

Financial Accounting Basics: Resource

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Chart of Accounts Exhibit

Chart of Accounts		
Account Nr.	Description	Normal Balance
10000	Assets	DR
11000	Cash at Bank	DR
11100	Bank	DR
11200	Bank - Long Term Loan Account	DR
12000	Debtors	DR
14000	Other Current Assets	DR
14100	Advance Payments	DR
15000	Stock (Inventory)	DR
16000	Fixed Assets	DR
16100	Civil Works	DR
16110	Accumulated Depreciation Buildings	CR
16200	Furniture	DR
16210	Accumulated Depreciation Furniture	CR
16300	Equipment	DR
16310	Accumulated Depreciation Equipment	CR
16400	Vehicles	DR
16430	Accumulated Depreciation Vehicles	CR
16500	Other Fixed Assets	DR
20000	Liabilities	CR
21000	Current Liabilities	CR
21100	Creditors	CR
21200	Other Current Liabilities (Accruals)	CR
22000	Long Term Liabilities	CR
22100	Long Term Loan	CR
30000	Funding Sources	CR
31000	Equity	CR
32000	Retained Earnings	CR
41000	Sales	CR
42000	Interest Received	CR
42100	Interest Long term Loan Account	CR
42110	Interest Accrued	CR
42120	Interest Received Bank	CR
43000	Currency Difference Gains	CR
43100	Contra revenue for Currency Differences	DR
44000	Insurances and Bank Guarantees	CR
45000	Contra revenue for Costs of Goods Sold	DR
50000	Expense Accounts	DR
51000	Operational Costs	DR
52000	Services (Consulting)	DR
52100	Principal Paid	DR
52200	Interest	DR
52210	Interest Accrued	DR
52220	Interest Paid	DR
53000	Depreciation for the Period	DR
53200	Depreciation Equipment	DR
53300	Depreciation Furniture	DR
53400	Depreciation Vehicles	DR
54000	Dividends Paid to Shareholders	DR
55000	Bank Charges	DR

Unadjusted Operating Entries Exhibit

Type of Expense	Amount for the period July toDecember Y1
Web maintenance	-7,500
Web site development	-24,000
Software upgrading	-12,000
Subtotal (a)	-43,500

Type of Expense	Amount for the period July toDecember Y1
PR and marketing materials	-9,000
Managing director	-21,000
Administrative staff	-27,000
Consultancy and accountancy	-22,800
Office costs	-19,800
General costs	-29,700
Interest on Loan	-2,374
Subtotal (b)	-131,674

Total Expenses (B) = subtotal (a) + subtotal (b)
 = (-43,500) + (-131,674) = **-175,174**

Adjustments Exhibit

Type of Expense	Amount for the period July to December Y1
Expensed Insurance July to December Y1	-1,800
Accruals: electricity and water, phones, mobiles, data lines	-2,400
Depreciation - is the charge for a specific period (i.e. year, accounting period) with respect to fixed assets	-24,200
Other revenues or gains - revenues and gains from other than primary business activities (e.g. interest	21,739
Inventory expense July to December Y1 (Cost of Goods sold)	-194,000
Subtotal (c)	-199,661

