



Recording Transactions

- Accounting Principles

2022. 3.

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Agenda

- Recap the last class
- Types of Items
- Recording Transactions (Asset, Liability, and Equity)
- Recording Transactions (Gain and Loss)
- Assignment

Recap the last class

- We can make simple examples
 - And then, we can decide the calculation rules, based on the examples
- Items
 - Positive value items
 - Negative value items
- Income statement
- Balance sheet

The Value of Corporations: Simplified Examples

- Let's make our **own simple examples!**
- What is the value of AP Bakery?

- Example #1)

It was established with \$5,000 of cash, and AP Bakery Inc. bought new chairs \$200. There is no other transactions. And the chairs are not used. (= They can be sold with \$200 on the market.)

Value of AP Bakery = \$5,000 = \$4,800 (Cash) + \$200 (Chairs)

- Example #2)

It was established with \$5,000 of cash, and AP Bakery lent \$300 to Jamie for one year. Jamie will pay back \$300 in 2023. There is no other transactions. (We assume there is no time value of money.) What is the value of AP Bakery during 2022?

Value of AP Bakery = \$5,000 = \$4,700 (Cash) + \$300 (lending money)

Income Statement (Statement of Income)

- Income Statement

ST Consulting

Company name

Statement of Comprehensive Income

For the Year Ended December 31, 2021 and 2020

Periods

	2021	2020
Consulting Revenue	\$10,000	\$60,000
Salary Expense	\$20,000	\$20,000
Electricity Expense	\$1,000	\$3,000
Net income	\$(11,000)	\$37,000

Balance Sheet

- Balance Sheet

ST Consulting
Balance Sheet
December 31, 2021

Company name

Point in time

	2021
ASSETS	
Cash	\$30,920
Receivable	\$1,000
TOTAL ASSETS	\$31,920
LIABILITIES AND EQUITY	
LIABILITIES	
Bank Loan	\$9,000
TOTAL LIABILITIES	\$9,000
EQUITY	
Capital Stock	\$20,000
Retained Earnings	\$2,920
TOTAL EQUITY	\$22,920
TOTAL LIABILITIES and EQUITY	\$31,920

Balance Sheet

- Balance Sheet

ST Consulting
Balance Sheet
December 31, 2021

Company name

Point in time

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$30,920	Bank Loan	\$9,000
Receivable	\$1,000	TOTAL LIABILITIES	\$9,000
		EQUITY	
		Capital Stock	\$20,000
		Retained Earnings	\$2,920
		TOTAL EQUITY	\$22,920
TOTAL ASSETS	\$31,920	TOTAL LIABILITIES and EQUITY	\$31,920

Any Questions?
(Recap)

Types of Items

- 5 types of items in the income statement and balance sheet
 - Asset
 - Liability
 - Equity
 - Gain (or revenue, profit)
 - Expense (or cost, loss)

Income Statement

- Income Statement

ST Consulting

Statement of Comprehensive Income

For the Year Ended December 31, 2021 and 2020

	2021	2020	
Consulting Revenue	\$10,000	\$60,000	Revenue
Salary Expense	\$20,000	\$20,000	Expense
Electricity Expense	\$1,000	\$3,000	
Net income	\$(11,000)	\$37,000	

Balance Sheet

- Balance Sheet

ST Consulting Balance Sheet December 31, 2021

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$30,920	Bank Loan	\$9,000
Receivable	\$1,000	TOTAL LIABILITIES	\$9,000
		EQUITY	
		Capital Stock	\$20,000
		Retained Earnings	\$2,920
		TOTAL EQUITY	\$22,920
TOTAL ASSETS	\$31,920	TOTAL LIABILITIES and EQUITY	\$31,920

Format of Accounting Records

- Format of Accounting Records

- Asset (Left)

- Liability (Right)

- Equity (Right)

→ *Please memorize three places, left and right.*

(It is helpful for you to remember **the format of the balance sheet.**)

Asset	Liability Equity
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- Let's make our own simple examples!

- Example #1) *Starting a business*

The AP Bakery was established with \$5,000 of cash and there is no other transactions.

