Notes

MPAcc
Accounting Bootcamp
Summer
2019

Accounting Equation

A = L + SE

2

A = L + SE

Assets

Something of value that is owned or controlled.

3

A = L + SE

Liabilities

A promise to pay cash, provide goods, or perform services in the future.

4

A = L + SE

Stockholders' Equity

5

A = L + SE

Creditors

Owners

Stockholders

6

$$A = L + SE$$

Debt

Issue of Stock

+

Earnings

7

Stockholders' Equity

Capital Stock

Shares of stock sold to investors who become owners (stockholders).

8

Stockholders' Equity

Retained Earnings

Total earnings from all prior years that have been retained (not distributed to stockholders as dividends).

9

Stockholders' Equity

Capital Stock

Retained Earnings

+ Revenues
- Expenses
- Dividends

10

Stockholders' Equity

Capital Stock

Retained Earnings

+ Net Income
- Dividends

11

Revenues

measure what is

Earned

Most often the result of providing goods or services to customers.

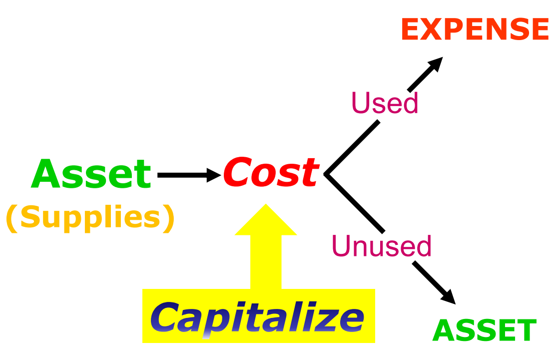
12

Expense

A **cost** that helps to produce **revenue**.

13

Cost versus **Expense**



14

Revenue

(Measures what is earned.)

~ Creates an asset ~

Examples: **Accounts Receivable** and **Cash**

Expense

(A cost that helps to produce revenue.)

~ Creates a liability or uses up an asset ~

Examples: **Accounts Payable** and **Cash**

15

Revenue $\xrightarrow{\text{not}}$ Asset

Revenue $\xrightarrow{\text{creates}}$ Asset

Expense $\xrightarrow{\text{not}}$ Liability

Expense $\xrightarrow{\text{creates}}$ Liability

or

Expense $\xrightarrow{\text{uses}}$ Asset

16

Revenue

Beta performed services for $500.

A	=	L	+	SE
+500				+500 (revenue)

$\downarrow$

Cash

or **Accounts Receivable**

17

Expense

Beta received a $200 telephone bill and paid it **upon receipt**.

A	=	L	+	SE
-200				-200 (expense)

$\downarrow$

Cash

18

Expense

Beta received a $200 telephone bill and paid it at the **end** of the month.

A	=	L	+	SE
		+200		-200 (expense)

