CHAPTER 3: THE ACCOUNTING INFORMATION SYSTEM

I Accounting / Accounting Information System

a. Defined as: the information system that identifies, records, and communicates the economic events of the organization to the interested users.

b. Accounting Transactions occur – when assets, liabilities or stockholder’s equity items change as a result of some economic event.

c. Accounting Transactions and the Impact to the Basic Accounting Equation: Every accounting transaction will impact each side of the equation equally to keep it in balance. Each component may increase or decrease independently to keep the equation in balance or each side will increase or decrease to keep the equation in balance (i.e. assets = liabilities + stockholders equity)

d. Accounting Equation can therefore be expanded:

- Assets = Liabilities + Stockholder’s Equity
- Assets = Liabilities + Common Stock + Retained Earnings
- Assets = Liabilities + Common Stock + (Revenues – Expenses – Dividends)

e. Fluctuations in account balances are tracked in T-Accounts

f. T-Accounts = have an account name, left or debit side and a right or credit side
g. Each account balance, therefore, tracked in a T-Account will have a normal credit or debit balance depending on where it sits within the accounting equation. Assets will have a normal debit balance while the Liability and Stockholder’s Equity will have an offsetting normal credit balance. Accordingly, increases to normal debit balances are represented by debits to the account while increases to normal credit balances are represented by credit to the account.

h. Accounts with a normal DEBIT balance:
   ✓ Current Assets
   ✓ Long Term Investments
   ✓ Plant Property and Equipment
   ✓ Intangibles
   ✓ Dividends
   ✓ Cost of Goods Sold
   ✓ Operating Expenses

i. Accounts with a normal CREDIT balance:
   ✓ Current Liabilities
   ✓ Long Term Liabilities
   ✓ Accumulated Depreciation
   ✓ Retained Earnings
   ✓ Common Stock
   ✓ Revenue
   ✓ Other Income
CHAPTER 3: THE ACCOUNTING INFORMATION SYSTEM (Cont)

II  Review of Accounting Cycle

Summary of the Accounting Cycle

III  Recording Transactions

✓ Step 1  – Analyze Transaction
✓ Step 2  – Enter transaction info into general journal – date and accounts impacted (recording the journal entry)
✓ Step 3  - Post to the general ledger (T-Accounts for each account)
✓ Step 4  – Summarize ending balances in general ledger to prepare a trial balance

b. Trial Balance –
✓ List of the chart of accounts (shown in order of balance sheet, then income statement accounts)
✓ Provides the account balances as of the report date in tabular format with columns for debit and credit balances
✓ Provides a check figure for the recording of all transactions, as the debit column balance should equal the credit balance column.