ACCOUNTING BASICS

CONCEPTS, PRINCIPLES & BASIS

A. Entity Concept
   - An organization stands apart from other organizations as a separate economic unit

B. Going Concern Concept
   - Entity will continue to operate long enough to recover cost of its assets

C. Time Period Concept
   - Report information at regular intervals

D. Reliability Principle
   - Accounting records must be based on the most reliable (verifiable by an independent observer) data available

E. Cost Principle
   - Assets/services acquired are recorded at actual, historical cost

F. Revenue Principle
   - 1. Establishes when to record revenue, usually when earned
   - 2. Revenue is earned when the business has completed rendering services to the customer
   - 3. Amount to record is equal to cash value of services or goods

G. Matching Principle
   - Expenses matched against revenues in same accounting period

H. The Accounting Period
   - 1. Usually one year ending December 31
   - 2. Fiscal year ends on any other date of the year

I. Cash Basis Accounting
   - Impact of events not recognized until cash is paid or received

J. Accrual Basis Accounting
   - 1. Impact of events recognized as they occur
   - 2. Transactions are recorded even when cash not received or paid
   - 3. Required by GAAP

K. Stable Monetary Unit
   - Basis for ignoring inflation

THE ACCOUNTING EQUATION

ASSETS = LIABILITIES + OWNERS’ EQUITY

A. Assets
   - Economic resources expected to benefit company in future
   a. Cash: Money, certificates of deposit, and checks
   b. Accounts Receivable: Oral or implied promise, usually arise from sales made to customers, no promissory note exists
   c. Notes Receivable: Promissory notes
   d. Inventory: Merchandise the entity holds or manufactures to sell
   e. Land: Property the business owns and uses in operations
   f. Building: Cost of an office, warehouse, garage, etc.
   g. Equipment, furniture, & fixtures: Accounts that record the cost of office equipment and store equipment

B. Liabilities
   - Economic obligations, debts
   a. Accounts Payable: Oral or implied promise to pay debts which arise from credit purchases
   b. Notes Payable: Amounts the company must pay as a result of signing a promissory note for goods or services

C. Taxes Payable: Wages payable, Salary payable

D. Owners’ Equity: Claims held by owners, divided into two main categories
   1. Contributed or Paid in Capital (Amounts invested in corporation by owners)
   2. Retained Earnings (Income earned from operations)

   a. Expenses: Decreases in retained earnings resulting from operations
   b. Revenues: Increases in retained earnings resulting from operations
   c. Dividends: Distributions of assets to shareholders decreases R.E.

BALANCE SHEET ACCOUNTS

ASSETS

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit Credit</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes Receivable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LIABILITIES

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit Credit</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned rent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td></td>
<td></td>
<td>$669,900</td>
</tr>
</tbody>
</table>

STOCKHOLDERS’ EQUITY

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit Credit</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, $10 par (10,000 authorized and issued)</td>
<td></td>
<td></td>
<td>$100,000</td>
</tr>
<tr>
<td>Paid-in excess of par</td>
<td></td>
<td></td>
<td>62,080</td>
</tr>
<tr>
<td>Total paid-in capital</td>
<td>162,080</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td></td>
<td>62,300</td>
<td></td>
</tr>
<tr>
<td>TOTAL STOCKHOLDERS’ EQUITY</td>
<td></td>
<td>224,380</td>
<td></td>
</tr>
<tr>
<td>TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY</td>
<td>291,280</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INCOME STATEMENT

A. Summary of revenues and expenses of an entity
B. For a period in time
C. Also called Statement of Earnings or Statement of Operations
D. Reports net income or net loss of the period

COMPANY INCOME STATEMENT

For Year Ended December 31, 20xx

Sales ............................................. $600,000
Less: Sales returns and allowances ........... 9,500
Sales discounts .................................. 14,000
Net sales ....................................... $586,000

Cost of goods sold:
Beginning Inventory, Jan. 1, 20xx .............. $55,000
Purchases ...................................... 490,000
Less: Purchase returns and allowances ....... 8,300
Purchase discounts ...................... 13,700
Net Purchases .................................. $476,300
Add: Transportation in ...................... 3,800
Cost of merchandise purchased ............. $484,600
Merchandise available for sale ............. 539,600
Less ending inventory ...................... 58,000
Cost of merchandise sold .................... $481,600