Utilities Payable

BALANCE SHEET

Assets	35,000	Liabilities	14,600
		Capital Stock	20,000
		Retained Earnings	400

INCOME STATEMENT

Revenues	8,200
Expenses	6,800
Net Income	1,400

create

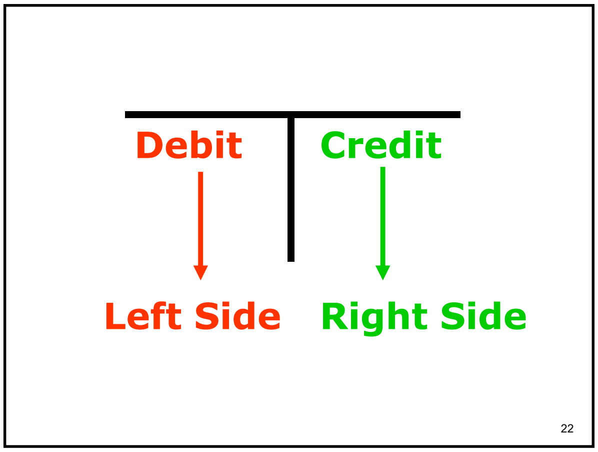
use

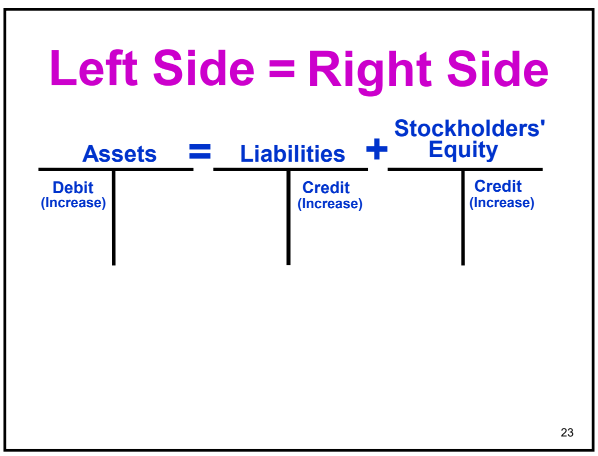
create

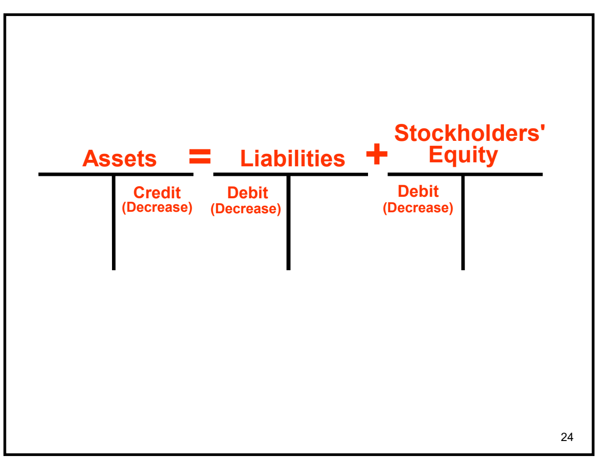
STATEMENT OF RETAINED EARNINGS

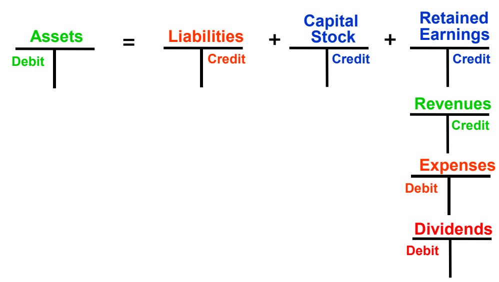
Retained Earnings, 1/1	0
Net Income	1,400
Dividends	1,000
Retained Earnings, 12/31	400

	A	= L	+ SE
Issued $5,000 of capital stock.	+5,000		+5,000
Purchased a $2,000 computer on credit.	+2,000	+2,000	
Received a $500 telephone bill but did not pay it.		+500	-500
Performed services on account for $3,000.	+3,000		+3,000
Obtained a $4,000 loan from the bank.	+4,000	+4,000	
Paid telephone bill.	-500	-500	


Debit
Credit
Left Side
Right Side
22


Left Side = Right Side
Assets = Liabilities + Stockholders' Equity
Debit (Increase)
Credit (Increase)
Credit (Increase)
23


Assets = Liabilities + Stockholders' Equity
Credit (Decrease)
Debit (Decrease)
Debit (Decrease)
24



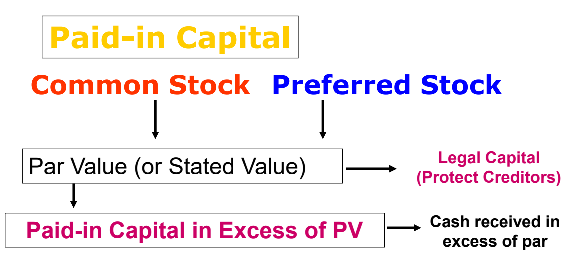
Issued $5,000 of capital stock.

Cash		Capital Stock	
5,000			5,000

Cash 5,000
Capital Stock 5,000

26

Capital Stock



27

Issued 1,000 shares of $1 par value common stock for $5 per share.

