZD and the second bus, a Doblo, cost 3,000,000 DZD. Both were paid for by bank check.
- **April 5**: The company procured 80-page notebooks worth 40,000 DZD from its supplier, Techno.
- **April 6**: The company paid its supplier via bank transfer.
- **April 9**: The company paid 60,000 DZD in cash to a painter for painting its new store.
- **April 11**: The company paid 50,000 DZD in cash for the insurance policy of the bus.
- **April 12**: The company sold all the notebooks for 70,000 DZD.
- **April 14**: The company received cash payments from its

Answers

Exercise 1

	Long term assets	Short term assets	Long term liabilities	Short term liabilities	Equity	Expenses	revenues
Company A	-Machines 2.000.000 -Transportation equipment 1.000.000	-Plastic 60.000 -Toys 20.000 -Cash 1.500.000		-Accounts payable 40.000	-capital 3.000.000	-Electricity bill 80.000	-Sales revenues 500.000
Company B	- Land 5.000.000 -Building 6.000.000	-Machines 8.000.000 -Cash 7.500.000 -Current Bank account 8.000.000 -Accounts receivable 1.000.000	-Long term loans 7.000.000	-Accounts payable 40.000	-Capital 3.000.000 -Retained earnings 9.000.000	-Employees' wages 1.000.000 -Cost of machines 2.000.000	- sales 10.000.000
Their increase must be recorded on the	Debit Side	Debit side	Credit side	Credit side	Credit side	Debit side	Credit side
Their decrease must be recorded on the	Credit side	Credit side	Debit side	Debit side	Debit side	Credit side	Debit side

Exercise 2:

1- Debit
2- Credit
3- Credit

4- Credit
5- Debit
6- Debit
7- Debit
8- Debit
9- Debit
10- Debit
11- Credit
12- Credit
13- Debit

Exercise 3:

1. Merchandise was sold on credit. (accounts receivable) Debit.
2. Dividends were declared and paid to shareholders in cash. (cash)… Credit
3. Wages were paid to employees. (wages expense) Debit
4. A newsstand sold magazines. (sales revenue) Credit
5. A fire insurance policy was acquired. (insurance expenses) Debit
6. Received cash from customers on accounts due. (accounts receivable) Credit
7. Sold merchandise. (merchandise inventory) Credit
8. Borrowed money from a bank. (long-term debts)…………credit….

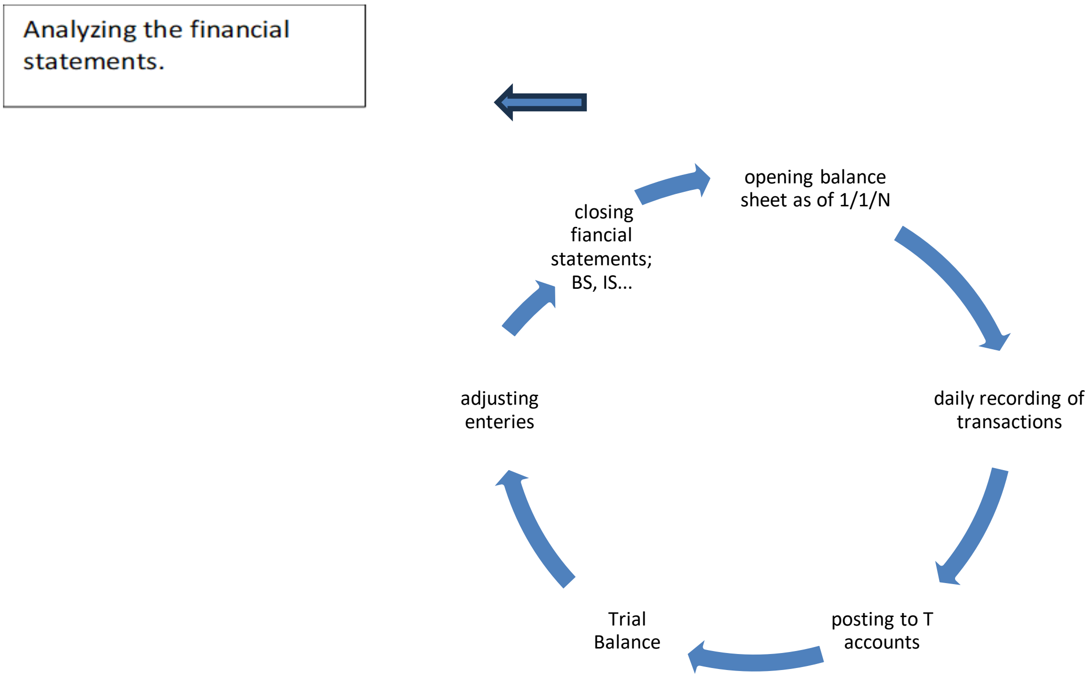
Chapter 4

The Accounting Cycle

Chapter 4 The Accounting Cycle

This chapter highlights all what accountants are required to de from Jan 1 to December 31 to prepare reliable financial reports

Fig 3: the accounting cycle



Source: created by the author

1. What is the accounting cycle

The accounting cycle is the process of recording all financial transactions of a company, from when they occur, to their representation on the financial statement. It's a holistic process that repeats itself every accounting year. One of the main duties of the accountant is to keep track of the full accounting cycle from start to finish.

2. The accounting cycle process

1) Record the opening entry: **All assets of the balance sheet of 1/1/ N should be put on the debit side of the journal, and all liabilities should be placed on the credit side**.

2) Record all transactions occurring during the year N in the journal daily.

3) Find the balances of all accounts appearing in the journals of year N.

4) Post these balances to the trial balance to look for any possible mistakes.

