

EN



MAELICE

IN WONDERLAND

ACCOUNTING



« Here, the numbers have lost their minds. »



WELCOME TO THE RABBIT HOLE

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HOW TO USE THE RABBIT HOLE



THE CATERPILLAR

Key definitions



DRINK ME

The formula or diagram to know by heart



EAT ME

A step-by-step worked example



THE WHITE RABBIT'S TIPS

Method and time management in the exam



THE CHESHIRE GRIN

A memory trick that stays when everything else has vanished



OFF WITH THEIR HEADS!

The classic trap, the mistake that costs points



THE GOLDEN KEY

The 5 things to remember from the part



TEA TIME

Test yourself! Answers upside down at the bottom



THE WHITE RABBIT'S TIPS

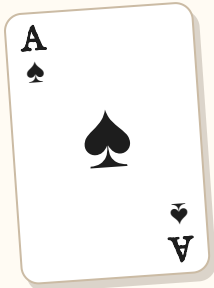
Midterm on 30 Oct: 20-question MCQ on TestWe, no negative marking, theory and calculation questions, themes 1 to 4. No personal calculator (TestWe provides one); account numbers are given. The professor insists: understand, don't recite. So redo every Eat me without looking at the solution.





THE BASICS

ACCOUNTING PRINCIPLES (1/2)



THE BASICS

ACCOUNTING PRINCIPLES

By the end of this session, you can:

- ✓ list and explain the 8 accounting principles
- ✓ value inventory with FIFO and weighted average cost
- ✓ apply the prudence principle to a numerical example
- ✓ spot which principle applies in a situation

"Here, the numbers have lost their minds." (the cover, exaggerating a little)

1 · HISTORICAL COST

An asset is recorded at its **acquisition cost**, never revalued. A building bought for €150,000, worth €250,000 twenty years later, **stays at €150,000** on the balance sheet.

2 · PRUDENCE

You **record unrealised losses** (probable losses) and you **never record unrealised gains** (uncertain gains).

3 · GOING CONCERN

We assume the business **carries on**: assets are valued as if they keep being used, not at liquidation value.

4 · CONSISTENCY

You pick a method (e.g. **FIFO or weighted average** for inventory) and **keep it year after year**, to compare and not dress up profit. A change is allowed only if it improves the information.



EAT ME: PRUDENCE

The Hatter bought shares for **€50,000**.

- 1 They are worth **€70,000**: unrealised gain → **record nothing**.
- 2 They are worth **€40,000**: probable loss → record **a €10,000 loss**.



THE CHESHIRE GRIN

Prudence is like the Queen: **bad news straight away, good news only when it's certain.**



THE BASICS

ACCOUNTING PRINCIPLES (2/2)

5 · ACCRUALS (PERIOD INDEPENDENCE)

Each expense and revenue belongs to **the period in which it is consumed or earned**, whatever the payment date. 6 months of insurance paid on 1 Oct Y: only **3 months** belong to year Y.

6 · NO OFFSETTING

Assets and liabilities, expenses and revenue are recorded **separately**. A customer owes us €1,000 and we owe them €600: **€1,000 in assets and €600 in liabilities**, not €400.

7 · OPENING BALANCE SHEET CONSISTENCY

The opening balance sheet of Y+1 is **identical** to the closing balance sheet of Y. An asset at €100,000 on 31 Dec Y is at €100,000 on 1 Jan Y+1.

8 · MATERIALITY

Only information **likely to influence the decisions** of readers of the accounts is disclosed. What is negligible for a large group may matter for a small business.

VALUING INVENTORY ISSUES: FIFO OR WEIGHTED AVERAGE



THE 2 METHODS *Drink me*

- **FIFO** (first in, first out): the oldest units go out first; remaining stock is valued at the **most recent prices**.
- **Weighted average cost:** $\frac{\text{total value of available stock}}{\text{total available quantity}}$



EAT ME: THE HATTER'S FELT

The Hatter has **10 rolls of felt at €20** in stock. He buys **30 at €24**, then uses **25** to make hats.

	ISSUE (25 ROLLS)	REMAINING STOCK (15)
FIFO	$10 \times 20 + 15 \times 24 = \text{€}560$	$15 \times 24 = \text{€}360$
Weighted avg.	$\text{Avg} = (200 + 720) / 40 = \text{€}23 \rightarrow 25 \times 23 = \text{€}575$	$15 \times 23 = \text{€}345$



THE WHITE RABBIT'S TIPS

Quick check: issue + remaining stock = total available value. Here $560 + 360 = 575 + 345 = \text{€}920$.



OFF WITH THEIR HEADS!

Choosing the method that flatters profit this year, then switching next year: forbidden, that's **consistency**.



SESSION 1

THE BALANCE SHEET: A SNAPSHOT



SESSION 1 THE BALANCE SHEET

By the end of this session, you can:

- ✓ explain assets, liabilities, uses and sources
- ✓ compute net assets and cash
- ✓ classify an item in the right balance sheet line
- ✓ draw up a balanced balance sheet

"Begin at the beginning." (the King)

THE CATERPILLAR "Who are you?"

Balance sheet: a snapshot of the company's assets and financing at a given date (often 31 December).

