



# Teacher's Guide In Accounting 3

محا 213





The Ministry of Education, Kingdom of Bahrain has decided to teach this book in  
secondary schools

# **Teacher's Guide in Accounting 3**

**Secondary Education**

**First Edition**

**2021**

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*Authoring and Development  
A specialized team from the  
Ministry of Education and  
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Bahrain*



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### **The vision of the accounting curriculum:**

A curriculum that enhances belonging and consolidates the values of citizenship, by highlighting the role of financial and economic institutions, commercial projects, and production in the service of the national economy, and clarifying areas of commercial cooperation between the Arab Gulf states.

As well as providing students with accounting experiences and skills such as problem-solving, critical thinking, time management, financial statements analysis and feasibility study projects, and forming future visions about the various economic activities in the Kingdom of Bahrain and ways to enhance and develop them.

### **Accounting Curriculum Message:**

- Building a conscious understanding of the Kingdom of Bahrain's Economic Vision 2030 and the goals of the economic development
- Focusing on the study of accounting and its practices in project management.
- Developing awareness of the importance of accounting and its role in serving the national economy.
- Developing problem-solving, decision-making and crisis-management skills
- Using strategies that develop thinking skills (creative, innovative)
- Promoting the use of comprehensive evaluation methods for developing higher-order thinking skills.
- Promoting the use the employment of information technology in the study of accounting.
- Emphasizing on the employment of 21st century skills in education, such as self-learning, leadership, effective communication, digital culture, and others.



**Introduction:**

**Dear teachers,**

We are pleased to present the teacher's guide to Accounting, hoping that it will be a guide for you in teaching the subject, and a supporter in evaluating students, in order to achieve the desired goals of teaching accounting.

**The guide includes:**

**A) Introduction to the Accounting Series:**

This introduction explains how to build the series scientifically and pedagogically, and highlights the focal points on which the curriculum focuses in this class. The philosophy of the horizontally balanced and vertically interconnected series, and the various teaching methods used in the guide, Assessment types, and their suggested tools, that take into account individual differences between students.

**B) An overview of the chapter:**

The course is divided into chapters. The teacher's guide begins in each chapter with an overview that includes an outline of the lessons and their objectives, the sources of their teaching, and the proposed time plan for teaching. Each lesson, then it introduces the vertical coherence of the topic of the chapter during class and other classes. He then provides support to the teacher through the chapter start page in the student's book, and how to benefit from them in presenting the topic of the chapter, as well as highlighting the purpose of the leaflets, their function and when to be use. Then it displays a calendar with its different types and various tools a chart of the calendar with its different types and its various tools.



### C) Lessons:

This guide presents some suggested activities that take into account the individual differences between students, and in a variety of ways, and help the teacher in teaching each lesson. After that, the guide presents the lesson with specific steps, which are:

**The Focus:** Shows the correlation of key skills before, during and after the lesson.

**Teaching:** Provides suggestions for the teacher on how to teach the lesson, including the discussion questions and the suggested activities, and highlights the accounting content of the lesson topic, as well as suggests additional examples for the teacher.

**Training:** It includes various exercises according to the different levels of the students to achieve the objectives of the lesson.

**Assessment:** Provides suggestions for evaluating the lesson. It also includes ideas for the teacher to verify the extent to which students have comprehended the concepts and mastered the skills presented in the lesson. Moreover, the guide presents a mechanism for following up the handouts. In each lesson, the guide also provides answers to the questions and exercises.

### D) Evaluation methods

The series provides a variety of methods for evaluating students (diagnostic, formative, and summative), and mechanisms for dealing with students' errors and difficulties.

As we present this guide to our fellow teachers, we hope that it will gain their interest, meet their requirements for teaching this course, and help them fulfill their targets.





## **The Importance of the Guide**

Dear teacher, the importance of the guide is that:

- guides you to, how to use multiple learning tools and resources.
- provides you with suggestions related to the teacher's usage of technology
- directs you how to apply various teaching strategies.
- provides you with clear procedures for how to carry out the learning activities.
- shows how to address issues that may arise during the lesson.
- directs you to use a variety of evaluation methods (cognitive - skill - emotional).
- directs you to how to link and integrate between the different parts of the an article.
- directs you to how to link and integrate between the material and other materials.
- guides you on how to identify common errors, and how to deal with them.
- includes guiding models for calendar methods.
- includes a list of educational and academic terms that you need while teaching the subject.
- includes a list of references, and some websites; to be used while it in teaching the subject.





## Objectives of the guide

This guide aims to help you, dear teacher, in:

- teaching the curriculum effectively to achieve the desired goals within the framework of active learning
- organizing and managing effectively the multi-level classroom.
- forming an educational environment based on active learning that makes the learner the focus of the educational process and an active participant in the learning process.
- stimulating learners' motivation towards learning and creating a cooperative atmosphere among them.
- using of various educational means such as the general journal and methods of depreciation of fixed assets.
- putting the skill and emotional aspects when teaching accounting curricula.
- using a variety of multi-level evaluation methods.



## **Vertically Connected Accounting Approach From Grade 11 to Grade 12**

This series introduces you to three dimensions of vertical bonding:

### **1- Content Design:**

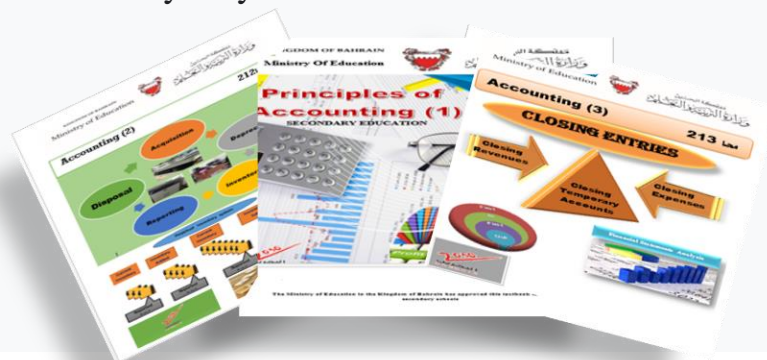
Threading content is an important process that helps your students verify the exact sequence of content and its sequencing from one level to another. This gives you confidence that the content is delivered, reinforced, and assessed in a timely manner, also helps fill in the gaps and avoid unnecessary repetition, enabling you to direct and adapt your teaching to suit your needs.

### **2- Teaching Design:**

The strong vertical correlation between the different teaching, methods starting from the first grade, makes it easier for students to move from the primary stage to the intermediate stage and to the secondary stage. Vocabulary, sensory techniques and aids, lesson plan and treatment reduce the factors of difficulty and confusion that some students encounter as they move through the different grades.

### **3- Visual Design:**

The series pages have visual designs that are consistent from one grade to the next, helping students to move smoothly from one stage to the other, and to learn and succeed increases when they become familiar with the way they work with them.



The five keys to success

**1- Concept Maps of Previous Experiences:**

The series considers conceptual maps and their development based on students' results in the business culture course.

**2- Balanced deep content:**

The series has been developed to focus on the skills and topics that are faced at each grade level. Students with difficulties, such as solving.

**a) Grade 11 (Accounting 1- ACC, 111):**

- Accounting in Action
- Analyzing and Journalizing Transactions
- Posting Journal Entries and Preparing Trial Balance
- Preparing Financial Statements
- Adjusting the Accounts
- Worksheet for Services Business

**b) Grade 12 ( Accounting 2 – ACC,212):**

- Journal Entries for Merchandising Business -Perpetual Inventory System.
- Journal Entries for Merchandising Business - Periodic Inventory System.
- Accounting For Receivable
- Depreciation of Plant Assets
- Plant Assets Disposals
- Income Statement for Merchandising Business

**c) Grade 12 ( Accounting 3 – ACC,213):**

- Closing Process For Temporary Accounts
- Inventories and Cost of Sales
- Cash and Internal Control Bank Reconciliation
- Cash and Internal Control Petty Cash system of Control.
- Financial Statements Analysis



### 3- Continuous evaluation:

This series includes diagnostic, formative, and summative assessments, and remedial and enrichment plans.

### 4- Treatment plans and diversification of teaching:

The series provides a three-tiered treatment plan:

#### a) Daily Treatment:

Various alternatives are identified in the teacher's guide for teaching concepts according to different learning styles.

#### b) Strategic Treatment:

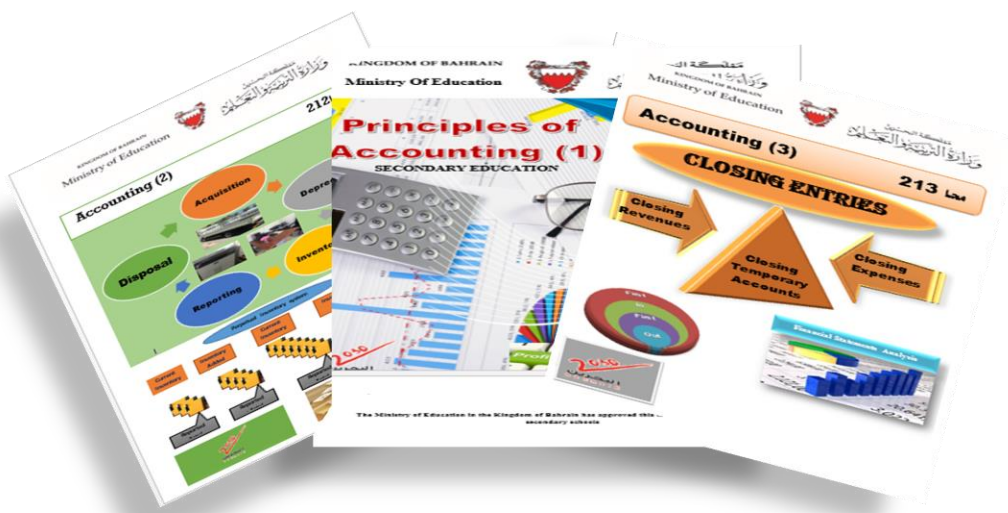
Teachers use remedial tips and support materials.

#### c) Intensive treatment:

Provides instructional guidance, supportive vocabulary, and remedial plans to help students succeed.

#### d) professional development:

The series provides many opportunities for the teacher to develop his professional performance, through additional teaching methods, such as video, computer accounting, and vertically interlinked websites from grade 11 to grade 12.





## Research Base for Accounting Software

Continuous research with students, teachers, academics and experts helps build all mathematics programs from the first grade to the twelfth grade on solid foundations.

### a) Software Development Research

- National Standards Assessment
- Qualitative research for the needs of the labor market
- Research related to scientific content

### b) Formative Research

- Teaching research base
- practice class exams
- teacher advisory committees
- Academic reviewers and advisors

### c) Final Research

- Experimental indicators of program effectiveness
- longitudinal studies
- Program quality assessments



### **Preparing students for university studies and for the labour market:**

This series connects what students learn in secondary school with what they are expected to know when they start university.



### **How can undergraduate studies, be way better arranged for those considering studying at university?**

A strong high school curriculum is a good indicator of college readiness, as students who study secondary school accounting books in this series are more prepared for university than those who have not.

The following are some aspects of preparation for the university study that he developed:

#### **Mental Skills**

They are necessary skills for learning content at the university level, and include: critical thinking, problem solving and justification, and every day students who study this series have opportunities to develop higher-order thinking skills.

#### **Scientific Content**

The secondary school textbooks of this series are consistent with accurate the international standards to suit university education and sustainable development goals in accordance to Bahrain Vision 2030.

#### **General Skills**

That include skills such as: reading comprehension, time management, note taking ... etc. This series provides opportunities to develop these skills



through accounting reading guidelines, vocabulary links, prediction guides, and more.

### **What about students who do not plan to go to university?**

Accounting in the modern world of technology is no longer restricted to students who attend universities. One of the studies showed that the training programs that a person who wants to get a job is undergoing requires that this person has a certain level of education in preparing daily entries, analyzing accounting operations, preparing final financial statements, adjusting entries, to be successful at ones job , and preparing balance sheets. Until he succeeds in his work.

### **Program philosophy:**

The vertical connection of this series shows a balanced integration of education. This series provides students with a balanced accounting curve through:

- Developing, enhancing and mastering procedural and arithmetic skills.
- Real-life issues.
- The application of accounting in a solution

The sequence of topics in the three accounting books shows the development of the vertical interrelationship of the cognitive understanding and the procedural skills of accounting through the preparation of daily entries, methods of depreciation of fixed assets, methods of evaluating goods, final financial statements and analysis of financial statements.

### **Continuity of Education**

The learning sequence that is described above illustrates the power of matching a desired outcome with success in algebra. This development process avoids gaps or overlaps between grade levels, and ensures that the concepts and skills of each grade are built on a solid foundation developed in



the previous grades. The same direction is used across all tracks, starting from the eleventh to the twelfth grade.

### Teaching Process Balance

concepts

- skills
- solve problems

### Problem Solving Strategy

Problem solving strategies help students learn different ways to tackle difficult problems

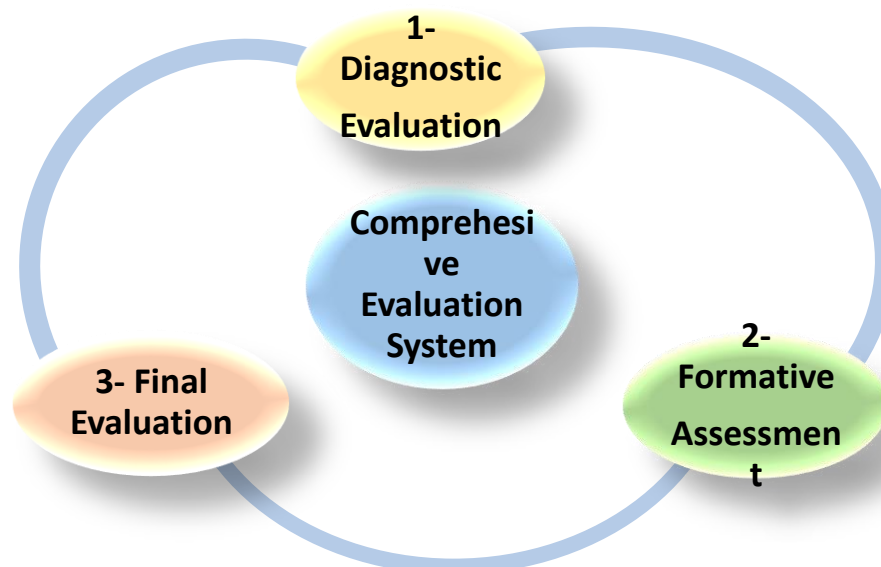
### Higher Thinking Skills Problems

These problems require the use of higher-order thinking skills (analysis, Composition, ....)

## Comprehensive Evaluation System

### Error handling

The series provides an on-going, meaningful assessment of student progress in the structure of the curriculum and in the supporting materials used by the teacher.



# 1

## Diagnostic Evaluation

### a) Preliminary Calendar

Assess your students' knowledge at the beginning of the academic year using diagnostic tests and placement tests. This will help you determine if your students will need additional learning materials and resources; to be able to align with the grade level standards.

### b) Academic input level Assessment

Evaluate the knowledge prior to your application at the beginning of the chapter or lesson, using the resources in the Student's Book, the Teacher's Handbook, or any other resources you consider useful.

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### Diagnostic EXAM 2020/2021

COURSE NAME : ACCOUNTING (1) TRACK : COMMERCIAL & UNIFIED  
COURSE CODE : 111 ل.م.م TIME : 2 Hours

#### QUESTION ONE: (16 Marks)

The following are transactions of Al-Bander Company, you are required to show the effect of each transaction on the Basic Accounting Equation:

- 1- Invested cash BD40 000 in the business.
- 2- Purchased Equipment on account, BD500.
- 3- Performed service on account to Mona Co., BD450.
- 4- Paid cash for Rent Expense, BD200.
- 5- Withdrew BD150 cash for personal used.

Trans. No	Assets			=	Liabilities	Capital	Revenue	Expenses
	Cash	A/c's Receivable	Equipment					

# 2

## Formative assessment

### Formative Assessment

Monitoring Progress: Determine if your students are making adequate progress as they learn each lesson first, using the following types of assessment to vary the teaching and techniques:

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### Midterm EXAM 2020/2021

COURSE NAME : ACCOUNTING (1) TRACK : COMMERCIAL & UNIFIED  
COURSE CODE : 111 ل.م.م TIME : 2 Hours

#### QUESTION ONE: (16 Marks)

The following are transactions of Al-Bander Company, you are required to show the effect of each transaction on the Basic Accounting Equation:

- 1- Invested cash BD40 000 in the business.
- 2- Purchased Equipment on account, BD500.
- 3- Performed service on account to Mona Co., BD450.
- 4- Paid cash for Rent Expense, BD200.
- 5- Withdrew BD150 cash for personal used.

Trans. No	Assets			=	Liabilities	Capital	Revenue	Expenses
	Cash	A/c's Receivable	Equipment					



a) Student's Book

- Make sure you understand
- Mid-term exam
- Study and revision guide
- Brochures

b) Teacher's Guide

- Error handling

# 3

## Final Evaluation

### Final Evaluation

Evaluate how successful your students are in learning each chapter using the following:

a) Student's Book

- End-of-Semester Exam
- Cumulative Standard Exam
- Research and Reports

b) Teacher's Guide

- Error handling

Acc.111 COMMERCIAL & UNIFIED TRACKS Page 1 NOTICE: The Exam Contains 8 Pages

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COMMERCIAL & UNIFIED TRACKS EDUCATION EXAMINATION

➤ FIRST SEMESTER EXAM 2020-2021

COURSE NAME : ACCOUNTING (1) TRACK : التجاري وتوحيد المسارات  
COURSE CODE : 111 معدن TIME : 2 Hours

**QUESTION ONE:**

(A) Complete the following table (use + for increase, - for decrease and NE for no effect:

Transaction	Assets	Liabilities	Owner's Equity
Paid cash to creditor.			
Sold Equipment on account.			
Performed service, ATM card # 14587214.			