Cash		Common Stock		PIC in Excess of Par Value	
5,000			1,000		4,000

Cash	**5,000**	
Common Stock		**1,000**
Paid-in Capital in Excess of PV		**4,000**

28

Purchased a $2,000 computer on credit.

Equipment		Accounts Payable	
2,000			2,000

Equipment	**2,000**	
Accounts Payable		**2,000**

29

Received a $500 telephone bill but did not pay it.

Utilities Expense		Utilities Payable	
500			500

Utilities Expense	**500**	
Utilities Payable		**500**

30

Performed services on account for $3,000.

Accounts Receivable		Service Revenue	
3,000			3,000

Accounts Receivable	**3,000**	
Service Revenue		**3,000**

31

Obtained a $4,000 loan from the bank.

Cash		Notes Payable	
4,000			4,000

Cash	**4,000**	
Notes Payable		**4,000**

32

Paid telephone bill.

Utilities Payable		Cash	
500			500

Utilities Payable	**500**	
Cash		**500**

33

Accrual Accounting

Revenues are recorded in the period **earned**.

Expenses are **matched** to the revenues they help produce.

34

Performed $1,000 of services in December 2019. Collected $600 in 2019 and $400 in 2020.

~

Paid $300 for supplies in 2019; used $200 in 2019.

~

Purchased a $500 piece of equipment for cash at the beginning of 2019 (useful life = 5 years).

35

Performed $1,000 of services in December 2019. Collected $600 in 2019 and $400 in 2020.

2019		2020	
Received	$ 600	Received	$ 400
Earned	$1,000	Earned	0

	2019	2020
Cash	$ 600	$ 400
Accrual	$1,000	None

36

Paid $300 for supplies in 2019; used $200 in 2019.

2019		2020	
Paid	$300	Paid	0
Used	$200	Used	$100

	2019	2020
Cash	$300	None
Accrual	$200	$100

37

Purchased a $500 piece of equipment for cash at the beginning of 2019 (useful life = 5 years)

$$\frac{\$500}{5 \text{ years}} = \$100$$

38

Purchased a $500 piece of equipment for cash at the beginning of 2019 (useful life = 5 years)

2019		2020	
Paid	$500	Paid	0
Used	$100	Used	$100

	2019	2020
Cash	$500	None
Accrual	$100	$100

39

Year:2019	Cash	Accrual
Revenues:		
Service Revenue	600	1,000
Expenses:		
Supplies	300	200
Depreciation	500	100
Net Income	**(200)**	**700**

40

Depreciation Expense	100	
Accumulated Depreciation		100

Balance Sheet	2019	2020	2021	2022	2023	2024
Equipment	500	500	500	500	500	500
Less: **Accumulated Depreciation**	100	200	300	400	500	500
Book Value	400	300	200	100	0	0

41

Depreciation

Amortization

Depletion

42

Equipment	$20,000
Accumulated Depreciation	16,000
Book Value	$ 4,000

Sold (Cash received)

> Book Value	< Book Value
Gain	Loss

43

	Gain	Loss
Cash Received	$ 5,000	$ 1,000
Book Value	4,000	4,000
Gain	$ 1,000	
Loss		$ (3,000)

44

Gain

Cash	5,000	
Accumulated Depr	16,000	
Equipment		20,000
Gain on Sale		1,000

Loss

Cash	1,000	
Accumulated Depr	16,000	
Loss on Sale	3,000	
Equipment		20,000

45

Declaration Date

Dividends	1,000	
Dividends Payable		1,000

Ex-Dividend Date (2 to 4 weeks later)

No entry

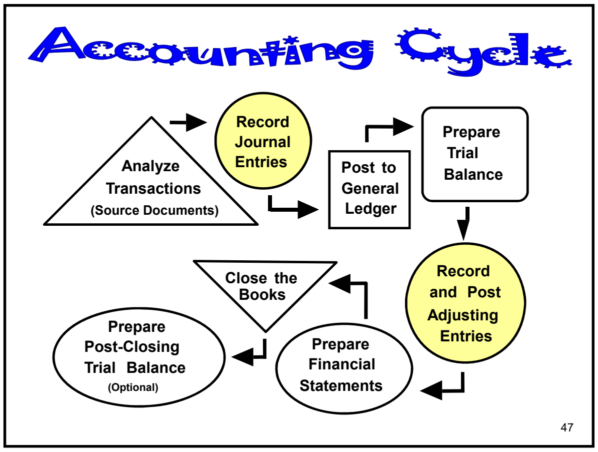
Date of Record (2 days later)