ASSETS (LEFT) = USES

- **How** was the financing used?
- what the company **owns**: assets, receivables, cash

=

LIABILITIES & EQUITY (RIGHT) = SOURCES

- **Where** did the financing come from?
- owners' contributions (equity) and debts (bank, suppliers...)



THE 2 BALANCE SHEET EQUALITIES *Drink me*

Assets = Liabilities + Equity · Uses = Sources

ASSETS	LIABILITIES AND EQUITY
Fixed assets Intangible assets Tangible assets Financial assets Current assets Inventory Advances paid Trade and other receivables Short-term investments Cash Total	Equity Share capital Reserves Retained earnings Profit for the year Liabilities Borrowings Advances received Trade payables Tax and social liabilities Other liabilities Total



THE CHESHIRE GRIN

The balance sheet is the Queen's **portrait** on the wall: a frozen picture. The income statement will be the **film** of the croquet match.



THE WHITE RABBIT'S TIPS

In each block, lines go from **least to most liquid** (assets) and from most permanent to most payable (liabilities).



SESSION 1

ASSETS, LIABILITIES AND NET ASSETS

FIXED ASSETS	DEFINITION	EXAMPLES
Intangible	no physical existence	patent, goodwill, software, website
Tangible	physical existence	land, building, machine, vehicle, computer
Financial	securities held for the long term	shares, bonds held long term

THE CATERPILLAR "Who are you?"

Current assets: items **renewed quickly** during the operating cycle: **inventory** (goods, raw materials, finished goods), **trade receivables**, **short-term investments**, **cash** (bank and till).

OFF WITH THEIR HEADS!

Shares held **long term** = financial fixed asset. Bought to **park cash temporarily** = **short-term investment**, in current assets.

EQUITY *The Caterpillar*

- **Share capital:** owners' contributions
- **Reserves:** past profits **retained**
- **Profit or loss** for the year

LIABILITIES *The Caterpillar*

Obligations to pay specific parties: bank (loans), suppliers, the state (taxes), social bodies, employees, customers who paid in advance.

NET ASSETS *Drink me*

$$\text{Net assets} = \text{Assets} - \text{Liabilities} = \text{Equity}$$

E.g. €100,000 of assets – €60,000 of liabilities = **€40,000 of equity**.

 provisions are probable liabilities: they go on the right side



WHAT EACH TRANSACTION CHANGES

🕒 BUILD A BALANCE SHEET IN 5 STEPS

- ① **List** every item: assets, receivables, cash, contributions, debts.
- ② **Classify**: fixed or current assets; equity or liabilities.
- ③ **Cash** = money received (contributions, loans, sales collected) – money spent (purchases paid, repayments, dividends).
- ④ **Total** and check Assets = Liabilities + Equity.
- ⑤ A figure missing? Usually the **profit**: total assets – (capital + reserves + liabilities).
Positive = profit, negative = loss.

TRANSACTION	EFFECT ON THE BALANCE SHEET	BALANCE SHEET TOTAL
Owners contribute cash	cash ↑ and capital ↑	rises
Loan obtained	cash ↑ and borrowings ↑	rises
Asset bought for cash	fixed asset ↑ and cash ↓	unchanged
Asset bought on 30-day credit	fixed asset ↑ and payable ↑	rises
A customer pays	cash ↑ and receivables ↓	unchanged
Supplier paid	cash ↓ and payables ↓	falls
Bank withdrawal to the till	bank ↓ and till ↑	unchanged

👑 BALANCE SHEET TRAPS

- **Reserves ≠ cash**: reserves are retained profits (right side), cash is the money actually in the bank or till (assets).
- A purchase **paid later** doesn't reduce cash: it creates a **liability**.
- A **loan** is **borrowing**, not a trade payable. What is still owed for a machine = **payable to fixed-asset suppliers**.
- A **bank overdraft** is a **liability**: it goes on the **right side**, not as a negative asset.
- Balance sheet doesn't balance? The **profit** is usually missing.





SESSION 1 • APPLICATION

APPLICATION: DARBON AND LECHET



EAT ME: THE OPENING BALANCE SHEET

Darbon and Lechet open a frozen ready-meal shop in Caen. They contribute **€50,000** (Darbon) and **€20,000** (Lechet). Crédit Lyonnais lends them **€80,000** (5 years, 2.5%). They pay cash for **cooking and freezing equipment (€25,000)** and **goodwill (€100,000)**. The Calvados Chamber of Commerce lends them **€10,000**; they pay cash for **office equipment (€7,500)**.

$$\text{Cash} = 50,000 + 20,000 + 80,000 + 10,000 - (25,000 + 100,000 + 7,500) = \text{€27,500}$$

ASSETS		LIABILITIES AND EQUITY	
Fixed assets		Equity	
Goodwill	100,000	Share capital (50,000 + 20,000)	70,000
Cooking and freezing equipment	25,000	Liabilities	
Office equipment	7,500	Crédit Lyonnais loan	80,000
Current assets		Chamber of Commerce loan	10,000
Cash	27,500	Total	
Total assets	160,000	160,000	

↖ 160,000 = 160,000: the balance sheet balances

👑 OFF WITH THEIR HEADS!

The **Chamber of Commerce** loan is **borrowing**, like the bank's: not a trade payable.



THE WHITE RABBIT'S TIPS

At the start, there's no profit yet: capital + loans balance it. Later, the **profit** will fill the gap.



