

Chapter 2 – Accounting for Business Transactions
MGMT 1A

I. The Language of Business

A. Refresher:

Debits on the Left

Credits on the Right

How do you increase Assets? *DR*

How do you decrease Assets? *CR*

How do you increase Liabilities? *CR*

How do you decrease Liabilities? *DR*

How do you increase Revenues? *CR*

How do you decrease Revenues? *DR*

How do you increase Expenses? *DR*

How do you decrease Expenses? *CR*

What is the Accounting Equation? *(ALOE)* Assets = Liabilities + Owners' Equity

B. Journals and Ledgers

1. General Journal = Where the Company records all of its Journal Entries.

a. Everything we do in this class is from the Company's perspective.

b. Record the Debits first *Left justified*

c. Record the Credits last *Right justified*

DR: Cash 100 ← Left justified

CR: Accounts Receivable 100 ← Right justified

d. In the general journal, we also record the account number and a

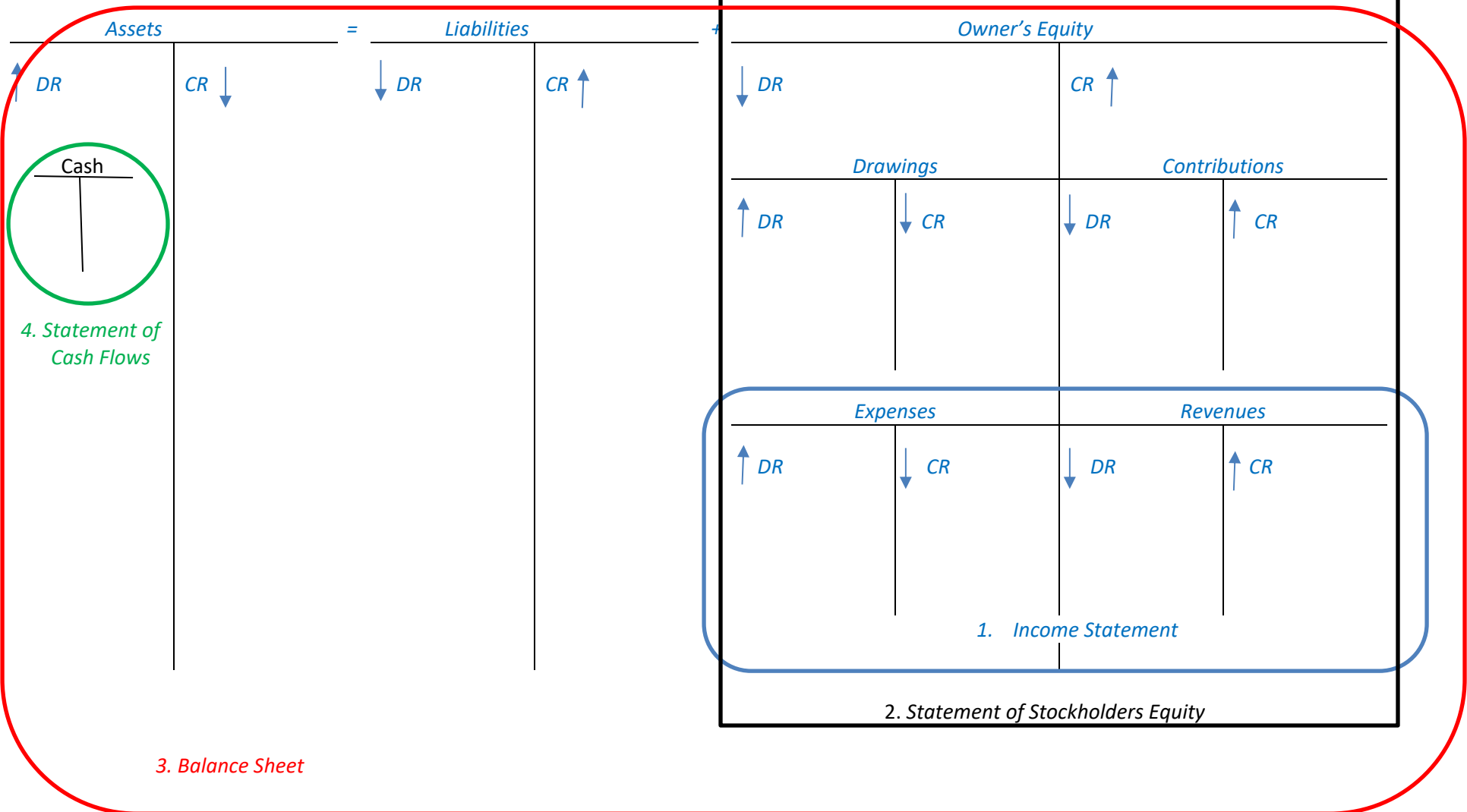
description for each entry

2. General Ledger = Where the Company posts all of its journal entries; used to create

the Financial Statements. (See next page)

Chapter 2 – Accounting for Business Transactions
MGMT 1A

C. General Ledger (Giant T-Accounts):



Chapter 2 – Accounting for Business Transactions
MGMT 1A

D. The Lemonade Stand

A = L + OE

- a. Prepare the journal entry: For the \$20 from their piggy banks

DR: Cash \$20
CR: Contributions \$20
(Contributed cash to lemonade stand)

