



## Preface

## Accounting Cycle

## Financial Statements



SUNY

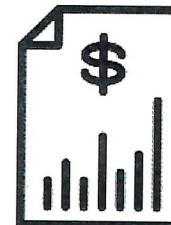
### Welcome to Intro of Accounting

This course is designed to help you learn the basics of bookkeeping and accounting. It is geared towards the typical college student and uses realistic examples to illustrate business concepts.

We are going to learn how to go from a stack of source documents (invoices, receipts, checks, etc.) like this...



To Financial Statements that are summarized for users to understand and make good business decisions.





## Preface

**Accounting Cycle** **Financial Statements**

### Welcome to ~~Intro~~ of Accounting

Accounting is often referred to as the "language of business." This surprises many students who think of accounting as some kind of advanced mathematics. In reality, the math you will learn in this course is no more complicated than simple algebra. It is learning new vocabulary and the syntax of how those terms and numbers fit together that creates difficulty for many students!

For this course we will be applying the concepts of accounting to the life of a typical college student. As we go through examples, think of ways that these concepts apply to your own finances. It should make it more interesting to see how it applies directly to you.

Back

Next



## 1 - Purpose of Accounting



Accounting Cycle

Financial Statements

Businesses generate financial statements to allow the internal and external users to make better business decisions.

Examples of **internal users** would be owners, management, or employees. An outside investor, a lender (bank), or other creditors (supplier) would all be examples of **external users**.

For our scenario, we are going to be the internal users, and our parents are going to be the external users of our financial statements.

Back

Next



## 1 - Purpose of Accounting



Businesses !  
Businesses use financial statements to allow the internal and external users to make better business decisions.

**Accounting Cycle** ▼

**Financial Statements** ▼

Examples of **internal users** would be owners, management, or employees. An outside investor, a lender (bank), or other creditors (supplier) would all be examples of **external users**.

For our scenario, we are going to be the **internal users**, and our parents are going to be the **external users** of our financial statements.

[Back](#)[Next](#)



## 1 - Purpose of Accounting

Accounting Cycle ▾

Financial Statements ▾

### Key Concepts

#### Users of the Financial Statements

Businesses generate financial statements to support business decision making.

Examples of internal users include management, employees, and shareholders. External users include investors, creditors, and the general public.

For our scenario, we will focus on external users, such as investors and creditors.



Back

Next



## 1 - Purpose of Accounting

[Accounting Cycle](#)[Financial Statements](#)

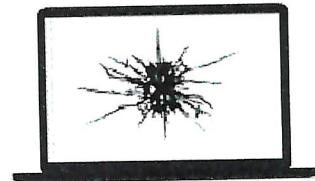
### Let's set the scene:

You are a typical college student...

It's February 2018 and your computer for school just broke, and you need a new one. What do you do?

You go ask your parents to buy you a new one, of course!

How could financial statements help you?

[Back](#)[Next](#)



## Principles I

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

Accounting: Principles I

Preface

1 Purpose of Accounting

1.1 Introduction

1.2 Accounting as a

2 Financial Statements

3 Building Blocks

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

## 1 - Purpose of Accounting

[Accounting Cycle](#) ▾[Financial Statements](#) ▾

### But what will your parents say?

They are likely to say things like...

- \_ Why don't you buy it yourself?\_
- \_ Where did all your money go?\_
- \_ Don't we give you an allowance?\_
- \_ How much do you expect to earn the rest of the year?\_

How are you going to answer those questions? You would need to track your finances.

\*Accounting\* is the process of identifying, recording and communicating the economic events of an organization to interested users.

[Back](#)[Next](#)



## 1 - Purpose of Accounting

**Accounting Cycle** ▾**Financial Statements** ▾

But who! your parents say?

They are likely to say things like...

- \_ Why don't you buy it yourself?\_
- \_ Where did all your money go?\_
- \_ Don't we give you an allowance?\_
- \_ How much do you expect to earn the rest of the year?\_

How are you going to answer those questions? You would need to track your finances.

\*Accounting\* is the process of identifying, recording and communicating the economic events of an organization to interested users.

Back

Next

Principles of Accounting I  
http://accountingapplication.com/homepage/

# Principles I

Announcements Course Forum My Profile Office Hours

username@gmail.com | Logout

## 1 - Purpose of Accounting

Accounting Cycle ▾

Financial Statements ▾

≡ i 🔍

### Key Concepts

Users of the Financial Statements

Accounting

But what

They are likely

Why don't you  
Where did all  
Don't we give  
How much do

How are you g

\*Accounting\*  
organization to

of an

◀ ▶ ▶▶

Back Next

Appalachian State University \* Privacy & Terms



Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

2.1 Income Statement

2.2 Statement of

2.3 Balance Sheet

2.4 Statement of Cash

2.5 Management

2.6 Notes

2.7 Auditor's Report

3 Building Blocks

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 2 - Financial Statements



### How will we answer their questions?

Businesses and non-profit organizations communicate this data in **Annual Reports**. The annual report consists of the **Income Statement, Statement of Retained Earnings, Balance Sheet, Statement of Cash Flows, Management Discussion and Analysis, Notes, and the Auditor's Report**.

### Accounting Cycle

### Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

Back

Next

Principles of Accounting I  
<http://accountingapplication.com/homepage/>

## Principles I

Announcements Course Forum My Profile Office Hours

username@gmail.com | Logout

## 2 - Financial Statements

To convince our parents, we will prepare 3 statements and provide a cover letter, which will be our version of a MD&A.

Using a financial statement like the Income Statement, we can summarize our revenues and expenses for a given period of time. This will be useful when determining how much money we make versus how much money we spend.

A financial statement like the Statement of Retained Earnings will help us see how much of our extra cash we saved versus how much we spent.

The Balance Sheet will tell us how much money we have, versus how much we owe at a moment in time, or essentially our net worth.

Statement of Cash Flows - well

tell us what cash came in + what we spent. Unlike other 3 statements, which include what we owe, amount we're due and other ic transactions in which cash has not yet changed hands.

Back Next

Accounting Cycle

Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

Appalachian State University \* Privacy & Terms



## 2 - Financial Statements



To convince our parents, we will prepare 3 statements and provide a cover letter, which will be our version of a MD&A.

Using a financial statement like the [Income Statement](#), we can summarize our revenues and expenses for a given period of time. This will be useful when determining how much money we make versus how much money we spend.

A financial statement like the [Statement of Retained Earnings](#) will help us see how much of our extra cash we saved versus how much we spent.

The [Balance Sheet](#) will tell us how much money we have, versus how much we owe at a moment in time, or essentially our net worth.

### Accounting Cycle

### Financial Statements

#### Income Statement

XYZ Student

Income Statement

For Month Ending January 31, 2018

##### Revenue

Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100

##### Expenses

Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70
Tuition Expense	5,000
Depreciation Expense	83
Interest Expense	13
Meal Card Expense	350
Total Expenses	\$ 6,136

Net Income \$ (5,036)

[Statement of Retained Earnings](#)

[Balance Sheet](#)

[Back](#)

[Next](#)



## 2 - Financial Statements



To convince our parents, we will prepare 3 statements and provide a cover letter, which will be our version of a MD&A.

Using a financial statement like the [Income Statement](#), we can summarize our revenues and expenses for a given period of time. This will be useful when determining how much money we make versus how much money we spend.

A financial statement like the [Statement of Retained Earnings](#) will help us see how much of our extra cash we saved versus how much we spent.

The [Balance Sheet](#) will tell us how much money we have, versus how much we owe at a moment in time, or essentially our net worth.

### Accounting Cycle ▾

### Financial Statements ▾

#### Income Statement

#### Statement of Retained Earnings ▾

XYZ Student  
Retained Earnings Statement  
For Month Ending January 31, 2018

Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	<u>(5,036)</u>
Less: Dividends	50
Retained earnings, January 31, 2018	\$ (5,086)

#### Balance Sheet



## 2 - Financial Statements



To convince our parents, we will prepare 3 statements and provide a cover letter, which will be our version of a MD&A.

Using a financial statement like the [Income Statement](#), we can summarize our revenues and expenses for a given period of time. This will be useful when determining how much money we make versus how much money we spend.

A financial statement like the [Statement of Retained Earnings](#) will help us see how much of our extra cash we saved versus how much we spent.

The [Balance Sheet](#) will tell us how much money we have, versus how much we owe at a moment in time, or essentially our net worth.

### Accounting Cycle

### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

XYZ Student Balance Sheet January 31, 2018		
<u>Assets</u>		
Current Assets		
Cash - Checking	\$ 2,360	
Cash - Savings	\$ 1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Total Current Assets		\$ 4,710
Long-Term Assets		
Vehicle	5,000	
Less: Acc. Depreciation	(83)	
Total Long-Term Assets		4,917
Total Assets		\$ 9,627
<u>Liabilities</u>		
Current Liabilities		
Interest Payable	\$ 15	
Total Current Liabilities		15
Long-Term Liabilities		
Notes Payable	5,000	
Student Loans Payable	8,000	
Total Long Term Liabilities		13,000
Total Liabilities		\$ 13,013
<u>Stockholder's Equity (Net Worth)</u>		
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	(5,086)	
Total Stockholder's Equity		\$ (3,386)



Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained Earnings

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



### The Building Blocks

Let's dive into learning our first set of vocabulary terms.

First, we will need to learn the basic building blocks that comprise the financial statements. Each "block" is used as a way of categorizing the nature of the varying business events that can take place.

### Accounting Cycle

### Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

	<u>Income Statement</u>	<u>Retained Earnings</u>	<u>Balance Sheet</u>
Revenues		Beginning, RE	Assets
		Net Income	Liabilities
Expenses		Dividends	<u>Stockholders' Equity</u>
		Ending, RE	Common Stock
			Retained Earnings

Back

Next



Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



### The Building Blocks

Let's dive into learning our first set of vocabulary terms.

First, we will need to learn the basic building blocks that comprise the financial statements. Each "block" is used as a way of categorizing the nature of the varying business events that can take place.

Select a building block to the left to view the definition.

Revenues

Expenses

Assets

Liabilities

Stockholder's Equity

Dividends

### Accounting Cycle

### Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

Back

Next



## Principles I

Announcements Course Forum My Profile Office Hours



username@gmail.com | Logout

Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



As you select each definition, the corresponding financial statement in the accordion will expand and highlight. Each building block can be located on at least one financial statement.

Revenues

Expenses

Assets

Liabilities

Stockholder's Equity

Dividends

\*Revenue\*, also known as Income, is the money a business makes by selling a product or providing a service. The most common forms of revenue are Service Revenue, Sales Revenue, and Interest Revenue.

## Accounting Cycle

## Financial Statements

## Income Statement

XYZ Student  
Income Statement  
For Month Ending January 31, 2018

## Revenue

Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100

## Expenses

Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70
Tuition Expense	5,000
Depreciation Expenses	83
Interest Expense	13
Meal Card Expense	350
Total Expenses	\$ 6,136

Net Income \$ (5,036)

## Statement of Retained Earnings

## Balance Sheet

Back

Next



Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



As you select each definition, the corresponding financial statement in the accordion will expand and highlight. Each building block can be located on at least one financial statement.

**Revenues**
**Expenses**
**Assets**
**Liabilities**
**Stockholder's Equity**
**Dividends**

\***Expenses\*** are costs that are incurred during the normal course of business to generate revenue. Typical expenses include things like **Rent Expense, Salaries & Wages Expense, or Depreciation Expense**.

[Back](#)
[Next](#)

### Accounting Cycle

### Financial Statements

#### Income Statement

XYZ Student

Income Statement

For Month Ending January 31, 2018

**Revenue**

Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100



Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



As you select each definition, the corresponding financial statement in the accordion will expand and highlight. Each building block can be located on at least one financial statement.

Revenues

Expenses

Assets

Liabilities

Stockholder's Equity

Dividends

**\*Assets\*** are resources owned by an individual or business that are expected to provide future economic value. **Cash, Equipment, and Inventory** would all be examples of assets.

## Accounting Cycle

## Financial Statements

### Income Statement

### Statement of Retained Earnings

### Balance Sheet

XYZ Student

Balance Sheet

January 31, 2018

#### Assets

Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710

#### Long-Term Assets

Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

Total Assets \$ 9,627

#### Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

#### Long-term Liabilities

Notes Payable	5,000
Student Loans Payable	8,000
Total Long-Term Liabilities	13,000

Total Liabilities \$ 13,013

#### Stockholder's Equity (Net Worth)

Owner's Equity XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,086)
Total Stockholder's Equity	\$ (5,586)

Back

Next



Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



As you select each definition, the corresponding financial statement in the accordion will expand and highlight. Each building block can be located on at least one financial statement.

- [Revenues](#)
- [Expenses](#)
- [Assets](#)
- [Liabilities](#)
- [Stockholder's Equity](#)
- [Dividends](#)

\***Liabilities\*** are a company's legal debts and obligations that arise from the normal course of business. In accounting, these are often referred to as "payables" -- because the firm will have to "pay" the money back that it owes. Examples would be **Accounts Payable**, **Notes Payable**, and **Mortgages Payable**.

### Accounting Cycle

### Financial Statements

[Income Statement](#)
[Statement of Retained Earnings](#)
[Balance Sheet](#)

XYZ Student

Balance Sheet

January 31, 2018

**Assets**

<b>Current Assets</b>	
Cash Checking	\$ 2,360
Cash Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
<b>Total Current Assets</b>	<b>\$ 4,710</b>

**Long-Term Assets**

Vehicle	5,000
Less: Acc. Depreciation	(83)
<b>Total Long-Term Assets</b>	<b>4,917</b>

**Total Assets**

\$ 9,627

**Liabilities**

<b>Current Liabilities</b>	
Interest Payable	\$ 13
<b>Total Current Liabilities</b>	<b>13</b>

**Long-Term Liabilities**

Notes Payable	5,000
Student Loans Payable	8,000
<b>Total Long-Term Liabilities</b>	<b>13,000</b>

**Total Liabilities**

\$ 13,013

**Stockholder's Equity (Net Worth)**

Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,086)
<b>Total Stockholder's Equity</b>	<b>\$ (3,386)</b>

[Back](#)[Next](#)



## Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



As you select each definition, the corresponding financial statement in the accordion will expand and highlight. Each building block can be located on at least one financial statement.

Revenues

Expenses

Assets

Liabilities

Stockholder's Equity

Dividends

\*Stockholder's Equity\*, also known as *Owner's Equity* or *Capital*, is the owner's rights to the assets of a business after all of the liabilities are settled.

## Accounting Cycle

## Financial Statements

## Income Statement

## Statement of Retained Earnings

## Balance Sheet

XYZ Student

Balance Sheet

January 31, 2018

## Assets

## Current Assets

Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710

## Long-Term Assets

Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

## Total Assets

\$ 9,627

## Liabilities

## Current Liabilities

Interest Payable	\$ 13
Total Current Liabilities	13

## Long-Term Liabilities

Notes Payable	5,000
Student Loans Payable	8,000
Total Long-Term Liabilities	13,000

## Total Liabilities

\$ 15,013

## Stockholder's Equity (Net Worth)

Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,085)
Total Stockholder's Equity	\$ (3,386)

Back

Next



Accounting: Principles I

Preface

1 Purpose of Accounting

2 Financial Statements

3 Building Blocks

3.1 Revenues

3.2 Expenses

3.3 Assets

3.4 Liabilities

3.5 Stockholder's Equity

3.6 Dividends

3.7 Quiz

4 Accounting Equation

5 Accounting Cycle

6 Trial Balance

7 Adjusting Journal

8 Adjusted Trial Balance

9 Income Statement

10 Statement of Retained

11 Balance Sheet

12 Closing Journal Entries

13 Post Closing Trial

## 3 - Building Blocks



As you select each definition, the corresponding financial statement in the accordion will expand and highlight. Each building block can be located on at least one financial statement.

Revenues

Expenses

Assets

Liabilities

Stockholder's Equity

Dividends

A **Dividend** is a distribution of a portion of a companies earnings to the owners of the business. It can often be referred to as *draw*.