ACR AND PROFIT ALLOCATION



EAT ME: FIND THE PROFIT AS A BALANCING FIGURE

ACR gives its balances: patents 2,600, industrial equipment 38,000, vehicles 20,000, equity investments 2,400, raw materials 5,000, receivables 2,000, till 300; capital 24,000, reserves 2,000, loan 12,000, trade payables 1,800, tax and social liabilities 2,300, **bank overdraft 400**. Draw up the balance sheet and **deduce the profit**.

ASSETS		LIABILITIES AND EQUITY	
Fixed assets		Equity	
Patents (intangible)	2,600	Share capital	24,000
Industrial equipment	38,000	Reserves	2,000
Vehicles	20,000	Profit (balancing figure)	27,800
Equity investments (financial)	2,400	Liabilities	
Current assets		Loan	12,000
Raw materials	5,000	Trade payables	1,800
Trade receivables	2,000	Tax and social liabilities	2,300
Till	300	Bank (overdraft)	400
Total assets	70,300	Total	70,300

$$\text{Profit} = 70,300 - (24,000 + 2,000 + 12,000 + 1,800 + 2,300 + 400) = \text{€27,800}$$



ALLOCATING THE PROFIT *Drink me*

Early Y+1, the owners pay themselves **€10,000 of dividends**, the rest goes to **reserves**:

- 1 Reserves = $2,000 + (27,800 - 10,000) = \text{€19,800}$; profit = 0.
- 2 Dividends are paid from the bank: the overdraft goes from 400 to **€10,400** (liabilities).
- 3 Balance sheet total: still **€70,300**.

👑 OFF WITH THEIR HEADS!

Dividends are **not an expense**: they come out of equity. And the undistributed part becomes **reserves**, not extra cash.

SESSION 1 • RECAP

END OF SESSION 1

THE GOLDEN KEY *key takeaways*



- 1 The **balance sheet** = snapshot **at a given date**. **Assets = uses, liabilities + equity = sources**.
- 2 **Assets = Liabilities + Equity**, always. If a figure is missing, it's usually the **profit**.
- 3 Fixed assets: **intangible, tangible, financial**. Current assets: inventory, receivables, short-term investments, cash.
- 4 **Net assets = Assets – Liabilities = Equity**.
- 5 A **credit purchase** creates a liability, it doesn't touch cash. **Reserves ≠ cash**.

TEA TIME *mini quiz*

- 1 Is a patent a tangible or intangible asset?
- 2 Where is the profit for the year on the balance sheet?
- 3 Assets €90,000, liabilities €55,000. Net assets?
- 4 Machine bought on 60-day credit: the balance sheet total...?
- 5 A customer pays an invoice: the balance sheet total...?

Answers : 1. Intangible · 2. On the right, in equity · 3. €35,000 · 4. Rises (assets and liabilities) · 5. Doesn't change



SESSION 2

THE INCOME STATEMENT: THE FILM



SESSION 2

THE INCOME STATEMENT, INVENTORY AND MARGIN

By the end of this session, you can:

- ✓ lay out an income statement
- ✓ tell operating, financial and exceptional items apart
- ✓ compute the change in inventory and COGS
- ✓ compute the commercial margin

"It takes all the running you can do, to keep in the same place." (the Red Queen, facing her break-even point)

THE CATERPILLAR "Who are you?"

Income statement: a summary of **all expenses and all revenue** for the period. It explains **how the profit was made**.

Expenses = goods and services **consumed** (impoverishment). **Revenue** = the company's **income** (enrichment).

EXPENSES	REVENUE
Operating expenses	Operating revenue
Purchases of goods or raw materials	Sales of goods
Change in inventory (opening – closing)	Sales of products and services
Other purchases and external expenses: rent, power, fees...	Change in finished goods (closing – opening)
Taxes	Other operating revenue
Staff costs: gross pay + employer contributions	Financial income: interest and dividends received
Depreciation	Exceptional income: proceeds from selling a fixed asset...
Financial expenses: loan and overdraft interest	
Exceptional expenses: fines...	
Income tax	
Result: profit (if revenue > expenses)	Result: loss (if revenue < expenses)



THE CORE FORMULA *Drink me*

$$\text{Profit} = \text{Total revenue} - \text{Total expenses}$$

OFF WITH THEIR HEADS!

Profit is **revenue – expenses**, not the other way round. And **payment dates don't matter**: an unpaid sale is revenue, an unpaid invoice is an expense.



SESSION 2

PROFIT, BALANCE SHEET AND CASH

CATEGORY	WHAT IT COVERS
Operating	day-to-day activity, the core business : buy, produce, sell, pay staff, rent...
Financial	financing (loan and overdraft interest) and investments (interest received, dividends)
Exceptional	what is outside normal activity : fines, sale of a fixed asset...



EXPENSE OR FIXED ASSET? *Drink me*

Spending is an **expense** if the item is **used up within a year**, or lasts longer but costs **less than €500 excl. VAT**. Otherwise it's a **fixed asset** (balance sheet).

Paper and ink = expense; a €500 printer, a computer, a truck = fixed assets (course examples).



