المملكة العربية السعودية
المؤسسة العامة للتدريب التقني والمهني
الإدارة العامة لتصميم وتطوير المناهج



تخصص محاسبة

تقارير مالية باللغة الإنجليزية

٢٠٧ حسب

طبعة ١٤٢٩ هـ
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مقدمة

الحمد لله وحده، والصلاة والسلام على من لا نبي بعده، محمد وعلى آله وصحبه، وبعد:

تسعى المؤسسة العامة للتدريب التقني والمهني لتأهيل الكوادر الوطنية المدربة القادرة على شغل الوظائف التقنية والفنية والمهنية المتوفرة في سوق العمل، ويأتي هذا الاهتمام نتيجة للتوجهات السديدة من لدن قادة هذا الوطن التي تصب في مجملها نحو إيجاد وطن متكامل يعتمد ذاتياً على موارده وعلى قوة شبابه المسلح بالعلم والإيمان من أجل الاستمرار قدماً في دفع عجلة التقدم التنموي: لتصل بعون الله تعالى لمصاف الدول المتقدمة صناعياً.

وقد خطت الإدارة العامة لتصميم وتطوير المناهج خطوة إيجابية تتفق مع التجارب الدولية المتقدمة في بناء البرامج التدريبية، وفق أساليب علمية حديثة تحاكي متطلبات سوق العمل بكافة تخصصاته لتلبي متطلباته ، وقد تمثلت هذه الخطوة في مشروع إعداد المعايير المهنية الوطنية الذي يمثل الركيزة الأساسية في بناء البرامج التدريبية، إذ تعتمد المعايير في بنائها على تشكيل لجان تخصصية تمثل سوق العمل والمؤسسة العامة للتدريب التقني والمهني بحيث تتوافق الرؤية العلمية مع الواقع العملي الذي تفرضه متطلبات سوق العمل، لتخرج هذه اللجان في النهاية بنظرة متكاملة لبرنامج تدريبي أكثر التصاقاً بسوق العمل، وأكثر واقعية في تحقيق متطلباته الأساسية.

وتتناول هذه الحقيبة التدريبية " **تقارير مالية باللغة الإنجليزية** " لمتدربي تخصص "**محاسبة** " للكليات التقنية والمعاهد العليا التقنية للبنات موضوعات حيوية تتناول كيفية اكتساب المهارات اللازمة لهذا التخصص.

والإدارة العامة لتصميم وتطوير المناهج وهي تضع بين يديك هذه الحقيبة التدريبية تأمل من الله عز وجل أن تسهم بشكل مباشر في تأصيل المهارات الضرورية اللازمة، بأسلوب مبسط يخلو من التعقيد، وبالاستعانة بالتطبيقات والأشكال التي تدعم عملية اكتساب هذه المهارات.

والله نسأل أن يوفق القائمين على إعدادها والمستفيدين منها لما يحبه ويرضاه: إنه سميع مجيب الدعاء.

الإدارة العامة لتصميم وتطوير المناهج

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تمهيد

إن موضوعات هذه الحقيبة ليست بالجديدة على متدرب قسم التقنية الإدارية بالكلية التقنية، حيث سبق وأن درسها في مقرر المحاسبة المالية (١) . ولكن الجديد فيها أن المتدرب يتناول المادة العلمية بالدراسة باللغة الإنجليزية لما في ذلك من أهمية كبيرة تتمثل في ضرورة إلمام خريج القسم بالمفاهيم والمصطلحات والمفردات المتعلقة بالمحاسبة المالية وإعداد التقارير المالية باللغة الإنجليزية كحدٍ أدنى قبل أن ينتقل إلى سوق العمل.

لقد قُسمت هذه الحقيبة إلى ثلاث وحدات على النحو التالي :

الوحدة الأولى:

تتعلق بخطوات الدورة المحاسبية Accounting Cycle Steps وتتضمن خريطة تدفق خطوات عناصر النظام المحاسبي Flow Chart مع شرح لكل خطوة.

الوحدة الثانية:

تتعلق بالسجلات المحاسبية Accounting Records حيث يتم التدريب على التسجيل المحاسبي Journalizing في سجل اليومية General Journal ثم الترحيل Posting إلى سجل الأستاذ Ledger إضافةً إلى التدريب على عملية الترصيد Balance وكيفية إعداد ميزان المراجعة Trial Balance.

الوحدة الثالثة:

تتعلق بإعداد القوائم المالية Financial Statements حيث يتم التدريب في هذه الوحدة على إعداد قائمة الدخل ، قائمة المركز المالي ، قائمة التدفقات النقدية ، ومذكرة تسوية البنك.

تقارير مالية باللغة الإنجليزية

خطوات الدورة التدريبية (Accounting cycle steps)

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الوحدة التدريبية الأولى : خطوات الدورة المحاسبية

الجدارة :.

- القدرة على تحليل عناصر الدورة المحاسبية.
- تحليل وتصنيف الحسابات.
- التحقق من صحة تدوين المتدرب للبيانات المالية على سند القيد.

أهداف الوحدة:

عندما تكتمل هذه الوحدة يكون المتدرب قادراً على:

١. رسم خريطة الدورة المحاسبية Flow chart.
٢. التحليل المالي لمستندات ووثائق العمليات المالية.
٣. كتابة التوجيه المحاسبي الصحيح على سند القيد.

مستوى الأداء المطلوب :

أن يصل المتدرب إلى إتقان هذه الجدارة بنسبة 80%.

الوقت المتوقع للتدريب : (٦) ساعات.

الوسائل المساعدة:

المدخل	طريقة التدريب	وسيلة التدريب
تقديم استخلاص	محاضرة نقاش	سبورة عرض شرائح سبورة أو حامل ورق

متطلبات الجدارة :.

- اجتياز حقيبة المحاسبة المالية (١).
- حفظ المصطلحات الإنجليزية المتعلقة بالوحدة الأولى ضمن ملحق الحقيبة.
- اجتياز مقرر تطبيقات الحاسب الآلي (الجداول الإلكترونية).
- إجادة استخدام الآلة الحاسبة .

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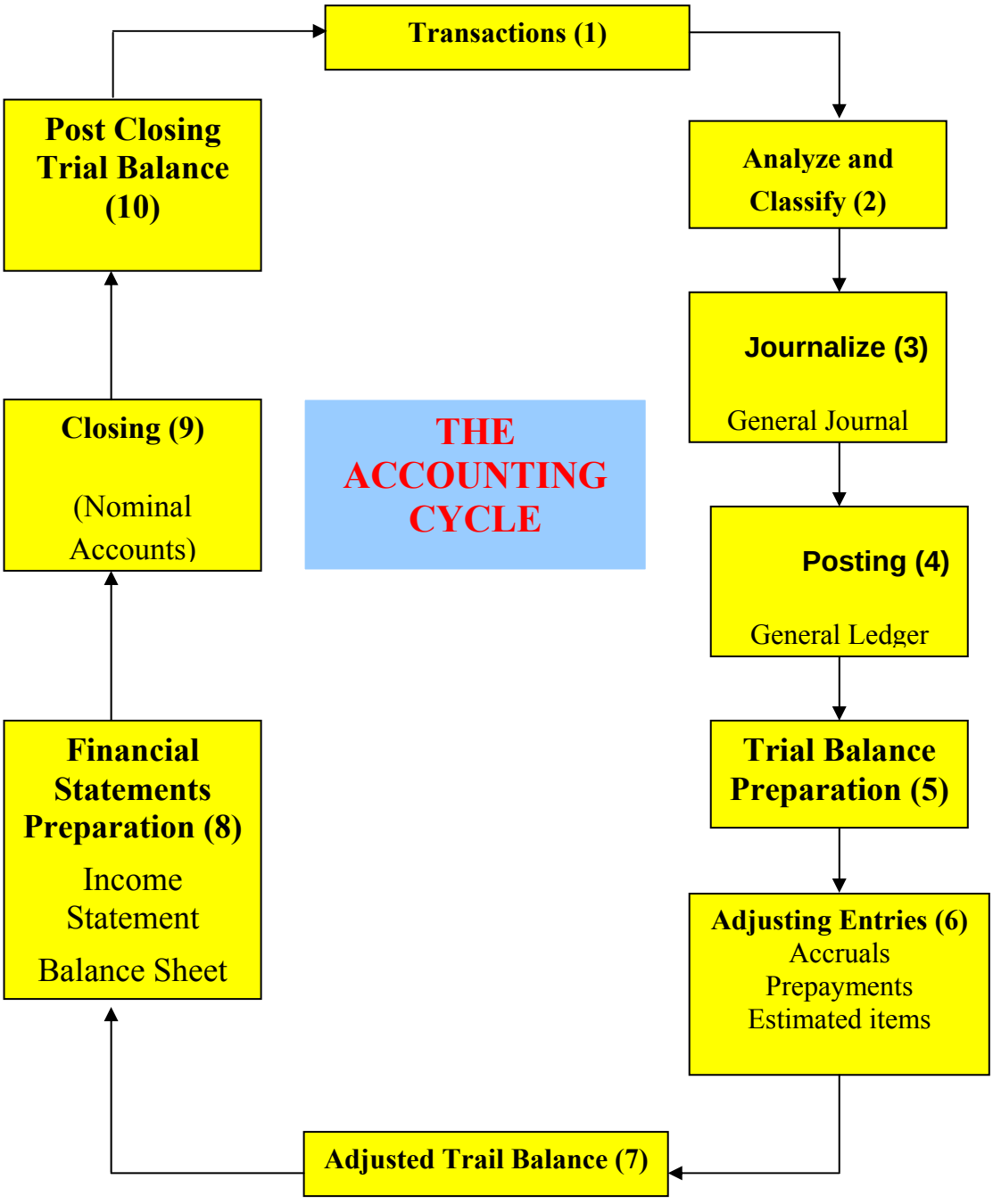
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Part one

Introduction:

Accounting is the art of recording, summarizing, classifying and reporting financial transactions and other events of an enterprise.

The following flowchart shows the steps in the accounting cycle. These are the accounting procedures normally used by enterprises to record transactions and prepare financial statements.



Below, the flowchart steps have been explained in detail**:**

1. Transaction:

The processing of accounting data begins with an economic transaction, where two or more parties engage in an exchange of goods or services for some form of consideration. Evidence of this happening is the receipt of some form of a source document. Common examples of such a source document include:

- A sales receipt - this can be in a variety of forms.
- A purchase invoice.
- A debit/credit memorandum.
- A copy of a contract entered into.
- A billing statement.
- A remittance statement.

There are a multitude of source documents, in type, shapes, and format used to record the significant data. It is these documents, which become the basis for data input to the accounting processing. But, prior to the actual data entry, the documents must be subjected to a series of analysis and classification.

2. Analyze and classify:

2.1. Analyze:

This phase of the accounting process includes the application of several of the accounting principles, namely:

The Entity Concept - This is probably the most basic of all concepts in accounting. As applied here in this phase of the accounting process, the analysis must determine that the transaction in question, first relates to the entity in question. If not it must be rejected and not allowed to continue through the process.

Monetary Concept - In addition the analysis must determine that the transaction can be measured in terms of a monetary basis. Those transactions, which cannot be measured in terms of amount (for e.g., Saudi Riyals), are eliminated from further consideration for inclusion in the accounting process.

Cost Principle - All transactions are recorded at cost and not at current market value. Cost is determined from the source documents used as evidence of the transaction.

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2.2. Classify:

Once past the analysis phase, the transaction is then properly classified in preparation for entry into the accounting database, commonly using a Chart of Accounts.

Chart of Accounts - The design of a good accounting system begins with the Chart of Accounts. This is a list of the accounts, which comprise the particular accounting system (it is designed with the particular company and its needs for information). Accounts are grouped according to their relationship in the accounting equation (i.e., assets, liabilities, owner's equity, revenues and expenses). The numberings scheme assigns a block of numbers to the respective groups. A typical assignment of numbers might be as follows:

Assets	100-199
Liabilities	200-299
Owner’s Equity	300-399
Revenues	400-499
Expenses	500-599

The numbering blocks should provide a convenient manner for adding new accounts without having to renumber the accounts. Sometimes the account numbers are designed to provide additional information as to location, cost codes, etc. In any event they assist in arranging the accounts for convenience of financial statement preparation, account location, and category identification.

The next consideration is that of determining whether this transaction when recorded in the account will cause the balance of that account to be increased or decreased. Depending upon the type of account and what side of the accounting equation it appears, this means it must be reported as a debit or a credit. Of course the basic rule of having debits and credits equal must be followed. That means each transaction will require at lease one debit and one credit identity to be recorded correctly. Finally, a transaction can affect multiple accounts, requiring more than one debit and/or one credit in order to properly record it in the accounting process.

3. Journalize:

This step in the accounting cycle represents the first time that the transaction enters the accounting database. It is the data entry phase. Here the transaction, having been analyzed and classified, is recorded in the Accounting Voucher.

In entering the transaction, various types of vouchers depending on the type of organization are used.