(B) Find the missing amount in the following Accounting Equation:

No.	Assets			=	Liabilities	+	Owner's Equity
	Cash	Supplies	Accounts Receivable	=	Accounts Payable	+	Capital
1-	20,000	-----	1,600	=	2,600	+	20,000
2-	-----	1,400	3,000	=	3,400	+	11,000
3-	17,000	2,900	800	=	-----	+	17,700





## Diversification of Education

Meet the needs of the students

The series provides broad support that takes into account individual differences among students. Each chapter and each lesson contains suggestions; to determine and meet the needs of your students. The diversification of education meets the needs of the following two groups:

- Below average students.
- Above average students.

## Advanced level students

Acceleration and Enrichment: The resources and homework that are rated for A-level students can be used with A-level students.

## Multilevel question set

The homework for each lesson was varied according to the levels of the students:

- below average
- within average
- above average

### Exercise (2-3):

An analysis of the transactions made by Raina Company during July 2020.

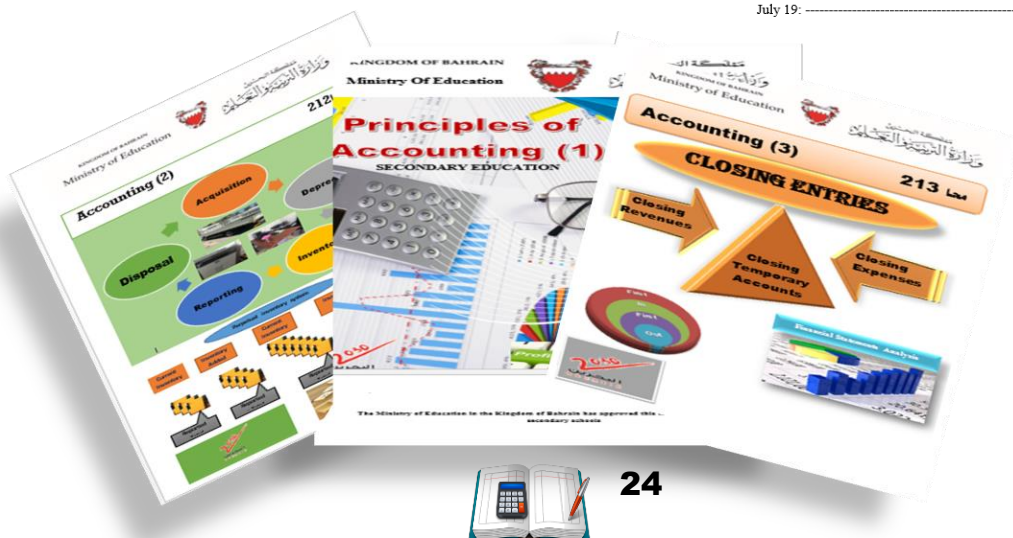
Date	Assets =				Liabilities + Owner's Equity				
	Cash	Account Receivable	Truck	Equipment	Account Payable	Capital	Revenue	Drawings	Expenses
July 1	+40,000			+10,000		+50,000			
July 2			-8,400		+8,400				
July 5		+13,000					+13,000		
July 9	+3,000	-3,000							
July 15	-2,400				-2,400				
July 19	-1,100								-1,100
July 24	-720							-720	
July 31								?????	

### Required:

1. Describe each transaction that occurred for July 2020.
2. Determine how much owner's equity increase for the month.

### Transactions:

- July 1 : .....
- July 2 : .....
- July 5 : .....
- July 9 : .....
- July 15 : .....
- July 19 : .....



## Education Plan

The four-step education plan

### Organize your education and include:

- 1- the focus
- 2- teaching
- 3- training
- 4- Evaluation

**The Vertical Correlation at the beginning of each lesson** outline the objectives that lead to the current lesson content and the objectives that follow, and which come within the scope and sequencer document from grades eleven to twelve.

### Reinforcement questions

Each lesson contains some reinforcement questions to be used to help students investigate and understand the main ideas of the lesson.

### Additional examples

Each additional example is a reflection of an example in the Student's Book.

### Variations of homework

The formative calendar activities provide alternative methods to determine the extent to which students understand at the end of each lesson, such as:

#### **pre-learning**

Students connect what they are learning in the current lesson with what they have learned previously.

### Later learning

The student anticipates how the current lesson will relate to the next lesson





### Nomenclature of Terms in Accounting

The students specify the accounting information used in the problem.

### Exit Card

Students write the answer to the question on a sheet of paper that they turn over before you leave the classroom.

# 21st Century Skills

How today's students can stay competitive in a changing job market

## Learning Skills



critical thinking



creativity



collaboration



communication

## Literacy Skills



information



media



technology

## Life Skills



flexibility



leadership



initiative



productivity



social skills



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مملكة العربية السعودية  
وزارة التربية والتعليم

**Accounting (3)**

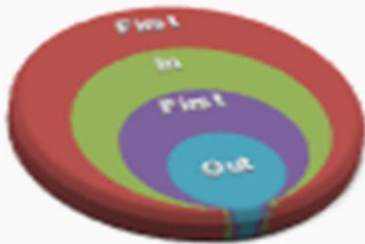
**213 Lx4**

**CLOSING ENTRIES**

**Closing Revenues**

**Closing Expenses**

**Closing Temporary Accounts**



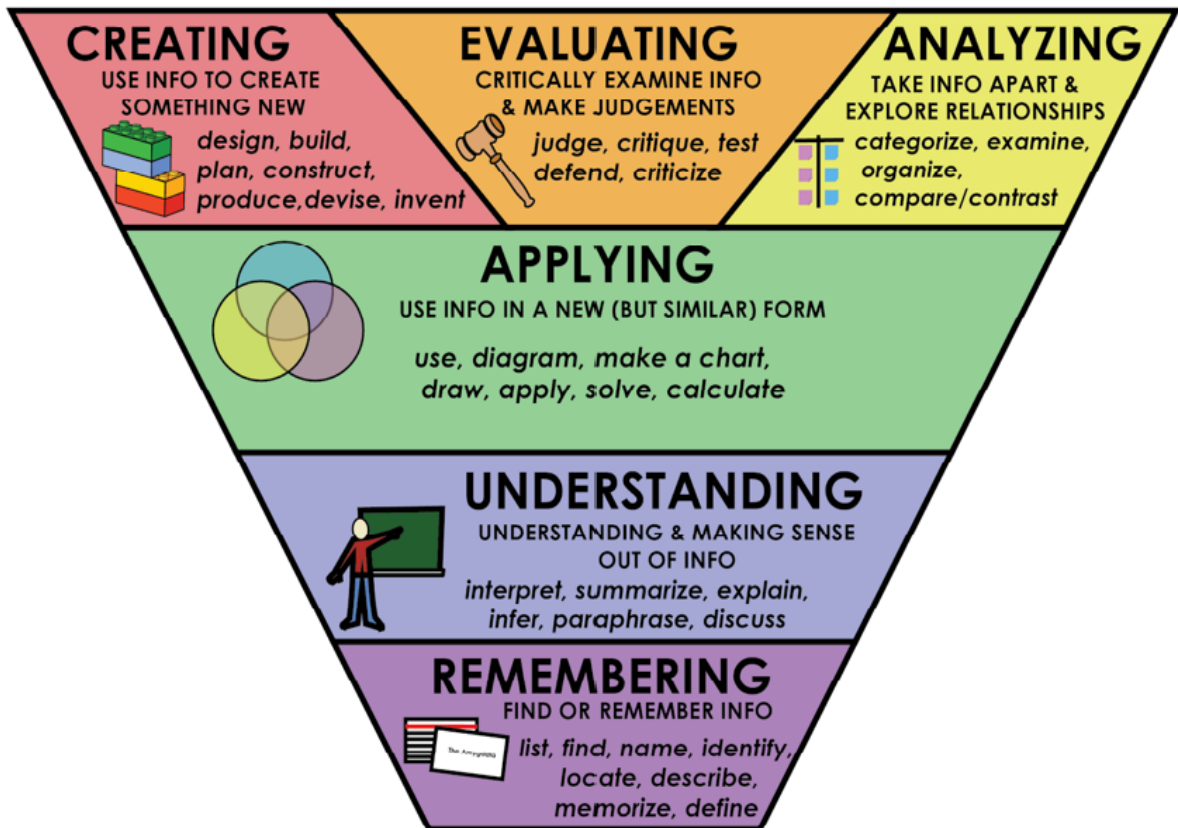
## Teaching Plan

Acc. 213	Chapter1	Chapter2	Chapter3	Chapter4	Chapter5
<b>Title</b>	Closing Process For Temporary Accounts	Inventories and Cost of Sales	Cash and Internal Control Bank Reconciliation	Cash and Internal Control Petty Cash system of Control	Financial Statements Analysis
<b>Studying Period</b>	Three Weeks	Three Weeks	Three Weeks	One Weeks	Two Week
<b>Learning Objectives</b>	1- Define the permanent and temporary accounts. 2- Explain the purpose of preparing the closing entries for temporary accounts. 3- Prepare the closing entries for temporary accounts. 4- Apply closing entries for temporary accounts.	1- Identify the need for valuation of inventories. 2- Differentiate between the different methods of inventories valuation. 3- Calculate the cost of goods sold and ending inventory by using the FIFO method. 4- Calculate the cost of goods sold and ending inventory by using the weighted average method.	1- Explain the factors causing differences between the bank statement balance and the cash balance in business records. 2- Prepare a bank reconciliation. 3- Prepare the necessary journal entries to adjust the cash balance.	1- Recognize the need for controlling cash. 2- Understand and record the establishment of petty cash fund and other related transactions. 3- Recognize the use of imprest system. 4- Prepare the petty cash book.	1- Identify the need for financial statements analysis. 2- Differentiate between horizontal analysis and vertical analysis. 3- Calculate percentages by using the horizontal analysis. 4- Calculate percentages by using the vertical analysis.
<b>Basic Vocabulary</b>	1-Temporary accounts 2- Permanent accounts 3- Closing entries. 4- Closing trail balance	1-Inventory. 2- FIFO method. 3- WA method.	1- Bank reconciliation 2- Deposit in transit 3- Outstanding checks. 4- NSF check.	1- Petty cash. 2- Establishment 3- Replenishment 4- Cash over and short	1- Horizontal analysis 2- vertical analysis 3- Base year
<b>Lesson Resources</b>	1- Text Book 2- Teacher's Guide 3- Activity Note Book 4- Digital Educational Lesson 5- YouTube Lesson	1- Text Book 2- Teacher's Guide 3- Activity Note Book 4- Digital Educational Lesson 5- YouTube Lesson	1- Text Book 2- Teacher's Guide 3- Activity Note Book 4- Digital Educational Lesson 5- YouTube Lesson	1- Text Book 2- Teacher's Guide 3- Activity Note Book 4- Digital Educational Lesson 5- YouTube Lesson	1- Text Book 2- Teacher's Guide 3- Activity Note Book 4- Digital Educational Lesson 5- YouTube Lesson
<b>Teaching Strategies</b>	1- Brainstorming 2- Cooperative Education 3- Problem Solving 4- E-Learning 5- Peer evaluation	1- Brainstorming 2- Cooperative Education 3- Problem Solving 4- E-Learning 5- Peer evaluation	1- Brainstorming 2- Cooperative Education 3- Problem Solving 4- E-Learning 5- Peer evaluation	1- Brainstorming 2- Cooperative Education 3- Problem Solving 4- E-Learning 5- Peer evaluation	1- Brainstorming 2- Cooperative Education 3- Problem Solving 4- E-Learning 5- Peer evaluation
<b>Necessary Tools</b>	1- Text book 2- Activity Note Book 3- Calculator	1- Text book 2- Activity Note Book 3- Calculator	1- Text book 2- Activity Note Book 3- Calculator	1- Text book 2- Activity Note Book 3- Calculator	1- Text book 2- Activity Note Book 3- Calculator



<b>Techniques</b>	1-Smart Interactive Whiteboard	1- Smart Interactive Whiteboard	1- Smart Interactive Whiteboard	1- Smart Interactive Whiteboard	1- Smart Interactive Whiteboard
<b>Diversification of Education</b>	Page (22-26- 29-35-37-39)	Page (52- 54-55-56-57-60)	Page (66-69-74-77-80-83-85)	Page (94-96-98-100-103-105)	Page (112- 113-114-120-124)
<b>Student assessment methods</b>	1- creative calendar 2- achievement files 3- Practical evaluation 4- self evaluation	1- creative calendar 2- achievement files 3- Practical evaluation 4- self evaluation	1- creative calendar 2- achievement files 3- Practical evaluation 4- self evaluation	1- creative calendar 2- achievement files 3- Practical evaluation 4- self evaluation	1- creative calendar 2- achievement files 3- Practical evaluation 4- self evaluation
<b>Assessment Strategies</b>	1- Performance-based Assessment 2- Pencil and Paper 3- Reflection	1- Performance-based Assessment 2- Pencil and Paper 3- Reflection	1- Performance-based Assessment 2- Pencil and Paper 3- Reflection	1- Performance-based Assessment 2- Pencil and Paper 3- Reflection	1- Performance-based Assessment 2- Pencil and Paper 3- Reflection

## BLOOM'S TAXONOMY



## **Unit (1): Closing Process for Temporary Accounts – Part 1**

Teacher explains:

- 1- The normal balance of revenues, expenses and drawings.
- 2- Double entry system.

### Lesson Notes

#### **The Focus**

#### **Before the Lesson:**

Teacher start by introductory activity, to identify the difference between temporary and permanent.

#### **The Lesson:**

- 1- Define the permanent and temporary accounts.
- 2- Explain the purpose of preparing the closing entries for temporary accounts.
- 3- prepare the closing entries for temporary accounts.
- 4- apply closing entries for temporary accounts.

#### **After the Lesson:**

\*The student should be able to prepare closing entries and closing trial balance.

### Temporary and Permanent Accounts

**Temporary (or nominal) accounts** accumulated data related to one accounting period. They include all income statement accounts, the withdrawals account, and the Income Summary account. They are temporary because the accounts are opened at the beginning of a period, used to record transactions and events for that period, and then closed at the end of the period. The closing process applies only to temporary accounts.

**Permanent (or real) accounts** report on activities related to one or more future accounting periods. They carry their ending balances into the next period and generally consist of all balance sheet accounts. These are assets, liabilities and equity accounts, which are not closed

### Purposes of closing entries.

1. It resets revenue, expense, and withdrawals account balances to zero at the end of each period. So these accounts can properly measure income and withdrawals for the next period.
2. It helps in summarizing a period's revenues and expenses.
3. It updates the balance of capital account for changes in owner's equity occurring during the accounting period.



## Steps of Preparing Closing Entries



**1- Close the revenue accounts.** Prepare one journal entry that debits all the revenue accounts for BD10,000 (these accounts will have a credit balance in the general ledger prior to the closing entry). Credit an account called "Income Summary" for the total of BD10,000

### GENERAL JOURNAL

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec. 31	Revenues		10,000	
	Income Summary			10,000
	<b>To close the revenue accounts.</b>			

**2- Close the expense accounts.** Prepare one journal entry that credits all the expense accounts for BD8,000 (these accounts will have a debit balance in the general ledger prior to the closing entry). Debit the income summary account for the total of BD8,000.

### GENERAL JOURNAL

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec. 31	Income Summary		8,000	
	Expenses			8,000
	<b>To close the expense accounts.</b>			

**Study Instructions:**  
Remember that the Double entry system, which studied in Acc111

### 2- Teaching Reinforcement

#### Question:

1-Ask the students to read pages (13-17) of the text book.

### 3- Teaching Instruction:

\*Explain to students steps of preparing closing entries pages (18-19) of the textbook.

\* Explain to student posting to the ledger account and preparing closing trail





## Steps of Preparing Closing Entries



**3- Transfer the income summary balance to the capital account.** Prepare a journal entry that clears out the income summary account. This entry effectively transfers the net income (or loss) of the business to the owner's capital account for BD2,000 (10,000 – 8,000).

### GENERAL JOURNAL

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec. 31	Income Summary		2,000	
	Owner's Capital			2,000
	To close income summary account.			

**4- Close the drawings account.** If your business is a sole proprietorship or partnership, close the drawings accounts (if any) by preparing a journal entry that credits the drawings account and debits the owner's capital account.

### GENERAL JOURNAL

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec. 31	Owner's Capital		500	
	Owner's Drawings			500
	To close owner's drawings.			

### 3- Teaching Instruction:

- \* Explain to students closing revenues, expenses and net income or loss to income summary account.
- \* Explain to student, closing drawings to capital, and why that closing in capital account.

### Formative assessment:

Ask the students to answer exercises 1 and 2 Req.1 page 35, of the textbook. In a group (cooperative education strategy).



➤ Ask the students to use the following link to review the lesson:

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/1-Closing-Process-for-Services-Businessp1/1-Closing-Process-for-Services-Businessp1.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/1-Closing-Process-for-Services-Businessp1/1-Closing-Process-for-Services-Businessp1.pptx)



<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 35 (1&2) Req. 1	Page 37 (5) Req. 1	Page 39 (1) Req. 1
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Teaching with technology**  
Ask the students to use the link and QR for revision.





## Unit (1): Closing Process for Temporary Accounts – Part 2

Teacher explains the following:

- 1- Preparing closing entries.
- 2- Posting to the ledger account.
- 3- Prepare a post - closing trail balance.

### Lesson Notes

#### The Focus

##### **Before the Lesson:**

Teacher start by introductory activity about the balances of revenues, expenses and drawings after closing.

##### **The Lesson:**

1- Explain posting to the ledger account.  
2- Explain, how to prepare post- closing trail balance.

##### **After the Lesson:**

The students should be able to know the purposes of closing entries.

### Example 1– 1

The adjusted trial balance of Ahmed Trading Est, shows the following balances on December 31, 2020.

Ahmed Trading Est. Adjusted Trial Balance December 31, 2020		
Account Title	Debit (BD)	Credit (BD)
Cash	5,000	
Accounts Receivable	2,200	
Supplies	4,800	
Machines	35,000	
Accumulated Depreciation- Machines		7,000
Furniture	9,000	
Accounts Payable		6,200
Unearned Rent Revenue		8,800
Ahmed, Capital		28,000
Ahmed, Withdrawals	1,500	
Rental Revenue		12,100
Repairs Revenue		4,900
Depreciation Expense – Machines	3,500	
Salaries Expense	2,100	
Insurance Expense	400	
Rent Expense	2,000	
Supplies Expense	1,000	
Utilities Expense	500	
<b>Totals</b>	<b>67,000</b>	<b>67,000</b>

- Required:**
1. Prepare the necessary **closing entries** at December 31, 2020.
  2. Post these entries to the ledger.
  3. Prepare a **post-closing trial balance** as of December 31, 2020.





