**IENG112**

**NOTES No. 12**

**Accounting**

**1. Basic Notions**

* **Asset:** anything which is owned by the company and has monetary value.
  + **E.**g. equipment, land, buildings, cash, inventories, supplies in hand, prepaid expenses.
* **Liability:** Any debt what the company owes to its creditors.
  + **E.**g. suppliers obtain their money later ↔ accounts payable
  + Taxes payable, mortgages payable, etc.
* **Net Worth:** net worth = assets – liabilities
* **Dynamic version**
  + assets = liabilities + net worth + (revenues – expenses)

**2. Changes between categories**

**Examples**

1. **Buying office supplies:** The supply is paid, however it is at hand, and therefore total value of the company does not change.

**Example.** Office supply of worth $1000 is purchased.

Cash decreases by $1000

The value of supplies at hand increases by $1000

1. **Sales:** If the sold product is not paid immediately then the value of “receivable” is increased.

**Example.** Products of value $12,000 are sold.

Accounts receivable is increased by $12,000

Sales quantity is also increased by $12,000

1. **New liability which is not paid immediately:** The “payable” amount is increased.

**Example.** Monthly rent fee of $2,000 will be due after one month.

Accounts payable is increased by $2,000

Rent fee is increased by $2,000

1. **Previously purchased supply is used:** The value of the company is decreased by this.

**Example.** Office supply of value $1000 is used in the month.

Supplies at hand is decreased by $1000

Supply expense is increased by $1000

1. **Salaries paid:** It decreases the cash of the company and increases the paid salaries.

**Example.** Salaries of value $8000 is paid in the month.

Cash is decreased by $8000

Total salary paid is increased by $8000

**3. Cost Accounting**

* **Direct Material Cost:** the cost of any material which is directly used in the production of a product.
* **Direct Labor Cost:** Any labor cost which occurs in the production of a product.
* **Overhead:** anything else.
* **Examples.**

|  |  |  |
| --- | --- | --- |
| **Direct Material** | **Direct Labor** | **Overhead** |
| Raw material | Workers’ salary | Depreciation of equipments |
|  | Material handling workers’ salary | Taxes not related to labor |
|  |  | Maintenance |
|  |  | Insurance |