5) Post the verified balances to the financial statements of the year N and prepare the balance sheet and income statement of 31/12/N

3.The Trial balance

It is a listing of all the accounts and their balances sorted by code from 1 to 7, Prepared before the preparation of financial statements to check arithmetic accuracy

xx Corporation

Trial balance as on DATE……

codes	accounts	Debtor balance	Creditor balance
1X			
2X			
3			
4			
5			
6			
7			
TOTAL	TOTAL		

3. Case study

XY is an artistic candle reseller, here is its balance sheet as of 31/12/202

Candley Company, Balance sheet as of 31/12/2021

ASSETS	EQUITY and LIABILITIES
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR **• INTANGIBLE (NOT PHYSICAL):** Marketing Software 3.000 **• TANGIBLE (PHYSICAL):** Lands 16.000 Building 13.000 Delivery equipment 23.000 **SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR** goods inventory (candles) 30.000 Accounts receivable 10.000 Cash 25.000 Current bank account 10.000	**EQUITY > 1 YEAR** Paid-in capital 80.000 Profit 20.000 **LONG TERM LIABILITIES > 1 YEAR:** Long-term loans 30.000 **SHORT TERM LIABILITIES <1 YEAR :**
Total Assets: 130.000	**Total Equity + Liabilities 130.000**

- **2022 transactions:**

6/1: Bought artistic candles for 20.000 DZD in cash.

8/2: Bought land for 25,000 DZD, paying 5000 DZD in cash and taking a five-year loan for the rest.

20/4: Bought new delivery equipment for 8,000 DZD and paid by bank check

12/11: Sold half of the artistic candles on credit for 60,000 DZD.

10/12: received a 20,000 DZD cash payment from customers

Requested:

1. Complete all the necessary recordings
2. find out the balance of each account
3. Draw up the trial balance sheet
4. Draw up the company's January 31, 2022 balance sheet.

Solution

1 Recorfing the opening entry and all the transactions

		1/1		
204		Marketing software	3000	
211		Land	16000	
213		Building	13000	
218		Transportation equipment	23000	
30		Goods	30000	
411		Account receivable	10000	
53		Cash	25000	
512		Current bank account	10000	
	10	Capital		80000
	11	Retained earnings		20000
	16	Long-term loans		30000
		Opening entry		
		6/1		
30		Goods	20000	
	53	Cash		10000
		8/2		
211		Land	25000	
	53	Cash		5000
	16	Long-term loan		20000

218	512	20/04 Transportation equipment Current bank account	8000	8000
600	30	12/11 Cost of goods sold Goods	25000	25000
411	700	12/11 Customers receivable Sales revenues	60000	60000
53	411	10/12 Cash Customers receivable	20000	20000

2. Posting to the ledgers (T accounts)

204

debit	credit
3000	
	3000 DB
3000	3000

211

debit	credit
16000	
25000	41000 DB
41000	41000

213

debit	credit
13000	
	13000 DB
13000	13000

218

debit	credit
23000	
8000	31000 DB
31000	31000

30

debit	credit
30000	25000
20000	25000 DB
50000	50000

411

debit	credit
10000	20000
60000	50000 DB
70000	70000

53

debit	credit
25000	20000
20000	5000
	20000 DB
45000	45000

512

debit	credit
10000	8000
	2000 DB
10000	10000

10

11

debit	credit
	80000
80000 CB	
8000	80000

debit	credit
	20000
20000 CB	
20000	20000

16

debit	credit
	30000
50000 CB	20000
50000	50000

700

debit	credit
	60000
60000 CB	
60000	60000

Debit	credit
25000	25000 DB
25000	25000

Corporation XY

Trial balance as of December 31, 2021

codes	accounts	Debtor balances	Creditor balances
10	Capital		80000
11	Retained earning		20000
16	Long-term loans		50000
204	Marketing software	30000	
211	lands	41000	
213	buildings	13000	
218	Transportation equipment	31000	
30	Goods	25000	
411	Customers receivable	50000	
512	Current bank account	2000	
53	Cash	20000	
600	COGS	25000	
700	Sales revenues		60000
Total		**210000**	**210000**

5. The closing balance sheet XY Company, Balance sheet as of 31/12/2022

ASSETS	**EQUITY and LIABILITIES**
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR • INTANGIBLE (NOT PHYSICAL): Marketing Software 3.000 • TANGIBLE (PHYSICAL): Lands 41.000 Building 13.000 Delivery equipment 31.000	**EQUITY > 1 YEAR** Paid-in capital 80.000 Retained earning 20.000 Profit 35000 **LONG TERM LIABILITIES > 1 YEAR:** Long-term loans 50.000
SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR goods(candles) 25.000 Accounts receivable 50.000 Current bank account 2.000 Cash 20.000	**SHORT TERM LIABILITIES <1 YEAR :**
Total Assets: 185.000	**Total Equity + Liabilities 185.000**

chapter 5: Accounting for Long-term Assets

Chapter 5: Accounting for Long-term Assets

Long-term assets are assets that the core activities of the company rely on. This chapter covers all the requirements for their recognition, recording and evaluating,

1.Recognition

Items are recognized as long-term assets if:

- Their value can be reliably assessed through an Invoice, a report (of a contribution auditor)
- The company intends to use them for more than one year in its core activity
- They provide the company with economic advantages.

Long-term assets vs current assets

- The major difference between the two is that fixed assets are depreciated, while current assets are not. However, both current and fixed assets appear on the balance sheet.
- Fixed assets are company-owned, long-term tangible assets, such as property or equipment. These assets support the company's day-to-day operations and generate income. Being fixed means, they can't be consumed or converted into cash within a year. As such, they are subject to depreciation and are considered illiquid
- Current assets, on the other hand, are used or converted to cash in lessthan one year (the short term) and are not depreciated. Current assets include cash and cash equivalents, accounts receivable, inventory, and prepaid expenses

2.Types of Long term assets

Long-term assets can be broken down into tangible and intangible assets

- **Tangible fixed assets** (account 21x)

Also known as plant and property, they are long-term assets with physical existence, such as lands, machines…

- **Intangible assets (account 20)**

They are long-term assets without physical existence, such as patents, franchises, software….

