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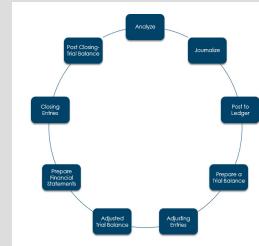
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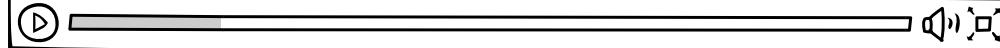


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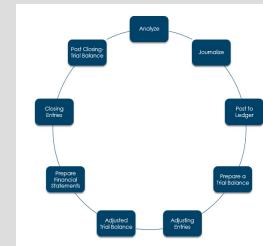
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	<u>Dr.</u>	<u>Cr.</u>
Assets	+	-
Liabilities	-	+
Equity	-	+
Dividends	+	-
Revenue	-	+
Expenses	+	-

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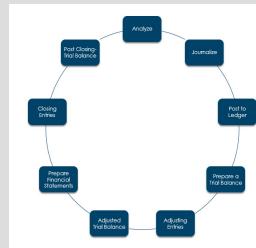
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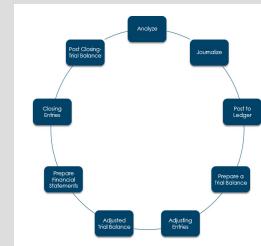
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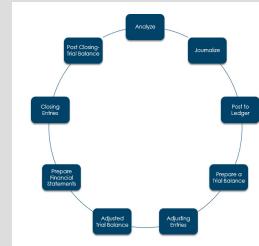
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Welcome to Intro of Accounting

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.

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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.

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**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.

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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.

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1 - Purpose of Accounting

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Businesses !
Businesses create 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**.

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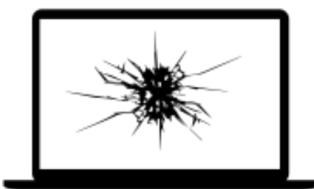
Let's set the scene:

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?

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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.

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1 - Purpose of Accounting



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

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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**.

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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.

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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 ▼

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2 - Financial Statements



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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



2 - Financial Statements



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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	\$ 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
<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)

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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.

Income Statement

Revenues

Retained Earnings

Beginning, RE

Balance Sheet

Assets

Net Income

Liabilities

Expenses

Dividends

Stockholders' Equity

Common Stock

Ending, RE

Retained Earnings

Accounting Cycle

Financial Statements

Income Statement

Statement of Retained Earnings

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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

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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

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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.**

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Income Statement

XYZ Student
 Income Statement
 For Month Ending January 31, 2018

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

<u>Expenses</u>	
Food Expense	\$ 100
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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 ▾
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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	
<u>Assets</u>	
<u>Current Assets</u>	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	<u>1,050</u>
Total Current Assets	\$ 4,710
<u>Long-Term Assets</u>	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	<u>4,917</u>
Total Assets	\$ 9,627

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 \$ 13,01

<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)



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**.

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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

Liabilities

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

Stockholder's Equity / Net Worth

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 - 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](#)
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- [Assets](#)
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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.

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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	\$ (3,386)

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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 ▼



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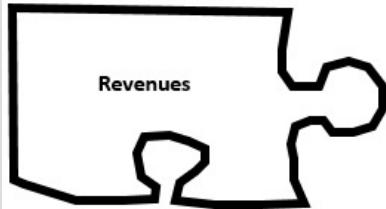
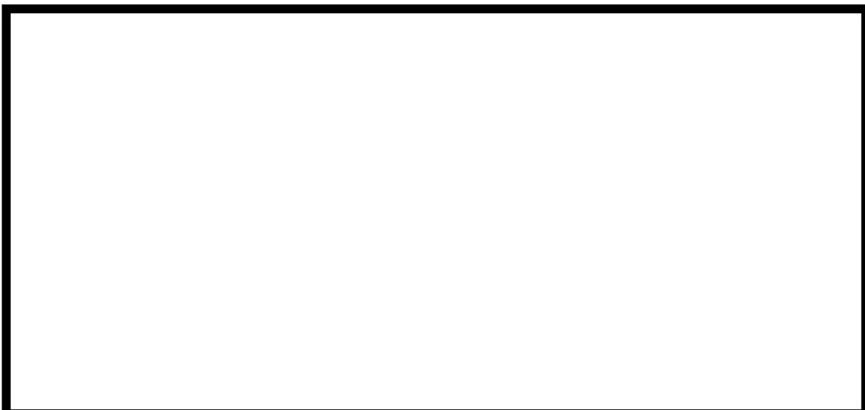
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3 - Building Blocks



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

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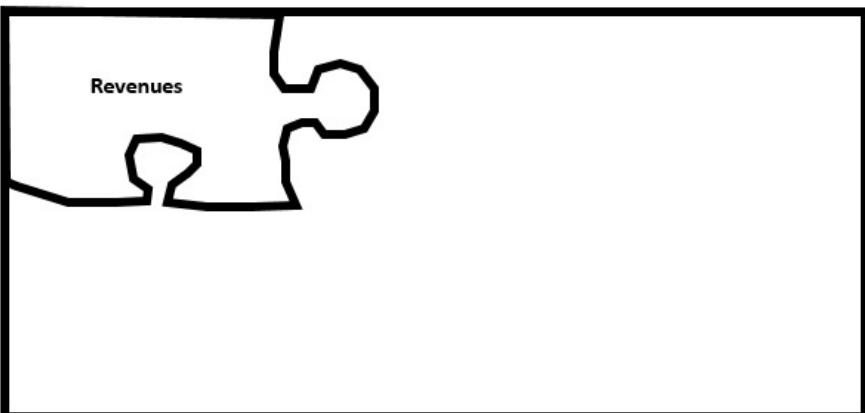
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Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

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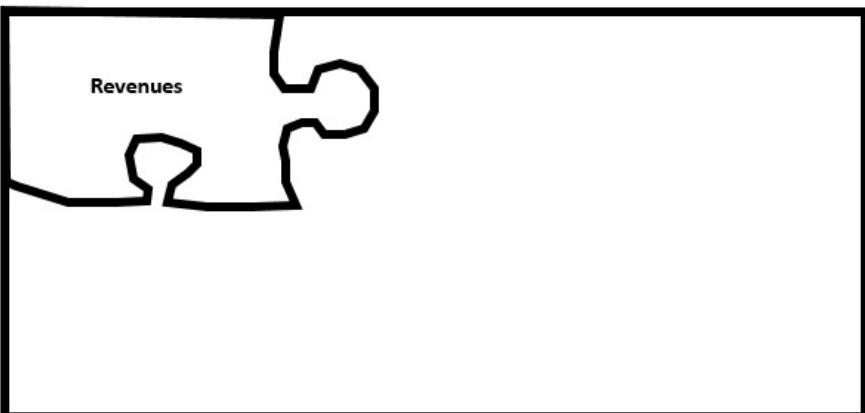
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Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

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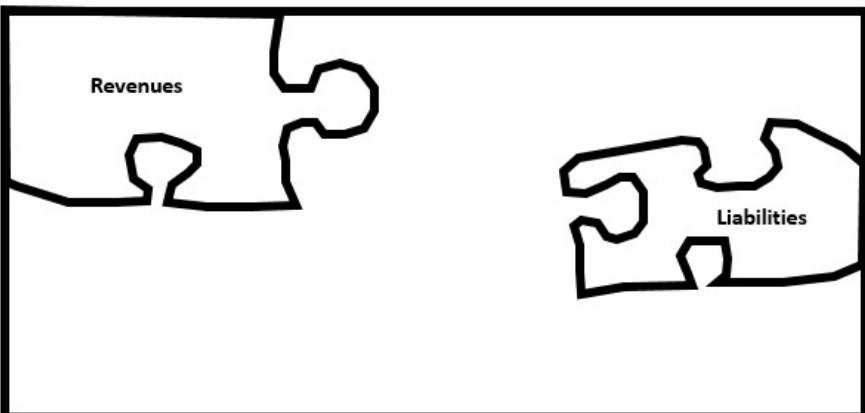
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Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

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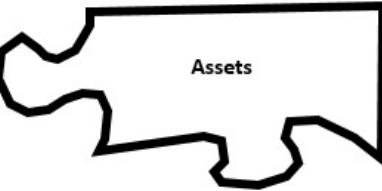
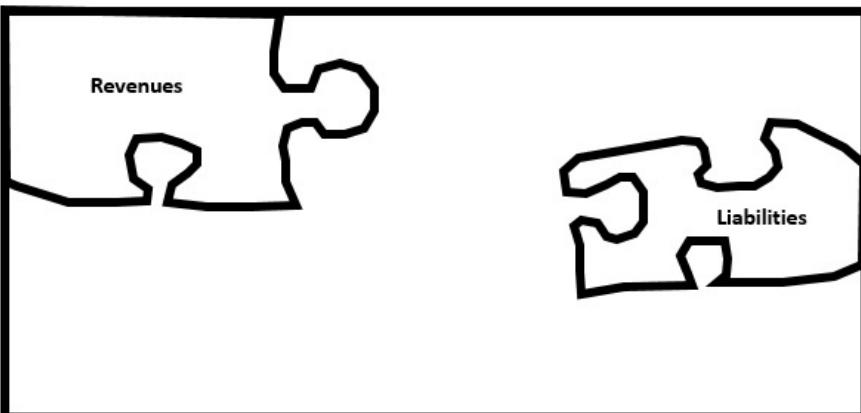
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Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

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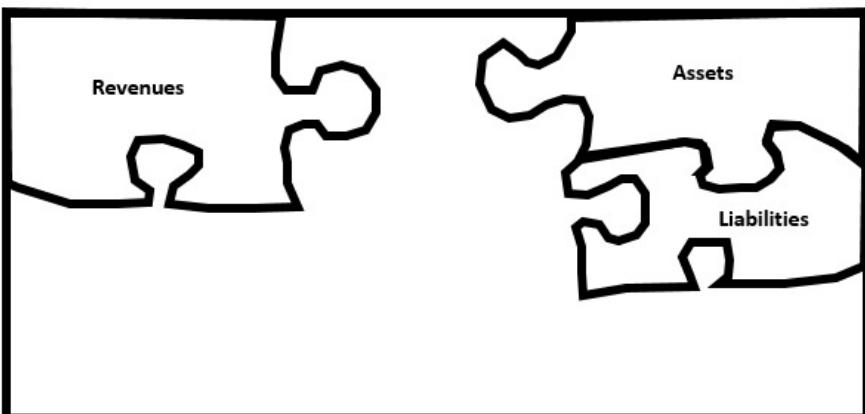
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Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

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3 - Building Blocks



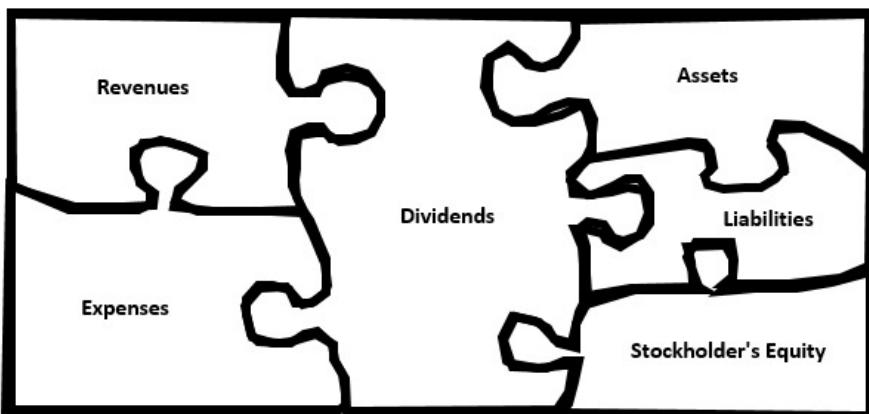
Time for a quick quiz! Drag and drop each building block into the puzzle under the corresponding financial statement.

Well Done!

Income Statement

*Statement of
Retained Earnings*

Balance Sheet



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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?**

Which tool (or statement) would we use?



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

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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?**

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.

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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?**

Which tool (or statement) would we use?

Statement of Retained Earnings

Submit

*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!

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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?**

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.

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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?**

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- 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.

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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?**

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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: 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.

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Okay, back to our parents:

Now its time to ask for that new computer.

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

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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.

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.

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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?**

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Statement of Retained Earnings ▾

Balance Sheet ▾

Which tool (or statement) would we use?

Statement of Retained Earnings ▾

Submit

*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.

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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?**

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Which tool (or statement) would we use?

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



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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.

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).

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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.

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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.

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.

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Statement of Retained Earnings ▾

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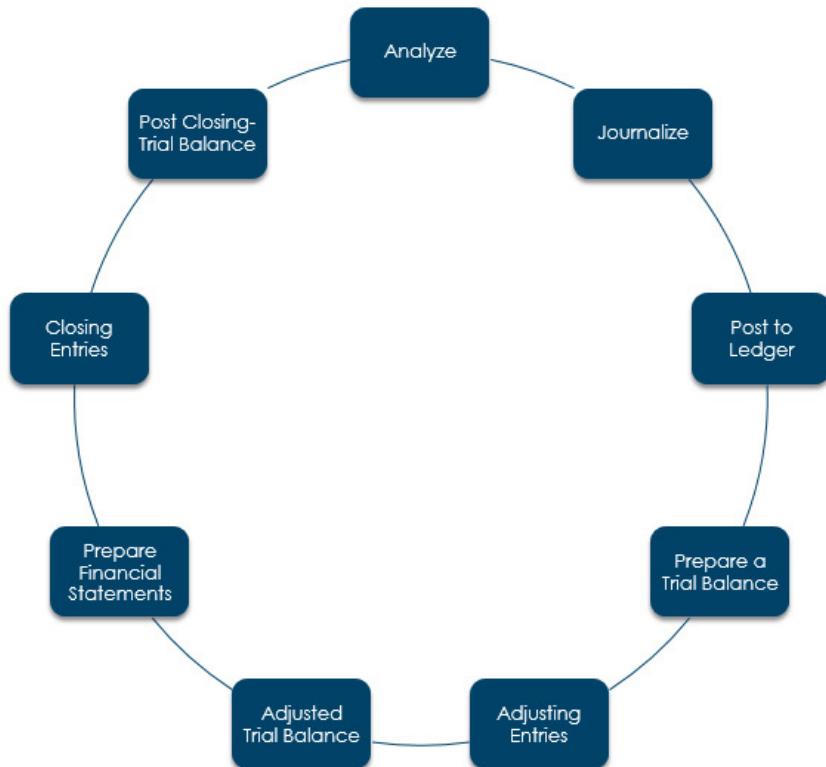
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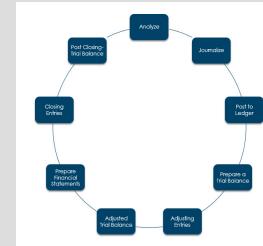
4 - The Accounting Cycle



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**.


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4 - The Accounting Cycle



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

Analyze



Journalize

Date	Ref#	Account	Debit	Credit
1-Jan		0/Debit	0	
		0/Credit		0

A note to describe the transaction



Post to Ledger

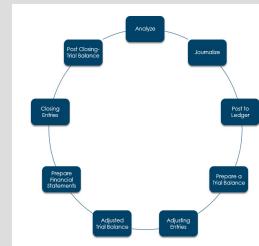
The next step is to enter the transaction into the journal, which is a part of the accounting information system.

Service Revenue			Depreciation Expense		
Date	Debit	Credit	Date	Debit	Credit
1-Jan			31-Jan	\$ 83	
15-Jan	\$ 300				
			Bal	\$ 83	
			Bal		

Sales Revenue			Interest Expense		
Date	Debit	Credit	Date	Debit	Credit
19-Jan			31-Jan	\$ 13	
	\$ 200				
			Bal	\$ 13	
			Bal		

A source document is evidence that a business transaction took place. It can be a sales slip, a check, or a bill. We first analyze each one to determine which accounts it effects.

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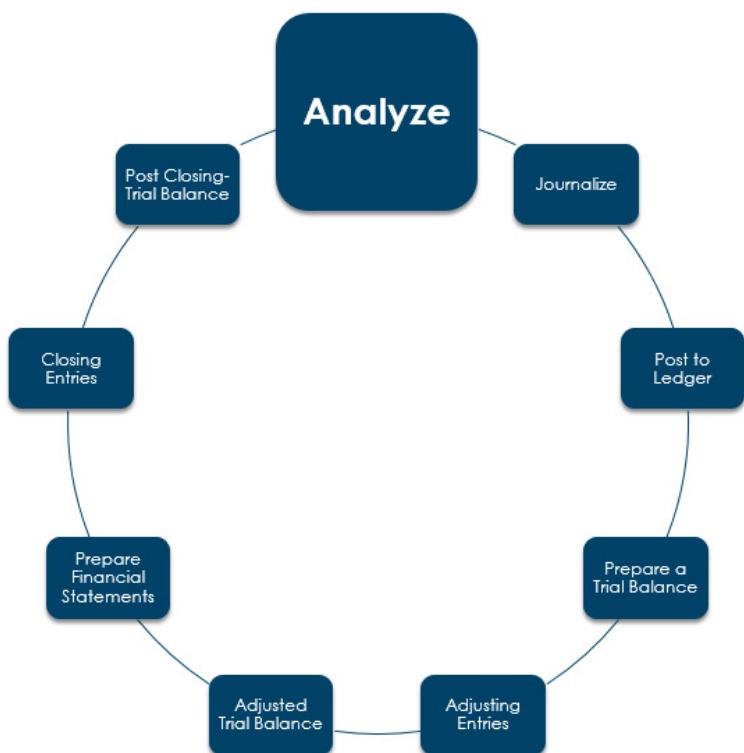


4 - The Accounting Cycle

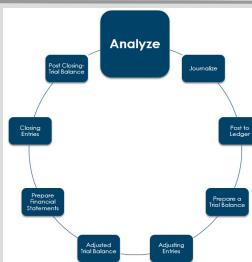


Financial statements are based on economic events. So our first step is to sort through our receipts and put everything in the right category (or building block).

This is step 1, **Analyze** in the accounting cycle.


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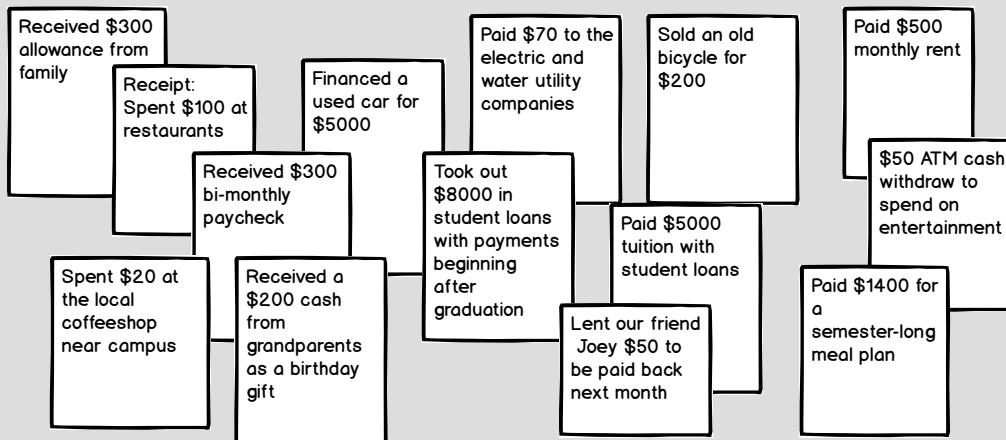


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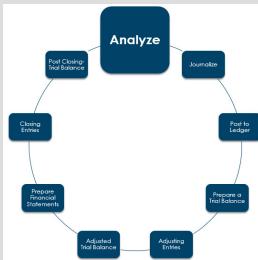


So let's practice the first step by analyzing some transactions!

