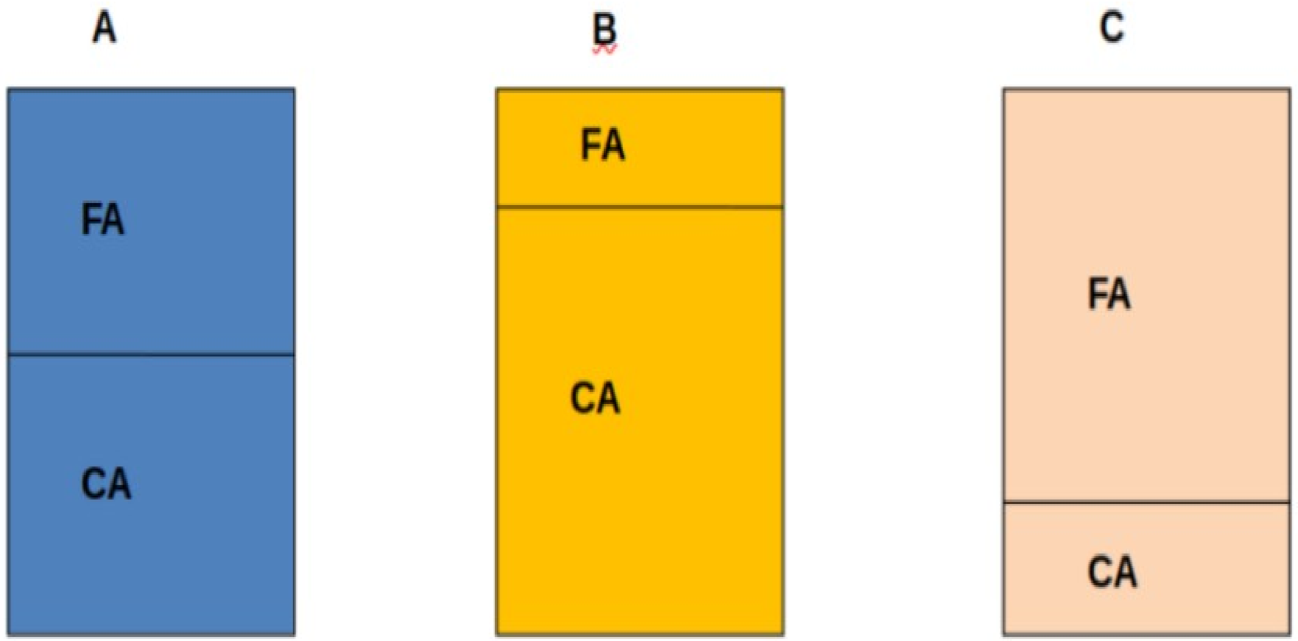
Assets

Question

1) What types of companies would you classify into each of the following balance sheet asset structures?



Assets

A	B	C
Retail Plenty of stores Plenty of inventory	- Service based companies - Startups (tech-driven) - Low fixed assets, money received in cash	- Transport companies - Lots of trucks - Industrial companies - High FA (Fixed Assets) - use lots of buildings

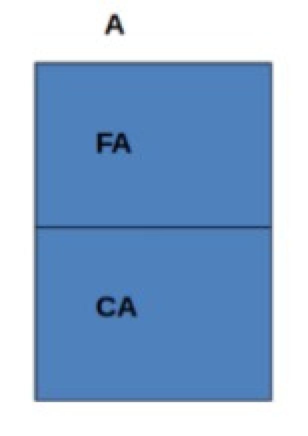
Balance Sheet

A — “Balanced” (FA ≈ CA)

Companies that need meaningful **plant & equipment** and a lot of **working capital (inventory + receivables)**.

Auto manufacturers (e.g., Toyota/Ford): assembly plants, tooling and robots (FA) plus big inventories of vehicles/parts and dealer receivables (CA).

Beverage/CPG manufacturers (e.g., Coca-Cola bottlers, Nestlé factories): bottling/processing lines and warehouses (FA) with sizable raw/finished-goods inventory and trade receivables (CA).



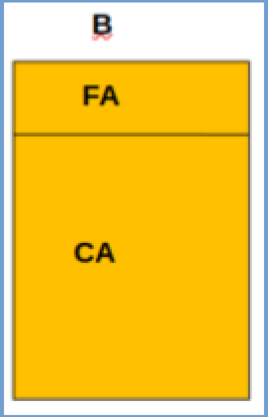
Balance Sheet

B — Current-asset heavy (CA ≫ FA)

Asset-light operators with little **Plant Property and Equipment** but large cash, **receivables** and/or i**nventory.**

- Retailers/wholesalers (e.g., Walmart, Ingram Micro): huge merchandise **inventories** and **customer receivables**; stores/warehouses often leased so Plant Property and Equipment is relatively small.

- Software/SaaS or agencies (e.g., Salesforce): minimal Plant Property and Equipment- most assets are cash/short-term investments and trade receivables; the real "assets" are people and code (not on the balance sheet).



