Accounting - Self Study Guide for Staff of Micro Finance Institutions

Pre-test

Objectives: Through the pre-test, you will gain a better appreciation for the subjects to be covered and your own current level of knowledge and understanding of them. Therefore, you should not be concerned if you are unable to answer any or all of the questions, as that is the purpose of this self study guide - to help you learn about accounting.

You should give yourself 45 minutes to complete it.

1. Write the names of the five Basic Accounting Principles?
   i. 
   ii. 
   iii. 
   iv. 
   v. 

2. What is the accounting equation?
3. What is double-entry accounting? Give an example.

4. Draw the balance sheet format? What information does it provide?

5. What does the income statement show? Define revenues and expenses?
6. What does equity refer to?

7. What is the General Ledger and what is the difference between the General Journal and the General Ledger?

8. What does the Trial Balance refer to? How is it constructed?
9. Choose the best answer:

i. Group savings are:
   a. an Asset
   b. a Liability
   c. a Equity

ii. Loan Fees received by a micro-finance organization represent:
   a. Revenue
   b. Expenses
   c. Equity
   d. None of the above

iii. Travel expenses are recorded as:
   a. a debit
   b. a credit

iv. Cash received by an organization is recorded as:
   a. a debit
   b. a credit

v. A surplus of revenue over expenses results in:
   a. an increase in Equity
   b. a decrease in Equity
   c. does not affect Equity

vi. The purchase of equipment on credit results in:
   a. an increase in Assets and an increase in Liabilities
   b. an decrease in Assets and an increase in Liabilities
   c. an increase in Assets and a decrease in Liabilities
10. Make appropriate debit and credit entries using T-Accounts:

   i. Purchase ten motorcycles for credit officers. Pay Tk70,000 in cash and Tk500,000 on credit:

   ii. Receive a payment of Bs550 (Bs500 - principal and Bs50 - interest) on a current loan:

   iii. Collect a Loan Fee of P7,000:
ANSWERS
1. Write the names of five Basic Accounting Principles.

   i. The Business Entity Concept
   ii. The Cost Principle
   iii. The Going Concern Concept
   iv. Double Entry Accounting
   v. The Realization Principle

2. What is the accounting equation?

   The accounting equation states that: **ASSETS = LIABILITIES + EQUITY**. For every account affected by a transaction there is an equal effect on other accounts which keeps the accounting equation balanced. Therefore, an increase in a business’ assets must be offset by either a decrease in another asset, or an increase in liabilities or equity.

3. What is double-entry accounting? Give an example.

   Double-entry accounting is based on the concept that every transaction affects and is recorded in two or more accounts on a business’ books and thus requires entries in two or more places (“double-entry”). Each transaction affects either Assets, Liabilities and/or Equity (sometimes through Revenue or Expenses).

   For example: if an Organization purchased a motorcycle on credit, then the Organization has obtained an asset (the motorcycle) and paid for it by incurring a liability (Short-term Borrowings). Therefore, the transaction of purchasing a motorcycle effects two accounts. It increases the asset account, Equipment, and it increases (by the same amount) the liability account, Short-term Borrowings.

4. Draw the Balance Sheet format. What information does it provide?

<table>
<thead>
<tr>
<th>Balance Sheet</th>
</tr>
</thead>
</table>
   | As at ........
   |
   | Assets       | Liabilities |
   |              | Equity      |
   | Total Assets | Total Liabilities and Equity |

   The Balance Sheet reports the financial position of an organization at a specific point in time by providing a summary of an organization’s assets and claims on its assets (liabilities and equity). The Balance Sheet should always balance. That is to say, total assets should always equal total liabilities plus equity. The amount remaining when liabilities are subtracted from assets is the equity (owners’ contribution) of the organization.
5. What does the Income Statement show? Define revenue and expenses.

The Income Statement summarizes all income earned and expenses incurred during a specified accounting period, and shows the net income (or net loss) earned over that period. Revenue refers to money received (or to be received) by the organization for goods sold and services rendered during a given accounting period. Expenses represent the costs incurred for goods and services used in the process of earning revenue.

6. What does equity refer to?

Equity is equal to assets less liabilities. Unlike liabilities, the equity of an organization does not have to be repaid. It therefore represents the value or net worth of the organization.

7. What is the General Ledger and what is the difference between the General Journal and the General Ledger?

The General Ledger is a listing of all activities which have taken place in the entire group of ledger accounts. A General Ledger summarizes the transactions of an organization in order of account number whereas the General Journal lists the transactions in chronological order.

8. What does the Trial Balance refer to? How is it constructed?

The Trial Balance is verification that the debits and credits are in balance at the end of an accounting period. The Trial Balance is prepared by taking the Account Balances from the General Ledger and listing the accounts having debit balances in one column and those having credit balances in the other column. Next, the debit balances are totaled and the credit balances are totaled. Finally, the sum of the debit balances is compared with the sum of the credit balances. The sums should be equal in order for the ledger accounts to be in balance.

9. Choose the best answer:

i. Group Savings are:
   b. a Liability (√)

ii. Loan Fees received by a micro-finance organization represent:
   a. Revenue (√)

iii. Travel Expenses are recorded as:
   a. a debit (√)

iv. Cash received by an organization is recorded as:
   a. a debit (√)
v. A surplus of revenue over expenses results in:
   a. an increase in Equity (√)

vi. The purchase of equipment on credit results in:
   a. an increase in Assets and an increase in Liabilities (√)

10. Make appropriate debit and credit entries using T-Accounts:

i. Purchase ten motorcycles for credit officers. Pay Tk70,000 in cash and Tk500,000 on credit:

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit (Tk)</th>
<th>Credit (Tk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>570,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>70,000</td>
</tr>
<tr>
<td>Short-term Borrowings</td>
<td></td>
<td>500,000</td>
</tr>
</tbody>
</table>

ii. Receive a payment of Bs550 (Bs500 - principal and Bs50 - interest) on a current loan:

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit (Tk)</th>
<th>Credit (Tk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>550</td>
<td></td>
</tr>
<tr>
<td>Loans Outstanding - Current</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>Interest on Current Loans</td>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

iii. Collect a Loan Fee of P 7,000:

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit (Tk)</th>
<th>Credit (Tk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Loan Fees</td>
<td></td>
<td>7,000</td>
</tr>
</tbody>
</table>