3/Initial Evaluation (the original cost) of long-term assets

A long term assets purchased: Long-term assets acquired by the company are recorded at their purchase cost

Purchase cost of the asset= purchase price +unrecoverable taxes+ all the expenses incurred to get the asset ready for the intended use

Example 1

Company Z bought by bank check a machine, the following elements appeared in the purchase invoice:

Purchase price; 3.500.000 DZD, transportation expenses; 40.000 DZD, customs duties: 1% of the purchase price (35.000DZD)

Initial cost(purchase cost) of the machine= 3.500.000 +40.000+ 35.000DZD

Example 2

On 2/2, company Y purchased a piece of equipment for its production line. It paid its supplier by bank check. The details of the transaction are as follows:

- ✓ Purchase price of the equipment: 20,000 DZD
- ✓ Shipping[7] and delivery charges: 1,000DZD
- ✓ Installation cost:500 DZD
- ✓ Routine maintenance cost after installation:200 DZD
- ✓ Training cost for employees to use the new equipment: 300 DZD

<u>Costs that should be included in the purchase cost are:</u>

- Purchase price of the equipment:20,000
- Shipping and delivery charges:1,000
- Installation cost: 500 (We buy a disassembled machine, then we have to assemble it. We hire someone for the assembly and pay them. These are installation costs.

Adding these together, we get:20,000 (purchase price) 1,000 (shipping and delivery) + 500 (installation) =21,500 dzd

So, the initial cost of the equipment is 21,500.

<u>Costs that should not be included in the initial cost:</u>

- ✓ routine maintenance cost after installation of 200
- ✓ training cost for employees to use the new equipment (300).

They are considered operating expenses and are recorded as incurred.

[7] Shipping and delivery costs are the costs incurred in moving my assets from one cargo container to another while they are within the port, including their packaging, postage, handling, insurance, and customs/duties.

215	512	2/2	21500	21500
621 615	512	2/2 Remuneration of nonpersonnel Maintenance Bank account	300 200	500

B. Long-term assets produced by the company for its use

<u>They are recorded at their production cost</u>

The company incurs various yearly expenses while creating assets using its resources. These expenses may include electricity, water, hiring costs, and personnel wages. These should be recorded as follows.

6X 445	512/ 53/ 401	Recording all the expensesincurred to make the asset		

23X	731	31/12/N Long-term assets in progress Production by the company of its equipment by its means Recording the work in progress		

21X	23X	When the company completes the production of the asset		

4.Depreciation of fixed assets (straight-line method)

Depreciation is allocating the cost of a fixed asset over its useful life. It represents how much of an asset's value has been used over time. Depreciation accounts for decreases in the value of a company's assets over time.

Fixed assets, such as buildings, machinery, or equipment, have a useful life over one year. Over this period, they gradually yield their value, which is recognized as depreciation. This gradual decrease in value is a natural part of the asset's life cycle and is to be expected.

Useful life is the estimated duration of utility placed on fixed assets (including buildings, machinery, equipment, vehicles, electronics, and furniture). Useful life estimations terminate when assets are expected to become obsolete, require significant repairs, or cease to deliver economic advantages.

Depreciation amount = (original cost-residual value)/useful life

Original Cost of the Fixed Asset: This is the total price + all expenses attributed to its purchase and to put the asset to use.

Residual value (salvage value)

The amount that an asset is estimated to be worth when it reaches the end of its useful life. It's also known as "scrap value" or "residual value." Essentially, it represents what the company could sell the asset for after it has been fully utilized

Imagine it as the value you'd get if you sold your old car for parts or scrap metal after it has served its purpose.

Example: Consider a machine that was purchased for DZD 10,000 on 1/ 1/2015. It has an estimated useful life of 5 years and a salvage value of 2,000 at the end of its useful life.

The total depreciable cost is the cost of the asset minus the salvage value, which is 10,000 - 2,000 = 8,000.

The annual depreciation using the straight-line method is the depreciable cost divided by the useful life, which is 8,000 / 5 = 1,600.

The depreciation schedule for the machine (using the straight-line method):

Year	Original Value	Depreciation Expense	Accumulated Depreciation	Net Book Value
31/12/2015	10,000	1,600	1,600	8,400
31/12/2016	10000	1,600	3,200	6,800
31/12/2017	10000	1,600	4,800	5,200
31/12/2018	10000	1,600	6,400	3,600
31/12/2019	10000	1,600	8,000	2,000

Journal entries for depreciation

At the end of each year, companies should record the annual depreciation for each fixed asset as follows.

