Chapter 7: Receivables

- A business (**creditor**) sells goods or services to another party (**debtor**) on account / credit.
- Accounts receivable - get cash in the future (30/60 days), **current asset on balance sheet**
- Debit Accounts Receivable - Name, Credit Service / Sales Revenue :When collecting - Debit Cash, Credit Acct Receivable
- Credit card sales - **Net Method** or **Gross Method**
- Net Method - Debit Credit Card Expense for %fee * amount, Debit Cash for remainder of total, Credit Sales Rev for total
- Gross Method - 2 entries, 1 is total Debited to Cash and Credit Service Revenue, at end of month Debit Credit Card Expense for fee % and Credit Cash
- Factoring - sell receivables to banks : Pledging - use receivables as securities for loans
- **Bad debts expense** - Failure to collect : **Direct Write Off** - small debts never to be collected, Debit Bad Debts Expense and Credit Accounts Receivable; **Allowance Method** - required by GAAP, estimate bad debt in contra asset account
- DWO: Debit Bad Debts Expense, Credit Allowance for Bad Debts, then at write-off Debit Allowance to Bad Debts
- Allowance: Estimate by **percent-of-sales** (past experience), **percent-of-receivables** (accounts receivable), **aging-of-receivables** (older less likely to get collected)
- Notes receivable / promissory notes - longer terms than ^, + interest, **maturity date** = due
- Maturity date and principal / interest at signing, Debit Notes Receivable - Name, Credit Cash
- **Maker** - signs and promises to pay note
- **Interest = Principal x Rate x Time**, Debit Interest Receivable, Credit Interest Revenue
- At payment Debit Cash; Credit Notes Receivable, Interest Receivable, Interest Revenue
- Defaulting - Debit Accounts Receivable; Credit Notes Receivable, Interest Revenue (PRT)
- **Acid-test ratio** - ability to pay current liabilities (CL), (cash + equivalents + short-term invests. + current receivables) / CL
- **Accounts receivable turnover ratio** - # times collect acct receivable per year: net credit sales/net acct receivable
- **Days sales in receivables** - # days to collect acct receivable, 365 days / acct receivable turnover ratio
- **Quick Ratio -** (cash + marketable securities (?) + accounts receivable) / current liabilities

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- Interest accrued on $3600 at 7% for 60 days: $42

---- *60 days = 2 months = 1/6 year | 3600 * (0.07 * 1/6) = 42*

- Net realizable of Acct Receivable = Acct Receivable - Uncollectible
- Gorp Corp has an agreement with credit card company, calls for cash to be received immediately upon deposit of Gorp customers' credit card sales receipts. The credit card company receives 3.5% of card sales as its fee. Today Gorp has $2000 in credit card sales. The journal entry to record the sales transactions will include: ---- *Debit Cash $2,000*
- Sell materials for $7800 to John Smith, who signs a 60-day promissory note at 7% annual interest. Same day, the journal entry made by the store for the sale will include

---- *A credit to Sales Revenue for $7,800*

- Cash 15500, Acct Rec 52300, Inventory 28700, Prepaid Expenses 7200, Current Liabilities 48800, Total Assets 195500. Quick ratio?

---- *= (cash + acct rec) / current liab = (67800) / 48800 = 1.39*

Chapter 8: Plant Assets, Natural Resources, and Intangibles

- Plant Assets: long-lived, tangible, help with business (land, building, furniture, equipment), allocated over useful life = **Depreciation**
- Debit Land, Credit Notes Payable / Cash : **Estimated residual value** - received on disposal
- Machinery has expenditures: **Capital** increase efficiency, Debit Asset; **Revenue** are to keep it working, Debit Expense
- **Straight-Line Method**: allocate equal depreciation per year, (cost - resid value) / useful life, Debit Depreciation Expense, Credit Accumulated Depreciation, **book value of asset less accumulated depreciation is recorded on balance sheet**
- **Units of Production Method:** varying per usage, step 1: (cost - resid value) / useful life in units, step 2: step 1 x current year usage
- **Double-Declining Balance Method:** more cost near end of life, 2x straight line till end
- Sell plant asset at book value: Debit Cash, Accumulated Depreciation; Credit Equipment cost
- Sell plant asset above / below book value: ^ + Credit Gain on Dispos., ^ + Debit Loss on Dis.
- Natural Resources: Debit Depletion Expense {[(cost - resid value) / total units] x number for period}, Credit Accumulated Depreciation
- Patents: Debit Patent, Credit Cash, amortized over useful life with Debit Amortization Expense - Patent, Credit Patent
- Copyright (right to produce), Trademark (identification), Franchises (privilege to sell), Licenses (use public property)
- Goodwill - Value paid above net worth of company's assets and liabilities
- Asset Turnover Ratio - Net Sales / Average total assets

