

Accounting precedures



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Running head: METHODS OF ACCOUNTING METHODS OF ACCOUNTING of the

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Abstract

Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are in part a least of a financial character, and interpreting the results thereof. 1 As far as concerning the recording of income (and also expenses for that matter), there are three ways of accounting for these items. The methods or systems are (1) cash basis, (2) accrual basis, and (3) cash-accrual basis or the so-called modified or mixed basis. This presentation will discuss the relevant procedures.

Methods of Accounting

The accrual method of accounting in recording an income or revenue item records the transaction immediately once the said income or revenue is earned even it not yet realized in money (or cash). 2 After there has already been a meeting of the minds between the customer who is the source of the income or revenue and the business entity that a sales deal has been closed, the business entity may already record the transaction.

For instance, S is in the business of selling television sets and video recorders which are separately classified in the books of accounts. B orders for one television set and one video recorder respectively priced at 500 dollars and 300 dollars which will be paid in thirty days. S therefore issues a

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sales invoice for the transaction and delivers the chattels to B together with the accompanying delivery receipt. At that instant, S may record the sales transaction in the accounting books, particularly the sales-book or the sales journal, that is, 500 dollars for the sale of the television set and 300 dollars for the video recorder. Any increase in income or revenue (sale of the appliances here) has a corresponding increase in an asset. In the above illustration, the increase in asset pertains to the collectible in the total amount of 800 dollars (500 dollars plus 300 dollars). In accounting parlance, trade collectibles are commonly termed as accounts receivable. In the ledgers, 500 dollars will be recorded as a credit item in the television set sales-book or sales journal, and 300 dollars will be recorded in the video recorder sales-book or sales journal likewise under the credit column. The total collectible in the amount of 800 dollars will be recorded in the accounts receivable ledger. This is precisely the essence of the accrual method of accounting. In short, the income or revenue has not yet been actually realized because no cash has yet been collected for the items sold and already delivered out. It is important to state at this point that hard copy ledgers have become obsolete upon the advent of computers which are used now for the recording of accounting transactions. Until date, however, these modifications in the recording process need to be approved by or accredited with internal revenue service (IRS) authorities or agencies.

The entry for the hypothetical transaction will thus be:

DebitAccounts receivable - B\$ 800

CreditSales - television set \$ 500

Credit Sales - video recorder \$ 300

To record sales as per Sales

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Invoice No. 12345.

On the other hand, the cash method of accounting for revenue or income records transactions only when cash is received. 3 Assuming the same incidents in the foregoing illustration, no accounting entry will be registered in the books of accounts. Sometimes, in order to put on record the transaction, a memo entry may be entered in the accounting books. However, upon the payment made by B of his \$ 800 short-term liability, the transaction for the cash received will then be recorded in the accounting books.

In this latter case, the accounting entry will appear as follows:

DebitCash\$ 800. 00

CreditSales - television set \$ 500

Credit Sales - video recorder \$ 300

To record sales as per Sales

Invoice No. 12345 and Official Receipt.

No. 67890

References

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