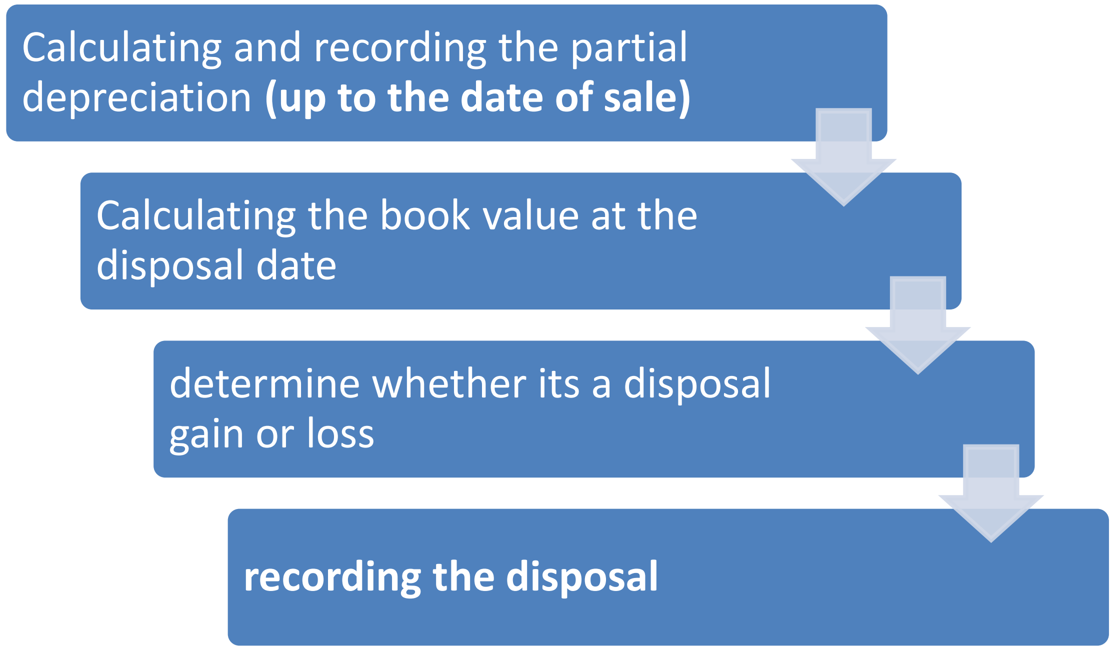
		31/12/N		
68X		Depreciation expenses		
	28X	Decrease in the value of the fixed asset X (depreciation)		

4.Disposal of fixed assets

Sometimes, companies dispose of their old fixed assets by selling them to another party; this is called fixed assets disposal and has a specific accounting treatment.

The recording process for fixed assets disposal

Fig 4: fixed assets disposal process



Source: created by the author

- ✓ The partial depreciation should be recorded as follows:

68X		31/3/N Depreciation expenses	1000	
	28X	Decrease in the value of the fixed asset X (depreciation) **Recording partial depreciation**		1000

- ✓ The disposal is recorded as follows.

If the company made a disposal gain (disposal price > Book value)

28X		Accumulated depreciation	Accumulated depreciation up to the sale date	
462 0r 512		Other accounts receivable cash	Disposal price	
	21X			Original cost
	752	Gains on the disposal of assets		Disposal price-book value up to the sale date

If the company made a disposal loss (disposal price < Book value)

652		Loss on disposal of assets		
28X				
462		Other accounts receivable		
0r 512				
	21X			

5/ Component accounting

When the asset comprises two or more components with significant values and different useful lives, each component should be accounted for as a separate asset for depreciation purposes.

When acquiring a complex asset

2151		Components 1		
2152		Component 2		
445				
	404			

Example A famous example of complex asset is the aircraft as it includes various components such as the airframe (the body of the aircraft) and the engines.

These components have different useful lives . Suppose the aircraft was purchased for10 million, with the airframe costing 6 million and the engines costing4 million. The airframe has a useful life of 20 years and the engines[8] require replacement after five years (it has a useful life of 5 years).

how to depreciate the aircraft (airframe + engines) the straight-line method:

- **Airframe**: The annual depreciation for the airframe would be the cost of the airframe divided by its useful life. So,6 million / 20 years =300,000 per year.
- **Engines**: The annual depreciation for the engines would be the cost of the engines divided by their useful life. So,4 million / 5 years =800,000 per year.

So, every year, the airframe would depreciate by 300,000 and the engines would depreciate by 800,000. After 5 years, the engines would be fully depreciated and likely need to be replaced, while the airframe would continue to depreciate for another 15 years.

[8] If one engine fails, the aircraft can still operate with the remaining engines

Series

of exercises N5

Series of exercises N 5: Accounting for Fixed Assets

Exercise 1

In January 2015, Company X acquired four fixed assets and made payments to its suppliers via bank transfer. Below is a summary of each transaction data:

	Date	Purchase price (DZD)	Supplementary expenses (DZD)
Delivery vehicles	2/1	300.000	Transportation: 12.000 Value added tax 2.500 Driving training expenses: 5.000
Desks	10/1	140.000	Transportation: 6.000 Installation 10.000 Value added tax 2.500 Polishing and repainting: 3.000
Conveyor belt	21/1	250.000	Transportation: 6.000 Installation 10.000 Customs duty 20.000 Value added tax 2.000
Franchise	17/1	100.000	_

Requested

Record the necessary purchase entries for these transactions (Do not include value-added tax in the journal entries).

Exercise 2

Company Y, on January 2, 2015, purchased three fixed assets and finalized payments to its suppliers through a bank transfer. A detailed breakdown of each transaction is provided

	Purchase price (DZD)	**Supplementary expenses (DZD)**	**Useful life (years)**
Machine A	1500000	Transportation: 6000 Installation 10000 Customs duty 20000 Value-added tax 2000	5
Machine B	2000000	Transportation: 6000 Installation 10000 Training expenses for engineers 3000 Value-added tax 2500	4
Truck C	Engine 1000000 Frame 4000000	Value-added tax 950000	3 4

below:

Requested

1. Determine the purchase cost of each fixed asset.
2. Record each purchase transaction in the company's journal (Do not include value-added tax in the journal entries).
3. Prepare the depreciation tables for all fixed assets, covering the first three years of their useful lives.
4. On November 1, 2018, Machine B was <u>disposed of (sold)</u> for 1,200,000 Algerian Dinars via a bank check. record this transaction.

