Certified Bookkeeper Program

MAKING YOU COUNT

THE INSTITUTE OF CERTIFIED BOOK-KEEPERS

January 12, 19, 26 and February 2, 2007

Holiday Inn Galleria

ADB Ave. Ortigas.

COURSE SYLLABUS

Module 1 – Introduction to accounting

- Basic terms in Accounting
- Types, Nature, and Characteristics of the different businesses
- Basic Elements of Accounting and the accounting Process
- The Accounting Equation in Relation to Business Transactions
- Financial Statements of a Service Business
- Double-Entry Method of Bookkeeping
- Recording in the Books of Accounts
- Terms Peculiar to a Merchandising Business
- Accounting for a Merchandising Business
- Financial Statements of a Merchandising Business

Module 2 – Completing the Accounting Cycle

- Steps in the Accounting Cycle
- The principle of Matching Cost Against Revenue
- Adjustments and their Adjusting Entries
- Preparation of the Worksheet of a Merchandising Business
- Closing Entries and the Post-Closing Balance
- Opening Entry and Reversing Entries

Module 3 – Constructive Accounting

- Internal Control of Cash
- Bank Reconciliation Statement
- Single Entry Method of Bookkeeping
- Reconstruction of Incomplete Records
- Conversion of Single Entry Method into Double Entry Method of Bookkeeping
- Cash Basis Versus Accrual Basis of Accounting
- Errors and Their Corrections
- Analysis and Interpretation of Financial Statements

Module 4 – Special Journals

- Nature of the Accounting System
- The Use of Special Journals
- Subsidiary Ledgers
- Computerized Accounting System
- Voucher System
- The Combination Journal

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Module 1

Introduction to Accounting

LEARNING OBJECTIVES:

1. *Know the definition of accounting and its role in business*

2. *Distinguish the different types and forms of business organization as well as their characteristics.*

3. *Learn the different accounting values or elements.*

4. *Learn the accounting process (functions of accounting).*

5. *Know the accounting equation and its significance.*

6. *Know what a business transaction is and its effect on the accounting elements.*

7. *Learn how to record the business transactions using the double entry method of bookkeeping*

8. *Learn how to prepare the trial balance and how to detect errors posting.*

9. *Learn how to prepare the financial statements of a servicing and trading concern (Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows)*

ACCOUNTING

A service activity whose function is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions. In general sense, ACCOUNTING is an information system that provides reports to stakeholders about economic activities and condition of a business.

ROLE OF ACCOUNTING IN BUSINESS:

1. Help owners or management make decisions.
2. Record and analyze business transactions.
3. Communicate financial information to all interested parties

TYPES OF BUSINESSES:

1. Service Business
2. Merchandising Business
3. Manufacturing Business

TYPES OF OWNERSHIP STRUCTURES:

1. Proprietorship
2. Partnership
3. Corporation
4. Cooperative

Characteristics of the different Forms of Business Organizations:

Proprietorship

1. One owner
2. Unlimited liability for unpaid debts
3. Owner manages the business.

Partnership

1. Two or more owners
2. Unlimited liability for partnership debts
3. There is a managing partner.

Corporation

1. Unlimited owners
2. Limited liability of the stockholders for corporate debts
3. Management is vested in the board of directors (BOD).

Cooperative

1. Unlimited owners
2. Limited liability of the members for the cooperative's debts.
3. Management is vested in the BOD.

BASIC ELEMENTS OF ACCOUNTING:

1. Statement of Financial Position (ie, Balance Sheet)

    Assets

    Liabilities

    Owner's Equity

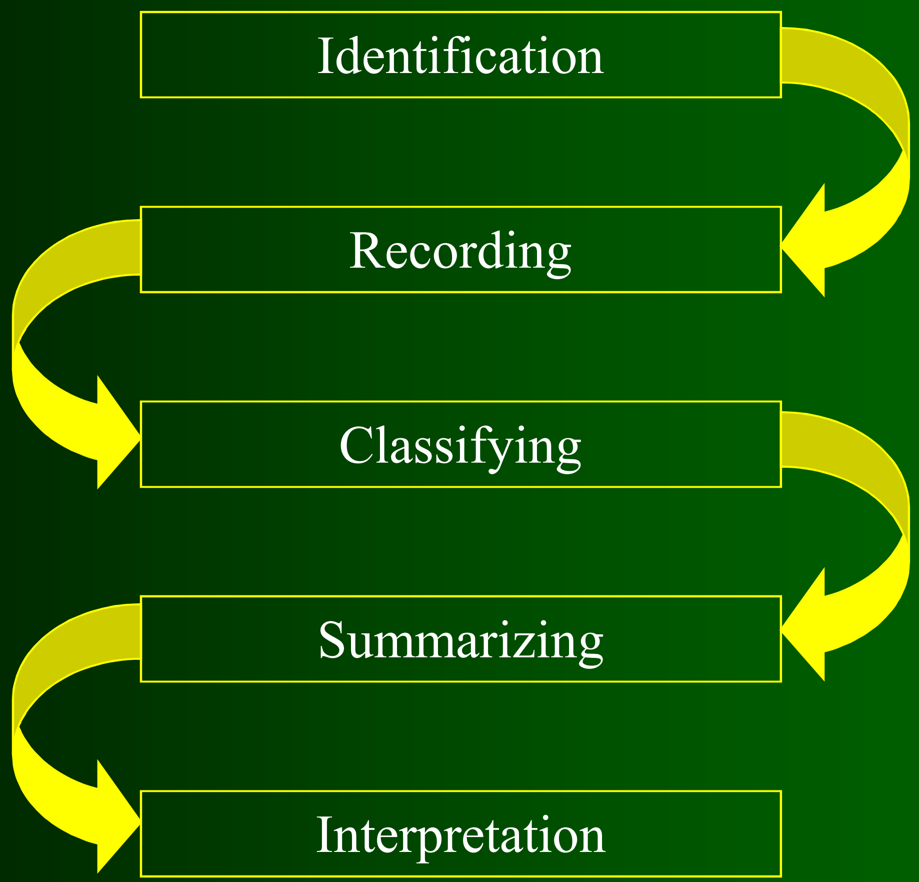
2. Statement of Comprehensive Income (ie, Income Statement)

    Income

    Expenses

    Profit (Loss)

ACCOUNTING PROCESS:



ACCOUNTING EQUATION:

Assets	=	Liabilities	+	Owner's Equity
P500,000	=	P200,000	+	P300,000

or

Assets	-	Liabilities	=	Owner's Equity
P500,000	-	P200,000	=	P300,000

ACCOUNTING EQUATION EXPANDED:

Assets	=	Liabilities	+	Owner's Equity
Cash		Accounts Payable		Owner's Capital
+ Accounts Receivable		+ Bank Loan		- Drawing
+ Supplies				+ Revenues
+ Repair Equipment				- Expenses

BUSINESS TRANSACTIONS:

Business Transaction *is an economic event or condition that directly changes an entity's financial condition or directly affects its results of operations.*

Debit/s (left side)		Credit/s (right side)
Value/s received	=	*Values given up*

Increase in assets are recorded in the left (debit) side of the account while decreases in assets are recorded in the right (credit) side of the account. Conversely, increases in liabilities and owner's equity are recorded by Credits while decreases in liabilities and owner's equity are recorded by Debits.

BUSINESS TRANSACTIONS

Transactions	Debit Value/s received	Credit Value/s given up
1. J. Cruz, invests P200,000 to start an auto repair business.	***Cash***	***J. Cruz, Capital*** *(ownership right)*
2. Cruz, buys repair equipment on credit, P100,000.	***Equipment***	***Accounts Payable*** *(obligation to pay)*
3. Cruz bought Shop Supplies for cash, P62,000.	***Shop Supplies***	***Cash***
4. Paid partial on equipment bought on account, P60,000.	***Accounts Payable*** *(reduction of obligation)*	***Cash***
5. Cruz received a bank loan for business use, P100,00.	***Cash***	***Bank Loan*** *(promise to pay)*
6. Customers pay cash for auto repair rendered, P25,000.	***Cash***	***Repair Income*** *(services)*
7. Repair services rendered on account, P50,000.	***Accounts Receivable*** *(right to collect)*	***Repair Income*** *(services)*

BUSINESS TRANSACTIONS

Transactions	Debit Value/s received	Credit Value/s given up
8. Paid a month's rent, P10,000	***Rent Expense*** *(right to occupy)*	***Cash***
9. Cruz collects partial from customers' account, P30,000.	***Cash***	***Accounts Receivable*** *(reduction to right to collect)*
10. Cruz pays the salaries and wages of laborers, P15,000.	***Salary Expense*** *(employees' service)*	***Cash***
11. Billed a customer, P6,000; P2,000 was partially received.	***Cash*** ***Accounts Receivable*** *(right to collect)*	***Repair Income***
12. Supplies purchased, P15,000 and P5,000 was partially received.	***Shop Supplies***	***Cash*** ***Accounts Payable*** *(obligation to pay)*
13. Shop Supplies used and paid, P18,000.	***Supplies Expense*** *(supplies used)*	***Cash***
14. Cruz withdrew P20,000 for personal use.	***J. Cruz, Drawing*** *(ownership right taken)*	***Cash***

ACCOUNTING EQUATION EXPANDED

(refer to MS Excel Sheet 1)

FINANCIAL STATEMENTS:

Financial Statements *are accounting reports that provide the financial information of the transactions that have been recorded and summarized.*

Principal Financial Statements:

1. Statement of Comprehensive Income

2. Statement of Changes in Equity

3. Statement of Financial Position

4. Statement of Cash Flows

Sample Problem 1:

On July 1 of the current year, Paul Brite started a TV repair business.