THE CHESHIRE GRIN

*The balance sheet is the photo, the income statement is the film. The film's ending (profit) must appear **identically** in the photo, in equity.*

THE SUBJECT'S NO. 1 TRAP

Profit ≠ cash. Profit = revenue – expenses, collected or not. Cash = opening cash + receipts – payments, whether or not they are revenue/expenses. **A profit doesn't mean money in the bank.**

AFFECT PROFIT

- change **net assets**
- enrichment (revenue) or impoverishment (expense)

≠

DON'T AFFECT PROFIT

- only touch **assets** or **liabilities**
- buying a truck, repaying a loan, paying a supplier, collecting from a customer



EAT ME: THE LOAN INSTALMENT

The Queen pays a loan instalment of **€60,000 = €20,000 interest + €40,000 repayment**.

- 1 The **€20,000 interest** = **financial expense** (income statement).
- 2 The **€40,000 repayment** = **not an expense**: the loan liability falls on the balance sheet.





SESSION 2

INVENTORY AND COMMERCIAL MARGIN

OFF WITH THEIR HEADS!

You *can't* simply compute **sales – purchases**: quantities bought aren't necessarily those sold. **Inventory** bridges the gap, as goods come in and go out at different times.



THE 3 CHAINED FORMULAS *Drink me*

Change in inventory = Opening stock – Closing stock

COGS = Purchases of goods + Change in inventory

Commercial margin = Sales of goods – COGS

COGS = cost of goods sold. Closing stock = opening stock + purchases – goods sold.

POSITIVE CHANGE

- opening > closing: inventory **falls** (destocking)
- sold more than bought → COGS **rises**

VS

NEGATIVE CHANGE

- opening < closing: inventory **rises** (stocking up)
- part of purchases stayed in stock → COGS **falls**



EAT ME: THE HAT SHOP

Felt: opening = €4,000, purchases = €18,000, closing = €6,000. Hats sold: €30,000.

- 1 Change = 4,000 – 6,000 = – **2,000** (stocking up)
- 2 COGS = 18,000 – 2,000 = **€16,000**
- 3 Margin = 30,000 – 16,000 = **€14,000**



THE CATERPILLAR “Who are you?”

The **commercial margin** gives a **first view of profitability** and lets you **compare** with businesses in the same trade.



THE CHESHIRE GRIN

Purchases ≠ COGS: the change in inventory is the bridge between them.

THE DIRECTION TRAP

- On the **balance sheet**, you always show the **closing stock**.
- Goods and raw materials: change = **opening – closing**, on the **expenses** side.
- **Finished goods**: the reverse, **change in finished goods = closing – opening**, on the **revenue** side.



SESSION 2 · APPLICATION

APPLICATION: ARVIDAS



EAT ME: JUNE'S INCOME STATEMENT

In June Y, Arvidas buys goods for **€18,000 cash** and **€26,000 on credit**, sells **€50,000 cash** and **€49,000 on credit**. Other purchases and external expenses: **€16,500**; staff costs: **€32,000**. Inventory at 31 May: **€42,000**; at 30 June: **€39,000**.

- 1 Purchases = $18,000 + 26,000 = \text{€}44,000$; sales = $50,000 + 49,000 = \text{€}99,000$ (cash or credit, doesn't matter).
- 2 Change in inventory = $42,000 - 39,000 = + \text{€}3,000$ (destocking)
- 3 COGS = $44,000 + 3,000 = \text{€}47,000 \rightarrow$ commercial margin = $99,000 - 47,000 = \text{€}52,000$

EXPENSES		REVENUE	
Purchases of goods	44,000	Sales of goods	99,000
Change in inventory	3,000		
Other external expenses	16,500		
Staff costs	32,000	Total	99,000
Result: profit	3,500		
Total	99,000		

$99,000 - 95,500 = \text{€}3,500 \text{ profit}$

👑 OFF WITH THEIR HEADS!

The change in inventory goes on the **expenses side**, even when positive. When negative, it **reduces** expenses.



THE WHITE RABBIT'S TIPS

Always check: **total expenses + profit = total revenue**. Here $95,500 + 3,500 = 99,000$.



SESSION 2 · RECAP

END OF SESSION 2



THE GOLDEN KEY *key takeaways*

- 1 Income statement = **film of the period**. **Profit** = revenue – expenses, regardless of payments.
- 2 3 levels: **operating, financial, exceptional**, then income tax.
- 3 **Expense** if used up < 1 year or < €500 excl. VAT; otherwise **fixed asset**. Loan repayment = not an expense, only **interest** is.
- 4 **Change** = opening – closing; **COGS** = purchases + change; **margin** = sales – COGS.
- 5 **Profit ≠ cash**: a profit can coexist with an empty bank account.



TEA TIME *mini quiz*

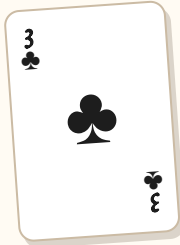
- 1 Loan interest is which kind of expense?
- 2 Opening €10,000, closing €14,000, purchases €50,000. COGS?
- 3 Is a credit sale revenue for the period?
- 4 Paper and ink for the printer: expense or fixed asset?
- 5 The balance sheet is the photo; the income statement is...?