### Accounting Cycle

### Financial Statements

Income Statement

Statement of Retained Earnings

XYZ Student

Retained Earnings Statement

For Month Ending January 31, 2018

Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	\$ (5,086)

Balance Sheet

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

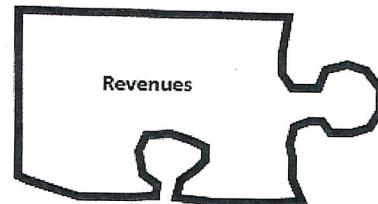
username@gmail.com

[Logout](#)

## 3 - Building Blocks



Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

**Accounting Cycle** ▾**Financial Statements** ▾

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

[Income Statement](#)[Statement of Retained Earnings](#)[Balance Sheet](#)[Back](#)[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



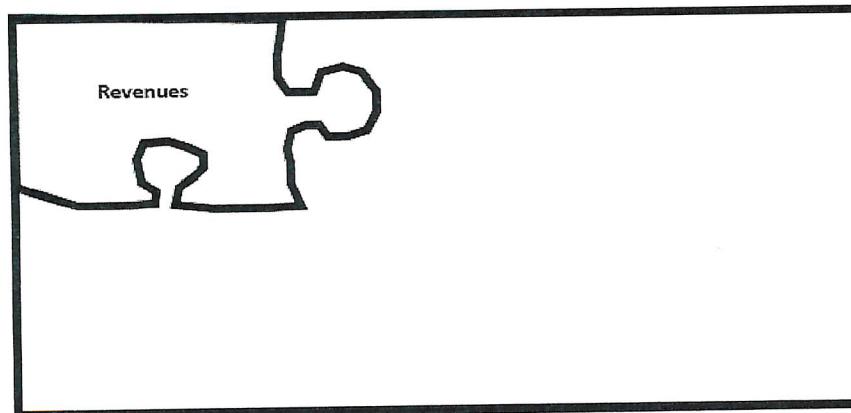
Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

**Accounting Cycle** ▾**Financial Statements** ▾

Income Statement ▾

Statement of Retained Earnings ▾

Balance Sheet ▾

**Income Statement****Statement of  
Retained Earnings****Balance Sheet**[Back](#)[Next](#)



## 3 - Building Blocks



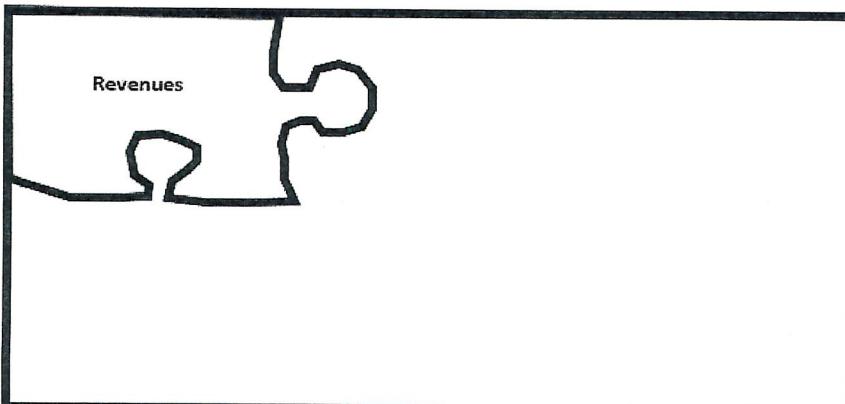
Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.



### Accounting Cycle ▾

### Financial Statements ▾

- Income Statement ▾
- Statement of Retained Earnings ▾
- Balance Sheet ▾

[Income Statement](#)[Statement of Retained Earnings](#)[Balance Sheet](#)[Back](#)[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



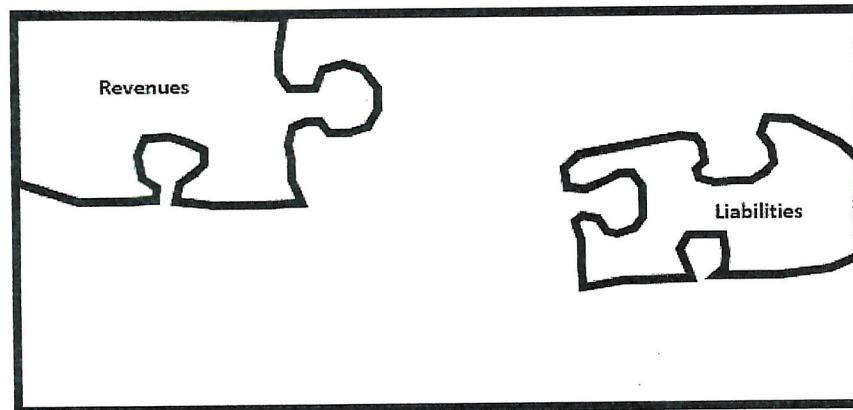
Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

**Accounting Cycle** ▾**Financial Statements** ▾

Income Statement ▾

Statement of Retained Earnings ▾

Balance Sheet ▾

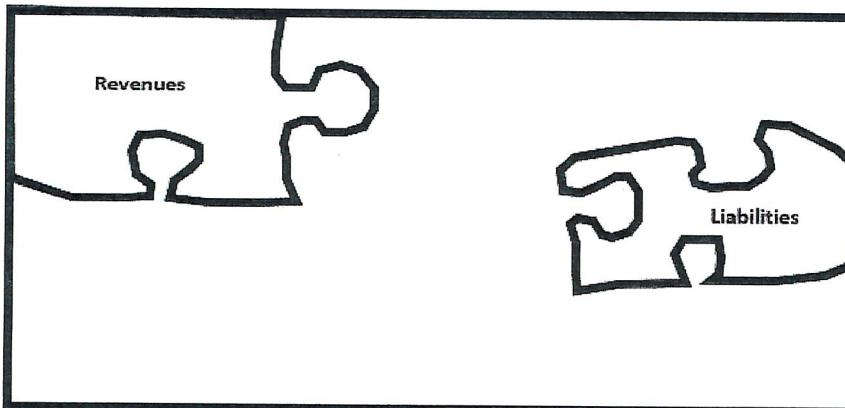
**Income Statement****Statement of  
Retained Earnings****Balance Sheet**[Back](#)[Next](#)



## 3 - Building Blocks



Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

**Income Statement****Statement of Retained Earnings****Balance Sheet****Accounting Cycle** ▾**Financial Statements** ▾

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

**Back****Next**

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



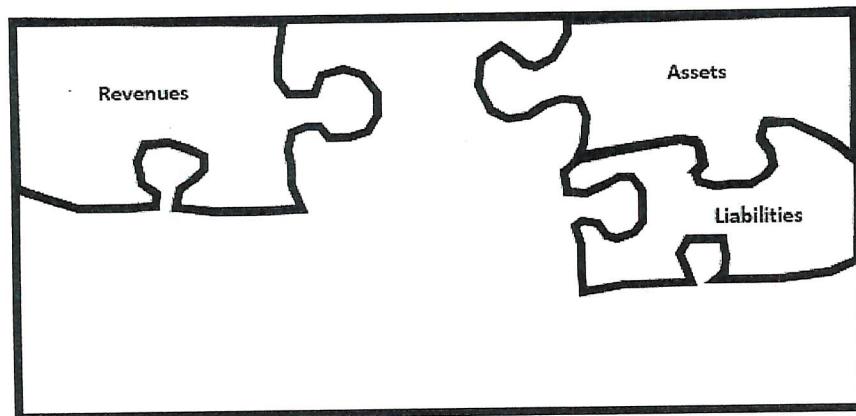
Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

**Accounting Cycle** **Financial Statements**

Income Statement

Statement of Retained Earnings

Balance Sheet

**Income Statement****Statement of  
Retained Earnings****Balance Sheet**[Back](#)[Next](#)



## 3 - Building Blocks



Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

Accounting Cycle ▾

Financial Statements ▾

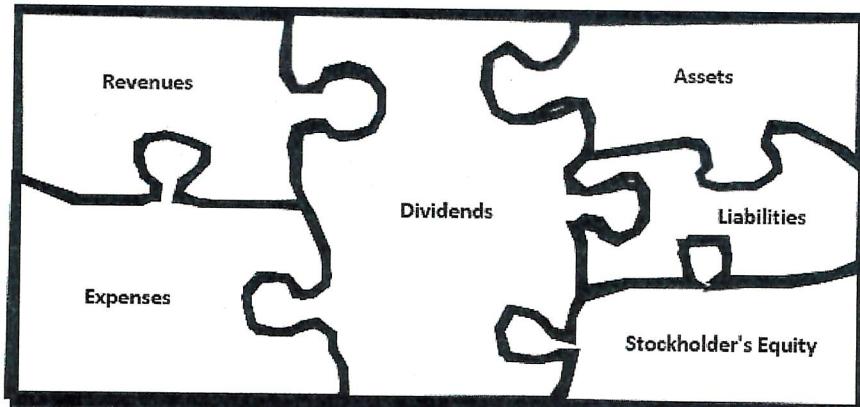
- Income Statement
- Statement of Retained Earnings
- Balance Sheet

Well Done!

Income Statement

Statement of  
Retained Earnings

Balance Sheet



Back

Next



## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Let's address their first question: **What did you spend all your money on?**

**Accounting Cycle**

**Financial Statements**

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

[Back](#)[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Let's address their first question: **What did you spend all your money on?**

[Accounting Cycle](#)[Financial Statements](#)[Income Statement](#)[Statement of Retained Earnings](#)[Balance Sheet](#)

Which tool (or statement) would we use?

\*Note: browse through the components to the right to make a better guess.

**Income Statement:** That is correct! The Income Statement is used to assess a company(or individual's) financial performance over a specific period of time. It reports where a company earns income, where it spends money, and whether it turns a profit.

[Back](#)[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Let's address their first question: **What did you spend all your money on?**

**Accounting Cycle** ▾**Financial Statements** ▾

Income Statement ▾

Statement of Retained Earnings ▾

Balance Sheet ▾

Which tool (or statement) would we use?

\*Note: browse through the components to the right to make a better guess.

**Statement of Retained Earnings:** Actually, this statement is used to see how much money a company pays to its shareholders and how much it retains in the business. Try again!

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Let's address their first question: **What did you spend all your money on?**

Accounting Cycle ▾

Financial Statements ▾

- Income Statement ▾
- Statement of Retained Earnings ▾
- Balance Sheet ▾

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

**Balance Sheet:** Good guess, but this just shows a snapshot of a companies financial position at a moment in time. A different statement is better for seeing where money was spent over a previous period.

[Back](#)[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Next question: **How much cash do you have on hand?**

[Accounting Cycle](#)[Financial Statements](#)[Income Statement](#)[Statement of Retained Earnings](#)[Balance Sheet](#)

Which tool (or statement) would we use?

\*Note: browse through the components to the right to make a better guess.



Announcements Course Forum My Profile Office Hours



username@gmail.com

Logout

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Next question: How much cash do you have on hand?

Accounting Cycle ▾

Financial Statements ▾

- Income Statement ▾
- Statement of Retained Earnings ▾
- Balance Sheet ▾

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

**Balance Sheet:** Yes! The balance sheet will report the assets, liability, and equity of a company at a moment in time. Since cash is a current asset, it will be displayed at the top of the balance sheet.

Back

Next



## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Next question: **How much cash do you have on hand?**

Accounting Cycle

Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

**Income Statement:** The income statement is for reporting what occurs over a period of time. A different statement is better for taking a snapshot of a moment in time.

  
Back  
Next

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Next question: How much cash do you have on hand?

[Accounting Cycle](#) ▾[Financial Statements](#) ▾

- [Income Statement](#) ▾
- [Statement of Retained Earnings](#) ▾
- [Balance Sheet](#) ▾

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

**Statement of Retained Earnings:** While this statement can show how much money was kept in the business, it may not have a current balance of cash available for use.

[Back](#)[Next](#)



## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Finally, their last question for now: **How much money did you save last month?**

Accounting Cycle ▾

Financial Statements ▾

- Income Statement ▾
- Statement of Retained Earnings ▾
- Balance Sheet ▾

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

Back

Next



Announcements Course Forum My Profile Office Hours



username@gmail.com

Logout

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Finally, their last question for now: **How much money did you save last month?**

Accounting Cycle ▾

Financial Statements ▾

- Income Statement ▾
- Statement of Retained Earnings ▾
- Balance Sheet ▾

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

**Statement of Retained Earnings:** Correct.  
The statement of retained earnings tells us how much was pulled out of the business (Dividends), and how much was saved or reinvested in the business (retained earnings).

Back

Next



## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Finally, their last question for now: **How much money did you save last month?**

Which tool (or statement) would we use?



\*Note: browse through the components to the right to make a better guess.

**Income Statement:** While the Income Statement gives us the net income, a necessary component of savings, there is a better statement to answer this question.

Accounting Cycle

Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

Back

Next



Announcements Course Forum My Profile Office Hours



username@gmail.com | Logout

## 3 - Building Blocks



Okay, back to our parents:

Now its time to ask for that new computer.

Finally, their last question for now: **How much money did you save last month?**

Accounting Cycle ▼

Financial Statements ▼

- Income Statement ▼
- Statement of Retained Earnings ▼
- Balance Sheet ▼

Which tool (or statement) would we use?

Submit

\*Note: browse through the components to the right to make a better guess.

**Balance Sheet:** Not quite! The Balance sheet will tell us how much cash we have on hand, but won't necessarily tell us how much money was retained (saved) versus distributed.

Back

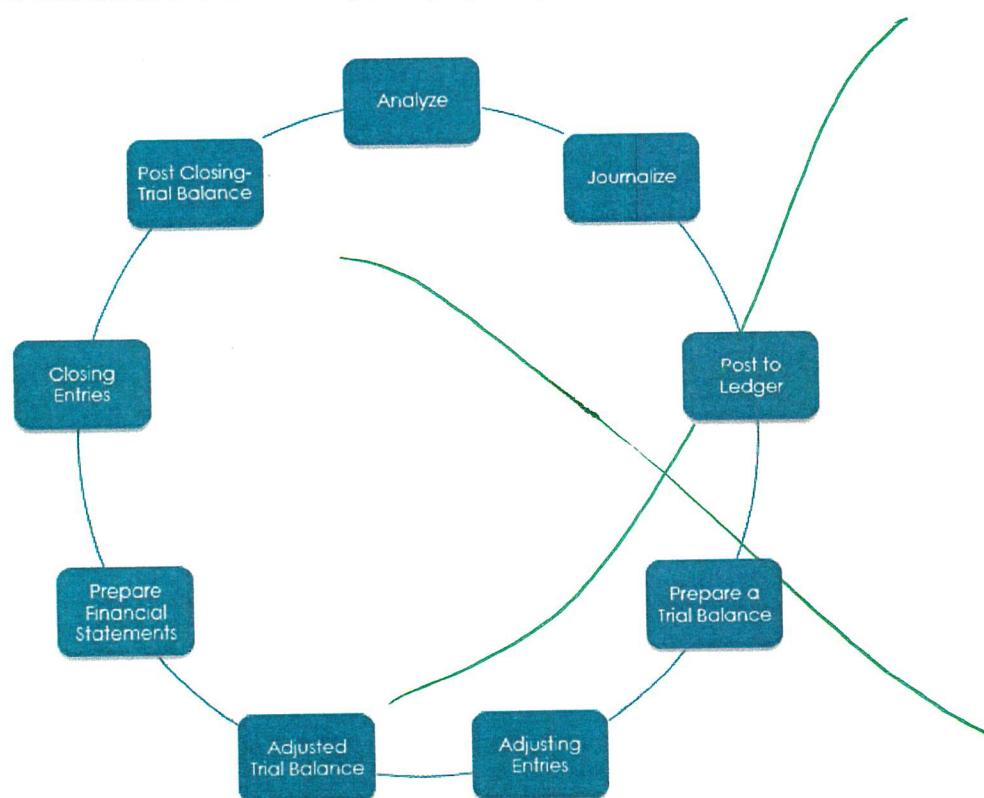
Next



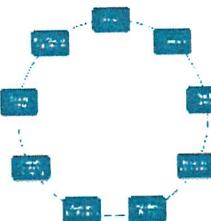
## 4 - The Accounting Cycle



Now we need to discuss the **Accounting Cycle**. It is the process by which we go from source documents like invoices, receipts, bills, etc. to financial statements.