1. *He invested P50,000 in cash to start his business.*
2. *Purchased for cash shop supplies worth P3,500.*
3. *Bright bought repair equipment worth P20,000 on credit.*
4. *Customers paid P12,000 cash for repair services rendered.*
5. *Brite made a partial payment to A & G Company. P15,000.*
6. *Customers were billed on account P14,000 for repair services rendered.*
7. *Rental for the month of July was paid, P6,000.*
8. *Collected P8,000 from customers as payment of their account.*
9. *Paid wages of assistant helper for the month of July, P4,000.*
10. *Bought additional shop supplies costing P7,500. A down payment of P3,000 was made and the balance is payable at the end of the month.*
11. *Repair services rendered, P9,000. Received P4,500 as partial payment.*
12. *Repair supplies bought for cash and used for repairs amounted to P6,500.*
13. *Brite withdrew P10,000 for personal use.*

Required:

a. Record the peso amount under the appropriate heading below on the accounting equation to show the effect of each transaction. Show the balance after the second transaction and there after and their final balances.

Assets	*= Liabilities*	*+*	*Owner's Equity*
Cash + A/R + Supplies + Equipment	*Accounts Payable*		*P. Brite Capital* *+ Revenues* *- Expenses*

b. Prepare the following financial Statements.

- *Statement of Comprehensive Income for the month ended July 31 of the current year.*
- *Statement of Changes in Equity for the month ended July 31 of the current year.*
- *Statement of Financial Position as of July 31 of the current year.*
- *Statement of Cash Flow for the month ended July 31 of the current year.*

SOLUTION FOR PROBLEM 1 *(refer to MS Excel Sheet 2)*

DOUBLE-ENTRY ACCOUNTING:

Double-entry accounting *is a record keeping in which each business transactions affects at least two accounts*.

The double-entry system *is used because you are entering the transaction amount twice.*

T - ACCOUNT

The T account*, so called because of its* T *shape, is used to show the increase or decrease in an account caused by a transaction.*

Top

Left side (debit)	**Right side (credit)**

Account Title

Debit	**Credit**

RULES OF DEBIT AND CREDIT:

Rules for Asset Accounts

Asset Accounts	
Debit	Credit
Increase +	Decrease -
Balance	

1. Add (increase) on the same side (debit).
2. Subtract (decrease) on the opposite side (credit).
3. The normal balance for an asset is a debit balance.

Rules for Liability and Owner's Equity Accounts:

Asset Accounts	
Debit	Credit
Increase +	Decrease -
Balance	

1. Add (increase) on the same side (credit).
2. Subtract (decrease) on the opposite side (debit).
3. The normal balance for a liability or owner's equity account is a credit balance.

USING THE T - ACCOUNT:

Example Problem 1.

On July 1 of the current year, Paul Brite started a TV repair business.

July 1 He invested P50,000 in cash to start his business.
3 Purchased for cash shop supplies worth P3,500.
5 Bright bought from A & G Company repair equipment costing P20,000 on credit.
8 Customers paid P12,000 cash for repair services rendered.
10 Brite made a partial payment to A & G Company, P15,000.
12 Customers were billed on account P14,000 for repair services rendered.
14 Rental for the month of July was paid, P6,000.
17 Collected P8,000 from customers as payment of their account.
19 Paid wages of assistant helper for the month of July, P4,000.
22 Bought additional shop supplies costing P7,500. A down payment of P3,000 was made and the balance is payable at the end of the month.
25 Repair services rendered, P9,000. Received P4,500 as partial payment.
28 Repair supplies bought for cash and used for repairs amounted to P6,500.
31 Brite withdrew P10,000 for personal use.

Solution Sample Problem 2-a

T - ACCOUNTS

Cash

7/1	50,000	7/3	3,500
7/8	12,000	7/10	15,000
7/17	8,000	7/14	6,000
7/25	4,500	7/19	4,000
		7/22	3,000
		7/28	6,500
		7/31	10,000
	74,500		48,000
Bal.	26,500		

Accounts Receivable

7/12	14,000	7/17	8,000
7/25	4,500		
	18,500		8,000
Bal.	10,500		

Repair Equipment

7/5	20,000		
Bal.	20,000		

Shop Supplies

7/3	3,500		
7/22	7,500		
Bal.	11,000		

Accounts Payable

7/10	15,000	7/5	20,000
		7/22	4,500
	15,000		24,500
		Bal.	9,500

Paul Brite, Capital

		7/1	50,000
		Bal.	50,000

Paul Brite, Drawing

7/31	10,000		
Bal.	10,000		

Repair Income

		7/8	12,000
		7/12	14,000
		7/25	9,000
			35,000
		Bal.	35,000

Salary Expense

7/19	4,000		
Bal.	4,000		

Rent Expense

7/14	6,000		
Bal.	6,000		

Supplies Expense

7/28	6,500		
Bal.	6,500		

TRIAL BALANCE:

A Trial Balance *is a listing of all the balances of the different accounts (assets, liabilities, capital, revenues and expenses), as of a given time.*

Purpose of the Trial Balance

1. To check the accuracy of posting (recording in the T accounts) by testing the equality of the debits and credits.

2. It aids in locating errors posting.

3. It serves as a basis in the preparation of the financial statements.

Solution Sample Problem 2-b

PAUL BRITE TV REPAIR
Trial Balance
July 31, 20CY

ACCOUNT TITLE	*DEBIT*	*CREDIT*
Cash	*P 26,500.00*	
Accounts Receivable	*10,500.00*	
Shop Supplies	*11,000.00*	
Repair Equipment	*20,000.00*	
Accounts Payable		*P 9,500.00*
P. Brite, Capital		*50,000.00*
P. Brite, Drawing	*10,000.00*	
Repair Income		*35,000.00*
Salary Expense	*11,000.00*	
Rent Expense	*20,000.00*	
Supplies Expense	*20,000.00*	
	P 94,500.00	*P 94,500.00*

BUSINESS TRANSACTION FLOW:

Source Documents

Journal Entries

Ledger Accounts

Trial Balance

Financial Statements

BUSINESS TRANSACTION FLOW:

Source Documents *are the different documents, business forms and papers (e.g. invoices, official receipts, vouchers, memoranda, deposit slips, check stubs, cash register tapes, payroll time cards, etc.) evidencing or supporting a transaction, which serve as the basis for recording in the books of accounts.*

Books of Accounts *are the accounting books where business transactions are recorded. The books of accounts consist of the GENERAL JOURNAL and the GENERAL LEDGER.*

The General Journal *this is a two-column journal, which is called the book of origin entry because this is the first book where the business transactions are recorded.*

The General Ledger *this is called the book of final entry because this is the book where the business transactions are finally recorded. The ledger serves the same purpose as the T account but more formal and detailed.*

THE GENERAL JOURNAL:

General Journal *is an all purpose journal in which all of a business's transactions may be recorded.*

Each entry made in the general journal includes the following information, entered in order.

1. *The date of the transaction.*
2. *The name of the account debited as well as the amount.*
3. *The name of the account credited as well as the amount.*
4. *A posting reference (PR) indicating the account number of the amount.*
5. *A short explanation of the transaction.*

SAMPLE GENERAL JOURNAL FORM

Amount Credited

Date – Month/ Day

Amount Debited

GENERAL JOURNAL					
Date		Description	PR	Debit	Credit
July	*1*	*Cash*		*50,000.00*	
		Paul Brite, Capital			*50,000.00*
		To record initial investment.			

Account Title Debited

Explanation

Account Title Credited

Post Reference

CHART OF ACCOUNTS:

Chart of Accounts

A listing of all accounts and their account (code) number used for journalizing business transactions.

Sample Chart of Accounts (Service Business)

Balance Sheet Accounts

100 – *Assets*

101 – *Cash*
102 – *Accounts Receivable*
104 – *Office Supplies*
105 – *Prepaid Rent*
121 – *Delivery Equipment*
122 – *Accumulated Depreciation – Delivery Equipment*

200 – *Liabilities*

201 – *Accounts Payable*
202 – *Salaries Payable*

300 – *Owner's Equity*

301 – *Brandon Lopez, Capital*
302 – *Brandon Lopez, Drawing*
303 – *Income Summary*

Income Statement Accounts

400 – *Income*

401 – *Delivery Fees*

500 – *Expenses*

501 – *Salary Expense*
502 – *Advertising Expense*
503 – *Communication Expense*
504 – *Office Supplies Expense*
505 – *Rent Expense*
506 – *Insurance Expense*
507 – *Miscellaneous Expense*
508 – *Depreciation Expense*

Example Problem 3

Nestor Martel, a Lawyer decided to open a law firm named Martel Law Firm. The partial chart of accounts listed below is used for recording purposes:

Statement of Financial Position Accounts

100 – *Assets*

101 – *Cash*
102 – *Accounts Receivable*
105 – *Prepaid Insurance*
106 – *Office Supplies*
108 – *Furniture and Equipment*

200 – *Liabilities*

201 – *Accounts Payable*

300 – *Owner's Equity*

301 – *Nestor Martel, Capital*
302 – *Nestor Martel, Drawing*

Statement of Comprehensive Income Accounts

400 – Income

401 – *Fees Earned*

200 – *Expenses*

501 – *Salary Expense*
503 – *Advertising Expense*
504 – *Utilities Expense*
509 – *Miscellaneous Expense*

Required:

a. Journalize the above transactions in the general journal.
b. Post each journal entry to the general ledger.
C. Prepare a trial balance at December 31 of the current year.