**Solution:**

**1. GENERAL JOURNAL**

Date	Explanation	PR	Debit	Credit
Dec. 31	Rental Revenue		12,100	
	Repairs Revenue		4,900	
	Income Summary			17,000
	<b>To close the revenue accounts.</b>			
Dec. 31	Income Summary		9,500	
	Depreciation Expense-Machines			3,500
	Salaries Expense			2,100
	Insurance Expense			400
	Rent Expense			2,000
	Supplies Expense			1,000
	Utilities Expense			500
	<b>To close the expense accounts.</b>			
Dec. 31	Income Summary		7,500	
	Ahmed, Capital			7,500
	<b>To transfer net income to the capital account.</b>			
Dec. 31	Ahmed, Capital		1,500	
	Ahmed, Withdrawals			1,500
	<b>To close the drawings account.</b>			

**2. LEDGER ACCOUNTS:**

**Rental Revenue**

Date	Details	PR	Debit	Credit	Balance
Dec. 31	Balance			12,100	12,100
31	Income Summary		12,100		0

**2- Teaching Instructions:**

Explain to students example (1) pages 22 -26 of the textbook.

**3- Studying Instructions:**

Ask the student to read and discuss groups tips (1-2) & essentials (1-1) (Cooperative Education Strategy)

**Study Instructions:**  
Remember the normal balances of revenues, expenses and drawings.





**Repairs Revenue**

Date	Details	PR	Debit	Credit	Balance
Dec. 31	Balance			4,900	4,900
31	Income Summary		4,900		0

**Depreciation Expense-Machines**

Date	Details	PR	Debit	Credit	Balance
Dec. 31	Balance		3500		3,500
31	Income Summary			3,500	0

**Income Summary**

Date	Details	PR	Debit	Credit	Balance
Dec. 31	Revenue			17,000	17,000
Dec. 31	Expenses		9,500		7,500
Dec. 31	Capital		7,500		0

**Ahmed, Capital**

Date	Details	PR	Debit	Credit	Balance
Dec. 31	Balance				28,000
Dec. 31	Income Summary			7,500	35,500
Dec. 31	Drawings		1,500		34,000

Ahmed Trading Est. 3. Post-Closing Trial Balance December 31, 2020		
Account Title	Debit	Credit
Cash	5,000	
Accounts Receivable	2,200	
Supplies	4,800	
Machines	35,000	
Accumulated Depreciation-Machines		7,000
Furniture	9,000	
Accounts Payable		6,200
Unearned Rent Revenue		8,800
Ahmed, Capital		34,000
<b>Totals</b>	<b>56,000</b>	<b>56,000</b>

**2- Teaching Instructions:**

\*Explain to student's example (1-2) pages 29 -34 from textbook to clarify the difference between closing entries in services and merchandise business.  
\* Ask the students to find normal balances of sales and COGS (Brainstorming)

**3- Studying Instructions:**

Ask the student to read and discuss closing entries for merchandise business in a group (Cooperative Education Strategy) for pages 27 to34 (Textbook)



➤ Ask the students to use the following link to review the less

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/2-Closing-Process-for-Services-Businessp2/2-Closing-Process-for-Services-Businessp2.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/2-Closing-Process-for-Services-Businessp2/2-Closing-Process-for-Services-Businessp2.pptx)



**Teaching with technology**  
Ask the student to use the link and QR for revision.

Chapter Resources			
Resource	Below Average	In Average	Over Average
Teacher's Guide	Page 41 (Ex.9)	Page 39 (Ex.7)	Page 43 (Ex.10)
Lesson Resources	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
Extra Resources	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**

Ask the students to answer exercises 11 pages 44 from text book, during the period in a group.



# Unit One

## CLOSING PROCESS FOR TEMPORARY ACCOUNTS

### TEXT BOOK EXERCISES



**Exercises:****Exercise (1):**

The ledger of Mahmoud Company includes the following accounts with normal balances on December 31, 2020: Mahmoud, Capital BD12,000; Drawings BD500; Services Revenues BD8,000; Wages Expense BD1,300; Supplies Expense BD1,700; and Rent Expense BD2,000.

**Required:**

1. Prepare the necessary closing entries from the available information on December 31, 2020.
2. Post these entries to the ledger.

**Solution:**

**GENERAL JOURNAL  
CLOSING ENTRIES**

1-

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec.31	Services Revenues		8,000	
	Income Summary			8,000
Dec.31	Income Summary		5,000	
	Wages Expense			1,300
	Supplies Expense			1,700
	Rent Expense			2,000
Dec.31	Income Summary		3,000	
	Mahmoud, Capital			3,000
Dec.31	Mahmoud, Capital		500	
	Mahmoud, Drawings			500



2-

## Mahmoud, Capital

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			12,000	12,000
Dec. 31	Income Summary			3,000	15,000
Dec. 31	Drawings		500		14,500

## Income Summary

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Revenue			8,000	8,000
Dec. 31	Expenses		5,000		3,000
Dec. 31	Capital		3,000		0

## Mahmoud, Drawings

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		500		500
Dec. 31	Capital			500	0

## Services Revenues

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			8,000	8,000
Dec. 31	Income Summary		8,000		0

## Wages Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		1,300		1,300
Dec. 31	Income Summary			1,300	0

## Supplies Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		1,700		1,700
Dec. 31	Income Summary			1,700	0

## Rent Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		2,000		2,000
Dec. 31	Income Summary			2,000	0



**Exercise (2):**

The ledger of Rashid Travel Agency includes the following accounts with normal balances on December 31, 2020: Rashid, Capital BD25,000; Drawings BD3,200; Fees Earned BD4,000; Ticket Revenues BD16,000; Salaries Expense BD12,800; Telephone Expense BD4,400; Electricity Expense BD5,600 and Advertising Expense BD1,800.

**Required:**

1. Prepare the necessary closing entries from the available information on December 31, 2020.
2. Post these entries to the ledger.

**Solution:**

**GENERAL JOURNAL  
CLOSING ENTRIES**

1-

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec. 31	Fees Earned		4,000	
	Ticket Revenues		16,000	
	Income Summary			20,000
Dec. 31	Income Summary		24,600	
	Salaries Expense			12,800
	Telephone Expense			4,400
	Electricity Expense			5,600
	Advertising Expense			1,800
Dec. 31	Rashid, Capital		4,600	
	Income Summary			4,600
Dec. 31	Rashid, Capital		3,200	
	Rashid, Drawings			3,200





## 2- Rashid, Capital

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			25,000	25,000
Dec. 31	Income Summary		4,600		20,400
Dec. 31	Drawings		3,200		17,200

## Income Summary

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Revenue			20,000	20,000
Dec. 31	Expenses		24,600		4,600 Dr.
Dec. 31	Capital			4,600	0

## Rashid, Drawings

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		3,200		3,200
Dec. 31	Capital			3,200	0

## Fees Earned

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			4,000	4,000
Dec. 31	Income Summary		4,000		0

## Ticket Revenues

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			16,000	16,000
Dec. 31	Income Summary		16,000		0

## Salaries Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		12,800		12,800
Dec. 31	Income Summary			12,800	0

## Telephone Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		4,400		4,400
Dec. 31	Income Summary			4,400	0



## Electricity Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		5,600		5,600
Dec. 31	Income Summary			5,600	0

## Advertising Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		1,800		1,800
Dec. 31	Income Summary			1,800	0

**Exercise (5):**

The adjusted trial balance for Hanadi Cleaning Services shows the following account balances on November 30, 2020:

**Hanadi Cleaning Services  
Adjusted Trial Balance  
November 30, 2020**

Account Title	Debit (BD)	Credit (BD)
Cash	35,750	
Accounts Receivable	45,400	
Equipment	50,300	
Land	20,900	
Accounts Payable		32,500
Hanadi , Capital		103,000
Hanadi ,Drawings	650	
Service Revenue		29,450
Wages Expense	9,350	
Advertising Expense	2,600	
<b>Totals</b>	<b>164,950</b>	<b>164,950</b>

**Required:**

1. Prepare the necessary **closing entries** on November 30, 2020.
2. Post these entries to the ledger.
3. Prepare a **post-closing trial balance** on November 30, 2020.



**Solution:****GENERAL JOURNAL  
CLOSING ENTRIES**

1-

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec.31	Services Revenues		29,450	
	Income Summary			29,450
Dec.31	Income Summary		11,950	
	Wages Expense			9,350
	Advertising Expense			2,600
Dec.31	Income Summary		17,500	
	Mahmoud, Capital			17,500
Dec.31	Hanadi, Capital		650	
	Hanadi, Drawings			650

2-

**Hanadi, Capital**

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Balance			103,000	103,000
Dec.31	Income Summary			17,500	120,500
Dec.31	Drawings		650		119,850

**Income Summary**

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Revenue			29,450	29,450
Dec.31	Expenses		11,950		17,500
Dec.31	Capital		17,500		0

**Hanadi, Drawings**

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Balance		650		650
Dec.31	Capital			650	0

**Services Revenues**

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Balance			29,450	29,450
Dec.31	Income Summary		29,450		0



Wages Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Balance		9,350		9,350
Dec.31	Income Summary			9,350	0

Advertising Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Balance		2,600		2,600
Dec.31	Income Summary			2,600	0

**3- Hanadi Company  
Post - Closing Trail Balance  
November 30, 2020**

Account Title	Debit (BD)	Credit (BD)
Cash	35,750	
Accounts Receivable	45,400	
Equipment	50,300	
Land	20,900	
Accounts Payable		32,500
Hanadi , Capital		119,850
<b>Totals</b>	<b>152,350</b>	<b>152,350</b>



**Exercise (7):**

The following is the adjusted trail balance, which prepared at June 30, 2020 for Khalid Trading Company:

**Khalid Trading Company**  
**Adjusted Trial Balance**  
**June 30, 2020**

Account Title	Debit (BD)	Credit (BD)
Cash	20,400	
Accounts Receivable	3,500	
Equipment	8,600	
Supplies	700	
Unearned Revenue		3,400
Capital		25,800
Khalid, Drawings	800	
Revenue		6,750
Salaries Expense	850	
Rent Expense	720	
Utilities Expense	380	
<b>Totals</b>	<b>35,950</b>	<b>35,950</b>

**Required:**

1. Prepare the necessary **closing entries** at June 30, 2020.
2. Prepare a **post-closing trial balance** at June 30, 2020.



**Solution:**

**GENERAL JOURNAL**  
**1- CLOSING ENTRIES**

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec.31	Services Revenues		6,750	
	Income Summary			6,750
Dec.31	Income Summary		1,950	
	Salaries Expense			850
	Rent Expense			720
	Utilities Expense			380
Dec.31	Income Summary		4,800	
	Khalid, Capital			4,800
Dec.31	Khalid, Capital		800	
	Khalid, Drawings			800

**Khalid Company**

**2- Post - Closing Trail Balance**  
**June 30, 2020**

Account Title	Debit (BD)	Credit (BD)
Cash	20,400	
Accounts Receivable	3,500	
Equipment	8,600	
Supplies	700	
Unearned Revenue		3,400
Capital		29,800
<b>Totals</b>	<b>33,200</b>	<b>33,200</b>



**Exercise (9):**

You are required to **Complete** the following **closing entries** for Jalal Company and **Post** the closing entries to **Income Summary** and **Capital Accounts**, assuming that the balance of capital is BD26,000. for the period ended December 31, 2020:

**GENERAL JOURNAL**

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec. 31	Fees Earned		9,100	
	<b>Income Summary</b>			9,100
Dec. 31	Income Summary		1,210	
	Repair Expense			250
	Wages Expense			<b>960</b>
Dec. 31	Income Summary		<b>7,890</b>	
	Jalal, Capital			<b>7,890</b>
Dec. 31	<b>Jalal, Capital</b>		340	
	Jalal, Drawings			340

**Income Summary**

Date	Details	PR	Debit	Credit	Balance
Dec.31	Revenue			9,100	9,100
Dec.31	Expenses		1,210		7,890
Dec.31	Capital		7,890		0

**Jalal, Capital**

Date	Details	PR	Debit	Credit	Balance
Dec.31	Balance			26,000	26,000
Dec.31	Income Summary			7,890	33,890
Dec.31	Drawings		340		33,550



**Exercise (10):**

The adjusted trail balance of Arwa's Company shows the following balances at July 31, 2020:

**Arwa's Company**  
**Adjusted Trial Balance**  
**July 31, 2020**

Account Title	Debit (BD)	Credit (BD)
Cash	38,200	
Accounts Receivable	6,380	
Equipment	30,700	
Accumulated Depreciation - Equipment		4,500
Accounts Payable		5,700
Unearned Rent Revenue		2,100
Arwa, Capital		51,400
Arwa, Drawings	2,000	
Commission Earned		30,580
Rent Revenue		1,400
Depreciation Expense	1,500	
Salaries Expense	15,400	
Utilities Expense	1,500	
<b>Totals</b>	<b>95,680</b>	<b>95,680</b>

**Required:**

1. Prepare the necessary closing entries at July 31, 2020.
2. **Post** the closing entries to **Income Summary** and **Capital Accounts**.





### GENERAL JOURNAL CLOSING ENTRIES

1-

Date	Explanation	PR	Debit BD	Credit BD
Dec.31	Commission Earned		30,580	
	Rent Revenue		1,400	
	Income Summary			31,980
Dec.31	Income Summary		18,900	
	Depreciation Expense			1,500
	Salaries Expense			15,400
	Utilities Expense			1,500
Dec.31	Income Summary		13,080	
	Arwa, Capital			13,080
Dec.31	Arwa, Capital		2,000	
	Arwa, Drawings			2,000

2-

#### Arwa, Capital

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Balance			51,400	51,400
Dec.31	Income Summary			13,080	64,480
Dec.31	Drawings		2,000		62,480

#### Income Summary

Date	Explanation	PR	Debit	Credit	Balance
Dec.31	Balance			31,980	31,980
Dec.31	Income Summary		18,900		13,080
Dec.31	Drawings		13,080		0



**Exercise (11):**

The following selected ledger accounts for Shayma Company are presented below. All June 30, 2020 postings are from closing entries:

**Salaries Expense**

Date	Explanation	PR	Debit (BD)	Credit (BD)	Balance (BD)
June 10	Cash		3200		3200
28	Cash		5600		8800
30	Income Summary			8800	0

**Supplies Expense**

Date	Explanation	PR	Debit	Credit	Balance
June 12	Cash		800		800
24	Cash		700		1500
30	Income Summary			1500	0

**Rent Expense**

Date	Explanation	PR	Debit (BD)	Credit (BD)	Balance (BD)
June 1	Cash		3000		3000
30	Income Summary			3000	0

**Service Revenue**

Date	Explanation	PR	Debit (BD)	Credit (BD)	Balance (BD)
June 15	Cash			7200	7200
24	Accounts receivable			8400	15600
30	Income Summary		15600		0

**Shayma, Drawings**

Date	Explanation	PR	Debit (BD)	Credit (BD)	Balance (BD)
June 13	Cash		1000		1000
June 25	Cash		1500		2500
June 30	Capital			2500	0

**Required:**

- 1- Prepare the necessary closing entries that were made at June 30, 2020.
- 2- Post the closing entries to **Income Summary** and **Capital Accounts**, assuming that the balance of capital is BD12,000.



**Solution:****GENERAL JOURNAL  
CLOSING ENTRIES****1-**

Date	Explanation	PR	Debit BD	Credit BD
June 30	Service Revenue		15,600	
	Income Summary			15,600
June 30	Income Summary		13,300	
	Salaries Expense			8,800
	Supplies Expense			1,500
	Rent Expense			3,000
June 30	Income Summary		2,300	
	Shayma, Capital			2,300
June 30	Shayma, Capital		2,500	
	Shayma, Drawings			2,500

**2-****Shayma, Capital**

Date	Explanation	PR	Debit	Credit	Balance
June 30	Balance			12,000	12,000
June 30	Income Summary			2,300	14,300
June 30	Drawings		2,500		11,800

**Income Summary**

Date	Explanation	PR	Debit	Credit	Balance
June 30	Balance			15,600	15,600
June 30	Income Summary		13,300		2,300
June 30	Drawings		2,300		0



**Exercise (12):**

From the following adjusted trial balance, prepare the **closing entries** for the period ended October 31, 2020, then post to Ledger Accounts.

**Entisar Trading Company**  
**Adjusted Trial Balance**  
**October 31, 2020**

Account Title	Debit (BD)	Credit (BD)
Cash	47,425	
Equipment	47,790	
Land	19,250	
Accounts Payable		22,590
Entisar, Capital		85,875
Entisar, Drawings	735	
Service Revenue		25,820
Wages Expense	11,085	
Advertising Expense	8,000	
<b>Totals</b>	<b>134,285</b>	<b>134,285</b>

**Solution:**

**GENERAL JOURNAL**  
**CLOSING ENTRIES**

1-

Date	Explanation	PR	Debit (BD)	Credit (BD)
Dec. 31	Service Revenue		25,820	
	Income Summary			25,820
Dec. 31	Income Summary		19,085	
	Wages Expense			11,085
	Advertising Expense			8,000
Dec. 31	Income Summary		6,735	
	Entisar, Capital			6,735
Dec. 31	Entisar, Capital		735	
	Entisar, Drawings			735



## 2- Entisar, Capital

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			85,875	85,875
Dec. 31	Income Summary			6,735	92,610
Dec. 31	Drawings		735		91,875

## Income Summary

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			25,820	25,820
Dec. 31	Income Summary		19,085		6,735
Dec. 31	Drawings		6,735		0

## Entisar, Drawings

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		735		735
Dec. 31	Capital			735	0

## Service Revenue

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance			25,820	25,820
Dec. 31	Income Summary		25,820		0

## Wages Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		11,085		11,085
Dec. 31	Income Summary			11,085	0

## Advertising Expense

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31	Balance		8,000		8,000
Dec. 31	Income Summary			8,000	0



## **Unit (2): Inventory and cost of sales – (FIFO periodic).**

Teacher explain:

- 1- The difference between a perpetual and periodic Inventory system.
- 2- FIFO method – using periodic system.