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



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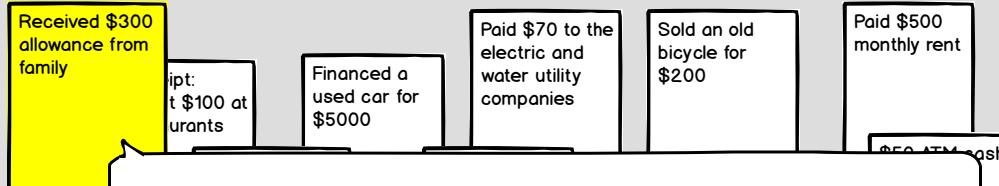


4 - The Accounting Cycle



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)

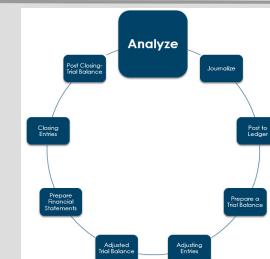


Our first "receipt" is the \$300 allowance check. That's easy -- it's cash on the balance sheet. Oh wait, it's also "allowance revenue" on our income statement.

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

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

Accounting Cycle



Financial Statements

Income Statement

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

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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:

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

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4 - Accounting Equation



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

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

$$\text{Common Stock} + \text{Retained Earnings}$$

$$\text{Revenue} - \text{Expenses} - \text{Dividends}$$

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!

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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

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

$$+ 300 = + 300$$

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!

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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.


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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**.

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5 - The Accounting Equation



Let's cover **debits** and **credits**.

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5 - The Accounting Equation



Let's cover **debits** and **credits**.



No, not that kind of debit and credit!

These two words often make people think of the cards that are in your wallet. Don't think of it this way!

Right now, just think of a debit as the left side of the transaction. **Debits** increase assets, expenses, and dividends, and they decrease liabilities, revenue, and equity.

Credits, on the other hand, are the opposite of debits. They are on the right side of the transaction. They increase liabilities, revenue and equity, and decrease assets, expenses and dividends.

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4 - Accounting Equation



In accounting, debits and credits are most often visualized in the form of a **T-account**. They enable us to make an entry onto the proper side affecting the accounting equation.

Below is the T-account for **Allowance Revenue**. It consists of The account name, the date the transaction took place, the amount, and whether it is a debit or credit. We can see that we have one entry on the right, or credit side, thus increasing our revenue. If there are entries on both sides, at the time of reporting, they are netted together to arrive at the proper account balance.

Allowance Revenue					
Debit		Credit			
Date	Amt	Date		Amt	
		23-Jan		\$ 300	
			Bal	\$ 300	

**Don't forget to consult your cheat sheet should you forget how debits/credits affect each account!

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4 - Accounting Equation



	<u>Dr.</u>	<u>Cr.</u>	
Assets	+	-	In accounting, assets are visualized in the form of a T-account where debits are recorded on the left side and credits on the right side. This affects the proper side of the equation.
Liabilities	-	+	Below is the date of the transaction. We can see that revenue, netted to expenses, results in a net balance.
Equity	-	+	It consists of The account name, and whether it is a debit or credit. This is because credits increase the value of equity, while debits decrease it. In accounting, assets are visualized in the form of a T-account where debits are recorded on the left side and credits on the right side. This affects the proper side of the equation.
Dividends	+	-	Below is the date of the transaction. We can see that revenue, netted to expenses, results in a net balance.
Revenue	-	+	It consists of The account name, and whether it is a debit or credit. This is because credits increase the value of equity, while debits decrease it. In accounting, assets are visualized in the form of a T-account where debits are recorded on the left side and credits on the right side. This affects the proper side of the equation.
Expenses	+	-	It consists of The account name, and whether it is a debit or credit. This is because credits increase the value of equity, while debits decrease it. In accounting, assets are visualized in the form of a T-account where debits are recorded on the left side and credits on the right side. This affects the proper side of the equation.

Debit		Credit	
Date	Amt	Date	Amt
		23-Jan	\$ 300
		Bal	\$ 300

**Don't forget to consult your cheat sheet should you forget how debits/credits affect each account!

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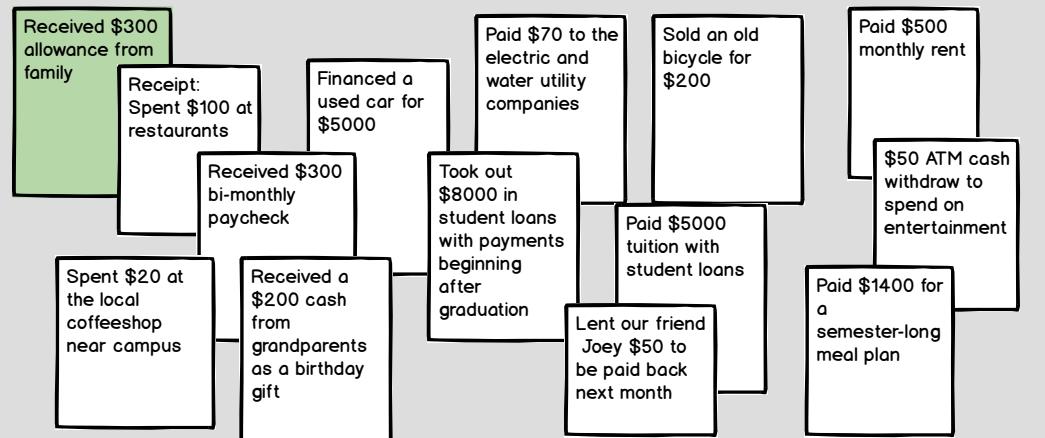
- [Income Statement](#)
- [Statement of Retained Earnings](#)
- [Balance Sheet](#)



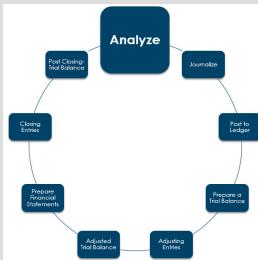
4 - The Accounting Cycle



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



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

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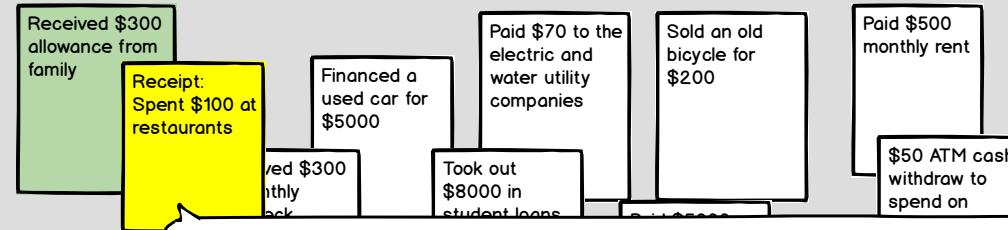

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4 - The Accounting Cycle



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



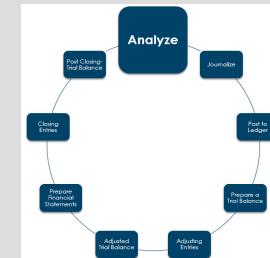
Cash goes down by \$100.
Expenses go up by \$100.

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

$$-\$100 = +100$$

Oh, No! What's happened here?

Accounting Cycle



Financial Statements

Income Statement

Total Revenues	\$ 1,100
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

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

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4 - Accounting Equation



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

Receipt:
Spent \$100 at
restaurants

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

- 100

=

+ 100

Accounting Cycle ▼

Financial Statements ▼

- Income Statement
- Statement of Retained Earnings
- Balance Sheet

Oh no, what happened here?

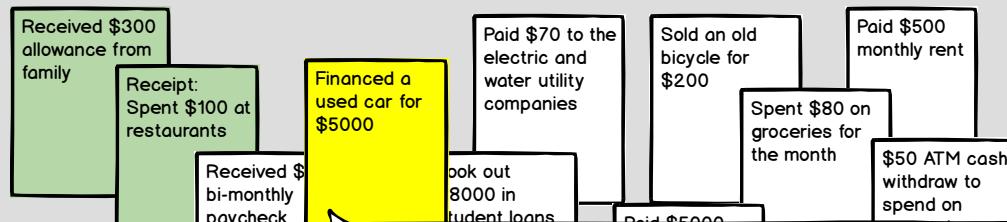
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5 - The Accounting Cycle



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

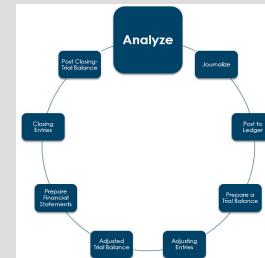


Financed a used car...
We got a car, which is an asset
But we had to take out a loan to pay for it, which is a liability.

Let's check to see if we're right:
 $Assets = Liabilities + Stockholders Equity$
 $\$5,000 = \$5,000 + 0$

Yes! It still balances.

Accounting Cycle



Financial Statements

Income Statement

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Balance Sheet

Total Current Assets \$ 4,710

Long-Term Assets

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

Total Assets

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

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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

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

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5 - The Accounting Cycle



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

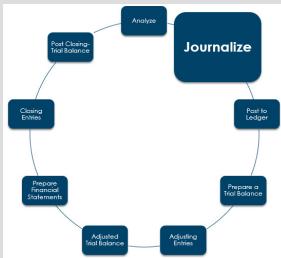
Date	Account	Debit	Credit
23-Jan	Cash - Checking	300	
	Allowance Revenue		300
To record revenue from the monthly allowance			

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

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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



5 - The Accounting Cycle



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

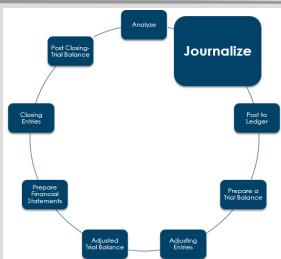
Date	Account	Debit	Credit
23-Jan	Cash - Checking	300	
	Allowance Revenue		300
To record revenue from the monthly allowance			

<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.

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Financial Statements

Income Statement

XYZ Student
Income Statement
 For Month Ending January 31, 2018

Revenue

Service Revenue	\$ 600
Sales Revenue	200
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Expenses

Food Expense	\$ 100
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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 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="Decreasing"/> ▼	<input type="button" value="Submit"/>
<input type="text" value="Allowance Revenue"/>	<input type="button" value="Decreasing"/> ▼	

Try that again, maybe look back at the cheat sheet to see which accounts increase or decrease with debits and credits.

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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

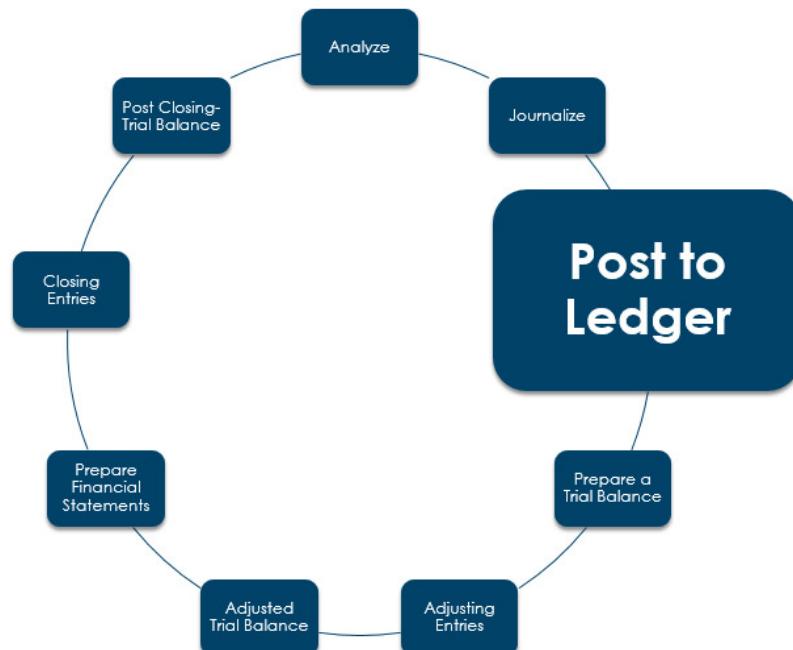


5 - The Accounting Cycle

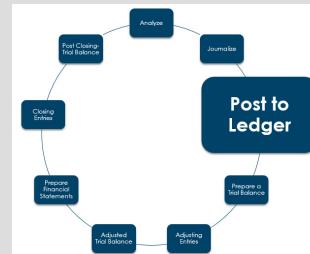


Okay, so now we have seen how transactions are recorded over time in the journal. What if we want to know what the balance of a certain account is at a moment in time? This is a common thing to do, especially when creating the trial balance and ultimately financial statements. We would look to the general ledger for that information.

It's time for step 3: **Posting to the Ledger**.


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5 - The Accounting Cycle



Remember the T-accounts? Well these will be very useful in understanding how to go from the journal to the ledger.

Below is an example of the allowance revenue and cash t-accounts. They should look familiar at this point.

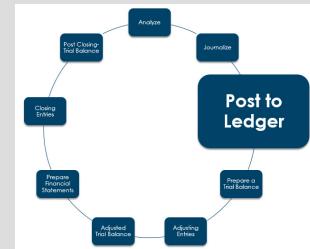
Cash - Checking		Allowance Revenue	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
23-Jan	\$ 300		
Bal	\$ 300		
		Bal	\$ 300

As you can see, we have recorded the increase in Cash as a debit on the left side of the T-account. On the other side, we have also increased Allowance Revenue, but with a credit on the right side.

At the end of the period we will net these amounts with all the other transactions occurring in that account over the course of the month. This netted balance will then flow into the trial balance and eventually financial statements as you can see to the right. For now we will stop here at the ledger.

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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



5 - The Accounting Cycle



Let's recap first three steps of the cycle:

First, we analyze the transaction.

Received \$300 allowance from family

Cash is increasing.
Allowance Revenue is increasing.

Then, we record it in the journal.

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

Finally, we post it to the ledger.

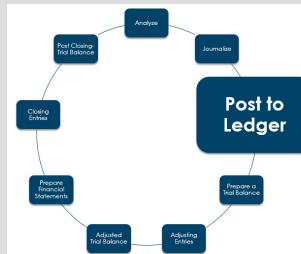
Cash - Checking		Allowance Revenue	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
23-Jan	\$ 300		

Bal	\$	300	Bal	\$	300

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Income Statement

XYZ Student
Income Statement
For Month Ending January 31, 2018

Revenue

Service Revenue	\$ 600
Sales Revenue	200
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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



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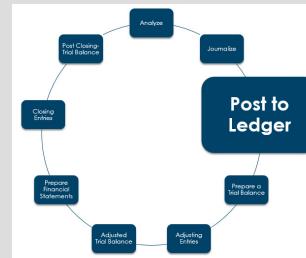


Let's move back to our personal finance example:

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!

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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).

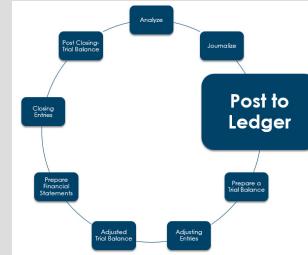
Remember, revenue has a normal credit balance, which means that increases to revenue are 'credited', and decreases in revenue are debited to the revenue account.

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 ▾



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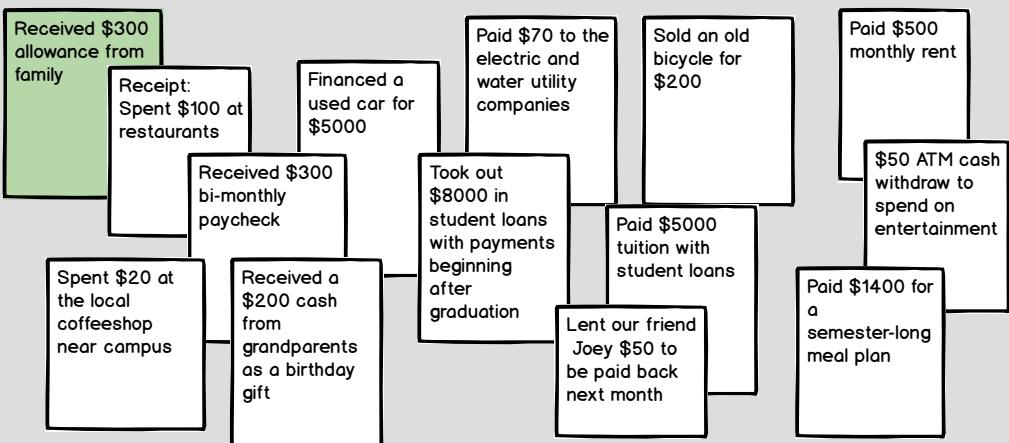


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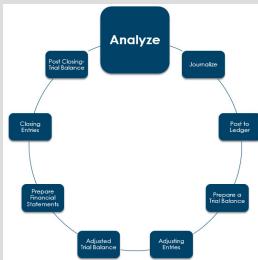


Revenue

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



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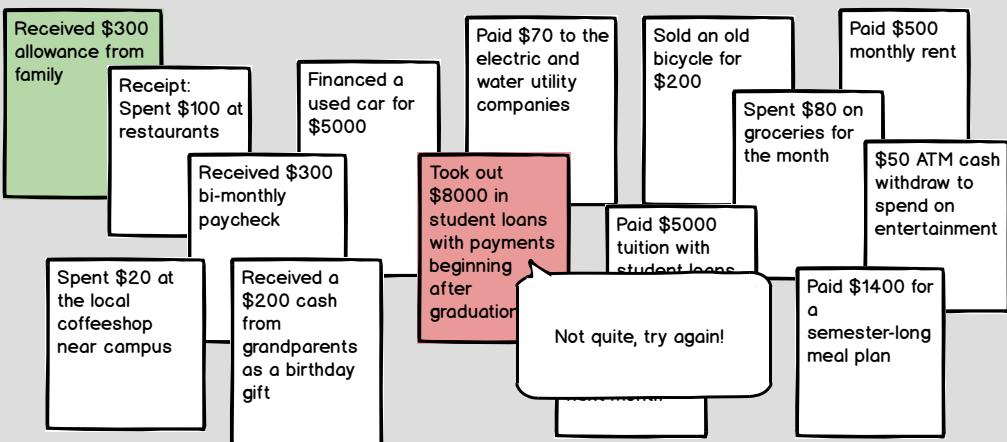


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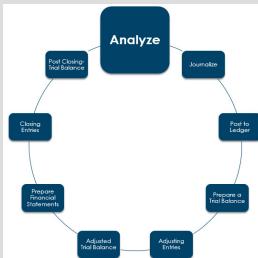


Revenue

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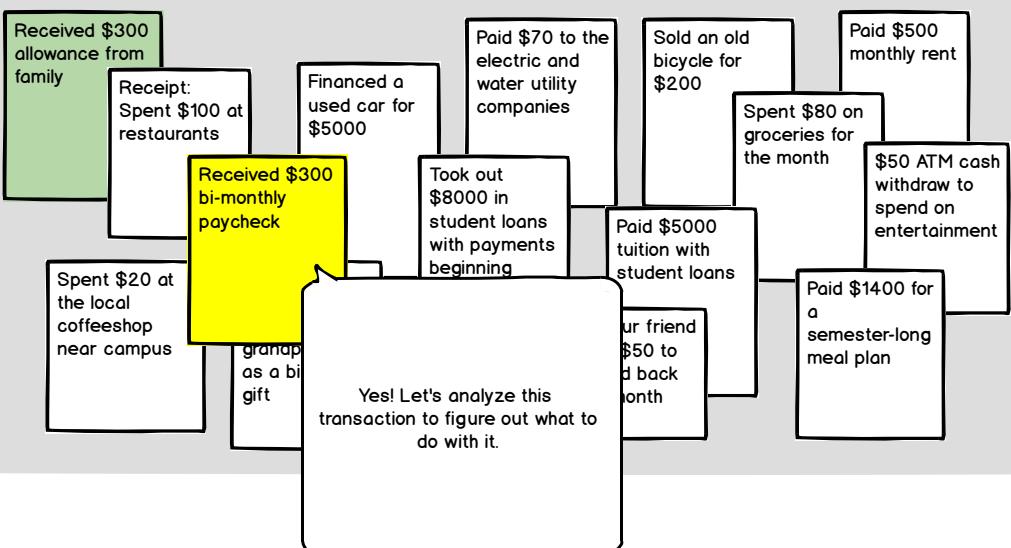