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- Purchased a point-of-sale self-service register on 1/1 for $5,400. Useful life 10 years, salvage value $400. Depreciation expense for second year of useful life using double-declining balance method? Answer: $864

---- *10 years. Under straight line: 10% of original value per year. Here: 20% of beginning of year value each year.*

---- *Year 1: -20% of 5400 = 5400 - 1080 = **4320** : Year 2: -20% of 4320 = 4320 - **864***

---- *Salvage value is not removed from beginning, instead is just a constant floor for the price, and we ignore any depreciation below this*

- Copy Machine costs $25k when new, accumulated depreciation of $16k. We junk the machine and receive nothing. Result of disposal transaction: **Loss of $9k**
- Ore deposit costing $800k expected to produce 1.6 mil tons of ore over next 10 years. 70k tons are mined and sold in current year. Depletion expense for current year: $35000

---- *800000 / 1600000 * 70000 = **35000***

- Asset turnover ratio of 4.5 indicates that for every $1 in assets, the firm produced $4.50 in net sales during the period.

Chapter 9: Current Liabilities and Payroll

- Liability - debt owed, **current** = pay within 1 year, **long term** = longer
- Current = accounts payable, sales tax payable, unearned revenue: Long Term = notes payable, mortgages, bonds
- Sales Tax Payable: % of sales amount, paid to govt, Debit Cash; Credit Sales Revenue, Sales Tax Payable (amt x tax), fwd to state later
- Unearned Revenue: don't do stuff for money, Debit Cash, Credit Unearned Revenue; collect later when earned (Debit Unearned Revenue, Credit Service Revenue when collected)
- Short-Term Notes Payable: Debit what u buy, Credit Notes Payable; later Debit Notes Payable, Interest Expense (PRT); Credit Cash
- **Payroll**: liability, gross pay and net pay (gross - taxes and shit)
- income tax (federal and state), OASDI (social security, 6.2% on first 117k), Medicare (1.45% on all earnings)
- Debit Salaries and Wages Expense; Credit FICA - OASDI Taxes Payable, FICA - Medicare Taxes Payable, Employee Income Taxes Payable, Salaries and Wages Payable (plus anything else there)
- State Unemployment (SUTA - 5.4% on first 7k), Federal Unemployment (FUTA - 0.6% on first 7k)
- Debit Payroll Tax Expense, Credit all those taxes

---- Estimated Warranties Payable: Debit Warranty Expense (sales x percent),

---- Credit Estimated Warranty Payable

- Claim warranty: Debit Estimated Warranty Payable, Credit whatever the category of product is (Merchandise Inventory or w/e)
- Contingent Liabilities: potential, lawsuits, multiple possibilities: **remote, reasonably possible, probable**
- Remote: say nothing, Reasonable: leave a note, Probable: record expense and liability based on estimation
- **Times Interest Earned Ratio**: ability to pay interest expense, (Net Income + Income Tax Expense) / Interest Expense:

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- Liabilities must sometimes be estimated.
- 7/1/15 you borrowed $20k on a four-year, 6% note payable. 12/31/15, journal entry should be made to record: interest payable of $600 ----- 20000 * .06 * 6/12 = $600
- Company sells $50k goods, you collect sales tax of 7%. Journal entry:

---- *Debit cash 53500, Credit Sales Revenue 50000, Credit Sales Tax Payable 3500*

- Toy comp owed estimated warranty payable of $2200 at end of 2013. During 2014 they made sales of $280k and expect warranties to cost 3% of sales. During '14 they paid $5000 down on warranties. What is the warranties payable at the end of '14?

