



Accounting Principles (ACT 201)

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Accounting Principles

Twelfth Edition

Weygandt • Kimmel • Kieso



Lecture 1

Chapter 1: Accounting in Action

Class Outline

Learning Objectives

- LO 1** Identify the **activities and users** associated with accounting.
- LO 2** Explain the building blocks of accounting: **ethics**, **principles**, and **assumptions**.
- LO 3** State the **accounting equation**, and define its components.
- LO 4** **Analyze the effects of business transactions** on the accounting equation.
- LO 5** Describe the **four financial statements** and how they are prepared.

LEARNING OBJECTIVE 1

Identify the activities and users associated with accounting.

Accounting consists of **three activities**

- 1. Identification** – Select economic events (transactions)
- 2. Recording** - Record, classify, and summarize
- 3. Communication**
 - Prepare accounting reports
 - **Analyze and interpret for users**

Who Uses Accounting Data (1 of 2)

Internal Users

- **Finance** - Is cash sufficient to pay dividends to **Bata Shoe Company** stockholders?
- **Marketing** – What price should **Navana CNG Limited** charge for an CNG conversion to maximize net income?
- **Human Resources** – Can **LankaBangla Finance Ltd** afford to give its employees pay raises?
- **Management** - Which **Pran** product line is most profitable? Should any products be eliminated?

Who Uses Accounting Data (2 of 2)

External Users

- **Investors**
 - Is **British American Tobacco Bangladesh Company Limited** earning satisfactory income?
 - How does **City Bank** compare in size and profitability with **Prime Bank**?
- **Creditors** – Will **Beximco Ltd** be able to pay its debts as they come due?

LEARNING OBJECTIVE 2

Explain the building blocks of accounting: ethics, principles, and assumptions.

Ethics in Financial Reporting

- Financial scandals such as: Hallmark- Sonali Bank Loan Scandal, Destiny 2000 Ltd, etc.
- Regulators and lawmakers concerned that **economy would suffer** if investors lost confidence in corporate accounting
- Effective financial reporting depends on sound ethical behavior

Financial Scandals in Bangladesh

- **Hallmark- Sonali Bank Loan Scandal**

In May 2012, a report from the Bangladesh Bank revealed that the Ruposhi Bangla Hotel Branch of the state-owned Sonali Bank, Bangladesh's largest commercial bank, illegally distributed **Tk 36.48 billion** (US\$460 million) in loans between 2010 and 2012.

The largest share, of **Tk 26.86 billion** (US\$340 million), went to the Hallmark Group.

