

STATEMENT OF RETAINED EARNINGS

**Illustrates change in equity due to the retention
of business earnings for a specified time period**

**Corporations use
Statement of Retained Earnings**

**Proprietorships and Partnerships use
Statement of Changes in Capital**

I	
STATEMENT OF CHANGES IN CAPITAL	
(Proprietorships & Partnerships)	
Capital, beginning of period	\$..
Add: Additional capital	
Net income	_____
Total capital available	\$ _____
Less: Capital withdrawn by owners	_____
Capital, end of period	<u>\$ _____</u>

II	
STATEMENT OF RETAINED EARNINGS	
(Corporations)	
Retained earnings, beginning of period	\$..
Add: Net income	_____
Total retained earnings available	\$ _____
Less: Dividends paid	_____
Retained earnings, end of period	<u>\$ _____</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

Intended to explain changes in working capital

SOURCES

Operations—Net income before extraordinary items	\$ 95,000	
Gain on sale of long-lived assets	200,000	
Net income.....	295,000	
Add-back depreciation.....	150,000	\$ 445,000
Sale of long-lived assets (at book value)		500,000
Increase in long-term liabilities		80,000
Increase in contributed capital		0
Total sources		<u>1,025,000</u>

USES

Dividends declared & paid	95,000	
Purchase of long-lived assets.....	890,000	
Decrease in long-term liabilities	0	
Decrease in contributed capital.....	0	
Total uses		985,000
Net increase in working capital		<u>\$ 40,000</u>

Also known as
Statement of Sources and Applications of Funds
or
Funds Flow Statement

FINANCIAL RATIO ANALYSIS

Calculation of ratio of two numbers from Balance Sheet and/or Income Statement

Ratio	Formula	Calculation
Liquidity ratios		
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\$1,376,750}{491,854} = 2.80$
Acid test ratio	$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$	$\frac{\$ 696,392}{491,854} = 1.42$
Leverage ratios		
Debt-to-assets ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	$\frac{\$1,460,518}{3,435,876} = 0.425$
Activity ratios		
Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Inventory}}$	$\frac{\$2,002,376}{680,358} = 2.94$
Accounts receivable turnover	$\frac{\text{Net sales}}{\text{Accounts receivable}}$	$\frac{\$3,096,336}{416,304} = 7.44$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$	$\frac{\$3,096,336}{3,435,876} = 0.901$
Profitability ratios		
Profit margin	$\frac{\text{Net income}}{\text{Net sales}}$	$\frac{\$ 315,960}{3,096,336} = 10.2\%$
Return on total assets	$\frac{\text{Net income}}{\text{Total assets}}$	$\frac{\$ 315,960}{3,435,876} = 9.20\%$

COMPARATIVE FINANCIAL RATIOS

EXAMPLE

Asset Size Number of Statements	RETAILERS OF—GROCERIES & MEATS				
	83 Statements Ended on or about _____ 104 Statements Ended on or about _____				
	Under \$250M 65	\$250M & Less than \$1MM 56	\$1MM & Less than \$10MM 50	\$10MM & Less than \$25MM 16	All Sizes 187
Ratios					
Current	2.8	2.0	1.8	2.0	2.1
	1.7	1.4	1.4	1.6	1.4
	1.0	1.0	1.0	1.4	1.0
Quick	1.1	1.0	.6	.5	1.0
	.6	.5	.4	.4	.5
	.2	.2	.3	.3	.2
Sales/Receivables	7 49.2	6 58.0	5 74.3	6 65.0	6 65.0
	19 18.6	14 25.0	7 51.0	8 45.7	10 35.9
	0 .0	106 3.4	14 25.2	13 28.9	61 5.9
Cost Sales/Inventory	16 22.3	16 22.8	18 19.8	27 13.6	17 21.5
	23 16.0	23 16.0	25 14.5	31 11.6	25 14.7
	31 11.6	36 9.9	33 11.0	39 9.3	34 10.6

BUDGETS

Used for both planning and control

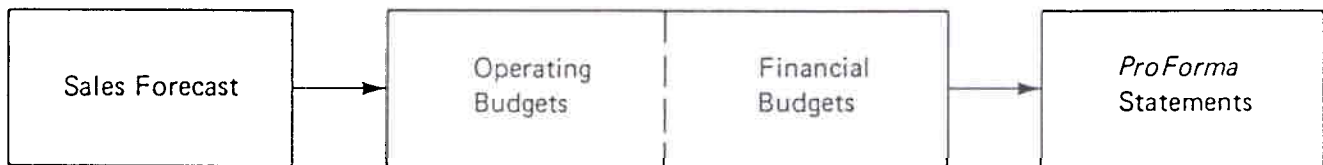
Variable and Zero-Base Budgeting

Operating and Financial Budgets

Functional and Program Budgets

OPERATING AND FINANCIAL BUDGETS

**Financial Budgets
are created from
Operating Budgets**



Operating Budgets

Sales Budget
Production Budget Quotas
Material Usage Budget
Material Purchases Budget
Direct Labor Usage Budget
Overhead Budget
Ending Inventory Budget
Selling & Admin. Exp. Budget