Answers : 1. Financial · 2. 50,000 – 4,000 = €46,000 · 3. Yes (accruals principle) · 4. Expense: used up on first use · 5. The film of the period



SESSION 3

DOUBLE ENTRY AND THE T-ACCOUNT



SESSION 3

T-ACCOUNTS AND DOUBLE-ENTRY BOOKKEEPING

By the end of this session, you can:

- ✓ explain double entry
- ✓ compute an account balance and build a trial balance
- ✓ know which side to post a transaction
- ✓ know the 7 classes of the chart of accounts

"It's always six o'clock now... it's always tea-time." (the Hatter, who never closes his books)



DOUBLE ENTRY *Drink me*

Every transaction affects at least two accounts, for the same amount: one is **debited** (left), the other **credited** (right). Total debits = total credits, so at all times **Assets = Liabilities + Equity**.

As the course puts it: each transaction creates **two flows in opposite directions for the same amount**, a **real flow** (goods, equipment, services) and/or a **financial flow** (money, loan, receivable, payable). **Debit = incoming flow, credit = outgoing flow.**

No. · Account name

D

what the account receives | what the account



THE CATERPILLAR "Who are you?"

- **Debit = left side = uses:** where value goes.
- **Credit = right side = sources:** where value comes from.
- **Balance = total debits – total credits:** **debit balance** if debits win, **credit balance** otherwise, **nil** if equal.



OFF WITH THEIR HEADS!

Debit and credit are **two sides**, not "spending" and "gain". A bank credit isn't a gift!



THE GOLDEN RULE OF SIDES *Drink me*

An account increases on the side where it appears in the balance sheet or income statement.

- **Assets and expenses** are on the left → they **increase on the debit**.
- **Liabilities, equity and revenue** are on the right → they **increase on the credit**.



THE CHESHIRE GRIN

DEALER: Dividends, Expenses, Assets rise on the debit; Liabilities, Equity, Revenue rise on the credit.



SESSION 3

CHART OF ACCOUNTS AND FIRST ENTRIES

CLASS	CONTENT	STATEMENT	USUAL BALANCE
1	Capital: share capital (101), borrowings (164)	Balance sheet · right	credit
2	Fixed assets (205, 218...)	Balance sheet · assets	debit
3	Inventory (37...)	Balance sheet · assets	debit
4	Third parties: suppliers (401), fixed-asset suppliers (404), customers (411), VAT (445)	Balance sheet · asset if receivable, liability if payable	debit or credit
5	Financial: bank (512), till (530)	Balance sheet · asset if positive, liability if overdrawn	debit or credit
6	Expenses (607 purchases, 613 rent, 641 wages, 661 interest...)	Income statement	debit
7	Revenue (706 services, 707 sales of goods...)	Income statement	credit



THE CHESHIRE GRIN

1 to 7: "Cats Find Six Tarts For Every Rabbit":
Capital, Fixed assets, Stocks, Third parties, Financial,
Expenses, Revenue.



THE WHITE RABBIT'S TIPS

The 2nd digit gives the nature: 66 / 76 = financial, 67 / 77 = exceptional.



EAT ME: 3 TRANSACTIONS, 4 ACCOUNTS

The Hatter sets up his hat shop: (1) €5,000 contributed to the bank, (2) €3,000 bank loan, (3) a €1,200 computer paid by cheque.

OP.	WHAT COMES IN (USE)	WHERE IT COMES FROM (SOURCE)	ENTRY
1	€5,000 in the bank	owners' contribution	Dr 512 · Cr 101
2	€3,000 in the bank	the loan: a debt to the bank	Dr 512 · Cr 164
3	a computer	€1,200 leaving the bank	Dr 218 · Cr 512

101 · Share capital	
D	C
	1/ 5,000
	Cr 5,000

164 · Borrowings	
D	C
	2/ 3,000
	Cr 3,000

218 · Tangible assets	
D	C
3/ 1,200	
Dr 1,200	

512 · Bank	
D	C
1/ 5,000	3/ 1,200
2/ 3,000	
8,000 1,200	
Dr 6,800	



SESSION 3

THE JOURNAL AND STANDARD ENTRIES

THE CATERPILLAR "Who are you?"

Journal: records every transaction **in date order**. Each entry shows the **date**, the **account numbers and names**, the **debit** and **credit** amounts, and the **supporting document reference** (the invoice, kept for 10 years).

TRANSACTION	DEBIT	CREDIT
Cash purchase	6xx Purchase of...	512 Bank
Purchase on credit	6xx Purchase of...	401 Suppliers
→ then paying the supplier	401 Suppliers	512 Bank
Cash sale	512 Bank	7xx Sale of...
Sale on credit	411 Customers	7xx Sale of...
→ then collecting from the customer	512 Bank	411 Customers
Fixed asset on credit	2xx Fixed asset	404 Fixed-asset suppliers

EAT ME: THE COURSE EXAMPLE, FROM JOURNAL TO BALANCE SHEET

Company Y: **(a)** €20,000 of goods paid by cheque; **(b)** €30,000 sale of goods collected; **(c)** €20,000 van payable in 60 days.