Financial Scandals in Bangladesh

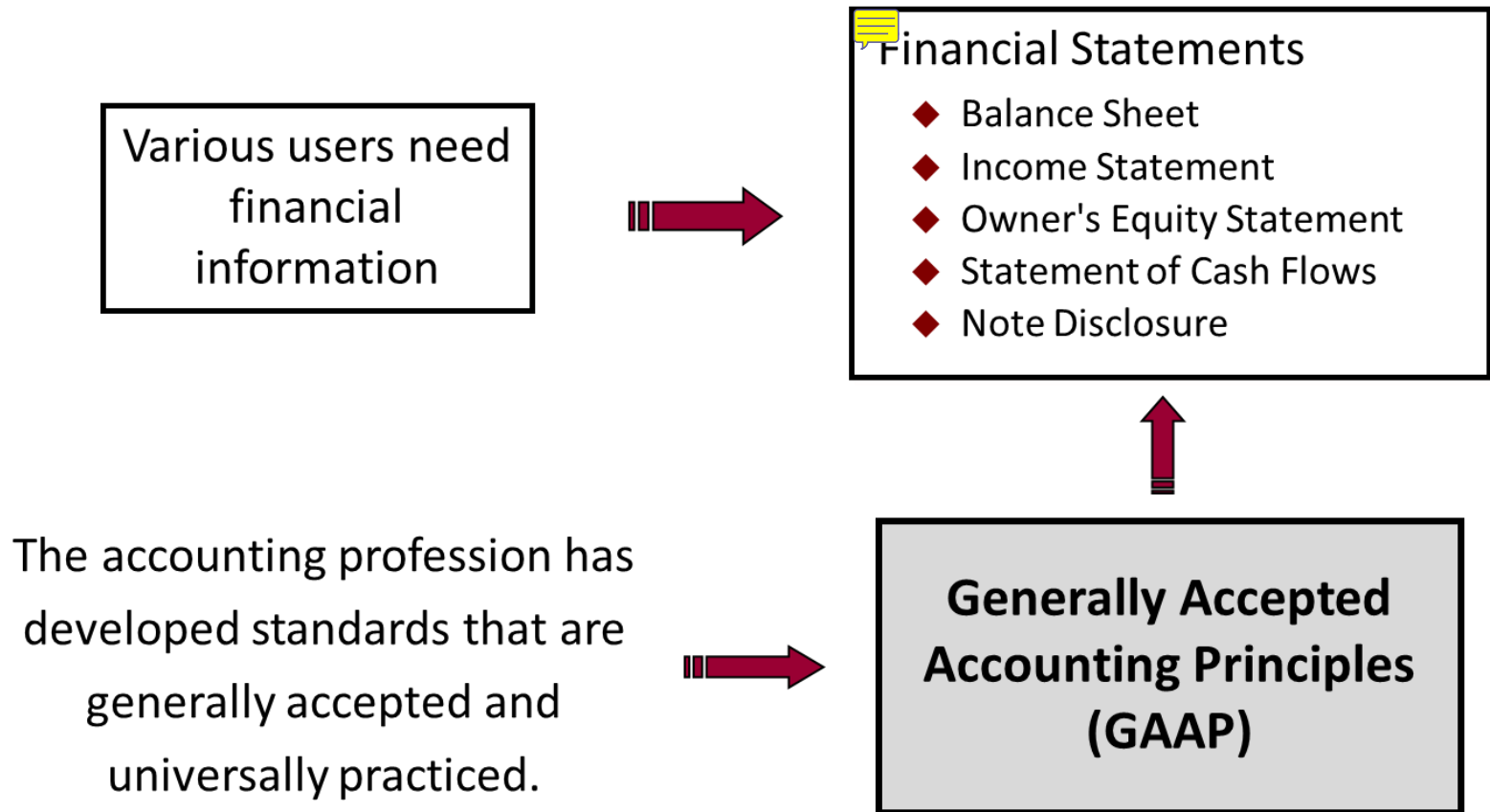
Destiny 2000 Ltd.

There are specific allegations against **Destiny Multi Purpose Cooperative Society** for openly operating as a bank, without any permission of license issued by the Bangladesh Government; the company **is selling non-existing trees to the innocent people** by offering them high profit.

Destiny 2000 Ltd collected an amount equivalent to US \$ 7 billion (nearly 50 thousand Crores Taka) from the public by selling fictitious shares of their so- called plantation projects in Bangladesh.

The promoters of Destiny 2000 Limited illegally transfer millions of dollars to various countries in the world, using private channels via China.

Generally Accepted Accounting Principles (1 of 2)



Generally Accepted Accounting Principles (2 of 2)

Standards that are **generally accepted** and **universally practiced**. These standards indicate how to report economic events.

Standard-setting bodies:

- **Financial Accounting Standards Board (FASB)**
- **Securities and Exchange Commission (SEC)**
- **International Accounting Standards Board (IASB)**

Measurement Principles

Historical Cost Principle (or cost principle)

- Record assets at their cost.

Fair Value Principle

- Assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

Selection of which principle to follow generally relates to trade-offs between **relevance** and **faithful representation**.

Assumptions (1 of 5)

Monetary Unit Assumption

- Include in accounting records only transaction data that can be expressed in terms of money

Economic Entity Assumption

- Activities of entity be kept separate and distinct from activities of its owner and all other entities

Forms of Business Ownership

- Proprietorship
- Partnership
- Corporation

Forms of Business Ownership

Proprietorship

- Owned by one person
- Owner is often manager/operator
- Owner receives any profits, suffers any losses, and is personally liable for all debts

Partnership

- Owned by two or more persons
- Often retail and service-type businesses
- Generally unlimited personal liability
- Partnership agreement

Corporation

- Ownership divided into shares of stock
- Separate legal entity organized under state corporation law
- Limited liability

The Accounting Equation

LEARNING OBJECTIVE 3

State the accounting equation, and define its components.

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

Basic Accounting Equation

- Provides underlying framework for recording and summarizing economic events
- Assets are claimed by either creditors or owners
- If a business is liquidated, claims of creditors must be paid before ownership claims

The Accounting Equation (1 of 5)

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

Assets

- Resources a business owns
- Provide future services or benefits
- Cash, Supplies, Equipment, etc.

The Accounting Equation (2 of 5)

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

Liabilities

- Claims against assets (debts and obligations)
- Creditors (party to whom money is owed)
- Accounts Payable, Notes Payable, Salaries and Wages Payable, etc.