Cash

\$5,000

Capital Stock

\$5,000

In the above example, “Cash” is asset and “Capital stock” is equity.

→ So, Cash is recorded on the left side and Capital Stock is on the right side.

Asset	Liability Equity
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- Let's make our own simple examples!

Example #2) *Borrowing a money*

It was established with \$5,000 of cash, and AP Bakery borrowed \$800 from a bank. There is no other transactions. (We assume there is no time value of money.)

Cash	\$5,000	Capital Stock	\$5,000
Cash	\$800	Bank Loan	\$800

In the above example, “Cash” is asset and “Bank Loan” is liability.

→ So, Cash is recorded on the left side and “Bank Loan” is on the right side.

Asset	Liability Equity
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Example #2)

It was established with \$5,000 of cash, and AP Bakery borrowed \$800 from a bank. There is no other transactions. (We assume there is no time value of money.)

Cash	\$5,000	Capital Stock	\$5,000
Cash	\$800	Bank Loan	\$800

→ Balance Sheet of AP Bakery

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$5,800	Bank Loan	\$800
		TOTAL LIABILITIES	\$800
		EQUITY	
		Capital Stock	\$5,000
		TOTAL EQUITY	\$5,000
TOTAL ASSETS	\$5,800	TOTAL LIABILITIES and EQUITY	\$5,800

Asset	Liability Equity
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Example #2)

It was established with \$5,000 of cash, and AP Bakery borrowed \$800 from a bank. There is no other transactions. (We assume there is no time value of money.)

Cash	\$5,000	Capital Stock	\$5,000
Cash	\$800	Bank Loan	\$800

→ Balance Sheet of AP Bakery

ASSETS		LIABILITIES AND EQUITY	
Cash	\$5,800	Bank Loan	\$800
		Capital Stock	\$5,000

Asset	Liability
	Equity

Example #2)

It was established with \$5,000 of cash, and AP Bakery borrowed \$800 from a bank. There is no other transactions. (We assume there is no time value of money.)

Value of AP Bakery = \$5,000 = \$5,800 (Cash) - \$800 (bank loan)

→ Balance Sheet of AP Bakery

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$5,800	Bank Loan	\$800
		TOTAL LIABILITIES	\$800
		EQUITY	
		Capital Stock	\$5,000
		TOTAL EQUITY	\$5,000
TOTAL ASSETS	\$5,800	TOTAL LIABILITIES and EQUITY	\$5,800

Asset	Liability Equity
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Example #3) *Buying assets by paying cash*

It was established with \$5,000 of cash, and AP Bakery bought new chairs by paying \$200. There is no other transactions. And the chairs are not used. (= They can be sold with \$200 on the market.)

Cash	\$5,000	Capital Stock	\$5,000
Chair	\$200	Cash	\$200

In the above example, “Cash” is asset and “Chair” is also asset.

→ Increasing asset is on the left side.

Decreasing assets is on the right side.

Asset	Liability Equity
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Example #3) *Buying assets by paying cash*

It was established with \$5,000 of cash, and AP Bakery bought new chairs by paying \$200. There is no other transactions. And the chairs are not used. (= They can be sold with \$200 on the market.)

Cash	\$5,000	Capital Stock	\$5,000
Chair	\$200	Cash	\$200

→ Balance Sheet of AP Bakery

Cash	\$4,800		
Chair	\$200		
		Capital Stock	\$5,000

Asset

Liability

Equity

Example #3) *Buying assets by paying cash*

It was established with \$5,000 of cash, and AP Bakery bought new chairs by paying \$200. There is no other transactions. And the chairs are not used. (= They can be sold with \$200 on the market.)

Value of AP Bakery = \$5,000 = \$4,800 (Cash) + \$200 (Chair)

→ Balance Sheet of AP Bakery

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$4,800	TOTAL LIABILITIES	\$0
Chair	\$200		
		EQUITY	
		Capital Stock	\$5,000
		TOTAL EQUITY	\$5,000
TOTAL ASSETS	\$5,000	TOTAL LIABILITIES and EQUITY	\$5,000

Asset	Liability Equity
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Example #4) *Renting a shop with deposit*

It was established with \$5,000 of cash, and AP Bakery bought new chairs by paying \$200.