In December of the current year, the following transactions to place

Dec 2 Nestor Martel invested P60,000 cash to start his law practice.
4 A one-year insurance effective December 2 was paid, P6,000.
6 Office furniture worth P15,000 was purchased on account from EZ Furniture Company.
8 Office and computer supplies costing P2,500 was bought for cash.
11 Received from City Bank P60,000 for loan applied to be used in his law practice.
14 Purchased on credit a desktop computer and printer for office use worth P60,000 for Micro Systems Inc.
16 Received P12,500 cash for legal services rendered to Jose Lopez.
18 Paid P1,000 for Miscellaneous expenses incurred.
20 Received P10,500 cash for legal services rendered to clients.
22 Advertising placed on a local paper for three months effective December 1, was paid, P3,600.
25 Micro Systems, Inc. was partially paid, P45,000.
26 Collected accounts from various clients, P7,500.
27 Light, water and telephone use for the month of December was paid to the property-owner, P1,500 (Utilities expense)
28 The salary of the legal secretary was paid, P5,500.
29 Nestor Martel withdrew P12,000 for personal use.
30 Received P5,000 for legal services rendered.

SOLUTION FOR SAMPLE PROBLEM 3

(refer to MS Excel Sheet 3)

THE GENERAL LEDGER:

General Ledger *is a book or file used by a business where accounts are kept on separate pages or cards.*

Account Name

Account Number

GENERAL LEDGER							
Accounts Receivable							102
Date		Explanation	PR	Debit	Credit	Balance	
						Debit	Credit
Dec	*24*		*G2*	*16,400.00*		*16,400.00*	
	26		*G2*		*7,500.00*	*8,900.00*	

Date of Entry

Posting Reference for each entry

Amount of Debit/Credit Entry

Running Balance after each entry

EXAMPLES OF LEDGERS

(Solution Sample Problem 3-b)

(refer to MS Excel Sheet 4)

TRIAL BALANCE:

A trial balance *in which debits equals credits is not necessarily error-free. A trial balance may contain errors but still look correct if:*

1. *No entry was made for a given transactions.*
2. *A journal entry was not posted to the general ledger.*
3. *A journal entry was posted twice.*
4. *Incorrect amounts were used to record a given transaction.*
5. *Incorrect amounts were recorded for a given transaction.*

Transposition Error *Example: P864 is written or posted as P684 or P468.*

Slide Error *Example: P684.00 is written or posted as P68.40 or P6.84.*

Procedure to Correct Errors in Journalizing and Posting:

1. *Draw a straight horizontal-line through the error and insert the correct title or amount if the entry is incorrect or the posting is incorrect.*
2. *Make a correcting entry and post it to correct wrong entry already posted.*

Correcting Entry *is an entry made in the general journal to correct an error discovered.*

NATURE AND ACCOUNTING FOR MERCHANDISING BUSINESS:

Sales – Cost of Goods Sold = Gross Profit
Gross Profit – Marketing and Administrative Expenses = Profit

Merchandise *are goods bought for resale.*

Merchandise Inventory *unsold merchandise at the end of a given period.*

Fees Earned or Service Income – Operating Expenses + Net Income

ACCOUNTING FOR PURCHASES:

Two methods or system for accounting for merchandise purchases

1. Periodic Inventory
2. Perpetual Inventory System

TERMS TO REMEMBER:

Purchase Requisition - *written request to order items.*

Purchase Order - *buyer's formal order for the merchandise.*

Purchase Invoice - *document containing the list of terms and quantity, description, unit price, vat and total cost of the items.*

Cash or COD

2/10, n/30

2/EOM, n/60

2/10/EOM, n/60

Credit Terms

Credit Period

Purchase Discount - *discount for the buyer's early payment.*

Discount Period - *period of time within w/c the invoice must be paid.*

Trade Discount - *special discount from the published list prices offered to large buyers.*

TERMS TO REMEMBER:

Transportation In - *transportation cost of merchandise purchased.*

FOB Shipping Point - *buyer is responsible for the freight charges for the merchandise from the supplier's shipping point.*

FOB Destination - *seller is responsible for the freight charges for the merchandise until it reaches the buyer's destination.*

Freight Collect - *buyer is to pay for the freight when the merchandise arrives.*

Freight Prepaid - *seller pays for the freight at the time of the shipment.*

Purchase Returns and Allowances - *reduction in purchases due to buyer's return of merchandise to the seller.*

Debit Memorandum - *a form used by the buyer to notify the seller of a return of merchandise or allowance for damaged merchandise.*

Credit Memorandum - *a form used by the seller to notify the buyer that his account has been credited for the returned merchandise or allowance for damaged merchandise.*

RECORDING PURCHASES AND PAYMENT OF ACCOUNT: (Gross Method)

Note: The amount P10,000 for the purchases of merchandise and 12% Vat excluded is used for all the examples.