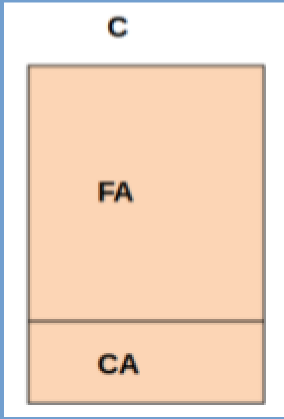
Balance Sheet

C — Fixed-asset heavy (FA ≫ CA)

Capital-intensive, infrastructure- or property-based businesses; low working capital needs.

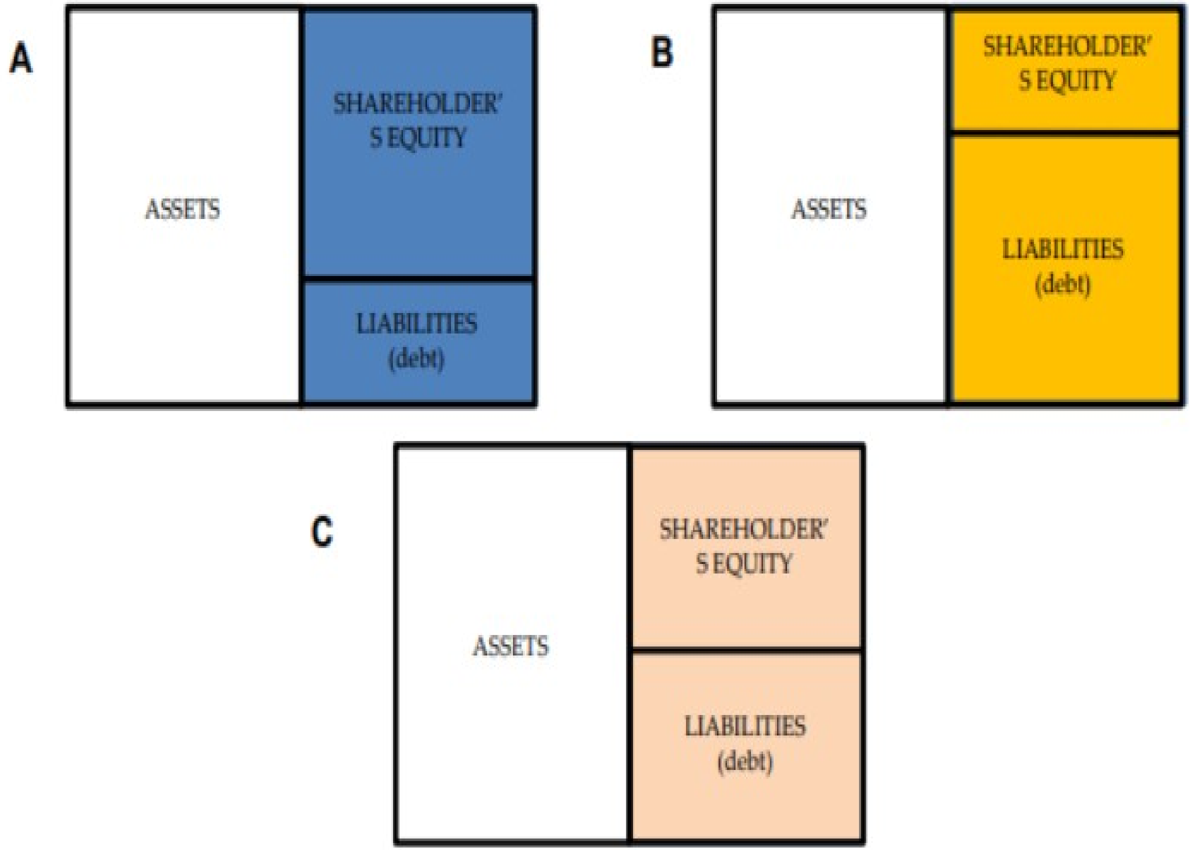
- Utilities/telecom - power plants, grids, spectrum and networks dominate; little inventory or receivables relative to Plant Property and Equipment.

- Airlines/railroads/REITs (e.g., Delta Air Lines): fleets, tracks or investment property are massive long-lived assets; CA is a small slice.



Capital Structure

QUESTION 2: Which capital structure do you prefer?



Solutions in other slid

Structure Type	Description of Capital Structure	Example Companies
A (Low Debt)	Low levels of liabilities (debt) and higher shareholder equity. Often seen in companies that are more risk-averse or in stable industries.	Alphabet (Google), Microsoft
B (Balanced Debt and Equity)	Balanced levels of liabilities and shareholder equity. Common in mature industries that need both equity and debt financing for growth.	General Electric, Ford
C (High Debt)	Higher levels of liabilities (debt) relative to equity. Often seen in industries that require large capital investments, such as manufacturing, or in companies leveraging debt for expansion.	Tesla, Boeing

Case Study

Detective Analysis Balance Sheet Case Study

	(1)	(2)	(3)	(4)	(5)
Cash and Marketable Securities	8.5%	0.1%	9.5%	12.1%	1.1%
Receivables	81.9	2.8	1.4	25.7	24.1
Inventories	—	2.0	9.0	23.2	23.6
Property, Plant, and Equipment (net)	1.2	74.3	62.6	20.0	41.4
Other Assets	8.4	20.8	17.5	19.0	9.8
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Current Liabilities	38.8%	8.4%	10.8%	38.3%	29.1%
Long-Term Debt	50.0	47.7	28.1	9.3	28.3
Other Noncurrent Liabilities	—	13.9	6.7	3.9	6.2
Shareholders' Equity	11.2	30.0	54.4	48.5	36.4
Total Liabilities and Shareholders' Equity	100.0%	100.0%	100.0%	100.0%	100.0%

Accounting Ledger

Question:

1) On the 1st April 2023, we start a business with 5,000,000 in cash
2) Create the journal entry for this item.