Financial Budgets

Cash Receipts
Cash Disbursements

OPERATING BUDGETS

**Formal statements of expected activity
in all phases of a business**

sales budget

	Units	Selling Price	Total Sales
19-inch portable color TV, Model P1	37,000	\$340	\$12,580,000
21-inch portable color TV, Model P2	22,000	360	7,920,000
21-inch console color TV, Model C1	14,000	580	8,120,000
			<u>\$28,620,000</u>

production quotas budget

	Model P1	Model P2	Model C1
Sales in units	37,000	22,000	14,000
Planned balance in finished inv.	2,000	1,200	600
Planned equivalent units in W-I-P	240	180	110
Total inventory needs	39,240	23,380	14,710
Less: Beginning finished inv.	2,480	1,650	400
Production quotas	<u>36,760</u>	<u>21,730</u>	<u>14,310</u>

materials purchases budget

	#012 Copper Wire	#3 Flux Solder	Type A Lug Bolts
Production needs	824,948 ft.	67,289 lb.	1,076,440
Planned balance in inventory	24,000 ft.	2,500 lb.	11,000
Total inventory needs	848,948 ft.	69,789 lb.	1,078,640
Less: Beginning inventory	47,540 ft.	3,100 lb.	8,800
Purchases required	801,408 ft.	66,689 lb.	1,078,640
Price per unit	.015	.12	.03
Cost of purchases	<u>\$12,021</u>	<u>\$8,003</u>	<u>\$32,359</u>

FINANCIAL BUDGETS

Pro forma income statements

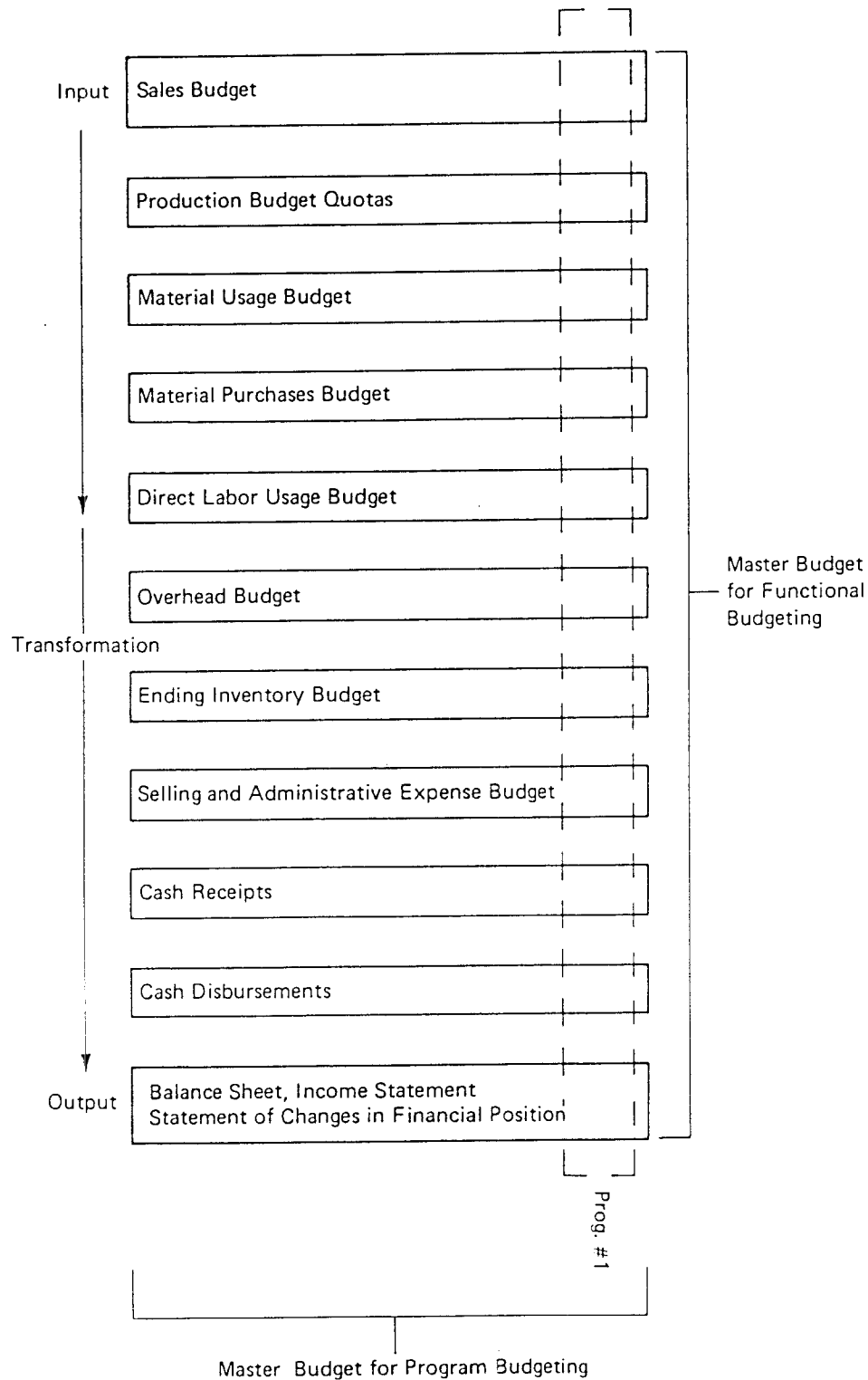
Sales			\$28,620,000
Cost of goods sold:			
Finished goods inventory, beginning		\$ 890,000	
Work-in-process, beginning	\$ 204,520		
Raw materials inventory, beginning	\$1,113,430		
Purchases of raw materials	<u>8,537,730</u>		
Raw materials available	9,651,160		
Raw materials inventory, ending	<u>1,230,700</u>		
Raw materials used	8,420,460		
Direct labor	7,925,640		
Overhead	<u>6,630,700</u>		
Total work-in-process	23,181,320		
Work-in-process, ending	<u>167,900</u>		
Jobs finished during the year		<u>23,013,420</u>	
Finished goods available for sale		23,903,420	
Finished goods inventory, ending		<u>1,170,000</u>	
Cost of goods sold			<u>22,733,420</u>
Gross profit			5,886,580
Less: Selling & administrative expenses			<u>5,068,700</u>
Net income from operations before income taxes			<u>\$ 817,880</u>