And AP Bakery rented a shop by giving \$1,000 deposit.

Cash	\$5,000	Capital Stock	\$5,000
Chair	\$200	Cash	\$200
Deposit	\$1,000	Cash	\$1,000

In the above example, “Cash” is asset and “Deposit” is **also asset**.

→ **Increasing asset** is on **the left side**.

Decreasing assets is on **the right side**.

Asset	Liability
	Equity

Example #4) *Renting a shop with deposit*

It was established with \$5,000 of cash, and AP Bakery bought new chairs by paying \$200.

And AP Bakery rented a shop by giving \$1,000 deposit.

→ Balance Sheet of AP Bakery

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$3,800	TOTAL LIABILITIES	\$0
Deposit	\$1,000		
Chair	\$200		
		EQUITY	
		Capital Stock	\$5,000
		TOTAL EQUITY	\$5,000
TOTAL ASSETS	\$5,000	TOTAL LIABILITIES and EQUITY	\$5,000

Asset	Liability Equity
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Example #5) *Lending a money to someone*

It was established with \$5,000 of cash, and AP Bakery lent \$300 to Jamie for one year.

Cash	\$5,000	Capital Stock	\$5,000
Receivable	\$300	Cash	\$300

In the above example, “Cash” is asset and “Receivable” is also asset.

→ Increasing asset is on the left side.

Decreasing assets is on the right side.

Asset	Liability Equity
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Example #5) *Lending a money to someone*

It was established with \$5,000 of cash, and AP Bakery lent \$300 to Jamie for one year.

Cash	\$5,000	Capital Stock	\$5,000
Receivable	\$300	Cash	\$300

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$4,700	TOTAL LIABILITIES	\$0
Receivable	\$300		
		EQUITY	
		Capital Stock	\$5,000
		TOTAL EQUITY	\$5,000
TOTAL ASSETS	\$5,000	TOTAL LIABILITIES and EQUITY	\$5,000

Asset	Liability Equity
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Example #6) *All the transactions*

Cash	\$5,000	Capital Stock	\$5,000
Cash	\$800	Bank Loan	\$800
Chair	\$200	Cash	\$200
Deposit	\$1,000	Cash	\$1,000
Receivable	\$300	Cash	\$300

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Cash	\$4,300	Bank Loan	\$800
Receivable	\$300		
Deposit	\$1,000		
Chair	\$200		
		Capital Stock	\$5,000
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Asset	Liability Equity
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Example #6) *All the transactions*

Cash	\$5,000	Capital Stock	\$5,000
Cash	\$800	Bank Loan	\$800
Chair	\$200	Cash	\$200
Deposit	\$1,000	Cash	\$1,000
Receivable	\$300	Cash	\$300

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$4,300	Bank Loan	\$800
Receivable	\$300	TOTAL LIABILITIES	\$800
Deposit	\$1,000		
Chair	\$200	EQUITY	
		Capital Stock	\$5,000
		TOTAL EQUITY	\$5,000
TOTAL ASSETS	\$5,800	TOTAL LIABILITIES and EQUITY	\$5,800

Any Questions?
(Attendance Check)

Format of Accounting Records (Expense/Loss)

- Format of Accounting Records rule #1
 - Asset (Left)
 - Liability (Right)
 - Equity (Right)
- How about expense (loss)?
 - The expense usually accompanies **decrease of assets**.

Electricity Expense	\$200	Cash	\$200
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→ **Expense** is on **the left side**, because it comes with **the cash decrease**.
(Cash decrease is on the right side.)

Format of Accounting Records (Revenue/Gain)

- Format of Accounting Records rule #1
 - Asset (Left)
 - Liability (Right)
 - Equity (Right)
- How about revenue (gain)?
 - The expense usually accompanies **increase of assets**.

Cash	\$200	Revenue	\$200
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→ **Revenue** is on **the right side**, because it comes with **the cash increase**.
(Cash increase is on the left side.)