The Accounting Equation (3 of 5)

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

Owner's Equity

- Ownership claim on total assets
- Referred to as residual equity
- Investment by owners and revenues (+)
- Drawings and expenses (–)

The Accounting Equation (4 of 5)

Equation	Assets = Liabilities + Owner's Equity
Expanded Equation	Assets = Liabilities + Owner's Capital - Owner's Drawings + Revenues - Expenses

Increase in Owner's Equity

- **Investment by Owner.** Assets the owner puts into the business
- **Revenues.** Increases in assets or decreases in liabilities resulting from sale of goods or performance of services in normal course of business

The Accounting Equation (5 of 5)

Equation	Assets = Liabilities + Owner's Equity
Expanded Equation	Assets = Liabilities + Owner's Capital - Owner's Drawings + Revenues - Expenses

Decrease in Owner's Equity

- **Drawings.** A withdraw of cash or other assets for personal use
- **Expenses.** Cost of assets consumed or services used in the process of earning revenue

Do It! : Owner's Equity Effects

Classify the following items as investment by owner, owner's drawings, revenues, or expenses. Then indicate whether each item increases or decreases owner's equity.

	Classification	Effect on Equity
1. Rent Expense		
2. Service Revenue		
3. Drawings		
4. Salaries and Wages Expense		

Do It! : Owner's Equity Effects

Classify the following items as investment by owner, owner's drawings, revenues, or expenses. Then indicate whether each item increases or decreases owner's equity.

	Classification	Effect on Equity
1. Rent Expense	Expense	Decrease
2. Service Revenue	Revenue	Increase
3. Drawings	Owner's Drawings	Decrease
4. Salaries and Wages Expense	Expense	Decrease

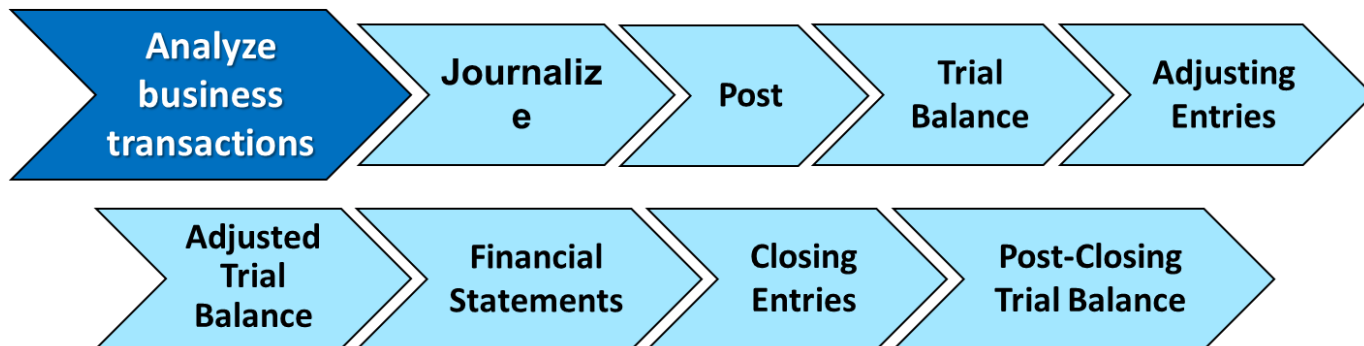
Analyzing Business Transactions

LEARNING OBJECTIVE 4

Analyze the effects of business transactions on the accounting equation.

Transactions are a business's economic events recorded by accountants.

- May be external or internal
- Not all activities represent transactions
- Have a dual effect on the accounting equation



Analyzing Business Transactions

Illustration: Are the following events recorded in the accounting records?

Event	Purchase computer	Discuss product design with potential customer	Pay rent
Criterion	Is the financial position (assets, liabilities, or owner's equity) of the company changed?		
Record/ Don't Record	Yes	No	Yes

Transaction Analysis (1 of 10)

Transaction 1. Ray Neal decides to start a smartphone app development company which he names Softbyte. On September 1, 2020, he invests \$15,000 cash in the business. This transaction results in an equal increase in assets and owner's equity.

Transaction Analysis (1 of 10)

Transaction 1. Ray Neal decides to start a smartphone app development company which he names Softbyte. On September 1, 2020, he invests \$15,000 cash in the business. This transaction results in an equal increase in assets and owner's equity.