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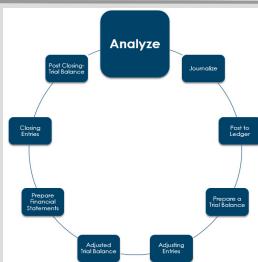


Revenue

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



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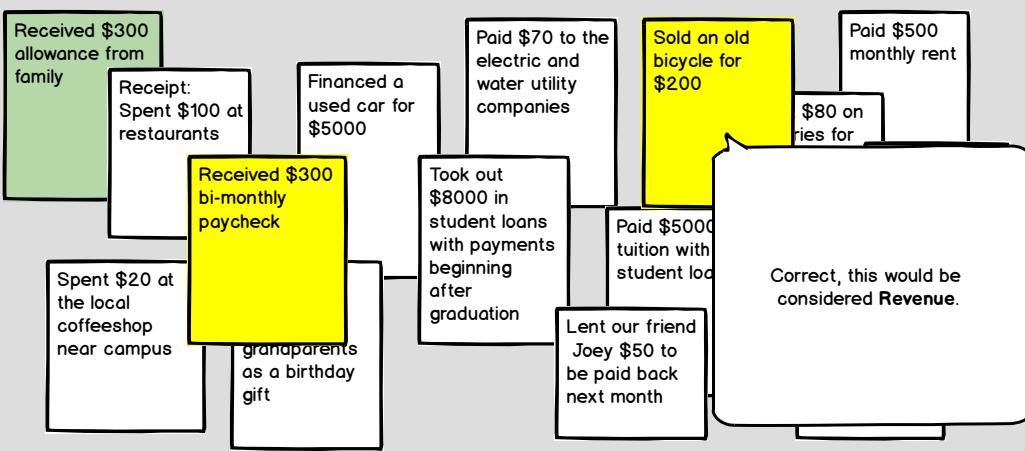


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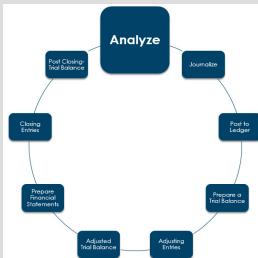


Revenue

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



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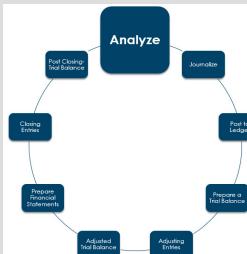
Revenue

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

Sold an old bicycle for \$200

Cash	Inc/Dec ▾
Sales Revenue	Inc/Dec ▾

Accounting Cycle ▾



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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 ▾

✓

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			

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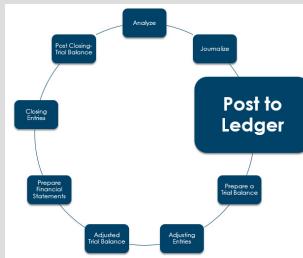
Revenue

Date	Account	Debit	Credit
19-Jan	Cash - Checking	200	
	Sales Revenue		200
To record revenue from the sale of the bicycle			

Step 3: Post to the ledger.

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

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Revenue

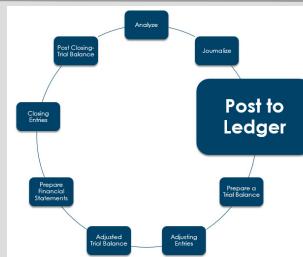
Date	Account	Debit	Credit
19-Jan	Cash - Checking	200	
	Sales Revenue		200
To record revenue from the sale of the bicycle			

Step 3: Post to the ledger.

Cash - Checking		Sales Revenue	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
19-Jan	\$ 200	19-Jan	\$ 200
Bal	\$ 200	Bal	\$ 200
<input type="button" value="Submit"/>			

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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 Expenses	\$ 100
---------------	--------

Statement of Retained Earnings

Balance Sheet

XYZ Student
Balance Sheet
January 31, 2018

Assets

Current Assets	
Cash - Checking	\$ 200
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50



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Revenue

That takes care of Allowance and Sales Revenue, now we'll cover **Service Revenue**:

Step 1: Analyze

Received \$300 bi-monthly paycheck

<input type="text" value="Cash"/>	<input type="button" value="Inc/Dec"/>	<input type="button" value="Submit"/>
<input type="text" value="Service Revenue"/>	<input type="button" value="Inc/Dec"/>	

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5 - The Accounting Cycle



Revenue

That takes care of Allowance and Sales Revenue, now we'll cover **Service Revenue**:

Step 1: Analyze

Received \$300 bi-monthly paycheck

Cash	Increasing ▾
Service Revenue	Increasing ▾

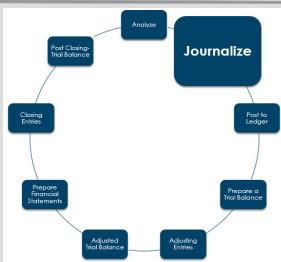
✓

Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Account Name dropdown		
	Account Name dropdown		
To record revenue from job at the café			

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5 - The Accounting Cycle



Revenue

That takes care of Allowance and Sales Revenue, now we'll cover **Service Revenue**:

Step 1: Analyze

Received \$300 bi-monthly paycheck

Cash	Increasing ▾
Service Revenue	Increasing ▾

✓

Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Cash - Checking	300	
	Service Revenue		300
To record revenue from job at the café			



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Revenue

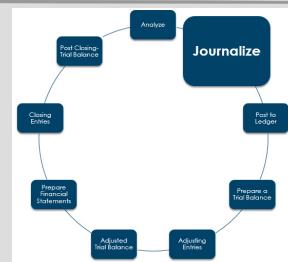
Okay, we have journalized one paycheck, however if you read the source document closely you may have noticed that we get paid twice per month. Therefore, for the month of January we would have two journal entries.

Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Cash - Checking	300	
	Service Revenue		300
To record revenue from job at the café			

Date	Account	Debit	Credit
15-Jan	Cash - Checking	300	
	Service Revenue		300
To record revenue from job at the café			

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Revenue

Let's post them!

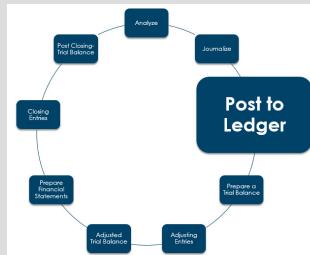
<u>Date</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
1-Jan	Cash - Checking	300	
	Service Revenue		300
To record revenue from job at the café			
15-Jan	Cash - Checking	300	
	Service Revenue		300
To record revenue from job at the café			

Step 3: Post to the Ledger

Submit

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Revenue

Let's post them!

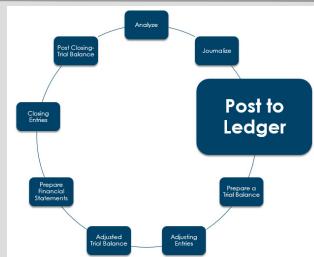
Date	Account	Debit	Credit
1-Jan	Cash - Checking	300	
	Service Revenue		300
To record revenue from job at the café			
15-Jan	Cash - Checking	300	
	Service Revenue		300
To record revenue from job at the café			

Step 3: Post to the Ledger

Service Revenue				Cash - Checking			
Debit		Credit		Debit		Credit	
Date	Amt	Date	Amt	Date	Amt	Date	Amt
		1-Jan	\$ 300	1-Jan	\$ 300		
		15-Jan	\$ 300	15-Jan	300		
				Bal	\$ 600	Bal	\$ 600

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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	\$ 600
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50



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Revenue

That wraps up all of our revenue transactions for the month of January. Let's do a quick recap:

Allowance Revenue			
Debit		Credit	
Date	Amt	Date	Amt
		23-Jan	\$ 300
		Bal	\$ 300

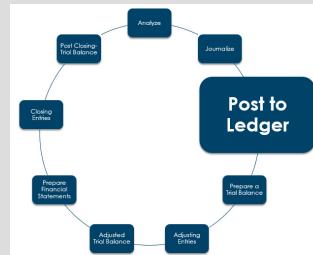
Service Revenue			
Debit		Credit	
Date	Amt	Date	Amt
		1-Jan	\$ 300
		15-Jan	\$ 300
		Bal	\$ 600

Sales Revenue			
Debit		Credit	
Date	Amt	Date	Amt
		19-Jan	\$ 200
		Bal	\$ 200

Cash - Checking			
Debit		Credit	
Date	Amt	Date	Amt
		1-Jan	\$ 300
		15-Jan	300
		19-Jan	200
		23-Jan	300
		Bal	\$ 1,100

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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 Expenses	\$ 100
---------------	--------

Statement of Retained Earnings

Balance Sheet

XYZ Student
Balance Sheet
January 31, 2018

Assets

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



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Expenses

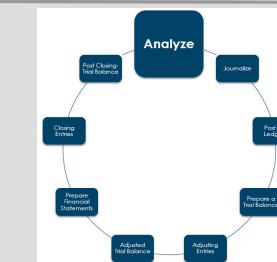
Okay! Let's now tackle **Expenses**.

Remember they are defined as costs that are incurred during the normal course of business to generate revenue, expenses and reduce the owner's equity in the company. What are some expenses you may incur in your daily life?

For individuals, things like meals & entertainment, drinks, groceries, and rent are considered expenses.

Businesses typically have other costs such as Salaries and Wages, Supplies, Insurance, etc. We will discuss more business expenses later. For now lets journal and post these receipts.

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 ▾

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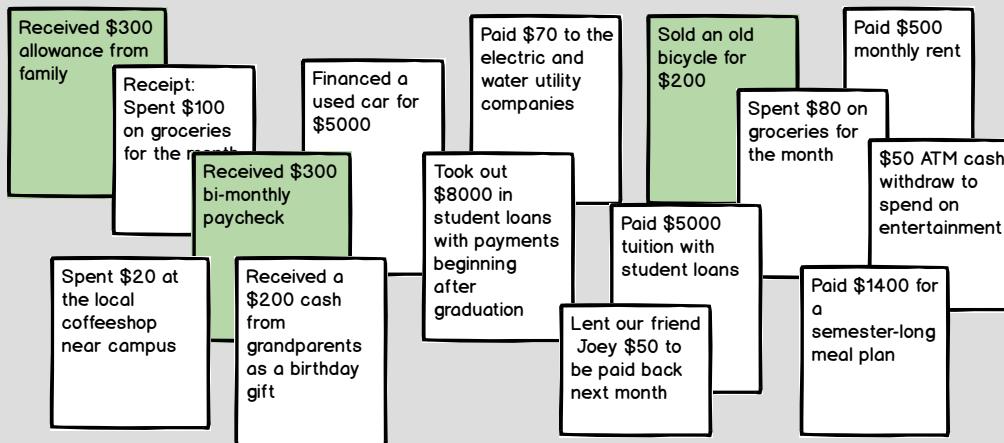
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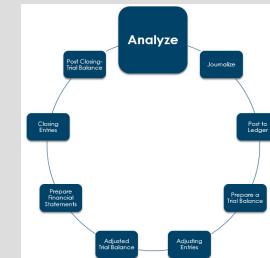
Expenses

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

Hint: there are *four* of them.


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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



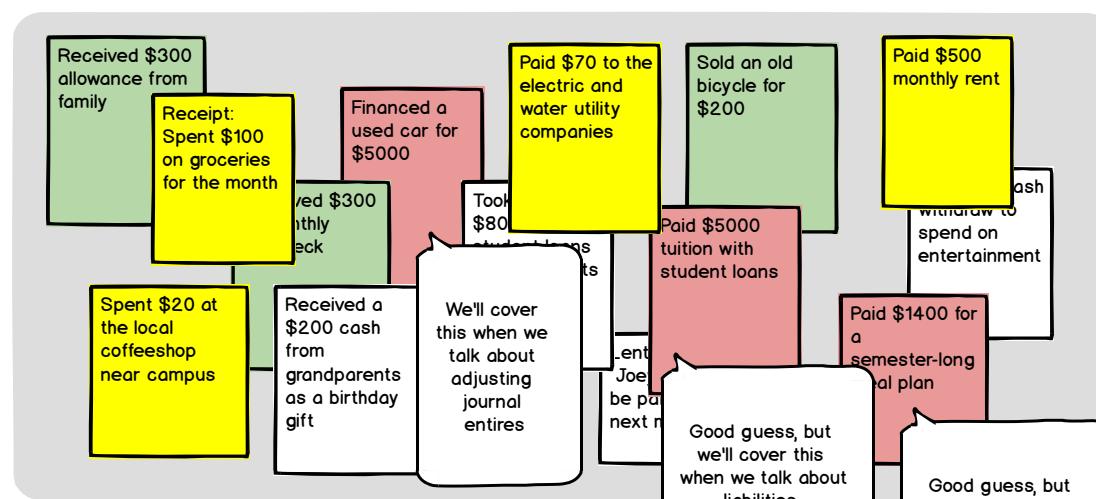
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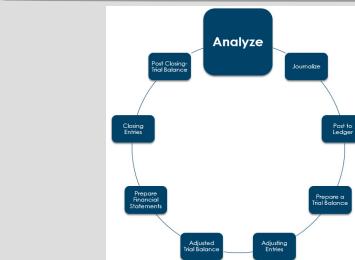
Expenses

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



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Financial Statements ✓

Income Statement

XYZ Student

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)

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Expenses

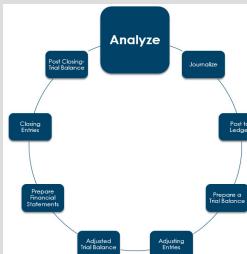
We already briefly discussed this transaction. Let's see if you can remember what is happening here:

Step 1: Analyze

Receipt:
Spent \$100
on groceries
for the month

Cash	Inc/Dec ▾	Submit
Food Expense	Inc/Dec ▾	

Accounting Cycle ▾



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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 ▾

✓

Step 2: Journalize

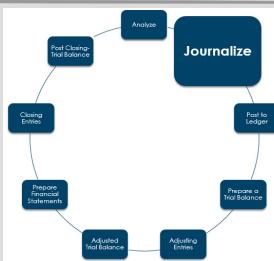
Date	Account	Debit	Credit
18-Jan	Account Name dropdown		
	Account Name dropdown		
To record the purchase groceries			

Submit

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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 ▾

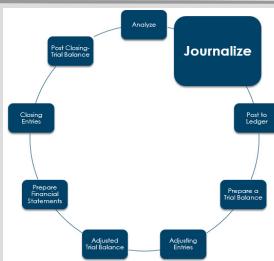
✓

Step 2: Journalize

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



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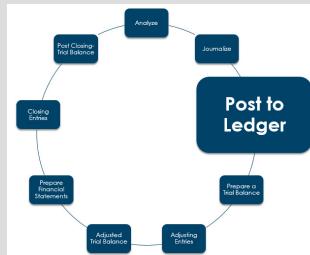
Expenses

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
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bal	\$ -	Bal	\$ -

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Expenses

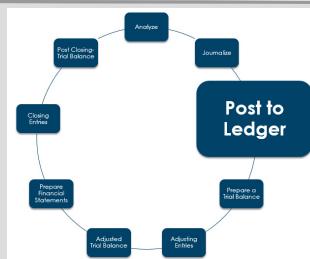
Date	Account	Debit	Credit
18-Jan	Food Expense	100	
	Cash - Checking		100
To record the purchase groceries			

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


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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
---------	-------



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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 coffee shop near campus

Cash	Inc/Dec	Submit
Coffee Expense	Inc/Dec	

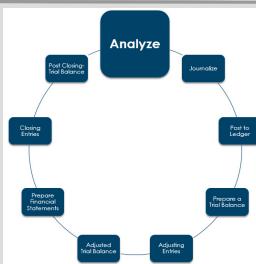
Paid \$70 to the electric and water utility companies

Cash	Inc/Dec	Submit
Utilities Expense	Inc/Dec	

Paid \$500 monthly rent

Cash	Inc/Dec	Submit
Rent Expense	Inc/Dec	

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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 ▾	

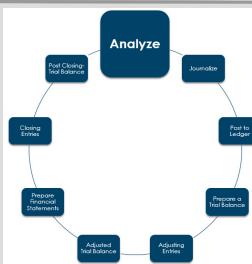
Paid \$70 to the electric and water utility companies

Cash	Decreasing ▾	
Utilities Expense	Increasing ▾	

Paid \$500 monthly rent

Cash	Decreasing ▾	
Rent Expense	Increasing ▾	

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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		
	Account Name dropdown		
To record the purchase of a cup of coffee			

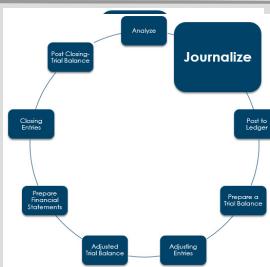
Paid \$70 to the electric and water utility companies

Date	Account	Debit	Credit
23-Jan	Account Name dropdown		
	Account Name dropdown		
For paying electricity and water bill			

Paid \$500 monthly rent

Date	Account	Debit	Credit
30-Jan	Account Name dropdown		
	Account Name dropdown		
To record February rent payment			

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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	Coffee Expense	20	
	Cash - Checking		20
To record the purchase of a cup of coffee			



Paid \$70 to the electric and water utility companies

Date	Account	Debit	Credit
23-Jan	Utilities Expense	70	
	Cash - Checking		70
For paying electricity and water bill			

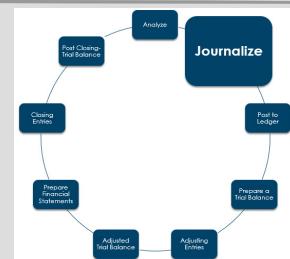


Paid \$500 monthly rent

Date	Account	Debit	Credit
30-Jan	Rent Expense	500	
	Cash - Checking		500
To record February rent payment			



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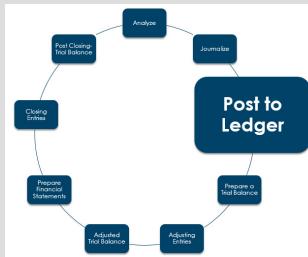
Expenses

Date	Account	Debit	Credit
12-Jan	Coffee Expense	20	
	Cash - Checking		20
To record the purchase of a cup of coffee			

Step 3: Post to the ledger.

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

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Expenses

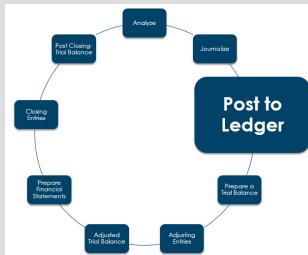
Date	Account	Debit	Credit
12-Jan	Coffee Expense	20	
	Cash - Checking		20
To record the purchase of a cup of coffee			

Step 3: Post to the ledger.

Cash - Checking		Coffee Expense	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
		12-Jan	\$ 20
Bal	\$ (20)	Bal	\$ 20



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Expenses

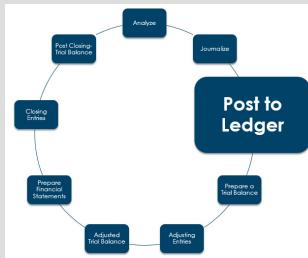
Date	Account	Debit	Credit
23-Jan	Utilities Expense	70	
	Cash - Checking		70
For paying electricity and water bill			

Step 3: Post to the ledger.

Cash - Checking		Utilities Expense	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
<input type="text"/>	<input type="text"/>	<input type="text"/> 12-Jan	\$ 20
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bal	\$ (20)	Bal	\$ -

Utilities Expense			
Debit	Credit		
Date	Amt	Date	Amt
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

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Expenses

Date	Account	Debit	Credit
23-Jan	Utilities Expense	70	
	Cash - Checking		70
For paying electricity and water bill			

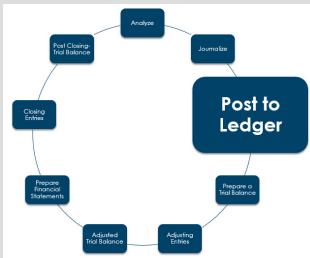
Step 3: Post to the ledger.

