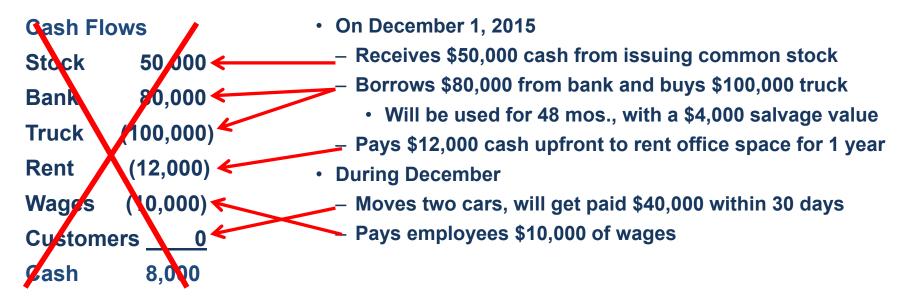
Example: Dave's Car Transport Service

- Dave starts a business to transport expensive cars
- On December 1, 2015
 - Receives \$50,000 cash from issuing common stock
 - Borrows \$80,000 from bank and buys \$100,000 truck
 - Will be used for 48 mos., with a \$4,000 salvage value
 - Pays \$12,000 cash upfront to rent office space for 1 year
- During December
 - Moves two cars, will get paid \$40,000 within 30 days
 - Pays employees \$10,000 of wages
- December 31: Bank wants to see financial statements







Cash Flows On December 1, 2015 Receives \$50,000 cash from issuing common stock **Operating** Borrows \$80,000 from bank and buys \$100,000 truck Rent (12,000)• Will be used for 48 mos., with a \$4,000 salvage value Wages (10,000)Pays \$12,000 cash upfront to rent office space for 1 year Customers **During December CFO** (22,000)Moves two cars, will get paid \$40,000 within 30 days Pays employees \$10,000 of wages Investing (100,000)Truck (100,000)CFI **Financing** 50,000 Stock Bank 80,000 CFF 130,000 Cash 8,000

Statement of Cash Flows

Dec 2015 Cash Flows

Operating

Rent (12,000)

Wages (10,000)

Customers <u>0</u>

CFO (22,000)

<u>Investing</u>

Truck (100,000)

CFI (100,000)

Financing

Stock 50,000

Bank 80,000

CFF 130,000

Cash 8,000

- Reports cash transactions over a period of time
- Operating Activities
 - Transactions related to the provision of goods or services and other normal business activities
- Investing Activities
 - Transactions related to the acquisition or disposal of long-lived productive assets
- Financing Activities
 - Transactions related to owners or creditors



Accounting Income

Revenue 40,000

Truck Expense (2,000)

Rent Expense (1,000)

Wages Expense (10,000)

Net Income 27,000

Notes: Truck expense ("depreciation") = (100,000-4,000)/48

Rent expense is one month at \$1000/mo.

On December 1, 2015

Receives \$50,000 cash from issuing common stock

- Borrows \$80,000 from bank and buys \$100,000 truck

Will be used for 48 mos., with a \$4,000 salvage value

Pays \$12,000 cash upfront to rent office space for 1 year

During December

- Moves two cars, will get paid \$40,000 within 30 days

Pays employees \$10,000 of wages



Income Statement

Dec 2015 Accounting Income Revenue 40,000

Truck Expense (2,000)

Rent Expense (1,000)

Wages Expense (10,000)

Net Income 27,000

Notes: Truck expense ("depreciation") =

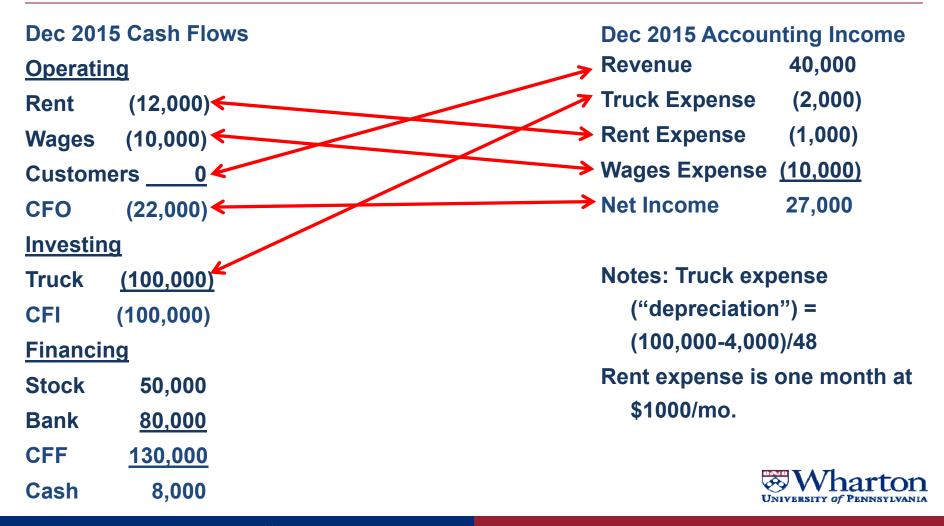
(100,000-4,000)/48

Rent expense is one month at \$1000/mo.

- Reports results of operations over a period of time using accrual accounting
 - Recognition tied to business activities
- Revenues
 - Increases in "owners' equity" from providing goods or services
- Expenses
 - Decreases in "owners' equity" incurred in the process of generating revenues
- Net Income (or Earnings or Net Profit)
 - = Revenues Expenses

=> DOES NOT EQUAL CHANGE IN CASH!!!





What is financial position at end of the month?

Balance Sheet

Assets

Cash 8,000 (Cash in the bank on 12/31/2015)

Accounts Receivable 40,000 (Cash owed by customers on 12/31/2015)

Prepaid Rent 11,000 (Prepaid for 11 months of future space on 12/31/2015)

Truck <u>98,000</u> (100,000 original cost – 2,000 "depreciation")

Total 157,000

Liabilities & Stockholder's Equity

Bank Debt 80,000 (Cash owed to the bank on 12/31/2015)

Common Stock 50,000 (Stockholder investment as of 12/31/2015)

Retained Earnings <u>27,000</u> (Accounting Net income – Dividends as of 12/31/2015)

Total 157,000



Balance Sheet

Dec 31, 2015 Balanc	e Sheet
<u>Assets</u>	
Cash	8,000
Accounts Receivabl	e 40,000
Prepaid Rent	11,000
Truck	98,000
Total	157,000
Liabilities & Stockholder's Equity	
Bank Debt	80,000
Common Stock	50,000
Retained Earnings	27,000
Total	157,000

 Reports financial position (resources and obligations) on a specific date

- Assets
 - Resources owned by a business that are expected to provide future economic benefits
- Liabilities
 - Claims on assets by "creditors" (non-owners) that represent an obligation to make future payment of cash, goods, or services
- Stockholders' Equity (Owners' Equity)
 - Claims on assets by owners of business
 - Contributed Capital (arises from sale of shares)
 - Retained Earnings (arises from operations)



Statement of Stockholders' Equity

We'll get to this later...