No.	Assets				Liabilities		Owner's Equity		
	Accounts				Accounts		Owner's	Owner's	
	Cash	+ Receivable	+ Supplies	+ Equipment	= Payable	+ Capital	- Drawings	+ Revenue	- Expense
1	+\$15,000					+\$15,000			
2									
3									

Transaction Analysis (2 of 10)

Transaction 2. Softbyte purchases computer equipment for \$7,000 cash.

Transaction Analysis (2 of 10)

Transaction 2. Softbyte purchases computer equipment for \$7,000 cash.

No.	Assets				Liabilities	Owner's Equity			
	Accounts				Accounts	Owner's	Owner's		
	Cash	+ Receivable	+ Supplies	+ Equipment	= Payable	+ Capital	- Drawings	+ Revenue	- Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3									
4									
5									
6									
7									
8									
9									
10									

Transaction Analysis (3 of 10)

Transaction 3. Softbyte Inc. purchases for \$1,600 headsets and other accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

Transaction Analysis (3 of 10)

Transaction 3. Softbyte Inc. purchases for \$1,600 headsets and other accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

No.	Assets				Liabilities		Owner's Equity		
	Accounts				Accounts	Owner's	Owner's		
	Cash	+ Receivable	+ Supplies	+ Equipment	= Payable	+ Capital	- Drawings	+ Revenue	- Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3			+\$1,600		+\$1,600				
4									
5									
6									
7									
8									
9									
10									

Transaction Analysis (4 of 10)

Transaction 4. Softbyte receives \$1,200 cash from customers for app development services it has performed.

Transaction Analysis (4 of 10)

Transaction 4. Softbyte receives \$1,200 cash from customers for app development services it has performed.

No.	Assets				Liabilities		Owner's Equity		
	Accounts				Accounts	Owner's	Owner's		
	Cash	+ Receivable	+ Supplies	+ Equipment	= Payable	+ Capital	- Drawings	+ Revenue	- Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3			+\$1,600		+\$1,600				
4	+1,200						Service Revenue	+\$1,200	
5									
6									
7									
8									
9									
10									

Transaction Analysis (5 of 10)

Transaction 5. Softbyte Inc. receives a bill for \$250 from the Daily News for advertising on its online website but postpones payment until a later date.

Transaction Analysis (5 of 10)

Transaction 5. Softbyte Inc. receives a bill for \$250 from the Daily News for advertising on its online website but postpones payment until a later date.

No.	Assets				Liabilities		Owner's Equity		
	Cash	Receivable	Supplies	Equipment	Payable	Capital	Drawings	Revenue	Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3			+\$1,600		+\$1,600				
4	+1,200							+\$1,200	
5					+250		Advertising Expense		-\$250
6									
7									
8									
9									
10									

Transaction Analysis (6 of 10)

Transaction 6. Softbyte performs \$3,500 of services. The company receives cash of \$1,500 from customers, and it bills the balance of \$2,000 on account.

Transaction Analysis (6 of 10)

Transaction 6. Softbyte performs \$3,500 of services. The company receives cash of \$1,500 from customers, and it bills the balance of \$2,000 on account.

No.	Assets				Liabilities		Owner's Equity		
	Cash	Receivable	Supplies	Equipment	Payable	Owner's Capital	Owner's Drawings	Revenue	Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3			+\$1,600		+\$1,600				
4	+1,200							+\$1,200	
5					+250				-\$250
6	+1,500	+\$2,000				Service Revenue		+3,500	
7									
8									
9									
10									

Transaction Analysis (7 of 10)

Transaction 7. Softbyte pays the following expenses in cash for September: office rent \$600, salaries and wages of employees \$900, and utilities \$200.

Transaction Analysis (7 of 10)

Transaction 7. Softbyte pays the following expenses in cash for September: office rent \$600, salaries and wages of employees \$900, and utilities \$200.

No.	Assets				Liabilities		Owner's Equity		
	Accounts				Accounts	Owner's	Owner's		
	Cash	+ Receivable	+ Supplies	+ Equipment	= Payable	+ Capital	- Drawings	+ Revenue	- Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3			+\$1,600		+\$1,600				
4	+1,200							+\$1,200	
5					+250				-\$250
6	+1,500	+\$2,000						+3,500	
7	-600							Rent Expense	-600
	-900							Salaries and Wage Expense	-900
	-200							Utilities Expense	-200
8									
9									
10									

Transaction Analysis (8 of 10)

Transaction 8. Softbyte pays its \$250 Daily News bill in cash. The company previously (in Transaction 5) recorded the bill as an increase in Accounts Payable.