Cash - Checking			
Debit		Credit	
Date	Amt	Date	Amt
		12-Jan	\$ 20
		23-Jan	\$ 70
Bal	\$ (90)		

Utilities Expense			
Debit		Credit	
Date	Amt	Date	Amt
		23-Jan	\$ 70
Bal	\$ 70		



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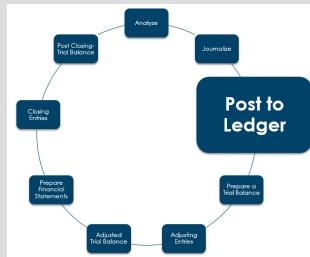


Expenses

<u>Date</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
30-Jan	Rent Expense	500	
	Cash - Checking		500
To record February rent payment			

Step 3: Post to the ledger.

Cash - Checking				Rent Expense			
Debit		Credit		Debit		Credit	
Date	Amt	Date	Amt	Date	Amt	Date	Amt
[]	[]	12-Jan	\$ 20	[]	[]	[]	[]
		23-Jan	\$ 70				
Bal	\$ (90)			Bal	\$ -		



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Expenses

Date	Account	Debit	Credit
30-Jan	Rent Expense	500	
	Cash - Checking		500
To record February rent payment			

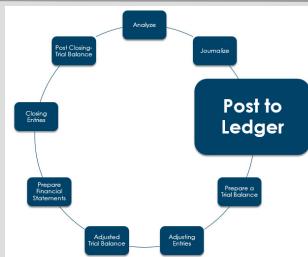
Step 3: Post to the ledger.

Cash - Checking			
Debit	Credit		
Date	Amt	Date	Amt
		12-Jan	\$ 20
		23-Jan	\$ 70
		30-Jan	\$ 500
Bal	\$ (590)		

Rent Expense			
Debit	Credit		
Date	Amt	Date	Amt
		30-Jan	\$ 500
		Bal	\$ 500



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Expenses

Let's do a quick recap of our expenses so far:

Coffee Expense			
Debit		Credit	
Date	Amt	Date	Amt
12-Jan	\$ 20		
Bal \$ 20			

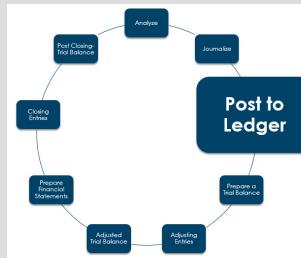
Food Expense			
Debit		Credit	
Date	Amt	Date	Amt
18-Jan	\$ 100		
Bal \$ 100			

Utilities Expense			
Debit		Credit	
Date	Amt	Date	Amt
23-Jan	\$ 70		
Bal \$ 70			

Rent Expense			
Debit		Credit	
Date	Amt	Date	Amt
30-Jan	\$ 500		
Bal \$ 500			

Cash - Checking			
Debit		Credit	
Date	Amt	Date	Amt
12-Jan	\$ 20		
18-Jan	\$ 100		
23-Jan	\$ 70		
30-Jan	\$ 500		
Bal \$ (690)			

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, 2010

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

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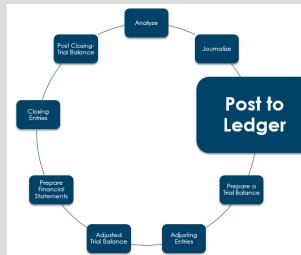


Assets

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



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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, 2010

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

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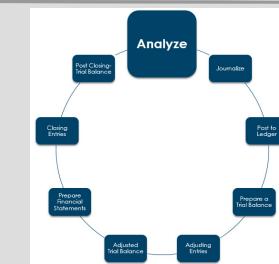
5 - The Accounting Cycle



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.

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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

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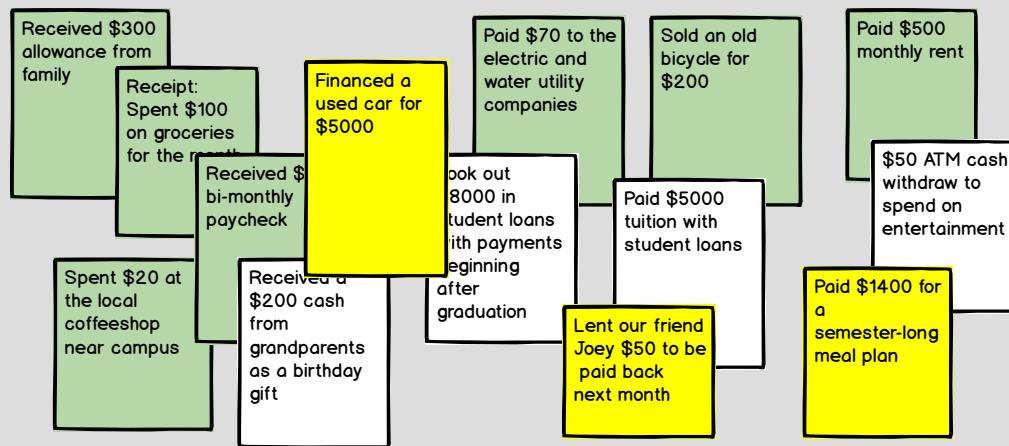
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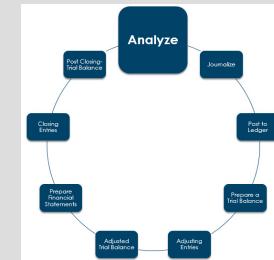


Assets

Here are the transactions that we are about to cover:



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Assets

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	(83)
Total Long-Term Assets	<u>4,917</u>

Total Assets \$ 9,627

Liabilities

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

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Assets

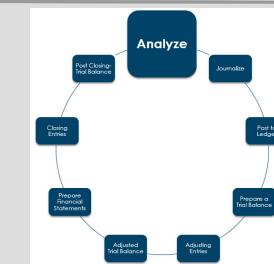
We'll start with the most basic first:

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.

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Assets

Current Assets	
Cash - Checking	\$ 2,360
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Total Assets \$ 9,627

Liabilities

Current Liabilities	
Interest Payable	\$ 13
Total Current Liabilities	13

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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?

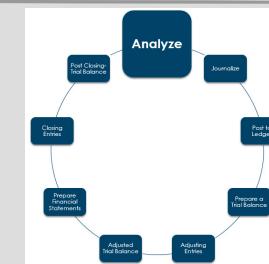
$$\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$$

Cash - 50

Receivable

[Submit](#)

Accounting Cycle



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Assets

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

Total Assets \$ 9,627

Liabilities

Current Liabilities	
Interest Payable	\$ 13
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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

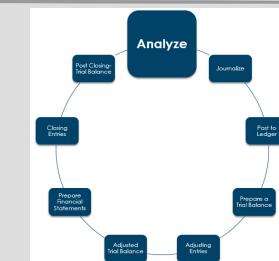
No Change



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Assets

Step 2: Journalize

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

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

Cash - 50

Receivable + 50

No Change

No Change

[Submit](#)

Date	Account	Debit	Credit
25-Jan	Account Name dropdown		
	Account Name dropdown		
Lent our friend Joey 50 dollars to be returned next month			

[Submit](#)

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Assets

Current Assets	
Cash - Checking	\$ 2,360
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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



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Assets

Step 2: Journalize

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

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

Cash - 50

Receivable + 50

No Change

No Change

[Submit](#)

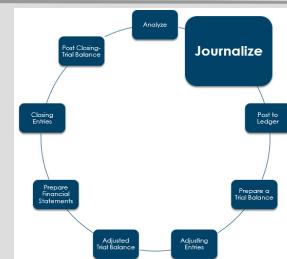
Date	Account	Debit	Credit
25-Jan	Accounts Receivable - Joey	50	
	Cash - Checking		50
Lent our friend Joey 50 dollars to be returned next month			



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Assets

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Total Assets

\$ 9,627

Liabilities

Current Liabilities	
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Total Current Liabilities	13



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Assets

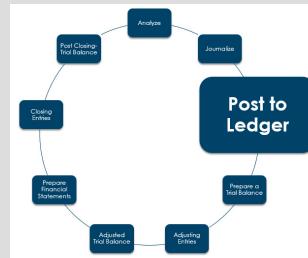
Date	Account	Debit	Credit
25-Jan	Accounts Receivable - Joey	50	
	Cash - Checking		50
Lent our friend Joey 50 dollars to be returned next month			

Step 3: Post to the ledger.

Cash - Checking		Accounts Receivable - Joey			
Debit	Credit	Debit	Credit	Debit	Credit
Date	Amt	Date	Amt	Date	Amt
		25-Jan	\$ 50		
Bal	\$ (50)			Bal	\$ 50


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Assets

Current Assets

Cash - Checking	\$ (50)
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 2,300

Long-Term Assets

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

Total Assets

	\$
--	----

Liabilities

Current Liabilities



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Assets

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

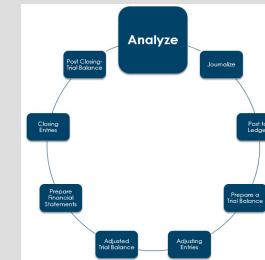
Some assets are purchased upfront, but used up over the course of time. In order to adhere to the **matching principle**, we need to recognize the usage of assets as it happens, not merely when the cash was spent.

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	Inc/Dec	<input type="button" value="Submit"/>
Prepaid Meal Card	Inc/Dec	

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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.

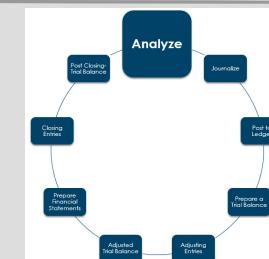
If we purchase a cafeteria meal plan, we are going to use it for the entire course of the semester, and should not expense the entire amount immediately. Therefore we create a **prepaid asset** account. We will adjust the account after each time period to ensure it reflects the proper balance. Let's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

✓

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Assets

Good job!

Step 1: Analyze

Paid \$1400 for
a
semester-long
meal plan

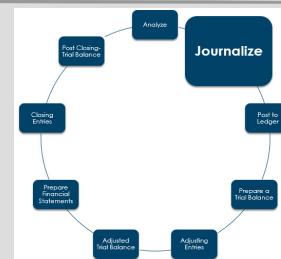
Cash	Decreasing ▾	
Prepaid Meal Card	Increasing ▾	

Step 2: Journalize

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

Submit

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Assets

Good job!

Step 1: Analyze

Paid \$1400 for
a
semester-long
meal plan

Cash	Decreasing ▾
Prepaid Meal Card	Increasing ▾

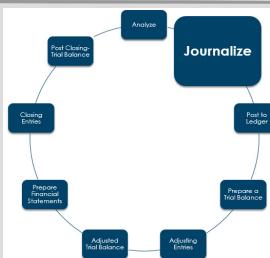
✓

Step 2: Journalize

Date	Account	Debit	Credit
1-Jan	Prepaid Meal Card	1,400	
	Cash - Checking		1,400
Upfront purchase of semester meal plan			



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Assets

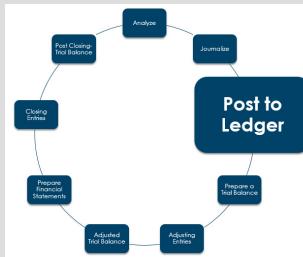
Date	Account	Debit	Credit
1-Jan	Prepaid Meal Card	1,400	
	Cash - Checking		1,400
Upfront purchase of semester meal plan			

Step 3: Post to the ledger.

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

Prepaid Meal Card			
Debit	Credit		
Date	Amt	Date	Amt
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bal	\$ -	Bal	\$ -

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Assets

Date	Account	Debit	Credit
1-Jan	Prepaid Meal Card	1,400	
	Cash - Checking		1,400
Upfront purchase of semester meal plan			

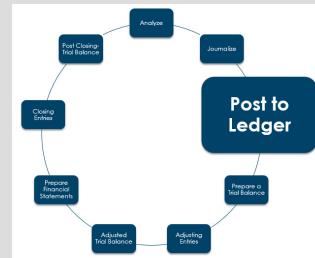
Step 3: Post to the ledger.

Cash - Checking			
Debit			
Date	Amt	Date	Amt
		1-Jan	\$ 1,400
Bal	\$ (1,400)		

Prepaid Meal Card			
Debit	Credit	Date	Amt
Date	Amt	Date	Amt
		1-Jan	\$ 1,400
Bal	\$ 1,400		


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Assets

Current Assets

Cash - Checking	\$ 1,400
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,400
Total Current Assets	\$ 4,100

Long-Term Assets

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

Total Assets

Liabilities

Current Liabilities



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Assets

But wait, you may ask, we expensed our groceries earlier, isn't our meal card a similar expense? The answer is yes, however we will expense it differently with **adjusting entries** which we will cover later on. For now, just know that we have a prepaid asset that will require reducing at the end of the period to reflect the true balance.

Accounting Cycle ▼

```

graph TD
    A[Post Closing Trial Balance] --> B[Analyze]
    B --> C[Journals]
    C --> D[Post to Ledger]
    D --> E[Prepare Income Statement]
    E --> F[Adjusted Trial Balance]
    F --> G[Closing Entries]
    G --> H[Prepare Financial Statements]
    H --> I[Retained Trial Balance]
    I --> J[Adjusted Balances]
    J --> K[Prepare a Trial Balance]
    K --> L[Post to Ledger]
    L --> M[Analyze]
    
```

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XYZ Student
Balance Sheet
January 31, 2018

Assets	
Current Assets	
Cash - Checking	\$ (1,400)
Cash - Savings	\$ 1,250
Accounts Receivable - Joey	50
Prepaid Meal Card	1,400
Total Current Assets	\$ 1,300
Long-Term Assets	
Vehicle	5,000
Less: Acc. Depreciation	(83)
Total Long-Term Assets	4,917
Total Assets	4,917
Liabilities	
Current Liabilities	

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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:

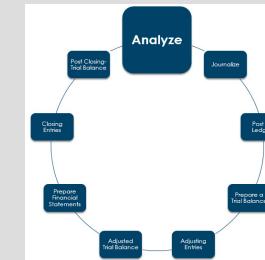
Financed a used car for \$5000

Vehicle	Inc/Dec ▾
Notes Payable	Inc/Dec ▾

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Assets

Step 1: Analyze

Financed a used car for \$5000

Vehicle	Increasing
Notes Payable	Increasing

✓

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Step 2: Journalize

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

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Assets

Step 1: Analyze

Financed a used car for \$5000

Vehicle	Increasing
Notes Payable	Increasing

✓

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Step 2: Journalize

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


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Assets

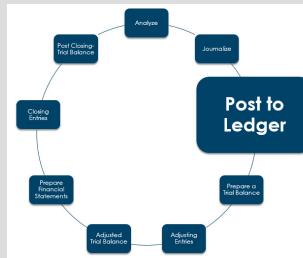
Date	Account	Debit	Credit
1-Jan	Vehicle	5,000	
	Notes Payable		5,000
To record used car purchase (3 year loan)			

Step 3: Post to the ledger.

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

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

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Assets

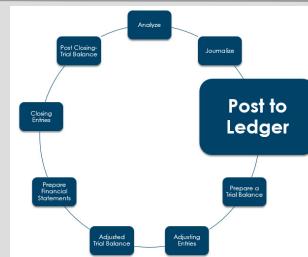
Date	Account	Debit	Credit
1-Jan	Vehicle	5,000	
	Notes Payable		5,000
To record used car purchase (3 year loan)			

Step 3: Post to the ledger.

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

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

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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
-------------------	-----------



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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.

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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

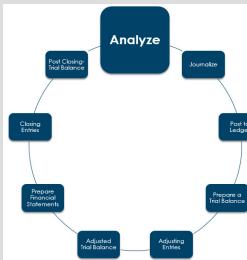
College can be very expensive, and many people cannot simply afford to pay for it upfront in cash. Because of this, many must take out student loans. But the cost of college is not just tuition! We will also be taking enough in student loans to supplement our personal expenses throughout the semester.

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:

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

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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:

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



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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



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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

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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 ▾



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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


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Liabilities

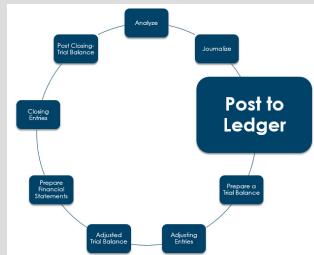
Step 3: Post to the ledger.

Student Loans Payable			
Debit		Credit	
Date	Amt	Date	Amt
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bal \$ -			

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

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

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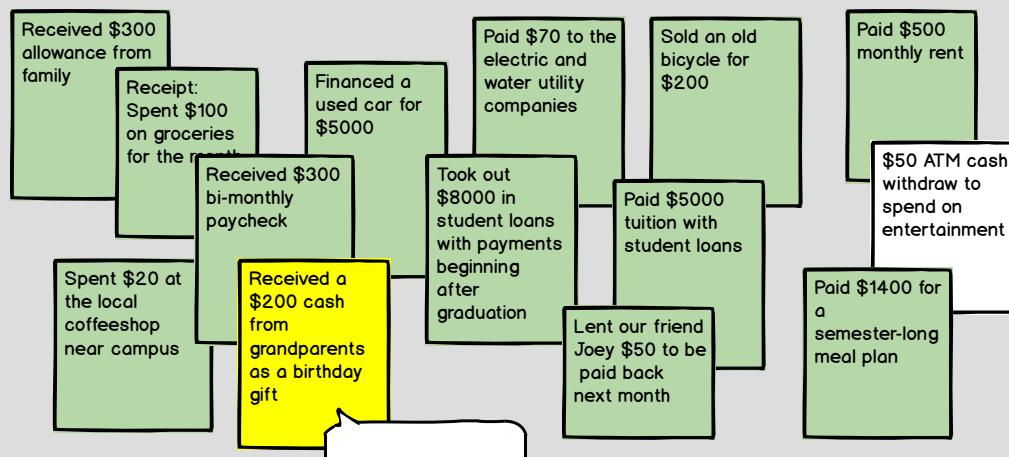


5 - The Accounting Cycle



Stockholder's Equity

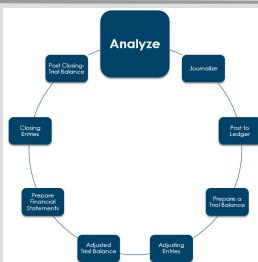
Here are the transactions that we are about to cover:



Let's see how this affects the financial statements!

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Accounting Cycle



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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)



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.

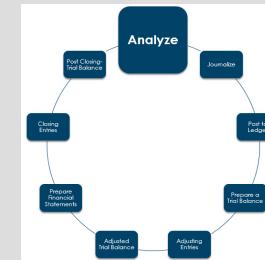
First we will take care of our birthday gift:

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

Owner's Equity - Gr	Inc/Dec ▾
Cash	Inc/Dec ▾

Submit

Accounting Cycle ▾



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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.

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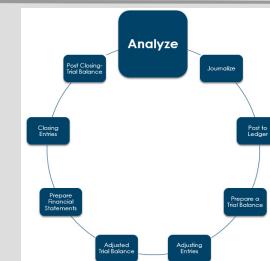
For our example, we will pretend that we have two different equity accounts. Since our grandparents like to "invest" in us, we will treat their birthday gift to us as a Stockholder's Equity account. Our personal equity account will be whatever is left over from our normal operations.