FUNCTIONAL AND PROGRAM BUDGETS

FUNCTIONAL BUDGETING
vertical budgeting
profit-oriented organizations

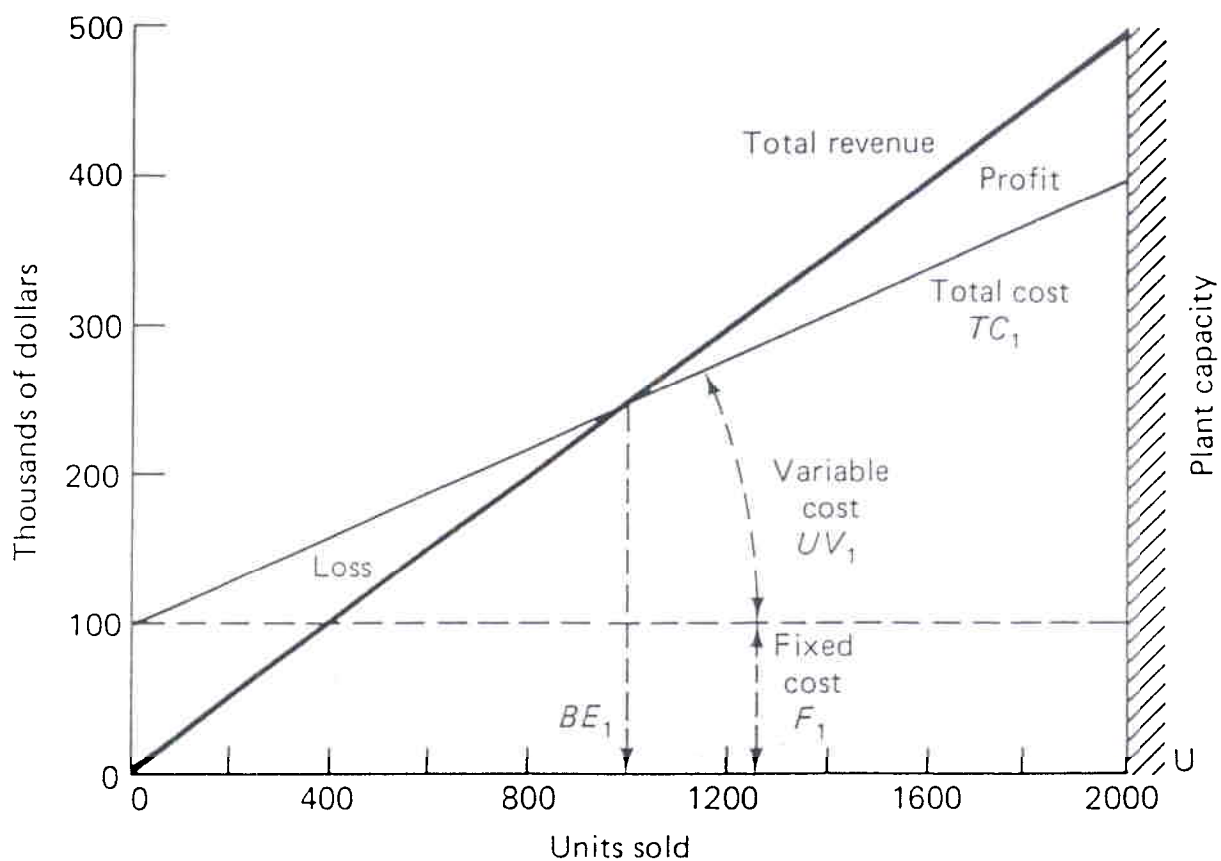
PROGRAM BUDGETING
horizontal budgeting
not-for-profit organizations