Answers:

Exercice 2

1. Purchase cost

purchase cost of MACHINE A= 1.500.000+6.000+10.000+20.000= 1.536.000 DZD

purchase cost of MACHINE B= 2.000.000+6000+10.000=2.016.000 DZD

purchase cost of TRUCK C, frame=4.000.000 DZD,   engine = 1.000.000 DZD

2. recording in the journal

		02.01.2015		
2151 2152 2181 2182		MACHINE A MACHINE B TRUCK (ENGINE) TRUCK (FRAME)	1536000 2016000 1000000 4000000	
	512			8552000

3.Depreciation tables of all the fixed assets for the first three years of their useful lives

Machine A

	Depreciation basis	Annual depreciation	Accumulated depreciation	Book value
End of 2015	1.536.000	307.200	307.200	1.228.800
End of 2016	1.536.000	307.200	614.400	921.600
End of 2017	1.536.000	307.200	921.600	614.400

Machine B :

	Deprecation Basis	Annual Depreciation	Accumulated Depreciation	Book Value
End of 2015	2.016.000	504.000	504.000	1.512.000
End of 2016	2.016.000	504.000	1.008.000	1.008.000
End of 2017	2.016.000	504.000	1.512.000	504.000

Machine C

years	engine			frame			total
	original value	Annual depreciation	Book value	Original value	Annual depreciation	Book value	
2015	1.000.000	333333.33	666666.67	4.000.000	1.000.000	3.000.000	1.333333.33
2016	1.000.000	333333.33	333333.33	4.000.000	1.000.000	2.000.000	2.666666.67
2017	1.000.000	333333.33	0	4.000.000	1.000.000	1.000.000	4.000.000

Chapter 6:

Accounting for inventory operations

Chapter 6: accounting for inventory operations

Inventory refers to set 3 in Algeria chart of accounts; it is a short-term asset, and can be broken down into the following categories

30 goods bought by a merchandising company to be resold

31 raw materials

32 supplies

35 final products

In addition to this, set 3, includes other important accounts such as:

38X purchases of X

380 purchases of goods (30)

381 purchases of raw materials 31

382 purchases of suppliers 32

37 inventory outside the company: the inventories of the company held in warehouses that don't belong to the company or stocks still in route to the company on December 31

1. Merchandising business operations

They buy goods from suppliers and resell them at a profit

A. Buying goods: this process includes :

- ✓ Receiving the purchase invoice
- ✓ Making the due payment

- ✓ Receiving the goods

Debit	Credit		Debit	Credit
38 4456	401	Receiving the purchase invoice		
401	512 or 53	Making the due payment		
30 Or 37	380	Receiving the goods		

For purchase invoices including a trade discount, we should debit account 380 Purchases for the purchase price- the trade discount

VAT=0.19x (purchase price)[9]

600	30	Removing the goods from the company's assets	1000000	1000000
411	700 445	Recording the sales invoice	2000000 380000	23800000
512 or 53	411	Receiving the money due	2380000	2380000

B/ Selling the goods at a profit

Profit= Selling Prive - Purchase Cost of the Goods Sold

This process involves:

- Removing the goods from the company's warehouse and assets
- Sending the sales invoice to the customer
- And receiving money from customers

VAT=0.19x (sales price)

[9] At this level, discounts are ignored as they will be explained in detail in the financial accounting 2 course

2. Manufacturing companies (producers)

They make final products from raw materials. Accounting for manufacturing companies operations include;

- Recording the purchase invoice
- Recording the raw materials received
- Recording the payment
- Recording the raw materials transfer from the warehouse to the plant
- Recording the final products received
- Recording the sales invoice
- Removing the final products from the company warehouse
- Cash receipt

Specific Accounts used by manufacturing companies

72 changes in products: It's an account we use when we bring final products in or out."
31 raw materials
601 cost of raw materials used
381 purchases of raw materials
35 final products
701 Products sales

A/ Buying the raw materials

381 445	401	Purchase invoice		
31	381	Receiving the raw materials		
401	512	The payment		

B/Transferring the RM from the warehouse to the plant

601	31			

C/Receiving the final products

35	72		PRODUCTION COST	PRODUCTION COST

D/ Selling final products

72	35	Removing the final products from the warehouse	PRODUCTION COST	PRODUCTION COST
411	701 445			
512 53	411			

Series

of Exercises N 6

Exercise: record the following transactions in the journal

04.01, the company purchased raw materials for 720000 (tax-exclusive) the company received the invoice and paid the transaction by bank check. The raw materials were received on 20.02, and 50% of the raw materials were sent to the workshop two days later

04/04 purchased goods for 290030, the invoice was received on the same day. The company paid for the transaction by bank check.

22/05, completed the production process; their production cost was 1000000. On 30/07, the company sent the sales invoice for 50% of the finished

products for 1200000 without taxes

381 4456	401	04/01	720000 135432	
401	512	04/01	848232	848232
31	381	20/02	720000	720000
601	31	02/22	360000	360000
380 4456	401 768	04/04	290030 54554,6	341684,3 2900,3

Chapter 7:

Exam questions with model answers

Exam 1

Final Test for Financial Accounting 1 ***Time allotted 90 min***

Exercise 1 Complete the table below by selecting the correct answer (A, B, or C) for each question. Use Question 0 as an example. (For this exercise, **you only need to copy this table onto your answer sheet)**.