GROSS PROFIT ON SALES ....................... $104,400

Operating Expenses:
Selling Expenses:
Sales salaries expense ............ $39,100
Advertising expense ............... 1,200
Bad debt expense ....................... 1,000
Depreciation expense - delivery truck ............ 800
Administrative expenses:
Office salaries expense ........... $13,000
Rent expense ....................... 10,000
Depreciation expense - building .......... 900
Insurance expense ............. 1,900
Office supplies expense ........ 340
Miscellaneous expenses ........ 180
Total Administrative expenses ........ $42,300

Total operating expenses ............. $68,620

Other Income:
Interest income .................... $800
Rental income ..................... 10,000
10,800

Other expenses:
Interest expense ................ $600
10,700

NET INCOME .................................. $45,980

Average number of shares outstanding ........ 10,000

Earnings per share ................ $4.60

COMPANY RETAINED EARNINGS STATEMENT

For Year Ended December 31, 20xx

Retained earnings, January 1, 20xx ............... $16,320
Net income for year ................................ 45,980
Less dividends ................................... 0
Increase in Retained earnings .............. 45,980
Retained earnings, December 31, 20xx ........ $62,240

ACCOUNTING 1
### Operating Cycle of a Merchandise Business

**A. Purchase merchandise inventory**
- Items bought for resale to customers
- When INVOICE is received:
  - **DEBIT - Purchases**
  - i. Record Net of any quantity discounts
  - ii. Purchase Discounts - computed on Net Purchases, is a contra account to Purchases (CREDIT balance), recorded when cash is paid early
  - **CREDIT - Accounts Payable**

**B. Purchase Returns and Allowances**
- 1. Contra account to purchases (CREDIT balance)
- 2. When merchandise is returned or received damaged:
  - **DEBIT - A/P & CREDIT - Purchase Returns and Allowances**

**C. Net Purchases**
- Purchases minus discounts minus returns and allowances

**D. Transportation Cost**
- 1. Free on Board (FOB) governs legal title to goods shipped
  - a. FOB Shipping
  - i. Title passes when inventory placed on the carrier
  - b. FOB Destination
  - i. Title passes when inventory received by the buyer
  - ii. SELLER pays shipping cost
  - 2. Entry: **DEBIT-Freight In & CREDIT-cash or accounts payable**

**E. Sale of Inventory**
- 1. Journal Entry: **DEBIT - Cash or accounts receivable & CREDIT - Sales revenue**
- 2. Sales Discounts, Returns and Allowances, Contra accounts to Sales Revenue
- 3. When company receives a returned good: **DEBIT - Sales Returns and Allowances & CREDIT - A/R**
- 4. Net Sales = Sales Revenue minus Sales Discounts minus Sales Returns and Allowances

**F. Cost of Goods Sold (COGS):**
- Beginning Inventory + Freight In + Purchases = Goods available for sale - Ending Inventory

### Accounting Systems

**A. Periodic**
- 1. Inventory entries made only at the end of the period
- 2. Must calculate COGS
  - a. On the Balance Sheet, show ending inventory
  - b. On the Income Statement, show calculation of COGS
- 3. Journal Entries
  - a. To record purchase: **DEBIT-Purchases;CREDIT-A/P**
  - b. To record sales: **DEBIT-A/R & CREDIT-Sales revenue**
  - c. To Close the books, end of period
    - **DEBIT - Inc. Sumry for Beg. Inv. bal. & CREDIT - Inv. (Beg. Bal.)**
    - **DEBIT - Inv. (Ending Bal.) & CREDIT - Inc. Sumry (Ending Bal.)**
- **B. Perpetual**
  - 1. Continuous record of inventory on hand is maintained
  - 2. On hand inventory is computed daily
  - 3. Physical count only to check on perpetual records
  - 4. On the Balance Sheet, show Inventory
  - 5. On the Income Statement, Sales Revenue - COGS = Gross Margin
  - 6. Journal Entries
    - a. To record purchase: **DEBIT-Inventory; CREDIT-A/P**
    - b. To record sales: **DEBIT-A/R & CREDIT-Sales Revenue & DEBIT-COGS, CREDIT-Inventory**