Consulting Company Case

- Setting
 - Jane, Sam, and Tom and studied Data-mining at the same university.
 - Three of them decided to open a big data consulting firm.
 - They invested their own money:
Jane (\$12,000), Sam (\$6,000), Tom (\$2,000)
 - They made a corporation for their consulting business. (The name of the corporation is “ST Consulting”)

Asset	Liability Equity
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Example #7) *Providing Consulting service*

ST Consulting was established with \$20,000. There were following events.

	Mar. 1st~Mar.30th
Consulting Revenue (Cash)	\$1,000
Electricity Expense (Cash)	\$700

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Electricity Expense	\$700	Cash	\$700

Asset	Liability Equity
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Example #7) *Providing Consulting service*

ST Consulting was established with \$20,000. There were following events.

Cash	\$20,000	Capital Stock	\$20,000
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Cash	\$1,000	Revenue (gain)	\$1,000
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Electricity Expense	\$700	Cash	\$700
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→ Balance Sheet?

Cash	\$20,300		
		Capital Stock	\$20,000
Electricity Expense	\$700	Revenue	\$1,000

Asset	Liability Equity
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Example #7) *Providing Consulting service*

ST Consulting was established with \$20,000. There were following events.

Cash	\$20,000	Capital Stock	\$20,000
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Cash	\$1,000	Revenue (gain)	\$1,000
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Electricity Expense	\$700	Cash	\$700
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→ Balance Sheet?

Cash	\$20,300		
		Capital Stock	\$20,000
		Earnings	\$300

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Asset	Liability Equity
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Example #7) *Providing Consulting service*

ST Consulting was established with \$20,000. There were following events.

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Electricity Expense	\$700	Cash	\$700

→ Balance Sheet?

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$20,300	TOTAL LIABILITIES	\$0
		EQUITY	
		Capital Stock	\$20,000
		Earnings	\$300
		TOTAL EQUITY	\$20,300
TOTAL ASSETS	\$20,300	TOTAL LIABILITIES and EQUITY	\$20,300

Asset	Liability
	Equity

Example #7) *Providing Consulting service*

ST Consulting was established with \$20,000. There were following events.

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Electricity Expense	\$700	Cash	\$700
Revenue (gain)	\$1,000	Electricity Expense	\$700
		Earnings	\$300

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$20,300	TOTAL LIABILITIES	\$0
		EQUITY	
		Capital Stock	\$20,000
		Earnings	\$300
		TOTAL EQUITY	\$20,300
TOTAL ASSETS	\$20,300	TOTAL LIABILITIES and EQUITY	\$20,300

Asset

Liability

Equity

Example #7) *Providing Consulting service*

ST Consulting was established with \$20,000. There were following events.

Revenue (gain) \$1,000

Electricity Expense \$700

Earnings \$300

→ Income Statement?

	March
Consulting Revenue	\$1,000
Electricity Expense	\$700
Net income	\$300

“Income statement” has only Revenue (Gain) and Expense (loss) items.

Consulting Company Case

- Setting
 - Jane, Sam, and Tom and studied Data-mining at the same university.
 - Three of them decided to open a big data consulting firm.
 - They invested their own money:
Jane (\$12,000), Sam (\$6,000), Tom (\$2,000)
 - They made a corporation for their consulting business. (The name of the corporation is “ST Consulting”)
 - *They ran their business from November to December (multiple periods).*

Asset

Liability
Equity

Example #8) *Providing Consulting service – two-months case*

ST Consulting was established with \$20,000. There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000
Salary Expense (Cash)	\$2,000	\$2,000

ST Consulting was established.

