

Financial Accounting

Accounts Payable is the unpaid bills of the business; the money you owe to your suppliers and other creditors. You will often see Accounts Payable abbreviated as A/P. The Accounts Payable is under Liabilities; its normal balance is Credit. Putting it on the Debit Side will decrease it while putting it on the Credit Side increases its value. Generally, expenses are debited to a specific expense account and the normal balance of an expense account is a debit balance and one of its examples is the advertising expense. Advertising Expense is the income statement account that reports the dollar amount of ads run during the period shown in the income statement. Advertising Expense will be reported under selling expenses on the income statement. The Advertising Expense's normal balance is Debit, thus, putting it on the Credit side will decrease its value. Under the accrual basis of accounting, the Service Revenues account reports the fees earned by a company during the time period indicated in the heading of the income statement. Service Revenues include work completed whether or not it was billed. Service Revenues is an operating revenue account and will appear at the beginning of the company's income statement. The account Service Revenue is on the Credit side, putting it on the credit side will increase its value. Accounts Receivable is a current asset resulting from selling goods or services on credit (on account). Invoice terms such as (a) *net 30 days* or (b) *2/10, n/30* signify that a sale was made on account and was not a cash sale. You will often see Accounts receivable abbreviated as A/R. Accounts Receivable is on the Debit Side and its value decreases by putting it on the credit side. Common Stock is the type of stock that is present at every corporation. (Some corporations have preferred stock in addition to their common stock.) Shares of common stock are evidence of ownership in a corporation. Holders of common stock elect the corporation's directors and share in distribution of profits of the company via dividends after preferred stock (if any) receives its dividend. If the corporation were to liquidate, the

secured lenders would be paid first, followed by unsecured lenders, then the preferred stockholders, and lastly the common stockholders. Common Stock is on the credit side thus; debiting it will decrease its value. Dividend is a distribution of part of a corporation's past profits to its stockholders. A dividend is *not* an expense on the corporation's income statement. Its normal balance is debit in which, putting it on the debit side will increase its value.

Here are samples of General Journals and Financial Statement.

**Chamber Brokerage Service Inc.
General Journal
May 30, 2006**

Date	Account	Debit	Credit
1-May-06	Cash	\$120,000	
	Common Stock		\$120,000
3-May-06	Prepaid Rent	\$3,000	
	Cash		\$3,000
4-May-06	Furnitures and Equipments	\$70,000	
	Cash		\$20,000
	Accounts Payable		\$50,000
5-May-06	Prepaid Insurance	\$250	
	Cash		\$250
6-May-06	Office Supplies	\$1,000	
	Cash		\$1,000
7-May-06	Office Supplies	\$3,000	
	Accounts Payable		\$3,000
8-May-06	Sales Revenue	\$40,000	
	Cash		\$20,000
	Accounts Receivable		\$20,000
9-May-06	Accounts Payable	\$800	
	Cash		\$800
10-May-06	Cash	\$5,000	

	Accounts Receivable		\$5,000
12-May-06	Salaries Expense	\$4,000	
	Cash		\$4,000

Chamber Brolerage Service Inc.
Trial Balance
May 30, 2006

Account Number	Account Title	Debit	Credit
1110	Cash	\$115,950	
1150	Prepaid Rent	\$3,000	
1510	Furniture and Equipment	\$70,000	
2110	Accounts Payable		\$52,200
1140	Prepaid Insurance	\$250	
1130	Office Supplies	\$4,000	
1120	Accounts Receivable	\$15,000	
5120	Salaries Expense	\$4,000	
3130	Common Stock		\$120,000
4110	Sales Revenue		\$40,000
	Totals	\$212,200	\$212,200

Chamber Brolerage Service Inc.
Balance Sheet
May 30, 2006

<u>Asset</u>	
Cash	\$115,950
Accounts Receivable	\$15,000
Office Supplies	\$4,000
Furnitures and Equipments	\$70,000
Prepaid Rent	\$3,000
Prepaid Insurance	\$250
Salaries Expense	\$4,000
Total Assets	\$212,200
<u>Liabilities</u>	
Accounts Payable	\$52,200
Total Liabilities	\$52,200

<u>Stockholder's Equity</u>	
Common Stock	\$120,000
Sales Revenue	<u>\$40,000</u>
Total Stockholder's Equity	\$160,000
Total Liabilities and Stockholder's Equity	<u><u>\$212,200</u></u>

**Chamber Brolerage Service Inc.
Income Statement
For Period Ended May 30, 2006**

Operating Revenue	
Sales Revenue	\$40,000
Total Operating Revenue	<u>\$40,000</u>
Operating Expenses	
Prepaid Rent	\$3,000
Salaries Expense	\$4,000
Prepaid Insurance	\$250
Office Supplies	\$1,800
Furnitures and Equipments	<u>\$20,000</u>
Total Operating Expense	\$29,050
Net Income	<u><u>\$10,950</u></u>

**Chamber Brolerage Service Inc.
Retained Earnings Statement
For Period Ended May 30, 2006**

Common Stock	\$120,000
Net Income	<u>\$10,950</u>
	<u><u>\$130,950</u></u>

REFERENCE

<http://www.accountingcoach.com/accounting-terms/accounting-dictionary/index.html>