### Corporate Characteristics

**A. Separate legal entity**
- 1. Formed under state law
- 2. Granted a charter from the state
- 3. Similar to an artificial person
- 4. Ownership interests are divided into shares of stock

**B. Continuity of life**
- Corporations live regardless of changes in ownership of stock

**C. No mutual agency**
- Stockholders own the business and elect Board of Directors (BOD)

**D. Limited liability**
- a. Each director is a limited liability
- b. Each officer is a limited liability
- c. Each employee is a limited liability
- d. Each creditor is a limited liability

## Financial Statements

### Statement of Cash Flows

**A. Reports cash flows from Operating, Investing & Financing activities**

**COMPANY**
**Statement of Cash Flows**
**For Year Ended December 31, 20xx**

| Cash flows from operating activities: Net income per income statement | $45,980 |
| Add: Depreciation | 1,700 |
| Allowance for doubtful accounts | 1,000 |
| 2,700 |
| Deduct: Increase in inventory | 3,000 |
| Increase in prepaid expenses | 1,000 |
| Decrease in accounts payable | 2,500 |
| $42,180 |

Cash flows from investing activities:
- Cash received from investments sold | $10,000 |
- Less: cash paid for store equipment | 3,000 |
- Net cash flow from investing activities | $7,000 |

Cash flows from financing activities:
- Cash paid for dividends | - |
- Increase in cash | $49,180 |
- Cash at the beginning of the year | 9,100 |
- Cash at the end of the year | $58,280 |

### Recording Transactions

**A. Transactions are first recorded in journals**
- 1. Record date
- 2. Record the account title
- 3. Record the posting references
- 4. Record the debits and the credits in separate columns

**B. After the amounts are journalized, they are then posted to the ledger.**
- 1. Record date
- 2. Any special notations
- 3. Journal reference
- 4. Record the debits and credits: A trial balance can now be taken, which lists all accounts and their up-to-date balance

### Accounting in Business

**A. Users of accounting information**
- 1. Individuals: To manage bank accounts, evaluate job performance and future events, personal decision making,
- 2. Businesses: To set goals, evaluate company progress, decide which building or equipment to purchase
- 3. Investors and Creditors: To decide whether to start a venture, evaluate what income they expect on their investment, analyze a company's financial statements

**B. The accounting profession**
- 1. Public accountants
  - a. Serve the general public
  - b. Work includes auditing, income tax planning and preparation, management consulting
  - c. 10% of all accountants
- 2. Private accountants
  - a. Work for a single business
  - b. Examples are restaurants, charitable organizations, educational institutions, and government agencies

**C. Accounting organizations and designations**
- 1. American Institute of Certified Public Accountants (AICPA)
  - a. The national professional organization of CPAs
  - b. Prepares and grades the CPA exam
  - d. Each state has its own AICPA chapter
- 2. Financial Accounting Standards Board (FASB)
  - a. Formulates generally accepted accounting principles (GAAP)
  - b. Examples are restaurants, charitable organizations, educational institutions, and government agencies

**D. Certification**
- 1. Certified Public Accountant (CPA)
- 2. Certified Management Accountant (CMA)
- 3. Certified Internal Auditor (CIA)

### Corporate Characteristics

**A. Separate legal entity**
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- d. Each creditor is a limited liability

## Assets

### Cash

**A. First item on the Balance Sheet**
- 1. Difference between actual cash receipts and recorded receipts
- 2. If sales revenue exceeds cash receipts DEBIT Cash Short and Over (Misc. Expense)
- 3. If cash receipts exceed sales revenue CREDIT Cash Short and Over (Other Revenue)

