

Any liability account
or owner's equity account.

Debit (Dr.) مدین	Credit (Cr.) دائن
Decrease نقصان	Increase زيادة

Summary statement of the rules of **debit** and **credit**:

Assets Accounts	Liabilities and Owner's Equity Accounts
-Increases are recorded by debit sides. -Decreases are recorded by credit sides.	-Increases are recorded by credit sides. - Decreases are recorded by debit sides.

The following exercises illustrate the previous rules:

Exercise (3)

Assume that AL- Quds Company decided to purchase a building for IQD 100000 (in IQD Thousands).The company has the following sources of financing:

- 1- Paid the price cash or by check.
- 2- Received a loan from the bank.
- 3- Purchased building on credit which means there is a new liability.
- 4- Signed a note payable to pay an amount in the future.

The following shows the effect on balance sheet equation:

Assets = liabilities + owner's equity

- (1)+ Building - cash = No effect
- (2)+ Building = + loan from bank
- (3)+ Building = + accounts payable
- (4)+ Building = + Notes payable

We debit building account since assets are increased by the value of the building and:

- 1- Cash (A/c) is credited since cash (asset account) is decreased.
- 2- Loan (A/c) is credited since loan is increased as liability account.
- 3- Accounts payable is credited since it is increased as a liability account.
- 4- Notes payable for same reason showed in (3) above.

Here the journal entries for the four cases of financing the transaction of purchase a building:

(Amounts in thousands)

No.	Debit Credit		Debit	Credit
1:	Dr. Cr.	Building A/c Cash A/c	100000	100000
2:	Dr. Cr.	Building A/c Bank's loan A/c	100000	100000
3:	Dr. Cr.	Building A/c Accounts Payable A/c	100000	100000

4:	Dr.	Building A/c	100000	
	Cr.	Notes payable A/c		100000

2- General Rules of Journal قواعد عامة لليومية

The following table summarizes the debit and credit rules on the affected accounts:

Category	Increase	Decrease
Assets	Debit	Credit
Liabilities	Credit	Debit
Capital	Credit	Debit
Expenses & Losses	Debit	Credit
Revenues & gains	Credit	Debit

Exercise (4)

Mustafa started his business by the following transactions (Amounts in Thousands) :-

- 1- Capital invested by Mustafa for cash IQD 100000.
- 2- Purchased land for cash IQD 15000.
- 3- Purchased furniture from Suhail on account for IQD 900.
- 4- Paid for sundry expenses IQD 270.
- 5- Purchased goods from Al-Amanah Company for IQD 3400, paying cash IQD 1400, and the balance on credit.
- 6- Received cash as commission IQD 70.
- 7- Sold goods to Zuher on account IQD 2650.

Required: Use accounting equation to show their effects on assets, liabilities and capital.

Solution: Accounting Equation (Amounts in Thousands)

No	Explanation	Assets					Liabilities + owner's equity	
		Cash	Goods	Account receivable	Furniture	Land	Account Payable	Mustafa capital
1 2	Capital invested cash Purchased land cash	+ 100000 (-) 15000				+ 15000		+ 100000
3	Balances purchased furniture on account	85000			+ 900	15000	+ 900	100000
4	Balances Paid sundry expenses	85000 (-) 270			900	15000	900	100000 (-) 270
5	Balances Purchased goods for cash and on account	84730 (-) 1400	+ 3400		900	15000	900 + 2000	99730
6	Balances Received cash as commission	83330 + 70	3400		900	15000	2900	99730 + 70
7	Balances Sold goods on account	83400	3400 (-)2650	+ 2650	900	15000	2900	99800
	Total	83400	750	2650	900	15000	2900	99800

Assets = Liabilities + Owner's equity

Total Assets = Total Liabilities

(83400 + 750 + 2650 + 900 + 15000) = 2900 + 99800

$$102700 = 102700$$

We can prepare this accounting equation by simple balance sheet:

Balance sheet

Assets	IQD	Liabilities & Owner's equity	IQD
Cash	83400	Account Payable	2900
Goods	750	Mustafa capital	99800
Account receivable	2650		
Furniture	900		
Land	15000		
Total	102700	Total	102700

Exercise (5)

- September 1: Amar had opening his services office by brought IQD 50000 cash (Amounts in Thousands).
- Sep.10: he had a Loan from the bank of investment IQD 20000, and deposited it in his account.
- Sep.12: bought furniture for IQD 13000 and paid the amount cash.
- Sep.15: provided services to clients for cash IQD 3000 .
- Sep.19: bought stationery from Al-Muthana Trading for IQD 250 on credit.
- Sep.20: amount IQD 200 paid to AL-Muthana Trading .
- Sep.21: performed services to AL-Warkaa' stores for IQD 2500 , collection IQD 1500 cash .
- Sep.22: paid by check IQD 800 for office rent.
- Sep.26: IQD 500 another amount collected from AL-Warkaa' stores.
- Sep.30: drawn amount of IQD 400 cash for person use.