Example 1: June 1 - Purchased merchandise worth P10,000 for cash per invoice No. 3857.

Entry:	*June 1*	*Purchases*	*10,000*	
		Vat input tax	*1,200*	
		Cash		*11,200*

Note: If the invoice amount is VAT inclusive, divide the amount by 11 to remove the Vat input tax and reduce cash.

Entry:	*June 1*	*Purchases*	*10,000*	
		Cash		*10,000*

Example 2: June 1 - Purchased merchandise with a list price of P10,000 for cash per invoice No. 3857. Trade discount: 10% and 15%.

Entry:	*June 1*	*Purchases*	*7,650*	
		Vat input tax	*918*	
		Cash		*8,568*

Computation: 10,000 x 90% x 85%

Note: The net invoice amount is the list price deducted by the trade discounts.

Example 3: June 2 - Purchased merchandise worth P10,000 on account per Credit Invoice No. 1860. Terms: 15 days.

Entry:	*June 2*	*Purchases*	*10,000*	
		Vat input tax	*1,200*	
		AP		*11,200*

Note: If the purchase is a non-vat transaction, just remove Vat input tax and reduce Accounts Payable.

Entry:	*June 2*	*Purchases*	*10,000*	
		Accounts Payable		*10,000*
Payment	*June 17*	*Accounts Payable*	*11,200*	
		Cash		*11,200*

Note: If the purchase is a non-vat, Accounts Payable payment will be P10,000.

Example 4: June 2 - Purchased merchandise with a list price of P10,000 on account per Credit Invoice No. 1860. Terms: 2/10, n/30

Entry:	*June 2*	*Purchases*	*10,000*	
		Vat input tax	*1,200*	
		AP		*11,200*
Payment	*June 17*	*Accounts Payable*	*11,200*	
		Cash		*11,000*
		Purchase Discount		*200*

Note: Discount is computed based on the merchandise cost without Vat. If the invoice is paid after June 12, there will be no cash discount.

Example 4: If the terms is: 2/EOM, n/60

Payment	*June 30*	*Accounts Payable*	*11,200*	
		Cash		*11,000*
		Purchase Discounts		*200*

Note: If the invoice is paid after June 30, there will be no cash discounts.

Example 4: If the terms is: 2/10/EOM, n/60

Payment	*July 10*	*Accounts Payable*	*11,200*	
		Cash		*11,000*
		Purchase Discounts		*200*

Note: If the invoice is paid after July 10, there will be no cash discounts.

Example 5: June 4 - Purchased merchandise with a list price of P10,000 on account per Credit Invoice No. 1865. Trade discount is 20% and 10%. Terms: 2/10, n/30

Entry:	*June 4*	*Purchases*	*7,200*	
		Vat Input Tax	*864*	
		Accounts Payable		*8,064*
		Computation: 10,000 X 80% X 90%		
Payment	*June 14*	*Accounts Payable*	*8,064*	
		Cash		*7,920*
		Purchase Discount		*144*
		Discount: 7,200 X 2%		

Note: If the invoice is paid after June 14, there will be no cash discounts.

Example 6: June 6 - Received merchandise with a price of P10,000 on account per Credit Invoice No. 1870. FOB Shipping Point, Freight Prepaid by the seller, P1,000. Terms: 2/10, n/30

Entry:	*June 6*	*Purchases*	*10,000*	
		Transportation In	*1,000*	
		Vat Input Tax	*1,320*	
		Accounts Payable		*12,320*
Payment	*June 16*	*Accounts Payable*	*12,320*	
		Cash		*12,120*
		Purchase Discounts		*200*

Note: Freight or transportation cost is not included in computing the discount.

Example 7: June 6 - Received merchandise with a price of P10,000 on account per Credit Invoice No. 1870. FOB Shipping Point, Freight Collect by the seller, P1,000. Terms: 2/EOM, n/60

Entry:	*June 6*	*Purchases*	*10,000*	
		Vat Input Tax	*1,200*	
		Accounts Payable		*11,200*
		Transportation In	*1,000*	
		VAT Input Tax	*120*	
		Cash		*1,120*
Payment	*June 30*	*Accounts Payable*	*11,200*	
		Cash		*11,000*
		Purchase Discounts		*200*

Example 8: June 8 - Received merchandise with a price of P10,000 on account per Credit Invoice No. 1880. FOB Destination, Freight Prepaid, P1,000. Terms: 2/10, n/30