No entry

Payment Date (2 to 4 weeks later)

Dividends Payable	1,000	
Cash		1,000

46



The Adjusting Process

Adjusting Journal Entries (AJE)

Accrual accounting requires that economic events be recorded in the proper accounting period.

2019 2020

Some economic events affect more than one accounting period.

Some economic events that were not recorded as transactions are required to be recorded as AJEs.

48

Accrued Revenues

Earned but not yet collected or recorded.

Deferred Revenues

Collected in advance but not yet earned.

Accrued Expenses

Incurred but not yet paid or recorded.

Deferred Expenses

Paid (prepaid) but not yet incurred.

49

Accrued Revenues

Earned but not yet collected or recorded.

Facts: On December 1, Alpha made a 60-day loan of $5,000 to another company. Alpha will receive interest of $100 at the end of 60 days.

Dec 31	Interest Receivable	50	
	Interest Revenue		50

50

Dec 31	Salaries Expense	3,000	
	Salaries Payable		3,000

Accrued Expenses

Incurred but not yet paid or recorded.

Facts: Alpha pays employee wages of $5,000 per week. Paychecks are issued on the 2nd and 4th Friday of each month. The last payday is Friday the 26th.

51

December - January

M	T	W	TH	F
22	23	24	25	26
29	30	31	1	2
5	6	7	8	9

52

Dec 31 AJE	Salaries Expense	3,000	
	Salaries Payable		3,000
Jan 9	Salaries Expense	7,000	
	Salaries Payable	3,000	
	Cash		10,000

Use of reversing entries –

Jan 1 **Reversing**	Salaries Payable	3,000	
	Salaries Expense		3,000
Jan 9	Salaries Expense	10,000	
	Cash		10,000

53

Jan 9	**Salaries Expense**	**7,000**	
	Salaries Payable	3,000	
	Cash		10,000

Jan 1 **Reversing**	Salaries Payable	3,000	
	Salaries Expense		**3,000**
Jan 9	**Salaries Expense**	**10,000**	
	Cash		10,000

54

Facts: On December 1, Alpha rented one of its vacant warehouses to another company for 6 months at $1,000 per month. The total rent of $6,000 was received in advance.

Deferred Revenues

Collected in advance but not yet earned.

Dec 1	Cash	6,000	
	Unearned Rent Revenue		6,000
Dec 31	Unearned Rent Revenue	1,000	
	Rent Revenue		1,000

55

$$\frac{\$3{,}000}{3 \text{ years}} = \$1{,}000$$

Dec 31	Insurance Expense	1,000	
	Prepaid Insurance		1,000

Facts: On January 1, Alpha purchased a 3-year insurance policy for $3,000.

Deferred Expenses

Paid (prepaid) but not yet incurred.

56

Unusual AJEs

Prepaids initially recorded as **expenses**

Recorded prepaid rent paid for one year on March 1.

Normal

Mar 1	**Prepaid Rent**	**12,000**	
	Cash		**12,000**

AJE required to record **10 months** of rent expense is:

Dec 31 AJE	**Rent Expense**	**10,000**	
	Prepaid Rent		**10,000**

Unusual

Mar 1	**Rent Expense**	**12,000**	
	Cash		**12,000**
Dec 31 AJE	**Prepaid Rent**	**2,000**	
	Rent Expense		**2,000**

57

Advances initially recorded as revenues

Recorded rent received in advance for one year on March 1.