Accounting Ledger

Solution

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c Dr.		5,000,000	
	To Capital A/c			5,000,000
	(Being a business started with cash)			

Accounting Ledger

Question 10 minutes

2) On 1st April 2023, start a business with cash 100,000, furniture 200,000 and building 1,000,000

Accounting Ledger

Solution

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c Dr.		100,000	
	Furniture A/c Dr.		200,000	
	Building A/c Dr.		1,000,000	
	To Capital A/c			1,300,000
	(Being business started with cash, furniture, and building)			

Accounting Ledger

Question (5 minutes)

- We purchase a new machine for our company for $15,000 on credit.

Accounting Ledger

Solution

- Machinery is an asset
- Debit $15,000 to our Fixed Assets account (increase)
- We purchased the machine on **credit** so we increased our liabilities.
- Credit the Accounts Payable $15,000
- We now owe the supplier of the machine (we did not pay for yet)

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Fixed Assets	Purchase of equipment	15000	
	Accounts Payable	Owe client		15000

Accounting Ledger

Question (5 minutes)

- We make a $500 sale to a customer who pays with credit.

Accounting Ledger

Solution

- Increase our Revenue account (Income Statement) through a credit
- Increase our Accounts Receivable (Asset) with a debit

6.10 Account Ledger

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Accounts Receivable	Sale to customer on credit	500	0
XX/XX/XXXX	Revenue	Sale to customer on credit	0	500

Accounting Ledger

Question

1) Want to start a clothing business with a sum of $100,000
2) Can purchase equipment for the store for $15,000
3) Hires 2 staff for $5,000 each for customer support.
4) Purchased stock for $75,000 which was re-sold for $95,000.

Accounting Ledger

Solution (1)

6.12 Accounting Ledger

6.12.1 1/4/2019 - Capital Investment

Date	Account	Notes	Debit	Credit
1/4/2019	Cash A/c	Capital invested	$100,000.00	
1/4/2019	Capital A/c			$100,000.00

- **Current Assets (Cash)**: Increases by $100,000.00
- **Equity (Capital)**: Increases by $100,000.00

Accounting Ledger

Solution (2)

6.12.2 1/4/2019 - Purchase of Furniture and Equipment

Date	Account	Notes	Debit	Credit
1/4/2019	Furniture and Equipment A/c	Purchase of furniture and equipment	$15,000.00	
1/4/2019	Cash A/c			$15,000.00

- **Non-Current Assets (Furniture and Equipment)**: Increases by $15,000.00
- **Current Assets (Cash)**: Decreases by $15,000.00

Accounting Ledger

Soluton (3)

6.12.4 30/4/2019 - Payment of Salaries

Date	Account	Notes	Debit	Credit
30/4/2019	Salaries A/c	Payment of salaries	$10,000.00	
30/4/2019	Cash A/c			$10,000.00

- **Expenses (Salaries)**: Increases by $10,000.00 (This would later reduce Equity)
- **Current Assets (Cash)**: Decreases by $10,000.00
- Equity Reduction: The $10,000.00 salary expense reduces the net income for the period, which in turn reduces retained earnings (a component of equity).

Accounting Ledger

Solution (4.1)

6.12.3 1/4/2019 - Purchase of Goods

Date	Account	Notes	Debit	Credit
1/4/2019	Purchase A/c	Purchase of goods	$75,000.00	
1/4/2019	Cash A/c			$75,000.00

- **Expenses (Purchase)**: Increases by $75,000.00 (This would later reduce Equity)
- **Current Assets (Cash)**: Decreases by $75,000.00
- Expenses reduce equity (i.e. expenses increase, so net income decreases).
- Net income (or loss) over a period is added to (or subtracted from) retained earnings, a component of equity.
- Higher expense leads to lower net income, which in turn reduces the retained earnings and, consequently, the overall equity

Accounting Ledger

Solution (4.2)

6.12.5 Apr-19 - Sales made against Cash

Date	Account	Notes	Debit	Credit
Apr-19	Cash A/c	Sales made against cash	$95,000.00	
Apr-19	Sales A/c			$95,000.00

- **Current Assets (Cash)**: Increases by $95,000.00
- **Revenue (Sales)**: Increases by $95,000.00 (This would later increase Equity)
- Revenue directly contributes to increasing equity through its impact on net income and retained earnings.

Accounting Ledger

Accounting Ledger

Accounting Ledger

Accounting Ledger

Accounting Ledger