First we will take care of our birthday gift:

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

Owner's Equity - Gr	Increasing ▼
Cash	Increasing ▼

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Stockholder's Equity

Step 1: Analyze

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

Owner's Equity - Gr	Increasing
Cash	Increasing

✓

Accounting Cycle



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Step 2: Journalize

Date	Account	Debit	Credit
28-Jan	Account Name dropdown		
	Account Name dropdown		
To record owner's investment			

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Stockholder's Equity

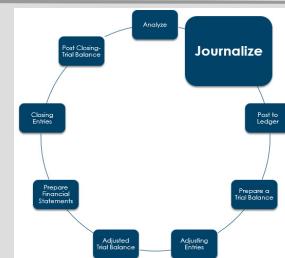
Step 1: Analyze

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

Owner's Equity - Gr	Increasing ▼
Cash - Savings	Increasing ▼

✓

Accounting Cycle ▾



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Step 2: Journalize

Date	Account	Debit	Credit
28-Jan	Cash - Savings	200	
	Owner's Equity - Grandparents		200
To record owner's investment			


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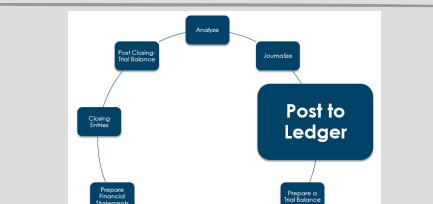
5 - The Accounting Cycle



Stockholder's Equity

<u>Date</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
28-Jan	Cash - Savings	200	
	Owner's Equity - Grandparents		200
To record owner's investment			

Step 3: Post to the ledger.



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Stockholder's Equity

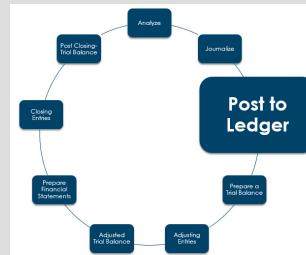
Date	Account	Debit	Credit
28-Jan	Cash - Savings	200	
	Owner's Equity - Grandparents		200
To record owner's investment			

Step 3: Post to the ledger.

Owner's Equity - Grandparents			Cash - Savings		
Debit		Credit			
Date	Amt	Date	Amt	Date	Amt
		28-Jan	\$ 200	1-Jan	\$ 1,000
				28-Jan	200
		Bal	\$ 200	Bal	\$ 1,200

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Accounting Cycle



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Assets

Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ 200
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 3,660

Long-Term Assets

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

Total Assets \$ 8,577

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)



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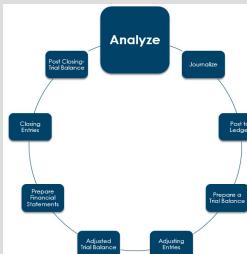
Dividends

So we just learned how owners put money into a business, but how do they take it out? When owners take assets out of a business, it is called a **Dividend**.

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* or a *distribution*. Dividends have a normal debit balance.

For our example, we will be withdrawing cash from an ATM to spend on weekend entertainment, and treat that withdrawal as a dividend:

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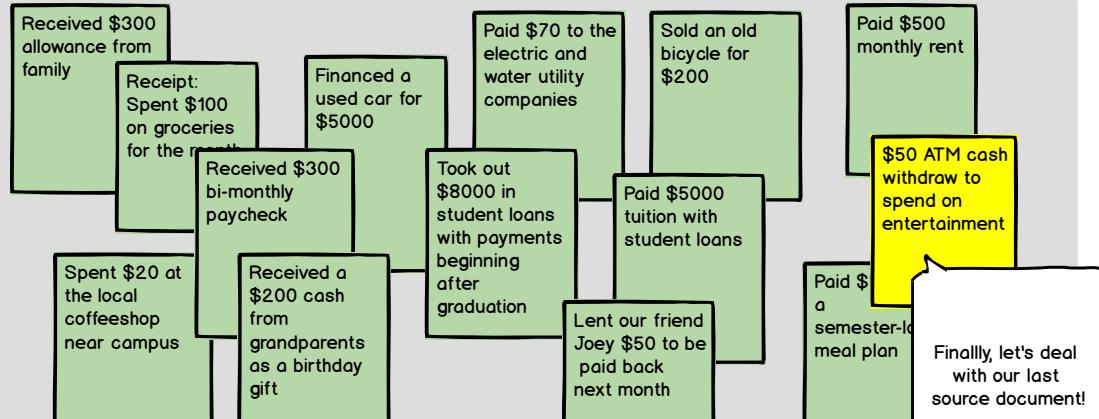
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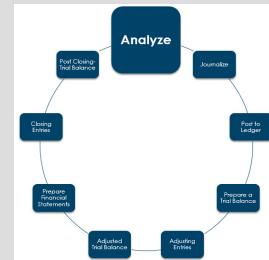


Dividends

Here are the transactions that we are about to cover:



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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)

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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 ▾



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Dividends

What do you think is happening in this transaction?

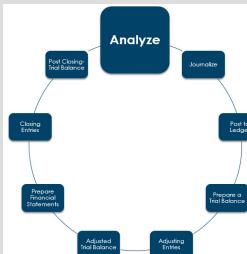
For this transaction we will be reducing our own personal owner's equity account.

\$50 ATM cash
withdraw to
spend on
entertainment

Dividends	Increasing ▾
Cash	Decreasing ▾

✓

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Dividends

Step 1: Analyze

\$50 ATM cash withdraw to spend on entertainment

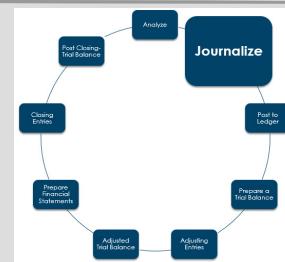
Dividends	Increasing	
Cash	Decreasing	

Step 2: Journalize

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

Submit

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Dividends

Step 1: Analyze

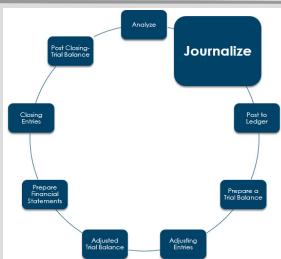
\$50 ATM cash withdraw to spend on entertainment

Dividends	Increasing ▾	
Cash	Decreasing ▾	

Step 2: Journalize

Date	Account	Debit	Credit
31-Jan	Dividends	50	
	Cash - Savings		50
To record ATM withdraw			

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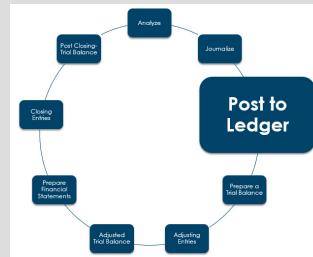
Dividends

Date	Account	Debit	Credit
31-Jan	Dividends	50	
	Cash - Savings		50
To record ATM withdraw			

Step 3: Post to the ledger.

Dividends		Cash - Savings	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
[]	[]	[]	[]
		1-Jan	\$ 1,000
		28-Jan	200
		[]	[]
Bal	\$ -	Bal	\$ 1,200

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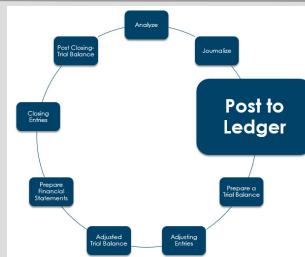
Dividends

Date	Account	Debit	Credit
31-Jan	Dividends	50	
	Cash - Savings		50
To record ATM withdraw			

Step 3: Post to the ledger.

Dividends		Cash - Savings	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
31-Jan	\$ 50	1-Jan	\$ 1,000
		28-Jan	200
Bal	\$ 50	Bal	\$ 1,150

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

Assets

Current Assets	
Cash - Checking	\$ 2,360
Cash - Savings	\$ (50)
Accounts Receivable - Joey	50
Prepaid Meal Card	1,050
Total Current Assets	\$ 3,410

Long-Term Assets

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



5 - The Accounting Cycle



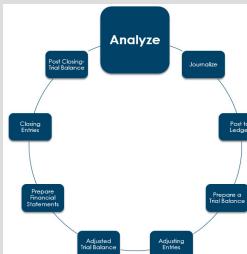
Let's do a quick recap:

We just learned the first three steps of the accounting cycle, **Analyze**, **Journalize**, and **Post to the Ledger**, and how each step must be performed on source documents depicting business events.

We also saw how these transactions flow to the financial statements, however before we get there, we must perform some more steps to ensure they are accurate.

For this, we must revisit the accounting cycle, and discuss **Accrual Accounting**.

Accounting Cycle ▾



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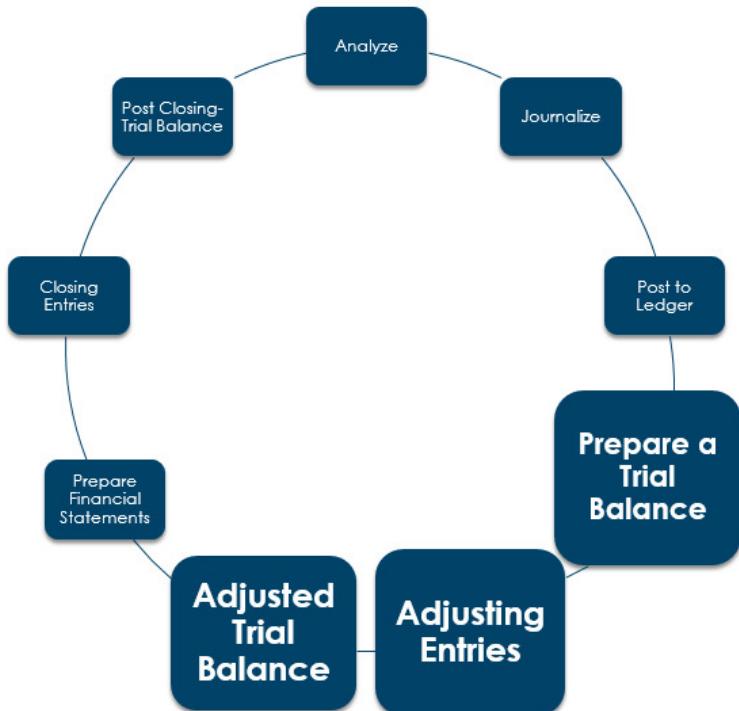


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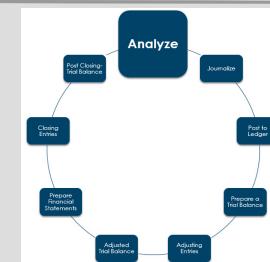


Accounting Cycle Revisited:

For the next part of the process, we are going to create a **Trial Balance**, make some **adjusting journal entries**, and arrive at the **adjusted trial balance**.


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Accounting Cycle



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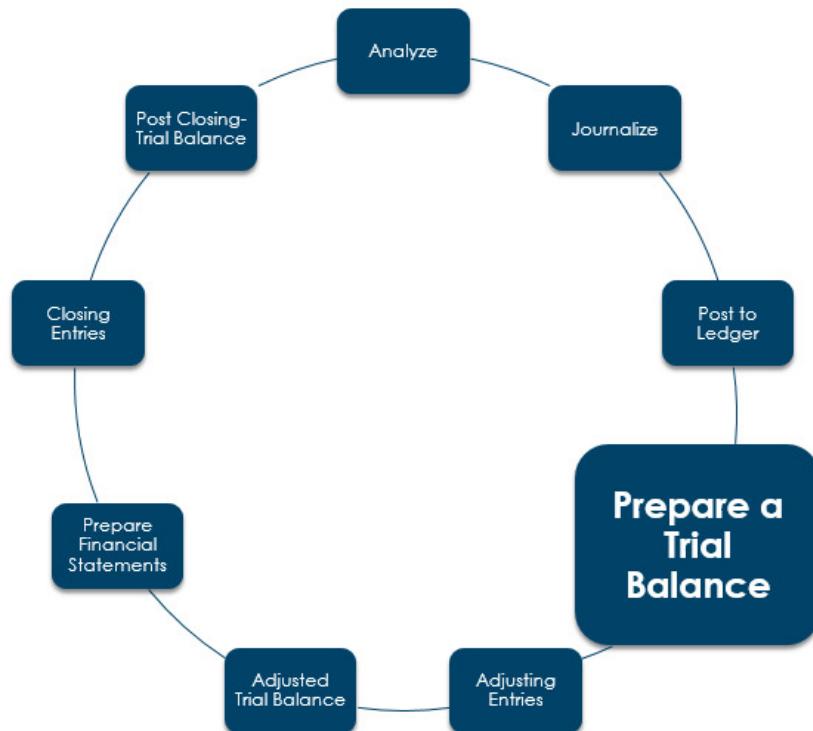


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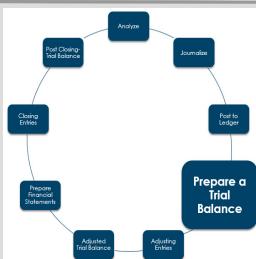


Accounting Cycle Revisited:

Let's learn more about the **Trial Balance**.

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Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



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5 - The Trial Balance



Trial Balance

Since we have now recorded all of our transactions, we will summarize them into a central list of each account by their debit or credit balance. The **trial balance** enables us to ensure that we have recorded our transactions correctly, and that our books are still in balance. It also aids in the process of creating the financial statements by creating an aggregated list of each account balance.

When creating the unadjusted trial balance, we must begin where we left off: at the ledger. Remember when we talked about netting out transactions to find the true balance? Well that is exactly what we are going to do here.

Let's start with the cash in our checking account:

Cash - Checking			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 500	1-Jan	1400
1-Jan	3,000	12-Jan	20
1-Jan	300	18-Jan	100
15-Jan	300	23-Jan	70
19-Jan	200	23-Jan	100
23-Jan	300	25-Jan	50
		30-Jan	500
Bal	\$ 2,360		

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Trial Balance

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- [Adjusting Journal Entries](#)
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5 - The Trial Balance



Trial Balance

As you can see, we have many transactions on both the debit and credit sides.

To arrive at the true cash balance we simply must add all of the debits, and subtract all of the credits. This balance should fall on the left side since cash has a normal debit balance.

Cash - Checking			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 500	1-Jan	1400
1-Jan	3,000	12-Jan	20
1-Jan	300	18-Jan	100
15-Jan	300	23-Jan	70
19-Jan	200	23-Jan	100
23-Jan	300	25-Jan	50
		30-Jan	500
Bal		\$ 2,360	

Accounting Cycle ▼



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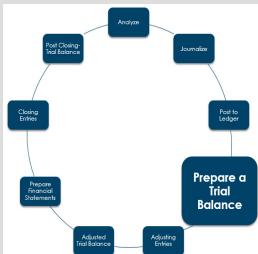


Trial Balance

This balance then flows through to the **Unadjusted Trial Balance**.

Cash - Checking			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 500	1-Jan	1400
1-Jan	3,000	12-Jan	20
1-Jan	300	18-Jan	100
15-Jan	300	23-Jan	70
19-Jan	200	23-Jan	100
23-Jan	300	25-Jan	50
		30-Jan	500
Bal	\$ 2,360		

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Totals	\$ 2,360	\$ -

Adjusting Journal Entries

Adjusted Trial Balance



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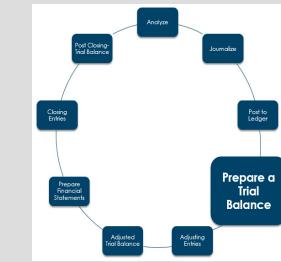


Trial Balance

Let's see if you can figure out what the balance will be for our cash savings account:

Cash - Savings			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 1,000	31-Jan	\$ 50
23-Jan	100		
28-Jan	200		

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Totals	<u>\$ 2,360</u>	<u>\$ -</u>

Adjusting Journal Entries

Adjusted Trial Balance



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5 - The Trial Balance

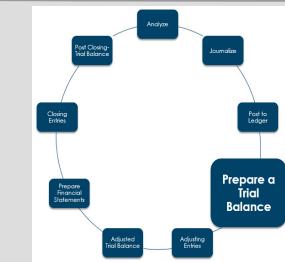


Trial Balance

Let's see if you can figure out what the balance will be for our cash savings account:

Cash - Savings			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 1,000	31-Jan	\$ 50
23-Jan	100		
28-Jan	200		
Bal	\$ 1,250		

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Totals	\$ 3,610	\$ -

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Trial Balance

The order of the accounts in the Trial Balance is very important. We always present the accounts in the following order:

Assets, Liabilities, Equity, Dividends, Revenues, Expenses

By the time we have finished aggregating all of the accounts, the debits and credits should be equal, otherwise we have made a mistake in the recording process and must correct it before compiling the financial statements.

Let's finish compiling the unadjusted trial balance.

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Totals	\$ 3,610	\$ -

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Trial Balance

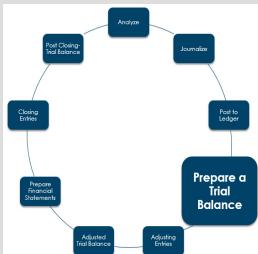
Finish recording the assets from the ledger:

Prepaid Meal Card		Accounts Receivable - Joey	
Debit	Credit	Debit	Credit
Date 1-Jan	Amt \$ 1,400	Date 25-Jan	Amt \$ 50
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Vehicle			
Debit	Credit		
Date 1-Jan	Amt \$ 5,000	Date <input type="text"/>	Amt <input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Submit

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Totals	\$ 3,610	\$ -

Adjusting Journal Entries

Adjusted Trial Balance



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Trial Balance

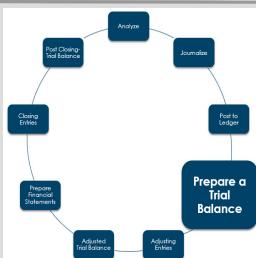
Finish recording the assets from the ledger:

Prepaid Meal Card			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 1,400		
Bal	\$ 1,400		

Accounts Receivable - Joey			
Debit		Credit	
Date	Amt	Date	Amt
25-Jan	\$ 50		
Bal	\$ 50		

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

Accounting Cycle ▾



Financial Statements ▾

Trial Balance ▾

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Totals	\$ 10,060	\$ -

Adjusting Journal Entries

Adjusted Trial Balance



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5 - The Trial Balance



Trial Balance

That's all of the assets, now let's record liabilities:

Notes Payable			
Debit		Credit	
Date	Amt	Date	Amt
		1-Jan	\$ 5,000
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Student Loans Payable			
Debit		Credit	
Date	Amt	Date	Amt
		1-Jan	\$ 8,000
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Accounts Receivable - Joey	50	
Prepaid Meal Card		1,400
Vehicle		5,000
Totals	\$ 10,060	\$ -

Adjusting Journal Entries

Adjusted Trial Balance



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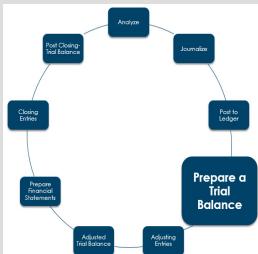
Trial Balance

That's all of the assets, now let's record liabilities:

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

Student Loans Payable			
Debit		Credit	
Date	Amt	Date	Amt
		1-Jan	\$ 8,000
	Bal	\$ 8,000	

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Accounts Receivable - Joey		50
Prepaid Meal Card		1,400
Vehicle		5,000
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Totals	\$ 10,060	\$ 13,000

Adjusting Journal Entries

Adjusted Trial Balance



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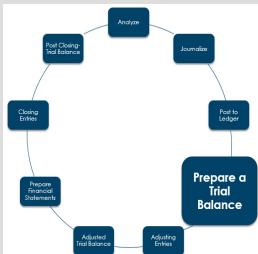
Trial Balance

Now to record **equity**:

Owner's Equity - Grandparents			
Debit		Credit	
Date	Amt	Date	Amt
		28-Jan	\$ 200
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Owner's Equity - XYZ Student			
Debit		Credit	
Date	Amt	Date	Amt
		1-Jan	\$ 1,500
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Accounts Receivable - Joey		50
Prepaid Meal Card		1,400
Vehicle		5,000
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Totals	\$ 10,060	\$ 13,000

Adjusting Journal Entries

Adjusted Trial Balance



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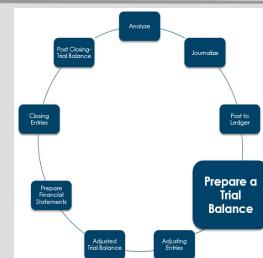


Trial Balance

Now to record equity:

Owner's Equity - Grandparents				Owner's Equity - XYZ Student			
Debit		Credit		Debit		Credit	
Date	Amt	Date	Amt	Date	Amt	Date	Amt
		28-Jan	\$ 200			1-Jan	\$ 1,500
		Bal	\$ 200			Bal	\$ 1,500

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Totals	<u>\$ 10,060</u>	<u>\$ 14,700</u>

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance

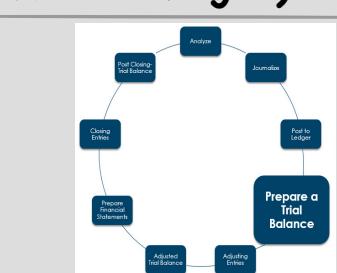


Trial Balance

Next is dividends:

Dividends			
Debit		Credit	
Date	Amt	Date	Amt
31-Jan	\$ 50		

Submit



Financial Statements ✓

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Total:	\$ 19,260	\$ 14,700

Adjusting Journal Entries

Adjusted Trial Balance

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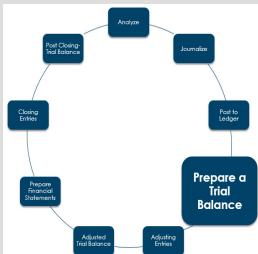


Trial Balance

Next is dividends:

Dividends			
Debit		Credit	
Date	Amt	Date	Amt
31-Jan	\$ 50		
Bal	\$ 50		

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Totals	\$ 10,110	\$ 14,700

Adjusting Journal Entries

Adjusted Trial Balance



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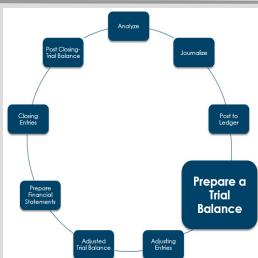
Trial Balance

Next we will add our revenues:

Service Revenue		Sales Revenue	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
1-Jan	\$ 300	19-Jan	\$ 200
15-Jan	\$ 300		

Allowance Revenue	
Debit	Credit
Date	Amt
23-Jan	\$ 300

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings		1,250
Accounts Receivable - Joey		50
Prepaid Meal Card		1,400
Vehicle		5,000
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends		50
Totals	\$ 10,110	\$ 14,700

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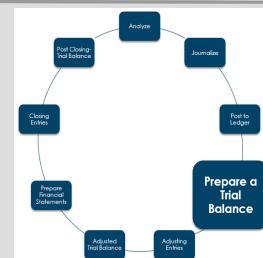
Trial Balance

Next we will add our revenues:

Service Revenue			Sales Revenue		
Debit	Credit		Debit	Credit	
Date	Amt	Date	Amt	Date	Amt
		1-Jan	\$ 300		
		15-Jan	\$ 300		
Bal	\$ 600			Bal	\$ 200

Allowance Revenue			
Debit	Credit		
Date	Amt	Date	Amt
		23-Jan	\$ 300
		Bal	\$ 300

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable	\$ 5,000	
Student Loans Payable	8,000	
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Dividends	50	
Service Revenue	600	
Sales Revenue	200	
Allowance Revenue	300	
Totals	\$ 10,110	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



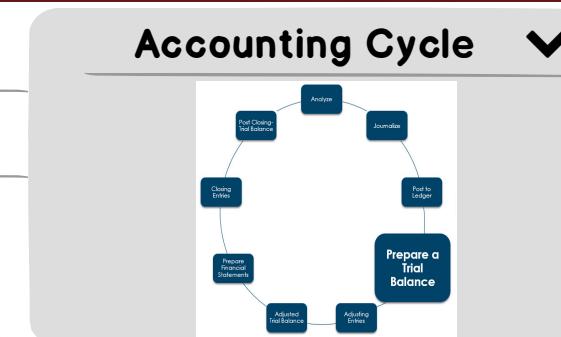
Trial Balance

And finally we will add our **expenses**:

Food Expense				Coffee Expense			
Debit		Credit		Debit		Credit	
Date	Amt	Date	Amt	Date	Amt	Date	Amt
18-Jan	\$ 100			12-Jan	\$ 20		
Rent Expense							
Debit				Credit			
Date	Amt	Date	Amt	Date	Amt	Date	Amt
30-Jan	\$ 500						

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Trial Balance

Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
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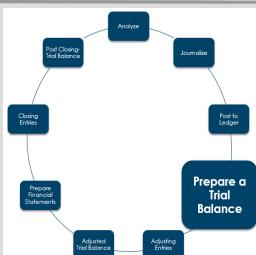
Trial Balance

And finally we will add our **expenses**:

Food Expense			Coffee Expense		
Debit	Credit		Debit	Credit	
Date	Amt		Date	Amt	
18-Jan	\$ 100		12-Jan	\$ 20	
Bal	\$ 100		Bal	\$ 20	

Rent Expense			
Debit	Credit		
Date	Amt	Date	Amt
30-Jan	\$ 500		
Bal	\$ 500		

Accounting Cycle ▼



Financial Statements ▼

Trial Balance ▼

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable	\$ 5,000	
Student Loans Payable	8,000	
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Dividends	50	
Service Revenue	600	
Sales Revenue	200	
Allowance Revenue	300	
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Totals	\$ 10,730	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



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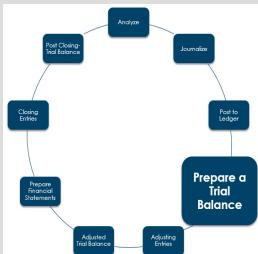


Trial Balance

And finally we will add our **expenses**:

Utilities Expense		Tuition Expense	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
23-Jan	\$ 70	31-Jan	\$ 5,000
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="button" value="Submit"/>			

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable	\$ 5,000	
Student Loans Payable	8,000	
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Dividends	50	
Service Revenue	600	
Sales Revenue	200	
Allowance Revenue	300	
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Totals	\$ 10,730	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance

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5 - The Trial Balance



Trial Balance

And finally we will add our **expenses**:

Utilities Expense		Tuition Expense	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
23-Jan	\$ 70	31-Jan	\$ 5,000
Bal	\$ 70	Bal	\$ 5,000

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance

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5 - The Trial Balance



Adjusting Journal Entries

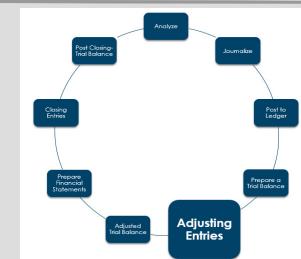
Now that we have our **Unadjusted Trial Balance** assembled, we need to make some changes to properly reflect what has occurred over the period. You may be wondering why we need to adjust this trial balance?

The reason is because our financial statements must be reported on the **Accrual Basis**. This basically means that we are recording our revenues and expenses when they occur as opposed to when the cash is received or paid (this would be the **Cash Basis**). We do this to adhere to the **Matching Principle** that states we must record events in the period in which they occur. Why is this such an important distinction? Well, let's think back to our meal card example.

When we purchased our meal plan, we spent a lot of money upfront. If we expensed the entire amount when we spent the cash, our expense would be too high in January, and too low in the following four months. This gives us an inaccurate picture of what actually happened, and will make planning for the future more difficult.

Instead, we recorded the asset to be adjusted at a later time. Well that time is now! We are going to take stock of exactly just how much of that meal plan we used and adjust the account accordingly. Let's continue with the example.

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance

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5 - The Trial Balance



Adjusting Journal Entries

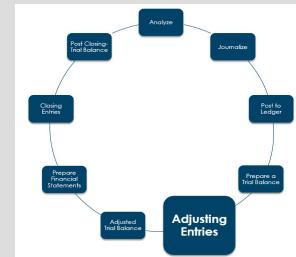
Here is our T-account for the prepaid meal plan from earlier.

Prepaid Meal Card			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 1,400		
Bal	\$ 1,400		

What we know is that we spent \$350 over the course of the month. What do you think the adjusting entry should do?

Prepaid Meal Card	Inc/Dec	▼
Meal Card Expense	Inc/Dec	▼

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense	5,000	
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Adjusting Journal Entries

Here is our T-account for the prepaid meal plan from earlier.

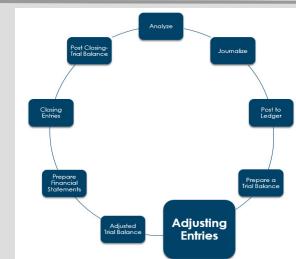
Prepaid Meal Card			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 1,400		
Bal	\$ 1,400		

What we know is that we spent \$350 over the course of the month. What do you think the adjusting entry should do?

Prepaid Meal Card	Decrease
Meal Card Expense	Increase



Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense	5,000	
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance

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Adjusting Journal Entries

See if you can figure out what the **adjusting journal entry** would be:

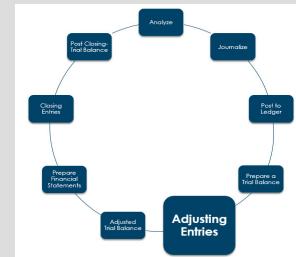
Prepaid Meal Card	Decrease
Meal Card Expense	Increase



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

To record the January usage of the meal card

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

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5 - The Trial Balance



Adjusting Journal Entries

See if you can figure out what the **adjusting journal entry** would be:

Prepaid Meal Card	Decrease
Meal Card Expense	Increase

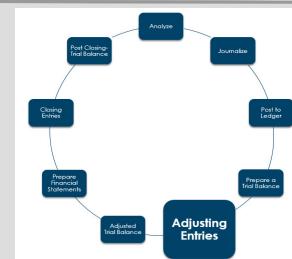


Date	Account	Debit	Credit
31-Jan	Meal Card Expense	350	
	Prepaid Meal Card		350

To record the January usage of the meal card



Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

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Adjusting Journal Entries

And just like before we post to the ledger:

Date	Account	Debit	Credit
31-Jan	Meal Card Expense	350	
	Prepaid Meal Card		350

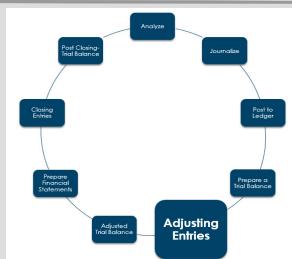
To record the January usage of the meal card



Prepaid Meal Card			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 1,400		
Bal	\$ 1,400		

Meal Card Expense			
Debit		Credit	
Date	Amt	Date	Amt
Bal	\$ -		

Accounting Cycle



Financial Statements

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Unadjusted Trial Balance

XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
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Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Adjusting Journal Entries

And just like before we post to the ledger:

Date	Account	Debit	Credit
31-Jan	Meal Card Expense	350	
	Prepaid Meal Card		350

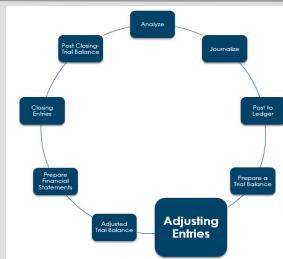
To record the January usage of the meal card



Prepaid Meal Card			
Debit		Credit	
Date	Amt	Date	Amt
1-Jan	\$ 1,400	31-Jan	350
Bal	\$ 1,050		

Meal Card Expense			
Debit		Credit	
Date	Amt	Date	Amt
30-Jan	\$ 350		
Bal	\$ 350		

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	

Adjusting Journal Entries

Date	Account	Debit	Credit
31-Jan	Meal Card Expense	350	
	Prepaid Meal Card		350

To record the January usage of the meal card

Adjusted Trial Balance

XYZ Student Adjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Prepaid Meal Card	1,050	
Meal Card Expense		350
Totals		\$ 1,400 \$ -



5 - The Trial Balance



Adjusting Journal Entries

That takes care of our meal plan, but we have two more adjustments to make before we can move on. Next let's tackle our car loan!

Remember that we financed our car with a \$5,000 loan. Do you think they are going to let us have that money for free? Of course not, we have to pay that back plus interest. That calls for another adjustment.

To adhere to the **matching principle**, that means we need to record the interest that we are being charged during the period. In order to figure out how much interest we are being charged, we must take a closer look at the terms of the loan:

Financed a used car for \$5000

Face Value: \$5,000
Term: 3 years
Interest Rate: 3%
Payments: \$145 on the 1st of each month

Okay, from reading the terms of the loan, we can see that we are being charged 3% interest, with payments due on the 1st of each month. We can ignore the payments since we are creating financial statements for the month of January, however we are incurring interest that must be recorded.

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Financial Statements

Trial Balance

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XYZ Student Unadjusted Trial Balance January 31, 2018		
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Sales Revenue		200
Allowance Revenue		300
Food Expense		100
Coffee Expense		20
Rent Expense		500
Utilities Expense		70
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



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Adjusting Journal Entries

Financed a used car for \$5000

Face Value: \$5,000
Term: 3 years
Interest Rate: 3%
Payments: \$145 on the 1st of each month

But how much interest are we going to accrue?

It is a fairly simple calculation: We will take 3%, multiply it by the principle (\$5000), and divide that by 12 months to give us 1 month of interest:

$$\$5,000 \times 3\% \div 12 \text{ months} = \$12.50$$

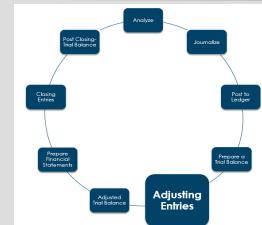
We have incurred \$12.50 in **Interest** for the month of January. How do you think this adjustment will affect the following accounts?

Interest Expense	Inc/Dec	<input type="button" value="Submit"/>
Interest Payable	Inc/Dec	

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Sales Revenue		200
Allowance Revenue		300
Food Expense		100
Coffee Expense		20
Rent Expense		500
Utilities Expense		70
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



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Adjusting Journal Entries

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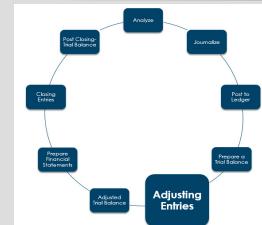
Interest Expense	Increase
Interest Payable	Increase



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XYZ Student Unadjusted Trial Balance January 31, 2018		
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Allowance Revenue		300
Food Expense		100
Coffee Expense		20
Rent Expense		500
Utilities Expense		70
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Adjusting Journal Entries

How will we adjust these accounts?

Interest Expense	Increase
Interest Payable	Increase



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

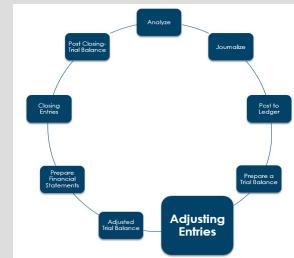
To accrue for the monthly interest on vehicle financing

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XYZ Student
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January 31, 2018

Account	Debit	Credit
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Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



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Adjusting Journal Entries

How will we adjust these accounts?

Interest Expense	Increase
Interest Payable	Increase



Date	Account	Debit	Credit
31-Jan	Interest Expense	13	
	Interest Payable		13

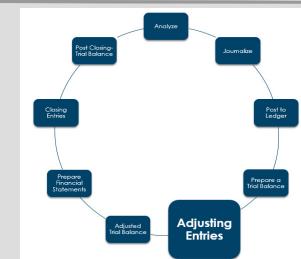
To accrue for the monthly interest on vehicle financing



On which financial statements will we find the following accounts?

Interest Expense	IS/RE/BS
Interest Payable	IS/RE/BS

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XYZ Student
Unadjusted Trial Balance
January 31, 2018

Account	Debit	Credit
Cash - Checking	\$ 2,360	
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Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

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Adjusting Journal Entries

How will we adjust these accounts?

Interest Expense	Increase
Interest Payable	Increase



Date	Account	Debit	Credit
31-Jan	Interest Expense	13	
	Interest Payable		13

To accrue for the monthly interest on vehicle financing

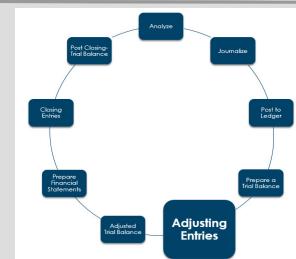


On which financial statements will we find the following accounts?

Interest Expense	Income Statement
Interest Payable	Balance Sheet


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XYZ Student
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January 31, 2018

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Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

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Adjusting Journal Entries

And just like before we post to the ledger:

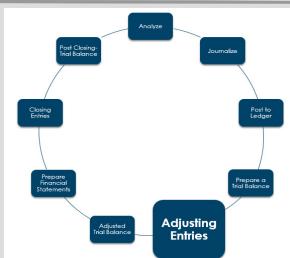
Date	Account	Debit	Credit
31-Jan	Interest Expense	13	
	Interest Payable		13

To accrue for the monthly interest on vehicle financing

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

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

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Financial Statements

Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
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Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	<u>\$ 15,800</u>	<u>\$ 15,800</u>

Adjusting Journal Entries

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Adjusting Journal Entries

And just like before we post to the ledger:

Date	Account	Debit	Credit
31-Jan	Interest Expense	13	
	Interest Payable		13

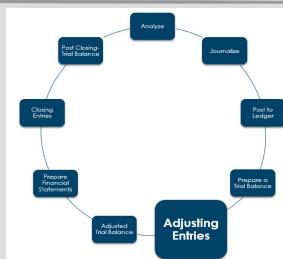
To accrue for the monthly interest on vehicle financing

Interest Expense	
Debit	Credit
Date 31-Jan	Amt \$ 13
Bal	\$ 13

Interest Payable	
Debit	Credit
Date 31-Jan	Amt \$ 13
Bal	\$ 13

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Unadjusted Trial Balance

Date	Account	Debit	Credit
31-Jan	Interest Expense	13	
	Interest Payable		13

To accrue for the monthly interest on vehicle financing

Ad Since these are new accounts we would not see them on the Unadjusted Trial Balance.

Adjusted Trial Balance

XYZ Student Adjusted Trial Balance January 31, 2018			
Account	Debit	Credit	
Interest Payable		13	
Interest Expense		13	
Totals			\$ 15,896 \$ 15,896



5 - The Trial Balance



Adjusting Journal Entries

But we aren't done with our car yet! Remember the **matching principle**? We are going to receive benefit from our car into future periods are we not? Therefore we need to record that as an expense. For long-term assets like vehicles, machinery, or buildings we call that expense **Depreciation**. It is based off an estimate of how long we think we will use the asset.

Back to our vehicle, we anticipate driving it for the next 5 years. Figuring out the monthly depreciation is very easy. We simply take the value of the vehicle, divide it by its **useful life**, and divide that by 12 months to arrive at 1 months **depreciation expense**.

$$\$5,000 \times 5 \text{ years} \div 12 \text{ months} = \$83$$

This is called the **Straight-Line Depreciation Method**, and is the simplest to calculate. It allows us to recognize \$83 worth of expense for the use of our car in the month of January.

To properly record it, however, we must create a new account called **Accumulated Depreciation**, which is a **contra-asset account**. It is basically a running total of the depreciation expense recorded, and is subtracted from the asset to provide the **Book Value**. **Accumulated Depreciation** is reported on the Balance Sheet with the corresponding asset, in this case our vehicle.

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XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
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Vehicle	5,000	
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Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance

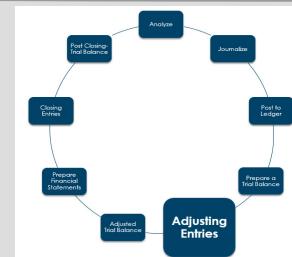


Adjusting Journal Entries

What do you think this transaction is doing?

Depreciation Expense	Inc/Dec
Accumulated Depreciation - Vehicle	Inc/Dec

Accounting Cycle



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XYZ Student Unadjusted Trial Balance January 31, 2018		
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Sales Revenue		200
Allowance Revenue		300
Food Expense		100
Coffee Expense		20
Rent Expense		500
Utilities Expense		70
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Adjusting Journal Entries

Let's Journalize it!

Depreciation Expense	Increasing
Accumulated Depreciation - Vehicle	Increasing



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

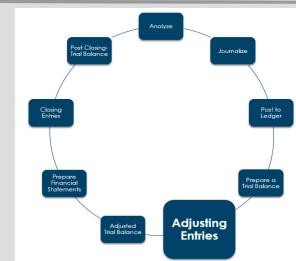
Monthly depreciation of the used car

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XYZ Student
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Account	Debit	Credit
Cash - Checking	\$ 2,360	
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Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Adjusting Journal Entries

Let's Journalize it!