Cash	\$20,000	Capital Stock	\$20,000
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During November

Cash	\$1,000	Revenue (gain)	\$1,000
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Salary Expense	\$2,000	Cash	\$2,000
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During December

Cash	\$5,000	Revenue (gain)	\$5,000
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Salary Expense	\$2,000	Cash	\$2,000
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Example #8) *Providing Consulting service – two-months case*

ST Consulting was established with \$5,000. There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000
Salary Expense (Cash)	\$2,000	\$2,000

At the end of November

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Salary Expense	\$2,000	Cash	\$2,000
Revenue (gain)	\$1,000	Salary Expense	\$2,000
Earnings (loss)	\$1,000		

Balance Sheet (on November 30th)

Cash	\$19,000		
		Capital Stock	\$20,000
Earnings	\$1,000		

Example #8) *Providing Consulting service – two-months case*

ST Consulting was established with \$5,000. There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000
Salary Expense (Cash)	\$2,000	\$2,000

At the end of November

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Salary Expense	\$2,000	Cash	\$2,000
Revenue (gain)	\$1,000	Salary Expense	\$2,000
Earnings (loss)	\$1,000		

Balance Sheet (on November 30th)

Cash	\$19,000		
		Capital Stock	\$20,000
		Earnings	(\$1,000)

Example #8) *Providing Consulting service – two-months case*

ST Consulting was established with \$5,000. There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000
Salary Expense (Cash)	\$2,000	\$2,000

At the end of November

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Salary Expense	\$2,000	Cash	\$2,000
Revenue (gain)	\$1,000	Salary Expense	\$2,000
Earnings (loss)	\$1,000		

Balance Sheet (on November 30th)

ASSETS		LIABILITIES AND EQUITY	
Cash	\$19,000	LIABILITIES	
		TOTAL LIABILITIES	\$0
		EQUITY	
		Capital Stock	\$20,000
		Earnings	(\$1,000)
		TOTAL EQUITY	\$19,000
TOTAL ASSETS	\$19,000	TOTAL LIABILITIES and EQUITY	\$19,000

Example #8) *Providing Consulting service – two-months case*

ST Consulting was established with \$5,000. There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000
Salary Expense (Cash)	\$2,000	\$2,000

At the end of November

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Salary Expense	\$2,000	Cash	\$2,000
Revenue (gain)	\$1,000	Salary Expense	\$2,000
Earnings (loss)	\$1,000		

At the End of December

Cash	\$5,000	Revenue (gain)	\$5,000
Salary Expense	\$2,000	Cash	\$2,000
Revenue (gain)	\$5,000	Salary Expense	\$2,000
		Earnings	\$3,000

Example #8) *Providing Consulting service – two-months case*

At the End of December

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Salary Expense	\$2,000	Cash	\$2,000
Revenue (gain)	\$1,000	Salary Expense	\$2,000
Earnings (loss)	\$1,000		
Cash	\$5,000	Revenue (gain)	\$5,000
Salary Expense	\$2,000	Cash	\$2,000
Revenue (gain)	\$5,000	Salary Expense	\$2,000
		Earnings	\$3,000

Re-arrange the above

Cash	\$22,000	Capital Stock	\$20,000
		Earnings	\$2,000

Example #8) *Providing Consulting service – two-months case*

Re-arrange the above (Or accumulated accounting records)

Cash	\$22,000	Capital Stock	\$20,000
		Earnings	\$2,000

Balance Sheet (on December 30th)

ASSETS		LIABILITIES AND EQUITY	
Cash	\$22,000	LIABILITIES	
		TOTAL LIABILITIES	\$0
		EQUITY	
		Capital Stock	\$20,000
		Earnings	\$2,000
		TOTAL EQUITY	\$22,000
TOTAL ASSETS	\$22,000	TOTAL LIABILITIES and EQUITY	\$22,000

Example #8) *Providing Consulting service – two-months case*

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000
Salary Expense (Cash)	\$2,000	\$2,000

- November

Revenue (gain)	\$1,000	Salary Expense	\$2,000
Earnings (loss)	\$1,000		

- December

Revenue (gain)	\$5,000	Salary Expense	\$2,000
		Earnings	\$3,000

Income Statement

	November	December
Consulting Revenue	\$1,000	\$5,000
Electricity Expense	\$2,000	\$2,000
Net income (loss)	\$(1,000)	\$3,000

Example #8) *Providing Consulting service – two-months case*

<Balance Sheet>

ST Consulting Balance Sheet November 30, 2021 and December 31, 2021

	Nov.	Dec.		Nov.	Dec.
ASSETS			LIABILITIES AND EQUITY		
Cash	\$19,000	\$22,000	LIABILITIES		
			TOTAL LIABILITIES	0\$	\$0
			EQUITY		
			Capital Stock	\$20,000	\$20,000
			Earnings	(\$1,000)	\$2,000
			TOTAL EQUITY	\$19,000	\$22,000
TOTAL ASSETS	\$19,000	\$22,000	TOTAL LIABILITIES and EQUITY	\$19,000	\$22,000

Any Questions?