Individual Entries in the Income Statement Exhibit

Income Statement First Year						
Date	Transactions	Operations	Revenue	-	Expenses	= Net Income
31.12.Y1	Effect of Revenue July to December	082	240,000			240,000
31.12.Y1	Cash Payment for Accrued Expense	083				
31.12.Y1	Unearned Income Received	084				
31.12.Y1	Effect of Purchase of Licenses for Resale	085				
31.12.Y1	Effect of Expense Web Site Development	086			-7,500	= -7,500
31.12.Y1	Effect of Expense Web Site Maintenance	087			-24,000	= -24,000
31.12.Y1	Effect of Expense in Technical Support Jul-Dec	088			-12,000	= -12,000
31.12.Y1	Effect of Expense in PR & Marketing Jul-Dec	089			-9,000	= -9,000
31.12.Y1	Effect of Expense in Marketing Materials Jul-Dec	090				
31.12.Y1	Effect of Expense in Promotion Materials Jul-Dec	091				
31.12.Y1	Effect of Expense Salaries Managing Director Jul-Dec	092			-21,000	= -21,000
31.12.Y1	Effect of Expense Salaries Assistant and Support Staff Jul-Dec	093			-27,000	= -27,000
31.12.Y1	Effect of Expense Legal and Accounting Consultancy Jul-Dec	094			-22,800	= -22,800
31.12.Y1	Effect of Expense Office Costs Jul-Dec	095			-19,800	= -19,800
31.12.Y1	Effect of Expense General Costs Jul-Dec	096			-29,700	= -29,700
31.12.Y1	Payment on Interest on Loan	097			-2,374	= -2,374
Adjustments						
1. Prepayments						
	1.1 Expense Insurance July through December	097 A			-1,800	= -1,800
2. Accruals						
	2.1 Electricity and water, phones, mobile, datalines December	097 B			-2,400	= -2,400
3. Depreciation						
	3.1 Depreciation of fixed assets first year	097 C			-24,200	= -24,200
4. Unearned income						
	4.1 Interest earned on bank account balance July to December	097 D			21,739	= 21,739
5. Inventory Expense						
	Effect of Inventory Expense July through December	097 E			-194,000	= -194,000
End of Period Closing of Retained		097 F				
		Closing Balances				-135,835

Vertical Format of Income Statement Exhibit

Income Statement	
For the Period Ending December Y1	
A. Income	
Sale of Licenses	240,000
Software Maintenance after Warranty, Recurrent Licencing Fees, Ongoing Technical Support	
Unearned income	21,739
Currency Gains	
Cost of Goods Sold (Purchase of Licenses for Resale)	-168,000
Gross Margin from Operations	93,739
Less	
B. Expenses	
Software Upgrading	
Web Site Development	7,500
Web Maintenance	24,000
Technical Support	12,000
Marketing	9,000
Staff Salaries	48,000
Consultancy and Accountancy	22,800
Office Costs	21,600
General Costs incl. Depreciation	56,300
Inventory Expense	26,000
Interest on loan	2,374
Currency Losses	
TOTAL EXPENDITURE	229,574
Profit (Loss) from Operations (Total Income less Total Expenditure)	-135,835
Corporate Tax	
Dividends Paid	
Net Profit (Loss)	-135,835

Vertical Format Balance Sheet Exhibit

Balance Sheet Statement	
As end of: 31 December Y1	
Assets	
Current Assets	
Cash at Bank	372,221
Debtors and Prepayments	21,739
Other Current Assets (Stock)	
Total Current Assets	393,960
Fixed Assets	
Civil Works	
Furniture	28,000
Equipment	35,200
Vehicles	33,600
TOTAL ASSETS	490,760
Liabilities	
Current Liabilities	
Creditors	
Accruals	2,400
Total Current Liabilities	2,400
Long Term Liabilities	
International Bank	50,000
Total Liabilities	52,400
Equity	
Shareholders' Equity	574,295
Profit and Loss Statement	-135,835
Total Equity	438,360
TOTAL LIABILITIES	490,760