607 · Purchases	707 · Sales	512 · Bank	215 · Vehicles	404 · Fixed-asset suppl.
D a/ 20,000 Dr 20,000	D b/ 30,000 Cr 30,000	D b/ 30,000 Dr 10,000	D c/ 20,000 Dr 20,000	D c/ 20,000 Cr 20,000

Trial balance: movements 70,000 = 70,000; balances 50,000 = 50,000. **Income statement:** 30,000 – 20,000 = **€10,000 profit**. **Balance sheet:** van 20,000 + bank 10,000 = profit 10,000 + supplier 20,000 = **€30,000**.

OFF WITH THEIR HEADS!

A fixed asset on credit goes to **404**, not 401: the course stresses it twice!

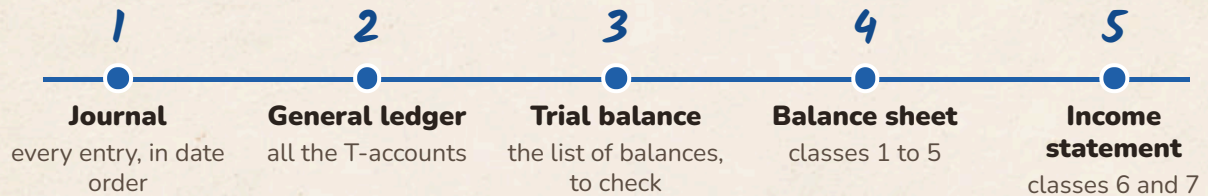
THE WHITE RABBIT'S TIPS

The journal total in this example is **€70,000** (20,000 + 30,000 + 20,000). If your handout says 60,000, it's a **typo**.



SESSION 3

FROM THE JOURNAL TO THE TRIAL BALANCE



RECORD A TRANSACTION IN 4 QUESTIONS

- 1 **What comes in, what goes out?**
- 2 **Which accounts** are affected? Always at least two.
- 3 **Which side?** Assets and expenses rise on the debit, liabilities, equity and revenue on the credit (and the reverse when they fall).
- 4 **Double entry respected?** Total debits = total credits.



THE CATERPILLAR "Who are you?"

Trial balance: summarises **all accounts** in one table at a given date: one row per account, by number, with **movements** (total on each side) then the **balance** on the larger side. Not mandatory, but normally done **every month**.

NO.	ACCOUNT	DEBIT MVTs	CREDIT MVTs	DEBIT BAL.	CREDIT BAL.
101	Share capital		5,000		5,000
164	Borrowings		3,000		3,000
218	Tangible assets	1,200		1,200	
512	Bank	8,000	1,200	6,800	
Total		9,200	9,200	8,000	8,000



THE CHECK *Drink me*

Two equalities to check: **debit movements = credit movements** and **debit balances = credit balances**. If not, a transaction was posted wrongly.



SESSION 3 · APPLICATION

APPLICATION: LUMEN



EAT ME: MARCH'S T-ACCOUNTS

Lumen resells lamps. March Y: **(1)** €20,000 contributed to the bank; **(2)** €1,500 computer on 30-day credit; **(3)** €4,000 of goods, half by cheque, half at 30 days; **(4)** €7,000 sale of goods, €5,000 by card, the rest later; **(5)** €800 rent by transfer; **(6)** the customer from (4) pays the remaining €2,000 by cheque.

101 · Share capital	
D	C
	1/ 20,000
	Cr 20,000

218 · IT equipment	
D	C
2/ 1,500	
Dr 1,500	

401 · Suppliers	
D	C
	3/ 2,000
	Cr 2,000

404 · Fixed-asset suppl.	
D	C
	2/ 1,500
	Cr 1,500

411 · Customers	
D	C
4/ 2,000	6/ 2,000
	nil

512 · Bank	
D	C
1/ 20,000	3/ 2,000
4/ 5,000	5/ 800
6/ 2,000	
27,000	2,800
Dr 24,200	

607 · Purchases	
D	C
3/ 4,000	
Dr 4,000	

613 · Rent	
D	C
5/ 800	
Dr 800	

707 · Sales	
D	C
	4/ 7,000
	Cr 7,000



TRIAL BALANCE AND PROFIT

Trial balance: debit balances 1,500 + 24,200 + 4,000 + 800 = **30,500**; credit balances 20,000 + 2,000 + 1,500 + 7,000 = **30,500**. Balanced!

Profit = revenue - expenses = 7,000 - (4,000 + 800) = **€2,200** (ignoring closing stock, not given).



OFF WITH THEIR HEADS!

Customers are account 411, not 401 (suppliers). And the computer paid later goes to **404** (fixed-asset suppliers), not 401.



SESSION 3 · RECAP

END OF SESSION 3

T-ACCOUNT TRAPS

- **Fixed asset $\neq$ expense**: a machine or vehicle goes in class 2, assets.
- **Loan**: repaid principal isn't an expense (debit 164); only **interest** is (debit 661).
- **Invoice received = expense recorded**, even if paid later (credit 401). Payment is a 2nd entry.
- **Bank statement "back to front"**: our S12 has a debit balance, the bank's statement shows it as a credit.

THE GOLDEN KEY *key takeaways*



- 1 **Double entry**: at least 2 accounts, same amount, debits = credits.
- 2 **Debit = left = uses; credit = right = sources.**
- 3 **Assets and expenses rise on the debit**, liabilities, equity and revenue on the credit.
- 4 7 classes: 1 capital, 2 fixed assets, 3 inventory, 4 third parties, 5 financial, 6 expenses, 7 revenue.
- 5 Journal → ledger → **trial balance** (movements and balances equal) → financial statements.