Normal

Mar 1	**Cash**	**12,000**	
	Unearned Rent Revenue		**12,000**

AJE required to record **10 months** of rent revenue is:

Dec 31 AJE	**Unearned Rent Revenue**	**10,000**	
	Rent Revenue		**10,000**

Unusual

Mar 1	**Cash**	**12,000**	
	Rent Revenue		**12,000**
Dec 31 AJE	**Rent Revenue**	**2,000**	
	Unearned Rent Revenue		**2,000**

58

Closing Process

Creates zero balances in all **temporary** accounts to begin the new accounting period.

Transfers **revenues expenses**, and **dividends** (and all other temporary accounts) into **retained earnings**

59

BALANCE SHEET

Assets	35,000	Liabilities	14,600
		Capital Stock	20,000
		Retained Earnings	**400**

INCOME STATEMENT

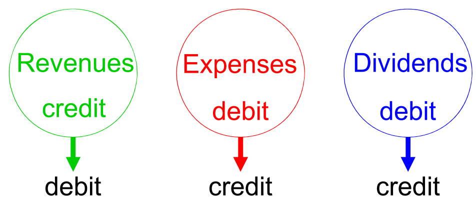
Revenues	**8,200**
Expenses	**6,800**
Net Income	**1,400**

STATEMENT OF RETAINED EARNINGS

Retained Earnings 1/1	0
Net Income	**1,400**
Dividends	**1,000**
Retained Earnings 12/31	**400**

60

To zero out the old balances . . .



Service Fees

2019		3,000	
Closing	3,000		
2020		0	

Rent Expense

400			2019
	400	Closing	
0			2020

Dividends

300			2019
	300	Closing	
0			2020

61

Cash	$ 700	
Accounts Receivable	1,500	
Supplies	400	
Accounts Payable		$ 300
Capital Stock		1,800
Retained Earnings		0
Dividends	**300**	
Service Fees		**3,000**
Rent Expense	**400**	
Salaries Expense	**1,000**	
Utilities Expense	**500**	
Income Tax Expense	**300**	
Total	$ 5,100	$ 5,100

62

Service Fees	**3,000**	
Income Summary		**3,000**
Income Summary	**2,200**	
Rent Expense		**400**
Salaries Expense		**1,000**
Utilities Expense		**500**
Income Tax Expense		**300**

63

Income Summary

Expenses	**2,200**	**3,000**	Revenues
		800	Credit Balance **Net Income**
	800		
		0	

Income Summary	**800**	
Retained Earnings		**800**
Retained Earnings	**300**	
Dividends		**300**

64

Revenues → Income Summary
(and all other temporary accounts with a normal credit balance)

Expenses → Income Summary
(and all other temporary accounts with a normal debit balance)

Income Summary → Retained Earnings

Dividends → Retained Earnings

65

Beginning Inventory + **Net Purchases** = Cost of Goods Available for Sale

→ Sold and becomes **Cost of Goods Sold**

→ Not sold and is still in **Ending Inventory**

66

Beginning inventory	$ 5,000
Net purchases	20,000
Goods available for sale	25,000
Less: Ending inventory	3,000
Cost of Goods Sold	$22,000

67

Sales

Sales returns & allowances

Sales discounts

Net Sales

Purchases

Purchase returns & allowances

Purchase discounts

Net Purchases

68

Inventory Systems

Perpetual			Periodic		

Buyer

Purchase

Inventory	300		Purchases	300	
Accounts Payable		300	Accounts Payable		300

Return

Accounts Payable	50		Accounts Payable	50	
Inventory		50	Purchase R & A		50

Discount

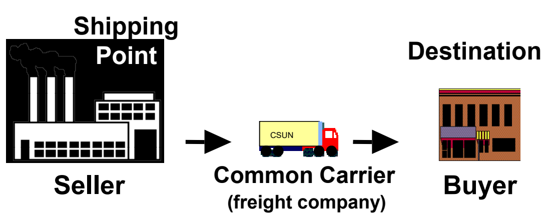
Accounts Payable	250		Accounts Payable	250	
Cash		245	Cash		245
Inventory		5	Purchase Discounts		5