Required: Prepare tabular summary of the transactions under form of Accounting Equation.

Solution:

Accounting Equation (Amounts in Thousands)

NO	Explanation	Assets					Liabilities + owners equity		
		Cash	Bank	Furniture	stationery	Account Receivable	Loan	Accounts Payable	AMAR'S Capital
1	Capital invested cash	+50000							+ 50000
10	Loan from bank deposit In account		+20000				+ 20000		
12	Balances Bought furniture cash	50000 (-)13000	20000	+13000			20000		50000
15	Balances Provided services cash	37000 +3000	20000	13000			20000		50000 + 3000
19	Balances Bought stationery on Credit from Al-Muthana Trading	40000	20000	13000	+ 250		20000	+ 250	53000
20	Balances Paid cash to AlMuthana Trading	40000 (-) 200	20000	13000	250		20000	250 (-) 200	53000
21	Balances Performed service to AL-Warkaa' on cash on credit	39800 + 1500	20000	13000	250	+ 1000	20000	50	53000 + 2500
22	Balances Paid the rent by check	41300	20000 (-) 800	13000	250	1000	20000	50	55500 (-) 800
26	Balances Amount collected from AL-Warkaa'	41300 + 500	19200	13000	250	1000 (-) 500	20000	50	54700
30	Balances Drawings cash for Personal use	41800 (-) 400	19200	13000	250	500	20000	50	54700 (-) 400
Total		41400	19200	13000	250	500	20000	50	54300

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

$$\begin{aligned} \text{Total Assets} &= \text{Total Liabilities} \\ (41400 + 19200 + 13000 + 250 + 500) &= 20000 + 50 + 54300 \\ 74350 &= 74350 \end{aligned}$$

Balance sheet

Assets	IQD	Liabilities & Owner's equity	IQD
Cash	41400	Loan	20000
Bank	19200	Accounts payable	50
Account receivable	500	AMAR'S Capital	54300
stationery	250		
Furniture	13000		
Total	74350	Total	74350

G- ELEMENTS OF ACCOUNTING STATEMENTS

عناصر القوائم المحاسبية

◆ **Assets** (الموجودات) الأصول

Assets are items with money value that are owned by a business. Some examples are: cash, accounts receivable (selling goods or services on credit), equipment (office, store, delivery, etc.), and supplies (office, store, delivery, etc.).

◆ **Fixed Assets** الأصول الثابتة

Fixed assets are acquired by the firm its productive operations and not for resale. Fixed Assets include land, building, fixtures, and equipment. Sometimes called long-term assets, long-lived assets, or plant and equipment.

◆ **Current Assets** الأصول المتداولة

FASB was defined the current assets as follows: they are economic benefits owned by a firm which are reasonably expected to be converted into cash or used up during the entity's normal operating cycle or one year, whichever is longer.

Current assets constitute cash, items expected to be realized in cash, sold or consumed during operating cycle of the business or one year, whichever is longer.

Current assets are defined "Cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business". Items are included under current assets on the basis of whether they are expected to be realized within one year or within the normal operating cycle of the enterprise, whichever is the longer.

The classification of current assets, one typically finds the following:

◆ **Inventories** المخزون

Inventories include those items of tangible property that are:

- (1) Held for sale in the ordinary course of business,
- (2) Used in process of production for such sale.

The cost of inventory includes all expenditures that were incurred directly or indirectly to bring an item to its existing condition and location.

◆ **Accounts Receivables** الحسابات المدينة

Accounts receivables encompass (يشمل) monetary claims against debtors of the firm. The term of accounts receivable is commonly used to refer to (يوصف، يشير إلى) receivables from trade customers that are not supported by written notes (أوراق مكتوبة).

◆ **Marketable Securities** الأسهم القابلة للتسويق

Marketable securities represent temporary investments made to secure (ضمان) a return on funds. To be considered a temporary investment, a security must not only be marketable, but

management must plan to dispose it if the management needs to obtain cash.