**B. Petty Cash**
- 1. Small amount of cash on hand to pay for minor expenses
- 2. Designate custodian
- 3. Keep specific amount in fund (Imprest system)
- 4. All fund disbursements are supported by petty cash ticket-replenish fund through normal cash disbursement procedures
Plant Assets:
Short-term Notes Payable:
Unearned Revenue:
Specific Unit Revenue collected in advance
6 ........ 8.92%
Bonds
First-in, First-out (FIFO)
DEBIT - Interest Expense (If proceeds< principal amount)
Allowance Method
benefit from rights, patents,
for period is amount of asset's
Notes Receivable:
Intangible Assets:
Cost of Assets
ACCOUNTS RECEIVABLE & NOTES RECEIVABLE
A. Receivables
1. Claims against businesses and individuals
2. Accounts Receivable: Amounts that customers owe
   a. Sometimes called Trade Receivables
   b. Current assets
3. Notes Receivable: Promise in writing by debtor
   a. If due in one year-Current Asset
   b. If due in more than one year-Long Term Asset
B. Uncollectible Accounts (Bad Debts)
1. Allowance Method (based on Accounts Receivable)
   a. Allowance for Accountscontra asset related to A/R
   b. A/R - Allowance for Uncollectible Accounts=Net Realizable Value of A/R
   c. Writing off accounts-entry has no effect on net income; no expense is incurred
   d. DEBIT- Allowance for Uncollectible Accounts
   e. CREDIT- Accounts Receivable
   f. Recovery of an account previously written off
   i. Reimstate Account; DEBIT=Accounts Receivable
   ii. CREDIT= Allowance for Uncollectible Accounts
   iii. Record cash collected, DEBIT Cash
   iv. CREDIT= Allowance for Uncollectible Accounts
2. Direct Write-Off Method: Written off when determined uncollectable
   a. DEBIT- Uncollectible Account Expense
   b. CREDIT- A/R
C. Notes Receivable
1. More formal than accounts receivable
   a. Promissory note (written promise to pay)
   b. DEBIT - Note Receivable-Name
   c. CREDIT - Cash or A/R
   d. When collected
   i. CREDIT - Cash, CREDIT - Notes Receivable & CREDIT - Interest Revenue
   3. Discounting a Note (Selling note before maturity)
   a. Computing discount:
      i. Calculate Maturity Value (Principal + Interest)
      ii. Calculate the bank discount period (Total period of the note minus days the note is held prior to discounting)
      iii. Calculate bank discount (Maturity Value x discount rate x discount period)
      iv. Calculate the proceeds (Maturity Value minus discount)
   b. Prepare the Journal Entry
      i. DEBIT - CASH
      ii. DEBIT - CREDIT-Notes Receivable
      iii. CREDIT - INTEREST Revenue or
      iii. DEBIT - Interest Expense (If proceeds> principal amount)
LONG-LIVED ASSETS AND RELATED EXPENSES
A. Assets-future economic benefits
1. Plant Assets: tangible, land, buildings, equipment
2. Intangible Assets: benefit from rights, patents, copyrights, trademarks, goodwill
3. Cost of Assets
   a. Purchase price
   b. Brokerage commissions
   c. Survey fees
   d. Legal fees
   e. Back property taxes
   f. Sales and other taxes
   g. Transportation charges and insurance while in transit
   h. Installation cost
B. Group or Basket Purchase: Allocate cost by relative fair market value
COST ALLOCATION METHODS
A. Natural resources expended through deprecation
1. Depletion expense is portion of natural resource that is used up during period
2. Calculated same as units of production
3. Record Depletion Expense and Accumulated deprecation
B. Intangible assets expended through amortization
1. Straight-line over a maximum period of 40 years
2. Amortization is written off directly against the asset
INVENTORY
A. Costing Methods
1. Specific Unit
   a. Used when inventory can be individually identified, i.e., autos, jewels, real estate
   b. Cost of inventory is specific cost of particular unit
2. Weighted-average-flow of cost over periods
   a. Based on weighted-average cost of inventory during the period
   b. Average cost = Cost of goods available for sale/number of units available
   c. Ending inv. and COGS = number of units x weighted average cost per unit
AVERAGE COST METHOD (Weighted average cost method)
Ending inventory is made up of the weighted average unit costs
$ 24,000/1800 = $13.33 per unit
Cost of Goods Sold = 500 units x $13.33 = $6,665
Average Cost Method (weighted average cost method)
Ending inventory is made up of the weighted average unit costs
$ 24,000/1800 = $13.33 per unit
Example:
Jan. 1 Beginning Inventory.. 100 units at $10 = $1,000
Feb. 6 Purchases ............ 400 units at 12 = $4,800
May 9 Purchases ............ 200 units at 13 = 2,600
July 3 Purchases ............ 300 units at 14 = 4,200
Sept. 11 Purchases .......... 500 units at 14 = 7,000
Oct. 18 Purchases .......... 100 units at 15 = 1,500
Nov. Purchases ............ 50 units at 16 = 800
Merchandise available for sale $18,000
Ending inventory on Dec. 31... 250 units
3. First-in, First-out (FIFO)
   a. First cost into inventory are the first costs that flow out of inventory
   b. Ending inventory based on most recent cost (most purchases recent)
   c. Unit COGS may be different than unit cost for ending inv.
   d. If inv. cost is increasing, FIFO ending inv. is high (most recent cost)
   1. Recording cost of inventory
