

Introduction to Accounting

Have you met Alice? *Make ALICE the foundation of your Accounting Studies!*

		INCREASE	DECREASE
A	ASSETS	DEBIT	CREDIT
L	LIABILITIES	CREDIT	DEBIT
I	INCOME/REVENUES	CREDIT	DEBIT
C	CAPITAL	CREDIT	DEBIT
E	EXPENSES	DEBIT	CREDIT

In preparation of Financial Statements or Final Accounts (Income Statement & Statement of Financial Position) we must follow certain key stages;

The Accounting Cycle

Step 1: Collect Source Documents

Step 2: Analyze Source Documents

Step 3: Journalize transactions

Step 4: Post to the Ledgers

Step 5: Prepare a Trial Balance (TB)

Step 6: Post Adjustments

Step 7: Prepare Final Accounts

Another fundamental principle to know in accounting is the **ACCOUNTING EQUATION** which is primarily written as;

A = L+C, where A = Assets, L = Liabilities, C = Capital.

As a result we can calculate what the values of Assets (A) are once we have the other two variables L & C.

Other instances occur where the subject of the formula changes and you are required to determine either the value of Capital or Liabilities. In these cases, the required subject is calculated as:

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

$$\text{Liabilities} = \text{Assets} - \text{Capital}$$

Now let's enforce what was learnt through the following exercise questions (see Review Questions)