◆ Cash النقد

Cash is the most liquid asset owned by a firm. Cash Includes coin and currency on hand, bank deposits (if subject to immediate withdrawal, (e.g. checking accounts), negotiable paper (i.e., transferable by endorsement(تظهير), in including bank checks, money orders, bank drafts, etc.).

◆ Owner's Equity حقوق الملكية

Owner's Equity is sum of funds owned by the proprietors of firm for financing its activities .The difference between total of Assets and Liabilities is Owner's Equity. They can also be called capital, or net worth.

$\text{Owner's Equity} = \text{total of Assets} - \text{Liabilities}$

◆ Liabilities الخصوم (المطلوبات)

Liabilities are debts owed by the business. Paying cash is often not possible or convenient, because the firms purchase goods and services on credit. The name of the account used is Accounts Payable. Another type of liability is Notes Payable. This is a formal written promise (موعد مكتوب) to pay a specific amount of money at a definite future date.

◆ Chart of Accounts خريطة الحسابات

Accounts in the Ledger are normally arranged in the following order: Assets, Liabilities, Owner's equity, revenues and expenses and for quick and easy reference, each account is numbered according to the accounting system applied. A complete listing of these numbers along with the respective account titles is known as a chart of accounts. The chart of accounts is shown in the following table.

Chart of Accounts

Current Assets	Liabilities
<ul style="list-style-type: none"> - Cash - Accounts receivable - Inventory 	<ul style="list-style-type: none"> - Creditors - Accounts Payable - Loan Short-Term - Loan Long-Term
Fixed Assets	Owner's Equity
<ul style="list-style-type: none"> - Land - Building - Office Equipment - Furniture 	<ul style="list-style-type: none"> - Capital - Retained Earnings - Reserves
Expenses	Revenues
<ul style="list-style-type: none"> - Salaries - Electricity - Supplies - Advertisement - Telephone - Rent - Insurance - Depreciation 	<ul style="list-style-type: none"> - Sales - Fees Earned - Interest Received - Discount Received - Commission Received

H- BASIC ACCOUNTING STATEMENTS

القوائم المحاسبية الأساسية

The accounting analyzes, interprets financial information, and prepares financial statements. Under those large functions of accounting, the organizations audit, design accounting system, and prepare forecasts (التنبؤات) and budgets (الموازنات). The accounting process (also called the accounting cycle) consists of the following groups of functions:-

- (1) Accounting observes many events and identify and measure in financial terms those events considered evidence of economic activity.
- (2) The evidence events are recorded, classified into meaningful groups (مجموعات ذات معنى), and summarized for conciseness.
- (3) Accountants report a business activity by preparing financial statements (قوائم مالية) and special reports.

The purpose of financial accounting statements is mainly to show the financial position of a business at a particular point in time and to show how that business has performed over a specific period.

The three basic financial accounting statements that help achieve this function are:

- (1) The trading account and the profit and loss account (حساب المتاجرة وحساب الأرباح والخسائر) for the reporting period: an analysis of revenue and expenses of a business, exactly at the end of the year.

(2) A balance sheet (الميزانية) for the business at the end of the reporting period: a statement showing the assets, liabilities and capital of a business.

(3) A cash flow statement (قائمة التدفق النقدي) for the reporting period: a statement showing how cash is generated and how it has been spent by the business.

Final statements consist of trading account and profit & loss account and balance sheet. All the amounts from trial balance are taken to prepare these statements.

▪ **Trading account (حساب المتاجرة)**

All the business transactions which are related to a firm are recorded such as sales, purchases, freight-in etc. the result in this account is known as gross profit and it is carried forwarded to Profit & Loss account.

▪ **Profit & Loss account (حساب الأرباح والخسائر)**

All the transactions which are related to administration or offices are recorded, such as office expenses, salaries, interest on investments. The result in this account after balancing is known as net profit which is added to the capital in the balance sheet. If there's loss it's known as net loss and it is deducted from the capital.

▪ **Balance sheets (الميزانية)**

There are assets and liabilities, assets include buildings stock, debtors etc. Liabilities include loans, creditors, notes payable etc.

Profit & Loss account shows whether a firm has earned profit or not where as balance sheet shows to the reader the overall position of the firm.

Objectives of financial statements are to provide information that is:

- (1) Useful to those making investment and credit decisions,
- (2) Helpful to present and potential investors, creditors, and other users in assessing the amounts, timing, and uncertainty of future cash flows, and (3) about economic resources, the claims to those resources and the changes in them.