The Balance Sheet Exhibit

Balance Sheet First Year												
Assets = Liabilities + Equity + Retained Earnings												
Date	Transactions	Operations	Bank	Debtors and Prepayments	Other Current Assets	Fixed Assets	=	Current Liabilities		Long Term Liabilities	Equity	Retained Earnings
					(Stock)			Creditors	Accruals	Long Term Loan		
		Opening Balances	497,342	8,253	0	121,000	626,595		2,400	50,000	574,195	0
31.12.Y1	Effect of Revenue July to December	O82	240,000									240,000
		Balance	737,342	8,253	0	121,000			2,400	50,000	574,195	240,000
31.12.Y1	Cash Payment for Accrued Expense	O83	-2,400						-2,400			
		Balance	734,942	8,253	0	121,000			0	50,000	574,195	240,000
31.12.Y1	Unearned Income Received	O84	6,453	-6,453								
		Balance	741,395	1,800	0	121,000				50,000	574,395	240,000
31.12.Y1	Effect of Purchase of Licenses for Resale	O85	-168,000		168,000							
		Balance	573,395	1,800	168,000	121,000				50,000	574,195	240,000
31.12.Y1	Effect of Expense Web Site Development	O86	-7,500									-7,500
		Balance	565,895	1,800	168,000	121,000				50,000	574,195	232,500
31.12.Y1	Effect of Expense Web Site Maintenance	O87	-24,000									-24,000
		Balance	541,895	1,800	168,000	121,000				50,000	574,195	208,500
31.12.Y1	Effect of Expense in Technical Support Jul-Dec	O88	-12,000									-12,000
		Balance	529,895	1,800	168,000	121,000				50,000	574,195	196,500
31.12.Y1	Effect of Expense in PR & Marketing Jul-Dec	O89	-9,000									-9,000
		Balance	520,895	1,800	168,000	121,000				50,000	574,195	187,500
31.12.Y1	Effect of Expense in Marketing Materials Jul-Dec	O90	-12,000		12,000							
		Balance	508,895	1,800	180,000	121,000				50,000	574,195	187,500
31.12.Y1	Effect of Expense in Promotion Materials Jul-Dec	O91	-14,000		14,000							
		Balance	494,895	1,800	194,000	121,000				50,000	574,195	187,500
31.12.Y1	Effect of Expense Salaries Managing Director Jul-Dec	O92	-21,000									-21,000
		Balance	473,895	1,800	194,000	121,000				50,000	574,195	166,500
31.12.Y1	Effect of Expense Salaries Assistant and Support Staff Jul-Dec	O93	-27,000									-27,000
		Balance	446,895	1,800	194,000	121,000				50,000	574,195	139,500
31.12.Y1	Effect of Expense Legal and Accounting Consultancy Jul-Dec	O94	-22,800									-22,800
		Balance	424,095	1,800	194,000	121,000				50,000	574,195	121,500
31.12.Y1	Effect of Expense Office Costs Jul-Dec	O95	-19,800									-19,800
		Balance	404,295	1,800	194,000	121,000				50,000	574,195	101,700
31.12.Y1	Effect of Expense General Costs Jul-Dec	O96	-29,700									-29,700
		Balance	374,595	1,800	194,000	121,000				50,000	574,195	72,000
31.12.Y1	Payment on Interest on Loan	O97	-2,374									-2,374
		Balance	372,221	1,800	194,000	121,000	689,021			50,000	574,195	64,826
Adjustments												
1. Prepayments												
	1.1 Expense Insurance July through December	O97 A		-1,800								-1,800
		Balance	372,221	0	194,000	121,000				50,000	574,195	67,826
2. Accruals												
	2.1 Electricity and water, phones, mobile, datalines December	O97 B							2,400			-2,400
		Balance	372,221	0	194,000	121,000			2,400	50,000	574,195	65,526
3. Depreciation												
	3.1 Depreciation of fixed assets first year	O97 C				-24,200						-24,200
		Balance	372,221	0	194,000	96,800			2,400	50,000	574,195	41,326
4. Unearned income												
	4.1 Interest earned on bank account balance July through December	O97 D		21,739								21,739
		Balance	372,221	21,739	194,000	96,800			2,400	50,000	574,195	63,187
5. Inventory Expense												
	Effect of Inventory Expense July through December	O97 E			-194,000							-194,000
		Balance	372,221	21,739	0	96,800			2,400	50,000	574,195	-135,835
End of Period Closing of Retained Earnings Account		O97 F									-135,835	135,835
		Closing Balances	372,221	21,739	0	96,800	490,760		2,400	50,000	438,360	0

Vertical Format of The Balance Sheet Exhibit

Balance Sheet Statement	
As end of: 31 December Y1	
Assets	
Current Assets	
Cash at Bank	372,221
Debtors and Prepayments	21,739
Other Current Assets (Stock)	
Total Current Assets	393,960
Fixed Assets	
Civil Works	
Furniture	28,000
Equipment	35,200
Vehicles	33,600
TOTAL ASSETS	490,760
Liabilities	
Current Liabilities	
Creditors	
Accruals	2,400
Total Current Liabilities	2,400
Long Term Liabilities	
International Bank	50,000
Total Liabilities	52,400
Equity	
Shareholders' Equity	574,295
Profit and Loss Statement	-135,835
Total Equity	438,360
TOTAL LIABILITIES	490,760

Cash Flow Statement Exhibit

Statement of Cash Flows First Year							
Date	Transactions	Operations	Beginning Cash Balance	Inflows (+) of Cash	Outflows (-) of Cash	Ending Cash Balance	Activities
31.12.Y1	Effect of Revenue July to December	O82		240,000			OA
31.12.Y1	Unearned Income Received	O84		6,453			OA