Question number	0	1	2	3
Answer (A, B, or C)	B			

0. What are assets? A. The company owes **B. The company owns** C. The retained earnings

1. If goods were purchased on credit, the account receivable should:
A. Be debited B. Be credited C. Not be affected

2. If money was borrowed from a bank, the long-term loan (debt) account should be: A. Debited B. Credited C. Not affected

3. The main difference between equity and long-term debts is:
A. The amount B. The duration (short-term vs long-term)
C. Ownership by the company

Exercise 2 **Saleem Company, a car reseller, had the following items on its balance sheet on January 1, 2019 (arranged randomly):**

- Cash: 500,000 DZD
- Current Bank Account: 10,000,000 DZD
- Bank Credit (Repayable in 2 years):6,000,000 DZD
- Building: 8,000,000 DZD
- Retained Earnings: 12,000,000 DZD
- Capital ?????????
- Lands: 11,000,000 DZD
- Furniture and Fixture: 2,000,000 DZD
- Marketing Software: 3,000,000 DZD
- Electric Cars: 9,000,000 DZD
- Hybrid Cars: 7,000,000 DZD
- Clients Receivable: 1,000,000 DZD

- Suppliers (of goods) Payable:
  2,000,000 DZD

<u>The following transactions took place during 2019:</u>

- February 2nd: Bought cars for 3,000,000 DZD and paid the supplier via a bank transfer.
- March 3rd: Contracted a five-year loan of 4,000,000 DZD.
- April 4th: Paid suppliers by bank check.
- May 5th: Received payment from customers in cash.
- June 6th: Withdrew 500,000 DZD from the bank account and put it in the cash box.
- July 7th: sold half of the car inventory for 18,000,000 DZD and received 20% of the payment via a bank check.
- August 8th: purchased transportation equipment for the cars, valued at 2,000,000 DZD, via a bank transfer. This equipment has a useful life of 20 years. This equipment includes an engine worth 300,000 DZD, which is expected to be replaced every three years.
- September 9th: Purchased furniture for 1,000,000 DZD. In addition to the purchase price, the following costs were incurred: value-added tax of 30,000 DZD, shipping costs of 10,000 DZD, assembly costs of 20,000 DZD, custom duties of 5,000 DZD, and painting costs (done by a painter) of 7,000 DZD. All payments have been made by bank check.

<u>Tasks</u>

1. Draw up Saleem's balance sheet as of January 1, 2019.
2. Record the opening entry (on January 1, 2019).
3. Record all necessary entries during 2019 (do not include value-added tax in the journal entries).
4. Open a T-account for the bank account.

Model answers for Exam 1

Exercise 1 (1 X 3 points)

Question number	0	1	2	3
Appropriate answer	B	C	B	C

Exercise 2

1.
2. **Saleem's Co. opening balance sheet 3 points +** 1 point for the capital

ASSETS	EQUITY and LIABILITIES
<u>LONG-TERM (NON-CURRENT) ASSETS</u> **• INTANGIBLE (NON-PHYSICAL):** Marketing Software: 3,000,000 **• TANGIBLE (PHYSICAL):** Buildings 8,000,000 Land 11,000,000 Furniture and fixtures 2,000,000 **<u>SHORT TERM ASSETS</u>** **<u>Inventory</u>** Goods Electric Cars: 9,000,000 Hybrid Cars: 7,000,000 **Customers receivable 1,000,000** **Current bank account** 10,000,000 **Cash 500,000**	**<u>EQUITY</u>** Capital 31,500,000 Retained earnings 12,000,000 **<u>LONG-TERM LIABILITIES</u>** Long-term loans 6,000,000 **<u>SHORT-TERM LIABILITIES</u>** Supplier of goods payable 2,000,000
Total Asset 51,500,000	**Total Equity and Liabilities 51,500,000**

2And 3/ the opening entry and all the entries

Debit	Credit		Debit	Credit
		01/01 2 points		
204		Marketing Software	3,000,000	
213		Buildings	8,000,000	
211		Land	11,000,000	
218		Furniture and fixtures	2,000,000	
30		Goods (electric and hybrid cars)	16,000,000	
411		Customers receivable	1,000,000	
512		Bank account	10,000,000	
53		Cash	500,000	
	10	Capital		31,500,000
	11	Retained earnings		12,000,000
	16	Long-term loans		6,000,000
	401	Goods suppliers payable		2,000,000
		The opening entry		
		2/2 1 point		
		Cars		
30			3,000,000	
		Bank account		
	512			3,000,000
		3/3 1 point		
			4,000,000	
512		Bank account		
				4,000,000
	16	Long-term loans		
		4/4 1 point		
401		Goods suppliers payable	2,000,000	
	512	Bank account		2,000,000
		5/5 1 point		
53		Cash	1,000,000	
	411	Customers payable		1,000,000
		6 /6 1 point		

53	512	Cash Bank account	500,000	500,000
600	30	7/7 1 point Cost of goods sold (16 M +3 M)/2 Goods	9,500,000	9,500,000
512 411	700	7/7 20% x 18,000,000 1 point 18,000,000 – 3,600,000 Goods sales revenues	3,600,000 14,400,000	18,000,000
2181 2182	512	8/8 1.5 points Transportation equipment (without engine) Engine Bank account	1,700,000 300,000	2,000,000
218	512	9/9 1.5 point Furniture Its Purchase cost =1,000,000 +10,000+20,000+5,000	1,035,000	1,035,000

Four/ point

Bank account 512 1

qdebit	credit
10,000,000 4,000,000 3,600,000	3,000,000 2,000,000 500,000 300,000 1,035,000
	10, 765,000 Debtor balance

17,600,000	17,600,000

Another viable response, if we take into account the painting expenses paid by bank check, would be

debit	credit
10,000,000	3,000,000
4,000,000	2,000,000
3,600,000	500,000
	300,000
	1,035,000
	7.000
	10, 758,000 Debtor balance
17,607,000	17,607,000

Exam 2

Final Test for Financial Accounting 1 *LMD Common Core* ***Exam Duration: 90 min***

Please ensure you write your full name (in English), code, and group at the top of your answer sheet.