### Accounting Cycle



### Financial Statements

- [Income Statement](#)
- [Statement of Retained Earnings](#)
- [Balance Sheet](#)

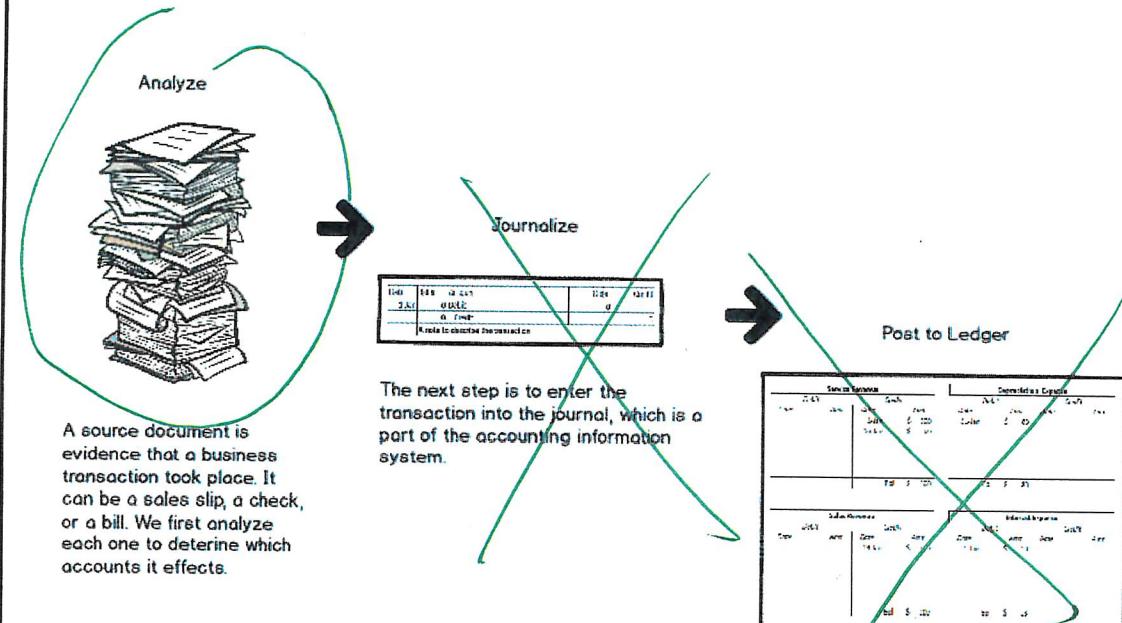
[Back](#)[Next](#)



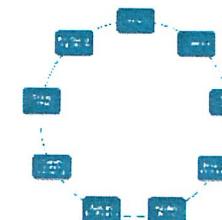
## 4 - The Accounting Cycle



For now, we will discuss the first three steps: **Analyze, Journalize, and Post to the Ledger.**



## Accounting Cycle ▾



## Financial Statements ▾

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

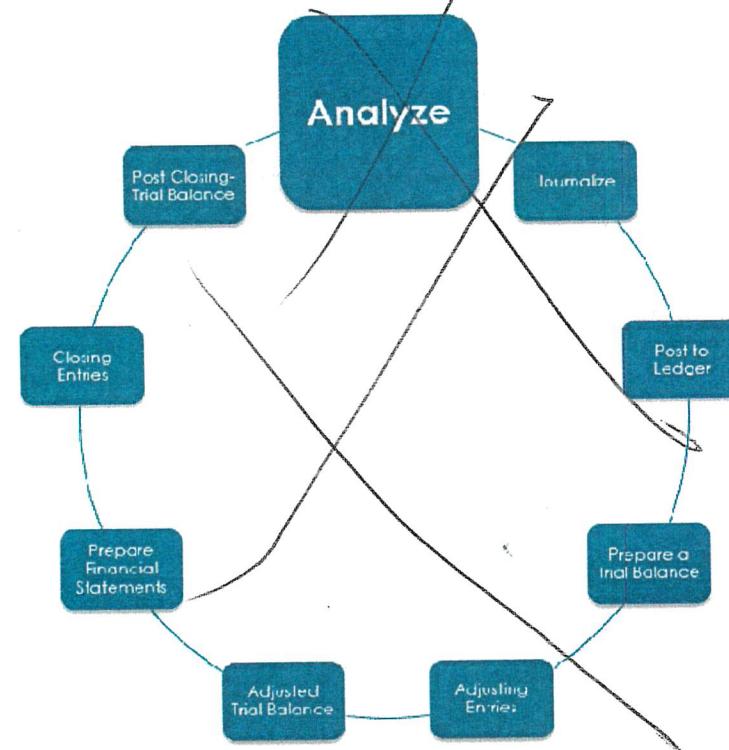


## 4 - The Accounting Cycle

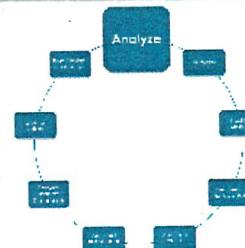


Financial statements are based on economic events. So our first step is to sort through our receipts and put everything in the right category (or building block).

This is step 1, Analyze in the accounting cycle.


[Back](#)
[Next](#)

### Accounting Cycle ▾



### Financial Statements ▾

- [Income Statement](#) ▾
- [Statement of Retained Earnings](#) ▾
- [Balance Sheet](#) ▾

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

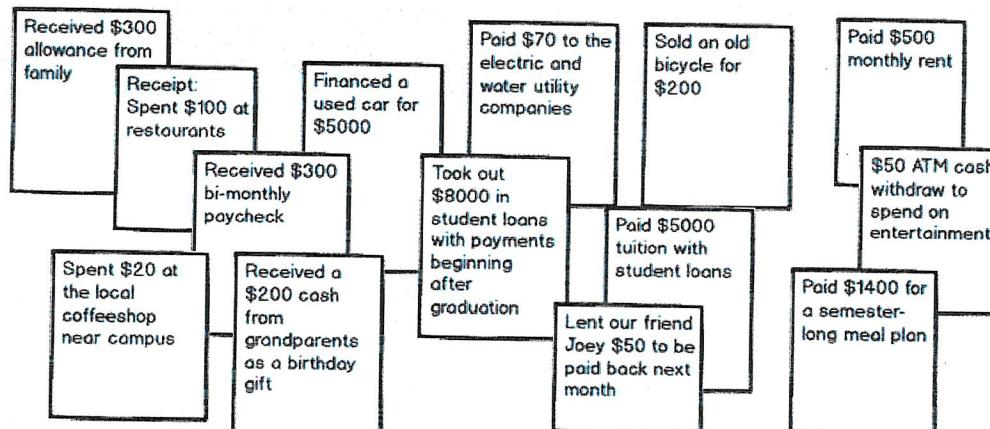
[Logout](#)

## 4 - The Accounting Cycle

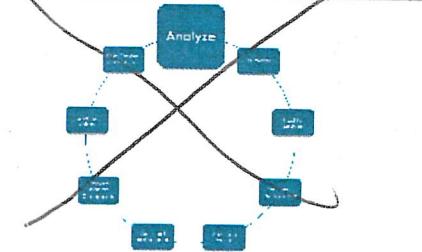


So let's practice the first step by analyzing some transactions!

Here is a pile of receipts and transactions from January. What do we do with this stack of papers? (source documents)



### Accounting Cycle



### Financial Statements

- [Income Statement](#)
- [Statement of Retained Earnings](#)
- [Balance Sheet](#)

[Back](#)[Next](#)

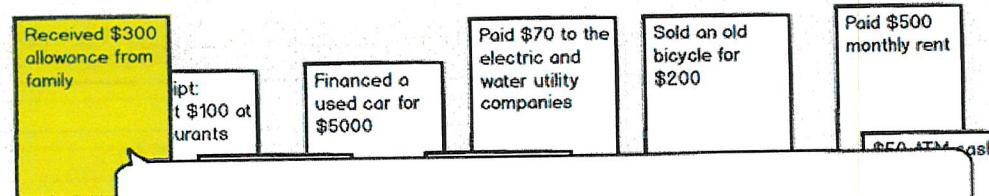


## 4 - The Accounting Cycle



So let's practice the first step by analyzing some transactions!

Here is a pile of receipts and transactions from January. What do we do with this stack of papers? (source documents)



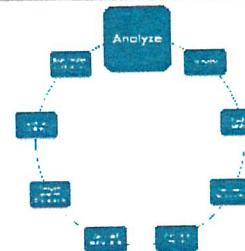
Our first "receipt" is the \$300 allowance check. That's easy -- it's cash on the balance sheet. Oh wait, it's also "allowance revenue" on our income statement.

What the heck is going on here? How can one "event" fit into 2 categories?

Welcome to the genius of "double-entry" bookkeeping!

[Back](#)[Next](#)

### Accounting Cycle



### Financial Statements

#### Income Statement

XYZ Student
Income Statement
For Month Ending January 31, 2018
<b>Revenue</b>
Service Revenue \$ 600
Sales Revenue 200
<b>Allowance Revenue 300</b>
Total Revenues \$ 1,100
<b>Expenses</b>
Food Expense \$ 100

#### Statement of Retained Earnings

#### Balance Sheet

##### XYZ Student

##### Balance Sheet

January 31, 2018

##### Assets

##### Current Assets

Cash - Checking	\$ 300
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50



## 5 - The Accounting Equation



True to its name, **double entry bookkeeping** consists of recording transactions in two places. The mechanism for achieving this balance is called the accounting equation.

The **Accounting Equation**, also known as the *balance sheet equation*, is the essential mathematical equation that holds the financial statements together. The accounting equation will become your best friend, because it is the way to check to ensure that your calculations are right.

All of accounting is based on this simple algebraic equation:

$$\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$$

Accounting Cycle ▾

Financial Statements ▾

- Income Statement ▾
- Statement of Retained Earnings ▾
- Balance Sheet ▾

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 4 - Accounting Equation



The equation can be expanded to provide further understanding of its components.

$$\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$$

Common Stock + Retained Earnings

Revenue - Expenses - Dividends

So the entire equation can be summarized as:

$$\text{Assets} = \text{Liabilities} + \text{Common Stock} + \text{Revenue} - \text{Expenses} - \text{Dividends}$$

Remember the retained earnings statement!

### Accounting Cycle ▾

### Financial Statements ▾

[Income Statement](#)[Statement of Retained Earnings](#)[Balance Sheet](#)



## 4 - Accounting Equation



After every economic event, this equation must stay in balance.

Let's see how it works with the allowance example.

Received \$300  
allowance from  
family

### Accounting Cycle ▾

### Financial Statements ▾

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Common Stock} + \text{Revenue} - \text{Expenses} - \text{Dividends}$$

+ 300 = + 300

Step 1: When we analyze every transaction, we are looking to see how it affects the accounting equation.

Because the equation must stay in balance, this provides a built-in check against errors.

Hooray! It stays in balance!

But it's not enough to just know that Assets and Revenues increase by 300, we need to see more details about the transaction. We need to keep exact track of the money.

For that we must move on to step 2!

Back

Next

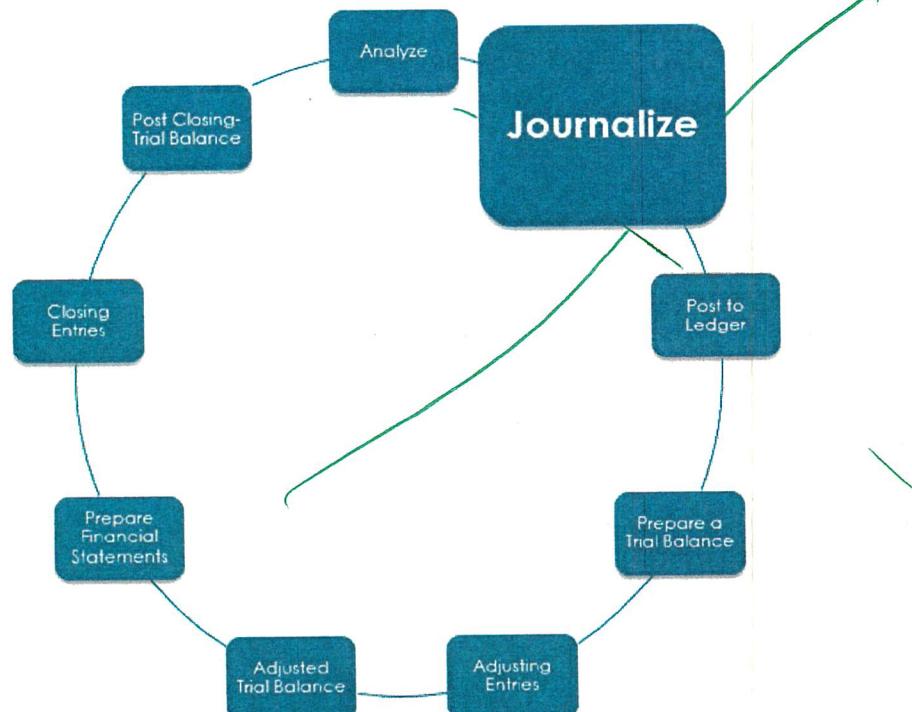


## 5 - The Accounting Cycle - Step 2: Journalize

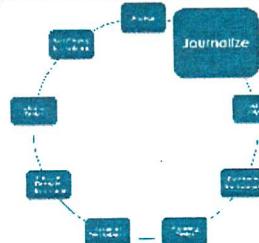


Most of you know what the word "journal" means -- and it has a similar meaning in accounting. It's just a chronological record of economic events.

In our example, we've been sorting transactions that already took place. Normally, an organization would record these economic events as they take place. That's why a receipt from almost any store lists the date and time of your purchase.

[Back](#)[Next](#)

## Accounting Cycle



## Financial Statements

<a href="#">Income Statement</a>	▼
<a href="#">Statement of Retained Earnings</a>	▼
<a href="#">Balance Sheet</a>	▼



## 5 - The Accounting Equation



We record economic events in detail using **Accounts**.

Accounts are defined as the individual record of each individual Asset, Liability and Stockholder's Equity item in the financial statements. They allow us to break the building blocks down into more detailed components.

In our Allowance example, we recorded a \$300 increase to our **Cash** account, and a \$300 increase to our **Allowance Revenue** account.

In order to record these increases and decreases, accountants use **debits** and **credits**.

### Accounting Cycle ▾

### Financial Statements ▾

Income Statement	▼
Statement of Retained Earnings	▼
Balance Sheet	▼

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 5 - The Accounting Equation



Let's cover debits and credits.

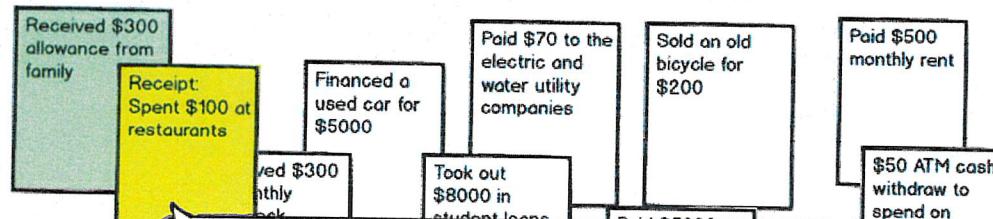
[Accounting Cycle](#) ▾[Financial Statements](#) ▾[Income Statement](#) ▾[Statement of Retained Earnings](#) ▾[Balance Sheet](#) ▾[Back](#)[Next](#)



## 4 - The Accounting Cycle



This seems pretty easy. Let's check out another...



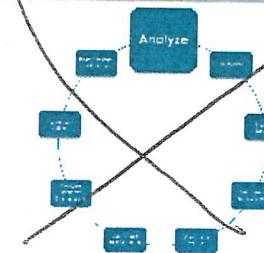
Cash goes down by \$100.  
Expenses go up by \$100.

$$\text{Assets} = \text{Liabilities} + \text{SE}$$

$$-\$100 = +100$$

Oh, No! What's happened here?

### Accounting Cycle



### Financial Statements

#### Income Statement

Total Revenues	\$ 1,100
<b>Expenses</b>	
Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70
Tuition Expense	5,000
Depreciation Expenses	83
Interest Expense	13
Meal Card Expense	350

#### Statement of Retained Earnings

#### Balance Sheet

##### XYZ Student

##### Balance Sheet

January 31, 2018

##### Assets

##### Current Assets

Cash - Checking	\$ (100)
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50

[Back](#)
[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 4 - Accounting Equation



Let's see how it works with the restaurant example.

Receipt:  
Spent \$100 at  
restaurants

### Accounting Cycle

### Financial Statements

[Income Statement](#)[Statement of Retained Earnings](#)[Balance Sheet](#)

$$\text{Assets} = \text{Liabilities} + \text{Common Stock} + \text{Revenue} - \text{Expenses} - \text{Dividends}$$

$$- 100 = + 100$$

Oh no, what happened here?

[Back](#)[Next](#)



## Principles I

[Announcements](#)
[Course](#)
[Forum](#)
[My Profile](#)
[Office Hours](#)

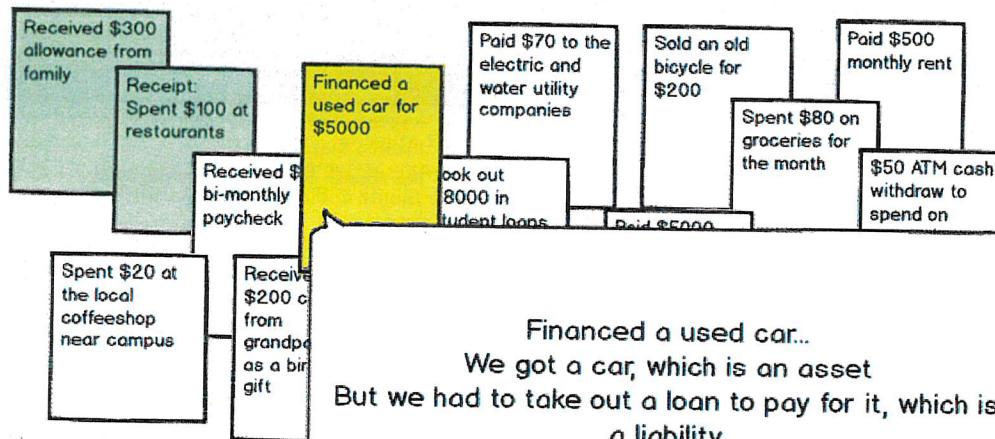

username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



This seems pretty easy. Let's check out another...



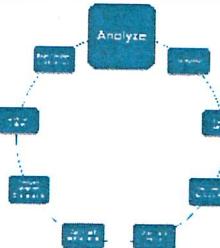
Let's check to see if we're right:  

$$\text{Assets} = \text{Liabilities} + \text{Stockholders Equity}$$

$$\$5,000 = \$5,000 + 0$$

Yes! It still balances.