Transaction Analysis (8 of 10)

Transaction 8. Softbyte pays its \$250 Daily News bill in cash. The company previously (in Transaction 5) recorded the bill as an increase in Accounts Payable.

No.	Assets				Liabilities		Owner's Equity		
	Accounts				Accounts	Owner's	Owner's		
	Cash	+ Receivable	+ Supplies	+ Equipment	= Payable	+ Capital	- Drawings	+ Revenue	- Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3			+\$1,600		+\$1,600				
4	+1,200							+\$1,200	
5					+250				-\$250
6	+1,500	+\$2,000						+3,500	
7	-600								-600
	-900								-900
	-200								-200
8	-250				-250				
9									
10									

Transaction Analysis (9 of 10)

Transaction 9. Softbyte receives \$600 in cash from customers who had been billed for services (in Transaction 6).

Transaction Analysis (9 of 10)

Transaction 9. Softbyte receives \$600 in cash from customers who had been billed for services (in Transaction 6).

No.	Assets				Liabilities		Owner's Equity		
	Cash	Receivable	Supplies	Equipment	Payable	Capital	Owner's Drawings	Owner's Revenue	Owner's Expense
1	+\$15,000					+\$15,000			
2	-7,000			+\$7,000					
3			+\$1,600		+\$1,600				
4	+1,200							+\$1,200	
5					+250				-\$250
6	+1,500	+\$2,000						+3,500	
7	-600								-600
	-900								-900
	-200								-200
8	-250				-250				
9	+600	-600							
10									

Transaction Analysis (10 of 10)

Transaction 10. Ray Neal withdraws \$1,300 in cash in cash from the business for his personal use.

No.	Assets				=	Liabilities	Owner's Equity										
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable	Owner's Capital	Owner's Drawings	Revenue	Expense							
1	+\$15,000						+\$15,000										
2	-7,000			+\$7,000													
3			+\$1,600			+\$1,600											
4	+1,200								+\$1,200								
5						+250				-\$250							
6	+1,500	+\$2,000							+3,500								
7	-600									-600							
	-900									-900							
	-200									-200							
8	-250					-250											
9	+600	-600															
10	-1,300							-\$1,300									
	<u>\$ 8,050</u>	<u>+</u>	<u>\$ 1,400</u>	<u>+</u>	<u>\$ 1,600</u>	<u>+</u>	<u>\$ 7,000</u>	<u>=</u>	<u>\$ 1,600</u>	<u>+</u>	<u>\$ 15,000</u>	<u>-</u>	<u>\$ 1,300</u>	<u>+</u>	<u>\$ 4,700</u>	<u>-</u>	<u>\$ 1,950</u>
	<u>\$18,050</u>									<u>\$18,050</u>							

Summary of Transactions

1. Each transaction analyzed in terms of effect on:
 - a. Three components of basic accounting equation
 - Assets
 - Liabilities
 - Owner's equity
 - b. Specific types of items, such as Cash
2. Two sides of equation must always be equal

Do It! 1: Tabular Analysis (1 of 6)

Transactions made by Virmari & Co., a public accounting firm, for the month of August are shown below. Prepare a tabular analysis which shows the effects of these transactions on the expanded accounting equation, similar to that shown in Illustration 1.8.

1. The owner invested \$25,000 cash in the business.
2. The company purchased \$7,000 of office equipment on credit.
3. The company received \$8,000 cash in exchange for services performed.
4. The company paid \$850 for this month's rent.
5. The owner withdrew \$1,000 cash for personal use.

Do It! 1: Tabular Analysis (2 of 6)

Transaction 1. The owner invested \$25,000 cash in the business.

Do It! 1: Tabular Analysis (2 of 6)

Transaction 1. The owner invested \$25,000 cash in the business.

	Assets			Liabilities		Owner's Equity		
	Cash	+ Equipment	=	Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenue - Expense
No.								
1	+\$25,000					+\$25,000		
2								
3								
4								
5								

Do It! 1: Tabular Analysis (3 of 6)

Transaction 2. The company purchased \$7,000 of office equipment on credit.

Do It! 1: Tabular Analysis (3 of 6)

Transaction 2. The company purchased \$7,000 of office equipment on credit.