Entry:	*June 8*	*Purchases*	*10,000*	
		Vat Input Tax	*1,200*	
		Accounts Payable		*11,200*
Payment	*June 18*	*Accounts Payable*	*11,200*	
		Cash		*11,000*
		Purchase Discounts		*200*

Example 9: June 8 - Received merchandise with a price of P10,000 on account per Credit Invoice No. 1890. FOB Destination, Freight Collect, P1,000. Terms: 2/EOM, n/60

Entry:	*June 8*	*Purchases*	*10,000*	
		Vat Input Tax	*1,200*	
		Accounts Payable		*10,080*
		Cash		*1,120*
Payment	*July 10*	*Accounts Payable*	*10,080*	
		Cash		*9,880*
		Purchase Discounts		*200*

Note: Freight cost paid is deducted from accounts payable and the discount is computed from the invoice cost of the merchandise.

Example 10: June 2 - Purchased merchandise with a price of P10,000 on account per Credit Invoice No. 1900. Terms: 2/10, n/30.

June 4 - Received credit memorandum from the seller for the return of merchandise, P2,000.

Entry:	*June 2*	*Purchases*	*10,000*	
		Vat Input Tax	*1,200*	
		Accounts Payable		*11,200*
Return	*June 4*	*Accounts Payable*	*2,240*	
		Vat Input Tax		*240*
		Purchase Returns and Allowances		*2,000*
Payment	*June 12*	*Accounts Payable*	*8,960*	
		Cash		*8,800*
		Purchase Discounts		*160*

Note: Discount is computed after returns and allowances are deducted from the invoice cost of the merchandise. When partial payments are made on a particular invoice within the discount period, cash discount is not yet allowed. Cash discount is allowed only if the invoice cost of the merchandise net of returns and allowances are paid in full within the discount period.

RECORDING PURCHASES AND PAYMENT OF ACCOUNT: (Net Method)

Using Example 10 transaction without merchandise returns:

Entry:	*June 2*	*Purchases*	*9,800*	
		Vat Input Tax	*1,200*	
		Accounts Payable		*11,000*
Return	*June 12*	*Accounts Payable*	*11,000*	
		Cash		*11,000*

Note: If paid after the discount period, purchase Discount Loss is debited.

Payment	*June 30*	*Accounts Payable*	*11,000*	
		Purchase Discount Lost	*200*	
		Cash		*11,200*

RECORDING PURCHASES AND PAYMENT OF ACCOUNT: (Net Method)

Using Example 10 transaction with merchandise returns:

Entry:	*June 2*	*Purchases*	*9,800*	
		Vat Input Tax	*1,200*	
		Accounts Payable		*11,000*
Return	*June 4*	*Accounts Payable*	*2,200*	
		Vat Input Tax		*240*
		Purchase Returns and Allowances		*1,960*
Payment	*June 12*	*Accounts Payable*	*8,800*	
		Cash		*8,800*

Note: If paid after the discount period, purchase Discount Loss is debited.

Payment	*June 30*	*Accounts Payable*	*8,800*	
		Purchase Discount Lost	*160*	
		Cash		*8,960*

ACCOUNTING FOR SALES:

Credit Memo *is a form used by the seller to notify the buyer that his account is credited (the amount is reduced) for the return of detective merchandise or allowance for damaged merchandise.*

Sales Discount *is a discount granted by the seller for early collection on a credit sale.*

Sales Returns and Allowances *are reduction in Sales, resulting from merchandise being returned by the customer.*

Transportation Out *represents transportation costs of merchandise sold and shouldered by the business.*

Freight Out *this represents the cost of transporting the merchandise sold from the seller's place to the buyer's place which is to be shouldered by the seller (business).*

RECORDING SALES AND COLLECTION OF ACCOUNT:

Note: The amount P15,000 for the purchases of merchandise and 12% Vat excluded is used for all the examples.

Example 1: June 2 - Sold merchandise worth P15,000 for cash per invoice No. 1001.

Entry:	*June 2*	*Cash*	*16,800*	
		Sales		*15,000*
		Vat output tax		*1,800*

Note: If the sale is a non-vat transaction, just remove Vat Output Tax and reduce cash.

Entry:	*June 2*	*Cash*	*15,000*	
		Sales		*15,000*

Example 2: June 3 - Sold merchandise worth P15,000 for cash per Credit invoice No. 101. Terms: 15 days

Entry:	*June 3*	*Accounts Receivable*	*16,800*	
		Sales		*15,000*
		Vat Output Tax		*1,800*
Payment	*June 18*	*Cash*	*16,800*	
		Accounts Receivable		*16,800*

Note: Vat Output Tax minus Vat Input tax is remitted to the government.

Example 3: June 4 - Sold merchandise worth P15,000 per credit invoice No. 102. Terms: 2/10, n/30.