Exercise 1 underline the correct answer

1. What are liabilities? A. The company owes B. The company owes C. The retained earnings
2. If raw materials were purchased in cash, the account payable should: A. Be debited B. Be credited C. Not be affected
3. The main difference between equity and long-term debts is :
   A. The amount B. The duration (short-term vs long-term) C. Ownership by the company

Exercise 2 Noor Company, A truck reseller, had the following items on its balance sheet on January 1, 2020 (arranged randomly):

•Blue trucks: 4,000,000 DZD
•Current Bank Account: 10,000,000 DZD
• Bank Credit (Repayable in 6 years):26,000,000 DZD
Cash: 2500,000 DZD

•Building:1 8,000,000 DZD
•Retained Earnings: 15,000,000 DZD
•Capital ?????????
• Piece of land: 15,000,000 DZD
•Office Furniture : 2,000,000 DZD
•franchise: 3,000,000 DZD
•Suppliers (of goods) Payable: 7,000,000
Black trucks 10,000,000 DZD
•Clients Receivable: 2,000,000 DZD

The following transactions took place during 2020:

- 20/03: Contracted a five-year loan of 4,000,000 DZD.
- 5/5: got paid by customers in cash.
- 20/5: paid suppliers via bank transfer.
- 30/6: brought more trucks worth 6.000.000
- 20/7: sold in cash all the goods at twice their price
- **Tasks**

1. **1.** Draw up the Noor balance sheet as of January 1, 2020.
2. **2.** Record the opening entry
3. **3.** Make all necessary entries (do not include value-added tax in the journal entries).

Algeria Chart of Accounts

1 LONG-TERM FUNDING

10 capital
11 retained earnings
12 RESULT
16 LONG TERM loans

2 LONG TERM ASSETS

20 intangible assets
- 204 SOFTWARE
- 205 patents, copyrights, and franchises

21 tangible (fixed) assets
- 211 land
- 213 buildings
- 215 machines
- 218 other fixed assets

3 inventory

30 goods
31 raw materials
35 final products

4 accounts payable/ Acco
receivable

401 accounts payable (supplier of goods).
404 accounts payable (supplier of long-term as
411 accounts receivable

5 financial accounts
512 bank account
53 cash

6 expenses

60 consumption of purchased goods or services
- 600 cost of goods sold
- 601 cost of raw materials used
- 607 purchases of non-storable goods

61 cost of external services
- 613 rental expenses
- 615 repairs and maintenance expenses
- 617 Insurance costs

62 other external services
- 621 Remuneration of non-company personnel
- 626 communication expenses

63 remuneration of personnel

Model Answers of exam 2

Exercise 1

Exercise 1

1. What are liabilities? A. The company owes B. The company owes C. The retained earnings
2. If raw materials were purchased in cash, the account payable should: A. Be debited B. Be credited C. Not be affected

The main difference between equity and long-term debts is : A. The amount

B. The duration (short-term vs long-term) c. neither

Exercise 2

2 And 3/ the opening entry and all the entries

Debit	Credit		Debit	Credit
		01/01 5 points		
205		franchise	3,000,000	
213		Buildings	18,000,000	
211		Land	15,000,000	
218		Furniture and fixtures	2,000,000	
30		Goods (electric and hybrid cars)	14,000,000	
411		Customers receivable	22,000,000	
512		Bank account	10,000,000	
53		Cash	2500,000	
	10	Capital		65,500,000
	11	Retained earnings		15,000,000
	16	Long-term loans		26,000,000
	401	suppliers payable		7,000,000
		The opening entry		
		20/3 2 point		
		Cars		
16			4,000,000	
		Bank account		
	512			4,000,000
		5/5 2 point		
			2,000,000	
411		Bank account		

	53	Long-term loans		2,000,000
401	512	20/5 1 point Goods suppliers payable Bank account	7,000,000	7,000,000
30	401	30/6 2 point Cash supplier payable	6,000,000	6,000,000
600	30	20/7 1.5 point Cost of goods sold Goods	20,000,000	20,000,000
53	700	20/7 2 point Goods sales revenues	40,000,000	40,000,000

ASSETS	EQUITY and LIABILITIES
<u>LONG-TERM (NON-CURRENT) ASSETS</u> **• INTANGIBLE (NON-PHYSICAL):** Franchise: 3,000,000 • **TANGIBLE (PHYSICAL):** Buildings 18,000,000 Land 15,000,000 Furniture 2,000,000 **<u>SHORT TERM ASSETS</u>** Goods 14000000 Customers receivable 14,000,000 bank account 10,000,000 Cash 2500000	**<u>EQUITY</u>** Capital 65,500,000 Retained earnings 15,000,000 **<u>LONG-TERM LIABILITIES</u>** Long-term loans 26,000,000 **<u>SHORT-TERM LIABILITIES</u>** Supplier of goods payable 7,000,000
Total Asset 113,500,000	**Total Equity and Liabilities 113,500,000**

Exam 3

Candely is an artistic candle reseller; here is its balance sheet as of 31/12/202

Candley Company, Balance sheet as of 31/12/2021

ASSETS	EQUITY and LIABILITIES
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR **• INTANGIBLE (NOT PHYSICAL):** Marketing Software 3.000 **• TANGIBLE (PHYSICAL):** Lands 16.000 Building 13.000 Delivery equipment 23.000 **SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR** goods inventory (candles) 30.000 Accounts receivable 10.000 Cash 25.000 Current bank account 10.000	**EQUITY > 1 YEAR** Paid-in capital 80.000 Profit 20.000 **LONG TERM LIABILITIES > 1 YEAR:** Long-term loans 30.000 **SHORT TERM LIABILITIES <1 YEAR :**
Total Assets: 130.000	**Total Equity + Liabilities 130.000**

- **2022 transactions:**

6/1: Bought artistic candles for 20.000 DZD in cash.

8/2: Bought land for 25,000 DZD, paying 5000 DZD in cash and taking a five-year loan for the rest.