Consulting Company Case #3

- Setting
 - Jane, Sam, and Tom and studied Data-mining at the same university.
 - Three of them decided to open a big data consulting firm.
 - They invested their own money:
Jane (\$12,000), Sam (\$6,000), Tom (\$2,000)
 - They made a corporation for their consulting business. (The name of the corporation is “ST Consulting”)
 - For now, they hired Sally and Nancy. (Only Sally and Nancy are the employees of the company.)
 - ST Consulting borrowed \$9,000 from a bank for ten years.

Asset

Liability
Equity

Example #9) *Providing Consulting service – on-credit revenue*

ST Consulting was established with \$20,000, and \$9,000 bank loan.

There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

ST Consulting was established.

During November

Asset

Liability
Equity

Example #9) *Providing Consulting service – on-credit revenue*

ST Consulting was established with \$20,000, and \$9,000 bank loan.

There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

ST Consulting was established.

During November

Asset

Liability
Equity

Example #9) *Providing Consulting service – on-credit revenue*

ST Consulting was established with \$20,000, and \$9,000 bank loan.

There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

Summary of earnings

At the end of November

Balance Sheet on Nov. 30th

Asset	Liability
	Equity

Example #9) *Providing Consulting service – on-credit revenue*

ST Consulting was established with \$20,000, and \$9,000 bank loan.

There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

Summary of earnings

At the end of November

Balance Sheet on Nov. 30th

Asset

Liability

Equity

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During December

Asset

Liability
Equity

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During December

Asset

Liability
Equity

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Interest Expense (Cash)	\$40	\$40	\$40

Summary of earnings

At the end of December

Balance Sheet on Dec. 31st

Asset	Liability Equity
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Summary of earnings

At the end of December

Balance Sheet on Dec. 31st

Asset

Liability

Equity

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Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

During January

Asset

Liability
Equity

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There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

During January

Asset

Liability
Equity

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There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
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Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

Summary of earnings

At the end of January

Balance Sheet on Jan. 31st.

Asset

Liability
Equity

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There were following events.

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Interest Expense (Cash)	\$40	\$40	\$40

Summary of earnings

At the end of January

Balance Sheet on Jan. 31st.

Asset

Liability
Equity

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Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

Balance Sheet at the end of three months

Asset

Liability
Equity

Example #9) *Providing Consulting service – on-credit revenue*

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There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

Balance Sheet at the end of three months

ST Consulting Case #3

- ST Consulting started its business on 1st of November.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

- What were the profits of each month? (On-credit revenue will be paid one year later. At this moment, the customers are rich. They will pay the bill one year later.)
- How much cash did ST Consulting have at the end of each month?
- What were the value of ST Consulting at the end of each month?
(We are mainly looking at the past transactions, not the future events.)

Asset	Liability Equity
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More examples)

The company buys land by paying \$10,000 of cash.

Land	\$10,000	Cash	\$10,000
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The company borrows money (\$5,000) from a bank.

Cash	\$5,000	Bank Loan	\$5,000
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The company pays interest expense by paying \$150 of cash.

Interest Expense	\$150	Cash	\$150
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The company repays the whole bank loan.

Bank Loan	\$5,000	Cash	\$5,000
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Homework #1

- The homework will be posted on E-class
- Due date is March 21, 09:59 AM

- *Example*

Let's assume that you are the head of accounting department of ABC Inc. The following are transactions of ABC Inc. Please **make general entries** on each transaction.

(Tr#1)

ABC Inc. issued stocks. The capital stock was increased by \$1,000. The company received \$1,000 of cash for this.

Any Questions?