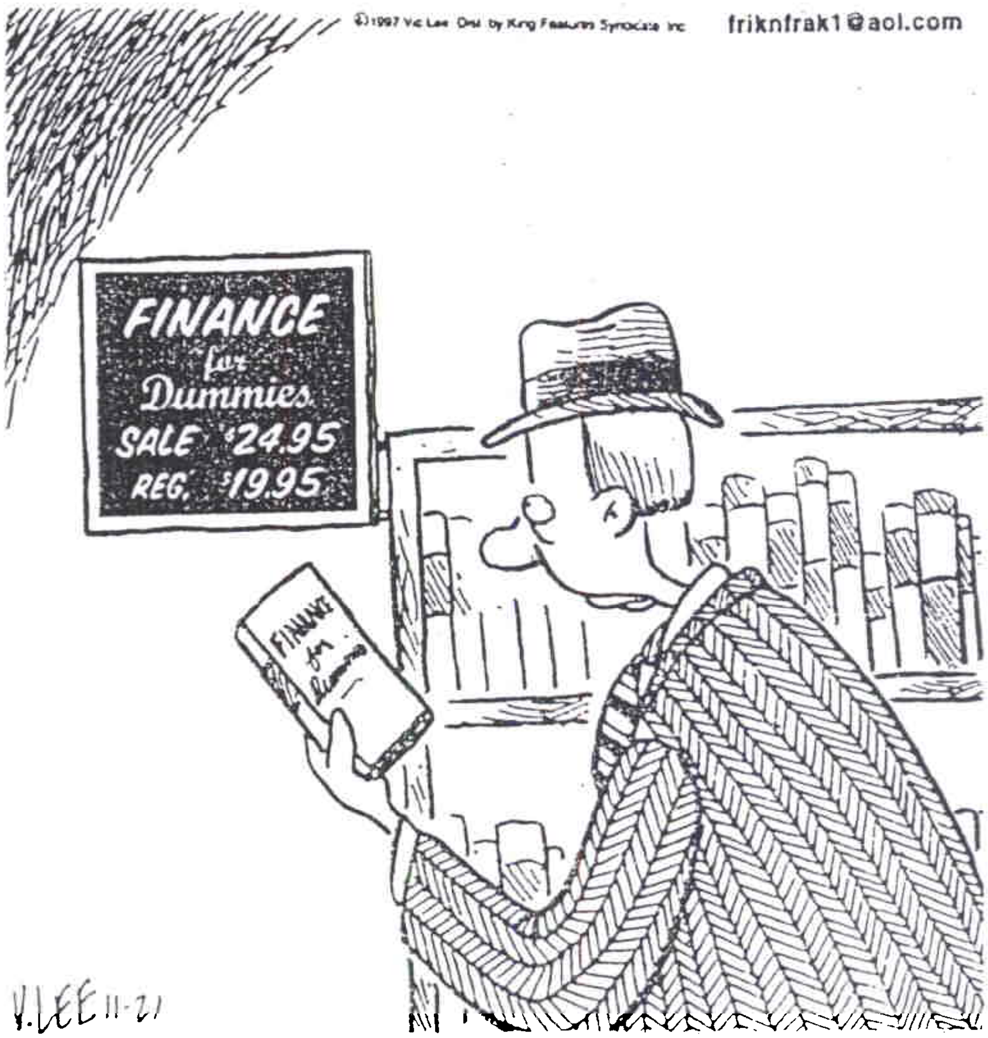
I NEED HELP By Vic Lee



BALANCE SHEET

and

INCOME STATEMENT

Cumulative over Time

BALANCE SHEET
(Statement of Financial Position)

FIGURE 3-1 The Robinson Company, Inc., Balance Sheet, June 30, 1994. (p57, Riggs)

Assets (Owned)		
Current assets		
Cash	$6,233	
Accounts receivable	46,525	
Inventory	23,270	
Prepaids	1,950	
Total current assets		$77,978
Investments		18,250
Property and equipment		56,825
Intangibles		6,675
Total assets		$159,728
Liabilities and Owners' Equity (Owed)		
Current liabilities		
Accounts payable	$13,375	
Salaries and employee benefits payable	6,201	
Taxes payable	4,637	
Notes payable within one year	12,500	
Total current liabilities		$36,713
Long-term debt		37,500
Owners' equity		
Invested capital	37,500	
Retained earnings	48,015	
Total owners' equity		85,515
Total liabilities and owners' equity		$159,728

Assets, Liabilities, Owners' Equity

Current Assets and Current Liabilities: < 12 months

Current Assets - Current Liabilities
= Working Capital

Assets and Liabilities: Liquidity order

"Noncurrent:" Fixed, Long-Lived, Long-Term

Intangible Assets

Two entries required for each transaction

Double-Entry Bookkeeping

BALANCE SHEET

Assets	**Liabilities** **Owners' Equities**
+Debit Side	**+Credit Side**

note discussion on p 65

ACCOUNTS, JOURNALS, LEDGERS (T-ACCOUNTS)