MASTER BUDGETS

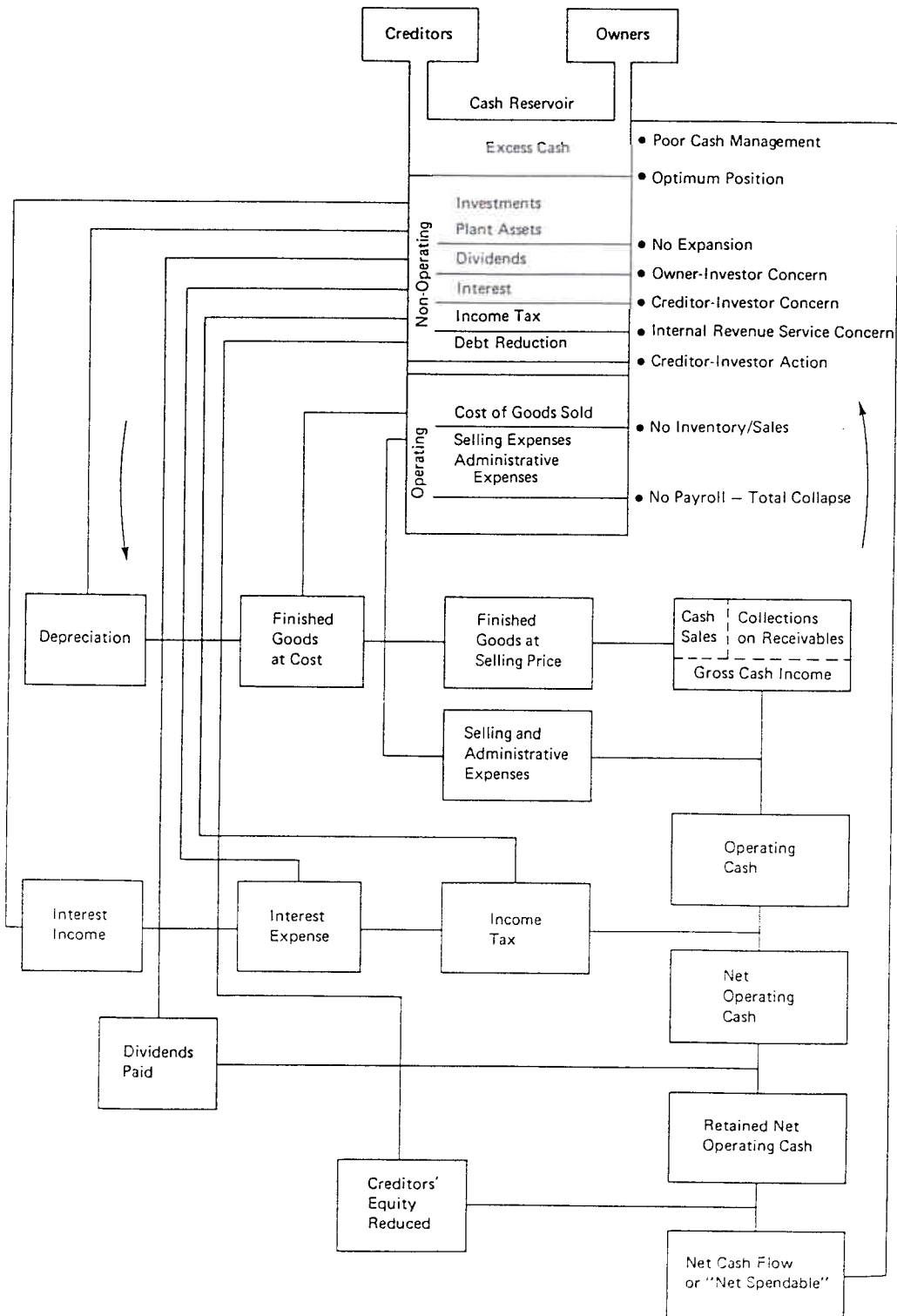


BREAKEVEN ANALYSIS

Assesses the volume at which there is neither profit nor loss



CASH FLOW ANALYSIS



CASH FLOW ANALYSIS

<u>Details</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
OPERATING SOURCES					
Cash sales	\$ 100,000	\$ 100,000	\$ 200,000	\$ 500,000	\$ 700,000
Collections on accounts receivable	900,000	800,000	1,200,000	1,700,000	4,600,000
Total operating sources	1,000,000	900,000	1,400,000	2,200,000	5,500,000
USES					
Cash purchases	80,000	80,000	150,000	200,000	510,000
Payments on accounts payable	920,000	520,000	650,000	800,000	2,890,000
Cash operating expenses	400,000	400,000	500,000	600,000	1,900,000
Total operating uses	1,400,000	1,000,000	1,300,000	1,600,000	5,300,000
NET OPERATING CASH	\$ (400,000)	\$ (100,000)	\$ 100,000	\$ 600,000	\$ 200,000
NON-OPERATING SOURCES					
Interest income	\$ 10,000	\$ 10,000	\$ 10,000	\$ 8,000	\$ 38,000
Sale of investments	—	—	100,000	—	100,000
Sale of fixed assets	50,000	—	—	—	50,000
Contributed capital	—	100,000	—	—	100,000
Loans, bonds, or other forms of long-term creditors' equity	340,000	—	—	—	340,000
Total non-operating sources	400,000	110,000	110,000	8,000	628,000
USES					
Interest expense	—	5,000	5,000	5,000	15,000
Investments	—	—	—	100,000	100,000
Purchase of fixed assets	—	—	—	300,000	300,000