TEA TIME *mini quiz*

- 1 An account has €3,000 debit and €7,500 credit. Balance?
- 2 Suppliers has a €4,500 credit balance. Meaning?
- 3 Repay €2,000 of loan + €300 interest: which expense?
- 4 Trial balance: €12,000 debit balances, €11,500 credit?
- 5 Which account rises on the credit: expenses, bank or revenue?

Answers : 1. Credit balance of €4,500 · 2. We still owe suppliers €4,500 · 3. €300 only · 4. A transaction was posted wrongly · 5. Revenue

VAT

VAT



SESSION 4

VAT AND RECORDING TRANSACTIONS

By the end of this session, you can:

- ✓ explain output and input VAT
- ✓ go from net to gross and back
- ✓ record a cash purchase and sale with VAT
- ✓ prepare a VAT return

"Take some more tea." (the March Hare, who never pays VAT on it)

THE CATERPILLAR "Who are you?"

VAT (value added tax): an **indirect tax** paid by the **final consumer**. The business only **collects** VAT on its sales and **pays it over** to the state, after **deducting** the VAT it paid on purchases.

VAT is **neutral for the business**: it hands over the VAT received from customers and recovers the VAT paid to suppliers. Of all commercial documents (quote, order form, delivery note, invoice), **only the invoice is recorded**. Did you know? VAT is 44.9% of the French state's gross tax revenue (2019).

OUTPUT VAT · 4457

on **sales**: a **liability** to the state (credit).

INPUT VAT · 4456

on **purchases**: a **receivable** from the state (debit).

VAT PAYABLE · 4455

output – input. If negative: **VAT credit**, the state owes the business.



THE CALCULATIONS *Drink me*

$$\text{Gross} = \text{Net} \times 1.20$$

$$\text{VAT} = \text{Net} \times 20\% \cdot \text{Net} = \text{Gross} / 1.20$$

French rates: **20%** (standard), 10%, 5.5%, 2.1%.
The one to know: **20%**.

OFF WITH THEIR HEADS!

VAT is **neither an expense nor revenue**: it **never** appears in the income statement, only on the **balance sheet** (receivable or liability). VAT in expenses = lost marks.



THE CAT'S 3 RULES

- **6 you debit, 7 you credit**: expenses debit, revenue credit.
- **6 and 7 net of VAT**: expenses and revenue always excluding VAT.
- **What pays is gross**: bank, till, customers, suppliers.



VAT · ENTRIES

PURCHASES, SALES AND PAYMENTS



EAT ME: A MONTH AT THE HAT SHOP

The Hatter, in April: **(1)** sells hats for **€2,000 net**, cash; **(2)** buys supplies for **€300 net**, cash; **(3)** buys felt for **€1,000 net** on credit.

707 · Sales	
D	C
	1/ 2,000
	Cr 2,000

4457 · Output VAT	
D	C
	1/ 400
	Cr 400

512 · Bank	
D	C
1/ 2,400	2/ 360
Dr 2,040	

606 · Supplies	
D	C
	2/ 300
Dr 300	

4456 · Input VAT	
D	C
2/ 60	
3/ 200	
Dr 260	

607 · Purchases	
D	C
	3/ 1,000
Dr 1,000	

401 · Suppliers	
D	C
	3/ 1,200
	Cr 1,200

VAT return: 400 (output) – 260 (input) = **€140 payable**, paid the following month: Dr 4455 / Cr 512.

Profit = 2,000 – 300 – 1,000 = **€700**: VAT doesn't change profit.

SETTLEMENT	ENTRY	EFFECT
Paying a supplier (transfer, cheque)	Dr 401 · Cr 512	payable ↓, bank ↓: balance sheet only
Paying a supplier in cash	Dr 401 · Cr 530	payable ↓, till ↓
A customer pays (transfer, cheque)	Dr 512 · Cr 411	bank ↑, receivable ↓: assets only
A customer pays in cash	Dr 530 · Cr 411	till ↑, receivable ↓

👑 OFF WITH THEIR HEADS!

A settlement **never touches the income statement**: the expense or revenue was already recorded with the invoice.



END OF THE VAT PART



METHOD: FROM THE JOURNAL TO THE STATEMENTS

- 1 Post the **expenses** (net)
- 2 Post the **revenue** (net)
- 3 Compute **profit** = revenue – expenses
- 4 On the right: **VAT payable** (output – input)
- 5 In assets: adjust **cash** (receipts – payments, gross)

THE GOLDEN KEY *key takeaways*



- 1 VAT is paid by the **final consumer**; the business **collects** and **pays it over**.
- 2 **4457 output** (sales, credit); **4456 input** (purchases, debit); **4455 payable** = output – input.
- 3 **Gross = Net × 1.2** at the 20% standard rate.
- 4 **Never** VAT in the income statement: expenses and revenue **net**, what pays **gross**.
- 5 A customer or supplier **settlement** only touches the **balance sheet**.



TEA TIME *mini quiz*

- 1 Net price €250, 20% VAT. Gross price?
- 2 Gross price €1,440. Net amount?
- 3 Output VAT €900, input €1,100. Outcome?
- 4 Cash sale €500 net: which accounts?
- 5 Is input VAT an expense?