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Sometimes, accounting vouchers are not prepared and transactions are directly entered into Journals and this is for this reason that the journal is referred to as the "book of original entry." The journal can be likened to a diary in which events are recorded in chronological order of their occurrence. In the accounting process, two types of journals are used:

3.1. General Journal

In the General Journal, transactions are recorded as they were analyzed and classified. First the event is dated as to when it actually happened. Then the debit side of the transaction is recorded first by itemizing the account(s) that must be debited. The amount(s) to be debited are then entered in the column to the left. This process is continued until all of the debits have been recorded. The recording shifts to the account(s) to be credited. The recording(s) for the credits are indented to offset them from the debit recording(s). After recording the account(s) to be credited, the amounts are then entered into the column to the left of that of the debits.

If the transaction required only one debit and one credit, this is referred to as a ***simple entry***. On the other hand, it is requires more than one debit and/or credit; it is referred to as a ***compound entry***.

3.2. Special Journals

As their name implies, these journals are used to record uniquely classified types of transactions by use of specially designed journals. They are designed to meet the needs of the specific entity, which uses them. There is no common format for their design, as this is determined by the individual entities. However, the most commonly used special journals are as follows:

- **Sales Journals** - generally used to record all credit sales of merchandise inventory items.
- **Purchases Journals** - generally used to record all credit purchases of merchandise inventory items.
- **Cash Receipts Journals** - generally used to record all inflows of cash.
- **Cash Payments (Disbursement) Journals** - generally used to record all outflows of cash.
- **NOTE:** The check register is sometimes used in place of the Cash Receipts and Cash Payments Journals.

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4. Posting:

Posting refers to the process of transferring or transcribing the information contained in the journal entries to the appropriate accounts in the general ledger. During this process debits in the journal entry are posted as debits in the ledger, and credits in the journal entry are posted as credits in the ledger. Along with the debits and credits, the information transferred includes the date of the journal entry and the voucher reference. This cross-reference is the **audit trail** by which a transaction can be traced from its entrance into the system via the journal/voucher to the final destination in the general ledger. This is an important part of the processing of accounting data.

General Ledger

The general ledger is the heart of any accounting system. It is the permanent record of the consequences resulting from the accumulation of transaction throughout the life of the entity. Each account in the accounting system has its separate page in the general ledger. In addition each account has its unique identification in the form of an account number as specified in the Chart of Accounts.

Subsidiary Ledger

An enterprise constantly needs detailed information about its dealings with individual customers and creditors. To provide this information, companies with several thousand customers and creditors, use a subsidiary ledger to keep track of individual balances. Thus a typical merchandising enterprise has subsidiary ledgers containing accounts with customers (customers' ledger) and creditors (creditors' ledger). An account in the general ledger is maintained that summarizes the details in the accounts receivable and accounts payable ledgers. This summary account in the general ledger is called a control account, because the summary account controls the subsidiary ledger.

5. Trial balance:

Simply defined, a **Trial Balance** is a list of all of the general ledger accounts having a balance amount as of that date. It contains the following columns:

- Account Number (from chart of accounts)
- Account Title(s).
- Applicable debit amounts.
- Applicable credit balance.

A trial balance provides a check on the accuracy of the postings, which occurred during the period by showing that the total debits posted equals the total credits posted. It is prepared at any time, following the posting of all journal entries. However, it is routinely prepared at the end of the accounting period, prior to making any adjustments to the books. Thus, the trial balance is a test of the mathematical equality of debits and

credits after all postings have been completed. Its preparation is essential to the processing events leading up to the preparation of the financial statements.

6. Adjusting entries:

Throughout an accounting period, an entity will continue to be engaged in a variety of economic transactions. Some of those will affect the current period, while some of them will affect future periods throughout the life of the entity. At the time that they occur, each of these transactions, are supported by a source document (see step 1 above). If they are applicable to the current period, their flow through the accounting system is straight forward and without the need for any special handling or considerations.

However, those transactions, which effect the present and future accounting periods, will at some future date require special considerations and handling. The special considerations are caused by absence of a source document, which gives cause to their existence. Keep in minds that these transaction either happened in a prior period or have not yet happened The special handling is a continuation of the special consideration, in that these transaction must be dealt with in a manner which adjusts their effects in the current period, by means of special journal entries. Many have already been recorded in the accounting system. What is needed then is to ensure that their consequences are applied to the proper accounting period. Some of the examples of adjusting entries are:

- Accruals
- Amortization of prepayments and intangibles
- Deferred revenues and expenses

Also some, balances have to be reclassified from one account to another for the purpose of proper presentation in the financial statements. Some of the examples of such transactions are as follows:

- Reclassification of current portion of long-term loan from long term liability to current liability
- Reclassification of debit balances in creditors account
- Reclassification of credit balances in debtors account

This, then, is accomplished through the use of ***Adjusting Entries and Reclassifying entries***.

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7. Adjusted trial balance:

After all ***Adjusting Entries and Reclassifying Entries*** have been journalized and posted an **ADJUSTED TRIAL BALANCE** is prepared from the ledger accounts. It shows the balance of all accounts, including those that have been adjusted, at the end of the accounting period. The purpose of an adjusted trial balance is to show the effects of all financial events that have occurred during the accounting period. The financial statements are usually prepared from this trial balance.

8. Financial statements:

The following are the basic financial statements, which are prepared at the end of each accounting period. Each portrays a different representation of the entities financial status and results of activities. All of them are linked together in a manner, which presents the financial position and results of economic activities, and therefore all three must always be presented together.

Income Statement

Income statement:

- Presents the results of economic activities, which occurred during the specific accounting period.
- Bridges the balance sheet of the previous accounting period with that of the current accounting period. Therefore, it covers a period of time.
- Develops the net income for the current accounting period. This is used to reflect the profitability of that period.
- is linked to the balance sheet via the net income amount, which appears in both of those statements.

Statement of Changes in Owner's Equity

Presents the changes that have occurred in the owner's equity as a result of the current period's activities. Therefore its results represent what occurred within a period of time. It is linked to the balance sheet via the capital account, retained earnings, and any reserves.

Balance Sheet

Sometimes referred to as the statement of financial position, reports the assets, liabilities, and owner's equity of an enterprise at a specific date.

Statement of Cash Flows

The basic purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. To achieve this purpose, the statement of cash flows reports the cash effects of:

- Operations during a period
- Investing transactions
- Financing transactions; and
- Net increase or decrease in cash during the period

9. Closing entries:

Closing an account means to **"bring the balance to zero"**. We close what we call the **temporary** (or nominal) accounts. In the closing process all of the revenue and expense account balances (income statement items) are transferred to a clearing or suspense account called Income Summary (or Income for the year), which is used only at the end of each accounting period (yearly). Revenues and Expenses are matched in the Income Summary account and the net result of this matching, which represents the net income or net loss for the period, is then transferred to an owners' equity account i.e., retained earnings. All closing entries are posted to the appropriate general ledger accounts.

10. Post closing trial balance:

A trial balance is prepared after all temporary accounts have been closed. The accounts, which remain open are called **real** accounts and include: **Asset** accounts, **Liability** accounts and the **Capital** account. In other words, the balance sheet accounts remain open.

Practical Session:

Although, an attempt has been made above to explain how an accounting cycle works, but in order to make the students understand the whole process of flow of transactions from beginning till the financial statements are produced, a practical session including the following steps is recommended:

- A chart of accounts should be created keeping in view requirements of a service enterprise.
- Accounting vouchers must be prepared for transactions affecting all aspects of the financial statements.
- Vouchers must be posted to their individual General Ledger Accounts.
- A trial balance should be prepared using the final balances in general ledger.
- Adjusting and reclassifying entries must be prepared and then posted to general ledger.
- Adjusted trial balance should be prepared.
- Financial statements should be prepared from the adjusted trial balance.
- Closing process should be performed.
- A post closing trial balance should be prepared.
- Opening of a new accounting period in the books should be demonstrated using the post closing trial balance.

Exercise

1. What are the classification of accounts, and give one example for each?
2. What closing an account means?
3. What are the nominal accounts, and what are the real accounts?
4. Mention three of financial statements?
5. Mention two of special journals?
6. What simple entry and compound entry referred to?

Answers:

(1) Assets (cash), Liabilities (accounts payable), Owner's equity (capital), Expenses (salaries and wages), and Revenues (sales).

(2) It means to bring the balance to zero.

(3) Nominal accounts are expenses and revenues, and real accounts are the assets, liabilities, and owner's equity.

(4) Income statement, balance sheet, and statement of cash flows.

(5) Sales journals, purchases journals, and cash receipt journals.

(6) Simple entry referred to the entry requires only one debit and one credit; and, compound entry referred to the entry requires more than one debit and/or credit.

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تقارير مالية باللغة الإنجليزية

السجلات المحاسبية

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الوحدة التدريبية الثانية : السجلات المحاسبية

الجدارة: .

- إثبات القيد في السجلات المحاسبية دفترياً على النحو التالي:
- تسجيل القيد في سجل اليومية.
- الترحيل إلى دفتر الأستاذ والترصيد وإعداد ميزان المراجعة.

الأهداف للوحدة:

عندما تكتمل هذه الوحدة يكون المتدرب قادراً على:

١. تصنيف الحسابات.
٢. تحديد الطرف المدين والطرف الدائن.
٣. تسجيل القيد في دفتر اليومية.
٤. الترحيل إلى دفتر الأستاذ والترصيد.
٥. إعداد ميزان المراجعة.

مستوى الأداء المطلوب: أن يصل المتدرب إلى إتقان هذه الجدارة بنسبة 90%.

الوقت المتوقع للتدريب: (١٤) ساعة.

الوسائل المساعدة:

المدخل	طريقة التدريب	وسيلة التدريب
تقديم	محاضرات	سبورة
استخلاص	نقاش	بور بوينت
أداء	حل تمرين	حل الأمثلة

متطلبات الجدارة:-

- اجتياز حقيبة المحاسبة المالية (1).
- حفظ المصطلحات الإنجليزية المتعلقة بالوحدة الثانية ضمن ملحق الحقيبة.

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Part Two
General Journal - Journalizing

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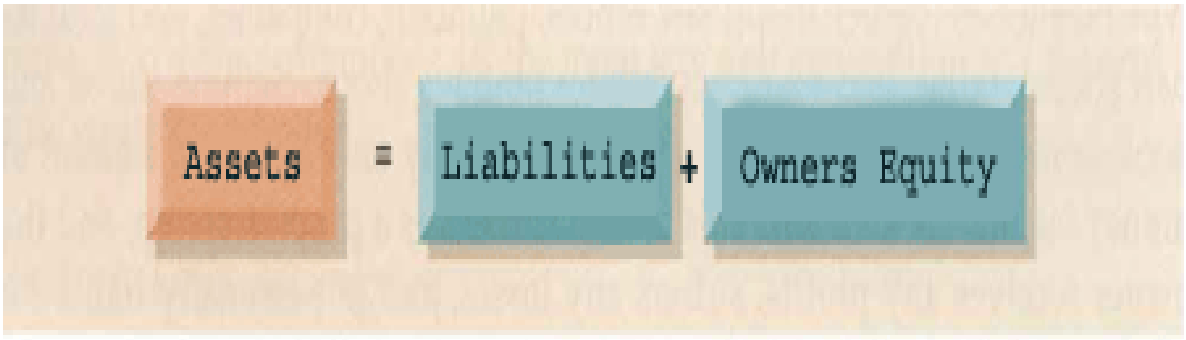
Part one

Classification of accounts

Two types of accounts:

First: Accounts belong to the **Balance Sheet** and represent the basic accounting equation. These accounts are *(see Appendix 2)*:

1. Assets **2. Liabilities** **3.Owners Equity**



(Assets must be equal to the sum of Liabilities and Owners equity)



1. Assets

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Assets are the cash and non cash resources owned by a business and have economic value, and used in carrying out future services or benefits to the entity using them.

Classification of assets:

- ***Current assets***
  Current assets are cash and other types of assets that are reasonably expected to be converted into cash, sold, or used up during the normal operating year.

  Examples of current assets include:
  Cash, Bank, Inventory, Accounts Receivable, Notes Receivable, Prepaid expenses, Marketable securities, etc.

- ***Fixed assets***
  Fixed assets are those assets that are used in the normal operations of the entity to produce and sell goods or perform services for customers. Fixed assets are expected to service for a number of years are not for re-sale.

  Examples of fixed assets include:
  Land, cars, buildings, equipment, furniture, etc.

- ***Intangible assets***
  Intangible assets are those assets that have no physical substance but they are expected to provide benefits to the entity for several years.

  Examples of intangible assets include:
  Patents, trademarks, copyrights, goodwill, franchise fees, and trade name.

2. Liabilities

Liabilities are claims against assets.

Classification of Liabilities:

- ***Short-term Liabilities***
  Short-term liabilities are obligations of the entity that are reasonably expected to be paid or settled in the next year or the normal operating cycle.

  Examples of short-term liabilities include:
  Short-term notes payable, accounts payable, salaries and wages payable and other types of accrued liabilities for services received but not yet paid for.