## Accounting Cycle



## Financial Statements

Income Statement																														
Statement of Retained Earnings																														
Balance Sheet																														
<table border="1"> <thead> <tr> <th>Total Current Assets</th> <th>\$ 4,710</th> </tr> </thead> <tbody> <tr> <td>Long-Term Assets</td> <td></td> </tr> <tr> <td>Vehicle</td> <td>5,000</td> </tr> <tr> <td>Less: Acc. Depreciation</td> <td>(83)</td> </tr> <tr> <td>Total Long-Term Assets</td> <td>4,917</td> </tr> <tr> <td>Total Assets</td> <td></td> </tr> <tr> <td><b>Liabilities</b></td> <td></td> </tr> <tr> <td>Current Liabilities</td> <td></td> </tr> <tr> <td>Interest Payable</td> <td>\$ 13</td> </tr> <tr> <td>Total Current Liabilities</td> <td>13</td> </tr> <tr> <td>Long-Term Liabilities</td> <td></td> </tr> <tr> <td>Notes Payable</td> <td>5,000</td> </tr> <tr> <td>Student Loans Payable</td> <td>8,000</td> </tr> <tr> <td>Total Long-Term Liabilities</td> <td>13,000</td> </tr> <tr> <td>Total Liabilities</td> <td></td> </tr> </tbody> </table>	Total Current Assets	\$ 4,710	Long-Term Assets		Vehicle	5,000	Less: Acc. Depreciation	(83)	Total Long-Term Assets	4,917	Total Assets		<b>Liabilities</b>		Current Liabilities		Interest Payable	\$ 13	Total Current Liabilities	13	Long-Term Liabilities		Notes Payable	5,000	Student Loans Payable	8,000	Total Long-Term Liabilities	13,000	Total Liabilities	
Total Current Assets	\$ 4,710																													
Long-Term Assets																														
Vehicle	5,000																													
Less: Acc. Depreciation	(83)																													
Total Long-Term Assets	4,917																													
Total Assets																														
<b>Liabilities</b>																														
Current Liabilities																														
Interest Payable	\$ 13																													
Total Current Liabilities	13																													
Long-Term Liabilities																														
Notes Payable	5,000																													
Student Loans Payable	8,000																													
Total Long-Term Liabilities	13,000																													
Total Liabilities																														

[Back](#)
[Next](#)



## 5 - The Accounting Cycle



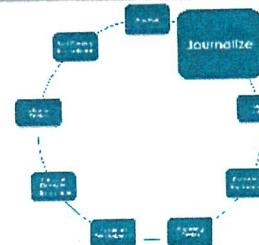
\*Journal Entries\* are simple now that you know debits and credits!

All journal entries have the same format: Date, Account names, and amounts. Debits go on top line; credits go below. Journal entries are required to have at least one of each, but can have more. Most importantly, entries have to balance.

Date	Account	Debit	Credit
23-Jan	Cash - Checking	300	
	Allowance Revenue		300
To record revenue from the monthly allowance			

When we input information it is referred to as **Journalizing**. The journal is the way to chronologically track transactions as they occur over time. Often, companies will have specialty journals for the more routine transactions such as purchases, sales, cash receipts and cash disbursements. Any other transaction would be recorded into the **General Journal**.

### Accounting Cycle



### Financial Statements

#### Income Statement

XYZ Student
Income Statement
For Month Ending January 31, 2018
<b>Revenue</b>
Service Revenue \$ 600
Sales Revenue 200
<b>Allowance Revenue 300</b>
Total Revenues \$ 1,100
<b>Expenses</b>
Food Expense \$ 100

#### Statement of Retained Earnings

#### Balance Sheet

XYZ Student
Balance Sheet
January 31, 2018

#### Assets

Current Assets
<b>Cash - Checking \$ 300</b>
Cash - Savings \$ 1,250
Accounts Receivable - Joey 50

[Back](#)
[Next](#)

Principles of Accounting I  
<http://accountingapplication.com/homepage/>

## Principles I

Announcements Course Forum My Profile Office Hours

username@gmail.com Logout

### 5 - The Accounting Cycle

Let's do a quick check. In this simple example, what are we doing with this journal entry?

*(Handwritten notes: "CJM", "To record revenue from the monthly allowance")*

Date	Account	Debit	Credit
23-Jan	Cash - Checking	300	
	Allowance Revenue		300
To record revenue from the monthly allowance			

*(Handwritten notes: "Keep", "X")*

**Accounting Cycle**

**Financial Statements**

**Income Statement**

XYZ Student  
Income Statement  
For Month Ending January 31, 2018

Revenue	
Service Revenue	\$ 600
Sales Revenue	200
<b>Allowance Revenue</b>	<b>300</b>
Total Revenues	\$ 1,100

**Expenses**

Food Expense \$ 100

**Statement of Retained Earnings**

**Balance Sheet**

XYZ Student  
Balance Sheet  
January 31, 2018

**Assets**

Current Assets	
Cash - Checking	\$ 300
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50

**Back** **Next**

Appalachian State University \* Privacy & Terms



## 5 - The Accounting Cycle



Let's do a quick check. In this simple example, what are we doing with this journal entry?

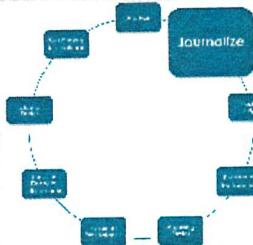
Date	Account	Debit	Credit
23-Jan	Cash - Checking	300	
	Allowance Revenue		300
To record revenue from the monthly allowance			

<input type="text" value="Cash"/>	<input type="button" value="Increasing"/>	<input type="button" value="Submit"/>
<input type="text" value="Allowance Revenue"/>	<input type="button" value="Increasing"/>	

Correct! Cash is an example of an asset, and we increase assets with a debit.  
Service Revenue is increased with a credit, so we are increasing both accounts with this transaction.

[Back](#)[Next](#)

## Accounting Cycle



## Financial Statements

### Income Statement

XYZ Student  
Income Statement  
For Month Ending January 31, 2018

Revenue	
Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100

Expenses

Food Expense	\$ 100
--------------	--------

### Statement of Retained Earnings

### Balance Sheet

XYZ Student  
Balance Sheet  
January 31, 2018

#### Assets

Current Assets	
Cash - Checking	\$ 300
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle

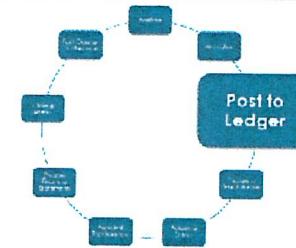


Let's move back to our personal finance example:

Now that we understand some of the basics of accounting, let's see what we can do with these source documents, and practice applying the concepts we've learned about the first three steps of the accounting cycle to the building blocks we learned earlier.

First we'll cover Revenues!

### Accounting Cycle ▼



### Financial Statements ▼

<a href="#">Income Statement</a>	▼
<a href="#">Statement of Retained Earnings</a>	▼
<a href="#">Balance Sheet</a>	▼

[Back](#)[Next](#)



## 5 - The Accounting Cycle



### Revenue

Revenue is one of the most important accounts because it keeps track of how much money a business makes. When a company sells a product or performs a service in the normal course of business, they record that as revenue.

Some of the most common types of revenue are Sales Revenue where a product is sold, Service revenue where a service is performed for a customer, or Interest revenue that is earned from lending money to a customer (like a bank).

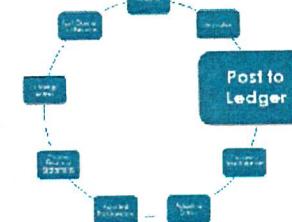
Remember, revenue has a normal credit balance, which means that increases to revenue are 'credited', and decreases in revenue are debited to the revenue account.

Think about yourself for a moment. What in your life would be considered revenue?

Maybe you work part time at the cafe next to campus. If you picture yourself as a business, your paycheck would be considered revenue. Or maybe you don't work, but receive an allowance from your parents every month. When they give that money to you, it can be considered revenue. Maybe you get tired of that old bicycle sitting around, and think someone else would be willing to purchase it from you. The sale of that bicycle could be considered revenue.

Let's go ahead and begin building our own personal **Income Statement**. For this we will have to go back to Step 1: Analyze.

### Accounting Cycle



### Financial Statements

[Income Statement](#) ▾

[Statement of Retained Earnings](#) ▾

[Balance Sheet](#) ▾



## Principles I

[Announcements](#)
[Course](#)
[Forum](#)
[My Profile](#)
[Office Hours](#)


username@gmail.com

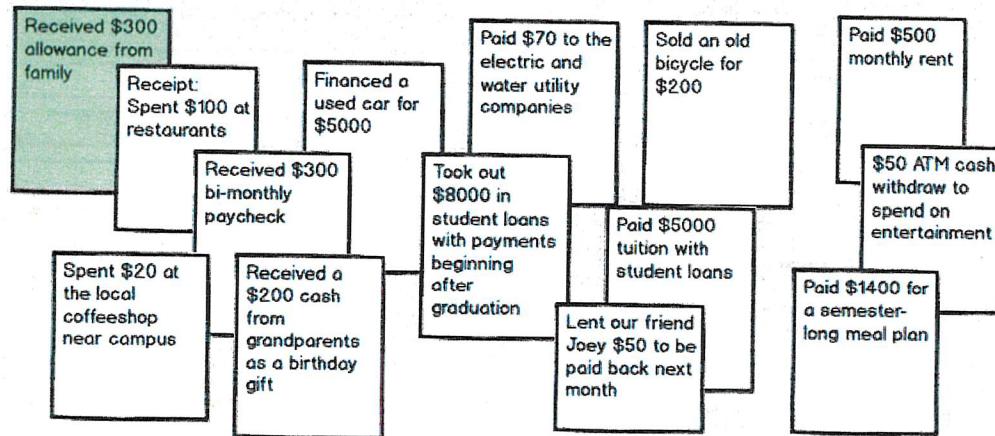
[Logout](#)

## 5 - The Accounting Cycle

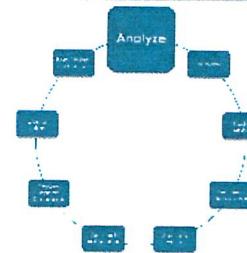


### Revenue

So we've already covered **Allowance Revenue**, see if you can identify the other two instances of Revenue found in our source documents.



### Accounting Cycle



### Financial Statements

[Income Statement](#)
[Statement of Retained Earnings](#)
[Balance Sheet](#)
[Back](#)
[Next](#)

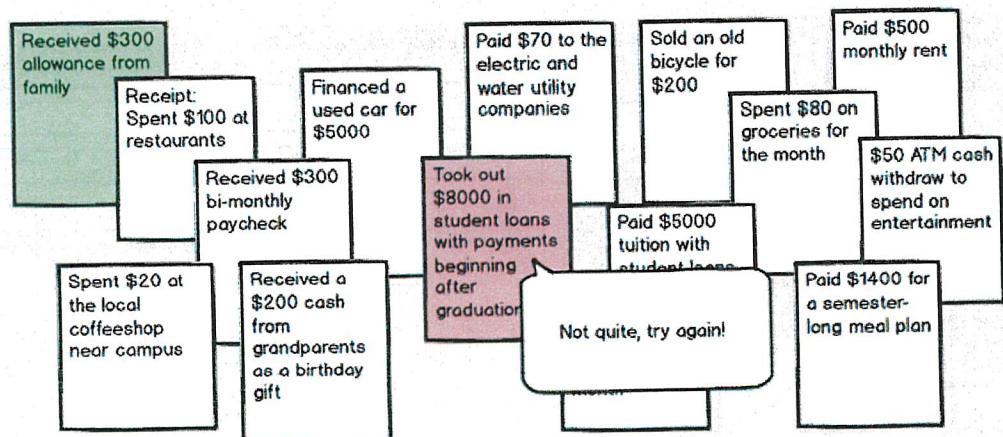


## 5 - The Accounting Cycle

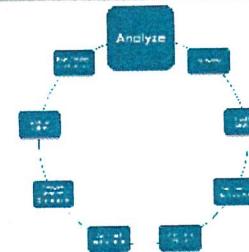


### Revenue

So we've already covered **Allowance Revenue**, see if you can identify the other two instances of Revenue found in our source documents.



### Accounting Cycle



### Financial Statements

[Income Statement](#) ▾

[Statement of Retained Earnings](#) ▾

[Balance Sheet](#) ▾

[Back](#)

[Next](#)

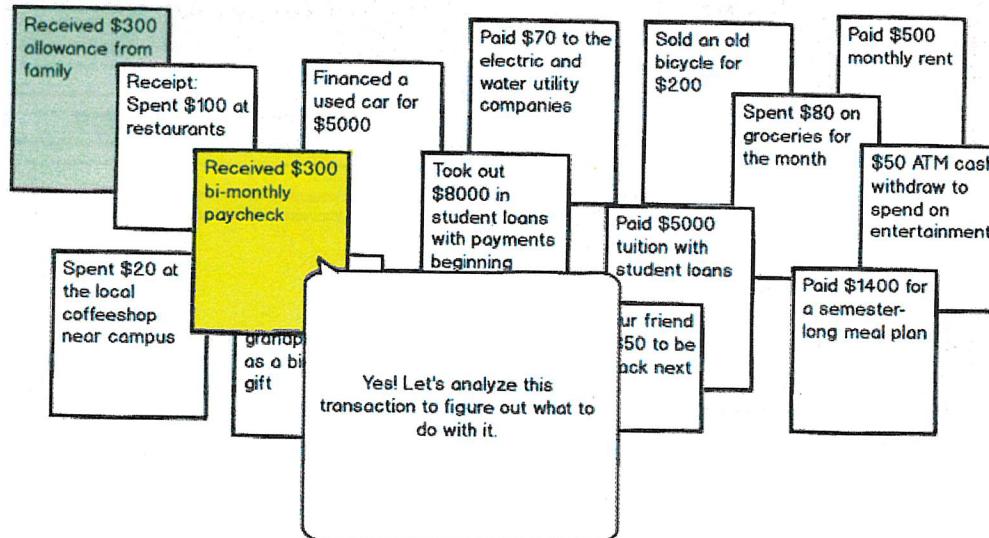


## 5 - The Accounting Cycle

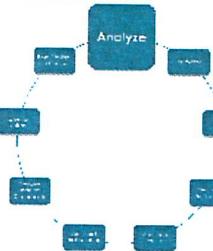


### Revenue

So we've already covered **Allowance Revenue**, see if you can identify the other two instances of Revenue found in our source documents.



### Accounting Cycle



### Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

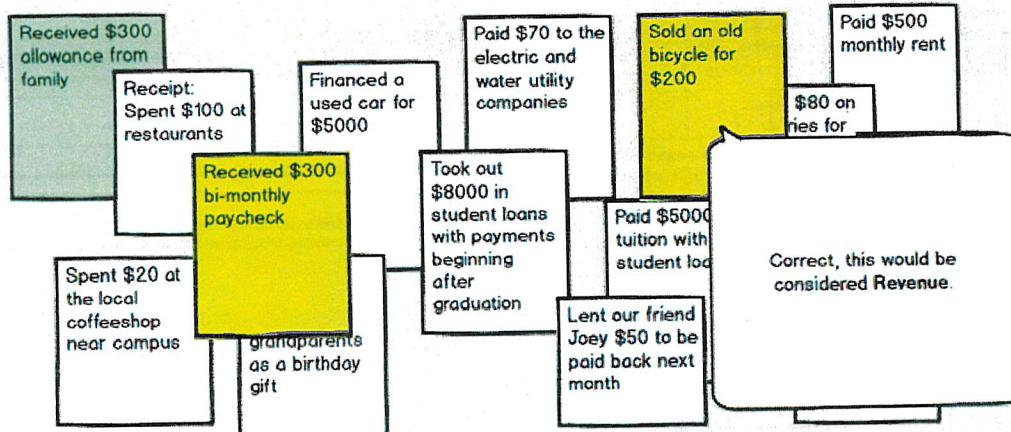


## 5 - The Accounting Cycle

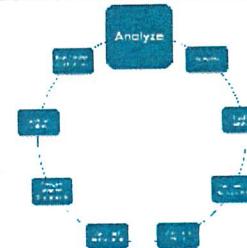


### Revenue

So we've already covered **Allowance Revenue**, see if you can identify the other two instances of Revenue found in our source documents.



### Accounting Cycle



### Financial Statements

[Income Statement](#)

[Statement of Retained Earnings](#)

[Balance Sheet](#)

[Back](#)

[Next](#)

Principles of Accounting I  
http://accountingapplication.com/homepage/

## Principles I

Announcements Course Forum My Profile Office Hours

username@gmail.com Logout

### 5 - The Accounting Cycle

Revenue

Back to step 1: What is happening in this transaction?

Sold an old bicycle for \$200

Cash Inc/Dec Inc/Dec

Sales Revenue

Submit

ANALYZE

Accounting Cycle

Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

Back Next

Appalachian State University \* Privacy & Terms



## 5 - The Accounting Cycle



### Revenue

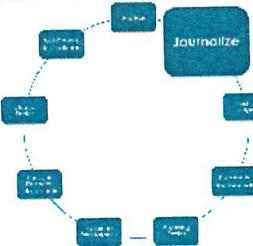
Back to step 1: What is happening in this transaction?

Sold an old bicycle for \$200

Cash	Increasing
Sales Revenue	Increasing



### Accounting Cycle



### Financial Statements

[Income Statement](#)

[Statement of Retained Earnings](#)

[Balance Sheet](#)

Step 2: Journalize the accounts and balances.

