TOUR 214-Graphic Organizer: Chapter 2

Assumptions p 37

(Illustration 2-3)

1. Monetary Unit Assumption-transactions in terms of money should be included in accounting records. The unit of measure remains constant over time (the dollar $)
2. Economic Entity Assumption-activities of the entity should be kept separate and distinct from the activities of the owners and other entities.
3. Time Period Assumption-the economic life of a business can be divided into artificial time periods. Such as months, quarter, or a year for reporting purposes.
4. Going Concern Assumption-the enterprise will continue to operate. This is very important as it gives credibility to the cost principle.

Principles p 39

1. Revenue Recognition Principle-revenue when it is earned (the sale is made). The % of completion method and installment method are exceptions.
2. Matching Principle-let the expense follow the revenue (same time period).
3. Cost Principle-assets be recorded at their cost. This is ***relevant*** as it represents the price paid and ***reliable*** because it is factual and verifiable.

Constraints p 41

1. Materiality-When the item of concern (revenue, expense) is likely to influence a reasonably prudent investor or creditor. It makes a difference!
2. Conservatism-when in doubt take the choice that is least likely to overstate assets and income.

Transaction Analysis p 45-50

Assets= Liabilities + Stockholder's Equity

1. Investment by Stockholders

	Assets				=	Liabilities	+	Stockholder's Equity	
				Cash				C. Stock	
				+15,000				+15,000	

Common Stock is sold for $15,000 and the cash is recorded as an asset. It must be represented on both sides of the = sign of the equation.

TOUR 214-Graphic Organizer: Chapter 2

TOUR 214-Graphic Organizer: Chapter 2

2. Purchase of Equipment for Cash

	Assets				=	Liabilities	+	Stockholder's Equity	
	Cash	Equipment						C. Stock	
Old Balance	15,000							15,000	
+/-change	-7,000	+7,000						0	
New Balance	8,000	7,000						15,000	

The use of cash to buy equipment changes the asset side only the total still is = across the equation.

3. Purchase of Supplies on Credit

	Assets				=	Liabilities	+	Stockholder's Equity
	Cash	Supplies	Equipment			Accounts Payable		Common Stock
Old Balance	$8,000		$7,000					$15,000
+/-change		+ $1,600				+ $1,600		0
New Balance	$8,000	$1,600	$7,000			$1,600		$15,000
Totals	$16,000				$16,000			

The purchase of supplies on credit means no cash (assets were used but the supplies are now yours (ownership) but you owe for them so it has to be added to the accounts payable as a debt under liabilities.

4. Services Rendered for Cash

	Assets			=	Liabilities	+	Stockholder's Equity	
	Cash	Supplies	Equipment		Accounts Payable		Common Stock	Retained Earnings

TOUR 214-Graphic Organizer: Chapter 2

Old Balance	$8,000	$1,600	$7,000		$1,600		$15,000	
+/- change	+ $1,200							+ $1,200
New Balance	$9,200	$1,600	$7,000		$1,600		$1,500	$1,200
Totals	$17,800				$17,800			

When services are earned it is taken in cash and now resides in the retained earnings for the double entry to make the equation balance.

5. **Purchase of Advertising on Credit**

	Assets			=	Liabilities	+	Stockholder's Equity	
	Cash	Supplies	Equipment		Accounts Payable		Common Stock	Retained Earnings
Old Balance	$9,200	$1,600	$7,000		$1,600		$15,000	$1,200
+/- Change					+$250			-$250
New Balance	$9,200				$1,850		$15,000	$950
	$17,800				$17,800			

The cost of the advertising is bought on credit so it increases liabilities. Because the advertising has been used and is not a tangible item to hold onto it is an expense and deducted from retained earnings.