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- ***Long-term Liabilities***

Long-term liabilities are those obligations that do not require payment within the next year or the normal operating cycle. In other words**,** liabilities not classified as short-term are reported in the Long-term liabilities section of the balance sheet.

Examples of long-term liabilities include:

Loan, bonds, and any other obligation that mature in a period more than one year beyond the balance sheet date is reported as long-term.

3. Owner's Equity

Owner's equity represents the owner's interest in the assets of the entity. It is equal to total assets minus total liabilities.

There are two main sources of owner's equity:
(1) Amounts contributed by the owner (Capital), and (2) Amount earned by the entity but not yet taken by the owner.

Second: Accounts belong to the **Income Statement** and involve in the determination of net income or net loss of a business entity for a specific period of time. These accounts are:

1. Expenses **2. Revenues**

1. Expenses

Expenses are the cost of assets consumed or services used in the process of earning revenues. In other words, expenses are outflows or other uses of assets resulting from the sale or delivery of goods or the provision of services by the entity during specific time period.

Examples of expenses include:
Utility expenses (electric and water), telephone bill, rent expense, wages and salaries expense, advertisement expense, depreciation expense, etc *(see Appendix 1)*.

2. Revenues

Revenues are cash in-flow result from the sale of goods or the rendered of services.

Basic Accounting Equation:

Assets	**=**	**Liabilities**	**+**	**Owner's Equity**

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Expanded Accounting Equation:

Assets + Expenses = Liabilities + Capital + Revenues

Assets and expenses are debit, and if they increased also they will become debit, and if they decreased they will become credit.

Liabilities, capital and revenues are credit, and if they increased also they will become credit, and if they decreased they will become debit.

Example

This example illustrates the effect of the financial transactions on the expanded basic equation as follows:

Transaction (1) Investment by owner. July 10, 2008. Saleh started his workshop by investing SR 100,000, he deposited it in the bank as a capital.

Assets	+	Expenses	=	Liabilities	+	Revenue	+	Owner's equity
Bank								Capital
(1) +100,000	+	0	=	0	+	0	+	100,000

Transaction (2) purchase of equipment for cheque. at July 15, 2008. Saleh purchased a computers for SR 20,000 paid by cheque.

Assets	+	Expenses	=	Liabilities	+	Revenue	+	Owner's equity
(Bank + Computer)	+ 0		=	0	+	0	+	Capital
100,000 (Old balance)								100,000

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(2) -20,000 + 20,000

New balance

80,000 + 20,000 = 100,000

100,000

Debits and Credits

The terms debit and credit mean left and right, respectively, the abbreviation of these two words as follows:

* Debit Dr. * Credit Cr.

* These abbreviations come from the Latin words debere (Dr.) and credere (Cr.).

Double Entry System

As you have learned, every recorded transaction affects at least two accounts. This dual effect is known as double-entry accounting. Note, however, that the term "double entry" does not mean that a transaction must affect each side of the transaction, it may affects one.

Example

Transaction (2) – illustrated earlier – purchase of equipment for cheque – Saleh purchased computers for SR 20,000 paid by cheque. This transaction results in an equal increase and decrease in total assets, though the composition of assets is changed: Bank is decreased by SR 20,000 and the assets Equipment is increased by SR 20,000.

Before You Go, Do the Following Exercises

Exercise 1

1. What are the classifications of accounts?
2. Give an example for each classified account?

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3. What are the accounts that belong to the income statement, and what are those belong to the Balance sheet?
4. What do the term debit and credit mean?
5. What are the debit and credit effects on assets, liabilities, owner's equity, expenses and revenues?
6. What does double entry mean?

Exercise 2

Place the missing items in the following statements:

1. the accounting equation is _____ = _____ + _____
2. the accounting elements are documents _____ , _____
3. Items required by an entity that have monitory value are known as _____.
4. _____ is the interest of the owners in Business.
5. Financial events that occur in an entity are termed _____.
6. An investment in the entity increase _____ and _____.
7. To purchase "on account" is to create a _____.
8. When the words "paid on account" occur, it means a reduction of the assets _____ and reduction of the liability _____.
9. The left side of the account is known as the _____, where as the right side is the _____.
10. The balance sheet contains _____, _____, and _____.

Answers: 1. assets, liabilities, owner's equity; 2. accounting records, financial report; 3. assets; 4. owner's equity; 5. transactions; 6. assets, owner's equity; 7. liability; 8. cash or bank, accounts payable; 9. debit side, credit side; 10. assets, liabilities and owner's equity.

Exercise 3

Place the missing items in the following statements:

1. The four phases of accounting are _____ , _____ , _____ , and _____.

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2. The accounting equation is _____ = _____ + _____.
3. Items owned by a business that have monetary value are known as _____.
4. _____ is the interest of the owners in a business.
5. Money owed to an outsider is a(n) _____.
6. The difference between assets and liabilities is _____.
7. Financial events that occur in a business are termed _____.
8. An investment in the business increases _____ and _____.
9. To purchase "on account" is to create a(n) _____.
10. When the words "paid on account" occur, it means a reduction of the asset _____ and reduction of the liability _____.
11. Income increases net assets and also _____.
12. A withdrawal of cash reduces cash and _____.

Answers: 1. recording, classifying, summarizing, reporting; 2. assets, liabilities, owner's equity; 3. assets; 4. owner's equity; 5. liability; 6. owner's equity; 7. transactions; 8. assets, owner's equity; 9. liability; 10. cash, Accounts Payable; 11. owner's equity; 12. capital.

Exercise 4 **Transactions completed by Saleh work shop, appear below. Indicate increase (+), decrease (—), or no change (0) in.**

		Expenses	Revenues	Assets	Liabilities	Owner's Equity
a.	Invested 100,000 SR, and deposit it in a bank					
b.	Paid rent expense for the					

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	month					
c.	Transfer money from the bank to the cash					
d.	Cash collected for the week revenue					
e.	Bought mechanic equipment paying cash					
f.	Bought equipment on account					
g.	Paid a creditor (liability) money owned					

	Solution	Expenses	Revenues	Assets	Liabilities	Owner's Equity
a.	Increase of bank and capital	0	0	+	0	+
b.	Reduction of bank and increase expenses	+	0	–	0	0
c.	Increase of cash and decrease of bank	0	0	±	0	0
d.	Increase of cash and revenues	0	+	+	0	0
e.	Increase of equipment and decrease of cash	0	0	±	0	0
f.	Increase of equipment and in accounts payable	0	0	+	+	0
g.	Decrease in cash and accounts payable	0	0	–	–	0

Part Two

General Journal

General Journal is the first book in which financial transactions are recorded in chronological order. It has spaces for date, accounts titles & explanations, entry number, references, and two money columns, as illustrated below:

General Journal					J1
Date	Title & explanation	E.N	P.R	Debit	Credit

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2008 Dec.	1 3					

Journalizing

Entering transaction data into Journal is known as Journalizing.

Steps for journalizing a transaction

- Analyze the transaction to determine which accounts are affected.
- Analyze the accounts to determine which account is the debit part and which one is the credit part.
- Record the transaction following the example illustrated below.

General Journal					J1	
Date		Title & Explanation	E.N	P.R	Debit	Credit
2008 Nov.	25	Bank Capital (Investment in workshop business)	1		100,000	100,000
Dec.	01	Rent expense Bank (Payment of office rent, cheque No.12)	2		10,000	10,000

Note: The date should be entered in the date column.

- The year and the month are not repeated until the start of a new page or a new month.
- The title of the account to be debited is entered against the left margin of the title & explanation column.
- The amount to be debited to each account is entered in the debit column on the same line as the account title.
- The account to be credited follows the same steps except being in the credit side.
- An explanation of the transaction may be entered on the next line below the journal entry.
- The posting reference column is left blank till the transaction is being posted.

The components of the general journal could be summarized as follows:

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1. ***Date***. The year, month, and day of the entry are written in the date column. The year and month do not have to be repeated for additional entries until a new month occurs or a new page is needed.
2. ***Description***. The account title to be debited is entered on the first line, next to the date column. The name of the account to be credited is entered on the line below and indented.
3. ***Entry Number (E. N.)***. There should be serial numbers for entries. The first entry on the first day of the fiscal year has the number one and so on until the last entry at the end of the fiscal year has the last serial number.
4. ***Posting Reference (P. R.)***. Nothing is entered in this column until the particular entry is posted, that is, until the amounts are transferred to the related ledger accounts. The posting process will be described in Sec. 4.4.
5. ***Debit***. The debit amount for each account is entered in this column adjacent to the left margin. Generally there is only one item, but there can be two or more separate items.
6. ***Credit***. The credit amount for each account is indented and entered in this column. Here again, there is generally only one account, but two or more accounts with different amounts can be involved. When there is more than one debit or credit in a single entry, the transaction is known as a compound entry.
7. ***Explanation***. A brief description of the transaction is usually made on the line below the credit. Some accountants feel that if the transaction is obvious, the explanation may be omitted. Generally a blank line is left between the explanation and the next entry.

Example 1

The following transactions occurred during the month of January 2008 at Mr. Al-Rashed, lawyer.

Jan. 4 Mr. AL-Rashed invested SR50,000 cash in his law practice.

4 Bough office supplies for cash, SR3000.

4 Bought office equipment from Al-aamer Furniture Company on account SR25000.

15 Received SR20,000 in cash fees earned during the month.

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30 Paid office rent in cash for January SR5000.

30 Paid salary for part-time help SR2000 in cash.

30 Completed a consultation to one of his friends for SR 15000 received in cash.

31 Paid SR10000 in cash to Al-aamer Furniture Company, part of the transaction on account on January 4.

Required
Prepare the general journal for the above transactions.

Solution

AL-Rashed Lawyer Office
General Journal for January 2008

General Journal					J1	
Date		Title & explanation	E.N	P.R	Dr.	Cr.
2008 Jan.	4	Cash Capital (Investment in law practice)	1		50000	50000
	4	Office supplies Cash (Bought supplies for cash)	2		3000	3000

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	4	Office equipment Accounts Payable (Al-aamer) (Bought equipment from Al-aamer)	3		25000	25000
	15	Cash Income fees (Received payment for services)	4		20000	20000
	30	Rent Expense Cash (Paid rent for month)	5		5000	5000
	30	Salaries Expense Cash (Paid salaries of part-time help)	6		2000	2000
	30	Cash Consultation fees (Cash received for consultation)	7		15000	15000
	31	Accounts Payable (Al-aamer) Cash (Payment on account to Al-aamer)	8		10000	10000

Example 2

Prepare a general journal for Tehama International Company based on the following transactions which occurred during the month of March, 2008:

1. The company started its business by SR 800000 in a bank, and 200000 in cash as capital in 1/3/2008.
2. On 3/3 purchased furniture from Al-aamer Furniture Company for SR 50000 half in cash, and the remainder to be paid after three weeks.
3. On 6/3 Purchased goods from Adnan on credit with a bill of exchange for SR 40000.
4. On 15/3 sold goods to Ali for SR 173000. The term of the agreement provided for SR 23000 to be received in cash, and the remainder on credit with a bill of exchange to be received on 23/3.

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5. On 18/3 paid the amount of the bill of exchange to Adnan in cash.
6. On 20/3 published an advertisement in MBC for one week for SR 7000 to be paid after one month of that date.
7. On 23/3 received the amount of the bill of exchange from Ali by cheque.
8. On 24/3 paid the amount owed to Al-aamer in cash.
9. On 25/3 paid salaries and wages of SR 12000 by cheque.
10. On 28/3 signed an agreement with two employees from Egypt to work with company for a monthly salary of SR 3500 each.

Required
Prepare the general journal for the above transactions.

