

# 15.511 Corporate Accounting Recitation 2

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June 14, 2004



# Agenda: Recitation 2

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- Journal entry and T-account
  - Rules and exercises
- Cash accounting vs. Accrual accounting
  - Depreciation and Inventory
- Accounting entry for sales, Adjusting entries, and Closing entries
- Textbook problem 3-29

# Journal entries

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- ❑ Assets: debit means increases, credit means decreases
- ❑ Liabilities and Owners' Equity: debit means decreases, credit means increases
- ❑ Revenues: debit means decreases, credit means increases
- ❑ COGS and expenses: debit means increases, debit means decreases

# T-accounts

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## Assets

Increases

Decreases

## Liabilities

Decreases

Increases

## Owners' Equity

Decreases

Increases

## Retained Earnings

Decreases

Increases

## Revenues

Decreases

Increases

## COGS/Expenses

Increases

Decreases

# Journal entry exercises (1)

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Dr. Accounts Receivable  
Cr.

Dr.  
Cr. Accounts Receivable

Dr. Accounts Payable  
Cr.

Dr.  
Cr. Accounts Payable

Dr.  
Cr. Accumulated  
Depreciation

Dr. Retained Earnings  
Cr.

Dr.  
Cr. Prepaid Insurance

# Journal entry exercises (2)

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Dr. Property Tax Payable  
Cr.

Dr. Cost of Good Sold  
Cr.

Dr. Merchandise Inventory  
Cr.

Dr.  
Cr. Revenues

Dr. Advances from  
Customers  
Cr.

Dr.  
Cr. Retained earnings

Dr.  
Cr. Advances to  
Suppliers

# T-account exercise (1)

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## Cash

From owners and lenders, from sales, etc.

Pay owners, pay lenders, purchase raw material, pay employees, etc.

## Account Receivables

Sales

Cash collections, write-offs

## Inventory

Purchase/production

COGS

## PP&E

Purchase or build

Sell PP&E

## Accumulated Depreciation

Sell PP&E

Depreciation expense

# T-account exercise (2)

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## Account payable

Payment	Purchases
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## Long-term debt

Pay principal back	Borrowing
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## Owners' Equity

Dividend, stock repurchase	Contribute capital, retained earnings
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## Retained earnings

COGS, expenses, dividends	Revenues
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## Revenues

Closing to retained earnings	Sales revenue, other revenue
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## COGS/expenses

COGS, expenses, tax expense, etc.	Closing to retained earnings
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# Adjusting entries

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- ❑ Adjusting entries record activities that have taken place, but which have not yet been recorded.
- ❑ Four scenarios
  - Cash first, expenses later: prepaid expense, supplies, PP&E
  - Expenses first, cash later: wage accrued but not paid
  - Cash first, revenues later: unearned revenues (earned as time goes by vs. earned when service delivered)
  - Revenues first, cash later: interest revenues accrued vs. credit sales