6. **Services Rendered for Cash and Credit**

	Assets				=	Liabilities	+	Stockholder's Equity	
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable		Common Stock	Retained Earnings
Old Balance	$9,200		$1,600	$7,000		$1,850		$15,000	$950
+/- Change	+$1,500	+$2,000							+$3,500
New Balance	$10,700	$2,000	$1,600	$7,000		$1,850		$15,000	$4,450
	$21,300					$21,300			

Cash is collected for part of the services ($1,500) and then the customer is billed for the rest ($2,000). The amount billed is considered an asset because it is due to the

establishment and is earned. Then both added together, which is the total amount of the bill ($3,500) increases retained earnings.

7. **Payment of Expenses**

	Assets				=	Liabilities	+	Stockholder's Equity	
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable		Common Stock	Retained Earnings
Old Balance	$10,700	$2,000	$1,600	$7,000		$1,850		$15,000	$4,450
+/- Change	-$1,700								-$600
+/- Change									-$900
+/- Change									-$200
New Balance	$9,000	$2,000	$1,600	$7,000		$1,850		$15,000	$2,750
	$21,300					$21,300			

Expenses of; rent ($600), salaries ($900) and utilities ($200) are paid. This decreases cash and retained earnings.

TOUR 214-Graphic Organizer: Chapter 2

8. **Payment of Accounts Payable**

	Assets				=	Liabilities	+	Stockholder's Equity	
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable		Common Stock	Retained Earnings
Old Balance	$9,000	$2,000	$1,600	$7,000		$1,850		$15,000	$2,750
+/- Change	-$250					+$250			
New Balance	$8,750	$2,000	$1,600	$7,000		$1,600		$1,5000	$2,750
	$19,305					$19,350			

Paying the advertising bill that was on accounts payable before. You take out $250 from cash for the check you send and increase accounts payable since you paid the bill now.

9. **Receipt of Cash on Account**

	Assets				=	Liabilities	+	Stockholder's Equity	
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable		Common Stock	Retained Earnings
Old Balance	$8,750	$2,000	$1,600	$7,000		$1,600		$15,000	$2,750
+/- Change	+$600	-$600							
New Balance	$9,350	$1,400	$1,600	$7,000		$1,600		$15,000	$2,750
	$19,350					$19,350			

A payment comes in from a customer that was billed in the amount of $600. This changes the way the assets are listed. Cash is increased by $600 and Accounts Receivable is decreased by $600.

10. **Dividends**

	Assets				=	Liabilities	+	Stockholder's Equity	
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable		Common Stock	Retained Earnings
Old Balance	$9,350	$1,400	$1,600	$7,000		$1,600		$15,000	$2,750
+/- Change	-$1,300								-$1,300
New Balance	8050	$1,400	$1,600	$7,000		$1,600		$15,000	$1,450
	$19,350					$19,350			

TOUR 214-Graphic Organizer: Chapter 2

A dividend is paid to stockholders. The money comes out of cash and also decreases the retained earnings.

TOUR 214-Graphic Organizer: Chapter 2

Financial Statements p 52

Income Statement p52
Presents the revenue and expenses for a specific period of time in an establishment.

	Barnacle's Restaurant Income Statement 9/1/18 to 9/30/18
1. Revenue	
2. COGS	
3. GPM	
4. Operating Expenses	
5. Profit/Loss	

Note: #1 - #2 = #3 this tells you your Gross Profit Margin (the amount of money left over after paying for ingredients) next, you take #3 - #4 to learn if you have a profit or a loss.

Retained Earnings Statement p52
Summarized the changes (listing each activity/event) in the Retained earnings for a specific time period.

Balance Sheet p54
Reports the Assets, Liabilities and Stockholders' equity of an enterprise at one specific date. It is like a snapshot in time of what the value of an enterprise on that date.

Statement of Cash Flows p 54
Summarizes the cash inflow and outflow for a specific period of time.

How this Flows from one to another (sequence) p53 Illustration 2-10

Income Statement

Records the activity of each day for revenues and expenses for a time period (a range of time)

Retained Earnings

Reports how much of the Assets are paid for and owned by the company.

Balance Sheet

Reports what the assets are and what is owed to others

Cash Flows

Reports how much cash is on hand at the end of a time period.

Homework

Homework: 2-6, 2-7, 2-8, 2-9, 2-10
All must be in Excel spreadsheets