Outflow of Cash Exhibit

Statement of Cash Flows First Year							
Date	Transactions	Operations	Beginning Cash Balance	Inflows (+) of Cash	Outflows (-) of Cash	Ending Cash Balance	Activities
31.12.Y1	Cash Payment for Accrued Expense	O83			-2,400		OA
	Balance						
31.12.Y1	Effect of Purchase of Licenses for Resale	O85			-168,000		OA
	Balance						
31.12.Y1	Effect of Expense Web Site Development	O86			-7,500		OA
	Balance						
31.12.Y1	Effect of Expense Web Site Maintenance	O87			-24,000		OA
	Balance						
31.12.Y1	Effect of Expense in Technical Support Jul-Dec	O88			-12,000		OA
	Balance						
31.12.Y1	Effect of Expense in PR & Marketing Jul-Dec	O89			-9,000		OA
	Balance						
31.12.Y1	Effect of Expense in Marketing Materials Jul-Dec	O90			-12,000		OA
	Balance						
31.12.Y1	Effect of Expense in Promotion Materials Jul-Dec	O91			-14,000		OA
	Balance						
31.12.Y1	Effect of Expense Salaries Managing Director Jul-Dec	O92			-21,000		OA
	Balance						
31.12.Y1	Effect of Expense Salaries Assistant and Support Staff Jul-Dec	O93			-27,000		OA
	Balance						
31.12.Y1	Effect of Expense Legal and Accounting Consultancy Jul-Dec	O94			-22,800		OA
	Balance						
31.12.Y1	Effect of Expense Office Costs Jul-Dec	O95			-19,800		OA
	Balance						
31.12.Y1	Effect of Expense General Costs Jul-Dec	O96			-29,700		OA
	Balance						
31.12.Y1	Payment on Interest on Loan	O97			-2,374		FA

Ending Cash Balance Exhibit

Statement of Cash Flows First Year							
Date	Transactions	Operations	Beginning Cash Balance	Inflows (+) of Cash	Outflows (-) of Cash	Ending Cash Balance	Activities
		Opening Balances	497,342				
31.12.Y1	Effect of Revenue July to December	O82		240,000			OA
		Balance					
31.12.Y1	Cash Payment for Accrued Expense	O83			-2,400		OA
		Balance					
31.12.Y1	Unearned Income Received	O84		6,453			OA
		Balance					
31.12.Y1	Effect of Purchase of Licenses for Resale	O85			-168,000		OA
		Balance					
31.12.Y1	Effect of Expense Web Site Development	O86			-7,500		OA
		Balance					
31.12.Y1	Effect of Expense Web Site Maintenance	O87			-24,000		OA
		Balance					
31.12.Y1	Effect of Expense in Technical Support Jul-Dec	O88			-12,000		OA
		Balance					
31.12.Y1	Effect of Expense in PR & Marketing Jul-Dec	O89			-9,000		OA
		Balance					
31.12.Y1	Effect of Expense in Marketing Materials Jul-Dec	O90			-12,000		OA
		Balance					
31.12.Y1	Effect of Expense in Promotion Materials Jul-Dec	O91			-14,000		OA
		Balance					
31.12.Y1	Effect of Expense Salaries Managing Director Jul-Dec	O92			-21,000		OA
		Balance					
31.12.Y1	Effect of Expense Salaries Assistant and Support Staff Jul-Dec	O93			-27,000		OA
		Balance					
31.12.Y1	Effect of Expense Legal and Accounting Consultancy Jul-Dec	O94			-22,800		OA
		Balance					
31.12.Y1	Effect of Expense Office Costs Jul-Dec	O95			-19,800		OA
		Balance					
31.12.Y1	Effect of Expense General Costs Jul-Dec	O96			-29,700		OA
		Balance					
31.12.Y1	Payment on Interest on Loan	O97			-2,374		FA
		Balance	497,342	246,453	-371,574		
Adjustments							
1. Prepayments							
	1.1 Expense Insurance July through December	O97 A					
		Balance					
2. Accruals							
	2.1 Electricity and water, phones, mobile, datalines December	O97 B					
		Balance					
3. Depreciation							
	3.1 Depreciation of fixed assets first year	O97 C					
		Balance					
4. Unearned income							
	4.1 Interest earned on bank account balance July to December	O97 D					
		Balance					
5. Inventory Expense							
	Effect of Inventory Expense July through December	O97 E					
		Balance					
End of Period Closing of Retained Earnings Account		O97 F					
		Closing Balances	497,342	246,453	-371,574	372,221	