### Lesson Notes

#### **The Focus**

##### **Before the Lesson:**

Teacher start by introductory activity, to identify the difference between a perpetual and periodic inventory (given example of business)

##### **The Lesson:**

- 1- Identify the need for valuation of inventories.
- 2- Differentiate between the different methods of inventories valuation.
- 3- Calculate the cost of goods sold and ending inventory by using the FIFO method under periodic system.

##### **After the Lesson:**

\*The student should be able to find the value of ending inventory and COGS under FIFO periodic inventory system.

### **What is an inventory?**

Inventory is an asset that is intended for sale, or to be used in producing goods. For many companies, inventory represents a large (if not the largest) portion of assets. Because inventory represents such an important part of the balance sheet, it is crucial for investors who are analysing inventories to understand how inventory is valued.

### **The Need for Inventory Valuation**

The types of inventories owned by business organizations differ depending on the type of activities or operations they perform. For example:

- 1- **Merchandising Companies** i.e. businesses which purchase and sell goods, but do not process them. Inventories consists of goods purchased, in their completed state, and remaining unsold at the end of the accounting period.
- 2- **Manufacturing Companies**, i.e. businesses which produce or process inventory the term (inventory) include raw materials, work-in-progress and finished goods awaiting sale.
- 3- **Service Companies**, i.e. businesses which provide services to the public like, accountants and bankers. These hold very little, if any, inventories the conventional sense of the term, though accountants will have a significant balance of work-in-progress representing services provided but not yet billed while banks possess large investments which present their own valuation problems.





**Example 2-1:**

Abdulla Company uses a **periodic inventory system**. Its records show the following information for the year ended Dec 31, 2020, in which 550 units were sold at a selling price BD25 each.

Date	Explanation	Units	Unit Cost (BD)
Jan. 01	Beginning Inventory	100	10
April 15	Purchases	200	11
Aug. 24	Purchases	300	12
Nov. 27	Purchases	400	13
<b>Total</b>		<b>1,000</b>	

**Required:**

1. Compute cost of goods available for sales.
2. Compute the number of units in ending inventory.
3. Compute cost of goods sold and cost of ending inventory using FIFO method
4. Compute the gross profit under FIFO method.

**Solution:**

**1. Cost of Goods Available for Sales**

$$= \text{Beginning Inventory} + \text{Cost of Purchases}$$

Date	Explanation	Units	Unit Cost (BD)	Total Cost (BD)
Jan. 01	Beginning Inventory	100	10	1,000
April 15	Purchases	200	11	2,200
Aug. 24	Purchases	300	12	3,600
Nov. 27	Purchases	400	13	5,200
<b>Total cost of goods available for sales</b>		<b>1,000</b>		<b>12,000</b>

**2. No of Ending Inventory units =**

$$\text{Units available for sales} - \text{Units sold}$$

$$= 1000 - 550 = 450 \text{ Units}$$

**Study Instructions:**  
Ask the student to review chapter 1 & 2 in accounting 212

**2- Teaching Reinforcement**

**Question:**

1-Ask the students to read pages (49-50 ) from text book.

**3- Teaching Instruction:**

\*Explain to students example (2-1) Pages 51- 53 from textbook.



**FIFO Method – Under Periodic System**



Under **FIFO method**, the first units in, **will be sold** as follows:

January	01	100 units
April	15	200 units
August	24	<u>250 units</u>
Total		550 units

The value of **Ending Inventory** is:

Date	Units	Unit Cost (BD)	Total Cost (BD)
Aug. 24	50	12	600
Nov. 27	400	13	5,200
<b>Totals</b>	<b>450</b>		<b>5,800</b>

Cost of goods available for sale	BD12,000
Less Ending Inventory	BD5,800
<b>Cost of goods sold</b>	<b>BD6,200</b>

**Or Other Solution**

The value of **Cost of Goods Sold**.

Date	Units	Unit Cost (BD)	Total Cost (BD)
Jan. 01	100	10	1,000
April 15	200	11	2,200
Aug. 24	250	12	3,000
<b>Totals</b>	<b>550</b>		<b>6,200</b>

The value of **Ending Inventory** is:

Date	Units	Unit Cost (BD)	Total Cost (BD)
Aug. 24	50	12	600
Nov. 27	400	13	5,200
<b>Totals</b>	<b>450</b>		<b>5,800</b>

**4. Gross Profit = Sales – Cost of Goods Sold**

$$(550 \times 25) - 6,200 = \text{BD}7,550$$

**3- Teaching Instruction:**

\* Ask the student to review income statement for merchandise business, they studied in accounting 212.

\* Explain to student, how to find COGS and Ending inventory under FIFO method.

\* Explain to student, how to find gross profit under FIFO method.





➤ Ask the student to use the following link to review the lesson.

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/3Inventories-and-cost-of-sales-FIFOMP1/3Inventories-and-cost-of-sales-FIFOMP1.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/3Inventories-and-cost-of-sales-FIFOMP1/3Inventories-and-cost-of-sales-FIFOMP1.pptx)



**Teaching with technology**

Ask the student to use the link and QR for revision.

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 57 (1)	Page 57 (2)	Page 58 (3)
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**

Ask the students to answer in a group during the period exercise (51) page 59 of the text book.



**Unit (2): Inventory and cost of sales – (WA periodic).**

Teacher explain:

**Weighted Average Method (WA):**

The weighted-average cost method allocated the cost of goods available for sale on the basis of the weighted-average unit cost incurred. The weighted-average cost method assumes that goods are similar in nature.

**WA Method – Under Periodic System****Example 2-1:**

Abdulla Company uses a **periodic inventory system**. Its records show the following information for the year ended Dec 31, 2020, in which 550 units were sold at a selling price BD25 each.

Date	Explanation	Units	Unit Cost (BD)
Jan. 01	Beginning Inventory	100	10
April 15	Purchases	200	11
Aug. 24	Purchases	300	12
Nov. 27	Purchases	400	13
<b>Total</b>		<b>1,000</b>	

**Required:**

1. Compute cost of goods available for sales.
2. Compute the number of units in ending inventory.
3. Compute cost of goods sold and cost of ending Inventory using WA method
4. Compute the gross profit under FIFO method.

**Solution:**

1. **Cost of Goods Available for Sales**  
= **Beginning Inventory + Cost of Purchases**

**Lesson Notes****The Focus Before the Lesson:**

Teacher start by introductory activity, example about business working in Bahrain using FIFO method.

**The Lesson:**

1- Calculate the cost of goods sold and ending inventory by using the WA method under periodic system.

**After the Lesson:**

\*The student should be able to find the value of ending inventory and COGS under WA periodic inventory system.



**WA Method – Under Periodic System**

Date	Explanation	Units	Unit Cost (BD)	Total Cost (BD)
Jan. 01	Beginning Inventory	100	10	1,000
April 15	Purchases	200	11	2,200
Aug. 24	Purchases	300	12	3,600
Nov. 27	Purchases	400	13	5,200
<b>Total cost of goods available for sales</b>		<b>1,000</b>		<b>12,000</b>

**2. No of Ending Inventory units =**  
**Units available for sales – Units sold**  
 = 1000 – 550 = 450 Units

**Weighted Average Unit Cost =  $\frac{\text{Cost of Goods Available for Sales}}{\text{Total units Available for sales}}$**

1. Weighted Average Unit Cost =  $\frac{12000}{1000}$  = BD12 per unit
2. Ending Inventory = 450 × 12 = BD5,400.
3. COGS = **Cost of Goods Available For Sale – Ending Inventory**  
 = 12,000 – 5,400 = BD 6,600.  
 OR: COGS = 450 × 12 = BD6,600.

**4. Gross Profit = Sales – Cost of Goods Sold**  
 (550 × 25) – 6,600 = BD7,150

**2- Teaching Reinforcement**

**Question:**  
 1-Ask the students to read page 54 from text book.

**3- Teaching Instruction:**

\*Explain to students example (2-1) Pages 54 from textbook.

**3- Teaching Instruction:**

\* Explain to student, how to find COGS and Ending inventory under WA method.

\* Explain to student, how to find gross profit under WA method



➤ Ask the student to use the following link to review the less  
[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/4Inventories-and-cost-of-salesWAMp2/4Inventories-and-cost-of-salesWAMp2.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/4Inventories-and-cost-of-salesWAMp2/4Inventories-and-cost-of-salesWAMp2.pptx).



**Teaching with technology**  
 Ask the student to use the link and QR for revision.

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 57 (1)	Page 57 (2)	Page 58 (3)
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**  
 Ask the students to answer in a group during the period exercise (51) page 59 from text book.



**Unit (2): Inventory and cost of sales – (FIFO perpetual).**

Teacher explain:

- 1- FIFO method – using perpetual system.
- 2- Which type of business prefer FIFO method by perpetual inventory system.

**The Focus**

**Before the Lesson:**

Teacher start by introductory activity, to identify the difference between a perpetual and periodic inventory (given example of business)

**The Lesson:**

- 1- Identify the need for valuation of inventories.
- 2- Differentiate between the different methods of inventories valuation.
- 3- Calculate the cost of goods sold and ending inventory by using the FIFO method under periodic system.

**After the Lesson:**

\*The student should be able to find the value of ending inventory and COGS under FIFO periodic inventory system.

**FIFO Method – Under Perpetual System**



**Example 2-2**

Abdulhadi's Company uses a **perpetual inventory system**. It entered into the following information for the month of May 2020.

Date	Explanation	Units	Unit Cost (BD)	Unit Sold (BD)
May. 01	Beginning Inventory	200	25	
May.08	Purchases	300	30	
May. 12	Sales	400		60
May. 19	Purchases	400	35	
May. 24	Purchases	100	42	
May. 28	Sales	250		70

**Required:**

1. Compute cost of goods sold and cost of ending Inventory using FIFO Method
2. Compute the gross profit under each method.



Date	Goods Purchased	Cost of Goods Sold	Inventory Balance
May. 01			200×25=BD5,000
May.08	300×30=BD9,000		300×30=BD9,000
May. 12		200×25=BD5,000	
		200×30=BD6,000	
			100×30=BD3000
May. 19	400×35=BD14,000		400×35=BD14,000
May. 24	100×42=BD4,200		100×42=BD4,200
May. 28		100×30=BD3000	
		150×35=BD5,250	
			250×35=BD8,750
			100×42=BD4,200
<b>Totals</b>		650 BD19,250	350 BD12,950

**3- Teaching Instruction:**  
 \*Explain to students example (2-2) Pages 5 from textbook.

**Teaching with technology**  
 Ask the student to use the link and QR for revision.

**2. Gross Profit = Sales – Cost of Goods Sold**

$$= [(400 \times 60) + (250 \times 70)] - [19,250] = \text{BD}22,250$$

➤ Ask the student to use the following link to review the less

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/5Inventories-and-cost-of-sales-FIFOPp3/5Inventories-and-cost-of-sales-FIFOPp3.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/5Inventories-and-cost-of-sales-FIFOPp3/5Inventories-and-cost-of-sales-FIFOPp3.pptx).



Chapter Resources			
Resource	Below Average	In Average	Over Average
Teacher's Guide	Page 59 (6)	Page 60 (8)	Page 86 (3) from notebook
Lesson Resources	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
Extra Resources	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**  
 Ask the students to solve exercises (7) pages 92 from notebook.



**Unit (2): Inventory and cost of sales – (WA perpetual).**

Teacher explain:

**Weighted Average Method (WA):**

The weighted-average cost method allocated the cost of goods available for sale on the basis of the weighted-average unit cost incurred. The weighted-average cost method assumes that goods are similar in nature.

**WA Method – Under Perpetual System****Example 2-2**

Abdulhadi's Company uses a **perpetual inventory system**. It entered into the following information for the month of May 2020.

Date	Explanation	Units	Unit Cost (BD)	Unit Sold (BD)
May. 01	Beginning Inventory	200	25	
May.08	Purchases	300	30	
May. 12	Sales	400		60
May. 19	Purchases	400	35	
May. 24	Purchases	100	42	
May. 28	Sales	250		70

**Required:**

3. Compute cost of goods sold and cost of ending Inventory using WA Method
4. Compute the gross profit under each method.

**Lesson Notes****The Focus Before the Lesson:**

Teacher start by introductory activity, example about business working in Bahrain using WA method.

**The Lesson:**

1- Calculate the cost of goods sold and ending inventory by using the WA method under perpetual system.

**After the Lesson:**

\*The student should be able to find the value of ending inventory and COGS under WA perpetual inventory system.



Date	Goods Purchased	Cost of Goods Sold	Inventory Balance
May. 01		$\frac{14,000}{500} = 28$	200×25=BD5,000
May.08	300×30=BD9,000		300×30=BD9,000
			500    28    14,000
May. 12		400×28=BD11,200	
			100×28=BD2,800
May. 19	400×35=BD14,000	$\frac{21,000}{600} = 35$	400×35=BD14,000
May. 24	100×42=BD4,200		100×42=BD4,200
			600    35    21,000
May. 28		250×35=BD8,750	
			350×35=BD12,250
<b>Totals</b>		<b>BD19,950</b>	<b>BD12,250</b>

**2- Teaching Reinforcement**

**Question:**

1-Ask the students to read page 56 from text book.

**3- Teaching Instruction:**

\*Explain to students example (2-2) Pages 55 from textbook.

Using brainstorm strategy.

**2. Gross Profit = Sales – Cost of Goods Sold**

$$= [(400 \times 60) + (250 \times 70)] - [19,950] = \text{BD}21,550$$

**Points to Remember**

- Methods of inventory valuation are:
  1. FIFO
  2. LIFO ( Not Currently use in the business market)
  3. Weighted Average method
- FIFO method assumes that the earliest goods purchased are the first to be sold.
- WA method assumes that the average cost per unit of goods purchased is used to value goods to be sold.





- Ask the student to use the following link to review the lesson.  
[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/P art\\_3/lessons/6Inventories-and-cost-of-sales-WAPp4/6Inventories-and-cost-of-sales-WAPp4.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/P art_3/lessons/6Inventories-and-cost-of-sales-WAPp4/6Inventories-and-cost-of-sales-WAPp4.pptx)



**Teaching with technology**  
 Ask the student to use the link and QR for revision.

**Formative assessment:**  
 Ask the students to solve exercises 9 pages 62 from text book. In a group during the period (using Cooperative strategy).

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 58 (4)	Page 60 (7)	Page 90 (6) noebook
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook



# Unit Two

## VALUATION OF INVENTORIES AND COST OF SALES

### TEXT BOOK EXERCISES



**Exercises:****Exercise (1):**

The accounting records of Mariam Electronics show the following data:

Beginning Inventory	4,000 units @ BD30
Purchases	6,000 units @ BD40
Sales	5,000 units @ BD60

**Required:**

- Compute the **Cost of Ending Inventory** and **Cost of goods sold** during the period under a **periodic inventory system** using
  - FIFO Method.
  - Weighted Average Method (WA).
- Compute the **gross profit** under each method.

**Solution:**

- (1) Calculate the **Ending Inventory** using **FIFO method**.

$$\text{Ending Units} = (4000 + 6000) - 5000 = 5000 \text{ Units}$$

Units	Unit Cost (BD)	Total Value (BD)
5,000	40	200,000

Calculate the **Cost of Goods Sold** using **FIFO method**.

Units	Unit Cost (BD)	Total Value (BD)
4000	30	120,000
1000	40	40,000
		<b>160,000</b>

- (2) Calculate the **Ending Inventory** using **WA method**.

Units	Unit Cost (BD)	Total Value (BD)
4000	30	120,000
6000	40	240,000
<b>10,000</b>		<b>360,000</b>



$$\text{Weighted Average Unit Cost} = \frac{\text{Cost of Goods Available For Sale}}{\text{Total Units Available for sale}}$$

$$= \frac{360000}{10000} = \text{BD}36$$

$$\text{Cost of Ending Inventory} = 5000 \times 36 = \text{BD}180,000$$

Calculate the **Cost of Goods Sold** using **WA method**.

$$\begin{aligned} \text{COGS} &= \text{Cost of Goods Available For Sale} - \text{Ending Inventory} \\ &= 360,000 - 180,000 = \text{BD}180,000. \end{aligned}$$

$$\text{OR: COGS} = 5000 \times 36 = \text{BD}180,000$$

b. **Gross Profit:**

1. **Under FIFO method:**

$$\text{Gross Profit} = \text{Sales} - \text{Cost of Goods Sold}$$

$$= (5000 \times 60) - 160,000 = \text{BD}140,000$$

2. **Under WA method:**

$$\text{Gross Profit} = \text{Sales} - \text{Cost of Goods Sold}$$

$$= (5000 \times 60) - 180,000 = \text{BD}120,000$$



**Exercise (2):**

Al-Amal Company has the following records for the month of May 2020, in which 78 units were sold:

Date	Explanation	Units	Unit Cost (BD)	Total Cost (BD)
May 01	Inventory	30	8	240
15	Purchases	25	10	250
24	Purchases	35	12	420
Totals		90		910

**Required:**

Compute the value of Ending Inventory on May 31, 2020 and Cost of Goods Sold using FIFO method. The company **uses the periodic inventory system.**

**Solution:**

Calculate the **Ending Inventory** using **FIFO method.**

$$\text{Ending Units} = 90 - 78 = 12 \text{ Units}$$

Date	Units	Unit Cost (BD)	Total Value (BD)
May 24	12	12	144

Calculate the **Cost of Goods Sold** using **FIFO method.**

Date	Units	Unit Cost (BD)	Total Value (BD)
May 01	30	8	240
May 15	25	10	250
May 24	23	12	276
<b>Total</b>			<b>766</b>



**Exercise (3):**

The following information relates to purchases and sales of watches for the period ended on December 31, 2020:

Date	Explanation	Units	Unit Cost (BD)	Total Cost (BD)
Jan. 01	Beginning Inventory	200	20	4,000
May 12	Purchases	300	22	6,600
Sept.24	Purchases	400	24	9,600
Dec. 15	Purchases	600	25	15,000
Total		1,500		35,200

During the year, 850 units were sold and 650 units are on hand on December 31, 2020. Find the cost of **Ending Inventory** and **Cost of goods sold** using **(WA) method**. **The company uses the periodic inventory system.**

**Solution:**

Calculate the **Ending Inventory** using **WA method**.

$$\text{Weighted Average Unit Cost} = \frac{35,200}{1500} = \text{BD}23.467 \text{ per unit}$$

$$\text{Ending Inventory} = 650 \times 23.467 = \text{BD}15253.550.$$

$$\text{COGS} = 35,200 - 15253.550 = \text{BD}19946.45$$



**Exercise (4):**

Salman Company uses a **perpetual inventory system**. It entered into the following information for the month of June 2020.