Account:

classification

Journal:

cause-and-effect dual-entry transaction log

Ledger (T-Account):

details increases, decreases, current status of each account

tailored to each company

CHART OF ACCOUNTS

FIGURE 4-2 The Robinson Company, Chart of Accounts (p 81, Riggs)

Number	Names	Number	Names
	Assets ← Balance sheet account		Revenues ← Income stmt account
1001	Cash on Hand	5010	Sales—Department X
1051	Cash on Deposit, First Bank	5015	Sales Returns and Allowances
1110	Accounts Receivable—Trade		—Department X
1115	Accounts Receivable—Other	5020	Sales—Department Y
1210	Inventory—Department X		—Department Y
1220	Inventory—Department Y		
1301	Prepaids	5025	Sales Returns and Allowances
1510	Land	5100	Interest Income
		5200	Dividend Income
1520	Warehouse and Store Facilities	5400	Gain (Loss) on Sale of Physical Assets
1525	Depreciation—Warehouse and Store Facilities		Expenses
1530	Fixtures and Equipment	6000	Cost of Goods Sold Expenses
1535	Depreciation—Fixtures and Equipment	6010	Cost of Goods Sold—Department X
1540	Transportation Equipment	6020	Cost of Goods Sold—Department Y
1545	Depreciation—Transportation Equipment	7000	Selling Expenses
1701	Investments—Shares in Unrelated Companies	7110	Salaries of Sales Per
		7130	Sales Bonuses & Commissio Sales Pe
1711	Investments—Municipal Bonds		
1901	Intangibles—Trademark	7150	Office S
		7200	Ren
	Liabilities	73	
2010	Accounts Payable—Trade		
2020	Accounts Payable—Ot		
2110	Salaries Payable		
2120	Commissions		
2210	P		
2			

CHART OF ACCOUNTS

(SEE HANDOUT)

on web under Supplementary materials as "charts of accounts" :)

MANUFACTURING FIRMS

NUMBERING SYSTEM VARIATIONS

DEBIT-CREDIT RULES SYNOPSIS

Type of Account	To Increase	To Decrease	Typical or Normal Balance
Asset	Debit	Credit	Debit
Liability	Credit	Debit	Credit
Owner Equity	Credit	Debit	Credit
Revenue	Credit	Debit	Credit
Expenses	Debit	Credit	Debit

DEBIT-CREDIT RULES SYNOPSIS

ASSETS

Debit	Credit
+	–

LIABILITIES

Debit	Credit
–	+

EQUITIES

Debit	Credit
–	+

REVENUES

Debit	Credit
–	+

EXPENSES

Debit	Credit
+	–

Movement of Data

Transaction Document *to* Journal *to* Ledger

accountant defines transaction conventions
- judgment and "art" -

__Transaction__: "Made sales of $15,000, of which $13,000 was for cash and $2,000 was on credit terms of thirty days."

__Journal Entries__:

date	ref	transaction	debit	credit
01/98	(1)	Debit: Cash	13,000	
		Credit: Sales		13,000
01/98	(2)	Debit: Accts Receivable	2,000	
		Credit: Sales		2,000

__Ledger (T-Account) Postings__:

Cash

Debit	Credit
(1) 13,000	

Accounts Receivable

Debit	Credit
(2) 2,000	

Sales

Debit	Credit
	(1) 13,000
	(2) 2,000

INCOME STATEMENT
(Statement of Profit and Loss)

Closes to the Balance sheet at the conclusion of the fiscal year

FIGURE 4-1 The Robinson Company, Inc., Income Statement (first half 1994) Period January 1, 1994 through June 30, 1994. (p 77, Riggs)

Sales, Gross	$291,025	
less: Returns and Allowances	7,688	
Net Sales		$283,337
Cost of Goods Sold		196,708
Gross Profit		86,629
Operating Expenses		
Selling and Promotion	45,013	
General and Administration	22,275	
Total Operating Expenses		67,288
Operating Profit		19,341
Other Income and Expense		
Interest and Dividend Income	908	
less: Interest Expense	2,293	
		1,385
Income before Taxes		17,956
Taxes on Income		7,650
Net Income		$10,306

Explains changes to Retained Earnings on the Balance sheet

Income Statement Accounts

Revenues and Expenses

REVENUES:

INCREASE Retained Earnings
Nominal Balance is CREDIT

EXPENSES:

DECREASE Retained Earnings
Nominal Balance is DEBIT

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Earned Income Determination

THE ACCRUAL CONCEPT

Revenue Recognition

when goods delivered or services rendered
regardless of when ordered or paid for

Expense Recognition

when goods/services received
regardless of when ordered or paid for

Revenue and Expense Accrual Conventions

(p88, Riggs)