Solution

Tehama International Company
General Journal for March 2008

General Journal					J1	
Date		Title & explanation	E.N	P.R	Dr.	Cr.
2008						
March	1	Bank Cash Capital (Investment in commercial business)	1		800000 200000	 1000000
	3	Furniture Cash Accounts payable (Al-aamer) (Bought furniture from Al-aamer)	2		50000	 25000 25000

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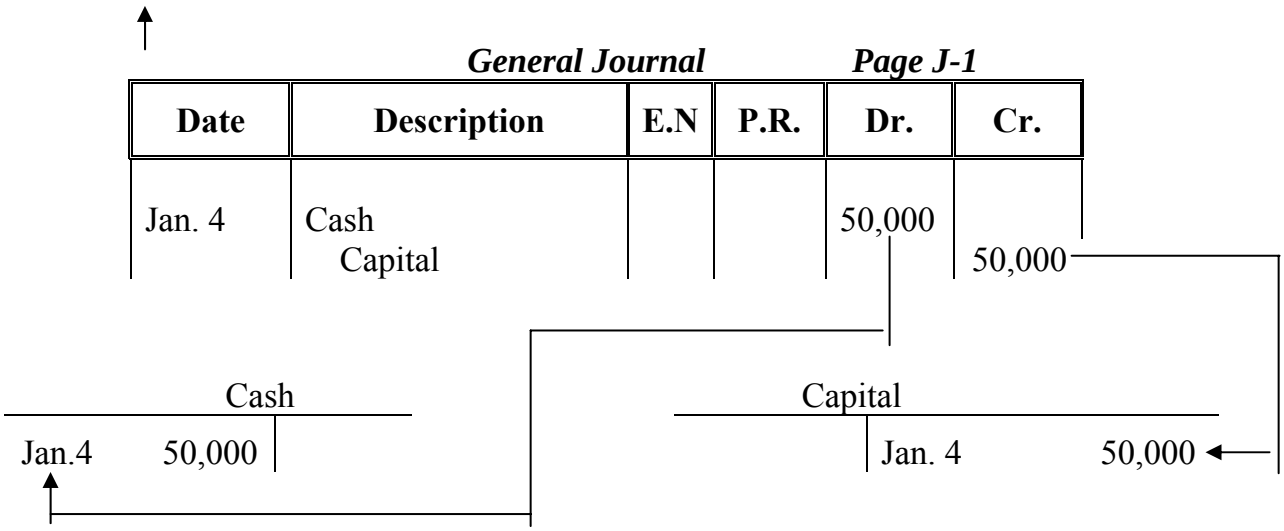
	6	Purchases Notes Payable (Adnan) (Purchases from Adnan on credit)	3		40000	40000
	15	Cash Notes receivable (Ali) Sales (Sales to Ali part in cash & part with a bill of exchange)	4		23000 150000	173000
	18	Notes payable (Adnan) Cash (Payment of the bill of exchange to Adnan in cash)	5		40000	40000
	20	Advertisement expense Accounts payable (MBC) (Publishing an advertisement in MBC)	6		7000	7000
	23	Bank Notes receivable (Ali) (Receiving the amount of the bill of exchange from Ali by cheque)	7		150000	150000
	24	Accounts Payable (Al-aamer) Cash (Payment on account to Al-aamer)	8		25000	25000
	25	Salaries and wages Bank (Paid salaries and wages by cheque)	9		12000	12000
	28	No Entry	-	-	-	-

Ledger

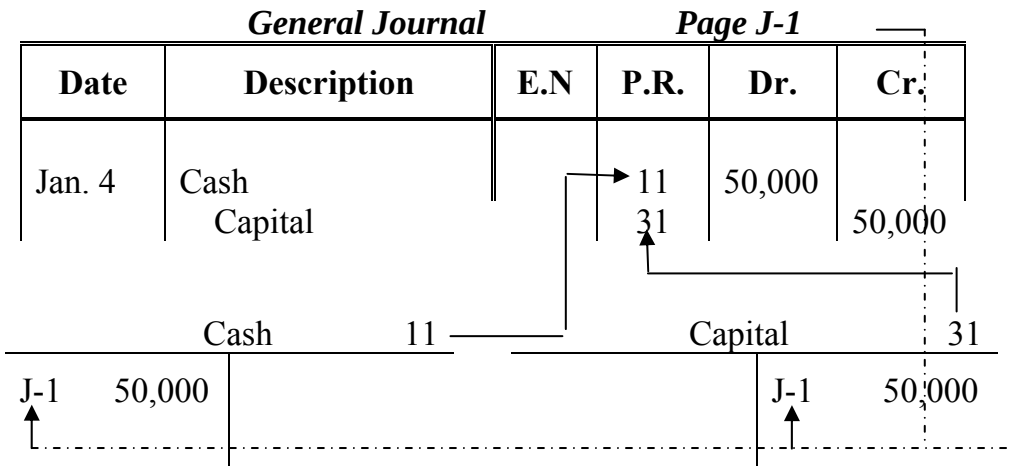
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The process of transferring information from the journal to the ledger for the purpose of summarizing is called *posting*. Primarily a clerical task, posting is ordinarily carried out in the following steps (depending on the journal of Al- Rashid):

1. ***Record the amount and date.*** The date and the amounts of the debits and credits are entered in the appropriate accounts.



2. ***Record the posting reference in the account.*** The number of the journal page is entered in the account.
3. ***Record the posting in the journal.*** For cross-referencing, the code number of the account is now entered in the P.R. column of the journal (solid line).



The results of the posting from the journal of AL-rashid appear below.

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Dr	Cash	Cr	
(1) capital	50,000	3,000 supplies	(2)
(4) incom fees	20,000	5,000 rent exp	(5)
(7) consul fees	15,000	2,000 salary exp	(6)
		10,000 acc. payable	(8)
		65,000 Balance	
85,000		**85,000**	

Dr	Capital	Cr
		50,000 cash (1)
Balance	50,000	
50,000		**50,000**

Dr	Consultation fees	Cr
		15,000 cash (7)
Balance	15,000	
15,000		**15,000**

Dr	Income Fees	Cr
(4) cash	20,000	
		20,000 Balance
20,000		**20,000**

Dr	Supplies	Cr
(2) cash	3,000	

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	3,000 Balance
3,000	**3,000**

Dr Equipment Cr

(3) Acc payable 25,000	
	25,000 Balance
25,000	**25,000**

Dr Rent Expense Cr

(5) Cash 5,000	
	5,000 Balance
5,000	**5,000**

Dr Salaries Expense Cr

(6) Cash 2,000	
	2,000 Balance
2,000	**2,000**

Dr Accounts Payable Cr

(8) Cash 10,000	25,000 Equipment (3)
Balance 15,000	
25,000	**25,000**

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Trail Balance

As every transaction results in an equal amount of debits and credits in the ledger, the total of all debit entries in the ledger should equal the total of all credit entries. At the end of the accounting period we check this equality by preparing a schedule called a *Trial Balance*, which compares the total of all *Debit Balances* with the total of all *Credit Balances*. The procedure is as follows:

1. List account titles in the first column.
2. Record the balance of each account, entering debit balances in the debit column and credit balances in the credit column. (Note: Asset and expense accounts are debited for increases and would normally have debit balances. Liability, capital, and revenue accounts are credited for increases and would normally have credit balances).
3. Record the total of each column.
4. Compare the totals. They must both be the same.

If the totals agree, the trial balance is in balance, indicating the equality of the debits and credits for the hundreds or thousands of transactions entered in the ledger. Although the trial balance provides *arithmetic* proof of the accuracy of the records, it does not provide *theoretical* proof. For example, if the purchase of Equipment was incorrectly charged to Expense, the trial balance columns may agree, but theoretically the accounts would be wrong, as Expense would be overstated and Equipment understated. In addition to providing proof of arithmetic accuracy in accounts, the trial balance facilitates the preparation of the periodic financial statements.

Account Title	Dr	Cr
Cash	65000	
Supplies	3000	
Equipment	25000	
Accounts payable		15000
Capital		50000
Consultation fees		15000

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Income fees		20000
Rent expense	5000	
Salaries expense	2000	
TOTAL	SR 100000	100000

The accounts in Trail Balance could be classified into two groups nominal accounts (expenses and revenues) and these should be transferred to the *Income Statement*, and; real accounts (assets, liabilities and owner's equity) and these should be transferred to the *Balance Sheet*. The preparation of these financial statements will be discussed in the next section.

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تقارير مالية باللغة الإنجليزية

إعداد التقارير المالية

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الوحدة التدريبية الثالثة : إعداد التقارير المالية

الجدارة : إعداد التقارير المالية

أهداف الوحدة:

عندما تكتمل هذه الوحدة يكون المتدرب قادراً على:

١. إقفال الحسابات الاسمية في حساب الأرباح والخسائر.
٢. إعداد قائمة الدخل.
٣. إعداد الميزانية العمومية (قائمة المركز المالي).
٤. إعداد قائمة التدفقات النقدية.
٥. إعداد مذكرة تسوية البنك.

مستوى الأداء المطلوب: أن يصل المتدرب إلى اتقان هذه الجدارة بنسبة 80%.

الوقت المتوقع للتدريب: (25) ساعة.

الوسائل المساعدة:

المدخل	طريقة التدريب	وسيلة التدريب
أداء	حل تمارين	تمارين
تقديم	محاضرة	حاسب آلي
استخلاص	نقاش	سبورة وحامل ورق

متطلبات الجدارة :

- اجتياز حقيبة المحاسبة المالية (1).
- حفظ المصطلحات الإنجليزية المتعلقة بالوحدة الثالثة ضمن ملحق الحقيبة.

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Close the Nominal Accounts into the Profit & Loss Account

Part Two

Preparation of Financial Reports:
Income Statement
Balance Sheet
Cash Flows Statement
Bank Reconciliation Statement

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Preparing Closing Entries

At the end of the accounting fiscal year, the balances of the nominal accounts are to be transferred from the trial balance to the profit and loss account through closing entries. These entries produce a zero balance in each nominal account.

Journalizing and posting closing entries is an essential step in the accounting cycle.

Separate closing entries could be prepared for each nominal account as follows:

1. Debit each revenue account for its balance and credit profit and loss account for total revenues.

2. Credit each expense account for its balance and debit profit and loss account for total expenses.

Example

To illustrate the journalizing and posting of closing entries, we will assume that Al-Rashed, lawyer closes his books monthly. The closing entries at December 31 are shown in the following illustration.

General Journal						
Date		Title and explanation	E.N	P.R	Debit	Credit
Dec.,	31	Income fees Profit and loss account	1		20,000	 20,000
	31	Consultation fees Profit and loss account	2		15,000	 15,000
	31	Profit and loss account Office rent Salaries expense	3		7,000	 5,000 2,000

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Posting of closing entries

The posting of the closing entries are shown in the following accounts, all the nominal accounts have zero balances.

Consultation

Dr	Cr
15,000	
	15,000
15,000	**15,000**

Income Fees

Dr	Cr
20,000	
	20,000
20,000	**20,000**

Office rent

Dr	Cr
5,000	
	5,000
5,000	**5,000**

Salaries expense

Dr	Cr
2,000	
	2,000
2,000	**2,000**

Al-Rashed Lawyer Office
Profit and loss account

Dr		Cr	
Office rent	5,000	Income fees	20,000
Salaries expense	2,000	Consultation fees	15,000
Net Profit	28,000		
	35,000		**35,000**

* Note that profit and loss account is used only in closing at the end of a period of time. No entries are journalized and posted to this account during the year.

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Preparation of Income Statement and Balance Sheet

Different companies in the UK, the USA and in many other countries throughout the world have a legal obligation to publish annually four basic financial statements. These financial statements are: (1) income statement; (2) statement of owner's equity; (3) balance sheet, and; (4) statement of cash flows.

Income Statement

The income statement presents a summary of an entity's revenues and expenses for a specific period of time, such as a month, a quarter, or a year. The income statement, also called the statement of earnings, or statement of operations presents a moving financial picture of business operations during the period (*See Appendix 1).*

The heading of the income statement indicates the name of the business, the name of the statement, and the time period covered by the statement.

Note that:

1. Revenues are defined as inflows of assets either from the sale of goods or the performance of services.
2. Expenses are defined as outflows or other uses of assets to produce revenue.
3. Net income is defined as the excess of revenues over expenses (net loss for the period is defined as the excess of expenses over revenues), and will be transferred to the owner's equity in the balance sheet as either profit or loss.

Income Statement

Expenses (Dr)	SR	**Revenues (Cr)**	SR
Inventory 1.1		Inventory 31.12	
Purchases		Sales	
Salaries and Wages		Marketable securities revenues	
Rent expense		Rent revenue	
Advertisement expense		Consultation revenues	
Telephone bill		Other revenues	
Electricity bill			
Fax and post expense			
Maintenance expense			
Selling expenses			
Insurance expense			
Bad debts			
Office supplies			
Other expenses			

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Balance Sheet

The balance sheet reports the financial position of a business at a specific date, usually the end of a month or a year. Consequently, it is often called the "Statement of Financial position". Financial position is reflected by the amount of the business' assets (resources), the amount of its liabilities (debts owed), and the amount of its owners' equity (assets minus liabilities).

The balance sheet heading indicates the name of business, the name of the statement, and the date of the statement. The assets of the business are listed on the left side and the liabilities and the owners' equity are listed on the right side. Note that the totals on each side of the balance sheet should be equal. This equality must exist because the left side lists the assets of the business and the right side shows the sources of the assets (*See Appendix 2)*.

Left side		***Right side***		
Assets	=	Liabilities	+	Owners' equity

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Balance Sheet

Assets		Liabilities and Owner's Equity	
Current Assets:		**Short-Term Liabilities:**	
Cash		Accounts Payable	
Bank		Notes Payable	
Inventory (stock)		Short-Term Loans	
Accounts Receivable		Pre-collected Revenues	
Notes Receivable		Accrual Expenses	
Marketable Securities			
Prepaid Expenses			
Accrual Revenues			
Fixed Assets:		**Long-Term Liabilities:**	
Land		Long-Term Loans	
Buildings			
Cars			
Furniture			
Equipment			
Machines			
Intangible Assets:		**Owner's Equity**	
Goodwill		Capital	
Trade Mark		(+) Net Profit	
Copyrights		Or (-) Net Loss	
Patent			

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Example for Income Statement and Balance Sheet

The following is the Trail Balance of the Red Sea Company as at December 31, 2007

Account Name	Dr	Cr
Cash	20000	
Accounts Receivable	60000	
Notes Receivable	15000	
Merchandise Inventory 1-1-2007	16000	
Marketable Securities	13000	
Land	40000	
Buildings	90000	
Equipment	22000	
Accounts Payable		23000
Notes Payable		23000
Long-Term Loan		85000
Owner's Capital		121000
Sales		130000
Rent expense	7000	
Advertisement expense	1000	
Purchases	80000	
Marketable Securities Revenues		2000
Other Revenues		1000
Salaries and Wages	12000	
Telephone and Electricity expenses	9000	
Total	**385000**	**385000**

Required

1. Prepare the Income Statement for the Company if you know that the Merchandise Inventory 31-12-2007 is SR 14000.
2. Prepare the Balance Sheet for the Company as at 31-12-2007.