Date	Account	Debit	Credit
19-Jan	Account Name dropdown		
	Account Name dropdown		
To record revenue from the sale of the bicycle			

[Submit](#)

[Back](#)

[Next](#)



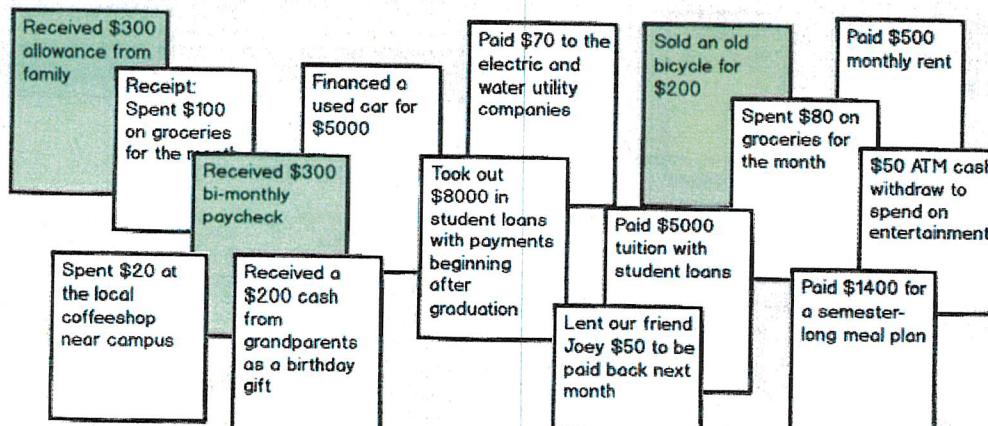
## 5 - The Accounting Cycle



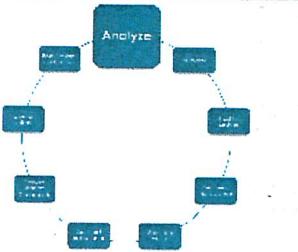
### Expenses

See if you can pick out the expenses from our stack of source documents:

\*\*Hint: there are *four* of them.



### Accounting Cycle



### Financial Statements

#### Income Statement

XYZ Student  
Income Statement  
For Month Ending January 31, 2018

##### Revenue

Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100

##### Expenses

Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70
Tuition Expense	5,000
Depreciation Expenses	83
Interest Expense	13
Meal Card Expense	350
Total Expenses	\$ 6,136

Net Income \$ (5,036)

#### Statement of Retained Earnings

#### Balance Sheet

[Back](#)
[Next](#)

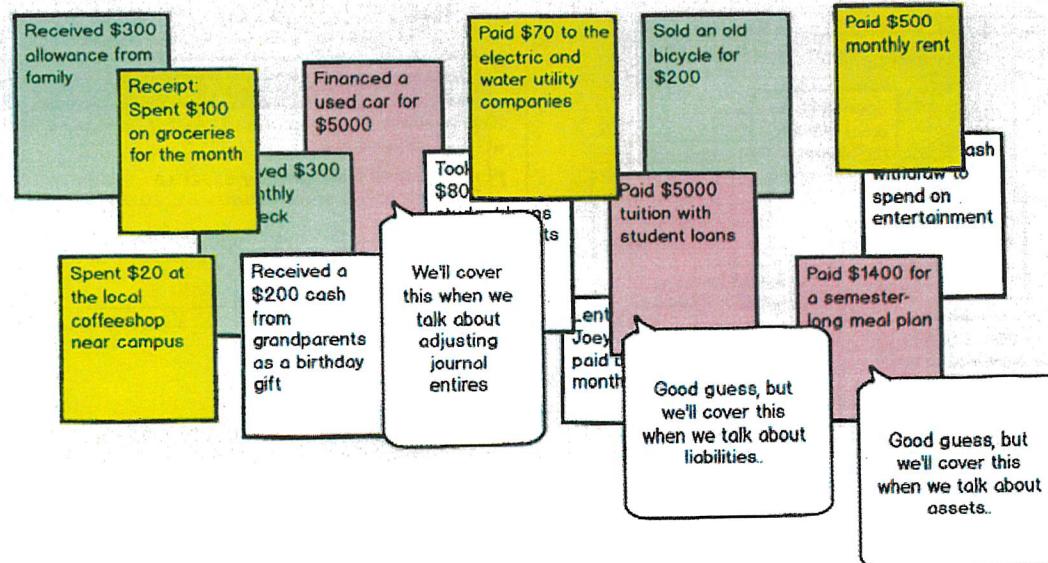


## 5 - The Accounting Cycle

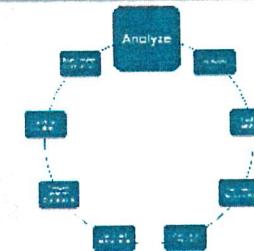


### Expenses

See if you can pick out the expenses from our stack of source documents:



### Accounting Cycle



### Financial Statements

#### Income Statement

XYZ Student  
Income Statement  
For Month Ending January 31, 2018

##### Revenue

Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100

##### Expenses

Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70
Tuition Expense	5,000
Depreciation Expenses	83
Interest Expense	13
Meal Card Expense	350
Total Expenses	\$ 6,136

##### Net Income

\$ (5,036)

#### Statement of Retained Earnings

#### Balance Sheet



## 5 - The Accounting Cycle



### Expenses

We already briefly discussed this transaction. Let's see if you can remember what is happening here:

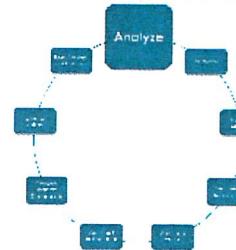
Step 1: Analyze

Receipt:  
Spent \$100  
on groceries  
for the month

Cash	Inc/Dec
Food Expense	Inc/Dec

Submit

### Accounting Cycle ▾



### Financial Statements ▾

Income Statement	▼
Statement of Retained Earnings	▼
Balance Sheet	▼

Back

Next



## 5 - The Accounting Cycle



### Expenses

We already briefly discussed this transaction. Let's see if you can remember what is happening here:

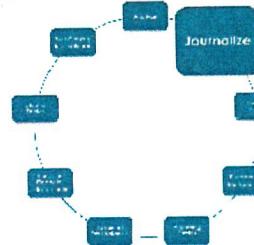
Step 1: Analyze

Receipt:  
Spent \$100  
on groceries  
for the month

Cash	Decreasing
Food Expense	Increasing



### Accounting Cycle



### Financial Statements

- [Income Statement](#)
- [Statement of Retained Earnings](#)
- [Balance Sheet](#)

Step 2: Journalize

Date	Account	Debit	Credit
18-Jan	Account Name dropdown		
	Account Name dropdown		
To record the purchase groceries			



## 5 - The Accounting Cycle



### Expenses

We already briefly discussed this transaction. Let's see if you can remember what is happening here:

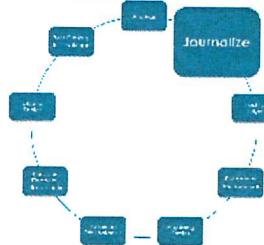
Step 1: Analyze

Receipt:  
Spent \$100  
on groceries  
for the month

Cash	Decreasing
Food Expense	Increasing



### Accounting Cycle



### Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

Step 2: Journalize

Date	Account	Debit	Credit
18-Jan	Food Expense	100	
	Cash - Checking		100
<i>To record the purchase groceries</i>			



Back

Next



## 5 - The Accounting Cycle



### Expenses

Date	Account	Debit	Credit
18-Jan	Food Expense	100	
	Cash - Checking		100
To record the purchase groceries			

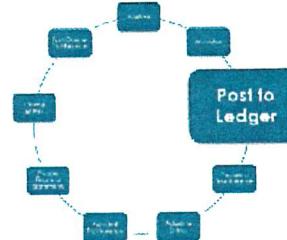
Step 3: Post to the ledger.

Cash - Checking			
Debit	Credit		
Date	Amt	Date	Amt
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bal \$			

Food Expense			
Debit	Credit		
Date	Amt	Date	Amt
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bal \$			




### Accounting Cycle



### Financial Statements

[Income Statement](#)
[Statement of Retained Earnings](#)
[Balance Sheet](#)



## 5 - The Accounting Cycle



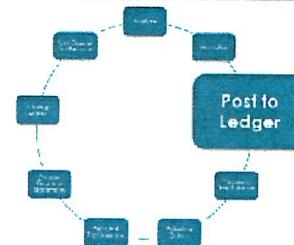
### Expenses

Date	Account	Debit	Credit
18-Jan	Food Expense	100	
	Cash - Checking		100
To record the purchase groceries			

Step 3: Post to the ledger.

Cash - Checking			Food Expense		
Debit	Credit		Debit	Credit	
Date	Amt	Date	Amt	Date	Amt
		18 Jan	\$ 100	18 Jan	\$ 100
Bal	\$ (100)			Bal	\$ 100

### Accounting Cycle



### Financial Statements

#### Income Statement

##### Revenue

Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100

##### Expenses

Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70

#### Statement of Retained Earnings

#### Balance Sheet

##### Assets

Current Assets	
Cash - Checking	\$ (100)
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 2,250

##### Long-Term Assets

Vehicle	5,000
---------	-------



## 5 - The Accounting Cycle



### Expenses

That takes care of our food expense, now you try to do the rest:

Step 1: Analyze

Spent \$20 at  
the local  
coffeeshop  
near campus

Cash	Inc/Dec	Submit
Coffee Expense	Inc/Dec	

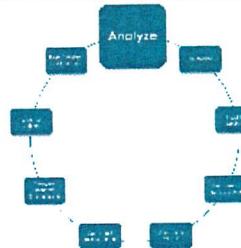
Paid \$70 to the  
electric and  
water utility  
companies

Cash	Inc/Dec	Submit
Utilities Expense	Inc/Dec	

Paid \$500  
monthly rent

Cash	Inc/Dec	Submit
Rent Expense	Inc/Dec	

### Accounting Cycle



### Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

[Back](#)[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



### Expenses

That takes care of our food expense, now you try to do the rest:

Step 1: Analyze

Spent \$20 at the local coffeeshop near campus

Cash	Decreasing ▼
Coffee Expense	Increasing ▼



Paid \$70 to the electric and water utility companies

Cash	Decreasing ▼
Utilities Expense	Increasing ▼

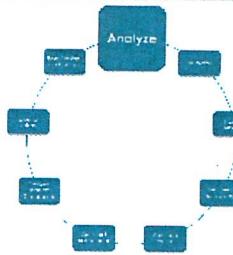


Paid \$500 monthly rent

Cash	Decreasing ▼
Rent Expense	Increasing ▼



### Accounting Cycle ▾



### Financial Statements ▾

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

[Back](#)[Next](#)



## 5 - The Accounting Cycle



### Expenses

That takes care of our food expense, now you try to do the rest:

Step 2: Journalize

Spent \$20 at the local coffeeshop near campus

Date	Account	Debit	Credit
12-Jan	Account Name dropdown	<input type="text"/>	<input type="text"/>
	Account Name dropdown	<input type="text"/>	<input type="text"/>
	To record the purchase of a cup of coffee		

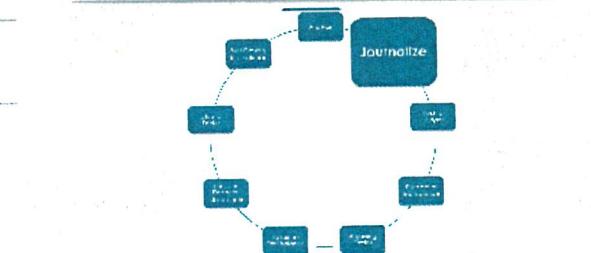
Paid \$70 to the electric and water utility companies

Date	Account	Debit	Credit
23-Jan	Account Name dropdown	<input type="text"/>	<input type="text"/>
	Account Name dropdown	<input type="text"/>	<input type="text"/>
	For paying electricity and water bill		

Paid \$500 monthly rent

Date	Account	Debit	Credit
30-Jan	Account Name dropdown	<input type="text"/>	<input type="text"/>
	Account Name dropdown	<input type="text"/>	<input type="text"/>
	To record February rent payment		

### Accounting Cycle



### Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet



## 5 - The Accounting Cycle

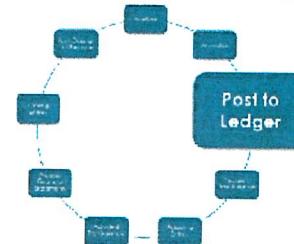


### Assets

You may have noticed from analyzing the financial statements that there are other expenses that we haven't yet covered. Those are a bit more complicated, and must be addressed individually.

Next let's cover Assets.

### Accounting Cycle



### Financial Statements

#### Income Statement

##### Expenses

Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70
Tuition Expense	5,000
Depreciation Expense	83
Interest Expense	13
Meal Card Expense	350

#### Statement of Retained Earnings

#### Balance Sheet

January 31, 2018

##### Assets

Current Assets	
Cash - Checking	\$ (690)
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 1,660

##### Long-Term Assets

[Back](#)
[Next](#)



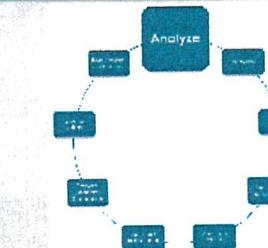
## 5 - The Accounting Cycle



### Assets

Remember, we define **Assets** as resources owned by an individual or business that are expected to provide future economic value. We have already been dealing with one of the major assets of a company, **cash**, however we will learn about some other, less intuitive assets.

### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

XVZ Student

Balance Sheet

January 31, 2018

##### Assets

Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710

Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

Total Assets	\$ 9,627
--------------	----------

##### Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

[Back](#)[Next](#)



## Principles I

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

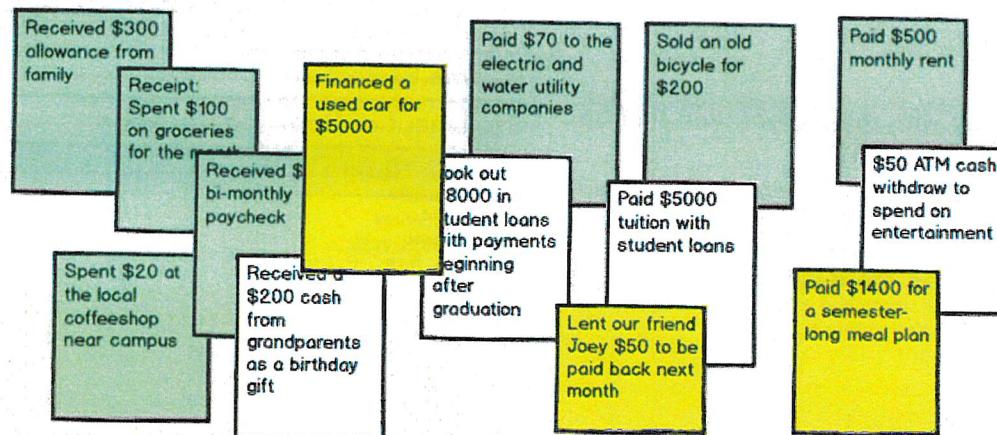
[Logout](#)

## 5 - The Accounting Cycle

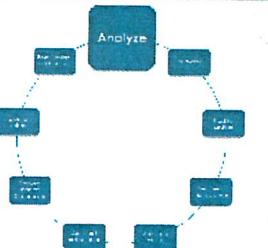


## Assets

Here are the transactions that we are about to cover:



## Accounting Cycle



## Financial Statements

## Income Statement

## Statement of Retained Earnings

## Balance Sheet

## XYZ Student Balance Sheet

January 31, 2018

## Assets

Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710

## Long-Term Assets

Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

Total Assets \$ 9,627

## Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

[Back](#)[Next](#)



## 5 - The Accounting Cycle



### Assets

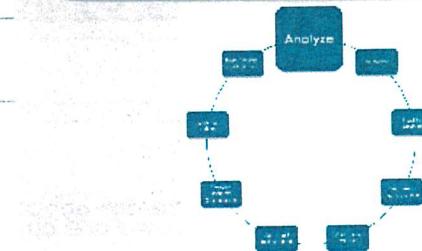
We'll start with the most basic first:

Lent our friend Joey \$50 to be paid back next month

In this scenario, we are lending our friend Joey money with the expectation that he will be paying us back at some point in the future (next month).

This means our cash is decreasing, however we need to create some sort of way to record the expectation of repayment in the future. In business, this is called a **Receivable**, and typically occurs when goods or services are delivered, but not yet paid for.

### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

XYZ Student

Balance Sheet

January 31, 2018

#### Assets

Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710

Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

Total Assets \$ 9,627

#### Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

[Back](#)

[Next](#)



## 5 - The Accounting Cycle



### Assets

Returning to the accounting equation, how will we make this balance?

Lent our friend Joey \$50 to be paid back next month

Which account do we increase?

$$\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$$

Cash - 50

Receivable




[Submit](#)

### Accounting Cycle



### Financial Statements

[Income Statement](#)

[Statement of Retained Earnings](#)

[Balance Sheet](#)

XVZ Student

Balance Sheet

January 31, 2018

#### Assets

##### Current Assets

Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
<b>Total Current Assets</b>	<b>\$ 4,710</b>

##### Long-Term Assets

Vehicle	5,000
Less: Acc. Depreciation	(83)
<b>Total Long-Term Assets</b>	<b>4,917</b>

##### Total Assets

\$ 9,627

#### Liabilities

##### Current Liabilities

Interest Payable	\$ 13
<b>Total Current Liabilities</b>	<b>13</b>

[Back](#)

[Next](#)


[Announcements](#)
[Course](#)
[Forum](#)
[My Profile](#)
[Office Hours](#)


username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



### Assets

Returning to the accounting equation, how will we make this balance?