Date	Explanation	Units	Unit Cost (BD)	Unit Sold (BD)
June 01	Beginning Inventory	800	10	
June 09	Purchases	1000	12	
June 14	Sales	1200		20
June 18	Purchases	700	15	
June 23	Purchases	500	18	
June 27	Sales	250		20

**Required:**

1. Compute cost of goods available for sales.
2. Compute the number of units in ending inventory.
3. Compute cost of goods sold and cost of ending Inventory using
  - a) FIFO Method
  - b) Weighted Average Method
4. Compute the gross profit under each method.

**Solution:**

1. Compute cost of goods available for sales.

Date	Units	Unit Cost (BD)	Total Value (BD)
June 01	800	10	8,000
June 09	1000	12	12,000
June 18	700	15	10,500
June 23	500	18	9,000
<b>Total</b>	<b>3000</b>		<b>39,500</b>

2. Compute the number of units in ending inventory.

$$= (3000) - (1200 + 250) = 1550 \text{ Units}$$



3. (a) Compute cost of goods sold and cost of ending Inventory (FIFO).

Date	Goods Purchased	Cost of Goods Sold	Inventory Balance
June 01			800×10 = BD8000
June 09	1000×12 = BD12000		1000×12 = BD12000
June 14		800×10 = BD8000	
		400×12 = BD4800	
			600×12= BD7200
June 18	700×15= BD10500		700×15= BD10500
June 23	500×18= BD9000		500×18= BD9000
June 27		250×12= BD3000	
			350×12= BD4200
			700×15= BD10500
			500×18= BD9000
<b>Total</b>		<b>1450      15800</b>	<b>1,550      BD23700</b>

3. (b) Compute cost of goods sold and cost of ending Inventory (WA).

Date	Goods Purchased	Cost of Goods Sold	Inventory Balance
June 01			800×10 = BD8000
June 09	1000×12 = BD12000	$\frac{20000}{1800} =$	1000×12 = BD12000
			<del>1800</del> $\frac{11111}{1800}$ BD20000
June 14		1200×11.111 = BD13333.2	
			600×11.111= BD6666.8
June 18	700×15= BD10500	$\frac{26166.8}{1800} =$	700×15= BD10500
June 23	500×18= BD9000		500×18= BD9000
			<del>1800</del> $\frac{14537}{1800}$ BD26166.8
June 27		250×14.537 = BD3634.25	
<b>Total</b>		<b>1450      BD16967.45</b>	<b>1550×14.537 = BD22532.55</b>

4. (a) Gross profit: (FIFO Method)

$$(1200+250) \times 20 - 23,700 = \text{BD}5,300$$

- (b) Gross profit: (WA Method)

$$(1200+250) \times 20 - 22532.55 = \text{BD}6467.450$$





**Exercise (5):****Monthly Inventory Purchases**

Month	Units Purchased	Unit Cost (BD)	Total Value (BD)
January	1,000	10	10,000
February	1,000	12	12,000
March	1,000	15	15,000
Totals	3,000		37,000

Beginning Inventory = 4,000 units purchased @ BD8 each, and 3,000 units have been sold. The company **uses the periodic inventory system**.

**Required:**

Compute the Ending Inventory on May 31, 2020 using **FIFO method**. Prove the amount allocated to the Cost of Goods Sold under this method.

**Solution:**

Calculate the **Ending Inventory** using **FIFO method**.

Date	Units	Unit Cost (BD)	Total Value (BD)
Beginning Inventory	1,000	8	8,000
January	1,000	10	10,000
February	1,000	12	12,000
March	1,000	15	15,000
<b>Totals</b>	<b>3,000</b>		<b>45,000</b>

Calculate the **Cost of Goods Sold** using **FIFO method**.

Date	Units	Unit Cost (BD)	Total Value (BD)
Beginning Inventory	3,000	8	24,000



**Exercise (6):**

The following details relate to an identical line of inventory carried by a business:

January 01	Beginning Inventory	1,000 units @ BD5 each
February 28	Purchases	2,000 units @ BD8 each
June 30	Sales	1,000 units @ BD15 each
September 30	Purchases	1,000 units @ BD7 each
December 31	Sales	1,500 units @ BD15 each

**Required:**

Calculate the value of closing inventory and Cost of Goods Sold, which would be included in the financial statements under the **FIFO** method. The company uses the **perpetual inventory system**.

**Solution:**

Date	Goods Purchased	Cost of Goods Sold	Inventory Balance
January 01			1000×5 = BD5000
February 28	2000×8 = BD16000		2000×8 = BD16000
June 30		1000×5 = BD5000	
			2000×8 = BD16000
September 30	1000×7 = BD7000		1000×7 = BD7000
December 31		1500×8 = BD12000	
			500×8 = BD4000
			1000×7 = BD7000
<b>Total</b>		<b>2500    BD17000</b>	<b>1500    BD11000</b>

**Exercise (7):**

Al-Noor Company has the following records for the month of June 2020:

Date	Explanation	Units	Unit Cost (BD)	Total Cost (BD)
June 01	Inventory	200	5	1,000
12	Purchases	300	6	1,800
23	Purchases	500	7	3,500
30	Inventory	180		



**Required:**

1. Compute the Ending Inventory and Cost of Goods Sold on June 30 2020, using FIFO and WA method. (**The company uses the periodic inventory system**).
2. Which valuation method gives higher ending inventory?
3. Which valuation method results in higher cost of goods sold?

**Solution:**

(1) Calculate the **Ending Inventory** using **FIFO method**.

Units	Unit Cost (BD)	Total Value (BD)
180	7	1,260

Calculate the **Cost of Goods Sold** using **FIFO method**.

Units	Unit Cost (BD)	Total Value (BD)
200	5	1,000
300	6	1,800
320	7	2,240
<b>Total</b>		<b>5,040</b>

(1) Calculate the **Ending Inventory** using **WA method**.

Units	Unit Cost (BD)	Total Value (BD)
200	5	1,000
300	6	1,800
500	7	3,500
1,000		6,300

$$* \text{ Weighted Average Unit Cost} = \frac{6300}{1000} = \text{BD}6.300 \text{ per unit}$$

$$\text{Ending Inventory} = 180 \times 6.300 = \text{BD}1,134.$$

$$\text{COGS} = 6,300 - 1134 = \text{BD}5,166$$

$$\text{OR: COGS} = 820 \times 6.300 = \text{BD}5,166$$

2- FIFO method gives higher ending inventory = BD1260



3- WA method results in higher cost of goods sold = BD5,166.

**Exercise (8):**

The following information relates to an identical line of inventory carried by a business:

January 01	Beginning Inventory	500 units @ BD30 each
March 31	Purchases	400 units @ BD32 each
July 31	Sales	600 units @ BD50 each
October 31	Purchases	900 units @ BD37 each
December 31	Sales	800 units @ BD50 each

**Required:**

Calculate the value of closing inventory and Cost of Goods Sold, which would be included in the financial statements under the **WA method**.  
The company uses the **perpetual inventory system**.

**Solution:**

Date	Goods Purchased	Cost of Goods Sold	Inventory Balance
January 01			500 × 30 = BD15000
March 31	400 × 32 = BD12800	$\frac{20000}{1800} =$	400 × 32 = BD12800
			900 $\times$ 30.889 = <b>BD27800</b>
July 31		600 × 30.889 = BD18533.4	300 × 30.889 = BD9266.6
October 31	900 × 37 = BD33,300		900 × 37 = BD33,300
			1200 $\times$ 35.472 = BD42566.6
Dec. 31		800 × 35.472 = BD28377.6	
<b>Total</b>		<b>1400</b> <b>BD46911</b>	<b>400 × 35.472 = BD14189</b>

**Exercise (9):**

**Choose the correct answer:**

If the company uses a periodic inventory system and it has 200 units of inventory of the beginning of the year that cost BD20 per unit. The company buys 200 units more at BD30 each during January. At the end of January, the company sells 150 units at BD40 each. Answer questions 1- 4:

1. Assuming that you are **using FIFO**, the Cost of Goods Sold is:

- (a) **BD3,000 ✓ (150 × 20)**
- (b) BD4,500
- (c) BD3,500



(d) BD3,250

2. Assuming the firm uses FIFO, the value of inventory after the sale takes place is:

(a) BD4,500

**(e) BD7,000 ✓  $(50 \times 20) + (200 \times 30)$**

(b) BD5,500

(c) BD4,000

3. Assuming the firm uses WA method, the Cost of Goods Sold is:

(a) BD4,500

(b) BD3,500

**(c) BD3,750 ✓  $[(200 \times 20) + (200 \times 30)] \div 400 = \text{BD}25 \times 150 =$**

(d) BD6,250

4. Assuming the firm using WA method, the value of inventory after the items are sold is:

**(a) BD6,250 ✓  $(25 \times 250) = \text{BD}6250$**

(b) BD7,000

(c) BD4,500

(d) BD3,500

5. A firm that sells a single product had a beginning inventory of 4,000 units with a total cost of BD24,000. Early in the year, 10,000 units were purchased at BD8 each. Using FIFO, what is the value of the ending inventory of 3,000 units using a periodic inventory system?

**(a) BD24,000. ✓  $3000 \times 8$**

(b) BD18,000.

(c) BD21,000.

(d) BD32,000.



6. A firm that sells a single product had a beginning inventory of 4,000 units with a total cost of BD16,000. Early in the year, 8,000 units were purchased at BD5 each. Using WA method, what is the value of the ending inventory of 2,000 units using a periodic inventory system?

(a) BD10,000.

(b) BD9,334. ✓  $[(4000 \times 4) + (8000 \times 5)] \div 1200 = \text{BD}4.667 \times 2000 =$

(c) BD8,000.

(d) BD19,200.

7. The firm had a beginning inventory of 50 units with a unit cost of BD10. Purchases during the year were as follows: March--50 units with a unit cost of BD12; July--60 units with a unit cost of BD15. If FIFO method is used, the value of the ending inventory of 40 units using a **periodic inventory system** is:

(a) BD400

(b) BD450

(c) BD600 ✓  $(40 \times 15)$

(d) BD500



## Chapter 3: Cash and Internal Control Bank Reconciliation – part 1

- The teacher should clarify that:
- The concept of Bank Reconciliation.
  - The process of preparing the Bank Reconciliation.
  - The preparation of Bank Reconciliation.
  - The application of Bank Reconciliation.

### Lesson Notes

#### The Focus

#### **Before the Lesson:**

Introductory activity, about benefit of bank statement.

#### **The Lesson:**

1- Explain the factors causing differences between the bank statement balance and the cash balance in business records.

2- Prepare a bank reconciliation.

#### **After the Lesson:**

The student should be able to prepare bank reconciliation.

#### **Bank Statement**

The bank statement lists the activity in the bank account during the recent month as well as the balance in the bank account.

#### **Tips 3-1**

The benefit of reconciling the bank statement is to show that the amount of cash reported by the company (company's books) is consistent with the amount of cash shown in the bank's records.

#### **Purpose of Bank Reconciliation**

The balance of a checking account reported on the bank statement rarely equals the balance in the depositor's accounting records. This is usually due to information that one party has and that the other does not. This means we must reconcile the two balances and explain or account for any differences between them.

#### **Outstanding Checks**

Checks that have been written and recorded in the company's cash account but have not yet cleared in the bank account. Checks written during the last few days of the month plus a few older checks are likely to be among the outstanding checks.

#### **Warning 3-1**

No journal entries are required to be done in the company's records when the adjustment needed because of bank errors.



## Bank Reconciliation



### Example 3 – 1

This example provides a sample bank reconciliation including the required journal entries for Ebrahim Company at August 31, 2020. The company has the following items:

- Item 1.** The bank statement for August 2020 shows an ending balance of BD3,490.
- Item 2.** On August 31 the bank statement shows charges of BD35 for the service charge of maintaining the checking account.
- Item 3.** On August 28 the bank statement shows a return item of BD100 plus a related bank fee of BD10. The return item is a customer's check that was returned because of insufficient funds. The check was also marked "do not redeposit".
- Item 4.** The bank statement shows a charge of BD80 for check printing on August 20.
- Item 5.** The bank statement shows that BD8 were added to the checking account on August 31 for interest earned by the company during the month of August.
- Item 6.** The bank statement shows that a note receivable of BD1,000 was collected by the bank on August 29 and was deposited into the company's account. On the same day, the bank withdrew BD40 from the company's account as a fee for collecting the note receivable
- Item 7.** The company's **Cash** account at the end of August shows a balance of BD967.
- Item 8.** During the month of August, the company wrote checks totaling more than BD50,000. As of August 31 BD3,021 of the check No#1210 was written in August had not yet **cleared** by the bank and BD200 of check No#1205 was written in June had not yet cleared the bank.
- Item 9.** The BD1,450 of cash received by the company on August 31 was recorded on the company's books as of August 31. However, the BD1,450 of cash received was deposited at the bank on the morning of September 1.
- Item 10.** On August 29 the company's Cash account shows cash sales of BD145. The bank statement shows the amount deposited was actually BD154. The company reviewed the transactions and found that BD154 was the correct amount.

### 2- Teaching Reinforcement Question:

Ask the students to read pages 64- 73 from (Text Book.)

### 3- Teaching Instruction:

\*Explain to student's format of bank reconciliation Pages 73 from textbook.

**Study Instructions:**  
The student should be review preparing the bank statement in banking 211.







**Ebrahim Company  
Bank Reconciliation  
August 31, 2020**

<b>Bank Statement Balance</b>		3,490	<b>Book Balance</b>		967
<b>Add:</b> Deposits in transit		1,450	<b>Add:</b>		
		4,940	Interest Earned	8	
			Collected BD1000 notes less BD40 fees	960	
			Errors (Sales Account)	9	977
					1,944
<b>Less:</b>			<b>Less:</b>		
Outstanding checks					
No#1210	3,021		Bank services charge	35	
No#1205	200		NSF Checks (100 +10)	110	
		<b>3,221</b>	Check printing charges	80	225
<b>Adjusted Bank Statement Balance</b>		<b>1,719</b>	<b>Adjusted Book Balance</b>		<b>1,719</b>

**3- Teaching Instruction:**

\*Explain to student's example (3-1) Pages 74 from textbook.  
\* Explain to student:

Deposit in transit –  
Outstanding checks- NSF checks.  
\*Clarify to students, the equality between two sides



- **Ask the student to use the following link to review the lesson**  
[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/7-Cash-and-Internal-Control-BS-p1/7-Cash-and-Internal-Control-BS-p1.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/7-Cash-and-Internal-Control-BS-p1/7-Cash-and-Internal-Control-BS-p1.pptx)



**Teaching with technology**  
 Ask the student to use the link and QR for revision.

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 84 (2) Req.1	Page 85 (3) Req.1	Page 85 (4) Req.1
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**  
 Ask the students to answer exercises pages 83 (1) Req.1 from textbook.



## Chapter 3: Cash and Internal Control Bank Reconciliation – part 2

Explain the following:

- a) Prepare bank reconciliation without errors.
- b) Prepare adjusting entries without errors.

Refer to example (3-1): prepare adjusting entries.

**Lesson Notes**

**1- The Focus**

**Learning objective:**

\*Introductory activity, about if the student found error in bank statement, what he will do?

**Tools**

**Requirement;**

- 1- Textbook.
- 2- Notebook
- 3- Calculator

**Teaching**

**Instructions:**

The student should be prepare adjusting entries.

**2- Teaching Reinforcement**

**Question:**

Ask the students to read pages (77-79) from text book

**Prepare Adjusting Entries**

**Item # 5 Interest Earned.** The bank increased the checking account balance by BD8 on August 31. Since the bank did not notify the company previously, the company must now increase the balance in its Cash account.

Date	Explanation	PR	Debit	Credit
Aug. 31	Cash		8	
	Interest Earned (Revenues)			8

**Item # 6 Notes Receivable Collected.** The bank increased the company's checking account when it collected a note for the company on August 29. It was determined that the company had not yet made an entry to its Cash account for this transaction. As a result the following journal entry is needed.

Date	Explanation	PR	Debit	Credit
Aug. 31	Cash		960	
	Collection Expense		40	
	Notes Receivable			1,000



**Item # 10 Company error.** The company had entered BD145 in its Cash account on August 29, but the bank statement showed that the correct amount is BD154. The transaction involved the cash sales for the day. As a result, the company's Cash and Sales accounts will have to be increased by BD9 as follows:

Date	Explanation	PR	Debit	Credit
Aug. 31	Cash (154 – 145)		9	
	Sales			9

**Item # 2 Bank Service Charges.** Since the bank deducted BD35 from the company's checking account but the company has not yet deducted this from its Cash account, the following journal entry needs to be made.

Date	Explanation	PR	Debit	Credit
Aug. 31	Miscellaneous Expense		35	
	Cash			35

**Item # 3 NSF Checks and Fees.** Since the bank deducted these legitimate amounts from the company's bank account, the company will need to deduct these amounts from its Cash account. As mentioned, the NSF check of BD100 was from a customer. Therefore, the company will likely undo the reduction to Accounts Receivable that took place when the company originally processed the BD100 check. If the company wants to recover the bank fee of BD10 from the customer, it should add the BD10 fee to the amount that the customer owes the company. The journal entry might look like this:

Date	Explanation	PR	Debit	Credit
Aug.31	Accounts Receivable		110	
	Cash			110

**2- Teaching Instructions:**

- \* Divide the students into groups to answer exercise (6) Page 87.
- \* Explain to students illustrations (3-1) Pages 77-79 from textbook to prepare adjusting entries.