Vertical Format of Cash Flow Statement Exhibit

Statement of Cash Flows	
First Year	
Cash Flow from Operating Activities	
Cash Receipts from Revenue	246,453
Cash Payments for Expenses	-369,200
Net Cash Flow from Operating Activities (I)	-122,747
Cash Flow from Investing Activities	
Cash Receipts from Bank Account	
Cash Payment for Fixed Assets	
Net Cash Flow from Investing Activities (II)	
Cash Flow from Financing Activities	
Cash Receipt from Bank Borrowing	
Cash Payment from Bank Borrowing	-2,374
Cash Receipt from Capital Acquisition	
Net Cash Flow from Financing Activities (III)	-2,374
Plus Beginning Cash Balance (IV)	497,342
Ending Cash Balance (I) + (II) + (III) + (IV)	372,221

Statement of Equity Exhibit

Statement of Changes in Equity First Year									
Date	Transactions	Operations	Beginning Contributed Capital	Capital Acquisition	Ending Contributed Capital	Beginning Retained Earnings	Plus Net Income	Ending Retained Earnings	Total Equity
		Opening Balances	574,195				240,000		
31.12.Y1	Effect of Revenue July to December	O82							
		Balance							
31.12.Y1	Cash Payment for Accrued Expense	O83							
		Balance							
31.12.Y1	Unearned Income Received	O84							
		Balance							
31.12.Y1	Effect of Purchase of Licenses for Resale	O85							
		Balance							
31.12.Y1	Effect of Expense Web Site Development	O86					-7,500		
		Balance							
31.12.Y1	Effect of Expense Web Site Maintenance	O87					-24,000		
		Balance							
31.12.Y1	Effect of Expense in Technical Support Jul-Dec	O88					-12,000		
		Balance							
31.12.Y1	Effect of Expense in PR & Marketing Jul-Dec	O89					-9,000		
		Balance							
31.12.Y1	Effect of Expense in Marketing Materials Jul-Dec	O90							
		Balance							
31.12.Y1	Effect of Expense in Promotion Materials Jul-Dec	O91							
		Balance							
31.12.Y1	Effect of Expense Salaries Managing Director Jul-Dec	O92					-21,000		
		Balance							
31.12.Y1	Effect of Expense Salaries Assistant and Support Staff Jul-Dec	O93					-27,000		
		Balance							
31.12.Y1	Effect of Expense Legal and Accounting Consultancy Jul-Dec	O94					-22,800		
		Balance							
31.12.Y1	Effect of Expense Office Costs Jul-Dec	O95					-19,800		
		Balance							
31.12.Y1	Effect of Expense General Costs Jul-Dec	O96					-29,700		
		Balance							
31.12.Y1	Payment on Interest on Loan	O97					-2,374		
		Balance							
	Total Unadjusted Balances						64,826		
Adjustments									
1. Prepayments									
	1.1 Expense Insurance July through December	O97 A					-1,800		
		Balance							
2. Accruals									
	2.1 Electricity and water, phones, mobile, datalines December	O97 B					-2,400		
		Balance							
3. Depreciation									
	3.1 Depreciation of fixed assets first year	O97 C					-24,200		
		Balance							
4. Unearned income									
	4.1 Interest earned on bank account balance July through December	O97 D					21,739		
		Balance							
5. Inventory Expense									
	Effect of Inventory Expense July to December	O97 E					-194,000		
		Balance							
End of Period Closing of Retained Earnings Account		O97 F		-135,835			135,835		
	Closing Balances		574,195	-135,835	438,360				438,360

Vertical Format of The Statement of Changes in Equity Exhibit

Statement of Changes in Equity	
For the Period Ending December Y1	
Beginning Contributed Capital	574,195
Initial Issue of Shares	
Ending Contributed Capital (I)	574,195
Beginning Retained Earnings	
Plus Net Income	-135,835
Ending Retained Earnings (II)	-135,835
Total Equity (I) + (II)	438,360