Repayment of creditors' equity	—	—	—	340,000	340,000
Dividends	—	—	—	50,000	50,000
Repurchase of owners' equity	—	—	—	—	—
Total non-operating uses	—	5,000	5,000	795,000	805,000
NET NON-OPERATING CASH	\$ 400,000	\$ 105,000	\$ 105,000	\$ (787,000)	\$ (177,000)
NET CASH	—	5,000	205,000	(187,000)	23,000
CASH BALANCE—BEGINNING	100,000	100,000	105,000	310,000	100,000
CASH BALANCE—ENDING	\$ 100,000	\$ 105,000	\$ 310,000	\$ 123,000	\$ 123,000

FINANCIAL AUDITS

Intended to ensure validity of accounting system reports

External Audits

conducted to ensure conformance to GAAP

Strategic Audits

independent evaluation of company operations

Internal Audits

questioning important actions within the org.

PRIMARY TYPES OF MANAGERIAL CONTROL SYSTEMS

PRODUCTION

FINANCIAL

HUMAN RESOURCE

HUMAN RESOURCE CONTROLS

MANAGEMENT AUDITS

HUMAN RESOURCE ACCOUNTING

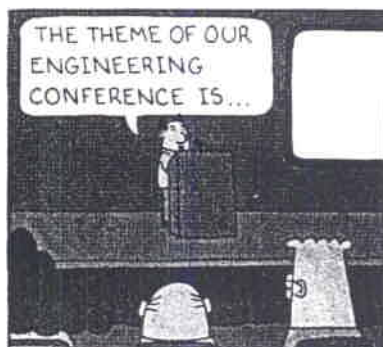
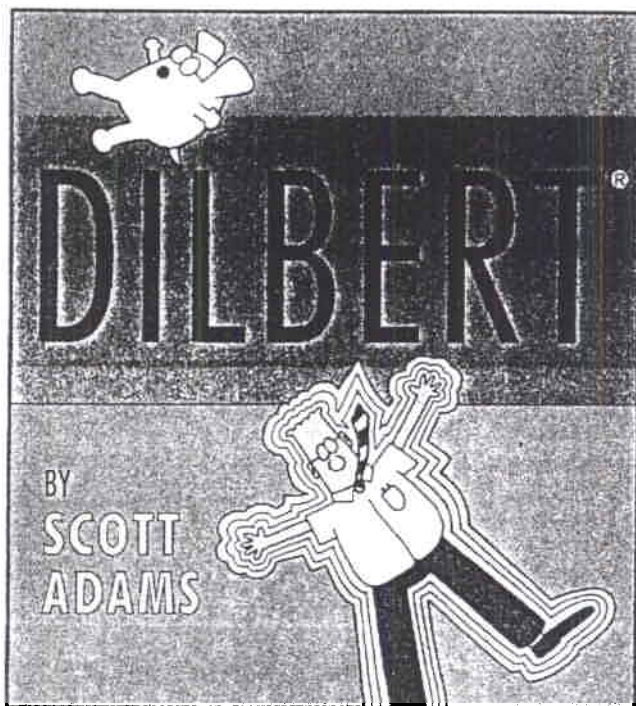
FORMAL BEHAVIOR CONTROLS

INFORMAL SOCIAL CONTROLS

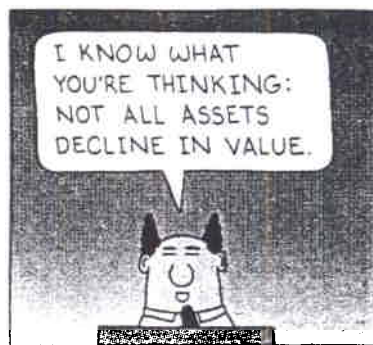
HUMAN RESOURCE ACCOUNTING

**Accounting for people
as organizational resources,
rather than simply expenses**

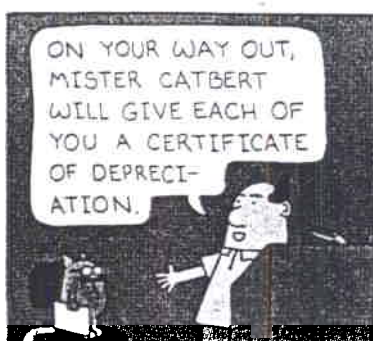
**Primary purpose of a
human resource accounting system
is to help management plan and control
the use of human resources
effectively and efficiently**