Depreciation Expense	Increasing ▾
Accumulated Depreciation - Vehicle	Increasing ▾



Date	Account	Debit	Credit
31-Jan	Depreciation Expense	83	
	Accumulated Depreciation - Vehicle		83
Monthly depreciation of the used car			



On which financial statements will we find the following accounts?

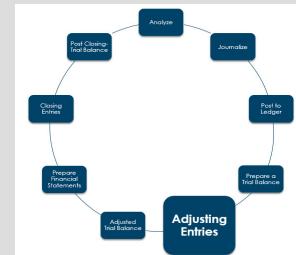
Depreciation Expense	IS/RE/BS ▾
Accumulated Depreciation - Vehicle	IS/RE/BS ▾

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Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Adjusting Journal Entries

Let's Journalize it!

Depreciation Expense	Increasing ▾
Accumulated Depreciation - Vehicle	Increasing ▾



Date	Account	Debit	Credit
31-Jan	Depreciation Expense	83	
	Accumulated Depreciation - Vehicle		83
Monthly depreciation of the used car			



On which financial statements will we find the following accounts?

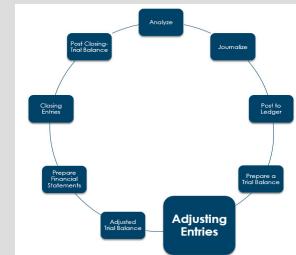
Depreciation Expense	Income Statement ▾
Accumulated Depreciation - Vehicle	Balance Sheet ▾



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XYZ Student
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Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries

Adjusted Trial Balance



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Adjusting Journal Entries

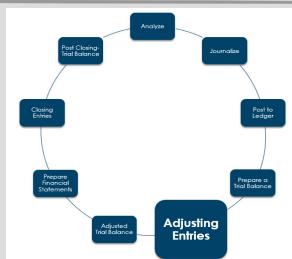
And just like before we post to the ledger:

Date	Account	Debit	Credit
31-Jan	Depreciation Expense	83	
	Accumulated Depreciation - Vehicle		83
Monthly depreciation of the used car			

Accumulated Depreciation - Vehicle			
Debit		Credit	
Date	Amt	Date	Amt
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	Bal	\$	-

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

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Trial Balance

Unadjusted Trial Balance

XYZ Student Unadjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,400	
Vehicle	5,000	
Notes Payable		\$ 5,000
Student Loans Payable		8,000
Owner's Equity - XYZ Student		1,500
Owner's Equity - Grandparents		200
Dividends	50	
Service Revenue		600
Sales Revenue		200
Allowance Revenue		300
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense		5,000
Totals	<u>\$ 15,800</u>	<u>\$ 15,800</u>

Adjusting Journal Entries

Adjusted Trial Balance



5 - The Trial Balance



Adjusting Journal Entries

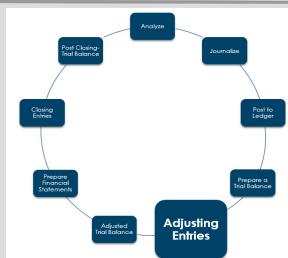
And just like before we post to the ledger:

Date	Account	Debit	Credit
31-Jan	Depreciation Expense	83	
	Accumulated Depreciation - Vehicle		83
Monthly depreciation of the used car			

Accumulated Depreciation - Vehicle		Depreciation Expense	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
31-Jan	\$ 83	31-Jan	\$ 83

Accumulated Depreciation - Vehicle		Depreciation Expense	
Debit	Credit	Debit	Credit
Date	Amt	Date	Amt
31-Jan	\$ 83	31-Jan	\$ 83

Accounting Cycle ▾



Financial Statements ▾

Trial Balance ▾

Unadjusted Trial Balance ▾

Adjusting Journal Entries ▾

Date	Account	Debit	Credit
31-Jan	Depreciation Expense	83	
	Accumulated Depreciation - Vehicle		83
Monthly depreciation of the used car			

Adjusted Trial Balance ▾

XYZ Student Adjusted Trial Balance January 31, 2018			
Account	Debit	Credit	
Accumulated Depreciation - Vehicle		\$ 83	
Depreciation Expense		83	
Totals		\$ 15,896	\$ 15,896



5 - The Trial Balance



Adjusted Trial Balance

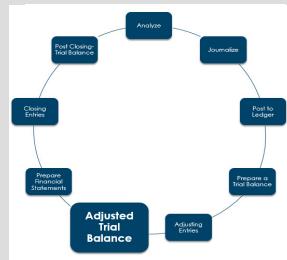
To recap, created a trial balance from the balances found in the ledger, performed adjusting entries to adhere to accrual accounting, and arrived at the adjusted trial balance. Remember, we use the trial balance to ensure that our debits and credits are still in balance, as a final sanity check before compiling the financial statements!

XYZ Student Unadjusted Trial Balance January 31, 2018		
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Service Revenue	600	
Sales Revenue	200	
Allowance Revenue	300	
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Tuition Expense	5,000	
Totals	\$ 15,800	\$ 15,800

Adjusting Journal Entries			
Date	Account	Debit	Credit
31-Jan	Interest Expense	13	
	Interest Payable		13
To accrue for the monthly interest on vehicle financing			
Date	Account	Debit	Credit
31-Jan	Depreciation Expense	83	
	Accumulated Depreciation - Vehicle		83
Monthly depreciation of the used car			
Date	Account	Debit	Credit
31-Jan	Meal Card Expense	350	
	Prepaid Meal Card		350
To record the January usage of the meal card			

XYZ Student Adjusted Trial Balance January 31, 2018		
Account	Debit	Credit
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Vehicle	5,000	
Accumulated Depreciation - Vehicle	\$ 83	
Notes Payable	5,000	
Student Loans Payable	8,000	
Interest Payable	13	
Owner's Equity - XYZ Student	1,500	
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Service Revenue	600	
Sales Revenue	200	
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Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Interest Expense	13	
Depreciation Expense	83	
Tuition Expense	5,000	
Meal Card Expense	350	
Totals	\$ 15,896	\$ 15,896

Accounting Cycle



Financial Statements

Trial Balance

Unadjusted Trial Balance

Adjusting Journal Entries

Adjusted Trial Balance

XYZ Student Adjusted Trial Balance January 31, 2018		
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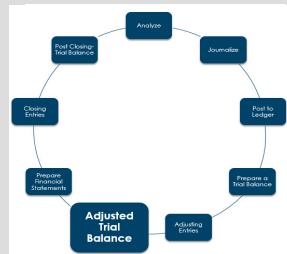
5 - The Trial Balance



Adjusted Trial Balance

To recap, created a trial balance from the balances found in the ledger, performed adjusting entries to adhere to accrual accounting, and arrived at the adjusted trial balance. Remember, we use the trial balance to ensure that our debits and credits are still in balance, as a final sanity check before compiling the financial statements!

Accounting Cycle



Financial Statements

XYZ Student Unadjusted Trial Balance January 31, 2018		
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Adjusting Journal Entries				
Date	Account	Debit	Credit	
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Utilities Expense	70	
Interest Expense		13
Depreciation Expense		83
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Meal Card Expense		350
Totals	<u>\$ 15,896</u>	<u>\$ 15,896</u>

*Note that these balances should be equal

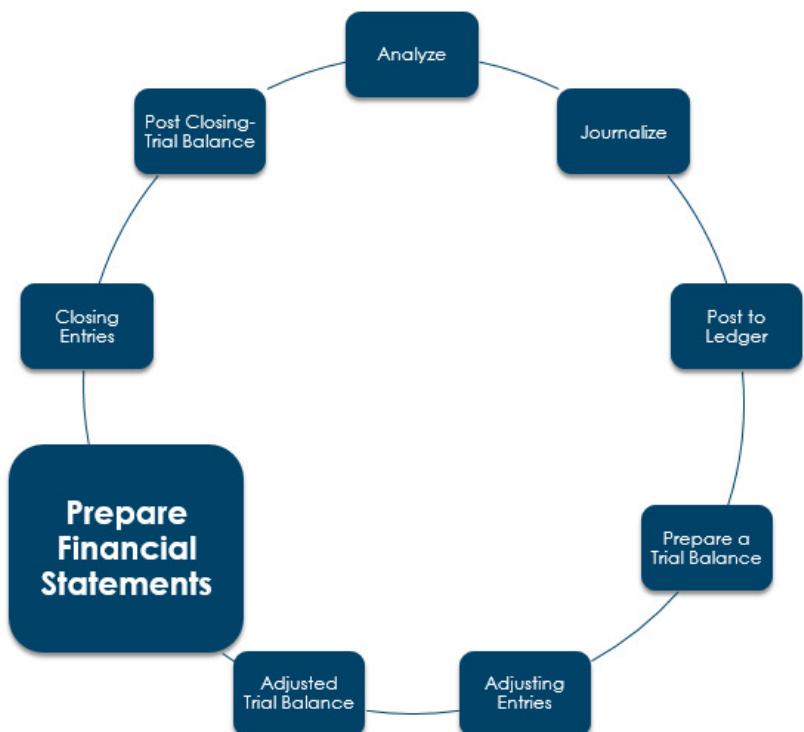


5 - The Trial Balance



Accounting Cycle

Next step, Prepare Financial Statements!


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5 - Financial Statements



Income Statement

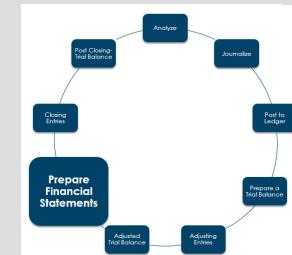
First in the queue is the **Income Statement**. The reason we compile the income statement first is because it calculates **Net Income**, which is used as an input in the **Statement of Retained Earnings**.

Let's dive in! We will begin with the basic format:

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		<u><u>\$ (5,036)</u></u>

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Income Statement

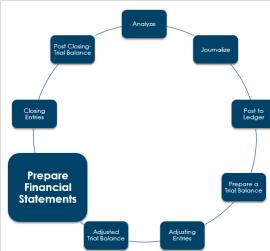
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Sales Revenue	200	
Allowance Revenue	300	
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Expenses		
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Coffee Expense	20	
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Tuition Expense	5,000	
Depreciation Expenses	83	
Interest Expense	13	
Meal Card Expense	350	
Total Expenses		\$ 6,136
Net Income		<u><u>\$ (5,036)</u></u>

The header of the income statement contains the entity name, followed by the name of the statement, followed by the period for which we are reporting.

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Income Statement

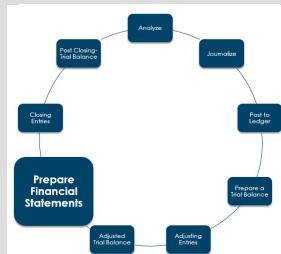
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Depreciation Expenses	83	
Interest Expense	13	
Meal Card Expense	350	
Total Expenses		\$ 6,136
Net Income		<u><u>\$ (5,036)</u></u>

Next we input our Revenues, with a total at the bottom of the section. In this way, users of the financial statements can easily see the money the business is bringing in.

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Income Statement

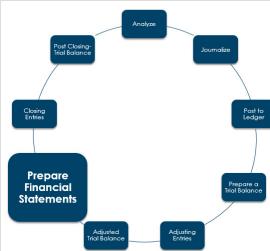
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Tuition Expense	5,000	
Depreciation Expenses	83	
Interest Expense	13	
Meal Card Expense	350	
Total Expenses		\$ 6,136
Net Income		<u><u>\$ (5,036)</u></u>

Following the revenues are our expenses for the period.

Accounting Cycle ▾



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Income Statement

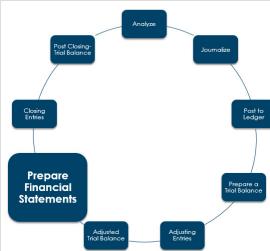
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Utilities Expense	70	
Tuition Expense	5,000	
Depreciation Expenses	83	
Interest Expense	13	
Meal Card Expense	350	
Total Expenses		\$ 6,136
Net Income (Net Loss)		\$ (5,036)

Finally, we arrive at our **Net Income** for the period. Note that you can have a negative net income, as many students do! This is reported as a **Net Loss**.

Accounting Cycle ▾



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Income Statement

Finally we can answer our parent's first question:

What did you spend all your money on?

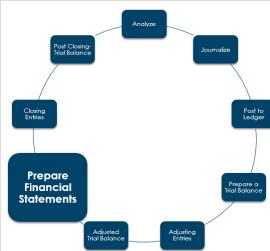
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Tuition Expense	5,000	
Depreciation Expenses	83	
Interest Expense	13	
Meal Card Expense	350	
Total Expenses		\$ 6,136
Net Income		<u><u>\$ (5,036)</u></u>

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?

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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>

Accounting Cycle ▾

```

graph TD
    A[Post Closing Trial Balance] --> B[Analyze]
    B --> C[Journalize]
    C --> D[Post to Ledger]
    D --> E[Prepare a Trial Balance]
    E --> F[Adjusting Entries]
    F --> G[Prepare Financial Statements]
    G --> H[Closing Entries]
    H --> I[Post Closing Trial Balance]
    I --> A
    
```

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[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>

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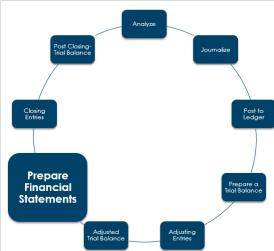
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Here we have a similar heading to that of the Income Statement.

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

Balance Sheet



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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>

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 ▾

```

graph TD
    A[Post Closing Trial Balance] --> B[Analyze]
    B --> C[Journalize]
    C --> D[Post to Ledger]
    D --> E[Prepare a Trial Balance]
    E --> F[Adjusting Entries]
    F --> G[Prepare Financial Statements]
    G --> H[Closing Entries]
    H --> I[Post Closing Trial Balance]
    
```

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

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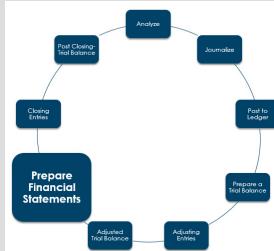
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Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	\$ (5,086)

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)
	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	\$ (5,086)

Balance Sheet



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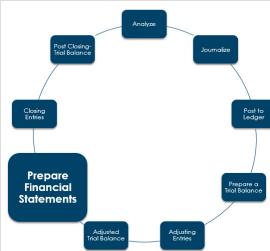
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XYZ Student	
Retained Earnings Statement	
For Month Ending January 31, 2018	
Retained earnings, January 1, 2018	\$ -
Add: Net Income	(5,036)
Less: Dividends	50
Retained earnings, January 31, 2018	<u><u>\$ (5,086)</u></u>

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
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)

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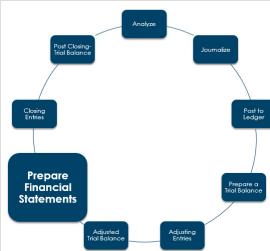
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Less: Dividends	50
Retained earnings, January 31, 2018	<u>\$ (5,086)</u>

Finally, we arrive at the **Ending Retained Earnings**. This amount will flow to the 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	(5,036)
	<u>(5,036)</u>
Less: Dividends	50
Retained earnings, January 31, 2018	<u>\$ (5,086)</u>

Balance Sheet



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Statement of Retained Earnings

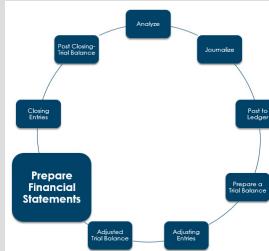
Time to answer our second question:

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

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

Balance Sheet ▾



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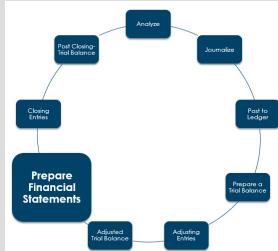


Balance Sheet

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		<u>\$ 9,627</u>
<u>Liabilities</u>		
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		<u>\$ 13,013</u>
<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		<u>\$ (3,386)</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).

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Balance Sheet

XYZ Student Balance Sheet January 31, 2018		
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Total Stockholder's Equity		<u>\$ (3,386)</u>

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Balance Sheet

XYZ Student
Balance Sheet
January 31, 2018

Assets

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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
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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)

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.

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XYZ Student
Balance Sheet
January 31, 2018

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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)

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Balance Sheet

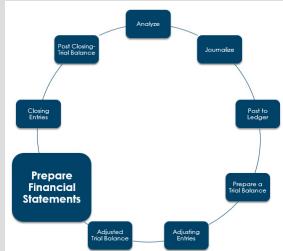
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Retained Earnings	(5,086)	
Total Stockholder's Equity		<u>\$ (3,386)</u>

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.

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Balance Sheet

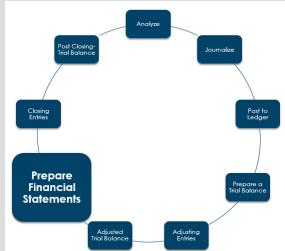
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Total Assets		<u>\$ 9,627</u>
<u>Liabilities</u>		
Current Liabilities		
Interest Payable	\$ 13	
Notes Payable	1,667	
Total Current Liabilities	<u>1,680</u>	
Long-Term Liabilities		
Notes Payable	3,333	
Student Loans Payable	8,000	
Total Long-Term Liabilities	<u>11,333</u>	
Total Liabilities		<u>\$ 13,013</u>
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Retained Earnings	(5,086)	
Total Stockholder's Equity		<u>\$ (3,386)</u>

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).

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XYZ Student Balance Sheet January 31, 2018		
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Balance Sheet

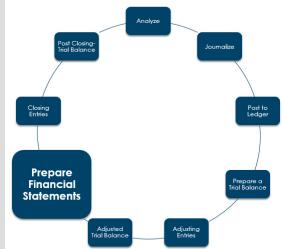
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The final section, **Stockholder's Equity**, is where we can see how much claim the owners of the business have to the assets.

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.

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Balance Sheet

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Retained Earnings	(5,086)	
Total Stockholder's Equity	<u><u>\$ (3,386)</u></u>	

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!

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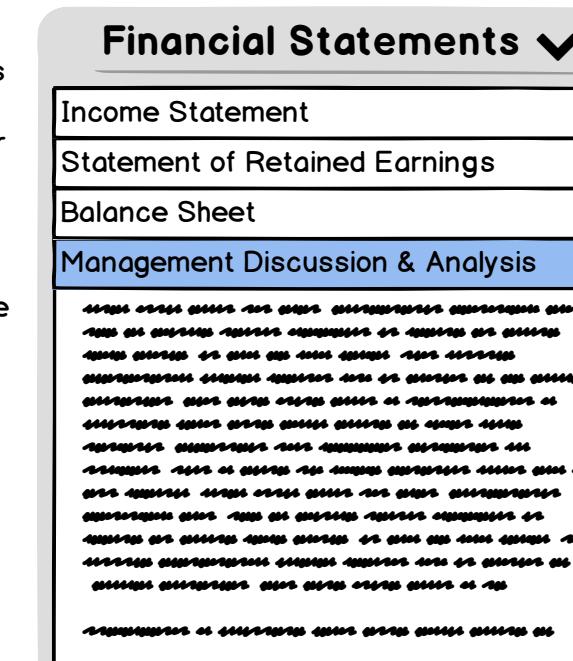
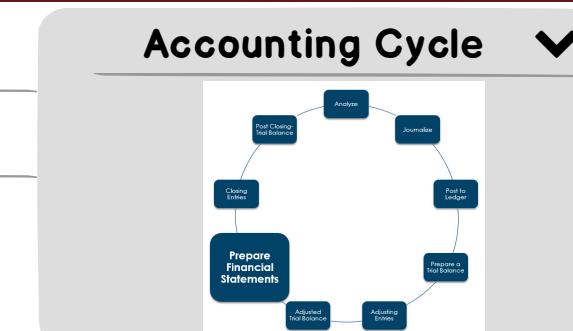


Management Discussion and Analysis

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.