Entry:	*June 4*	*Accounts Receivable*	*16,800*	
		Sales		*15,000*
		Vat output tax		*1,800*

Note: If the sale is a non-vat transaction, just remove Vat output tax and reduce Cash.

Entry:	*June 4*	*Accounts Receivable*	*16,800*	
		Sales		*15,000*
		Vat Output Tax		*1,800*
Payment	*June 14*	*Cash*	*16,500*	
		Sales Discount	*300*	
		Accounts Receivable		*16,800*

Note: If the sale is a non-vat, Accounts Receivable credit will be P15,000.

Example 4: June 5 - Sold merchandise worth P15,000 on account per Credit Invoice No. 103. FOB Shipping Point freight Collect, P1,000. Terms: 2/10, n/30

Entry:	*June 5*	*Accounts Receivable*	*16,800*	
		Sales		*15,000*
		Vat output tax		*1,800*
Payment	*June 16*	*Cash*	*16,500*	
		Sales Discount	*300*	
		Accounts Receivable		*16,800*

Note: The entries are the same as Example 3 because transportation costs are shouldered by the customer and will be paid by the customer.

Example 5: June 6 - Sold merchandise worth P15,000 per Credit Invoice No. 104. FOB Shipping Point, Freight Prepaid, P1,000. Terms: 2/10, n/30

Entry:	*June 6*	*Accounts Receivable*	*17,800*	
		Sales		*15,000*
		Vat output tax		*1,800*
		Cash		*1,000*
Payment	*June 6*	*Cash*	*17,500*	
		Sales Discount	*300*	
		Accounts Receivable		*17,800*

Note: The transportation costs prepaid is charged to the customer's account.

Example 6: June 7 - Sold merchandise with a price of P15,000 per Credit Invoice No. 105. FOB Destination, Freight Collect, P1,000. Terms: 2/10, n/30

Entry:	*June 9*	*Accounts Receivable*	*15,800*	
		Transportation Out	*1,000*	
		Sales		*15,000*
		Vat output tax		*1,800*
Payment	*June 19*	*Cash*	*15,500*	
		Sales Discount	*300*	
		Accounts Receivable		*15,800*

Note: Transportation costs paid by the customer is deducted to the customer's account.

Example 7: June 8 - Sold merchandise worth P15,000 per Credit Invoice No. 106. FOB Destination, Freight Collect, P1,000. Terms: 2/10, n/30. Merchandise was received on June 10.

Entry:	*June 10*	*Accounts Receivable*	*16,800*	
		Transportation Out	*1,000*	
		Sales		*15,000*
		Vat output tax		*1,800*
		Cash		*1,000*
Payment	*June 19*	*Cash*	*16,500*	
		Sales Discount	*300*	
		Accounts Receivable		*16,800*

Example 8: June 9 - Sold merchandise worth P15,000 per Credit Invoice No. 107. Terms: 2/10, n/30.

June 10 - Received merchandise returns from the customer P2,000 and issued credit memorandum No. 001 (Assume Vat Excluded).

Entry:	*June 9*	*Accounts Receivable*	*16,800*	
		Sales		*15,000*
		Vat output tax		*1,800*
Return:	*June 10*	*Sales Returns and Allow*	*2,000*	
		Vat Output Tax	*240*	
		Accounts Receivable		*2,240*
Payment	*June 19*	*Cash*	*14,300*	
		Sales Discount	*260*	
		Accounts Receivable		*14,560*

SALES AND RELATED ACCOUNTS:

- *Sales*
- *Sales Returns and Allowances*
- *Sales Discounts*
- *Freight Out*

PURCHASES AND RELATED ACCOUNTS:

- *Purchases*
- *Purchase Returns and Allowances*
- *Purchase Discounts*
- *Freight In*
- *Merchandise Inventory*

COST OF GOODS SOLD:

- *Merchandise Inventory*
- *Purchases*
- *Transportation In*
- *Purchase Returns and Allowances*
- *Purchase Discounts*

Cost of Goods Sold and Gross Profit

Net Sales			x
Less: Cost of Goods Sold:			
Merchandise Inventory, beginning.		x	
Add: Purchases	x		
Freight-in	x		
Purchases discounts	(x)		
Purchases ret and allow	<u>(x)</u>		
Net Purchases		<u>x</u>	
Total goods available for sale		x	
Less: Merchandise Inventory, ending		<u>x</u>	
Cost of goods sold			<u>x</u>
Gross profit			<u>x</u>

Statement of Comprehensive Income (by function)

Net Sales	x
Less: Cost of Goods Sold	x
Gross profit	x
Other income	x
Marketing expenses	(x)
Administrative expenses	(x)
Financing expense	(x)
Profit before tax	x
Less: Income tax	x
Profit	x