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Solution

The Red Sea Company
Income Statement
For the Period ended December 31, 2007

Expenses		Revenues	
Inventory 1.1	16000	Inventory 31-12	14000
Purchases	80000	Sales	130000
Rent expense	7000	Marketable securities revenue	2000
Advertisement expense	1000	Other revenues	1000
Salaries and wages	12000		
Telephone and Electricity expenses	9000		
Net Profit	**22000**		
TOTAL	147000		147000

The Red Sea Company
Balance Sheet as at
December 31, 2007

Assets			Liabilities and Owner's Equity		
Current Assets:			**Short-term liabilities:**		
Cash	20000		Accounts payable	23000	
Accounts receivable	60000		Notes payable	23000	
Notes receivable	15000		TOTAL		46000
inventory	14000		**Long-term liabilities:**		
Marketable securities	13000		Long-term loan		85000
TOTAL		122000			
			Owner's Equity:		
Fixed Assets:			Owner's capital	121000	
Land	40000		Net profit	22000	
Buildings	90000		TOTAL		143000
equipment	22000				
TOTAL		152000			
		274000			274000

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Statement of Cash Flows

Different companies in the UK, the USA and in many other countries throughout the world have a legal obligation to publish annually four basic financial statements. These financial statements are: (1) income statement; (2) statement of owner's equity; (3) balance sheet, and; (4) statement of cash flows.

In July 1990, the Accounting Standard Board in the UK issued the Financial Reporting Standard 1 (***FRS1***) which requires certain companies to publish a cash-flow statement as part of the final accounts. In the USA in November 1987, the Financial Accounting Standard Board (***FASB***) published its ***Statement No. 95*** regarding statement of cash flows.[1]

Definition and Purpose of the Statement of Cash Flows

The statement of cash flows, a required financial statement, reports the amount of cash coming in (cash receipts) and the amount of cash going out (cash payments or disbursements) during a period of time. The statement of cash flows shows the net increase or net decrease in cash during the period and the cash balance at the end of the period. Like the income statement, the statement of cash flows covers a period of time.

The main purpose of the statement of cash flows is to provide investors, creditors, and other financial statements users with information about the cash flows of a company for a specific period of time. The information provided by the statement of cash flows is intended to help users assess:

1. The ability of a company to generate future positive net cash inflows. Past cash receipts and payments are good predictors of future cash flows.
2. The ability of a company to pay its debts, dividends, and interest.
3. The effects of cash and non-cash transactions on the company's financial position.
4. The wisdom of the management decisions. Wise decisions result in strong cash flows and good profit.
5. The relationship between the income and cash flows.

In addition, the information provided by the statement of cash flows will assist the management in proper planning for future activities of the entity.

([1]) Financial Accounting Standard Board, "Statement of Cash Flows", Statement No. 95, (Stamford, Conn: FASB, 1987), Par. 4-6.

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Distinctions between Cash Flows Statement and Income Statement

An important distinction between the statement of cash flows and the income statement is that the income statement includes adjustments in respect of accrued expenses and revenues in calculating the net income of the period, whereas the other statement excludes such adjustments. The largest item of difference between the two statements is the depreciation expense which includes in the income statement and exclude in the other.

Cash and Cash Equivalents

FASB Statement No. 95 requires that the statement of cash flows explain the change in ***cash*** and ***cash equivalents***. ***Cash*** includes all accounts for which deposits and withdrawals can be made at any time without prior notice or penalty. ***Cash equivalents*** are short-term, highly liquid investments that can be converted into cash at will, and with an original maturity of three months or less. The rule of the three-month maturity is intended to exclude investments that place capital at significant risk of price fluctuation. Examples are money-market investments, commercial paper, and Treasury notes. These investments have essentially the same liquidity as cash.

Classification of Cash Flows

All cash inflows and outflows are classified into one of three categories in the statement of cash flows as follows:

- Operating activities.
- Investing activities.
- Financing activities.

Operation activities are the most important for the business and should be the main source of cash. Investing activities are less important than operations, but are generally more important to the business than financing activities. That is because what a company invests in is more important than how it finances the acquisition.

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Operating Activities

Operating activities consist of buying and selling merchandise or rendering services to earn revenue. Cash flows from operating activities generally include the cash receipts and disbursements from transactions and other events that enter into the determination of net income. Cash inflows in operating activities include (1) the collection of cash from customers for selling of goods or providing of services (it is the largest source of cash inflow from operations), and (2) the receipt of interest and dividends on investments. Cash outflows include (1) payments to suppliers, (2) payment for interest on debt, and (3) other payments for other costs of doing business.

Note that dividends received from investments are operating cash inflows, but dividends paid by the entity to its shareholders are financing cash outflows. Interest paid and received are operating cash flows. Interest paid and received, and dividends received, affect net income and therefore are operational flows. In contrast, dividends paid are financing activities because they go to the entity's shareholders who finance the business.

Investing Activities

Investing activities are the acquisition and disposition of assets used in operations. These activities include (1) acquiring and selling long-term assets, (2) acquiring and selling securities that are not considered to be cash equivalents and; (3) lending money to others (making loans) and collecting on the principal amounts of these loans.

Purchases of plant assets and engaging in different investments are a good sign for future expansion. An entity that invests in long-term assets appears stronger than one that is selling off its income-producing assets.

Financing Activities

Financing activities are related to obtaining cash needed from investors and lenders and paying them back. These activities include (1) obtaining resources from owners (issuing stock), (2) paying dividends to the stockholders, (3) buying or selling treasury stock, (4) borrowing money from creditors and (5) payment of principal amounts borrowed. Payment of interest to creditors is an operating activity and is appear on the income statement.

Financing activities explain whether the company is borrowing heavily which is strong indication for the downfall of many companies.

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The table below illustrates the cash inflows and cash outflows resulted from operations activities, investing activities, and; financing activities.

Activity	Cash Receipts	Cash Payments
Operating Activities	(1) Collection from customers	(1) Payments to supplier
	(2) Receipts of interest and dividends	(2) Payments of interest and income tax
	(3) Other operating receipts	(3) Payments of wages and salaries
		(4) Other operating payments
Investing Activities	(1) Sale of plant assets	(1) Purchase of plant assets
	(2) Sale of investment securities that are not cash equivalents	(2) Purchase of investment securities that are not cash equivalents
	(3) Collection of loans made by the entity	(3) Making loans
Financing Activities	(1) Issuing stock	(1) Payment of dividends
	(2) Selling treasury stock	(2) Purchase of treasury stock
	(3) Borrowing money	(3) Payment of principal amounts of debts

Reporting Cash Flows from Operating Activities

The *FASB Statement No. 95* approves two formats for reporting cash flows from operating activities, **direct method** and **indirect method**. Although the *FASB* permits companies to use either of the two methods, it has a clear preference for the direct method. The Saudi Organization for Certified Public Accountants has the same preference.[2] The preference of direct method is stem from many reasons (1) it reports where cash came from and how it was spent on operating activities, (2) it is easier to understand, (3) it provides better information for decisions.

The direct method lists cash receipts and cash payments from operating activities, and the difference is the net cash provided by, or used in, operating activities. On the other hand,

[2] Saudi Organization for Certified Public Accountants, Financial Accounting Standards, Riyadh, Saudi Arabia, Ramadan 1419, P. 185.

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the indirect method starts with net income or net loss as reported on the income statement and adjusts it for revenues and expenses that did not cause changes in cash in the current period.

The two methods of presenting the statement of cash flows, direct method and indirect method, result in the same subtotals and the same change in cash for the current period. The two methods differ only in the manner of reporting operating activities, and no difference exists for reporting investing or financing activities.

For the above reasons, the training in this course will be devoted only to the direct method.

The Direct Method

Under the direct method, the items of cash receipts and cash payments are shown under cash flows from operating activities, and the difference is the net cash provided by, or used in, operating activities.

As a minimum, the following items of operating cash receipts and cash payments should be separately disclosed when the direct method is used:

(1) Operating Activities

Cash Receipts

1. Cash collections from customers: this includes cash sales and cash collections from sales on account.
2. Cash receipts of interest: interest revenue is earned on notes receivable. Not all interest revenue accrued is appear on the statement of cash flows, but only the cash interest received is appear as cash flows.
3. Cash receipts of dividends: these revenues are earned on investments in stock.

Cash Payments

1. Payments to suppliers: suppliers are the companies and other bodies that provide the entity with inventory and essential services. Services include advertisement, utilities, etc. Payments to suppliers include all cash payments for inventory and most operating expenses.
2. Payments to employees: these include salaries, wages, commissions, compensations, etc.
3. Payments for interest expense.
4. Income tax expense.

It should be noted that depreciation, depletion, and amortization expense are not listed on the statement of cash flows because they do not affect cash.

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(2) Investing Activities

Cash Receipts

1. Cash proceeds from the sale of plant assets. The book value and the gain or loss on the sale of plant assets are not reported on the statement of cash flows. Only the cash proceeds from the sale of plant assets are reported as cash flows.
2. Cash proceeds from the sale of investments that are not cash equivalents.
3. Collections of loans.

Cash Payments

1. Cash payments to acquire plant assets such as land, buildings, and equipment.
2. Cash payments to purchase investments that are not cash equivalents.
3. Payments of loans to other companies.

(3) Financing Activities

Cash Receipts

1. Proceeds from issuance of common or preferred stock.
2. Proceeds from issuance of long-term notes payable.

Cash Payments

1. Payments of long-term notes payable.
2. Purchases of the entity's own stock such as the purchases of treasury stock and payments to retire the entity's stock.
3. Declaration and payment of cash dividends.

Example (1)

The Middle East Corporation's accounting records show the following information for the year ended December 31, 2007:

Credit sales ……	398000	Loan to another company	50000
Collections from customers	370000	Cash proceeds from sale of investments (include 15000 gain)	25000
Cash sales ……	80000	Cash proceeds from sale of plant assets (include 1000 loss)	21000
Interest revenue on notes receivable ……	16000	Collection of loans ……	49000
Collection of interest on notes receivable ……	12000	Cash proceeds from issuance of short-term notes payable …	40000
Declaration and payment of cash dividends ……	30000	Cash proceeds from issuance of common stock	30000
Cash receipt of dividend revenue on investments …	8000	Payments of long-term notes payable ……	60000
Payments to suppliers ……	330000	Amortization expense …..	8000
Payments of salaries ……	100000	Purchases of inventory on credit	300000
Payments of interest expense	10000	Cost of goods sold ……	310000
Income tax expense ……	20000	Cash balance December 31 2006	80000
Depreciation expense ……	40000	Cash balance December 31 2007	???
Payment to acquire plant assets	100000		

Required

Prepare the Middle East Corporation's statement of cash flows for the year ended December 31, 2007?

Solution

The Middle East Corporation
Statement of Cash Flows

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Year ended December 31, 2007

Cash Flows from Operating Activities:	SR	SR
Receipts:		
Collections from customers (370000 + 80000)	450000	
Interest revenue on notes receivable	12000	
Cash receipt of dividend revenue on investments	8000	
Total cash receipts		470000
Payments:		
Payments to suppliers	(330000)	
Payments of salaries	(100000)	
Payments of interest expense	(10000)	
Income tax expense	(20000)	
Total cash payments		(460000)
Net cash inflow from operating activities		10000
Cash Flows from Investing Activities:		
Payment to acquire plant assets	(100000)	
Loan to another company	(50000)	
Cash proceeds from sale of investments	25000	
Cash proceeds from sale of plant assets	21000	
Collection of loans	49000	
Net cash outflow from investing activities		(55000)
Cash Flows from Financing Activities:		
Proceeds from issuance of short-term notes payable	40000	
Cash proceeds from issuance of common stock	30000	
Payments of long-term notes payable	(60000)	
Payments of cash dividends	(30000)	
Net cash outflow from financing activities		(20000)
Increase (decrease) in cash		(65000)
Cash balance December 31, 2006		80000
Cash balance December 31, 2007		15000

Example (2)

Below are the financial statements for the Green Land International Company for the year ended December 31, 2007. The company commences its operations activities on January 1, 2007.