Lent our friend Joey \$50 to be paid back next month

Which account do we increase?

$$\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$$

Cash - 50

Receivable + 50

No Change

No Change


[Back](#)
[Next](#)

### Accounting Cycle



### Financial Statements

[Income Statement](#)

[Statement of Retained Earnings](#)

[Balance Sheet](#)

XYZ Student

Balance Sheet

January 31, 2018

Assets

Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710

Long-Term Assets

Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

Total Assets \$ 9,627

Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

Principles of Accounting I  
<http://accountingapplication.com/homepage/>

## Principles I

Announcements Course Forum My Profile Office Hours

username@gmail.com Logout

### 5 - The Accounting Cycle

☰ i 🔎 ○

#### Assets

Now that you understand receivables, let's cover a new topic.

Some assets are purchased upfront, but used up over the course of time. In order to adhere to the matching principle, we need to recognize the usage of assets as it happens, not merely when the cash was spent.

If we purchase a cafeteria meal plan, we are going to use it for the entire course of the semester, and should not expense the entire amount immediately. Therefore we create a **prepaid asset** account. We will adjust the account after each time period to ensure it reflects the proper balance. Let's see if we can figure out what's going on here:

Paid \$1400 for a semester-long meal plan

Cash	Decreasing ▾
Prepaid Meal Card	Increasing ▾

✓

Effects Matching principle

Back Next

Appalachian State University \* Privacy & Terms

### Accounting Cycle

```
graph TD; Analyze[Analyze] --> Record[Record]; Record --> Post[Post]; Post --> Close[Close]; Close --> Adjust[Adjust]; Adjust --> Record;
```

### Financial Statements

Income Statement
Statement of Retained Earnings
Balance Sheet


[Announcements](#)
[Course](#)
[Forum](#)
[My Profile](#)
[Office Hours](#)


username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



### Assets

Good job!

#### Step 1: Analyze

Paid \$1400 for  
a semester-  
long meal plan

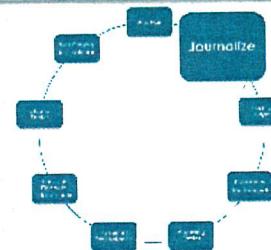
Cash	Decreasing
Prepaid Meal Card	Increasing



#### Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Account Name dropdown		
	Account Name dropdown		
Upfront purchase of semester meal plan			

### Accounting Cycle



### Financial Statements

[Income Statement](#)
[Statement of Retained Earnings](#)
[Balance Sheet](#)



## 5 - The Accounting Cycle



### Assets

That takes care of our prepaid assets for now. Next up, we're buying a car!

You may have noticed that we have been spending a lot of money, how are we going to afford a car? Well we are going to finance it! But financing sounds like going into debt, that doesn't sound like an asset to me.

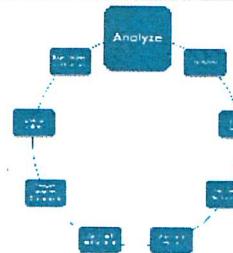
You're right! Remember double entry accounting? When we finance a large purchase like a car, we will create an asset, and simultaneously a corresponding liability, because after all we will have to pay that money, just over the course of time. In business, these liabilities are called **payables**.

Let's go ahead and analyze the transaction to determine which accounts are going to change:

Financed a used car for \$5000

Vehicle	Inc/Dec	<input type="button" value="Submit"/>
Notes Payable	Inc/Dec	

### Accounting Cycle



### Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet



## 5 - The Accounting Cycle



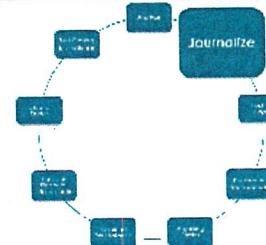
### Assets

#### Step 1: Analyze

Financed a used car for \$5000

Vehicle	Increasing
Notes Payable	Increasing

### Accounting Cycle



### Financial Statements

- [Income Statement](#)
- [Statement of Retained Earnings](#)
- [Balance Sheet](#)

#### Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Account Name dropdown		
	Account Name dropdown		
To record used car purchase (3 year loan)			



## 5 - The Accounting Cycle



### Assets

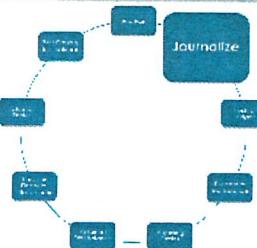
#### Step 1: Analyze

Financed a used car for \$5000

Vehicle	Increasing
Notes Payable	Increasing



### Accounting Cycle



### Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

#### Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Vehicle	5,000	
	Notes Payable		5,000
To record used car purchase (3 year loan)			



Back

Next



## 5 - The Accounting Cycle



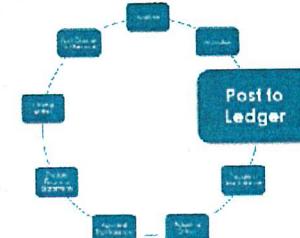
### Assets

Date	Account	Debit	Credit
1-Jan	Vehicle	5,000	
	Notes Payable		5,000
To record used car purchase (3 year loan)			

Step 3: Post to the ledger.

<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th colspan="4">Vehicle</th> </tr> <tr> <th>Debit</th> <th>Credit</th> <th></th> <th></th> </tr> <tr> <th>Date</th> <th>Amt</th> <th>Date</th> <th>Amt</th> </tr> </thead> <tbody> <tr> <td><input type="text"/></td> <td><input type="text"/></td> <td><input type="text"/></td> <td><input type="text"/></td> </tr> <tr> <td colspan="4" style="height: 40px;"></td> </tr> <tr> <td>Bal \$ -</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Vehicle				Debit	Credit			Date	Amt	Date	Amt	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>					Bal \$ -				<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th colspan="4">Notes Payable</th> </tr> <tr> <th>Debit</th> <th>Credit</th> <th></th> <th></th> </tr> <tr> <th>Date</th> <th>Amt</th> <th>Date</th> <th>Amt</th> </tr> </thead> <tbody> <tr> <td><input type="text"/></td> <td><input type="text"/></td> <td><input type="text"/></td> <td><input type="text"/></td> </tr> <tr> <td colspan="4" style="height: 40px;"></td> </tr> <tr> <td>Bal \$</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Notes Payable				Debit	Credit			Date	Amt	Date	Amt	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>					Bal \$			
Vehicle																																																	
Debit	Credit																																																
Date	Amt	Date	Amt																																														
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>																																														
Bal \$ -																																																	
Notes Payable																																																	
Debit	Credit																																																
Date	Amt	Date	Amt																																														
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>																																														
Bal \$																																																	
<input type="button" value="Submit"/>																																																	

### Accounting Cycle



### Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

[Back](#)

[Next](#)



## 5 - The Accounting Cycle



### Assets

Date	Account	Debit	Credit
1-Jan	Vehicle	5,000	
	Notes Payable		5,000
To record used car purchase (3 year loan)			

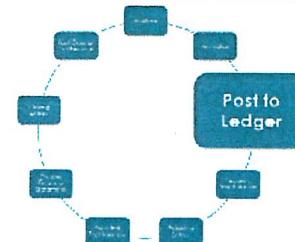
Step 3: Post to the ledger.

Vehicle				Notes Payable			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Date	Amt	Date	Amt	Date	Amt	Date	Amt
1-Jan	\$ 5,000					1 Jan	\$ 5,000

Bal \$ 5,000      Bal \$ 5,000

[Submit](#)[Back](#)[Next](#)

### Accounting Cycle



### Financial Statements

Income Statement	<a href="#">View</a>
Statement of Retained Earnings	<a href="#">View</a>
Balance Sheet	<a href="#">View</a>
Total Current Assets	\$ 4,710
Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917
Total Assets	\$ 9,627
Liabilities	
Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13
Long-Term Liabilities	
Notes Payable	5,000
Student Loans Payable	8,000
Total Long-Term Liabilities	13,000
Total Liabilities	\$ 13,013



## Principles I

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



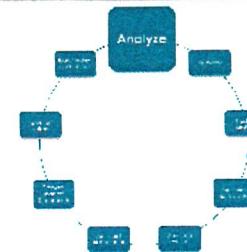
## Liabilities

You just saw how to record a **Payable**, but let's discuss **liabilities** in more detail. Remember, we define liabilities as a company's legal debts and obligations that arise from the normal course of business. That basically means that we receive money now, but have to pay it back at a later date, usually paying a fee or interest.

Businesses incur short term liabilities called **Accounts Payable** to purchase things like inventory on account. This allows businesses to pay at a later date, within one year. Long term liabilities like **Notes Payable** or **Mortgages Payable** are typically due in one year or greater.

When we purchased our car, we took out a 3 year loan. This means we will record this liability as long term and call it **Notes Payable**. We increased our payable with a credit, however over time as we pay the balance down we will decrease the account with a debit.

## Accounting Cycle ▾



## Financial Statements ▾

Income Statement

Statement of Retained Earnings

Balance Sheet

[Back](#)[Next](#)



## 5 - The Accounting Cycle



### Liabilities

Let's practice with another example of a liability:

Took out \$8000 in student loans with payments beginning after graduation

Paid \$5000 tuition with student loans

College can be very expensive, and many people cannot simply afford to pay for it upfront in cash. Because of this, many must take out student loans. But the cost of college is not just tuition! We will also be taking enough in student loans to supplement our personal expenses throughout the semester.

Based on the information above, which accounts do you think we will be affecting in this transaction?

Indicate whether the account will increase, decrease, or not change:

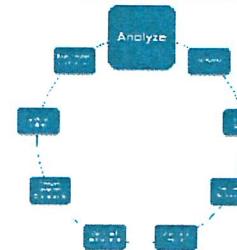
$$\text{Assets} = \text{Liabilities} + \text{Common Stock} + \text{Revenue} - \text{Expenses} - \text{Dividends}$$








### Accounting Cycle ▾



### Financial Statements ▾

[Income Statement](#)

[Statement of Retained Earnings](#)

[Balance Sheet](#)

[Back](#)
[Next](#)



## 5 - The Accounting Cycle



### Liabilities

Let's practice with another example of a liability:

Took out  
\$8000 in  
student loans  
with payments  
beginning  
after  
graduation

Paid \$5000  
tuition with  
student loans

College can be very expensive, and many people cannot simply afford to pay for it upfront in cash. Because of this, many must take out student loans. But the cost of college is not just tuition! We will also be taking enough in student loans to supplement our personal expenses throughout the semester.

Based on the information above, which accounts do you think we will be affecting in this transaction?

Indicate whether the account will increase, decrease, or not change:

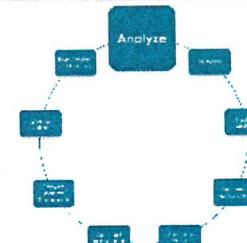
$$\text{Assets} = \text{Liabilities} + \text{Common Stock} + \text{Revenue} - \text{Expenses} - \text{Dividends}$$








### Accounting Cycle



### Financial Statements

- [Income Statement](#)
- [Statement of Retained Earnings](#)
- [Balance Sheet](#)



## 5 - The Accounting Cycle



### Liabilities

#### Step 1: Analyze

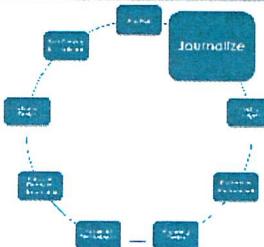
Took out \$8000 in student loans with payments beginning after graduation

Paid \$5000 tuition with student loans

Cash	Increasing
Tuition Expense	Increasing
Student Loans Payable	Increasing



### Accounting Cycle



### Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

#### Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Account Name dropdown		
	Account Name dropdown		
	Account Name dropdown		

To record the student loan liability for tuition and living expenses

Submit

Back

Next



Announcements Course Forum My Profile Office Hours



username@gmail.com

Logout

## 5 - The Accounting Cycle



## Liabilities

## Step 1: Analyze

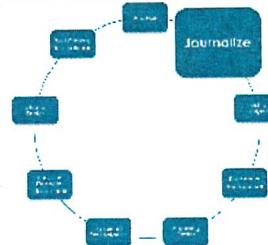
Took out \$8000 in student loans with payments beginning after graduation

Paid \$5000 tuition with student loans

Cash	Increasing ▾
Tuition Expense	Increasing ▾
Student Loans Payable	Increasing ▾



## Accounting Cycle ▼



## Financial Statements ▼

Income Statement

Statement of Retained Earnings

Balance Sheet

## Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Cash - Checking	3,000	
	Tuition Expense		5,000
	Student Loans Payable		8,000

To record the student loan liability for tuition and living expenses



Back

Next

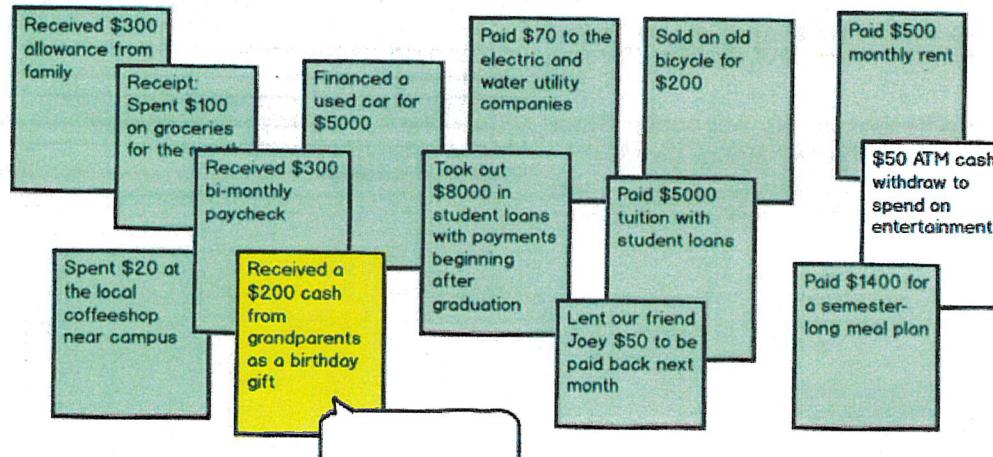


## 5 - The Accounting Cycle



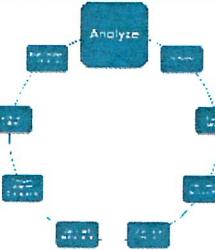
### Stockholder's Equity

Here are the transactions that we are about to cover:



Let's see how this affects the financial statements!

### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

Total Assets	\$ 9,627
--------------	----------

#### Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

#### Long-Term Liabilities

Notes Payable	5,000
Student Loans Payable	8,000
Total Long-Term Liabilities	13,000

Total Liabilities	\$ 13,013
-------------------	-----------

#### Stockholder's Equity (Net Worth)

Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	[5,086]
<b>Total Stockholder's Equity</b>	<b>\$ (3,386)</b>

[Back](#)
[Next](#)



## 5 - The Accounting Cycle



### Stockholder's Equity

Next, we need to discuss **Stockholder's Equity**.

\***Stockholder's Equity\***, also known as *Owner's Equity* or *Capital*, is the owner's rights to the assets of a business after all of the liabilities are settled.

The equity account has a normal credit balance, so when owners put money into a business, it is recorded with a credit.

For our example, we will pretend that we have two different equity accounts. Since our grandparents like to "invest" in us, we will treat their birthday gift to us as a Stockholder's Equity account. Our personal equity account will be whatever is left over from our normal operations.

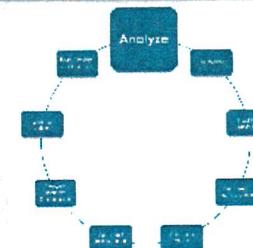
First we will take care of our birthday gift:

Received a  
\$200 cash  
from  
grandparents  
as a birthday  
gift

Owner's Equity - Grd	Inc/Dec
Cash	Inc/Dec

Submit

### Accounting Cycle



### Financial Statements

Income Statement

Statement of Retained Earnings

Balance Sheet

Back

Next



## 5 - The Accounting Cycle



### Stockholder's Equity

Next, we need to discuss **Stockholder's Equity**.

\***Stockholder's Equity\***, also known as *Owner's Equity* or *Capital*, is the owner's rights to the assets of a business after all of the liabilities are settled.

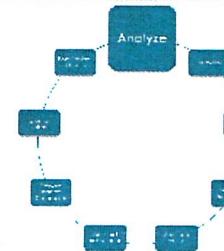
The equity account has a normal credit balance, so when owners put money into a business, it is recorded with a credit.

For our example, we will pretend that we have two different equity accounts. Since our grandparents like to "invest" in us, we will treat their birthday gift to us as a Stockholder's Equity account. Our personal equity account will be whatever is left over from our normal operations.