**Studying Instructions**

Ask the student to search and prepare bank reconciliation of any business.



## Prepare Adjusting Entries

**Item # 4 Check printing charges.** Because this expense is not yet entered on the company's books but the amount has been deducted from its bank account, the company will make the following journal entry.

Date	Explanation	PR	Debit	Credit
Aug.31	Miscellaneous Expense		80	
	Cash			80

➤ Ask the student to use the following link to review the lesson:

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/8Cash-and-Internal-Control-BS-p2/8Cash-and-Internal-Control-BS-p2.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/8Cash-and-Internal-Control-BS-p2/8Cash-and-Internal-Control-BS-p2.pptx)



### Teaching with technology

Ask the student to use the link and QR for revision.

### Chapter Resources

Resource	Below Average	In Average	Over Average
<b>Teacher's Guide</b>	Page 84 (2) Req.1&2	Page 85 (3) Req.1&2	Page 85 (4) Req.1&2
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

### Formative assessment:

2- Ask the students to answer exercises pages 83 (1) Req.1&2 from textbook.



## Chapter 3: Cash and Internal Control Bank Reconciliation – Part 3

Explain the following:

- 1- Prepare bank reconciliation with errors.
- 2- Prepare adjusting entries with errors.

### Lesson Notes

#### 1- The Focus

##### **Learning objective:**

Prepare bank reconciliation and adjusting entries with errors.

##### **Tools Requirement;**

- 1- Textbook.
- 2- Notebook
- 3- Calculator

##### **Teaching Instructions:**

Ask the student to review bank reconciliation without errors.

#### 2- Teaching Instructions

Ask the students to read pages 81-82 from text book.

#### **Tips 3-4**

The **Adjusting Journal Entries** are prepared only for the unrecorded items by the business, i.e the part relating to the **Balance of Cash** in the business's records.

#### **Points to Remember**

\* **Bank Reconciliation Statement** is prepared to adjust the cash balance in the company's book with the cash balance on the Bank Statement received from the bank.

\* **Outstanding checks** (unpresented) should be deducted from the balance reported on the Bank Statement.

\* **Deposit in transit** should be added to the balance reported on the Bank Statement.

\* The adjusting entry for any items **paid** directly by the bank is:

**Dr. Service charge-subscriptions or any items**

**Cr. Cash**

\* The adjusting entry for any items **received** by the bank is:

**Dr. Cash**

**Cr. Rent received-Dividends or any items received by the bank**



**Example 3 – 2**

The following information for Zeyad Est., is shown on December 31, 2020.

	<b>BD</b>
Balance per bank statement	7,338
Cash book balance	5,432
Outstanding Checks	2,121
Deposits in Transit not recorded by bank	1,243
Notes Receivable collected by bank	1,000
Interest Earned on notes receivable	15
Checks issued for purchasing supplies BD64 recorded by mistake as	46
Bank service charge not recorded by depositors.	5

**Required:**

1. Prepare the bank reconciliation statement for Zeyad Est. as of December 31, 2020.
2. Prepare the necessary journal entries to reconcile the cash account balances.

**Studying Instructions**

\*Explain to students example (3-2) page 80 form text book.

\* Explain to students Errors may be in cash book part or bank statement part.



**Solution:**

**Zeyad Est.  
Bank Reconciliation  
December 31, 2020**

<b>Bank Statement Balance</b>	7,338	<b>Book Balance</b>		5,432
<b>Add:</b> Deposits in transit	1,243	<b>Add:</b>		
	8,581	Interest Earned	15	
		Collected BD1000 notes	1000	
		Errors (Supplies Account)	18	1,033
				6,465
<b>Less:</b>		<b>Less:</b>		
Outstanding checks	2,121	Bank services charge		5
<b>Adjusted Bank Statement Balance</b>	<b>6,460</b>	<b>Adjusted Book Balance</b>		<b>6,460</b>

**Studying Instructions**

\*Explain to students to do a group and search about bank statement for any business work in Bahrain with error and how to handle errors to make two sides equal.

**GENERAL JOURNAL**

Date	Explanation	PR	Debit	Credit
Dec. 31	Cash		1,033	
	Notes Receivable			1,000
	Interest Earned			15
	Supplies			18
Dec. 31	Miscellaneous Expense		5	
	Cash			5





➤ Ask the student to use the following link to review the lesson:

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/9Cash-and-Internal-Control-BS-p3/9Cash-and-Internal-Control-BS-p3.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/9Cash-and-Internal-Control-BS-p3/9Cash-and-Internal-Control-BS-p3.pptx).



**Teaching with technology**  
Ask the student to use the link and QR for revision.

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 86 (5)	Page 87 (7)	Page 88 (8)
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**  
2- Ask the students to answer exercises 2) pages 84 from text book (Brainstorm Strategy).





## **Exercises:**

### **Exercise (1):**

On November 30, 2020, the bank statement of Anwar Co. showed balance of BD9,387. The cash book balance was BD12,761. The following information is given to reconcile the book balance with bank statement balance:

- During November checks deposited for BD 5,846 did not appear on the bank statement.
- The following checks were issued on November but were not paid by the bank:  
No.924 BD136 – No.941 BD11 – No.944 BD95 – No.946 BD60 –  
No.940 BD105 – No.943 BD826 – No.945 BD16.
- The bank erroneously deducted service charges of BD340.
- Check No.936 for BD504 for buying furniture has been recorded in cash payment journal for BD405 and check No.942 for BD245 was recorded for BD254 for buying supplies.
- NSF check by Waleed Jassim of BD220.
- Cash collected by bank from Ahmed BD1,890 and a collection charge for BD5, not entered in cash ledger.
- The amount of BD12 were charged for a new check book for the company but not recorded in the cash payment journal.

### **Required:**

1. Prepare the Bank Reconciliation.
2. Prepare Journal entries necessary to reconcile the cash account balances.



**Solution:**

Anwar Co  
**1- Bank Reconciliation**  
 November 30, 2020

<b>Bank Statement Balance</b>		9,387	<b>Book Balance</b>		12,761
<b>Add:</b> Deposits in transit		5,846	<b>Add:</b>		
		<b>15233</b>	Collected BD1890 notes less BD5 collection charge	1885	
			Errors check#942 (254-245)	9	<b>1894</b>
					<b>14655</b>
<b>Less:</b> Outstanding checks			<b>Less:</b>		
No#924	136		Bank services charge	340	
No#941	11		Error check#936 (504-405)	99	
No#944	95		NSF Checks	220	
No#946	60		Check printing charges	12	
No#940	105				
No#943	826				
No#945	16				
		<b>1249</b>			<b>671</b>
<b>Adjusted Bank Statement Balance</b>		<b>13,984</b>	<b>Adjusted Book Balance</b>		<b>13,984</b>

**2- General Journal**

Date	Explanation	Debit (BD)	Credit (BD)
Nov. 30	Cash	1894	
	Collection Expense	5	
	Notes Receivable		1890
	Supplies		9
Nov. 30	Miscellaneous Expense (340 +12)	352	
	Furniture	99	
	Account Receivable	220	
	Cash		671



**Exercise (2):**

The following information for Hayfa Est.is shown on March 31, 2020:

	BD
Cash per books	447
Balance per bank statement	100
Unpresented checks	79
Deposits not entered by the bank	546
Dividend received by the bank not entered in cash book	50
Check drawn for BD672 for buying furniture entered in books as	762
Bank charges not entered in books	27
Check returned "refer to drawer" not entered in books	83
Credit transfer received by bank not entered in books	90

**Required:**

1. Prepare the Bank Reconciliation.
2. Prepare Journal entries necessary to reconcile the cash account balances.

**Solution:**

Hayfa Est  
**1- Bank Reconciliation**  
 March 31, 2020

<b>Balance per bank statement</b>	100	<b>Cash per books</b>	447
<b>Add:</b> Deposits in transit	546	<b>Add:</b>	
	<b>646</b>	Dividend Earned	50
		Credit Transfer	90
		Errors for buying furniture (762-672)	<b>90</b>
			<b>230</b>
			<b>677</b>
<b>Less:</b> Unpresented checks	<b>79</b>	<b>Less:</b>	
		Bank services charge	27
		NSF Checks	83
			<b>110</b>
<b>Adjusted Bank Statement Balance</b>	<b>567</b>	<b>Adjusted Book Balance</b>	<b>567</b>



**2- General Journal**

<b>Date</b>	<b>Explanation</b>	<b>Debit (BD)</b>	<b>Credit (BD)</b>
March 31	Cash	230	
	Dividend Earned		50
	Account Receivable		90
	Furniture		90
March 31	Miscellaneous Expense	27	
	Account Receivable	83	
	Cash		110

**Exercise (3):**

The following information for Maysa Est. is shown on December 31, 2020:

- On December 31, cash per bank statement was BD7,990.500; cash per the cash account was BD8,722.500.
- Service charges for December were BD12.
- BD300 check drawn by Khalid marked NSF.
- Cash receipts of BD2,176.500 on December 31, 2020 were not deposited until January 2021.
- Outstanding checks: No.123 for BD489 – No.134 for BD1,026 – No.141 for BD241.500.

**Required:**

1. Prepare the Bank Reconciliation
2. Prepare Journal entries necessary to reconcile the cash account balances.



**Solution:**

Maysa Est  
**1- Bank Reconciliation**  
 December 31, 2020

<b>Bank Statement Balance</b>		7990.500	<b>Book Balance</b>		8722.500
<b>Add:</b> Deposits in transit		2176.500	<b>Add:</b>		
		10167			
<b>Less:</b> Outstanding checks			<b>Less:</b>		
No#123	489		Bank services charge	12	
No#134	1026		NSF Checks	300	
No#141	241.500				
		1756.5			312
<b>Adjusted Bank Statement Balance</b>		8410.500	<b>Adjusted Book Balance</b>		8410.500

**2- General Journal**

Date	Explanation	Debit (BD)	Credit (BD)
Dec.31	Miscellaneous Expense	12	
	Account Receivable	300	
	Cash		312

**Exercise (4):**

On July 31, 2020 AL Najma Est. has the following information concerning its bank account:

- On July 31, cash per the bank statement was BD18,879 and cash per the accounting records was BD21,500.
- The cash receipts of BD3,122 on July 31 were deposited on 1<sup>st</sup> August.
- Included on the bank statement was a credit of BD167 interest earned.
- Three checks were outstanding on July 31: Check No.11 o BD250 – Check No.20 for BD324.500 – Check No.31 for BD200.
- Service charges for July were BD7 and NSF check of Sameeh (customer), of BD433.500.

**Required:**

- Prepare the Bank Reconciliation.
- Prepare Journal entries necessary to reconcile the cash account balances.



**Solution:**

AL Najma Est

1-

**Bank Reconciliation**

July 31, 2020

<b>Bank Statement Balance</b>		18879	<b>Book Balance</b>		21500
<b>Add:</b> Deposits in transit		3122	<b>Add:</b>		
		<b>22001</b>	Interest Earned		<b>167</b>
					<b>21667</b>
<b>Less:</b>			<b>Less:</b>		
Outstanding checks					
No#11	250		Bank services charge	7	
No#20	324.500		NSF Checks	433.500	
No#31	200				
		<b>774.500</b>			<b>440.500</b>
<b>Adjusted Bank Statement Balance</b>		<b>21226.5</b>	<b>Adjusted Book Balance</b>		<b>21226.5</b>

2-

**General Journal**

<b>Date</b>	<b>Explanation</b>	<b>Debit (BD)</b>	<b>Credit (BD)</b>
July 31	Cash	167	
	Interest Earned		167
July 31	Miscellaneous Expense	7	
	Account Receivable	433.500	
	Cash		440.500





**Exercise (5):**

Mariam Company is preparing bank reconciliation on June 30, 2020. The following facts are determined:

	<b>BD</b>
Balance in cash account, June 30	1,575
Cash balance from the bank statement	1,542
Outstanding checks: No.165	130
No.168	80
Deposits in transit, June 30	272
Bank service charge unrecorded by the company	10
NSF check from Dana unrecorded by the company	112
Note of BD180 collected by the bank, plus interest of BD10 and less collection fees of BD12 (unrecorded by the company)	178
The bank recorded a deposit of BD242 as	224
The company recorded an issued check of BD132 for the purchase of supplies as	123

**Required:**

1. Prepare the bank reconciliation.
2. Prepare Journal entries necessary to reconcile the cash account balances.

**Solution:**

1- Mariam Company  
**Bank Reconciliation**  
June 30, 2020

<b>Bank Statement Balance</b>		1542	<b>Book Balance</b>		1575
<b>Add:</b> Deposits in transit	272		<b>Add:</b>		
Error in deposit (242-224)	18	290			
		<b>1832</b>	Collected BD180 notes, plus interest BD10 less BD12 fees		<b>178</b>
					<b>1753</b>
<b>Less:</b> Outstanding checks			<b>Less:</b>		
No#165	130		Bank services charge	10	
No#168	80		NSF Checks	112	
		<b>210</b>	Errors for supplies (132-123)	9	<b>131</b>
<b>Adjusted Bank Statement Balance</b>		<b>1622</b>	<b>Adjusted Book Balance</b>		<b>1622</b>



**2- General Journal**

<b>Date</b>	<b>Explanation</b>	<b>Debit (BD)</b>	<b>Credit (BD)</b>
June 30	Cash	178	
	Collection Expense	12	
	Notes Receivable		180
	Interest Earned		10
June 30	Miscellaneous Expense	10	
	Supplies	9	
	Account Receivable	112	
	Cash		131

**Exercise (6):**

Omar Company reported the following data related to its cash transactions for the month of March 2020:

	<b>BD</b>
▪ Balance per bank statement at March 31, 2020	38,000
▪ Service charge for the month	100
▪ Collection of notes receivable	5,000
▪ Deposits in transit	9,000
▪ Outstanding checks	7,000
▪ NSF check from Ali Co. returned by the bank	750

**Required:**

1. Determine the amount of cash that should appear on the company's Balance Sheet as of March 1, 2020. (show the calculations)
2. Prepare Journal entries necessary to reconcile the cash account balances.
3. What is the journal entry required for recording the BD7,000 of the outstanding checks?



**Solution:**

Omar Company  
**1- Bank Reconciliation**  
 March 31, 2020

<b>Bank Statement Balance</b>	?	<b>36000</b>	<b>Book Balance</b>	?	<b>33850</b>
<b>Add:</b> Deposits in transit		9000	<b>Add:</b>		
			Collected of notes receivable		<b>5000</b>
<b>Less:</b> Outstanding checks		<b>7000</b>	<b>Less:</b>		
			Bank services charge	100	
			NSF Checks	750	<b>850</b>
<b>Adjusted Bank Statement Balance</b>		<b>38000</b>	<b>Adjusted Book Balance</b>	?	<b>38000</b>

**2- General Journal**

Date	Explanation	Debit (BD)	Credit (BD)
March 31	Cash	5000	
	Notes Receivable		5000
March 31	Miscellaneous Expense	100	
	Account Receivable	750	
	Cash		850



**Exercise (7):**

Using the information of the following Bank Reconciliation, answer the questions below:

<b>Bank Reconciliation</b>			
Bank Cash Balance	----	Book Cash Balance	----
Add: Section 1	<b>c</b>	Add: Section 3	----
Deduct: Section 2	<b>a</b>	Deduct: Section 4	<b>b/d</b>
Adjusted Bank Cash Balance	----	Adjusted Book Cash Balance	----

- a- In which section would you find outstanding checks?
- b- In which section would you find bank service charges?
- c- In which section would you find late deposits?
- d- In which section would you find customer NSF checks?





## Chapter 4: Cash and Internal Control – Petty Cash System of Control. Part 1

### Lesson Notes

- The teacher should clarify :
- 1- Establishment a petty cash fund.
  - 2- Replenishment (Reimbursement) a petty cash fund.
  - 3- Increasing a petty cash fund:
  - 4- Decreasing a petty cash fund:

### Operating a petty cash fund:

#### A. Establishment a petty cash fund:

Establishing a petty cash fund requires estimating the total amount of small payments likely to be made during a short period such as a week or month. A check is then drawn by the company cashier for an amount slightly in excess of this estimate.

This check is recorded with a debit to the petty cash (an asset) and a credit to cash. The check is cashed, and the currency is given to an employee designated as the petty cashier. The petty cashier is responsible for keeping this cash safe, making payments, keeping records from the fund, and keeping records of it in a secure place referred to as the petty cash box.

#### B. Replenishment (Reimbursement) a petty cash fund:

A petty cash fund is usually reimbursed at the end of an accounting period so that expenses are recorded in the proper period, even if the fund is not low on money. If the fund is not reimbursed at the end of a period, the financial statements would show both an overstated cash account and understated expenses that were paid out of petty cash. Some companies do not reimburse the petty cash fund at the end of each period under the notion that this amount is immaterial to users of financial statements.

**When the total debit** (total expenses) is **less** than the total credit (total payment after checking cash balance in fund). In this case, the petty cash has a **shortage** of balance.

**When debit (total expenses) total** is **more** than total credit (total payment after checking cash balance in fund). In this case, the petty cash has **overage** of balance.

#### The Focus

##### **Before the Lesson:**

Introductory activity about a petty cash in a small business..

##### **The Lesson:**

- 1- Recognize the need for controlling cash.
- 2- Understand and record the establishment of petty cash fund and other related transactions
- 3- Recognize the use of imprest system.

##### **After the Lesson:**

The student should be able to find cash over and short in a petty cash book.