Green Land International Company
Income Statement
For the Year Ended December 31, 2007

Sales revenue		560000
Cost of goods sold		(300000)
Gross profit		260000
Operating expenses:		
Salaries expense	100000	
Rent expense	72000	
Depreciation expense	20000	
Total operating expenses		(192000)
Profit before tax		68000
Income tax expense		(24000)
Profit after tax (net profit for 2007)		44000

Green Land International Company
Statement of Retained Earnings
For the Year Ended December 31, 2007

Retained earnings, January 1, 2007	SR 0
Add: Net profit for 2007	44000
Deduct: Dividends declared and paid	(10000)
Retained earnings, December 31, 2007	34000

Green Land International Company
Statement of Financial Position

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December 31, 2007

Assets	SR	SR
Current Assets:		
Cash	46000	
Accounts receivable	360000	
Inventory December 31	100000	
Prepaid rent	36000	
Total Current Assets		542000
Plant Assets:		
Machinery	160000	
Less: accumulated depreciation	(20000)	
Total Plant Assets		140000
Total Assets		**682000**
Liabilities and Stockholders' Equity		
Short-term Liabilities:		
Accounts payable	140000	
Accrued salaries	8000	
Total Short-term Liabilities		148000
Stockholders' Equity:		
Common stock (10000 shares x SR50)	500000	
Retained earnings	34000	
Total Stockholders' Equity		534000
Total Liabilities and Stockholders' Equity		**682000**

Additional information:

1. Income tax during 2007 amounting to SR24000 paid in cash.
2. Declaration and payment of cash dividends on the common stock during 2007 amounting to SR10000.
3. Common stock issued on January 1, 2007.
4. Machinery was purchased on January 1, 2007 for SR160000 cash. The machinery has an estimated useful life of 8 years, no estimated salvage value, and is depreciable on the straight line method.

Required

Prepare the Green Land International Company's statement of cash flows for the year ended December 31, 2007 using the direct method in the operating activities section?

Solution

The Green Land International Company

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Statement of Cash Flows
Year ended December 31, 2007

Cash Flows from Operating Activities:	SR	SR
Receipts:		
Collections from customers	200000	
Total cash receipts		200000
Payments:		
Payments to suppliers	(260000)	
Payments of salaries	(92000)	
Payments of rent	(108000)	
Payments of income taxes	(24000)	
Total cash payments		(484000)
Net cash outflow from operating activities		(284000)
Cash Flows from Investing Activities:		
Payment to acquire machinery	(160000)	
Net cash outflow from investing activities		(160000)
Cash Flows from Financing Activities:		
Cash proceeds from issuance of common stock	500000	
Payments of cash dividends	(10000)	
Net cash inflow from financing activities		490000
Increase (decrease) in cash		46000
Cash balance at January 1, 2007		0
Cash balance at December 31, 2007		46000

NOTES on Solution

(1) Total sales for the first year of operations were SR560000. Uncollected accounts receivable at the end of 2007 are 360000. Therefore, the cash received from customers for 2007 (operating cash inflow) is 200000 (560000 – 360000). Since the year 2007 was the first year of operation, there were no collections during 2005 from the previous year's sales.

(2) Total purchases during 2007 was SR400000 (300000 cost of goods sold + 100000 ending inventory). Unpaid accounts payable at the end of 2007 are 140000, therefore, the cash paid to suppliers was 260000 (operating cash outflow).

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(3) Salaries expense for the year 2007 is SR100000 as appear on the income statement. However, an amount of 8000 remains unpaid at the end of 2007. Therefore, the cash paid to employees was 92000 (operating cash outflow).

(4) Rent expense for the year 2007 is SR72000 as appear on the income statement. However, an additional amount of 36000 was paid in cash for the first 6 months of 2008. Thus, the amount of cash paid for rent during 2007 was 108000 (operating cash outflow).

(5) Income tax expense for the year 2007 is 24000 which were paid in cash (operating cash outflow).

(6) An amount of SR160000 was paid in cash for the acquisition of new machinery (investing cash outflow). Depreciation is a non-cash expense, and thus, it has no effect on the statement of cash flows.

(7) An amount of SR500000 (10000 shares x SR50 per share) was provided by the sale of common stock (financing cash inflow).

(8) Cash payments for dividends were SR10000 (financing cash outflow).

(9) The net increase in cash of SR46000 during 2007 is a result of (1) net cash used in operating activities of SR284000, (2) cash used by investing activities of SR16000, and (3) net cash provided by financing activities of SR490000. Since there was no beginning cash balance, an amount of SR46000 is also appears as cash balance on the balance sheet on December 31, 2007.

Formula to Convert Accrual Basis to Cash Basis

Under the direct method, the amount of each item that affects cash in the income statement has to be converted from the accrual basis to cash basis. This process involves analyzing the changes in the balance sheet accounts that are related to each item in the income statement.

The balance sheet accounts related to the operating activities are the ***current assets*** and ***short-term liabilities*** accounts. The important accounts related to each others are (1) the sales revenue which is related to the accounts receivable, and (2) cost of goods sold which is related to ending inventory and accounts payable.
The general formula to convert the accrual basis to the cash basis is illustrated below.

Accrual Basis Income statement item	Adjustment to Convert to Cash Basis			Cash Consequence
Sales	(+) Decrease in accounts receivable **or** (-) Increase in accounts receivable			Cash received from customers
Cost of Goods Sold	(+) Increase in inventory **or** (-) Decrease in inventory	**and**	(+) Decrease in accounts payable **or** (-) Increase in accounts payable	Cash payments to suppliers
Other revenues that affect cash	(+) Decrease in accrued revenue item **or** (-) Increase in accrued revenue item	**and**	(+) Increase in unearned revenue item **or** (-) Decrease in unearned revenue item	Cash received from other revenue sources
Other expenses that affect cash	(+) Decrease in accrued expense item **or** (-) Increase in accrued expense item	**and**	(+) Increase in prepaid expense item **or** (-) Decrease in prepaid expense item	Cash payments for other expense items

Example (3)

Using the above formula, compute cash consequences of income statement revenues and expenses for the Green Land International Company to reach the net cash used in operating activities for 2007?

Solution

1. Sales – increase in accounts receivable (560000 - 360000) = SR200000 (cash received from customers).
2. Cost of goods sold + increase in inventory – increase in accounts payable (300000 + 100000 – 140000) = SR 260000 (payments to suppliers).

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3. Salaries expense – increase in salaries payable (100000 – 8000) = SR92000 (payments to employees).
4. Rent expense + increase in prepaid rent (72000 + 36000) = SR108000 (cash payments for rent).
5. Income tax expense = SR24000 (no change in related balance sheet account).

Net cash used in operating activities can be computed as:

SR200000 – (260000 + 92000 + 108000 + 24000) = SR284000.

Example (4)

Below are the financial statements for the White Rock Corporation for the year ended December 31, 2007.

The White Rock Corporation
Income Statement
For the Year Ended December 31, 2007

Sales revenue		1350000
Cost of goods sold		(810000)
Gross profit		540000
Operating expenses:		
Interest expense	40000	
Amortization of intangibles	10000	
Depreciation expense	240000	
Administrative and marketing expenses	160000	
Total operating expenses		(450000)
Net income for 2007		90000

The White Rock Corporation
Statement of Financial Position

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December 31, 2007

	2006	2007	Change
Assets			
Cash	28000	136000	+108000
Accounts receivable	42000	62000	+20000
Provision for doubtful debts	(2000)	(2000)	-
Inventory December 31	200000	160000	- 40000
Property, plant and equipment	700000	920000	+220000
Less: accumulated depreciation	(360000)	(520000)	+160000
Intangible assets	160000	150000	- 10000
Total assets	**768000**	**906000**	-
Liabilities			
Accounts payable	20000	34000	+14000
Bonds payable	200000	280000	+80000
Total Liabilities	**220000**	**314000**	-
Owner's Equity			
Common stock	382000	424000	+42000
Retained earnings	166000	168000	+2000
Total Owner's Equity	**548000**	**592000**	-
Total Liabilities and owner's Equity	**768000**	**906000**	-

Additional information for the year 2007:

1. Equipment was acquired for SR200000 cash.
2. Land was acquired for cash.
3. A building was sold for its carrying amount (original cost 240000 and accumulated depreciation 80000).
4. Bad debts for 2007 were 2000 and are included in administrative and marketing expenses.

Required

Prepare the statement of cash flows for the White Rock Corporation for the year ended December 31, 2007 using the direct method in the operating activities section?

Solution

The White Rock Corporation
Statement of Cash Flows

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Year ended December 31, 2007

Cash Flows from Operating Activities:	**SR**	**SR**
Receipts:		
Collections from customers	1328000	
Total cash receipts		1328000
Payments:		
Payments to suppliers	(756000)	
Interest payments	(40000)	
Administrative and marketing payments	(158000)	
Total cash payments		(954000)
Net cash inflow from operating activities		374000
Cash Flows from Investing Activities:		
Payment to acquire equipment	(200000)	
Payment to acquire land	(260000)	
Proceeds from sale of building	160000	
Net cash outflow from investing activities		(300000)
Cash Flows from Financing Activities:		
Cash proceeds from issuance of common stock	42000	
Cash proceeds from issuance of bonds	80000	
Payments of cash dividends	(88000)	
Net cash inflow from financing activities		34000
Net increase in cash		108000
Cash balance at January 1, 2006		28000
Cash balance at December 31, 2007		136000

NOTES on Solution

Different items that affecting cash could be explained below:

1. Total sales of operations for the year 2007 were SR 1,350,000. The accounts related to these sales are (1) accounts receivable which increase 20,000; (2) provision for doubtful debts which did not change; and (3) bad debt which was 2000 included in administrative and marketing expenses.
2. Cash collection from customers is ***1,328,000*** (sales 1,350,000 – 20,000 change in accounts receivable – 2000 provision for doubtful debts) (operating cash inflow).
3. Net administrative and marketing is ***158,000*** (160,000 – 2000) (operating cash outflow).

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4. Accounts related to cost of goods sold are (1) ending inventory which decreased by 40000; and accounts payable which increased by 14000. Therefore, cash payments to suppliers are ***756000*** (810000 – 40000 – 14000) (operating cash outflow).
5. Because no interest was payable or accrued in the balance sheet, then all interest (***40000***) was paid in cash (operating cash outflow).
6. Net income for the year 2007 was 90000, and the retained earnings increased only 2000, then it is clear that there is a payment of dividends which computed as 166000 + 90000 - 168000 = 88000 (financing cash outflow).
7. Proceeds from sale of building is 160000 (240000 – 80000) (investing cash inflow).
8. Payment to acquire equipment is 200000 (investing cash outflow).
9. Payment to acquire land is 260000 (investing cash outflow). The purchase price of land could be computed as follows:

Balance January 1, 2007 of plant assets	700000
Plus: purchase price of equipment	200000
Less: sale price of a building	(240000)
Net	660000
Plus: purchase price of land	??
Balance December 31, 2007 of plant assets	920000

Bank Reconciliation Statement

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Banks usually send a monthly bank statement to every depositor together with the cancelled cheques and notices of bank charges and credits. The bank statement shows the month's cash transactions conducted through the bank on the depositor's account. The statement shows the following items, at a minimum:

1. Beginning cash balance for the month.
2. Deposits received.
3. Cheques paid.
4. Bank's fee and other charges and credits to the account.
5. Ending balance.

The company's cash transactions conducted through the bank are affected two records: first, the company's cash account in its general ledger. Second, the depositor's account at the bank which appears in the form of the bank statement, which shows the actual amount of cash the company has in the bank. Although, the company's cash records and the depositor's account at the bank is always reverse and has to be the same, they usually show different amounts, yet both be correct. The reasons behind that could be: (a) some items might appear on one record but not on the other because of the time lag in recording deposits and checks; (b) bank charges and credits of which the depositor is unaware, or; (c) errors or irregularities in the accounts.

To ensure accuracy of the financial records and to strengthen internal control over cash, the company's designated accountant must reconcile the two balances, the balance on the company's cash records and that on the bank statement. The result of this process is called ***Bank Reconciliation.***

The most common items which cause differences between two balances could be summarized below:

First: items recorded by the company but not yet recorded by the bank in the period for which it sent the statement, such as:

a) Deposits made too late in the month. These deposits are called **deposits in transit**. The company has recorded them, but they are too late to be credited by the bank on the current statement.
b) Cheques that have not been presented by the payees to the bank for payment. These cheques are called **outstanding cheques**. The company has recorded them, but the bank has not yet paid or recorded them.