      a. DEBIT- Inventory-
      b. CREDIT- Purchases
   2. Ending inventory
      a. DEBIT - Inventory-
      b. CREDIT- Cost of Goods Sold
First-In, First-Out Method
Ending inventory is made up of the most recent costs.
Nov. /Costs applied............. 200 units at $16 = $3,200
Oct. 18 costs applied .......... 50 units at 15 = 750
Ending Inventory................ 250 units at $3,950
$3,950/250 = $15.80 per unit
A. Last-in, First-out (LIFO)
   a. Last in cost in inventory is the first out
   b. Ending inventory is composed of the oldest cost
   c. If inventory cost is increasing, LIFO ending inv. is low
   d. Income Tax advantage: Yields lower net income when prices are rising
   b. Entries
      a. DEBIT - A/R
      b. CREDIT - Allowance for Uncollectible Accounts
   3. Record Depletion Expense and Accumulated depletion
   a. The cost of a depreciable asset is $6,000.
      i. Example: The cost of a depreciable asset is $6,000.
      ii. The estimated salvage value is $500.
      iii. The estimated life is 5 years and 10,000 hours.
   B. Straight-line Method
      1. Equal amount of depreciation each year
      2. Cost - Residual Value/Useful life in years
      3. Entry to record depreciation expense
         a. DEBIT- Depreciation expense
         b. CREDIT- Accumulated Depreciation
   Example
   $6,000-$500 = $1,100 ANNUAL DEPRECIATION 5 YEARS
   C. Units of Production Method
      1. Amount of depreciation depends on units of output
      2. Cost - Salvage Value, Estimated hours
Example
$6,000-$500 = $ .55 HOURLY DEPRECIATION 10,000 hours
D. Double-Declining Balance
   1. Accelerated, larger in beginning
   2. DDB Rate per year = (1/Useful life in years) x 2
      a. Accelerated, larger in beginning
   a. Step 1. Sum of years’digits = N(N+1)/2, N=useful life in years
   b. Step 2. N useless life in years x 2
      c. Denominator = Sum of years’digits
Step 3. Denominator = Sum of years’digits
Step 4. Cost-Residual Value x (Step 2/Step 3)
E. Sum-of-Years-Digits (SYD)
   a. Accelerated, larger in beginning
   b. Sum of years’digits = N(N+1)/2, N=useful life in years
   c. Step 2. N useless life in years x 2
      a. Denominator = Sum of years’digits
Step 3. Denominator = Sum of years’digits
Step 4. Cost-Residual Value x (Step 2/Step 3)
MACRS DEPRECIATION RATE SCHEDULE
5-Year Class Depreciation 7-year Class Depreciation
Yr. Rates Yr. Rates
1 ........ 20.00% 1 ........ 24.49%
2 ........ 32.00% 2 ........ 24.49%
3 ........ 19.20% 3 ........ 17.49%
4 ........ 11.52% 4 ........ 12.49%
5 ........ 11.52% 5 ........ 9.83%
6 ........ 8.76% 6 ........ 5.76%
100.00% 7 ........ 8.93%
8 ........ 4.46%
100.00%
LIABILITIES
OBLIGATION TO TRANSFER ASSETS OR PROVIDE SERVICES
PAYROLL
Payroll is employee compensation
A. Payroll deductions
1. Employee income tax
2. Federal Insurance Contributions Act (FICA); Social Security, 6.2% of first $87,000 (2003 limit) & 1.45% of total wages
B. Entries
1. To record Salary Expense
   DEBIT- Salary Expense
   CREDIT- Employee Income Tax Payable (amounts withheld)
   CREDIT- FICA Tax Payable (7.65%)
   CREDIT- Employee Union Dues Payable
   CREDIT- Salary Payable to employees
2. To record employer’s payroll taxes
   DEBIT- Payroll Tax Expense
   CREDIT- FICA Payable
   CREDIT- Unemployment Tax Payable
   CREDIT- Federal Unemployment Tax Payable
3. To record fringe benefits
   DEBIT- Health Insurance Expense
   DEBIT- Life Insurance Expense
   DEBIT- Pension Expense
   CREDIT- Employee Benefits Payable
C. Payroll register: Special payroll journal
D. Payroll bank account: Special account which contains the exact amount of net pay to employees for the period
A. Current liabilities due in one year or less
1. Trade Accounts Payable: Represent amounts owed to suppliers for products or services
2. Federal income tax due within one year
3. Discounted Note Payable
   a. Borrower receives the face value of the note less the interest
   b. DEBIT- Cash
   c. DEBIT- Interest Expense
   d. CREDIT- Note Payable (amounts due)
   e. CREDIT- FICA Tax Payable
   f. CREDIT- Employee Union Union Dues Payable
   g. CREDIT- Salary Payable to employees
4. To record employer’s payroll taxes
   DEBIT- Payroll Tax Expense
   CREDIT- FICA Payable
   CREDIT- Unemployment Tax Payable
   CREDIT- Federal Unemployment Tax Payable
   C. Contingent Liability
   1. Potential liability that depends on future events which arise from past transactions
      a. Recorded if
      b. Estimable
   C. Long-Term
      1. Definition: Any obligation other than current
      2. Bonds
         a. Issued at a premium means at a price above par
         b. Issued at a discount means at a price below par
         c. Interest Rates
            i. Contract or stated interest rate is the rate on the bond
            ii. Market or effective interest rate is rate investors’ demand in exchange for loaning their money
            d. When bonds are issued between interest dates, accrued interest must be calculated
               i. Interest payment is interest from last interest date on bond up to date of purchase
               ii. When interest payment is made, investor receives full amount of interest accrued on bond for period
LIABILITIES continued