69

Seller

Perpetual			Periodic		
Sale					
Accounts Receivable	300		Accounts Receivable	300	
Sales		300	Sales		300
Cost of Goods Sold	180				
Inventory		180			
Return					
Sales R & A	50		Sales R & A	50	
Accounts Receivable		50	Accounts Receivable		50
Inventory	30				
Cost of Goods Sold		30			
Discount					
Cash	245		Cash	245	
Sales Discounts	5		Sales Discounts	5	
Accounts Receivable		250	Accounts Receivable		250

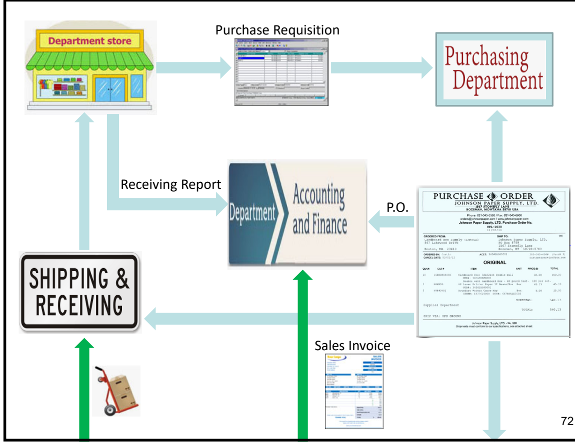
70



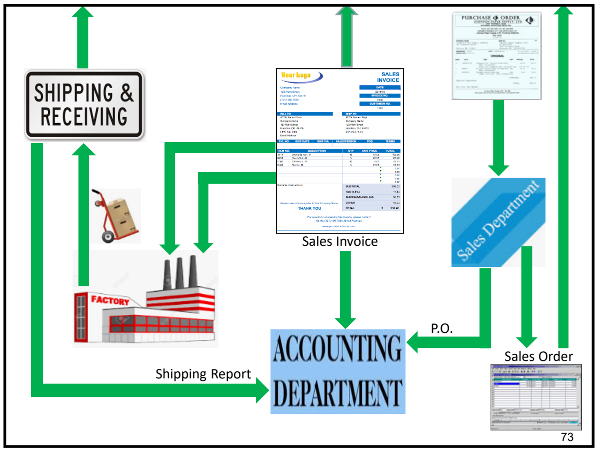
FOB Shipping Point
- Buyer's Expense
- Buyer's Inventory
- Buyer's Risk

FOB Destination
- Seller's Expense
- Seller's Inventory
- Seller's Risk

71



72



Sales			**910**
Less: Sales returns and allowances		**6**	
Sales discounts		**4**	**10**
Net sales			**900**
Beginning inventory		**200**	
Purchases	**365**		
Less: Purchase returns and allowances	**4**		
Purchase discounts	**3**		
Net purchases		**358**	
Add: Freight-in		**2**	
Cost of goods available for sale		**560**	
Less: Ending inventory		**60**	
Cost of goods sold			**500**
Gross profit			**400**

74

Operating expenses			
Selling expenses			
Freight-out	**10**		
Advertising expense	**70**	**80**	
General & administrative expenses			
Depreciation expense	**100**		
Salaries expense	**200**	**300**	
Total operating expenses			**380**
Income from operations			**20**
Other revenues and gains			
Gain on sale of . . .	**20**		
Interest revenue	**30**	**50**	
Other expenses and losses			
Loss on sale of . . .	**5**		
Interest expense	**15**	**20**	**30**
Income before income taxes			**50**
Income tax expense			**10**
Net income			**40**

Beginning Inventory	20		20
Net Purchases	70		70
Cost of Goods Available	90		90
Ending Inventory	30	+1	31
Cost of Goods Sold	60	-1	59

76

Beginning Inventory	20	+1	21
Net Purchases	70		70
Cost of Goods Available	90	+1	91
Ending Inventory	30		30
Cost of Goods Sold	60	+1	61

77

Beginning Inventory	20		20
Net Purchases	70	+1	71
Cost of Goods Available	90	+1	91
Ending Inventory	30		30
Cost of Goods Sold	60	+1	61

78

Beginning Inventory	20		20
Net Purchases	70	+1	71
Cost of Goods Available	90		91
Ending Inventory	30	+1	31
Cost of Goods Sold	60		60

79

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81