Second: items recorded by the bank and appear in the bank statement but not yet recorded by the company due to the lack of information, such as:

a) Money collected by the bank on behalf of the depositor, and direct deposits by customers of the depositor to his bank account. An example is an interest on notes receivable.
b) Money received or paid by the bank, on behalf of the depositor, through the system of **electronic funds transfer (EFT)**. *EFT* system is used by most companies today to pay salaries to their employees, to pay rent or insurance instalments through prior arrangement with their bank. The bank statement lists *EFT* deposits and *EFT* payments.
c) Cost of service (service charge). It is the bank's fee charged if the customer's account reached below a specified minimum balance (in alrajhi bank, for example, this minimum is SR1000). Sometimes, the bank makes charges for the collection of outstanding cheques.
d) Dividends and rent collected by the bank. The depositor may entrust the task of collecting dividends on investment and rent on properties to the bank. After the collection of these incomes, which may be at the end of the month, the bank will recorded them whereas there may be no entry in the company's cash book.
e) Nonsufficient funds (*NSF*) cheques. These are cheques that have been deposited but can not be collected because of insufficient funds in the account of the drawer of the cheques (the one who writes the cheque). The bank then issues a debit memorandum charging the depositor's account.
f) Returned cheques for reasons other *NSF*. The bank may return cheques to the payee (the one to whom the cheque is to be paid) for some reasons such as: (a) the drawer's account has closed, (b) the signature is not authorized, (c) there a difference between the amount in figures and words.

Third: errors by the company or the bank. Any errors in the depositor's records or the bank's records should be listed and corrected as a part of the bank reconciliation.

Procedure for Preparation of Bank Reconciliation

The following is the steps for the preparation of bank reconciliation statement:

1. Start with the two balances, the balance in the company's cash account and the balance on the bank statement.
2. Add ***deposits in transit*** to the bank balance. These are the cash receipts that listed on the company's records but not listed on the bank statement.
3. Subtract ***outstanding cheques*** from the bank balance. These cheques show up cash payments that listed on the company's records but not listed on the bank statement.
4. Add (a) ***money collected by the bank***; (b) ***EFT cash receipts***, and, (c) ***dividends on investment and rent collected by the bank*** to the balance in the company's cash

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account. These items are the cash receipts that listed on the bank statement but not listed on the company's records.

5. Subtract (a) ***EFT cash payments***, (b) ***service charges***, and; (c) ***NSF cheques*** from the balance in the company's cash account. These items were subtracted on the bank statement but not listed as cash payments on the company's records.
6. Correct all errors in the company's records. Bank errors should be brought to the attention of the bank to correct them.
7. Compute the adjusted bank balance and the adjusted company's book balance. The two adjusted balances should be equal.
8. Make journal entries for those items in steps (4) and (5) above. These items must be recorded on the company's records because they are not recorded before.

Example

The bank statement sent from Riyadh Bank to Al-Israa Corporation indicates that the May 31, 2008 bank balance of the Corporation is SR83020.50. However, the Corporation's cash book has a balance of SR75336.20. The following information indicate the reasons for difference between the two balances:

1. The deposit in transit of SR5680.40 on May 30 does not appear on the bank statement.
2. The bank erroneously charged to Al-Israa Corporation account a SR1000 the cheque No. 1147 written by Al-Israa International Company.
3. The Corporation issued three cheques late in May and recorded in the Corporation's cash payments journal. These cheques have not yet been presented to the bank for payment until May 31. These outstanding cheques as follows:

   Cheque No. 1133 dated May 25, with an amount SR2450.10
   Cheque No. 1134 dated May 27, with an amount SR3818.70
   Cheque No. 1135 dated May 30, with an amount SR3100

4. The bank received SR1500 rent revenue of May by EFT on behalf of the Corporation.
5. The bank statement includes an amount of SR1015.80 marketable securities revenue collected by the bank on behalf of the Corporation.
6. The bank collected on behalf of the Corporation a note receivable of SR6227.
7. Cheque No. 1130 for SR3500 paid to Red Sea Company on account was recorded as a cash payment of SR5300.
8. The bank statement shows a NSF cheque for SR5165. The cheque was received from customer Hamadan.
9. The bank service charge for the month was SR22.20.

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10. The monthly fire insurance installment paid by EFT is SR360. This EFT has not been recorded by the Corporation.

Required

1. Prepare bank reconciliation for Al-Israa Corporation at May 31, 2008.
2. Record the journal entries necessary to bring the Corporation's cash book up to date.

Solution

Al-Israa Corporation
Bank Reconciliation
May 31, 2008

Bank			***Corporation's Books***		
	SR	*SR*		*SR*	*SR*
Balance, May 31, 2005		83020.50	Balance, May 31, 2005		75336.50
Add:			**Add:**		
1- Deposit in transit		5680.40	4- EFT receipt of rent		1500
2- Correction of bank error (cheque No. 1147)		1000	5- Marketable securities revenue		1015.80
TOTAL		89700.90	6- Bank collection of notes receivable		6227
Less:			7- Correction of cheque No. 1130		1800
3- Outstanding cheques:			***TOTAL***		85879.30
Cheque No. 1133	2450.10		**Less:**		
Cheque No. 1134	3818.70		8- NSF cheque	5165	
Cheque No. 1135	3100		9- Service charge	22.20	
TOTAL		(9368.80)	10- EFT payment of insurance	360	(5547.20)
Adjusted bank balance		**80332.10**	**Adjusted Corporation's book**		**80332.10**

After reconciliation, it is clear that the two balances are the same.

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The journal entries in the Corporation's books are as follows:

Date		Explanation	Debit	Credit
2008 May	31	Cash in bank Rent revenue "Receipt of monthly rent"	1500	1500
	31	Cash in bank Marketable securities revenue "Revenue earned on marketable securities"	1015.80	1015.80
	31	Cash in bank Notes receivable "Notes receivable collected by bank"	6227	6227
	31	Cash in bank Accounts payable "Correction of cheque No. 1130"	1800	1800
	31	Accounts receivable (Hamadan) Cash in bank "NSF cheque returned by bank"	5165	5165
	31	Service charge Cash in bank "Bank service charge"	22.20	22.20
	31	Fire insurance expense Cash in bank "Payment of monthly fire insurance"	360	360

Only reconciling items in the Corporation's section are to be recorded on the books. The reconciling items in the bank section have already been recorded on the Corporation's books and merely have not yet reached the bank until May 31. They will probably be included in the bank statement of June, the next month.

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Solved Problems

First Problem

The following balances were extracted from the Ledger of Cairo International Company as at 31 December 2007:

Account Name	Balance	Dr	Cr
Capital	20500		
Purchases	46500		
Sales	60900		
Telephone expense	848		
Rent expense	950		
Other revenues	318		
Equipment	10000		
Bank	540		
Furniture	1460		
Wages and salaries	8606		
Notes receivables	1061		
Notes payable	814		
Insurance expense	248		
Cash	2400		
Bad debts	359		
Advertisement expense	140		
Accounts receivable	5213		
Accounts payable	4035		
Other expenses	1586		
Inventory 1 January	6300		
Total			

Required

1. Using the above balances, prepare the trail balance for the company.
2. Prepare the Balance sheet for the Company if you know that the Merchandise Inventory 31-12-2006 is SR 14000, and the net profit is SR 9681.

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Solution

Cairo International Company
Trail Balance

Account Name	Balance	Dr	Cr
Capital	20500		20500
Purchases	46500	46500	
Sales	60900		60900
Telephone expense	848	848	
Rent expense	950	950	
Other revenues	318		318
Equipment	10000	10000	
Bank	540	540	
Furniture	1460	1460	
Wages and salaries	8606	8606	
Notes receivables	1417	1417	
Notes payable	814		814
Insurance expense	248	248	
Cash	2400	2400	
Bad debts	359	359	
Advertisement expense	140	140	
Accounts receivable	5213	5213	
Accounts payable	4035		4035
Other expenses	1586	1586	
Inventory 1 January	6300	6300	
Total		86567	86567

Cairo International Company
Balance Sheet as at 31-12-2007

Assets			Liabilities and Owner's Equity		
Current Assets:			**Short-term liabilities:**		
Cash	2400		Accounts payable	4035	
Bank	540		Notes payable	814	
Accounts receivables	5213		TOTAL		4849
Notes receivable	1417				
Inventory	14000		**Long-term liabilities:**	-	-
TOTAL		23570			
Fixed Assets:			**Owner's equity:**		
Equipment	10000		Capital	20500	
Furniture	1460		Net profit	9681	
TOTAL		11460	TOTAL		30181
		35030			35030

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Second Problem

Below are the financial statements for the Red Sea Mountains Company for the year ended December 31, 2007.

The Red Sea Mountains Company
Income Statement
For the Year Ended December 31, 2007

Sales revenue		6,900,000
Cost of goods sold		(4,700,000)
Gross profit		2,200,000
Depreciation expense	(50,000)	
Administrative expense	(650,000)	
Selling expenses	(450,000)	
Total expenses		(1,150,000)
Net income		1,050,000

The Red Sea Mountains Company
Statement of Financial Position
For the Year Ended December 31, 2007

	2006	2007	Change
Assets			
Cash	1,150,000	1,700,000	+550,000
Accounts receivable	1,300,000	1,750,000	+450,000
Inventory	1,900,000	1,650,000	-250,000
Long-term investments	1,400,000	1,300,000	-100,000
Plant and equipment	1,700,000	1,950,000	+250,000
Accumulated depreciation	(1,150,000)	(1,200,000)	+(50,000)
Total Assets	**6,300,000**	**7,150,000**	**-**
Liabilities			
Accounts payable	900,000	1,200,000	+300,000
Bonds payable	1,500,000	1,200,000	-300,000
Accrued liabilities	300,000	400,000	+100,000
Total Liabilities	**2,700,000**	**2,800,000**	**-**
Owner's Equity			
Capital	1,700,000	1,900,000	+200,000
Retained earnings	1,900,000	2,450,000	+550,000
Total Owner's Equity	**3,600,000**	**4,350,000**	**-**
Total Liabilities & owners' equity	**6,300,000**	**7,150,000**	**-**

Additional information

1. Long-term investments were sold with their original cost of SR100,000.
2. Plant and equipment was acquired during 2007 for SR250,000 cash.
3. Common stock issued for SR200,000.
4. Cash payments of Bonds SR300,000.

Required

Prepare a statement of cash flows, using the direct method in the Operating Activities section.

Solution

The Red Sea Mountains Company
Statement of Cash Flows
For Year Ended December 31, 2007

Cash Flows from Operating Activities:	SR	SR
Receipts:		
Collections from customers	6,450,000	
Total cash receipts		6,450,000
Payments:		
Payments to suppliers	(4,150,000)	
Payments of administrative expenses	(650,000)	
Payments of selling expenses	(450,000)	
Accrued liabilities	100,000	
Net cash payments		5,150,000
Net cash inflow from operating activities		1,300,000
Cash Flows from Investing Activities:		
Payment to acquire plant and equipment	(250,000)	
Proceeds from sale of long-term investments	100,000	
Net cash outflow from investing activities		(150,000)
Cash Flows from Financing Activities:		
Cash proceeds from issuance of shares	200,000	
Cash payments of bonds	(300,000)	
Payments of cash dividends	(500,000)	
Net cash outflow from financing activities		(600,000)
Net cash inflows for the period		550,000
Plus cash balance at January 1, 2007		1,150,000
Cash balance at December 31, 2007		1,700,000

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NOTES on Solution

1. Cash collection from customers is SR6,450,000 (sales 6,900,000 – 450,000 change in accounts receivable) (operating cash inflow).
2. Accounts related to cost of goods sold are (1) ending inventory which decreased by 250,000; and accounts payable which increased by 300,000. Therefore, cash payments to suppliers are 4,150,000 (4,700,000 – 250,000 – 300,000) (operating cash outflow).
3. Because no administrative and selling expenses were payable or accrued on the balance sheet, then all administrative and selling expenses appeared on the income statement were operating cash outflow.
4. Increase in accrued liabilities of SR100,000 is operating cash inflow.
5. Net income for the year 2005 was 1,050,000, and the retained earnings increased only 550,000, then it is clear that there is a payment of dividends which computed as 1,900,000 + 1,050,000 - 2,450,000 = 500,000 (financing cash outflow).

Third Problem

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The Gulf International Company's cash records show the followings receipts and the payments for July 2008:

Cash Receipts		*Cash Payments*	
Date	**Cash Debit**	**Cheque No.**	**Cash Credit**
July 3, 2005	SR 27100	940	SR 14690
July 8	5500	941	10000
July 10	16570	942	4000
July 13	8940	943	580
July 18	3670	944	7750
July 26	8900	945	880
July 31	20380	946	41260
		947	9700
		948	2000
		949	22670
Total	**91060**	**Total**	**113530**

The cash account of the company shows the balance on July 1, 2008 was SR121880.

On July 31, 2008, Gulf International Company received the bank statement as follows:

Beginning Balance			**121880**
Deposits and other Credits:			
July 2	6250 (EFT)		
July 5	27100		
July 9	5500		
July 11	16570		
July 16	8940		
July 19	3670		
July 26	8900		
July 31	10000 (BC)		
Total deposits and credits			**86930**
Cheques and other Debits:	***Cheques No.***	**SR**	
July 9	-	4410 (NSF)	
July 10	940	14690	
July 14	941	10000	
July 15	942	4000	
July 16	943	580	
July 20	-	3400 (EFT)	
July 23	944	7750	

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July 29	945	880	
July 31	946	42160	
July 31	-	250 (SC)	
Total amounts of cheques			**(88120)**
Ending Balance			**120690**

Explanations: BC- bank collection, EFT – electronic funds transfer,
NSF – nonsufficient funds cheques, SC – service charge.