---- *2200 + (0.03 * 280000) - 5000 = $5600*

- 12/31, your company owes employees for 4 days of 5 day work week. Total payroll for week is 5100. What journal entry to make on 12/31?

---- *Debit salaries/waves expense 40800, credit Salaries and Waves Payable 40800*

- 1/1/15 Deliveries owes $60k on a truck. Makes principal payments of $1k each month plus interest at 8%. End of 2015, after first 12 months payment of principal/interest, which would be included on the balance sheet for 12/31/15?
- Long-Term Liabilities $36000, Current Liabilities $12000, no Interest Payable
- Unearned Revenue of $15k, Salaries Payable of $28000, Allowance for Uncollectible Accounts of $4200. What would be reported as current liabilities?

---- *Unearned + Salaries Payable = **$43000***

Chapter 10: Long-Term Liabilities

- Long-term Liabilities - do not need to be paid off before 1 year
- **Amortization Schedule** - details allocation of payment schedule + interest
- At inception - Debit Cash, Credit Note/Bond/Mortgage Payable
- At payment date - Debit Note/Bond/Mortgage Payable for principal repayment amount, Debit Interest Expense, Credit Cash (remember **PRT**)
- Bonds Payable - Owned by bondholders, pay back face value at maturity date
- Bonds have stated interest rates and market interest rates
- Face value - stated rate = market rate
- **Discount** - stated rate < market rate, **Premium** - stated rate > market rate
- Debit Cash, Credit Bonds Payable for value : Interest payments = Debit Interest Expense, Credit Cash
- Issuing at a Discount - Debit Cash, Credit Bonds Payable for face value, and Debit Discount on Bonds Payable for the difference
- Issuing at a Premium - Debit Cash, Credit Bonds Payable for face value, and Credit Premium on Bonds Payable for the difference
- Retirement - pay off bonds, can be done before maturity, loss/gain on bonds payable
- Debit Bonds Payable for face value, Credit Cash, Debit/Credit Discount/Premium, Debit/Credit Loss/Gain on Retirement
- Current/Long-term liabilities are reported on balance sheet

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- Five year, $100,000 4% note payable issued 12/31/14. Note requires principal payments of $20k plus interest due each year beginning 12/31/15. On 12/31/16, immediately after note payment, the balance sheet would show: ----- ***$40k** in Long-Term Notes Payable*
- ABC trial balance shows $800k face value of bonds with discount balance of $12k. Bonds mature in 20yrs. How will bonds be presented on balance sheet?

----- *Bonds Payable **$788000** (net $12000 discount) listed as long-term liability*

- DEF issued $400k of 8% serial bonds at face value on 12/31/14. Half mature 1/1/17, other mature 1/1/25. On 12/31/16, the balance sheet will show:

---- *Bonds payable **$200k** as long-term liability, bonds payable $200k listed current liability.*

- $400k bond priced at 102 (aka 102%) can be bought/sold for $408,000. ($400k * 102%)
- Signed 20yr note payable 1/1/16. Requires annual principal payments plus interest. Entry to record on 12/31/16 includes: ----- *A debit to Interest Expense*
- To record the issuance of a $250k face value bond at 95: ---- *Debit Cash 237500, Debit Discount on Bonds Payable 12,500, Credit Bonds Payable 250000 : You only receive 95% of the 250000.*
- C's bonds payable carry interest rate of 8%, market rate of interest is 5%. Price of C's bonds will be at ***a premium.***
- J issued 4%, 20yr bond payable at $288500 (face value is 300000). Comp uses straight-line amortization method for the bonds. Interest expense for each year is:

---- ***$12575.** [4% * 300000 + ((300000 - 288500) / 20)] = [12000 + (11500 / 20)]*