No.	Assets		=	Liabilities	+	Owner's Equity		
	Cash	+ Equipment		Accounts Payable		Owner's Capital	- Owner's Drawings	+ Revenue - Expense
1	+\$25,000					+\$25,000		
2		+\$7,000		+\$7,000				
3								
4								
5								

Do It! 1: Tabular Analysis (4 of 6)

Transaction 3. The company received \$8,000 cash in exchange for services performed.

Do It! 1: Tabular Analysis (4 of 6)

Transaction 3. The company received \$8,000 cash in exchange for services performed.

No.	Assets		=	Liabilities	+	Owner's Equity		
	Cash	+ Equipment		Accounts Payable		Owner's Capital	- Owner's Drawings	+ Revenue
1	+\$25,000					+\$25,000		
2		+\$7,000		+\$7,000				
3	+8,000					Service Revenue	+\$8,000	
4								
5								

Do It! 1: Tabular Analysis (5 of 6)

Transaction 4. The company paid \$850 for this month's rent.

Do It! 1: Tabular Analysis (5 of 6)

Transaction 4. The company paid \$850 for this month's rent.

No.	Assets		=	Liabilities	+	Owner's Equity		
	Cash	+ Equipment		Accounts Payable		Owner's Capital	- Owner's Drawings	+ Revenue - Expense
1	+\$25,000					+\$25,000		
2		+\$7,000		+\$7,000				
3	+8,000							+\$8,000
4	-850						Rent Expense	-\$850
5								

Do It! 1: Tabular Analysis (6 of 6)

Transaction 5. The owner withdrew \$1,000 cash for personal use.

Do It! 1: Tabular Analysis (6 of 6)

Transaction 5. The owner withdrew \$1,000 cash for personal use.

Trans- action	Assets		=	Liabilities	+	Owner's Equity			
	Cash	+ Equipment		Accounts Payable		Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
(1)	+\$25,000					+\$25,000			
(2)		+\$7,000		+\$7,000					
(3)	+8,000							+\$8,000	
(4)	-850								-\$850
(5)	-1,000						-\$1,000		
	<u>\$31,150</u>	+ <u>\$7,000</u>	=	<u>\$7,000</u>	+	<u>\$25,000</u>	- <u>\$1,000</u>	+ <u>\$8,000</u>	- <u>\$850</u>
	<u>\$38,150</u>			<u>\$38,150</u>					

The Four Financial Statements

LEARNING OBJECTIVE 5

Describe the four financial statements and how they are prepared.

Companies prepare four financial statements:



**Income
Statement**



**Owner's
Equity
Statement**



**Balance
Sheet**



**Statement
of Cash
Flows**

Income Statement

- Reports revenues and expenses for a specific period of time
- Lists revenues first, followed by expenses
- Shows net income (or net loss)
- Does not include investment and withdrawal transactions between owner and business in measuring net income

Owner's Equity Statement

- Reports changes in owner's equity for a specific period of time
- Time period is the same as that covered by the income statement

Balance Sheet

- Reports assets, liabilities, and owner's equity at a specific date
- Lists assets at top, followed by liabilities and owner's equity
- Total assets must equal total liabilities and owner's equity
- Snapshot of company's financial condition at a specific moment in time (usually month-end or year-end)

Statement of Cash Flows

- Information on cash receipts and payments for a specific period of time
- Answers the following:
 - Where did cash come from?
 - What was cash used for?
 - What was change in cash balance?

Financial Statements (1 of 3)

Softbyte statements
for the Month Ended
September 30, 2020

Income Statement

Revenues		\$4,700
Service revenue		
Expenses		
Salaries and wages expense	900	
Rent expense	600	
Advertising expense	250	
Utilities expense	200	
Total expenses		<u>1,950</u>
Net income		<u><u>\$2,750</u></u>

Owner's Equity Statement

Owner's capital, September 1	\$ 0
Add: Investments	15,000
Add: Net income	2,750
Less: Drawings	<u>1,300</u>
Owner's capital, September 30	<u><u>\$16,450</u></u>

Financial Statements (2 of 3)

Softbyte statements
for the Month Ended
September 30, 2020

Owner's Equity Statement

Owner's capital, September 1	\$ 0
Add: Investments	15,000
Add: Net income	2,750
Less: Drawings	1,300
Owner's capital, September 30	<u><u>\$16,450</u></u>

Balance Sheet

Assets

Cash	\$ 8,050
Accounts receivable	1,400
Supplies	1,600
Equipment	7,000
Total assets	<u><u>\$18,050</u></u>


Liabilities and Owner's Equity

Accounts payable	\$ 1,600
Owner's capital	<u><u>16,450</u></u>
Total liabilities and equity	<u><u>\$18,050</u></u>

