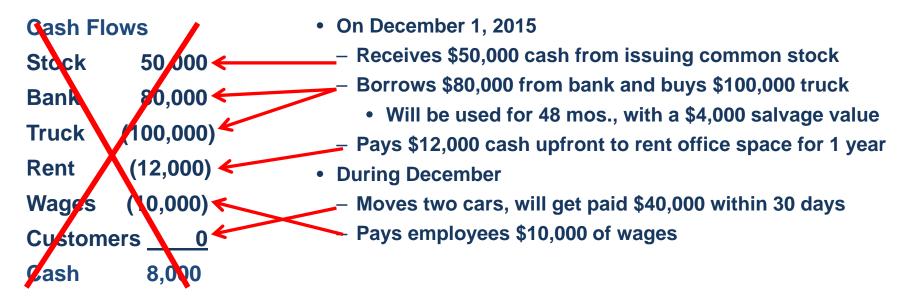
### **Example: Dave's Car Transport Service**

- Dave starts a business to transport expensive cars
- On December 1, 2015
  - Receives \$50,000 cash from issuing common stock
  - Borrows \$80,000 from bank and buys \$100,000 truck
    - Will be used for 48 mos., with a \$4,000 salvage value
  - Pays \$12,000 cash upfront to rent office space for 1 year
- During December
  - Moves two cars, will get paid \$40,000 within 30 days
  - Pays employees \$10,000 of wages
- December 31: Bank wants to see financial statements







**Cash Flows** • On December 1, 2015 Receives \$50,000 cash from issuing common stock **Operating** Borrows \$80,000 from bank and buys \$100,000 truck Rent (12,000)• Will be used for 48 mos., with a \$4,000 salvage value Wages (10,000)Pays \$12,000 cash upfront to rent office space for 1 year Customers **During December CFO** (22,000)Moves two cars, will get paid \$40,000 within 30 days Pays employees \$10,000 of wages Investing (100,000)Truck (100,000)CFI **Financing** 50,000 Stock Bank 80,000 CFF 130,000 Cash 8,000



#### Statement of Cash Flows

**Dec 2015 Cash Flows** 

**Operating** 

Rent (12,000)

Wages (10,000)

Customers 0

CFO (22,000)

Investing

Truck (100,000)

CFI (100,000)

**Financing** 

Stock 50,000

Bank 80,000

CFF 130,000

Cash 8,000

- Reports cash transactions over a period of time
- Operating Activities
  - Transactions related to the provision of goods or services and other normal business activities
- Investing Activities
  - Transactions related to the acquisition or disposal of long-lived productive assets
- Financing Activities
  - Transactions related to owners or creditors



Accounting Income

Revenue 40,000

Truck Expense (2,000)

Rent Expense (1,000)

Wages Expense (10,000)

Net Income 27,000

Notes: Truck expense ("depreciation") = (100,000-4,000)/48

Rent expense is one month at \$1000/mo.

• On December 1, 2015

Receives \$50,000 cash from issuing common stock

- Borrows \$80,000 from bank and buys \$100,000 truck

Will be used for 48 mos., with a \$4,000 salvage value

Pays \$12,000 cash upfront to rent office space for 1 year

**During December** 

- Moves two cars, will get paid \$40,000 within 30 days

- Pays employees \$10,000 of wages



#### **Income Statement**

Dec 2015 Accounting Income Revenue 40,000

Truck Expense (2,000)

Rent Expense (1,000)

Wages Expense (10,000)

Net Income 27,000

Notes: Truck expense ("depreciation") =

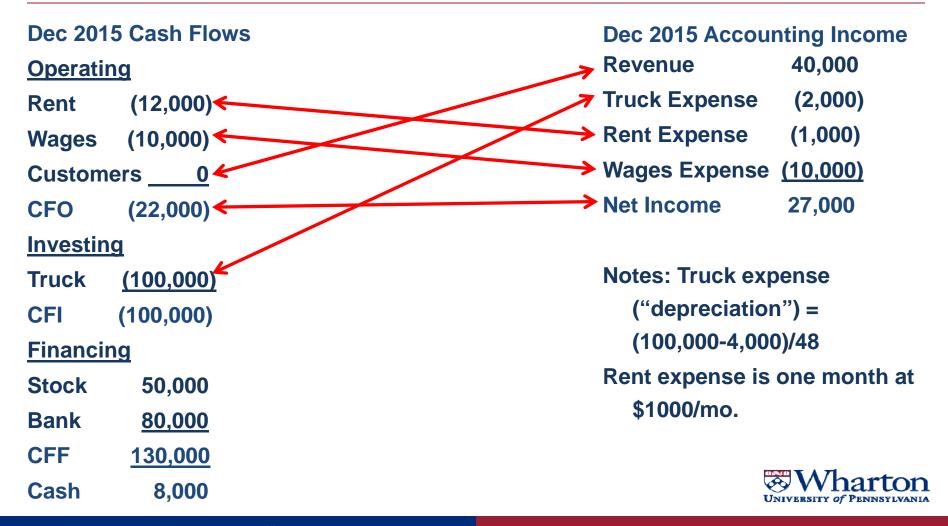
(100,000-4,000)/48

Rent expense is one month at \$1000/mo.

- Reports results of operations over a period of time using accrual accounting
  - Recognition tied to business activities
- Revenues
  - Increases in "owners' equity" from providing goods or services
- Expenses
  - Decreases in "owners' equity" incurred in the process of generating revenues
- Net Income (or Earnings or Net Profit)
  - = Revenues Expenses

=> DOES NOT EQUAL CHANGE IN CASH!!!





### What is financial position at end of the month?

#### **Balance Sheet**

#### **Assets**

Cash 8,000 (Cash in the bank on 12/31/2015)

Accounts Receivable 40,000 (Cash owed by customers on 12/31/2015)

Prepaid Rent 11,000 (Prepaid for 11 months of future space on 12/31/2015)

Truck 98,000 (100,000 original cost – 2,000 "depreciation")

Total 157,000

#### **Liabilities & Stockholder's Equity**

Bank Debt 80,000 (Cash owed to the bank on 12/31/2015)

Common Stock 50,000 (Stockholder investment as of 12/31/2015)

Retained Earnings <u>27,000</u> (Accounting Net income – Dividends as of 12/31/2015)

Total 157,000



#### **Balance Sheet**

Dec 31, 2015 Balance	Sheet
<u>Assets</u>	
Cash	8,000
<b>Accounts Receivable</b>	40,000
<b>Prepaid Rent</b>	11,000
Truck	98,000
Total	157,000
Liabilities & Stockholder's Equity	
Bank Debt	80,000
<b>Common Stock</b>	50,000
<b>Retained Earnings</b>	<b>27,000</b>
Total	157,000

Reports financial position (resources and obligations) on a specific date

- Assets
  - Resources owned by a business that are expected to provide future economic benefits
- Liabilities
  - Claims on assets by "creditors" (non-owners) that represent an obligation to make future payment of cash, goods, or services
- Stockholders' Equity (Owners' Equity)
  - Claims on assets by owners of business
    - Contributed Capital (arises from sale of shares)
    - Retained Earnings (arises from operations)



# **Statement of Stockholders' Equity**

• We'll get to this later...