- JFD has $850k of 20yr bonds payable outstanding. Had discount of $42000 at issuance, 8 years ago. Company uses straight line amortization. Carrying amount payable today is: $824800. --- *42000 / 20 = 2100 * 8years = 16800 discount amortized | 42000 - 16800 = 25200 unamortized | 850000 - 25200 = **524800** carrying value*

Chapter 11: Statement of Cash Flows

- Cash Flow: changes in cash of business over span of time; 3 Categories of Activities: **Operating**, **Investing**, **Financing**
- **Operating**: current assets and liabilities (net income): Income Taxes, Interest Income, Paying Salaries, Increase in Accts. Payable (-), Decrease in Accrued Liabilities (-), Gain in Building Sale (-), Loss on Land Sale (+), Depreciation Expense (+), Increase in Merchandise Inventory (-), Decrease in Accts. Receivable (+) [+ - is on net income]
- **Investing**: long term assets: (purchase = -, sales = +), collect notes receivable, sell land, purchase equipment (-), plant assets
- **Financing**: long-term liabilities and equity: paying dividends (-), issuing common stock (+), borrowing money, issuing debt (+)
- Non-cash investing and financing: no cash; issuing notes payable, etc. - stated at bottom of statement of cash flows
- **Indirect Method**: starts with accrual income and adjusts to net cash - uses account relationships to determine changes in cash
- Need comparative balance sheet (previous + current year), income statement, additional information (non-cash transactions, dividends, etc)
- **Net income + / - operating + changes in investing + changes in financing = change in cash, disclose non-cash**
- **Net Income + Depreciation - Changes in Current Assets + Changes in Current Liabilities = Operating Cash Flows**

- Free Cash Flow = Net cash from operating activities - cash payments for investments in long-term assets - cash dividends
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- Analyzing profitability and liquidity is **not** an appropriate use of the cash flow statement. Predicting ability to pay debts, evaluating managers' decisions, and predicting future cash flows **are** appropriate uses.
- Net income of $67k after deducting depreciation of $5k and other expenses. Current assets decreased by $2k and current liabilities increased by $6k. Cash from operating activities? ---- ***$80k** [67k (income) + 5k (depreciation) + 2k (- in assets)+ 6k (+ in liabilities)]*
- Net cash from operations = $220k, equipment purchases = $83k, cash dividends = $10k, loan repayments = $36k. Free cash flow? ------ ***$127k** (220k -83k -10k)*
- Accts receivable at beginning of year = $25k, end of year = $44k. Year revenue = $170k. How much cash was collected? ---- ***$151k** (44k - 25k = 19k, 170k - 19k)*
- Operating expenses of $52k. Beginning of year owed $15k in accrued liabilities, end of year owed $5k in accrued liabilities (paid $10k). How much cash paid for operating expenses? --- ***$62k** (52k + 10k)*

Chapter 12: Financial Statement Analysis

- Notes to Financial Statements: Summary of significant accounting policies, explanations of items on financial statements
- Report of Independent Registered Public Accounting Firm: Attests to the fairness of the presentation of the financial statements
- Management's Discussion & Analysis (MD&A): Written by company to help investors understand results of operations and fin. condition of company, try to justify themselves
- Financial Statements: Income Statement, Balance Sheet, Statement of Stockholders' Equity, Statement of Cash Flows
- Current Ratio = Current Assets / Current Liabilities
- Profit Margin = Net income / Sales
- Gross Profit Percentage = Gross Profit / Net sales revenue
- Asset Turnover = Sales / Average Assets
- Inventory Turnover = Cost of Goods Sold / Average Merchandise Inventory
---- Days Sales in Inventory = 365 Days / Inventory Turnover
- Accounts Receivable Turnover Ratio = Net Credit Sales / Average net Accts Receivable
---- Days' Sales in Receivables = 365 days / Accounts Receivable Turnover
- Return on Assets = (Net income + interest expense) / average total assets
- Leverage = Assets / Equity
- Return on Equity = Profit Margin * Asset Turnover * Leverage = Net Income / Avg Equity
---- Measure of profitability, how many dollars of profit per dollar of equity
- Debt ratio: Total Liabilities / Total Assets

