

Assets

- An asset is a resource that is expected to provide future economic benefits (i.e. generate future cash inflows or reduce future cash outflows)
- An asset is recognized when:
 - It is acquired in a past transaction or exchange
 - The value of its future benefits can be measured with a reasonable degree of precision

Which of the Following are Assets?

- BOC sells \$100,000 of merchandise to a customer that promises to pay cash within 60 days
 - Accounts Receivable, \$100,000
- BOC signs a contract to deliver \$100,000 of natural gas to DEF each month for the next year
 - No asset, no past transaction or exchange
- BOC buys \$100,000 of chemicals to be used as raw materials. BOC pays in cash at time of delivery and receives a 2% discount on the purchase price
 - Inventory, \$98,000

Which of the Following are Assets?

- BOC pays \$12 million for the annual rent on its office building. It has already occupied it for one month
 - Prepaid Rent, \$11 million
- BOC buys a piece of land for \$100,000. Its broker says this was a “steal” because the land is probably worth \$150,000
 - Land, \$100,000
- BOC is advised by a marketing firm that its brand name is worth \$63 million
 - No asset, not acquired and not reasonable degree of precision

Liabilities

- A liability is a claim on assets by “creditors” (non-owners) that represents an obligation to make future payment of cash, goods, or services
- A liability is recognized when:
 - The obligation is based on benefits or services received currently or in the past
 - The amount and timing of payment is reasonably certain

Which of the Following are Liabilities?

- **BOC receives \$300,000 of raw materials from its supplier and promises to pay within 60 days**
 - Accounts Payable, \$300,000
- **Based on this quarter's operations, BOC estimates that it owes the IRS \$3 million in taxes**
 - Income Tax Payable, \$3 million
- **BOC signs a three-year, \$120 million contract to hire Dakota Dokes as its new CEO, starting next month**
 - No liability, benefits not received yet

Which of the Following are Liabilities?

- BOC has not yet paid employees who earned salaries of \$1,000,000 during the most recent pay period
 - Salaries payable, \$1,000,000
- BOC borrows \$500,000 from a bank on a one-year note with a 10% interest rate
 - Notes payable, \$500,000
- BOC is sued by a group of customers who claim their products were defective. The suit claims damages of \$6 million
 - No liability, amount is not reasonably certain

Stockholders' Equity

- **Stockholders' equity is the residual claim on assets after settling claims of creditors (= assets – liabilities)**
 - Also called “net worth”, “net assets”, “net book value”
- **Sources of Stockholders' equity:**
 - **Contributed capital (arises from sale of shares)**
 - Common stock (par value)
 - Additional paid-in-capital (excess over par value)
 - Treasury Stock (stock repurchased by company)
 - **Retained earnings (arises from operations)**
 - Accumulation of net income (revenues minus expenses), less dividends, since start of business
 - **Retained Earnings_{END} =**
Retained Earnings_{BEG} + Net Income – Dividends

Dividends

- **Dividends are distributions of retained earnings to shareholders**
 - Not an expense
 - Recorded as a reduction of retained earnings on the declaration date (creates a liability until payment date)