**Example 4-1:**

Assume Abdulla Company establishes a petty cash fund on March 1 2020 and designates one of its office employees as a petty cashier. A BD100 check is drawn and cashed. The Journal entry to record this transaction and **establish** the petty cash fund is as follows:

Date	Explanation	PR	Debit (BD)	Credit (BD)
March 1	Petty Cash (Receipts Column)		100	
	Cash			100

**Example 4-2:**

assume Abdulla Company has the following payments for the month of March 2020, Miscellaneous expenses for BD40, Delivery expenses for BD22, Supplies expenses for BD18 and Postage expenses for BD15. On March 31, the petty cashier the check and puts the BD95 cash in the petty cash box. The company records this **reimbursement (replenishment)** as follows:

Date	Explanation	PR	Debit	Credit
March, 31	Miscellaneous Expenses		40	
	Delivery Expenses		22	
	Supplies expenses		18	
	Postage Expenses		15	
	Cash			95

**Example 4-3:**

On March 31 2020, assume Abdulla Company increased a petty cash fund to BD125. The company records this Increase on a petty cash fund as follows:

Date	Explanation	PR	Debit (BD)	Credit (BD)
March, 31	Petty Cash (125 - 100)		25	
	Cash			25

**2- Teaching Instruction**

\* Explain to students Examples (4-1) to (4-4) Pages 94 to 99 and discuss when a petty cash has over and short fund.

**Study Instructions:**  
\* Ask the student to answer the exercise 3 page 130 from the notebook in a group during the class (Cooperative Education)





**Example 4-4:**

On March 31 2020, instead of increasing a petty cash fund, assume Abdulla Company decreased a petty cash fund to BD70. The company records this decrease in a petty cash fund as follow:

Date	Explanation	PR	Debit (BD)	Credit (BD)
March, 31	Cash (100 – 70)		30	
	Petty Cash			30

➤ Ask the student to use the following link to review the lesson:

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/10Cash-and-Internal-Control-petty-cashp1/10Cash-and-Internal-Control-petty-cashp1.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/10Cash-and-Internal-Control-petty-cashp1/10Cash-and-Internal-Control-petty-cashp1.pptx)



**Teaching with technology**  
Ask the student to use the link and QR for revision.

Chapter Resources			
Resource	Below Average	In Average	Over Average
<b>Teacher's Guide</b>	Page103 (2)	Page 104 (3) Notebook.	Page 105 (4) Notebook.
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**

Ask the students to answer exercises (1) page 103 from textbook in a groups during the class.





## Chapter 4: Cash and Internal Control – Petty Cash System of Control. Part 2

### The teacher explain:

- 1- Example (4-5).
- 2- Clarify decreasing or increasing in a petty cash book.

### Lesson Notes

#### Example 4 – 5:

Fatima is the petty cashier of the company. She is allowed a weekly **float** of **BD25,000**. Given the following information write up a Petty Cash Book for the first week of January 2020, using the following account analysis columns: **Postage & Stationery – Transportation-in – Miscellaneous Expenses**. **Make the necessary Journal entries.**

1. Received BD25,000 from the chief cashier to establish the Petty Cash Book. Bought postage stamps BD2,000 (Voucher No.45).
2. Bus fares BD1,500, Pens BD0,800 (Voucher No.46 & 47).
3. Postage BD2,300 (Voucher No.48).
4. Parcel posted BD3,400, taxi fares BD0,600 (Voucher No.49 & 50).
5. Bought photo-copying paper BD2,000 (Voucher No.51).
6. Paid for tea & coffee BD1,900 (Voucher No.52).
7. The petty cashier received check for BD15,300 to replenish the fund on Jan. 6.
8. The petty cashier received check for increasing a fund to BD35 on Jan. 7.

#### GENERAL JOURNAL

Date	Explanation	PR	Debit	Credit
Jan. 01	Petty Cash		25,000	
	Cash			25,000
	<b>To establish the Petty Cash fund.</b>			
Jan. 06	Postage & Stationery		10,500	
	Transportation-in		2,100	
	Miscellaneous Expenses		1,900	
	<b>Cash over and short</b>		<b>0,800</b>	
	Cash			15,300
	<b>Replenishment of petty cash fund</b>			
Jan. 07	Petty Cash (35 – 25)		10,000	
	Cash			10,000
	<b>Increasing a petty cash fund</b>			

#### The Focus

#### **Learning objective:**

Prepare journal entries for petty cash has over and short fund.

#### **Tools**

#### **Requirement;**

- 1- Textbook.
- 2- Notebook
- 3- Calculator

#### **After the lesson;**

The student should be able to prepare cash book for a family budget.





**Example 4 –6:**

Rashid Company uses an imprest petty system. The fund was established on May 1 2020 with a balance for BD100. During May, the following petty cash receipts were found in the petty cash box.

<u>Date</u>	<u>Receipt No</u>	<u>Item</u>	<u>Amount BD</u>
May 3	1	Postage Stamps	25
May 7	2	Travel Expenses	24
May 10	3	Miscellaneous Expenses	8
May 12	4	Travel Expenses	16
May 14	5	Miscellaneous Expenses	12

The fund was replenished on May 15, when the fund contained BD17 in cash. On May 20, the amount in the fund was decreased to BD90

**Required:**

Journalize the entries in May that pertain to the operation of the petty cash fund

**GENERAL JOURNAL**

<u>Date</u>	<u>Explanation</u>	<u>PR</u>	<u>Debit (BD)</u>	<u>Credit (BD)</u>
May 01	Petty Cash		100	
	Cash			100
	To establish the Petty Cash fund.			
May 15	Postage Stamps		25	
	Travel Expenses (24+16)		40	
	Miscellaneous Expenses		20	
	Cash (100 – 17)			83
	Cash <u>over</u> and short			2
	Replenishment of petty cash fund			
May 20	Cash (100 – 90)		10	
	Petty Cash			10
	Decreasing a petty cash fund			

**3- Teaching Instructions:**

- \* Explain the illustrations 4-6) pages 100-101 from textbook.
- \* Explain the cases when petty cash has over and short

**2- Teaching Reinforcement Question:**

Ask the students to prepare a petty cash journal entry for his family budget in a month.



- **Ask the student to use the following link to review the lesson:**  
[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/11Cash-and-Internal-Control-petty-cash-p2/11Cash-and-Internal-Control-petty-cash-p2.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/11Cash-and-Internal-Control-petty-cash-p2/11Cash-and-Internal-Control-petty-cash-p2.pptx)



**Teaching with technology**  
 Ask the student to use the link and QR for revision.

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 106 (5)	Page 107 (6)	Page 130(2) note book
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**  
 2- Ask the students to answer exercises (1) pages 129 from note book.



# Unit FOUR

## CASH AND INTERNAL CONTROL PETTY CASH SYSTEM OF CONTROL

### TEXT BOOK EXERCISES



## **Exercises:**

### **Exercise (1):**

Nawaf Company maintains a petty cash fund for small expenditures. The following transactions occurred during July 2020.

July 01 Established petty cash fund by writing a check for BD200.

July 15 Replenished the petty cash fund by writing a check for BD196. On this date the fund consisted of BD4 in cash and the following petty cash receipts: freight-out BD94, postage expense BD42.400, entertainment expense BD46.600, and miscellaneous expense BD11.200.

July 20 Replenished the petty cash fund by writing a check for BD192. On this date the fund consisted of BD8 in cash and the following petty cash receipts: freight-out BD82, postage expense BD45.100, entertainment expense BD25.500, and miscellaneous expense BD39.400

July 31 Decreased the amount of the petty cash fund to BD150.

### **Required:**

Prepare the necessary journal entries for the petty cash transactions.



**Solution:****General Journal**

<b>Date</b>	<b>Explanation</b>	<b>Debit</b>	<b>Credit</b>
July 01	Petty Cash	200	
	Cash		200
July 15	Freight-out	94	
	Postage expense	42.400	
	Entertainment expense	46.600	
	Miscellaneous Expenses	11.200	
	<b>Cash over and <u>short</u></b>	<b>1.800</b>	
	Cash		196
July 20	Freight-out	82	
	Postage expense	45.100	
	Entertainment expense	25.500	
	Miscellaneous Expenses	39.400	
	Cash		192
July 31	Cash	50	
	Petty Cash		50



**Exercise (2):**

Rule a simple **Petty Cash Book** with account analysis columns for Postage & Telegrams, Stationery, Transport Expenses, Carriage, and Sundry Office Expenses.

- June 01 Petty cash balance in hand, BD7.  
 Received BD11 cash to make imprest up to BD18.
- 02 Paid bus fares BD1.300, postages BD0.870, ink BD2.230.
- 02 Paid postages BD0.900, bus fares BD1.500.
- 03 Paid window cleaner BD1.300.
- 04 Office cleaner's wages BD2.500.
- 05 Bus fares BD0.700.
- 06 The fund was replenished by receiving check for BD10.800 from the chief cashier

**Required:**

Journalize the entries in June that pertain to the operation of the petty cash fund.

**Solution:****General Journal**

Date	Explanation	Debit	Credit
June 01	Petty Cash	11	
	Cash		11
June 06	Postage & Telegrams (0.870+0.900)	1.770	
	Stationery (2.230 )	2.230	
	Transport Expenses(1.300+1.500+0.700)	3.500	
	Sundry Office Expenses (2.500+1.300)	3.800	
	<b>Cash <u>over</u> and short</b>		<b>0.500</b>
	Cash		10.800



**Exercise (3):**

You are required to prepare the journal entries for the following transactions occurred during September 2020, with account analysis columns for Postage Expenses, Stationery Expenses and Miscellaneous Expenses:

Sept. 01	Received from the chief cashier to establish the petty cash fund.	30.000
05	Paid for postage stamps.	3.500
07	Paid for A4 paper.	2.750
10	Paid for office tea.	4.250
14	Paid for Coffee.	5.600
20	Paid for stationery.	2.400
23	Paid for postage.	1.800
30	Received reimbursement for BD 22 for the month's expenditures to restore (replenish) the float.	

**Solution:****General Journal**

Date	Explanation	Debit	Credit
Sept. 01	Petty Cash	30	
	Cash		11
Sept. 30	Postage Expenses (3.500+1.800)	5.300	
	Stationery Expenses (2.750 +2.400 )	5.150	
	Miscellaneous Expenses (4.250+5.600)	9.850	
	<b>Cash over and <u>short</u></b>	<b>1.700</b>	
	Cash		22





**Exercise (4):**

Using the following accounts analysis columns for the Petty Cash system: (1) Postage & Telegrams (2) Carriage (3) Stationery.

February 4	Balance in hand	35.000
4	Paid for postage stamps	3.600
5	Paid for stationery	4.800
5	Paid for carriage	2.650
6	Paid for postage stamps	2.350
8	Paid for stationery	2.700
9	Received from the chief cashier to replenish the petty cash fund	16.100
10	Increased the amount of the petty cash fund to BD60 by writing check for BD25.	

**Required:**

Prepare the necessary journal entries for the petty cash transactions.

**Solution:****General Journal**

Date	Explanation	Debit	Credit
February 4	Postage & Telegrams (3.600+2.350)	5.950	
	Carriage (2.650)	2.650	
	Stationery (4.800+2.700)	7.500	
	Cash		16.100
February 10	Petty Cash	25	
	Cash		25



**Exercise (5):**

Rule a Petty Cash Book with four account analysis columns for Postages and Stationery, Transport Expenses, Carriage, and Miscellaneous Expenses. The book is kept on the imprest system where the amount of the imprest is BD45.

- Nov.01 Petty cash in hand BD11.600.  
 Received BD33.400 cash to make up the Imprest.
- 02 Bought stamps BD5.800.
- 05 Paid bus fares BD0.650, taxi fares BD2.500, telegrams BD6.000 and bought shorthand notebooks for office BD1.800.
- 06 Paid carriage on small parcels, BD3.450, bus fares BD2.700 and bought envelopes BD1.300.
- 07 Paid for repairs to photocopy machine BD4.300 and carrier's account for November BD5.150.
- 08 Paid office cleaner BD7.
- 09 Received reimbursements for the month's expenditures to restore (replenish) the float.

**Required:**

Prepare the necessary journal entries for the petty cash transactions.

**Solution:****General Journal**

Date	Explanation	Debit	Credit
Nov. 01	Petty Cash	33.400	
	Cash		33.400
Nov. 09	Postages and Stationery (5.800 +6+1.800+1.300)	14.900	
	Transport Expenses (0.650+2.500+2.700)	5.850	
	Carriage (3.450+5.150)	8.600	
	Miscellaneous Expenses (4.300+7)	11.300	
	Cash		40.650



**Exercise (6):**

The following transactions occurred during December 2020, with accounts analysis columns for Postage Expenses, Stationery Expenses, Transportation-in, and Miscellaneous Expenses:

- Dec. 01 Balance on hand BD12.000.  
 02 Received BD24.000 cash to make imprest up to BD36.000.  
 03 Paid for postage stamps BD1.900.  
 04 Paid for office cleaner's wages BD8.000.  
 05 Paid for telegram BD4.800.  
 06 Paid bus fares BD2.100.  
 07 Paid for stationary BD2.500.  
 08 Paid BD4.300 for tea and coffee.  
 09 Received reimbursements for the month's expenditures to restore (replenish) the float.

**Required:**

Prepare the necessary journal entries for the petty cash transactions

**Solution:****General Journal**

Date	Explanation	Debit	Credit
Dec. 01	Petty Cash	24	
	Cash		24
Dec. 09	Postage Expenses (1.900+4.800)	6.700	
	Stationery Expenses (2.500)	2.500	
	Transportation-in (2.100)	2.100	
	Miscellaneous Expenses (8+4.300)	12.300	
	Cash		23.600



## Chapter 5: Financial Statement Analysis – Horizontal Analysis

- The teacher explains tools of financial statement analysis:
- 1- Horizontal Analysis.
  - 2- Vertical Analysis.
  - 3- Ratio Analysis.

### Lesson Notes

#### The Focus

##### **Before the Lesson:**

\*Teacher start by introductory activity, about selling old car after being used 5 years.

##### **The Lesson**

1- Identify the need for financial statements analysis.

2-

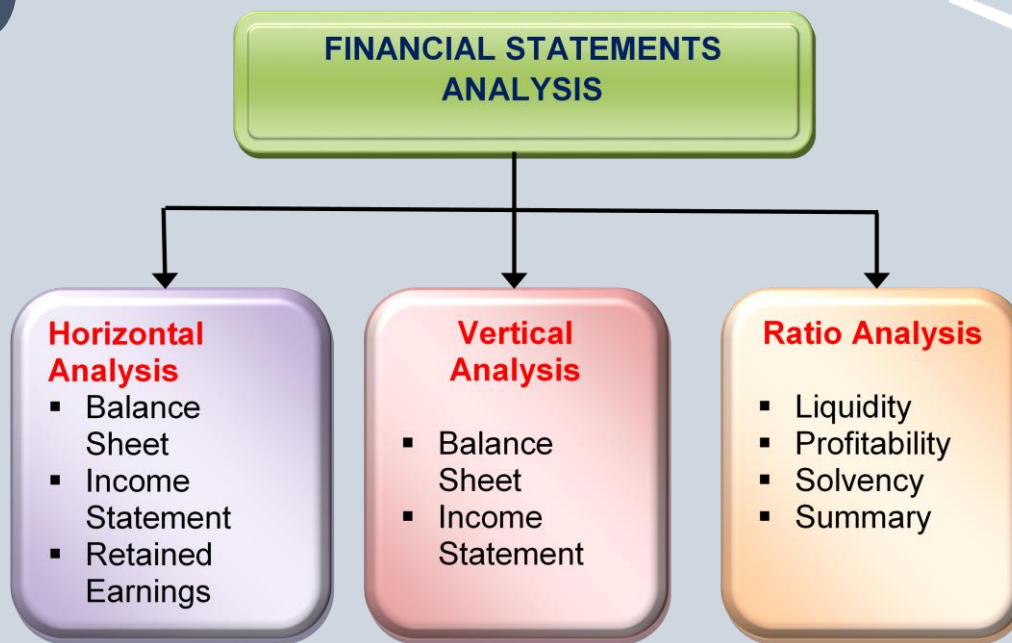
Differentiate between horizontal analysis and vertical analysis.

3- Calculate percentages by using the horizontal analysis

##### **After the Lesson:**

The student should be able to analyses income statement and balance sheet by using horizontal analysis.

### Tools of Financial Statement Analysis



- ◆ **Horizontal Analysis** evaluates a series of financial statement data over a period of time.
- ◆ **Vertical Analysis** evaluates a series of financial statement data by expressing each item in a financial statement as a percent of a base amount
- ◆ **Ratio Analysis** expresses the relationship among selected items of financial statement data.



## Horizontal Analysis



### Horizontal analysis of current year in relation to base year

Current result in relation to base period =

$$\frac{\text{Current year amount}}{\text{Base Year amount}} \times 100$$

#### Example 5-1

The recent net sales figures of Raja Co. are as follows:

Sara Co. Net Sales				
2016	2017	2018	2019	2020
BD34,835	BD38,064	BD41,574	BD41,575	BD41,071

#### Required:

Express **current year sales as a percentages of the base period** for the 5 years (The base year is 2016).

#### Solution:

Current result in relation to base period of net sales =

Sara Co. Net Sales				
2016	2017	2018	2019	2020
BD34,835	BD38,064	BD41,574	BD41,575	BD41,071
$\frac{34,835}{34,835} \times 100$ <b>=100%</b>	$\frac{38,064}{34,835} \times 100$ <b>=109.3%</b>	$\frac{41,574}{34,835} \times 100$ <b>=119.3%</b>	$\frac{41,575}{34,835} \times 100$ <b>=119.3%</b>	$\frac{41,071}{34,835} \times 100$ <b>=117.9%</b>



### 2- Teaching Reinforcement

#### Question:

\*Ask the students to read pages (119-111) from text book.

#### Study Instructions:

Ask the students to review financial statement in accounting 1.



## Horizontal Analysis

### Example 5-2

The recent net sales figures of Latifa Co. are as follows:

2017	2018	2019	2020
BD34,835	BD38,064	BD41,574	BD41,575

### Required:

Measure all **percentages of increase or decrease** in Net Sales, using the year 2017 for the base year.

### Solution:

#### 1- Change from 2017 to 2018:

$$= \frac{\text{Current year amount} - \text{Base Year amount}}{\text{Base Year amount}} \times 100$$

$$\text{Change since 2017} = \frac{38,064 - 34,835}{34,835} \times 100 = 9.27\%$$

#### 2- Change from 2017 to 2019:

$$\text{Change since 2017} = \frac{41,574 - 34,835}{34,835} \times 100 = 19.35\%$$

#### 3- Change from 2017 to 2020:

$$\text{Change since 2017} = \frac{41,574 - 34,835}{34,835} \times 100 = 19.35\%$$

### 2- Teaching Instructions.

\* Explain to students' examples (5-1 &2) pages 113 and 114.