First we will take care of our birthday gift:

Received a \$200 cash from grandparents as a birthday gift	Owner's Equity - Grd	Increasing
	Cash	Increasing

### Accounting Cycle



### Financial Statements

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

Back

Next



 Principles I

[Announcements](#)   [Course](#)   [Forum](#)   [My Profile](#)   [Office Hours](#)



username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



## Stockholder's Equity

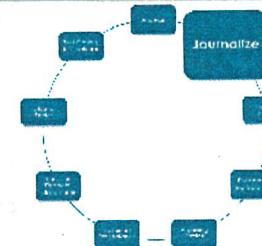
## Step 1: Analyze

Received a  
\$200 cash  
from  
grandparents  
as a birthday  
gift

Owner's Equity - Gra	Increasing
Cash	Increasing



## Accounting Cycle



## **Financial Statements ✓**

Income Statement	▼
Statement of Retained Earnings	▼
Balance Sheet	▼

## Step 2: Journalize

Date	Account	Debit	Credit
28-Jan	Account Name dropdown		
	Account Name dropdown		
<b>To record owner's investment</b>			



Back

Next

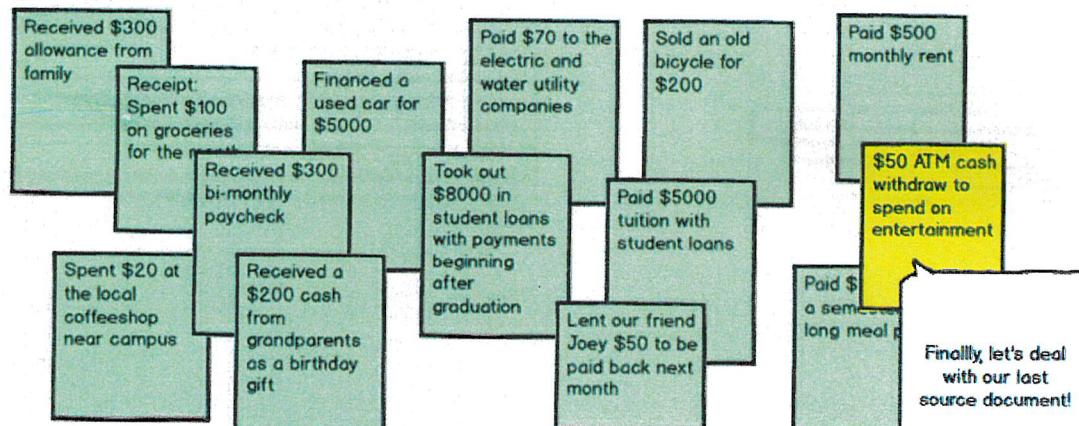


## 5 - The Accounting Cycle

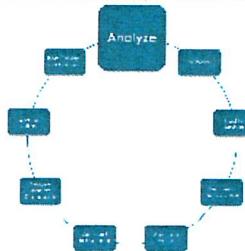


### Dividends

Here are the transactions that we are about to cover:



### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917

Total Assets	\$ 9,627
--------------	----------

#### Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

#### Long-Term Liabilities

Notes Payable	5,000
Student Loans Payable	8,000
Total Long-Term Liabilities	13,000

Total Liabilities	\$ 13,013
-------------------	-----------

#### Stockholder's Equity (Net Worth)

Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,086)
Total Stockholder's Equity	\$ (3,386)

[Back](#)

[Next](#)

[Announcements](#) [Course](#) [Forum](#) [My Profile](#) [Office Hours](#)

username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



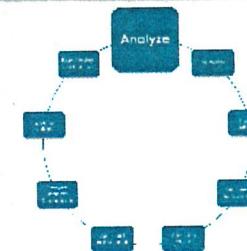
### Dividends

What do you think is happening in this transaction?

\$50 ATM cash  
withdraw to  
spend on  
entertainment

Dividends	Inc/Dec
Cash	Inc/Dec

### Accounting Cycle



### Financial Statements

[Income Statement](#)[Statement of Retained Earnings](#)[Balance Sheet](#)[Back](#)[Next](#)



## 5 - The Accounting Cycle



### Dividends

What do you think is happening in this transaction?

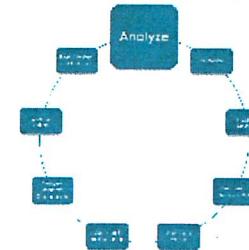
For this transaction we will be reducing our own personal owner's equity account.

\$50 ATM cash  
withdraw to  
spend on  
entertainment

Dividends	Increasing
Cash	Decreasing



### Accounting Cycle



### Financial Statements

Income Statement
Statement of Retained Earnings
Balance Sheet

Back

Next


[Announcements](#)
[Course](#)
[Forum](#)
[My Profile](#)
[Office Hours](#)


username@gmail.com

[Logout](#)

## 5 - The Accounting Cycle



### Dividends

#### Step 1: Analyze

\$50 ATM cash  
withdraw to  
spend on  
entertainment

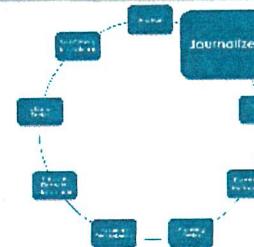
Dividends	Increasing
Cash	Decreasing



#### Step 2: Journalize

Date	Account	Debit	Credit
31-Jan	Account Name dropdown		
	Account Name dropdown		
To record ATM withdraw			

### Accounting Cycle



### Financial Statements

- [Income Statement](#)
- [Statement of Retained Earnings](#)
- [Balance Sheet](#)



## 5 - Financial Statements



### Income Statement

Finally we can answer our parent's first question:

**What did you spend all your money on?**

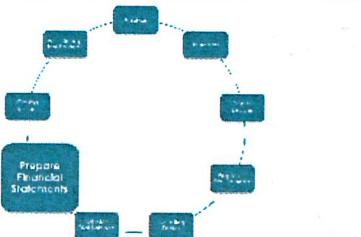
XYZ Student Income Statement For Month Ending January 31, 2018	
<b>Revenue</b>	
Service Revenue	\$ 600
Sales Revenue	200
Allowance Revenue	300
Total Revenues	\$ 1,100
<b>Expenses</b>	
Food Expense	\$ 100
Coffee Expense	20
Rent Expense	500
Utilities Expense	70
Tuition Expense	5,000
Depreciation Expenses	83
Interest Expense	13
Meal Card Expense	350
Total Expenses	\$ 6,136
<b>Net Income</b>	<u><b>\$ (5,036)</b></u>

Now we can show our parents the expense section of our Income Statements and show them exactly what our money was spent on during the month of January!

See, parents, we weren't being irresponsible with our money, we only spent it on necessities for our education!

What was the next question we needed to answer?

### Accounting Cycle ▼



### Financial Statements ▼

- [Income Statement](#) ▼
- [Statement of Retained Earnings](#) ▼
- [Balance Sheet](#) ▼

[Back](#)
[Next](#)



## 5 - Financial Statements

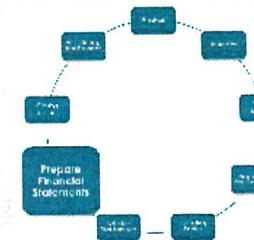


### Statement of Retained Earnings

Now that we know our **Net Income (Net Loss)**, we can prepare the **Statement of Retained Earnings**. The purpose of this statement is to see how much money was kept in the business, versus how much was paid out to owners. It has a similar heading to the income statement, starting with the entity name, followed by the statement name, and the period for which we are reporting. Note that the Statement of Retained Earnings is also for a period of time (the month of January), much like the income statement.

XYZ Student Retained Earnings Statement For Month Ending January 31, 2018		
Retained earnings, January 1, 2018	\$	-
Add: Net Income		(5,036)
		(5,036)
Less: Dividends		50
Retained earnings, January 31, 2018		\$ (5,086)

### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

**XYZ Student  
Retained Earnings Statement  
For Month Ending January 31, 2018**

Retained earnings, January 1, 2018	\$	-
Add: Net Income		(5,036)
		(5,036)
Less: Dividends		50
Retained earnings, January 31, 2018		\$ (5,086)

#### Balance Sheet



## 5 - Financial Statements



### Statement of Retained Earnings

Now that we know our **Net Income (Net Loss)**, we can prepare the **Statement of Retained Earnings**. The purpose of this statement is to see how much money was kept in the business, versus how much was paid out to owners. It has a similar heading to the income statement, starting with the entity name, followed by the statement name, and the period for which we are reporting. Note that the Statement of Retained Earnings is also for a period of time (the month of January), much like the income statement.

XYZ Student Retained Earnings Statement For Month Ending January 31, 2018	
Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	<u>(5,036)</u>
Less: Dividends	50
Retained earnings, January 31, 2018	<u>\$ (5,086)</u>

Here we have a similar heading to that of the Income Statement.

### Accounting Cycle ▾



### Financial Statements ▾

Income Statement
Statement of Retained Earnings
XYZ Student Retained Earnings Statement For Month Ending January 31, 2018
Retained earnings, January 1, 2018 \$ - Add: Net Income (5,036) <u>(5,036)</u> Less: Dividends 50 Retained earnings, January 31, 2018 <u>\$ (5,086)</u>
Balance Sheet



## 5 - Financial Statements



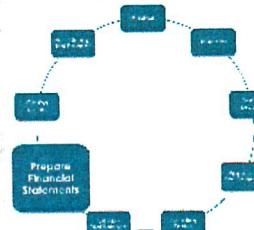
### Statement of Retained Earnings

Now that we know our **Net Income (Net Loss)**, we can prepare the **Statement of Retained Earnings**. The purpose of this statement is to see how much money was kept in the business, versus how much was paid out to owners. It has a similar heading to the income statement, starting with the entity name, followed by the statement name, and the period for which we are reporting. Note that the Statement of Retained Earnings is also for a period of time (the month of January), much like the income statement.

XYZ Student	
Retained Earnings Statement	
For Month Ending January 31, 2018	
Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	<u>\$ (5,086)</u>

We begin with the previous period **Retained Earnings**. In our example, we had no retained earnings, which is typical for businesses that are just beginning operations.

### Accounting Cycle



### Financial Statements

Income Statement	▼
Statement of Retained Earnings	▼
<b>XYZ Student</b>	
<b>Retained Earnings Statement</b>	
<b>For Month Ending January 31, 2018</b>	
Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	<u>\$ (5,086)</u>
<b>Balance Sheet</b>	

[Back](#)
[Next](#)



## 5 - Financial Statements



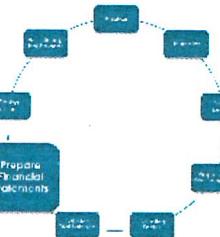
### Statement of Retained Earnings

Now that we know our **Net Income (Net Loss)**, we can prepare the **Statement of Retained Earnings**. The purpose of this statement is to see how much money was kept in the business, versus how much was paid out to owners. It has a similar heading to the income statement, starting with the entity name, followed by the statement name, and the period for which we are reporting. Note that the Statement of Retained Earnings is also for a period of time (the month of January), much like the income statement.

XYZ Student Retained Earnings Statement For Month Ending January 31, 2018		
Retained earnings, January 1, 2018	\$ -	
Add: Net income	(5,036)	
	(5,036)	
Less: Dividends	50	
Retained earnings, January 31, 2018	\$ (5,086)	

Next, we add our **Net Income** or subtract our **Net Loss**. This gives us the amount the we are able to retain or pay out.

### Accounting Cycle ▼



### Financial Statements ▼

Income Statement
Statement of Retained Earnings
XYZ Student Retained Earnings Statement For Month Ending January 31, 2018
Retained earnings, January 1, 2018 \$ - Add: Net income (5,036) <hr/> (5,036) Less: Dividends 50 Retained earnings, January 31, 2018 \$ (5,086)
Balance Sheet

Back

Next



## 5 - Financial Statements



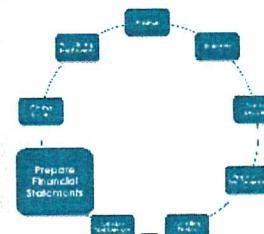
### Statement of Retained Earnings

Now that we know our **Net Income (Net Loss)**, we can prepare the **Statement of Retained Earnings**. The purpose of this statement is to see how much money was kept in the business, versus how much was paid out to owners. It has a similar heading to the income statement, starting with the entity name, followed by the statement name, and the period for which we are reporting. Note that the Statement of Retained Earnings is also for a period of time (the month of January), much like the income statement.

XYZ Student	
Retained Earnings Statement	
For Month Ending January 31, 2018	
Retained earnings, January 1, 2018	\$ -
Add: Net Income	<u>(5,036)</u>
	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	<u>\$ (5,086)</u>

Then, we subtract the **Dividends** or distributions to the owners of the business.

### Accounting Cycle



### Financial Statements

Income Statement
Statement of Retained Earnings
XYZ Student <b>Retained Earnings Statement</b> <b>For Month Ending January 31, 2018</b> Retained earnings, January 1, 2018 \$ - Add: Net Income <u>(5,036)</u> (5,036) Less: Dividends 50 Retained earnings, January 31, 2018 <u>\$ (5,086)</u>
Balance Sheet

[Back](#)
[Next](#)



## 5 - Financial Statements



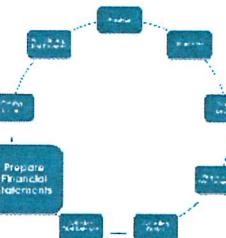
### Statement of Retained Earnings

Now that we know our **Net Income (Net Loss)**, we can prepare the **Statement of Retained Earnings**. The purpose of this statement is to see how much money was kept in the business, versus how much was paid out to owners. It has a similar heading to the income statement, starting with the entity name, followed by the statement name, and the period for which we are reporting. Note that the Statement of Retained Earnings is also for a period of time (the month of January), much like the income statement.

XYZ Student	
Retained Earnings Statement	
For Month Ending January 31, 2018	
Retained earnings, January 1, 2018	\$ -
Add: Net Income	<u>(5,036)</u>
Less: Dividends	50
<b>Retained earnings, January 31, 2018</b>	<b>\$ (5,086)</b>

Finally, we arrive at the **Ending Retained Earnings**. This amount will flow to the **Balance Sheet**.

### Accounting Cycle



### Financial Statements

Income Statement
Statement of Retained Earnings
XYZ Student
Retained Earnings Statement
For Month Ending January 31, 2018
Retained earnings, January 1, 2018 \$ -
Add: Net Income <u>(5,036)</u> <u>(5,036)</u>
Less: Dividends 50
Retained earnings, January 31, 2018 <u>\$ (5,086)</u>
Balance Sheet


[Announcements](#)
[Course](#)
[Forum](#)
[My Profile](#)
[Office Hours](#)


username@gmail.com

[Logout](#)

## 5 - Financial Statements



### Statement of Retained Earnings

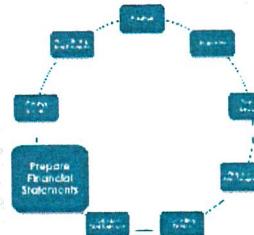
Time to answer our second question:

**How much money did you save last month?**

XYZ Student	
Retained Earnings Statement	
For Month Ending January 31, 2018	
Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	(5,036)
Less: Dividends	50
<b>Retained earnings, January 31, 2018</b>	<b>\$ (5,086)</b>

Well, we can show our parents our statement of retained earnings! We weren't able to save any money! We obviously need some help.

### Accounting Cycle



### Financial Statements

Income Statement

Statement of Retained Earnings

XYZ Student  
Retained Earnings Statement  
For Month Ending January 31, 2018

Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	\$ (5,086)

Balance Sheet



## 5 - Financial Statements



### Balance Sheet

XYZ Student Balance Sheet January 31, 2018		
<b>Assets</b>		
Current Assets		
Cash - Checking	\$ 2,560	
Cash Savings	\$ 1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Total Current Assets	<u>\$ 4,710</u>	
Long-Term Assets		
Vehicle	5,000	
Less: Acc. Depreciation	(88)	
Total Long-Term Assets	<u>4,917</u>	
<b>Total Assets</b>		<u><b>\$ 9,527</b></u>
<b>Liabilities</b>		
Current Liabilities		
Interest Payable	\$ 15	
Total Current Liabilities	<u>15</u>	
Long-Term Liabilities		
Notes Payable	5,000	
Student Loans Payable	8,000	
Total Long-Term Liabilities	<u>13,000</u>	
<b>Total Liabilities</b>		<u><b>\$ 13,015</b></u>
<b>Stockholder's Equity (Net Worth)</b>		
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	(5,086)	
<b>Total Stockholder's Equity</b>		<u><b>\$ (3,386)</b></u>

Now that we know how much money we have retained in the business, we can compile the **Balance Sheet**. Remember, the balance sheet is where we can see the financial position of a company at a single point in time. It enables us to assess various important aspects of a company such where the funding is coming from (primarily debt or owners).