e. Bonds issued at a Discount - if stated rate on bond is less than market rate
   i. Entry: DEBIT-Cash(proceeds) DEBIT-Bond Discount on Bond Payable (difference between the proceeds and the maturity value)
   ii. Amortization of the Discount (Straight Line)
   DEBIT-Interest Expense (Interest Expense x Discount rate) CREDIT-Bond Discount on Bond Payable (maturity value)
   iii. Amortization of the Premium (Straight Line)
   DEBIT-Bond Premium on Bond Payable CREDIT-Interest Expense (Interest Expense x Premium rate)
   iv. Amortization of the premium (non-renewal portion)
   DEBIT-Bond Premium on Bond Payable (maturity value) CREDIT-Extraordinary gain on retirement OR DEBIT -Extraordinary loss on retirement
   v. Convertible Bonds-usually convertible into common stock
   i. Recognize gain or loss on retirement (Extraordinary)
   ii. Entry
   DEBIT-Bond Payable (maturity value) CREDIT-Discount on Bond Payable OR DEBIT-Discount on Bond Payable (For unamortized portion)
   CREDIT-Bond Payable OR DEBIT-Discount on Bond Payable (For unamortized portion)

3. LEASE LIABILITIES
   a. Operating leases - short-term, DEBIT rent expense and CREDIT cash
   b. Capital lease - long-term, accounted for like purchase of asset
   i. Entry
   DEBIT-Asset account
   CREDIT-Cash
   CREDIT-Lease Liability (PV of future lease payments)
   ii. Record Depreciation Expense (over life of the lease)
   Record Interest Expense

Discount on Bonds Payable
Amortization by the Interest Method Example: $10,000 Bond at 6% interest paid due in 5 years. The bond was sold on Jan. 1, 1990 for $9,792