FIGURE 4-3 Accrual Entries Under Alternative Cash Flow Conditions

	Transaction Neutralizes Prepayment	Cash Simultaneous With Transaction	Transaction now with Future Cash Payment
Revenue: Merchandise or service delivered this period	Debit to Customer Advances (liability)	Debit to Cash	Debit to Accounts Receivable (asset)
	Credit to Sales	Credit to Sales	Credit to Sales
Expense: Incurred this period (service or benefits received this period)	Debit to Expense	Debit to Expense	Debit to Expense
	Credits to Prepaid expense (asset)	Credit to Cash	Credit to Accounts Payable (liability)

accrual concept is primary source of confusion and disagreements

page 68, # 3.10: Classify the following into assets (fixed or current), liabilities (current or noncurrent), and owner's equity.

a) A loan for $10,000, payable as a lump sum in three years

Noncurrent Liability

c) Prepaid rent for the next two years

One year is a Current Asset

The second year is a Noncurrent Asset

e) Money owed to a supplier for raw materials payable in 30 days

Current Liability

i) Overpayment of income taxes, to be used as a tax credit in the next fiscal year

Noncurrent Asset

page 69, #3.1: Prepare the T-account entries (in double-entry format) for the following transactions:

b) Paid a $600 principal payment on a loan

CASH

Debit	Credit
	$600

LOANS PAYABLE

Debit	Credit
$600	

d) Delivered $1250 of finished goods to customers

FINISHED GOODS INVENTORY

Debit	Credit
	$1,250

COST OF GOODS SOLD

Debit	Credit
$1,250	

page 73, #3.15: In certain countries, the typical balance sheet is presented in such a manner that the left-hand-side of the accounting equation reads (instead of simply "assets"):

Working capital + noncurrent assets

How would the right-hand-side of the equation read?

By definition,

Working Capital
= Current Assets - Current Liabilities

This means that the Current Liabilities are accounted for on the left-hand-side of the equation. Thus, the right-hand-side need have only

Noncurrent Liabilities + Owners' Equities

page 93, #4.1: Classify the following into income and expenses, and separate expenses into cost of goods sold, selling expenses, general and administrative expenses, and miscellaneous income and expenses.

b) Purchase of postal supplies for $240

EXPENSE; usually General and Administrative

i) Dividends of $100 received on stock owned in a publicly traded company

INCOME; Miscellaneous Income

page 95, #4.6: Record events or transactions in T-account format:

a) **The Davis Co. sells (on credit) for $11,000 merchandise that was valued in the company's inventory at $6,400**

Sales	
	11,000

Accounts Receivable	
11,000	

Cost of Goods Sold	
6,400	

Inventory	
	6,400

b) **The Davis Co. purchases inventory valued at $9,800, paying cash to the supplier**

Cash	
	9,800

Inventory	
9,800	

c) **The Davis Co. pays $1,600 rent on office space -- $800 for this month and $800 for next month**

Cash	
	1,600

Prepaid Rent	
800	

Rent Expense	
800	

part of p 95 # 4.6

h) The Davis Co. pays to its suppliers $3,000 for merchandise purchased on open account in previous months

Cash		Accounts Payable	
	3,000	3,000	

i) The Davis Co. receives $6,000 in cash from the sale of 100 shares of newly issued capital stock of the company

Cash		Invested Capital*	
6,000			6,000

* or Capital Stock

j) The Davis Co. determines that the value of its equipment has declined by $450 during the month

Equipment		[Depreciation] Expense	
	450	450	

page 97, #4.10: The Gold Delivery Company specialized in the delivery of products from local manufacturers to retail shops. The company's general ledger at the end of February 1994 carried the following balances:

Accounts payable	$ 10,200
Accounts receivable	23,000
Cash	8,000
Capital stock	25,000
Delivery equipment	22,000
Delivery expenses (gas, oil)	1,300
Delivery revenues	12,000
Insurance expense	500
Loans payable	10,500
Notes payable	3,500
Office equipment	3,700
Prepaid insurance	2,000
Rent expense	1,500
Retained earnings (at January 31)	8,000
Wages expense	7,200

Construct in conventional format both an income statement for the month of February 1994 and a balance sheet at month end, using the data above. What was Gold's profit for the month?

page 97, #4.10: Income Statement and Balance Sheet for Gold Delivery Company:

INCOME STATEMENT
February 1994

Revenues		$ 12,000
Expenses		
Delivery	1,300	
Insurance	500	
Rent	1,500	
Wages	7,200	
Total Expenses		10,500
Income before taxes		1,500

page 97, #4.10

BALANCE SHEET
Gold Delivery Company -- 28 February 1994

ASSETS

Current assets		
Cash	$ 8,000	
Accounts receivable	23,000	
Prepaid insurance	2,000	
Total current assets		$ 33,000
Delivery equipment		22,000
Office equipment		3,700
TOTAL ASSETS		$ 58,700

LIABILITIES

Current liabilities		
Accounts payable	$10,200	
Loans payable	10,500	
Total current liabilities		$ 20,700
Notes payable		3,500
TOTAL LIABILITIES		$ 24,200

OWNERS' EQUITIES

Capital stock	$ 25,000
Retained earnings	8,000
Profit for February	1,500
TOTAL OWNERS' EQUITIES	$ 34,500
TOTAL LIABILITIES AND OWNERS' EQUITIES	$ 58,700