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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.

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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

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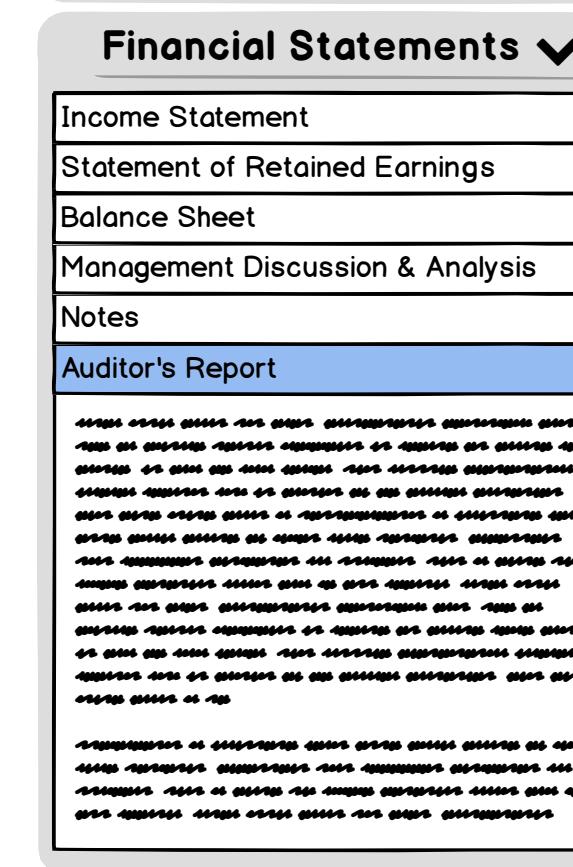
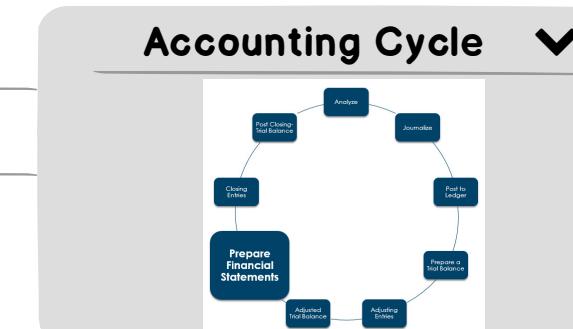


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Auditor's Report

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.



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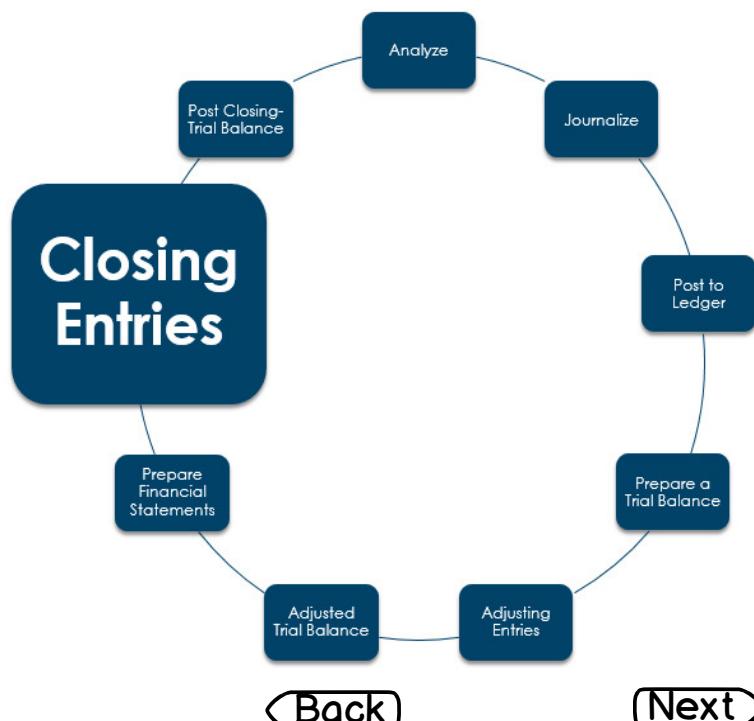


12 - Closing Journal Entries



Closing Entries

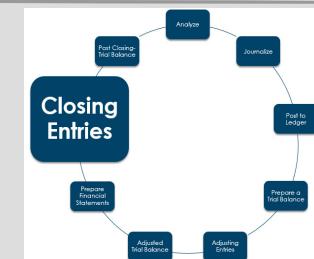
We have analyzed, journalized, and posted all of our transactions. We have aggregated all of our accounts into a trial balance and performed adjusting journal entries to create an adjusted trial balance. We prepared our financial statements and presented them to our users. Now it is time to close out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



Closing Entries

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12 - Closing Journal Entries

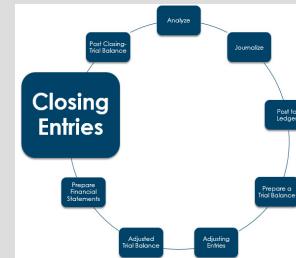


Closing Entries

In order to perform closing entries, we must make the distinction between **temporary** and **permanent** accounts. Revenues, expenses, and dividends are considered **temporary accounts** because they relate to a certain period of time. Once that time has passed, they must be closed out to record for the next period. **Permanent accounts**, on the other hand, maintain a running balance from period to period. All permanent accounts are found on the balance sheet.

In a nutshell, we will be taking our net income (net loss) and dividends to the retained earnings account. We do this by taking our revenues, expenses and dividends to a zero balance. Revenues and expenses are recorded to a new account we call **Income Summary**, which then gets closed to retained earnings. Dividends are closed directly to retained earnings.

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12 - Closing Journal Entries

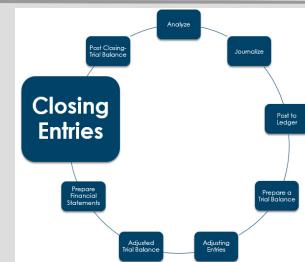


Closing Entries

First we close the **Revenue** accounts:

Date	Account	Debit	Credit
31-Jan	Allowance Revenue	300	
	Sales Revenue	200	
	Service Revenue	600	
	Income Summary		1,100
	To close the revenue accounts		

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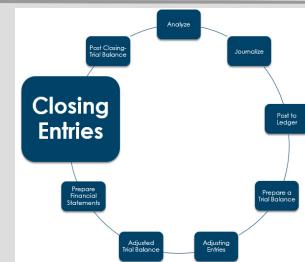


Closing Entries

Next we close the **Expense** accounts:

Date	Account	Debit	Credit
31-Jan	Income Summary	6,136	
	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	
To close the expense accounts			

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12 - Closing Journal Entries



Closing Entries

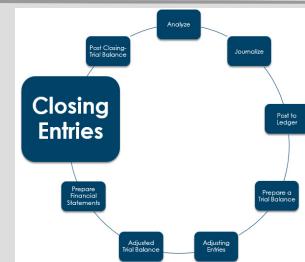
Now we close the **Income Summary account** to retained earnings:

Date	Account	Debit	Credit
31-Jan	Retained Earnings	5,036	
	Income Summary		5,036
To close (Net Loss) to retained earnings			

Note that we are debiting Retained Earnings since we showed a (Net Loss) for the month of January. Had we showed a Net Income, we would be crediting retained earnings.

Also, you may have noticed that the Income Summary is just our (Net Loss) figure, also found on the Income Statement. Why wouldn't we just close the revenues and expenses directly to retained earnings and save a step? We use income summary to simplify the retained earnings account, and only display the necessary details.

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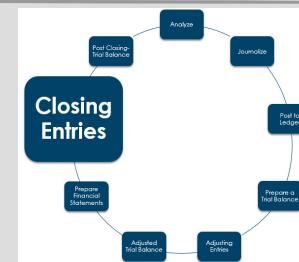


Closing Entries

Finally, we close **Dividends** directly to retained earnings:

Date	Account	Debit	Credit
31-Jan	Retained Earnings	50	
	Dividends		50
To close dividends to retained earnings			

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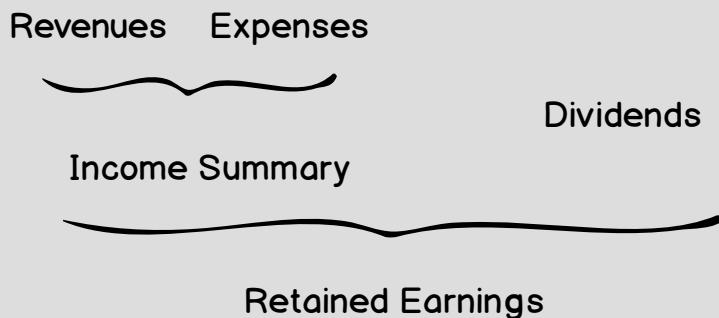


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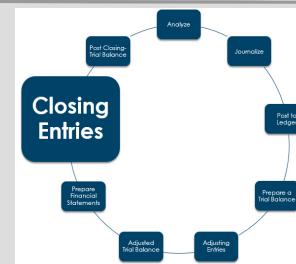


Closing Entries

In summary, closing consists of closing the following accounts to retained earnings:



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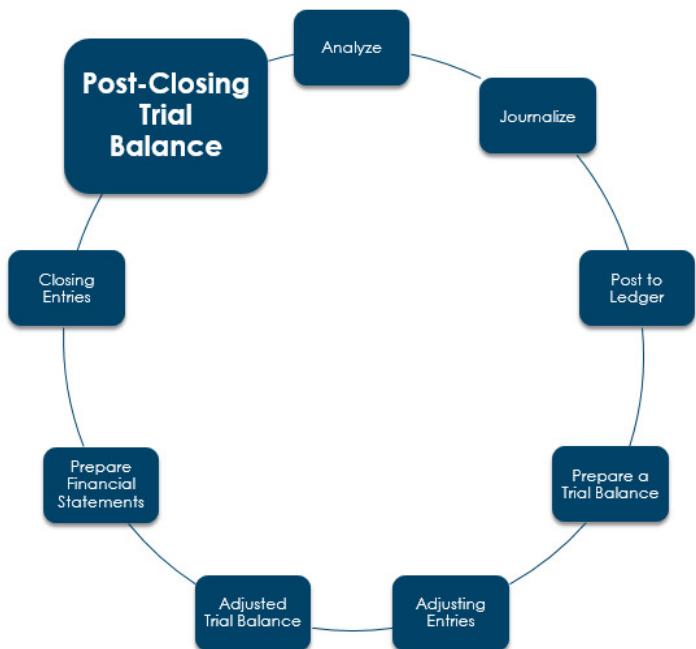


13 - Post-Closing Trial Balance

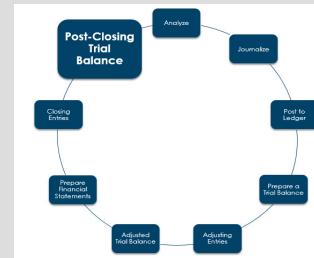


Post-Closing Trial Balance

Before we begin recording transactions for the next period, we want to make sure we have not committed any errors in the process of closing the books. For this purpose, we create the **Post-Closing Trial Balance**. It consists of only Permanent, or balance sheet accounts. Again we must ensure that the debits and credits are still equal!


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13 - Post-Closing Trial Balance



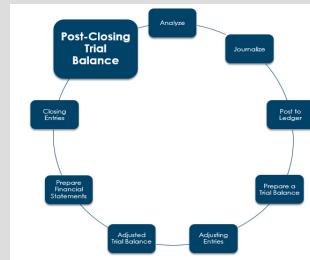
Post-Closing Trial Balance

Highlighted below are the differences between the **Adjusted Trial Balance** and the **Post-Closing Trial Balance**.

XYZ Student Adjusted Trial Balance January 31, 2018		
<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Vehicle	5,000	
Accumulated Depreciation - Vehicle	\$ 83	
Notes Payable	5,000	
Student Loans Payable	8,000	
Interest Payable	13	
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Dividends	50	
Service Revenue	600	
Sales Revenue	200	
Allowance Revenue	300	
Food Expense	100	
Coffee Expense	20	
Rent Expense	500	
Utilities Expense	70	
Interest Expense	13	
Depreciation Expense	83	
Tuition Expense	5,000	
Meal Card Expense	350	
Totals	\$ 15,896	\$ 15,896

XYZ Student Post-Closing Trial Balance January 31, 2018		
<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash - Checking	\$ 2,360	
Cash - Savings	1,250	
Accounts Receivable - Joey	50	
Prepaid Meal Card	1,050	
Vehicle	5,000	
Accumulated Depreciation - Vehicle	\$ 83	
Notes Payable	5,000	
Student Loans Payable	8,000	
Interest Payable	13	
Owner's Equity - XYZ Student	1,500	
Owner's Equity - Grandparents	200	
Retained Earnings	5,086	
Totals	\$ 14,796	\$ 14,796

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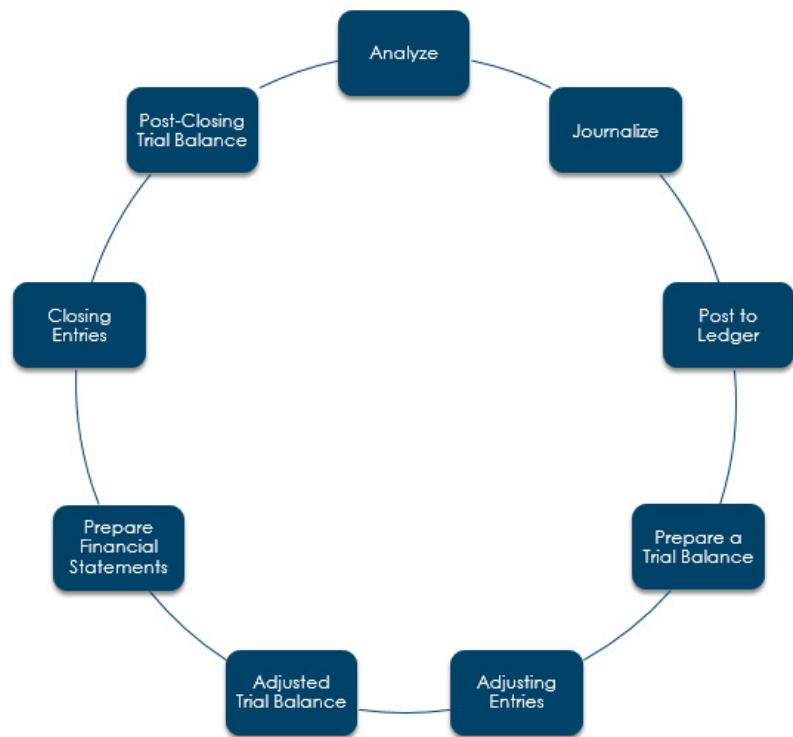


13 - Post-Closing Trial Balance

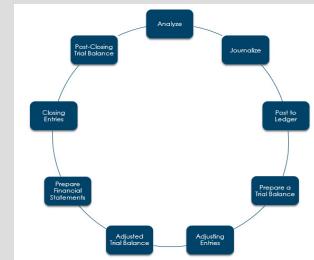


Conclusion

That is the end of the **Accounting Cycle**! We are ready to do it all over again next period, starting back at step 1.


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14 - Exercise



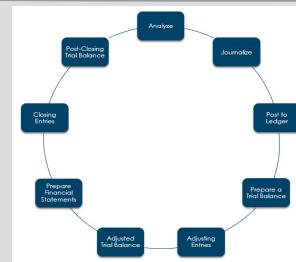
Let's Practice!

Now that you have seen an example of the accounting cycle in action, you get a chance to make up your own business and put your new skills to the test! Brainstorm for a moment about what kind of business you would like to start. For simplicities sake, let's stick to service businesses, since we haven't yet covered things like inventory accounting.

Business Name:

Business Industry:

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This is the end of the current version



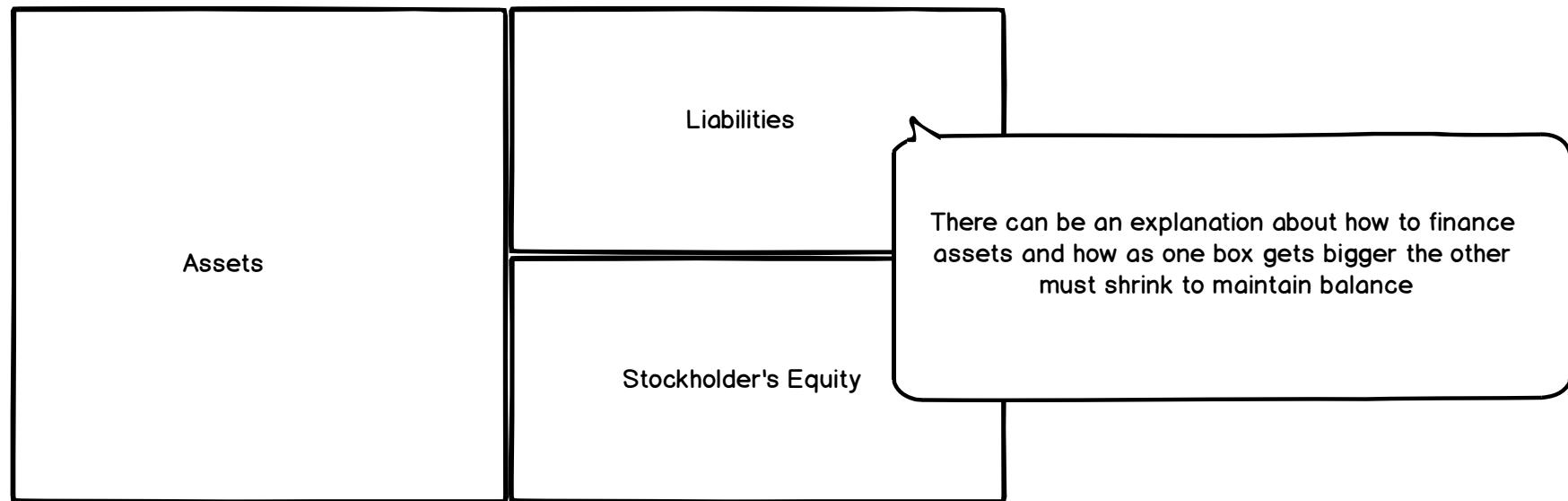
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The Accounting Equation

And of course the Accounting Equation!

Sections Completed

- Overview
- Accounting Cycle
- Forms of a Business
- Industry Terms
- The Accounting Equation





Assets are resources owned by a business for the purpose of providing future economic gain.

Accounts Receivable is the amount due from another business for goods or services delivered but not yet paid for.

Cash is legal tender that can be used in exchange for goods, services or debt.

The balance sheet is the financial statement that reports the assets and claims to those assets at a specific point in time. It can also be referred to as the 'Statement of Financial Position', so if you ever see it described a different way don't be confused!

The annual report is prepared by corporate management that presents financial information including financial statements, a management discussion and analysis section, notes, and an independent auditor's report.

CPA

Sarbanes Oxley

Sole Prop A business owned by one person. It is the simplest form a business can take, and is not a legal entity. It simply refers to the individual who benefits from and is liable for the operations of the business. Taxes are paid at the individual level.

PArtnership

Corporation

Assets:

Now that we have seen an example of Revenue and an Expense, lets learn about assets. Assets are defined as resources owned by a business. We can have current assets like cash or accounts receivable, or we can have long term assets like Property Plant & Equipment (e.g. a truck or machinery). Furthermore, we can have intangible assets such as patents, copyrights or goodwill. Assets can be found on the Balance sheet. Let's say you would like to buy a car. That car is going to be of use to you in future periods, so you would record the car as an asset on your books.

Expenses:

In order to earn revenue, companies must incur expenses. Expenses can take many forms, depending on the business. Many businesses, and people for that matter, pay rent, which is considered an expense. Do we need to record this transaction? Yes! A business event did occur, so we must record the effects into the journal.

Journal: 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.

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