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Paid</th>
<th>Interest Expense</th>
<th>Discount</th>
<th>Unamortized Bond Carrying Amount</th>
<th>C3 - C2</th>
<th>C5 - C4</th>
<th>C6 + C4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$600</td>
<td>$639</td>
<td>$39</td>
<td>$9,953</td>
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<td>639</td>
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<td>47</td>
<td>10,000</td>
<td>600</td>
<td>647</td>
<td>50</td>
</tr>
<tr>
<td>5</td>
<td>$600</td>
<td>$647</td>
<td>47</td>
<td></td>
<td>600</td>
<td>647</td>
<td>50</td>
</tr>
</tbody>
</table>

Premium on Bonds Payable
Amortization by the Interest Method Example: $10,000 Bond at 6% interest paid due in 5 years. The bond was sold on Jan. 1, 1990 for $10,214

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Paid</th>
<th>Interest Expense</th>
<th>Premium</th>
<th>Unamortized Bond Carrying Amount</th>
<th>C3 - C2</th>
<th>C5 - C4</th>
<th>C6 + C4</th>
</tr>
</thead>
<tbody>
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<td>644</td>
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<td>$9,900</td>
<td>600</td>
<td>647</td>
<td>38</td>
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<tr>
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<td>$600</td>
<td>$647</td>
<td>47</td>
<td>10,000</td>
<td>600</td>
<td>647</td>
<td>38</td>
</tr>
</tbody>
</table>

STOCK

A. Capital Stock is the basis unit issued in shares
   1. Outstanding stock is stock issued to shareholders
   2. Shareholders’ Rights
      a. To vote
      b. To receive dividends, if declared
      c. To receive assets in a liquidation after liabilities are paid
      d. Preemptive Right-the right to maintain your proportionate ownership percentage
   B. Stockholders’ Equity contains two types of accounts
      Contributed Capital
         a. Capital Stock is Paid in Capital
         b. Preferred Stock
            i. Priority in dividends
            ii. Priority in distribution of assets when liquidation occurs
            iii. Preferred Stock may have different classes; each class is recorded separately

DIVIDENDS

A. Dividend Dates
   1. Declaration Date
      a. ADIVIDEND payable and legal liability created
      b. DEBIT - Retained Earnings & CREDIT- Dividends Payable
   2. Date of Record: All those who own stock on this date will receive dividend
   3. Payment Date: The date dividend is paid
      a. DEBIT - Dividends Payable & CREDIT - Cash
   4. Cumulative Preferred Stock
      i. All dividends must be paid before corporation pays any dividends to common shareholders
      ii. Any dividends not paid are considered to be in ARREARS

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STATEMENT OF CASH FLOW

A. Reports cash receipts and cash payments during a period
   1. Cash means cash and cash equivalents
   2. Any dividends not paid are considered to be in ARREARS

C. Three sections
   1. Operating Activities
      a. Revenues and expenses from firm’s major line of business
      b. Collections from customers
      c. Receipt of interest and dividends
      d. Payments to suppliers
      e. Payments for operating expenses
      f. Payments of interest and taxes
   2. Investing Activities
      a. Increases and decreases in cash due to purchases or sales of long-term assets
      b. Sales of plant assets
      c. Sale of investments
      d. Cash received on loans receivable
      e. Acquisition of plant assets
      f. Acquisition of investments
      g. Loans made
   3. Financing Activities
      a. Increases and decreases in cash from investors and creditors
      b. Stock issuance
      c. Sale and purchase of treasury stock
      d. Borrowing money
      e. Payments of dividends
      f. Payments of principle on debts

APPROPRIATIONS ON RETAINED EARNINGS

A. Restriction on retained earnings
   1. Restriction by federal regulations
      a. DEBIT-restricted earnings
      b. CREDIT-restricted earnings appropriated for...

B. Available for dividends
   1. Declaration Date
      a. ADIVIDEND payable and legal liability created
      b. DEBIT - Retained Earnings & CREDIT- Dividends Payable
   2. Date of Record: All those who own stock on this date will receive dividend
   3. Payment Date: The date dividend is paid
      a. DEBIT - Dividends Payable & CREDIT - Cash
   4. Cumulative Preferred Stock
      i. All dividends must be paid before corporation pays any dividends to common shareholders
      ii. Any dividends not paid are considered to be in ARREARS

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