Financial Statements (3 of 3)

Softbyte statements
for the Month Ended
September 30, 2020

Balance Sheet (partial)	
<u>Assets</u>	
Cash	\$ 8,050
Accounts receivable	1,400
Supplies	1,600
Statement of Cash Flows	
Cash flows from operating activities	
Cash receipts from revenues	3,300
Cash payments from expenses	(1,950)
Net cash from operating activities	<u>1,350</u>
Cash flows from investing activities	
Purchase of equipment	(7,000)
Cash flows from financing activities	
Investments by owner	15,000
Drawings by owner	(1,300)
Net cash from financing activities	<u>13,700</u>
Net increase in cash	8,050
Cash at beginning of period	0
Cash at end of period	<u><u>\$ 8,050</u></u>



Class Quiz: Financial Statements

Which of the following financial statements is prepared as of a specific date?

- a. Balance sheet
- b. Income statement
- c. Owner's equity statement
- d. Statement of cash flows

Answer: Class Quiz

Which of the following financial statements is prepared as of a specific date?

- a. Answer: Balance sheet
- b. Income statement
- c. Owner's equity statement
- d. Statement of cash flows

Class Quiz: Financial Statements

Net income will result during a time period when:

- a. assets exceed liabilities.
- b. assets exceed revenues.
- c. expenses exceed revenues.
- d. revenues exceed expenses.

Answer: Class Quiz

Net income will result during a time period when:

- a. assets exceed liabilities.
- b. assets exceed revenues.
- c. expenses exceed revenues.
- d. Answer: revenues exceed expenses.

Do It! 2: Financial Statement Items (1 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

- a. Determine the total assets of at December 31, 2020.**
- b. Determine the net income reported for December 2020.
- c. Determine the owner's equity at December 31, 2020.

Do It! 2: Financial Statement Items (2 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

a. Determine the total assets of at December 31, 2020.

Cash	\$ 8,000
Accounts receivable	9,000
Equipment	10,000
Total assets	<u>\$27,000</u>

Do It! 2: Financial Statement Items (1 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

a. Determine the total assets of at December 31, 2020.

b. Determine the net income reported for December 2020.

c. Determine the owner's equity at December 31, 2020.

Do It! 3: Financial Statement Items (3 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

b. Determine the net income reported for December 2020.

Service revenue	\$36,000
Less: Rent expense	11,000
Less: Salaries and wages expense	7,000
Less: Utilities expense	4,000
Net income	<u>\$14,000</u>

Do It! 2: Financial Statement Items (1 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

- a. Determine the total assets of at December 31, 2020.
- b. Determine the net income reported for December 2020.
- c. Determine the owner's equity at December 31, 2020.**

Do It! 4: Financial Statement Items (4 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

c. Determine the owner's equity at December 31, 2020.

Total assets	\$27,000
Less: Notes payable	16,500
Less: Accounts payable	2,000
Owner's equity	<u>\$ 8,500</u>

Class Quiz: Basic Concepts (1 of 2)

Indicate whether each of the statements is **true** or **false**.

1. The three steps in the accounting process are identification, recording, and communication.
2. Bookkeeping encompasses all steps in the accounting process.
3. Accountants prepare, but do not interpret, financial reports.
4. The two most common types of external users are investors and company officers.
5. Managerial accounting focuses on reports for internal users.

Solution: 1. 2. 3. 4. 5.

Answer: Class Quiz (Basic Concepts)

Indicate whether each of the statements is **true** or **false**.

1. The three steps in the accounting process are identification, recording, and communication.
2. Bookkeeping encompasses all steps in the accounting process.
3. Accountants prepare, but do not interpret, financial reports.
4. The two most common types of external users are investors and company officers.
5. Managerial accounting focuses on reports for internal users.

Solution: 1. True 2. False 3. False 4. False 5. True

Do It! 3: Tabular Analysis

PRACTICE PROBLEM

Joan Robinson opens her own law office on July 1, 2017. During the first month of operations, the following transactions occurred.

1. Joan invested \$11,000 in cash in the law practice.
2. Paid \$800 for July rent on office space.
3. Purchased equipment on account \$3,000.
4. Performed legal services to clients for cash \$1,500.
5. Borrowed \$700 cash from a bank on a note payable.
6. Performed legal services for client on account \$2,000.
7. Paid monthly expenses: salaries and wages \$500, utilities \$300, and advertising \$100.
8. Joan withdrew \$1,000 cash for personal use.