SCOTT ADAMS E-mail: SCOTTADAMS@AOL.COM



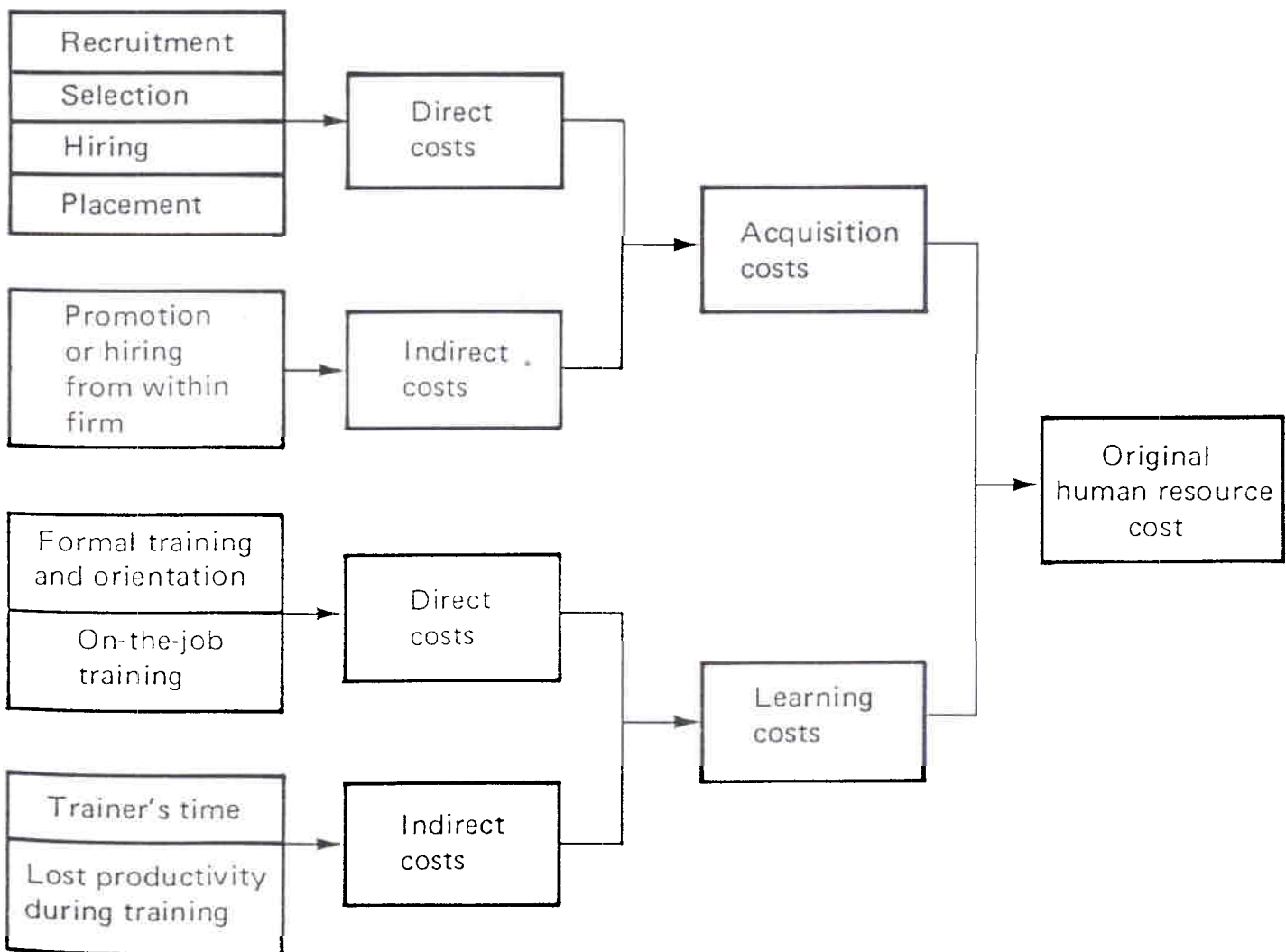
11/4/97 © 1997 United Feature Syndicate, Inc.