### Accounting Cycle ▼



### Financial Statements ▼

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

XYZ Student Balance Sheet January 31, 2018		
<b>Assets</b>		
Current Assets		
Cash - Checking	\$ 2,360	
Cash Savings	\$ 1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Total Current Assets	<u>\$ 4,710</u>	
Long-Term Assets		
Vehicle	5,000	
Less: Acc. Depreciation	(88)	
Total Long Term Assets	<u>4,917</u>	
<b>Total Assets</b>		<u><b>\$ 9,527</b></u>
<b>Liabilities</b>		
Current Liabilities		
Interest Payable	\$ 15	
Total Current Liabilities	<u>15</u>	
Long-Term Liabilities		
Notes Payable	5,000	
Student Loans Payable	8,000	
Total Long Term Liabilities	<u>13,000</u>	
<b>Total Liabilities</b>		<u><b>\$ 13,015</b></u>
<b>Stockholder's Equity (Net Worth)</b>		
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	(5,086)	
<b>Total Stockholder's Equity</b>		<u><b>\$ (3,386)</b></u>

[Back](#)[Next](#)



## 5 - Financial Statements

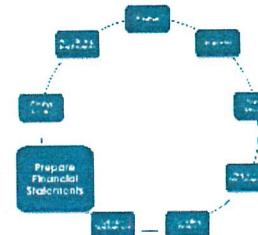


### Balance Sheet

XYZ Student Balance Sheet January 31, 2018	
<b>Assets</b>	
Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	9,1250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	<u>\$ 4,710</u>
Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917
Total Assets	<u>\$ 9,627</u>
Liabilities	
Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	<u>13</u>
Long-Term Liabilities	
Notes Payable	5,000
Student Loans Payable	8,000
Total Long-Term Liabilities	13,000
Total Liabilities	<u>\$ 13,013</u>
Stockholder's Equity (Net Worth)	
Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,085)
Total Stockholder's Equity	<u>\$ (3,386)</u>

Note the difference in the header. The balance sheet is as of the specific day January 31, 2018. This is one of the main distinctions between the prior two statements.

### Accounting Cycle



### Financial Statements

Income Statement	
Statement of Retained Earnings	
Balance Sheet	
XYZ Student Balance Sheet January 31, 2018	
Assets	
Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 9,1250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	<u>\$ 4,710</u>
Long-term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long Term Assets	4,917
Total Assets	<u>\$ 9,627</u>
Liabilities	
Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	<u>13</u>
Long-term Liabilities	
Notes Payable	5,000
Student Loans Payable	8,000
Total Long Term Liabilities	13,000
Total Liabilities	<u>\$ 13,013</u>
Stockholder's Equity (Net Worth)	
Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,085)
Total Stockholder's Equity	<u>\$ (3,386)</u>

[Back](#)
[Next](#)



## 5 - Financial Statements



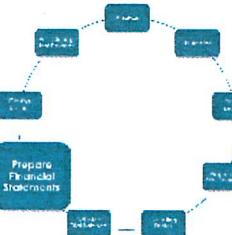
### Balance Sheet

XYZ Student Balance Sheet January 31, 2018		
<u>Assets</u>		
<u>Current Assets</u>		
Cash - Checking	\$ 2,360	
Cash - Savings	\$ 1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Total Current Assets	<u>\$ 4,710</u>	
<u>Long-Term Assets</u>		
Vehicle	5,000	
Less: Acc. Depreciation	(83)	
Total Long-Term Assets	<u>4,917</u>	
<b>Total Assets</b>		<u>\$ 9,627</u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Interest Payable	\$ 13	
Total Current Liabilities	<u>13</u>	
<u>Long-Term Liabilities</u>		
Notes Payable	5,000	
Student Loans Payable	8,000	
Total Long-term Liabilities	<u>13,000</u>	
<b>Total Liabilities</b>		<u>\$ 13,013</u>
<b>Stockholder's Equity (Net Worth)</b>		
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	(5,086)	
<b>Total Stockholder's Equity</b>		<u>\$ (5,386)</u>

The first component of the Balance sheet is the **Asset** section. Here we can see that assets are listed in order of **liquidity**. This means the accounts that are cash, or near cash are listed first. **Current Assets** are those that can be converted into cash within one year.

\***Long-Term Assets\*** are accounts that will not be converted into cash within one year. In our example, our only long-term asset would be our vehicle. If we were to purchase a house, that would be considered a long-term asset as well. In a business, machinery, investments, or intangible assets(copyrights, patents, etc.) would all be considered long-term as well.

### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

XYZ Student Balance Sheet January 31, 2018		
<u>Assets</u>		
<u>Current Assets</u>		
Cash - Checking	\$ 2,360	
Cash - Savings	\$ 1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Total Current Assets	<u>\$ 4,710</u>	
<u>Long-Term Assets</u>		
Vehicle	5,000	
Less: Acc. Depreciation	(83)	
Total Long Term Assets	<u>4,917</u>	
<b>Total Assets</b>		<u>\$ 9,627</u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Interest Payable	\$ 13	
Total Current Liabilities	<u>13</u>	
<u>Long-Term Liabilities</u>		
Notes Payable	5,000	
Student Loans Payable	8,000	
Total Long-term Liabilities	<u>13,000</u>	
<b>Total Liabilities</b>		<u>\$ 13,013</u>
<b>Stockholder's Equity (Net Worth)</b>		
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	(5,086)	
<b>Total Stockholder's Equity</b>		<u>\$ (5,386)</u>

Back

Next



## 5 - Financial Statements



### Balance Sheet

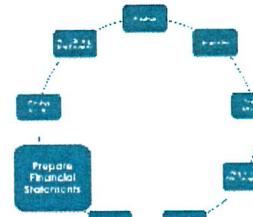
XYZ Student Balance Sheet January 31, 2018	
<b>Assets</b>	
Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710
Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917
Total Assets	\$ 9,627
<b>Liabilities</b>	
Current Liabilities	
Interest Payable	\$ 13
Notes Payable	1,667
Total Current Liabilities	1,680
Long-Term Liabilities	
Notes Payable	3,333
Student Loans Payable	8,000
Total Long Term Liabilities	11,333
Total Liabilities	\$ 13,013
<b>Stockholder's Equity (Net Worth)</b>	
Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,086)
Total Stockholder's Equity	\$ (3,386)

Liabilities are the next component presented on the balance sheet.

Similar to assets, we present liabilities in order of liquidity. As you can see, in our example we have two liabilities due within one year. The first being the interest we incurred on our car loan for the month of January. The second, is the amount of the note payable for the car loan that we will have to pay back within the first year.

If we move down to the long-term liabilities, the rest of the car loan is presented along with the student loans that will not require payment until after graduation (which we are assuming is greater than 1 year away).

### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

XYZ Student Balance Sheet January 31, 2018	
<b>Assets</b>	
Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 4,710
Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long Term Assets	4,917
Total Assets	\$ 9,627
<b>Liabilities</b>	
Current Liabilities	
Interest Payable	\$ 13
Notes Payable	1,667
Total Current Liabilities	1,680
Long-Term Liabilities	
Notes Payable	3,333
Student Loans Payable	8,000
Total Long Term Liabilities	11,333
Total Liabilities	\$ 13,013
<b>Stockholder's Equity (Net Worth)</b>	
Owner's Equity - XYZ Student	1,500
Owner's Equity - Grandparents	200
Retained Earnings	(5,086)
Total Stockholder's Equity	\$ (3,386)

[Back](#)
[Next](#)



## 5 - Financial Statements



### Balance Sheet

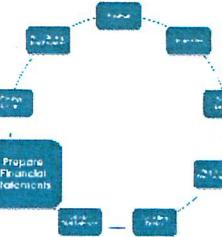
XYZ Student Balance Sheet January 31, 2018		
<u>Assets</u>		
<u>Current Assets</u>		
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Total Current Assets	<u>\$ 4,710</u>	
<u>Long-Term Assets</u>		
Vehicle	5,000	
Less: Acc. Depreciation	(80)	
Total Long Term Assets	<u>4,917</u>	
<b>Total Assets</b>		<u><b>\$ 9,627</b></u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Interest Payable	\$ 19	
Notes Payable	1,667	
Total Current Liabilities	<u>1,686</u>	
<u>Long-Term Liabilities</u>		
Notes Payable	8,333	
Student Loans Payable	8,000	
Total Long-Term Liabilities	<u>11,333</u>	
<b>Total Liabilities</b>		<u><b>\$ 13,019</b></u>
<u>Stockholder's Equity (Net Worth)</u>		
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	(5,086)	
<b>Total Stockholder's Equity</b>		<u><b>\$ (3,386)</b></u>

The final section, **Stockholder's Equity**, is where we can see how much claim the owners of the business have to the assets.

You can see that our balance sheet displays a negative equity balance. This is because we have more debt than outstanding assets. This is largely due to the student loans that we have taken on.

If we pretend that we are a business and we were to liquidate, we the owners and our grandparents would not receive any money, as it would all go to pay down the debtholders.

### Accounting Cycle



### Financial Statements

#### Income Statement

#### Statement of Retained Earnings

#### Balance Sheet

XYZ Student Balance Sheet January 31, 2018		
<u>Assets</u>		
<u>Current Assets</u>		
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Total Current Assets	<u>\$ 4,710</u>	
<u>Long-Term Assets</u>		
Vehicle	5,000	
Less: Acc. Depreciation	(80)	
Total Long Term Assets	<u>4,917</u>	
<b>Total Assets</b>		<u><b>\$ 9,627</b></u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Interest Payable	\$ 19	
Notes Payable	1,667	
Total Current Liabilities	<u>1,686</u>	
<u>Long-Term Liabilities</u>		
Notes Payable	8,333	
Student Loans Payable	8,000	
Total Long-Term Liabilities	<u>11,333</u>	
<b>Total Liabilities</b>		<u><b>\$ 13,019</b></u>
<u>Stockholder's Equity (Net Worth)</u>		
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	(5,086)	
<b>Total Stockholder's Equity</b>		<u><b>\$ (3,386)</b></u>

[Back](#)
[Next](#)



## 5 - Financial Statements



### Balance Sheet

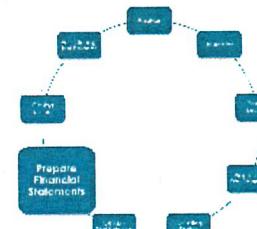
XYZ Student Balance Sheet January 31, 2018		
Assets		
Current Assets		
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
<b>Total Current Assets</b>	<b>\$ 4,710</b>	
Long-Term Assets		
Vehicle	5,000	
Less: Acc. Depreciation	(83)	
<b>Total Long-Term Assets</b>	<b>4,917</b>	
<b>Total Assets</b>	<b>\$ 9,627</b>	
<hr/>		
Liabilities		
Current Liabilities		
Interest Payable	\$ 13	
Notes Payable	1,667	
<b>Total Current Liabilities</b>	<b>1,680</b>	
Long-Term Liabilities		
Notes Payable	3,333	
Student Loans Payable	8,000	
<b>Total Long Term Liabilities</b>	<b>11,333</b>	
<b>Total Liabilities</b>	<b>\$ 13,013</b>	
<hr/>		
Stockholder's Equity (Net Worth)		
Owner's Equity - XYZ Student	1,500	
Owner's equity - Grandparents	200	
Retained Earnings	(5,086)	
<b>Total Stockholder's Equity</b>	<b>\$ (3,386)</b>	

Time to answer our parent's final question:

How much cash do you have on hand?

We can show our parents that we have \$4,710 in current assets. That sounds pretty good, however based off the previous period, we ran a deficit and anticipate to continue running a deficit for the rest of the semester. Therefore we can argue that unless they want to bail us out later, they should help us buy that laptop now!

### Accounting Cycle



### Financial Statements

Income Statement	
Statement of Retained Earnings	
Balance Sheet	
XYZ Student Balance Sheet January 31, 2018	
Assets	
Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
<b>Total Current Assets</b>	<b>\$ 4,710</b>
Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
<b>Total Long Term Assets</b>	<b>4,917</b>
<b>Total Assets</b>	<b>\$ 9,627</b>
Liabilities	
Current Liabilities	
Interest Payable	\$ 13
Notes Payable	1,667
<b>Total Current Liabilities</b>	<b>1,680</b>
Long-Term Liabilities	
Notes Payable	3,333
Student Loans Payable	8,000
<b>Total Long Term Liabilities</b>	<b>11,333</b>
<b>Total Liabilities</b>	<b>\$ 13,013</b>
Stockholder's Equity (Net Worth)	
Owner's Equity - XYZ Student	1,500
Owner's equity - Grandparents	200
Retained Earnings	(5,086)
<b>Total Stockholder's Equity</b>	<b>\$ (3,386)</b>

[Back](#)

[Next](#)



## 5 - Financial Statements



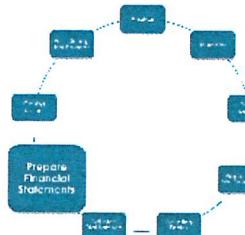
## Management Discussion and Analysis

Now that we have prepared the financial statements, we can prepare the other parts of the Annual Report.

We aren't simply going to hand over our financial statements to our parents without any explanation. That is what the **Management Discussion and Analysis** is for. We will write a letter to our parents explaining in more detail our operations from January. We will point out things like how we had some big transactions occur all at once (the car loan/student loans), and some of the reasons why we are running a deficit.

Then, we may discuss some of the trends we would expect for the future, and what our budgets may look like. This will enhance our parents' understanding of the previous month, more than they could gather from the numbers alone.

## Accounting Cycle



Financial Statements ✓

- |                                  |   |
|----------------------------------|---|
| Income Statement                 | ▼ |
| Statement of Retained Earnings   | ▼ |
| Balance Sheet                    | ▼ |
| Management Discussion & Analysis | ▼ |

[Back](#)

Next



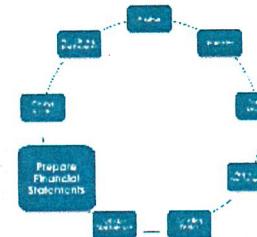
## 5 - Financial Statements



### Notes

In addition to the management discussion and analysis, we need to provide some additional details about some of the transactions we had. For example, the users of the financial statements may be interested in the terms of our car or student loans. These types of granular details will be included in the Notes to the financial statements.

### Accounting Cycle



### Financial Statements

Income Statement	▼
Statement of Retained Earnings	▼
Balance Sheet	▼
Management Discussion & Analysis	▼
Notes	▼
Face Value: \$5,000 Term: 3 years Interest Rate: 3% Payments: \$145 on the 1st of each month	
Took out \$8000 in student loans with payments beginning after graduation	

Back

Next

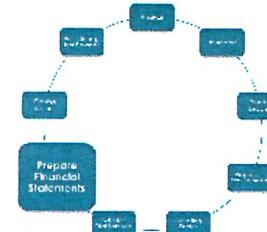


## 5 - Financial Statements



## Auditor's Report

Just in case we made any errors, we had our friend who happens to be an accounting major take a look at our financial statements. They wrote a letter stating that our work appears to be in good order and fairly presented.



## Accounting Cycle ✓

Financial Statements ✓

- |                                  |   |
|----------------------------------|---|
| Income Statement                 | ▼ |
| Statement of Retained Earnings   | ▼ |
| Balance Sheet                    | ▼ |
| Management Discussion & Analysis | ▼ |
| Notes                            | ▼ |
| Auditor's Report                 | ▼ |

the first time I had seen him. He was a tall, thin man with a very pale face and hair that was almost white. He was wearing a dark suit and a white shirt with no tie. He was looking at me with a serious expression.

Back

**Next**

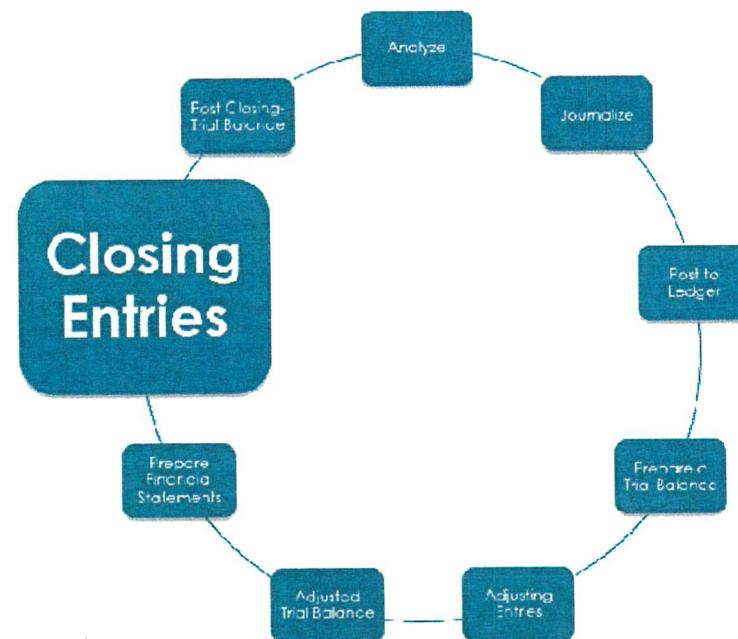


## 12 - Closing Journal Entries

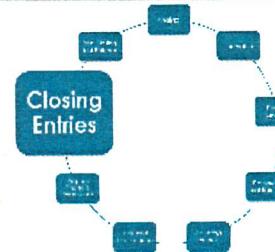


### Closing Entries

We have analyzed, journalized, and posted all of our transactions. We have aggregated all of our accounts into a trial balance and performed adjusting journal entries to create an adjusted trial balance. We prepared our financial statements and presented them to our users. Now it is time to close out our books, and get ready to do it all again next period.


[Back](#)
[Next](#)

### Accounting Cycle



### Financial Statements

<a href="#">Income Statement</a>	▼
<a href="#">Statement of Retained Earnings</a>	▼
<a href="#">Balance Sheet</a>	▼
<a href="#">Management Discussion &amp; Analysis</a>	▼
<a href="#">Notes</a>	▼
<a href="#">Auditor's Report</a>	▼