20/4: Bought new delivery equipment for 8,000 DZD and paid by bank check

12/11: Sold half of the artistic candles on credit for 60,000 DZD.

10/12: received a 20,000 DZD cash payment from customers

Requested:

6. **Complete all the necessary recordings**
7. **find out the balance of each account**
8. **Draw up the trial balance sheet**
9. **Draw up the company's January 31, 2022 balance sheet**

Answers

1 Recorfing the opening entry and all the transactions

		1/1		
204		Marketing software	3000	
211		Land	16000	
213		Building	13000	
218		Transportation equipment	23000	
30		Goods	30000	
411		Account receivable	10000	
53		Cash	25000	
512		Current bank account	10000	
	10	Capital		80000
	11	Retained earnings		20000
	16	Long-term loans		30000
		Opening entry		
		6/1		
30		Goods	20000	
	53	Cash		10000
		8/2		
211		Land	25000	
	53	Cash		5000
	16	Long-term loan		20000

		20/04		
218		Transportation equipment	8000	
	512	Current bank account		8000
		12/11		
600		Cost of goods sold	25000	
	30	Goods		25000
		12/11		
411		Customers receivable	60000	
	700	Sales revenues		60000
		10/12		
53		Cash	20000	
	411	Customers receivable		20000

2. Posting to the ledgers (T accounts)

204

debit	credit
3000	
	3000 DB
3000	3000

211

debit	credit
16000	
25000	41000 DB
41000	41000

213

debit	credit
13000	
	13000 DB
13000	13000

218

debit	credit
23000	
8000	31000 DB
31000	31000

30

debit	credit
30000	25000
20000	25000 DB
50000	50000

411

debit	credit
10000	20000
60000	50000 DB
70000	70000

53

debit	credit
25000	20000
20000	5000
	20000 DB
45000	45000

512

debit	credit
10000	8000
	2000 DB
10000	10000

11

debit	credit
	80000
80000 CB	
8000	80000

10

debit	credit
	20000
20000 CB	
20000	20000

16

debit	credit
	30000
50000 CB	20000
50000	50000

700

debit	credit
	60000
60000 CB	
60000	60000

Candely Corporation Trial balance as of December 31, 2021

codes	accounts	Debtor balances	Creditor balances
10	Capital		80000
11	Retained earning		20000
16	Long-term loans		50000
204	Marketing software	30000	
211	lands	41000	
213	buildings	13000	
218	Transportation equipment	31000	
30	Goods	25000	
411	Customers receivable	50000	
512	Current bank account	2000	
53	Cash	20000	
600	COGS	25000	
700	Sales revenues		60000
Total		**210000**	**210000**

The closing balance sheet Candley Company, Balance sheet as of 31/12/2022

ASSETS	**EQUITY and LIABILITIES**
LONG-TERM (NON-CURRENT) ASSETS > 1 YEAR **• INTANGIBLE (NOT PHYSICAL):** Marketing Software 3.000 **• TANGIBLE (PHYSICAL):** Lands 41.000 Building 13.000 Delivery equipment 31.000	**EQUITY > 1 YEAR** Paid-in capital 80.000 Retained earning 20.000 Profit 35000 **LONG TERM LIABILITIES > 1 YEAR:** Long-term loans 50.000
SHORT TERM ASSETS (CURRENT ASSETS) <1 YEAR goods(candles) 25.000 Accounts receivable 50.000 Current bank account 2.000 Cash 20.000	**SHORT TERM LIABILITIES <1 YEAR :**
Total Assets: 185.000	**Total Equity + Liabilities 185.000**

Conclusion

In this course, we have guided you through the fundamentals of financial accounting, enabling you to read and understand a company's financial reports. We covered the basics of accounting language, including how to record transactions using the debit and credit method. You have learned how to check the accuracy of your records using the accounting equation and how accountants summarize the company's financial information. We also discussed accounting for long-term assets and how to record purchase and sale transactions.

As you move forward, the Financial Accounting 2 course will delve into more specific transactions, such as cash and trade discounts, sales returns, down payments, and deposits. Additionally, we will explore the necessary adjustments accountants must make to prepare financial statements that provide accurate and reliable information about the company's financial position.

Reference list

Books and Articles

Sangster, A., & Wood, F. (2014). *Business accounting* (13th ed.). Pearson Education.

Djoudi, K. (2013). *Manuel de la comptabilité financière*. Ministère des Finances.

Horngren, C. T., Sundem, G. L., & Elliott, J. A. (2002). *Introduction to financial accounting* (6th ed.). Prentice Hall.

Libby, R., Libby, P. A., & Hodge, F. (2020). *Financial accounting* (10th ed.). McGraw-Hill Education.

Weygandt, J. J., Kimmel, P. D., & Kieso, D. E. (2018). *Principles of financial accounting* (13th ed.). Wiley.

Stickney, C. P., Weil, R. L., & Schipper, K. (2010). *Financial accounting: An introduction to concepts, methods, and uses* (13th ed.). South-Western Cengage Learning.

Friedman, S. D., & Thompson, J. B. (2012). Financial accounting: The role of accounting in corporate governance and risk management. *Journal of Applied Accounting Research, 13*(2), 123–140. https://doi.org/10.1108/09675421211278831

International Standards and Laws

Law No. 07-11 of November 25, 2007: Establishing the Financial Accounting System.

Ministerial Order of July 26, 2008.

Executive Decree No. 08-156, dated May 26, 2008.

Executive Decree No. 09-110, dated April 7, 2009.

Algerian Commercial Code.
IAS/IFRS (International Financial Reporting Standards).

Websites

Investopedia. (n.d.). *Coca-Cola company profile*. Retrieved December 1, 2024, from https://www.investopedia.com