Additional data for bank reconciliation:

1. The EFT deposit was a receipt of rent.
2. The EFT debit was payment of fire insurance.
3. The NSF cheque was received late in June from Aljazeera Corporation.
4. The SR10000 bank collection was a note receivable.
5. The correct amount of cheque number 946, a payment on account, is SR42160 was made to ISC. The Gulf International Company accountant mistakenly recorded the cheque for SR41260.

Required

1. Prepare the bank reconciliation for the Gulf International Company at July 31, 2008.
2. Record the journal entries necessary to bring the Company's cash book up to date.

Solution

Gulf International Company
Bank Reconciliation

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July 31, 2008

Bank			***Company's Books***		
	SR	*SR*		*SR*	*SR*
Balance July 31, 2005		120690	Balance July 31, 2005		99410
Add:			**Add:**		
Deposit in transit		20380	EFT receipt of rent		6250
			Bank collection of notes receivable		10000
TOTAL		141070	***TOTAL***		115660
Less:			**Less:**		
Outstanding cheques:			Correction of cheque No. 946	900	
Cheque No. 947	9700		NSF cheque-Aljazeera	4410	
Cheque No. 948	2000		EFT payment of fire insurance	3400	
Cheque No. 949	22670		Service charge	250	
TOTAL		(34370)	***TOTAL***		(8960)
Adjusted bank balance		**106700**	**Adjusted company's book**		**106700**

Computing the company's ending balance as follows:

Balance July 1 (+) total cash receipts (-) total cash payments.

SR 121880 (+) 91060 (–) 113530 = SR 99410.

After reconciliation, it is clear that the two balances are the same.

The journal entries in the Corporation's books are as follows:

Date	Explanation	Debit	Credit

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2008 July	31	Cash in bank Rent revenue "Receipt of rent revenue"	6250	6250
	31	Cash in bank Notes receivable "Notes receivable collected by bank"	10000	10000
	31	Accounts receivable (Aljazeera Corp) Cash in bank "NSF cheque returned by bank"	4410	4410
	31	Accounts payable (ISC) Cash in bank "Correction of cheque No. 946 "	900	900
	31	Fire insurance expense Cash in bank "Payment of fire insurance"	3400	3400
	31	Service charge Cash in bank "Bank service charge"	250	250

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Appendix (١)

Income Statement قائمة الدخل

Revenues	الإيرادات	Expenses	المصروفات
Inventory 31.12	بضاعة آخر المدة	Inventory 1.1	بضاعة أول المدة
Sales	المبيعات	Purchases	المشتريات
Marketable securities revenues	إيرادات أوراق مالية	Salaries and Wages	الأجور والمرتبات
Rent revenue	إيراد إيجار	Rent expense	مصروف الإيجار
Consultation revenues	إيرادات استشارات	Advertisement expense	مصروف الدعاية والإعلان
Other revenues	إيرادات أخرى	Telephone bill	فاتورة الهاتف
		Electricity bill	فاتورة الكهرباء
		Fax and post expense	رسوم الفاكس والبريد
		Maintenance expense	مصروفات صيانة
		Selling expenses	مصروفات تسويقية
		Insurance expense	مصروفات تأمين
		Bad debts	ديون معدومة
		Depreciation	إهلاك الأصول الثابتة
		Office supplies	مستلزمات مكتبية
		Other expenses	مصروفات أخرى

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Appendix (2)

Balance Sheet الميزانية العمومية
Statement of Financial Position قائمة المركز المالي

Liabilities and Owner's Equity	الخصوم وحقوق الملكية	Assets	الأصول
Short-Term Liabilities:	**الخصوم قصيرة الأجل:**	**Current Assets:**	**الأصول المتداولة:**
Accounts Payable	الدائنون	Cash	الصندوق
Notes Payable	أوراق الدفع	Bank	البنك
Short-Term Loans	القروض قصيرة الأجل	Inventory (stock)	المخزون السلعي
Pre-collected Revenues	الإيرادات المحصلة مقدماً	Accounts Receivable	المدينون
Accrual Expenses	المصروفات المستحقة	Notes Receivable	أوراق القبض
		Marketable Securities	الأوراق المالية
Long-Term Liabilities:	**الخصوم طويلة الأجل:**	Prepaid Expenses	المصروفات المدفوعة مقدماً
		Accrual Revenues	الإيرادات المستحقة
Long-Term Loans	القروض طويلة الأجل		
		Fixed Assets:	**الأصول الثابتة:**
Owner's Equity	**حقوق الملكية**	Land	الأراضي
Capital	رأس المال	Buildings	المباني
(+) Net Profit	(+) صافي الربح	Cars	السيارات
Or (-) Net Loss	أو (-) صافي الخسارة	Furniture	الأثاث
		Equipment	المعدات
		Machines	الآلات والماكينات
		Intangible Assets:	**الأصول الغير ملموسة:**
		Goodwill	شهرة المحل
		Trade Mark	العلامة التجارية
		Copyrights	حقوق النسخ والتأليف والنشر
		Patent	حقوق الإختراع

Appendix (3)

المصطلحات Terminologies

Above ..... أعلاه

Accept ..... يقبل

Accepted..... مقبول

Accompanied..... مصاحبة

Accounting ..... محاسبة

Accounting cycle ..... الدورة المحاسبية

Accounting equation..... المعادلة المحاسبية

Accounts payable..... دائنون

Accounts receivable..... مدينون

Acquire..... يحوز أو يقتني

Add..... يجمع أو يضيف

Additional..... إضافة

Adjust..... يسوي

Adjusted trial balance ..... ميزان المراجعة بعد التسويات

Adjusting entries ..... قيود التسويات

Advertise..... يعلن

Advertisement..... إعلان

Affect..... يؤثر

Agree ..... يوافق

Agreement..... إتفاق

Amount ..... مبلغ أوكمية

Annually ..... سنوي

Appear ..... يظهر

Apply..... يطبق

Application..... تطبيق

Arrangements..... استعدادات

Assets..... أصول

Auditing ..... المراجعة

Available ..... متاح

Bad debt..... ديون معدومة

Balance ..... رصيد

Balance sheet ..... الميزانية

Bank reconciliation ..... مذكرة تسوية البنك

Bank statement ..... كشف حساب البنك

Based on ..... مُعتمد على

Beginning ..... بداية

Below..... أدناه

Bill ..... فاتورة

Blanks ..... فراغات

Book value ..... القيمة الدفترية

Budget ..... ميزانية

Building ..... مبنى

Business ..... مشروع تجاري

Buy ..... يشتري

Buyer ..... مشتري

Calculate ..... يحسب

Capital ..... رأس المال

Capital expenditure ..... مصاريف رأسمالية

Cash ..... نقدية

Cash basis..... الأساس النقدي

Cheque..... شيك

Circle..... ضع دائرة

Classify..... يبوب أو يصنف

Closing entries ..... قيود الإقفال

Collect..... يحصل

Collections..... تحصيل

Combination..... خليط

Commissions..... عمولات

Complete..... تام أو أكمل

Compute..... احسب

Concept..... مفهوم

Consist..... يتكون

Continue..... يستمر

Copyrights..... حقوق النسخ

Correct..... يصحح

Corrected balance ..... الرصيد الصحيح

Cost..... التكلفة

Count..... يحسب

Credit..... دائن

Creditor..... دائن

Currency.....عملة

Current.....الجاري

Current assets.....الأصول المتداولة

Current liabilities.....الخصوم المتداولة

Customer.....عميل

Cycle.....دورة

Date.....التاريخ

Data .....بيانات

Debit.....مدين

Decide.....يقرر

Decision.....قرار

Decrease .....ينقص أو ينخفض

Deduct .....يخصم أو يستقطع

Delivery.....توصيل

Deposit .....يودع وديعة

Determine .....يستنتج

Difference .....يفرق

Double entry system.....نظام القيد المزدوج

Each .....كل

Earn .....يكتسب

Economic entity .....مفهوم الوحدة الاقتصادية

Effect.....يؤثر

Elements.....عناصر

Employ.....يوظف

Employee ..... موظف أو مستخدم

Enclosed..... مرفق

Enough ..... يكفي

Enterprise..... مشروع

Entry..... قيد

Equal..... مساوي

Equation ..... معادلة

Equipment..... معدات

Equivalent..... معادل

Error..... خطأ

Essential..... ضروري

Estimate..... يُقدر

Estimation..... تقدير

Event..... حدث

Exceed..... يتجاوز

Expansion..... توسع

Expect..... يتوقع

Expense ..... مصروف

Expenditure..... مصروف

Factors..... عوامل

Fees..... أتعاب

Fill..... إملأ

Finance ..... تمويل

Financial statements..... القوائم المالية

Fiscal..... مالي

Fiscal year ..... سنة مالية

Fixed assets..... أصول ثابتة

Future ..... المستقبل

Furniture ..... أثاث

General ..... عام

General journal..... دفتر اليومية العام

General ledger ..... دفتر الأستاذ العام

Goodwill..... الشهرة

Important..... هـام

Income statement ..... قائمة الدخل

Include..... يتضمن

Increase..... يزداد

Intangible assets..... أصول غير ملموسة

Interest..... فائدة

Invest..... يستثمر

Investments..... استثمار

Invoice..... فاتورة

Issue..... يُصدر

Item ..... بند

Journal ..... يومية

Journalize..... يُسجل باليومية

Know..... يعرف

Known ..... معروف

Land.....أرض

Legal .....قانوني

Less.....أقل أو (طرح)

Liabilities .....خصوم

List.....قائمة

Loan.....قرض

Long-term liabilities .....خصوم طويلة الأجل

Maintenance expense .....مصاريف صيانة

Minus.....ناقص

Month.....شهر

Necessary .....ضروري

Need .....حاجة أو يحتاج

Net.....صافي

Net income .....صافي الربح

Nominal accounts.....حسابات اسمية

None.....ولا شيء

Normal.....عادي

Note payable.....أوراق الدفع

Note receivable.....أوراق القبض

Obligation.....التزام

Obtain.....يتحصل على

Occur.....يحدث

Offer.....يقدم أو عرض

Office .....مكتب

Office supplies ..... تجهيزات مكتبية

On account..... على الحساب

On credit..... بالأجل

Operating expenses ..... مصاريف تشغيلية

Outstanding checks ..... شيكات قائمة

Owner's equity..... حقوق الملكية

Owe..... يدين

Own..... يملك

Patent ..... حق اختراع

Pay..... يدفع

Payee ..... المستفيد

Payments..... مدفوعات

Payrol l..... رواتب

Per ..... على حسب أو بـ

Percentage..... نسبة مئوية

Period..... فترة

Petty cash ..... صندوق المصاريف النثرية

Physical..... مادي/ محسوس

Plus..... زائد

Point..... نقطـة

Policy..... سياسـة

Possible ..... ممكن

Post ..... يرحل

Prepare..... يُعد

Preparation..... إعداد

Present.....يقدم

Previous.....السابق

Price .....سعر أو قيمة

Principal.....مبدأ

Problem .....مشكلة أو تمرين

Process.....عملية

Produce.....يُنتج

Production.....إنتاج

Promise.....يعطي وعداً

Property.....عقار

Provide.....يوفر

Purchases.....يشتري

Real accounts.....الحسابات الحقيقية

Receive.....يستلم

Receipts .....سندات إستلام

Record.....يسجل

Records.....سجلات

Related .....له علاقة بـ

Rent.....إيجار

Repair.....يصلح

Report.....تقرير

Require.....يتطلب

Respectively.....على التوالٍ

Resources .....موارد

Result.....نتيجة

Retained earnings.....أرباح محتجزة

Return.....عائد أو يعود

Revenues.....إيرادات

Rights .....حقوق

Salary(salaries) .....رواتب

Sales.....مبيعات

Schedule .....جدول

Select.....يختار

Selections.....اختيارات

Sell.....يبيع

Service.....خدمات

Show.....يُظهر

Space.....فراغ

Specific.....محدد

Spend / spent.....يُنفق / انفق

Statement of cash flows.....قائمة التدفقات النقدية

Statement of changes in owner's equity.....قائمة التغيرات في حقوق الملكية

Steps.....خطوات

Store.....محل أو معرض

Subtract.....يطرح

Such as.....مثل

Suitable.....مناسب

Sum .....مبلغ

Summarize.....يلخص

Supplies.....مهمات

System.....نظام

Table.....جدول

Tangible assets.....أصول ملموسة

Term .....فترة أو مصطلح

Total.....مجموع

Trade mark.....علامة تجارية

Trade name.....اسم تجاري

Transaction. .....عملية

Trial balance .....ميزان المراجعة

True.....صحيح

Types.....أنواع

Understand.....يفهم

Units.....وحدات

Until.....حتى

Use.....يستخدم

Usually.....عادةً

Utility expense.....مصاريف المنافع

Value.....قيمة

Valuation.....تقييم

Wages.....أجـــور

Wish.....يرغب

Withdraw.....يسحب

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