Prepare a tabular presentation and financial statements.

(LO 4, 5)

Instructions

- (a) Prepare a tabular summary of the transactions.
- (b) Prepare the income statement, owner's equity statement, and balance sheet at July 31, 2017, for Joan Robinson, Attorney.

Solution

(a)	Assets				=	Liabilities		+	Owner's Equity								
Trans- action	Cash	+	Accounts Receivable	+	Equipment	=	Notes Payable	+	Accounts Payable	+	Owner's Capital	-	Owner's Drawings	+	Revenues	-	Expenses
(1)	+\$11,000					=					+\$11,000						
(2)	-800																-\$800
(3)					+\$3,000	=			+\$3,000								
(4)	+1,500														+\$1,500		
(5)	+700						+\$700										
(6)			+\$2,000												+\$2,000		
(7)	-500																-500
	-300																-300
	-100																-100
(8)	-1,000																
	<u>\$10,500</u>	+	<u>\$2,000</u>	+	<u>\$3,000</u>	=	<u>\$700</u>	+	<u>\$3,000</u>	+	<u>\$11,000</u>	-	<u>\$1,000</u>	+	<u>\$3,500</u>	-	<u>\$1,700</u>
	<u>\$15,500</u>						<u>\$15,500</u>										

JOAN ROBINSON, ATTORNEY
Income Statement
For the Month Ended July 31, 2017

Revenues		
Service revenue		\$3,500
Expenses		
Rent expense	\$800	
Salaries and wages expense	500	
Utilities expense	300	
Advertising expense	100	
Total expenses	<u>1,700</u>	
Net income		<u>\$1,800</u>

JOAN ROBINSON, ATTORNEY
Owner's Equity Statement
For the Month Ended July 31, 2017

Owner's capital, July 1		\$ 0
Add: Investments	\$11,000	
Net income	<u>1,800</u>	<u>12,800</u>
		12,800
Less: Drawings		<u>1,000</u>
Owner's capital, July 31		<u>\$11,800</u>

JOAN ROBINSON, ATTORNEY

Balance Sheet

July 31, 2017

Assets

Cash	\$10,500
Accounts receivable	2,000
Equipment	3,000
Total assets	<u>\$15,500</u>

Liabilities and Owner's Equity

Liabilities	
Notes payable	\$ 700
Accounts payable	3,000
Total liabilities	3,700
Owner's equity	
Owner's capital	11,800
Total liabilities and owner's equity	<u>\$15,500</u>

Do It! 4: Tabular Analysis

Analyze transactions and compute net income.

(LO 4)

E1-8 An analysis of the transactions made by Arthur Cooper & Co., a certified public accounting firm, for the month of August is shown below. The expenses were \$650 for rent, \$4,800 for salaries and wages, and \$400 for utilities.

<u>Cash</u>	+	<u>Accounts Receivable</u>	+	<u>Supplies</u>	+	<u>Equipment</u>	=	<u>Accounts Payable</u>	+	<u>Owner's Capital</u>	-	<u>Owner's Drawings</u>	+	<u>Revenues</u>	-	<u>Expenses</u>
1. +\$15,000										+\$15,000						
2. -2,000						+\$5,000		+\$3,000								
3. -750				+\$750												
4. +4,600		+\$3,900												+\$8,500		
5. -1,500								-1,500								
6. -2,000												-\$2,000				
7. -650																-\$650
8. +450		-450														
9. -4,800																-4,800
10.								+400								-400

Do It! 5: Tabular Analysis

P1-1A On April 1, Julie Spengel established Spengel's Travel Agency. The following transactions were completed during the month.

1. Invested \$15,000 cash to start the agency.
2. Paid \$600 cash for April office rent.
3. Purchased equipment for \$3,000 cash.
4. Incurred \$700 of advertising costs in the *Chicago Tribune*, on account.
5. Paid \$900 cash for office supplies.
6. Performed services worth \$10,000: \$3,000 cash is received from customers, and the balance of \$7,000 is billed to customers on account.
7. Withdrew \$600 cash for personal use.
8. Paid *Chicago Tribune* \$500 of the amount due in transaction (4).
9. Paid employees' salaries \$2,500.
10. Received \$4,000 in cash from customers who have previously been billed in transaction (6).

Instructions

- (a) Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Owner's Capital, Owner's Drawings, Revenues, and Expenses.
- (b) From an analysis of the owner's equity columns, compute the net income or net loss for April.