WWW.UNITEDMEDIA.COM

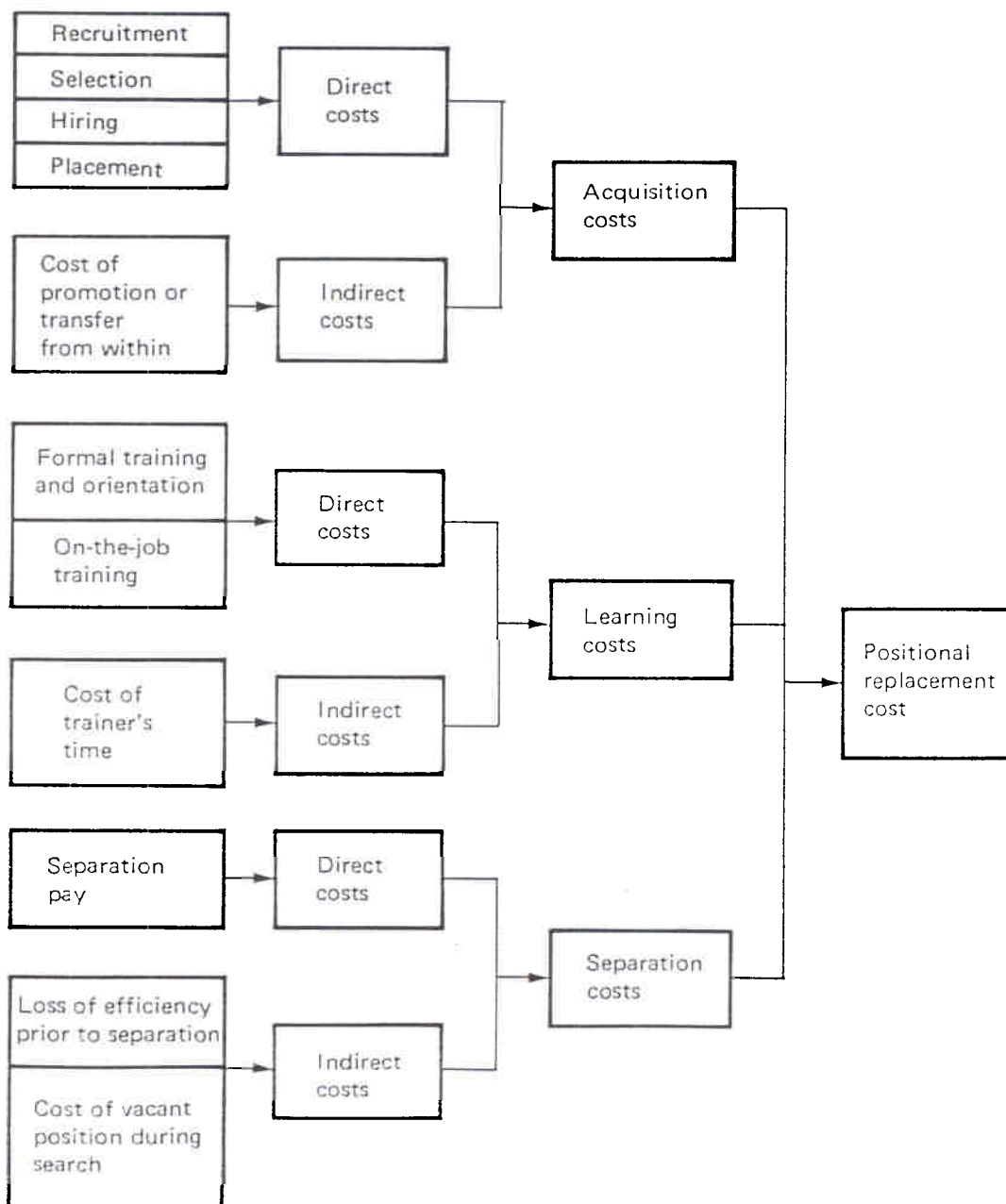
HUMAN RESOURCE ACCOUNTING

MODEL FOR MEASUREMENT OF ORIGINAL HUMAN RESOURCE COSTS



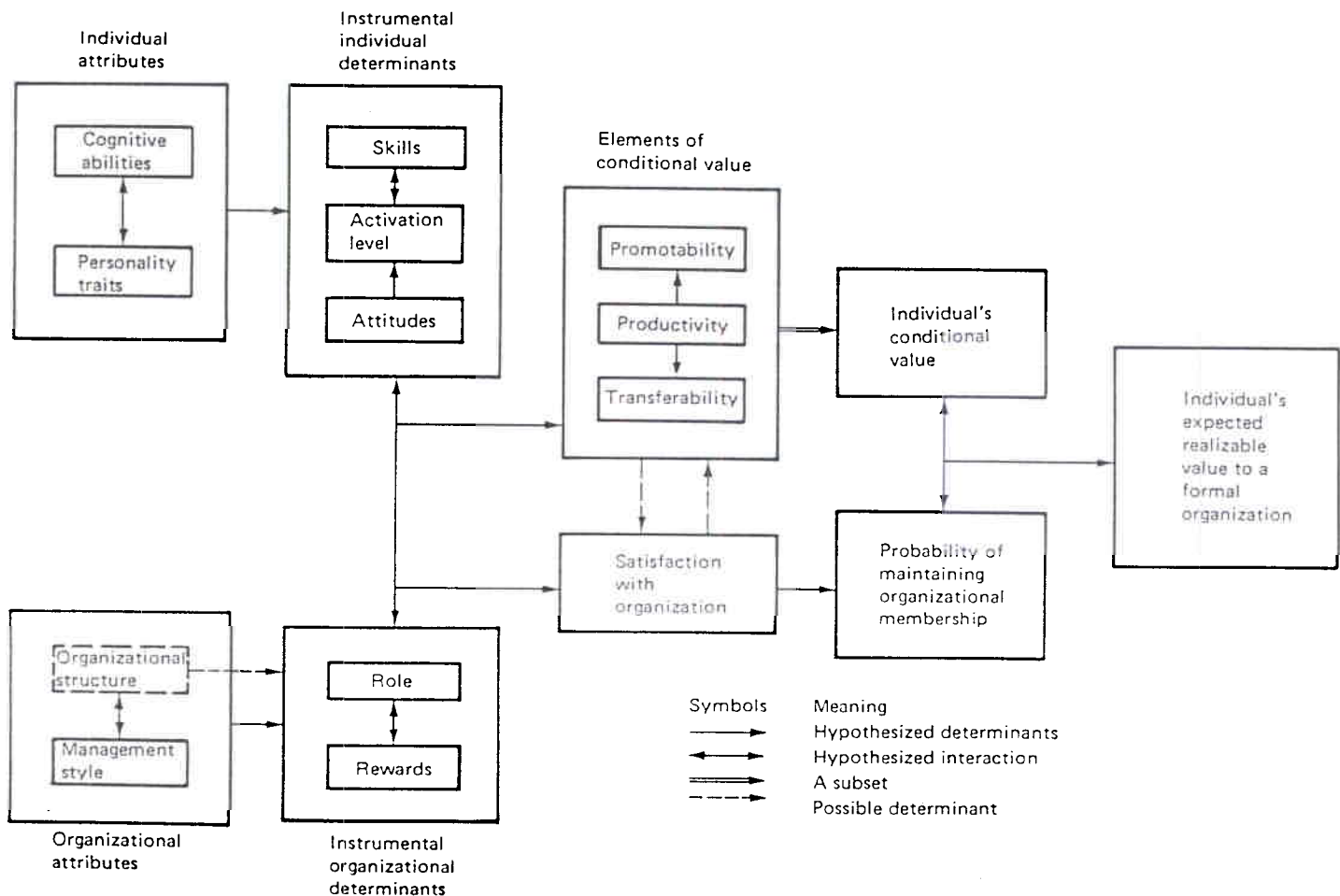
HUMAN RESOURCE ACCOUNTING

MODEL FOR MEASUREMENT OF HUMAN RESOURCE REPLACEMENT COSTS



HUMAN RESOURCE ACCOUNTING

MODEL OF THE DETERMINANTS OF AN INDIVIDUAL'S VALUE TO A FORMAL ORGANIZATION



HUMAN RESOURCE ACCOUNTING

BALANCE SHEET and INCOME STATEMENT

<i>BALANCE SHEET</i>		
	<i>Conventional and Human Resource</i>	<i>Conventional Only</i>
<i>Assets</i>		
Total current assets	\$12,810,346	\$12,810,346
Net property, plant and equipment	3,343,379	3,343,379
Excess of purchase price over net assets acquired	1,291,079	1,291,079
Net investments in human resources	1,561,264	—
Other assets	209,419	209,419
	<u>\$19,215,487</u>	<u>\$17,654,223</u>
<i>Liabilities and Stockholders' Equity</i>		
Total current liabilities	\$ 3,060,576	\$ 3,060,576
Long term debt, excluding current installments	5,095,000	5,095,000
Deferred compensation	95,252	95,252
Deferred federal income taxes based upon full tax deduction for human resource costs	780,632	—
Stockholders' equity:		
Capital stock	1,209,301	1,209,301
Additional capital in excess of par value	5,645,224	5,645,224
Retained earnings:		