Ally Pantaine, Attorney
Income Statement
Month Ended March 31, 2016

Revenues:			
Service Revenue		$	13,900
Expenses:			
Miscellaneous Expense	$ 300		
Utilities Expense	920		
Total Expenses			1,220
Net Income		$	12,680

Trend Analysis
You're given an old value (ie from 2013) and it's labeled 100%. Then more values going yearly. Divide each new value by the first one, that's the percentage value for that year

	2017	2016	2015	2014	2013
Net Revenue	1380	1185	1143	1005	*1046*
Trend Percentages	132%	113%	109%	96%	*100%*

Ally Pantaine, Attorney
Statement of Owner's Equity
Month Ended March 31, 2016

Pantaine, Capital, March 1, 2016	$	0
Owner contribution		87,000
Net income for the month		12,680
	$	99,680
Owner withdrawal		(5,000)
Pantaine, Capital, March 31, 2016	$	**94,680**

Ally Pantaine, Attorney
Balance Sheet
March 31, 2016

Assets			Liabilities		
Cash	$	85,930	Accounts Payable		6,000
Computer		6,000			
Accounts Receivable		8,200	**Owner's Equity**		
Office Supplies		550	Pantaine, Capital, March 31, 2016	$	94,680
Total Assets	$	**100,680**	Total Liabilities and Owner's Equity	$	**100,680**

VDR Equipment, Inc.
Statement of Cash Flows (Partial)
Year Ended December 31, 2016

Cash Flows from Operating Activities:				
Net Income			$	42,000
Adjustments to Reconcile Net Income to				
Net Cash Provided by Operating Activities:				
Depreciation Expense	$	7,000		
Increase in Accounts Receivable		(6,000)		
Decrease in Accounts Payable		(3,000)		(2,000)
Net Cash Provided by (Used for) Operating Activities			$	40,000

Deluxe Suites Hotels
Balance Sheet (Partial)
December 31, 2016

Current Liabilities:			
Accounts Payable		$ 34,000	
Estimated Warranty Payable		1,700	
Salaries Payable		2,900	
Sales Tax Payable		400	
Interest Payable		1,500	
Total Current Liabilities			$ 40,500
Long-term Liabilities:			
Notes Payable, long-term		275,000	
Bonds Payable	$ 250,000		
Less: Discount on Bonds Payable	7,500	242,500	
Total Long-term Liabilities			517,500
Total Liabilities			$ 558,000

Italics = given
Horizontal Analysis:
Given values over two years:

	2017	2016	Amount	Percentage
Revenue	*17000*	*15000*	+2000	+13%
Cost of Goods Sold	*8500*	*5000*	+3500	+70%
Gross Profit	8500	10000	-1500	-15%

Vertical Analysis:

	Amount	Percent of Total
Net Sales	*780000*	100%
Cost of Goods Sold	*524940*	67.3%
Gross Profit	*255060*	32.7%
Operating Expenses	*160680*	20.6%
Operating Income	*94380*	12.1%
Other Expenses	*4680*	0.6%
Net Income	*89700*	11.5%

Step 4

	Beginning balance	Ending balance	Change	
Cash	0	115	115	← **Step 4**
Accounts Receivable	0	10	10	✓ In operating
Building	0	50	50	✓ In investing
Accumulated Depreciation	0	(10)	(10)	✓ In operating
Accounts Payable	0	15	15	✓ In operating
Common Stock	0	100	100	✓ In financing
Retained Earnings	0	50	50	✓ In operating*

**In this example, no dividends, so all change was net income*

Company ABC
Cash Flow Statement for the period ended

Operating Cash Flow	
Net Income	50
Depreciation Expense	+ 10
Increase in Accounts Receivable	- 10
Increase in Accrued Liabilities	+ 15
Total Operating Cash Flow	+ 65
Investing Cash Flow	
Capital Expenditure	- 50
Financing Cash Flow	
Issue of Stock	+ 100
Total Change in Cash	+ 115
Beginning Cash Balance	0
Ending Cash Balance	115

Indirect method

STEP 4
RECONCILIATION:
Total change + Beginning balance = Ending balance