

Study Notes
Financial Accounting: An Introduction to
Concepts, Methods, and Uses, 14e
by Roman Weil, Katherine Schipper,
Jennifer Francis

Emerson Maurício de Oliveira

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1 Problem 1.2 for Self-Study

Cash versus accrual basis of accounting. *Thompson Hardware Store* commences operations on January 1, 2013, when Jacob Thompson invests \$30,000.00 for all of the common stock of the firm. The firm rents a building on January 1 and pays two months' rent in advance in the amount of \$2,000.00. On January 1 it also pays the \$1,200.00 premium for property and liability insurance coverage for the year ending December 31, 2013. The firm purchases \$28,000.00 of merchandise inventory on account on January 2 and pays \$10,000.00 of this amount on January 25. On January 31 the cost of unsold merchandise is \$15,000.00. During January the firm makes cash sales to customers totaling \$20,000.00 and sales on account totaling \$9,000.00. The firm collects \$2,000.00 from these credit sales by the end of January. The firm pays other costs during January as follows: utilities, \$400.00; salaries, \$650.00; and taxes, \$350.00. What are *Thompson Hardware Store's* revenues, expenses, and income for January, assuming (1) the *accrual basis of accounting* and (2) the *cash basis of accounting*?

Cash Basis of accounting:

```
creditSales <- 2000.00
totCashInfl <- creditSales
cashPaidRent <- -2000.00
cashPaidEnsu <- -1200.00
cashPaidMerc <- -10000.00 - 5000.00
cashPaidUtil <- -400.00
cashPaidSala <- -650.00
cashPaidTaxe <- -350.00
totCashOutfl <- cashPaidRent + cashPaidEnsu + cashPaidMerc + cashPaidUtil + cashPaidSala + cashPaidTaxe
netCashFlow <- totCashInfl + totCashOutfl
```

Cash Inflows

Cash Receipts from Customers	€ 2,000.00
Total Cash Inflows	2,000.00

Cash Outflows

Cash Paid for Rent.....	(2,000.00)
Cash Paid for Ensurance	(1,200.00)
Cash Paid for Merchandise	(15,000.00)
Cash Paid for Utilities	(400.00)
Cash Paid for Salaries	(650.00)
Cash Paid for Taxes.....	(350.00)
Total Cash Outflows	(19,600.00)
Net Cash Flow	€ (17,600.00)

Accrual basis of accounting:

```
salesRevenue <- 20000.00
costGoodsSo <- -13000.00
rentExpense <- -100.00
salariesExp <- -450.00
totExpenses <- costGoodsSo + rentExpense + salariesExp
netIncome <- salesRevenue + totExpenses
```

Sales Revenue	\$ 20,000.00
Cost of Goods Sold	(13,000.00)
Rent Expense	(100.00)
Salaries Expense	(450.00)
Net Income	\$ 6,450.00

2 Summary

Cash basis of accounting:

Income: 2,000.00

Expenses: -19,600.00

Revenues: -17,600.00

Accrual basis of accounting:

Income: 20,000.00

Expenses: -13,550.00

Revenues: 6,450.00