Answers: 1. €300 · 2. €1,200 (VAT €240) · 3. €200 VAT credit (the state owes) · 4. Dr 512 600 · Cr 707 500 · Cr 4457 100 · 5. No, a receivable from the state (balance sheet)



PRACTICE

MOCK MCQ

12 questions, **20 minutes** max. Write down your answers, then flip the page.



THE GIANT TEA TIME

- 1 **Not recording an unrealised gain follows the principle of:**
 - A no offsetting
 - B prudence
 - C consistency
 - D materiality
- 2 **Goodwill is:**
 - A an intangible asset
 - B a tangible asset
 - C a current asset
 - D a liability
- 3 **Net assets equal:**
 - A Assets + Liabilities
 - B Liabilities – Assets
 - C Revenue – Expenses
 - D Assets – Liabilities
- 4 **Repaying loan principal is:**
 - A a financial expense
 - B an exceptional expense
 - C a fall in a liability
 - D revenue
- 5 **Opening €8,000, closing €5,000, purchases €20,000. COGS:**
 - A €17,000
 - B €20,000
 - C €23,000
 - D €33,000
- 6 **Sales €60,000, COGS €38,000. Commercial margin:**
 - A €98,000
 - B €22,000
 - C €38,000
 - D €60,000
- 7 **Which account increases on the debit?**
 - A 611 Subcontracting (expense)
 - B 101 Share capital
 - C 707 Sales
 - D 401 Suppliers
- 8 **The customers account is number:**
 - A 401
 - B 404
 - C 512
 - D 411
- 9 **Machine bought for cash: the balance sheet total...**
 - A rises
 - B doesn't change
 - C falls
 - D doubles
- 10 **Gross price €2,400, 20% VAT. VAT:**
 - A €400
 - B €480
 - C €2,000
 - D €200
- 11 **Output VAT is recorded:**
 - A as a debit to 4456
 - B as a debit to 707
 - C as an expense
 - D as a credit to 4457
- 12 **A company makes a profit but its bank falls. This is:**
 - A impossible
 - B a trial balance error
 - C possible: profit ≠ cash
 - D necessarily fraud

Answers : 1B · 2A · 3D · 4C · 5C · 6B · 7A · 8D · 9B · 10A · 11D · 12C



THE WHITE RABBIT'S TIPS

No negative marking in the midterm: leave **no** question blank. And **do the calculation** with the TestWe calculator even for an MCQ: wrong options are usually the classic mistakes (sales – purchases, VAT as an expense, repayment as an expense...).



EVERYTHING ON 1 PAGE

THE RABBIT HOLE ON 1 PAGE

FORMULAS

Balance sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

uses = sources

Net assets

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

= equity

Profit

$$\text{Revenue} - \text{Expenses}$$

> 0 profit, < 0 loss

Cash

$$\text{Receipts} - \text{Payments}$$

≠ profit

Change in inventory

$$\text{Opening} - \text{Closing}$$

> 0 destocking

COGS

$$\text{Purchases} + \text{Change in inventory}$$

cost of goods sold

Commercial margin

$$\text{Sales of goods} - \text{COGS}$$

1st view of profitability

Weighted average

$$\frac{\text{total value}}{\text{total quantity}}$$

€ per unit

Gross

$$\text{Net} \times 1.20$$

standard rate 20%

VAT payable

$$\text{Output} - \text{Input}$$

< 0: VAT credit

KEY ACCOUNTS (GIVEN IN THE EXAM, BUT YOU MUST RECOGNISE THEM)

101

Share capital

class 1

164

Borrowings

class 1

218

Tangible assets

class 2

401 / 404

Suppliers / fixed-asset

payables

411

Customers

receivable

4456 / 4457

Input / output VAT

445

512 / 530

Bank / Till

class 5

607 / 606

Purchases / supplies

expenses

707 / 706

Sales of goods / services

revenue

TRAPS

Profit ≠ cash

profit without cash is possible

Sales – purchases

wrong: use COGS

Loan repaid

not an expense (only interest)

VAT

never in the income statement

Machine, vehicle

fixed asset, not expense

> €500 net

Reserves

≠ money in the bank



END OF THE JOURNEY... ALMOST
NOW TEST YOURSELF!



MAELICEINWONDERLAND.FR



Scan the QR code to find **quizzes, flashcards** and the other Maelice in Wonderland sheets on the website.

“Everybody has won, and all must have prizes.”

• the Dodo •

THE NIGHT-BEFORE-THE-EXAM CHECKLIST

- | | |
|--|---|
| ☐ Reread the rabbit hole on 1 page | ☐ Redo Darbon, ACR, Arvidas, Lumen and company Y unaided |
| ☐ Draw a blank balance sheet and income statement | ☐ Redo the mock MCQ and the “ Testez-vous ” quizzes on Courses |
| ☐ Redo the Excel extra exercises on Courses | ☐ Laptop charged for TestWe, and sleep |

Sheet written by a PGE 1A student, based on NEOMA Business School's accounting course. It complements the course, it does not replace it.

Universe inspired by Lewis Carroll's *Alice's Adventures in Wonderland* and *Through the Looking-Glass* (1865 and 1871, public domain).

WRITTEN BY A PGE 1A STUDENT