Financial	2,548,870	2,548,870
Human resources	780,632	—
Total stockholders' equity	<u>10,184,027</u>	<u>9,403,395</u>
	<u>\$19,215,487</u>	<u>\$17,654,223</u>
<i>STATEMENT OF INCOME</i>		
Net sales	\$34,123,202	\$34,123,202
Cost of sales	21,918,942	21,918,942
Gross profit	12,204,260	12,204,260
Selling, general and administrative expenses	9,417,933	9,417,933
Operating income	2,786,327	2,786,327
Other deductions, net	383,174	383,174
Income before federal income taxes	2,403,153	2,403,153
Net increase in human resource investment	137,700	—
Adjusted income before federal income taxes	2,540,853	2,403,153
Federal income taxes	1,197,850	1,129,000
Net income	<u>\$ 1,343,003</u>	<u>\$ 1,274,153</u>

Sir Matthew Webster Jenkinson
early 1900s
Journal of Accountancy

**Though your balance-sheet's a model
of what balance-sheets should be,
Typed and ruled with great precision
in a type that all can see;**

**Though the grouping of the assets
is commendable and clear,
And the details which are given
more than usually appear;**

**Though investments have been valued
at the sale price of the day,
And the auditor's certificate
shows everything O.K.;**

**One asset is omitted --
and its worth I want to know,
The asset is the value
of the men who run the show.**