\* Ask the student to discuss in a groups during the class the benefit of horizontal analysis in financial statement analysis. (Cooperative Education)



## Horizontal Analysis – Balance Sheet

### Example 5-3

Following are the comparative balance sheets of Osama Store for the years 2019 and 2020.

### Required:

Compute all **percentage of increase or decrease** for Osama Store, using Horizontal Analysis.

### Solution:

$$\text{Change since base year} = \frac{\text{Current year amount} - \text{Base Year amount}}{\text{Base Year amount}} \times 100$$

(Increase or decrease)

Osama Store Balance Sheet December 31, 2019 and 2020				
			Increase or Decrease during 2020	
Account	2020 (BD)	2019 (BD)	Change (BD)	Percentage Change %
<b><u>Assets:</u></b>				
Current assets	10,200	9,450	750	$\frac{10,200 - 9,450}{9,450} \times 100 = 7.94\%$
Plant Assets	8,150	6,500	1,650	$\frac{8,150 - 6,500}{6,500} \times 100 = 25.38\%$
<b>Total Assets</b>	<b>18,350</b>	<b>15,950</b>	<b>2,400</b>	$\frac{18,350 - 15,950}{15,950} \times 100 = 15.05\%$
<b><u>Liabilities:</u></b>				
Current Liabilities	3,445	3,030	415	$\frac{3,445 - 3,030}{3,030} \times 100 = 13.7\%$
Long term Liabilities	4,875	4,970	(95)	$\frac{4,875 - 4,970}{4,970} \times 100 = -1.91\%$
<b>Total Liabilities</b>	<b>8,320</b>	<b>8,000</b>	<b>320</b>	$\frac{8,320 - 8,000}{8,000} \times 100 = 4.00\%$
<b>*Stockholders' Equity</b>	<b>10,030</b>	<b>7,950</b>	<b>2,080</b>	$\frac{10,030 - 7,950}{7,950} \times 100 = 26.16\%$
<b>Total Liabilities and Stockholders' Equity</b>	<b>18,350</b>	<b>15,950</b>	<b>2,400</b>	$\frac{18,350 - 15,950}{15,950} \times 100 = 15.05\%$

### 2- Teaching Instructions.

\* Explain to students examples (5-3) pages 115 to 116 answer textbook

\* Ask the student to answer exercise (3) page 125 from textbook. during the class. (Brainstorming Strategy)



## Horizontal Analysis – Income Statement

### Example 5-4

Following are the comparative income statements of Osama Store for the year 2019 and 2020,

#### Required:

Compute all the percentages of increase or decrease for Osama Store, using horizontal analysis

Osama Store Income Statement For the year ended December 31, 2019 and 2020				
Account	2020 (BD)	2019 (BD)	Increase or Decrease during 2020	
			Change (BD)	Percent Change %
Sales	21,950	19,600	2,350	$\frac{21,950 - 19,600}{19,600} \times 100$ = 12%
Sales returns and allowances	980	1,230	(250)	$\frac{980 - 1,230}{1,230} \times 100$ = -20.30%
<b>Net Sales</b>	<b>20,970</b>	<b>18,370</b>	<b>2,600</b>	$\frac{20,970 - 18,370}{18,370} \times 100$ = 14.20%
Cost of goods sold	12,810	11,400	1,410	$\frac{12,810 - 11,400}{11,400} \times 100$ = 12.40%
<b>Gross profit</b>	<b>8,160</b>	<b>6,970</b>	<b>1,190</b>	$\frac{8,160 - 6,970}{6,970} \times 100$ = 17.10%
Selling expenses	2,530	2,115	415	$\frac{2,530 - 2,115}{2,115} \times 100$ = 19.60%
Administrative expense	1,040	1,085	(45)	$\frac{1,040 - 1,085}{1,085} \times 100$ = - 4.10%
Total operating expense	3,570	3,200	370	$\frac{3,570 - 3,200}{3,200} \times 100$ = 11.60%
<b>Net Income</b>	<b>BD4,590</b>	<b>BD3,770</b>	<b>BD820</b>	$\frac{4,590 - 3,770}{3,770} \times 100$ = 21.80%

### 2- Teaching Instructions.

\* Explain to students illustrations (5-4) pages 117 to 118 from textbook .

\* Ask the student to solve exercise ( 4) page 126 from textbook. during the period. (Brainstorming Strategy)





➤ Ask the student to use the following link to review the lesson:  
[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/12Financial-Statement-analysis-horizontalp1/12Financial-Statement-analysis-horizontalp1.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/12Financial-Statement-analysis-horizontalp1/12Financial-Statement-analysis-horizontalp1.pptx).



**Teaching with technology**

Ask the student to use the link and QR for revision.

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 125 (2).	Page 125 (3)	Page 126 (4)
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**

Ask the students to solve exercises 3 pages 145 from notebook.



## Chapter 5: Financial Statement Analysis – Vertical Analysis

- The teacher explains tools of financial statement analysis:
- 1- Vertical Analysis.
    - Balance Sheet.
    - Income Statement
  - 2- Comparative between horizontal and vertical analysis.

### Vertical Analysis

#### B) Vertical Analysis (Common Size Analysis):

A technique for evaluating a series of financial statement data that express each item within a financial statement as a percent of a base amount. On a balance sheet we might say that current assets are 22% of the total assets (total assets being the base amount). On an income statement, we might say that selling expenses are 16% of net sales (net sales being the base amount).

#### Vertical Analysis

Shows the relative size of each category in the Balance Sheet or Income Statement. It also can show the percentage change in the individual parts of Balance sheet and Income Statement.

#### Vertical Analysis Formula

$$\begin{aligned} &\text{Percentage of any item in Balance Sheet (Assets)} \\ &= \frac{\text{An item of Assets}}{\text{Total Assets}} \times 100 \end{aligned}$$

$$\begin{aligned} &\text{Percentage of any item in Balance Sheet (Liabilities & Equity)} \\ &= \frac{\text{An item of Liabilities & Equity}}{\text{Total Liabilities & Stockholders' Equity}} \times 100 \end{aligned}$$

#### Lesson Notes

##### The Focus

##### **Before the Lesson:**

\*Teacher starts by introductory activity, about selling old car after being used 5 years.

##### **The Lesson**

1- Identify the need for financial statements analysis.

2-

Differentiate between horizontal analysis and vertical analysis.

3- Calculate percentages by using the Vertical analysis

##### **After the Lesson:**

The student should be able to analysis income statement and balance sheet by using vertical analysis.



## Vertical Analysis – Balance Sheet



### Example 5-5:

Refer back to Example 5-3.

### Required:

Using the information in Example 5-3, compute all percentages of Balance Sheet for Osama Store using **Vertical analysis**.

### Solution:

$$\text{Percentage of any item of Assets} = \frac{\text{An item of Assets}}{\text{Total Assets}} \times 100$$

Osama Store Balance Sheet December 31, 2019 and 2020				
Account	2020		2019	
	Amount (BD)	Percent %	Amount (BD)	Percent %
<b>Assets:</b>				
Current assets	10,200	$\frac{10,200}{18,350} \times 100 = 55.6\%$	9,450	$\frac{9,450}{15,950} \times 100 = 59.2\%$
Plant Assets	8,150	$\frac{8,150}{18,350} \times 100 = 44.4\%$	6,500	$\frac{6,500}{15,950} \times 100 = 40.8\%$
<b>Total Assets</b>	<b>18,350</b>	<b><math>\frac{18,350}{18,350} \times 100 = 100\%</math></b>	<b>15,950</b>	<b><math>\frac{15,950}{15,950} \times 100 = 100\%</math></b>
<b>Liabilities:</b>				
Current Liabilities	3,445	$\frac{3,445}{18,350} \times 100 = 18.8\%$	3,030	$\frac{3,030}{15,950} \times 100 = 19.0\%$
Long term Liabilities	4,875	$\frac{4,875}{18,350} \times 100 = 26.6\%$	4,970	$\frac{4,970}{15,950} \times 100 = 31.2\%$
<b>Total Liabilities</b>	<b>8,320</b>	<b><math>\frac{8,320}{18,350} \times 100 = 45.3\%</math></b>	<b>8,000</b>	<b><math>\frac{8,000}{15,950} \times 100 = 50.2\%</math></b>
<b>*Stockholders' Equity</b>	<b>10,030</b>	<b><math>\frac{10,030}{18,350} \times 100 = 54.7\%</math></b>	<b>7,950</b>	<b><math>\frac{7,950}{15,950} \times 100 = 49.8\%</math></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>18,350</b>	<b><math>\frac{18,350}{18,350} \times 100 = 100\%</math></b>	<b>15,950</b>	<b><math>\frac{15,950}{15,950} \times 100 = 100\%</math></b>

### 2- Teaching Instructions.

\* Explain to students' example (5-5) pages 120 to 121 from textbook

\* Ask the student to solve exercise (5) page 126 from textbook. during the class. (Brainstorming Strategy)



## Vertical Analysis – Income Statement

### Example 5-6

Refer back to Example 5-4.

### Required:

Using the same information in Example 5-4, compute all percentages of Income Statement for Osama Store using **Vertical analysis**.

### Solution:

Percentage of any item on Income Statement =

$$= \frac{\text{Each item on Income Statement}}{\text{Net Sales}} \times 100$$

Osama Store Income Statement For the year ended December 31, 2019 and 2020				
Account	2020		2019	
	Amount (BD)	Percent %	Amount (BD)	Percent %
Sales	21,950	$= \frac{21,950}{20,970} \times 100 = 104.7\%$	19,600	$= \frac{19,600}{18,370} \times 100 = 106.7\%$
Sales returns and allowances	980	$= \frac{980}{20,970} \times 100 = 4.7\%$	1,230	$= \frac{1,230}{18,370} \times 100 = 6.7\%$
<b>Net Sales</b>	<b>20,970</b>	<b><math>= \frac{20,970}{20,970} \times 100 = 100\%</math></b>	<b>18,370</b>	<b><math>= \frac{18,370}{18,370} \times 100 = 100\%</math></b>
Cost of goods sold	12,810	$= \frac{12,810}{20,970} \times 100 = 61.1\%$	11,400	$= \frac{11,400}{18,370} \times 100 = 62.1\%$
<b>Gross profit</b>	<b>8,160</b>	<b><math>= \frac{8,160}{20,970} \times 100 = 38.9\%</math></b>	<b>6,970</b>	<b><math>= \frac{6,970}{18,370} \times 100 = 37.9\%</math></b>
Selling expenses	2,530	$= \frac{2,530}{20,970} \times 100 = 12.1\%$	2,115	$= \frac{2,115}{18,370} \times 100 = 11.5\%$
Administrative expense	1,040	$= \frac{1,040}{20,970} \times 100 = 5\%$	1,085	$= \frac{1,085}{18,370} \times 100 = 5.9\%$
Total operating expense	3,570	$= \frac{3,570}{20,970} \times 100 = 17\%$	3,200	$= \frac{3,200}{18,370} \times 100 = 17.4\%$
<b>Net Income</b>	<b>4,590</b>	<b><math>= \frac{4,590}{20,970} \times 100 = 21.9\%</math></b>	<b>3,770</b>	<b><math>= \frac{3,770}{18,370} \times 100 = 20.5\%</math></b>

### 2- Teaching Instructions.

\* Explain to students example (5-6) pages 122 to 123 from textbook

\* Ask the student to answer exercise ( 6) page 126 from textbook. during the class. (Brainstorming Strategy)

### Studying Instructions:

\* Ask the students to do a report about difference between horizontal and vertical analysis.



➤ Ask the student to use the following link to review the lesson:

[http://www.edunet.bh/e\\_content/level\\_3/stage\\_10/subject\\_ID\\_35/Part\\_3/lessons/13Financial-Statement-analysis-vertical-p2/13Financial-Statement-analysis-vertical-p2.pptx](http://www.edunet.bh/e_content/level_3/stage_10/subject_ID_35/Part_3/lessons/13Financial-Statement-analysis-vertical-p2/13Financial-Statement-analysis-vertical-p2.pptx)



**Teaching with technology**

Ask the student to use the link and QR for revision.

<b>Chapter Resources</b>			
<b>Resource</b>	<b>Below Average</b>	<b>In Average</b>	<b>Over Average</b>
<b>Teacher's Guide</b>	Page 126 (5)	Page 126 (6)	Page 127 (7)
<b>Lesson Resources</b>	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson	1- Text Book 2- Study Guide 3- Digital Educational Lesson 4- YouTube Lesson
<b>Extra Resources</b>	Activity Notebook	Activity Notebook	Activity Notebook

**Formative assessment:**

Ask the students to answer exercises (1) pages 124.



# Unit Five

## FINANCIAL STATEMENTS ANALYSIS

### TEXT BOOK EXERCISES



**Exercises****Exercise (1):****Choose the correct answer:**

1. Comparison of data within a company is an example of the following comparative basis:
  - a) Industry average ✓
  - b) Intracompany
  - c) Intercompany
  - d) Both (b) and (c)
  
2. In Horizontal Analysis, each item is expressed as a percentage of the:
  - a) Net income amount
  - b) Stockholder's equity amount
  - c) Total assets amount
  - d) Base year amount ✓
  
- a) Asma Company reported Net Sales of BD300,000, BD330,000 and BD360,000 in the years, 2018, 2019 and 2020 respectively. If 2018 is the base year, what is the trend percentage for 2020.
  - b) 77%
  - c) 108%
  - d) 120% ✓  $\frac{360000}{300000} \times 100$
  - e) 130%

**Exercise (2):**

The total assets figures of Sharif Co. are as follows:

2017	2018	2019	2020
<b>BD30,777</b>	BD33,664	BD39,004	BD41,031

**Required:**

Measure all percentage of increase or decrease for the Total Assets if 2017 is the base year. (Using Horizontal Analysis)



**Solution:**

2017	2018	2019	2020
BD30,777	BD33,664	BD39,004	BD41,031
$\frac{30,777 - 30,777}{30,777}$	$\frac{33,664 - 30,777}{30,777}$	$\frac{39,004 - 30,777}{30,777}$	$\frac{41,031 - 30,777}{30,777}$
× 100	× 100	× 100	× 100
= 0%	= 9.38%	= 26.73%	= 33.32%

**Exercise (3):**

Given the following data from the Balance Sheet of Al Mhameed Co., use Horizontal Analysis to find assets as a percentage of the base year 2019:

Account	December 31,2020	December 31,2019
Accounts receivable	BD52,000	BD40,000
Inventory	BD84,000	BD60,000
Total Assets	BD136,000	BD100,000

**Solution:**

Account	Dec,31,2020	Dec,31,2019	Percentage %
Accounts Receivable	BD52,000	BD40,000	$\frac{52,000}{40,000} \times 100 = 130\%$
Inventory	BD84,000	BD60,000	$\frac{84,000}{60,000} \times 100 = 140\%$
Total Assets	BD136,000	BD100,000	$\frac{100,000}{136,000} \times 100 = 73.53\%$





**Exercise (4):**

Aisha Co. has a net income of BD60,000 in 2018 and BD40,000 in 2019, and BD50,000 in 2020.

1. What is the percentage of change from:
  - ◆ 2018 to 2019
  - ◆ 2019 to 2020
2. Is the change an increase or decrease?

**Solution:**

2018	2019	2020
BD60000	BD40000	BD50000
$\frac{60,000 - 60,000}{60,000} \times 100 =$ 0%	$\frac{40,000 - 60,000}{60,000} \times 100 =$ (33.33%)	$\frac{50,000 - 60,000}{60,000} \times 100 =$ (16.67%)

**Exercise (5):**

**Using the Vertical Analysis, complete the following table:**

Account	<u>Amount</u> (BD)	Percentage %
Current Assets	200,000	$= \frac{200,000}{800,000} \times 100 = 25\%$
Property, Plant and Equipment	600,000	$= \frac{600,000}{800,000} \times 100 = 75\%$
Total Assets	800,000	$= \frac{800,000}{800,000} \times 100 = 100\%$



**Exercise (6):**

Compute all the percentages of increase or decrease for Sami Est. using the vertical analysis. (Show your calculations)

Sami Est.  
Balance Sheet  
December 31, 2020

ACCOUNT	AMOUNT (BD)
Current Assets	35,000
Plant Assets	65,000
Total Assets	100,000
Current Liabilities	25,000
Stockholders' Equity	75,000
<b>Total Liabilities and Stockholders' Equity</b>	<b>100,000</b>

**Solution:**

Compute the percentage of balance sheet for Sami Est. using the Vertical Analysis:

Sami Est.  
Balance sheet  
December 31, 2020

Account	Amount (BD)	Percentage %
Current Assets	35,000	$= \frac{35,000}{100,000} \times 100 = 35\%$
Plant Assets	65,000	$= \frac{65,000}{100,000} \times 100 = 65\%$
Total Assets	<b>100,000</b>	$= \frac{100,000}{100,000} \times 100 = 100\%$
Current liabilities	25,000	$= \frac{25,000}{100,000} \times 100 = 25\%$
Stockholder's Equity	75,000	$= \frac{75,000}{100,000} \times 100 = 75\%$
Total Liabilities and Equity	<b>100,000</b>	$= \frac{100,000}{100,000} \times 100 = 100\%$



**Exercise (7):**

Using the **Vertical Analysis**, complete the following table for income statement values:

**Solution:**

Account	Amount (BD)	Percentage %
Sales	35,600	$= \frac{35,600}{34,000} \times 100 = 104.71\%$
- Sales Returns	1,600	$= \frac{1,600}{34,000} \times 100 = 4.71\%$
Net Sales	<b>34,000</b>	$= \frac{34,000}{34,000} \times 100 = 100\%$
- Cost of goods sold	18,400	$= \frac{18,400}{34,000} \times 100 = 54.12\%$
Gross Profit	<b>15,600</b>	$= \frac{15,600}{34,000} \times 100 = 45.88\%$