+ 20 = 0 + \$20

- b. Prepare the journal entry: For the \$30 from Grandma

DR: Cash \$30
CR: Notes Payable \$30
(To record loan from Grandma)

+ 30 = +30

\$50 = \$30 + \$20

- c. Prepare the journal entry: Spend \$35 at Costco
(\$25 lemonade stand; \$10 lemons, cups, sugar)

DR: PP&E \$25
DR: Supplies \$10
CR: Cash \$35
(To record purchases at Costco)

-35

+25

+10

\$50 = \$30 + \$20

- d. Prepare the journal entries: Sell 10 cups of lemonade for
\$2 each (cash). Use up all the lemons, cups and sugar

DR: Cash \$20
CR: Revenue \$20
(Sold 10 cups of lemonade)

+20 + 20

-10 - 10

DR: COGS \$10
CR: Supplies \$10
(Used up all supplies)

\$60 = \$30 + \$30

- e. Prepare the journal entry: Pay back Grandma \$5

DR: Notes Payable \$5
CR: Cash \$5
(Pay Grandma back)

-5 -5

\$55 = \$25 + \$30

Cash	
20	
30	
	35
20	
35	

Make sure we have enough cash to pay Grandma back the \$5

Chapter 2 – Accounting for Business Transactions
MGMT 1A

II. Bruin Bites

A. Bruin Bites Food Truck is a new mobile eatery that can be found parked just off campus in Westwood. Bruin Bites serves food during the late-night hours to solve the age-old problem of ‘who can drive us to get food?!?!’ after a long night out...studying. Bruin Bites serves food from 10PM – 3AM Tuesday through Saturday, and the menu caters to the tastes of the university community.

B. Record the journal entries in the General Journal:

1. Bruin Bites owners Joe and Josie Bruin contribute \$40,000 to the company.

DR: Cash \$40,000
CR: Contributions \$40,000
(To record contribution of capital)

2. Bruin Bites uses cash to buy a catering truck \$12,000 and a permanent parking spot in

Westwood \$10,000.
DR: PP&E \$12,000
DR: Land \$10,000
CR: Cash \$22,000
(To record purchase of PP&E)

3. Bruin Bites rents fryers, stoves and refrigerators for 1 month, cash payment of \$3,500.

DR: Rent Expense \$3,500
CR: Cash \$3,500
(To record rent expense for equipment)

4. Bruin Bites pays salaries \$700.

DR: Salaries Expense \$700
CR: Cash \$700
(To record payment of salaries)

5. Bruin Bites advertises in the Daily Bruin \$300 but will pay for it later.

DR: Advertising Expense \$300
CR: Accounts Payable \$300
(To record payable for Daily Bruin)

6. Bruin Bites rented out its truck to Fry Guys last Sunday and Monday \$4,000. Fry Guys will pay at the end of the month.

DR: Accounts Receivable \$4,000
CR: Revenue \$4,000
(To record amount due from Fry Guys)

Chapter 2 – Accounting for Business Transactions
MGMT 1A

7. Collect \$1,000 cash from Fry Guys on invoice billed in #6 above.

DR: Cash \$1,000
CR: Accounts Receivable \$1,000
(Collect partial payment from Fry Guys)

8. Bruin Bites orders potatoes, ground beef, soda, bread, cheese, and other food supplies it will need to operate for the next 2 weeks \$3,000 but will pay for it later.

DR: Inventory \$3,000
CR: Accounts Payable \$3,000
(To record purchase of food/supplies)

9. Pay the advertising bill in #5 above.

DR: Accounts Payable \$300
CR: Cash \$300
(To pay Daily Bruin invoice)

10. Owner draws out \$1,400 from the Company

DR: Drawings \$1,400
CR: Cash \$1,400
(To record drawing paid to owner)

11. Bruin Bites parks in Westwood on Thursday night and sells food, collecting \$5,000. Assume Bruin Bites only accepts cash (no credit/debit cards, Venmo, etc.) Ingredients costing \$2,000 were used.

DR: Cash \$5,000
CR: Revenue \$5,000
DR: Cost of Goods Sold \$2,000
CR: Inventory \$2,000
(To record sales of inventory to customers for cash)

12. Bruin Bites borrows \$3,000 from the Bank.

DR: Cash \$3,000
CR: Notes Payable \$3,000
(To record loan from bank)

Chapter 2 – Accounting for Business Transactions
MGMT 1A

Bruin Bites General Journal				
1	DR: Cash	101	40,000	
	CR: Contributions	301		40,000
	(To record contribution of capital)			
2	DR: PP&E	104	12,000	
	DR: Truck	106	10,000	
	CR: Cash	101		22,000
	(To record purchase of PPE)			
3	DR: Rent Expense	501	3,500	
	CR: Cash	101		3,500
	(To record rent expense for equipment)			
4	DR: Salaries Expense	501	700	
	CR: Cash	101		700
	(To record payment of salaries)			
5	DR: Advertising Expense	501	300	
	CR: Accounts Payable	201		300
	(To record payable for Daily Bruin)			
6	DR: Accounts Receivable	102	4,000	
	CR: Revenue	401		4,000
	(To record amount due from Fry Guys)			

Chapter 2 – Accounting for Business Transactions
MGMT 1A

Bruin Bites General Journal				
7	DR: Cash	101	1,000	
	CR: Accounts Receivable	102		1,000
	(Collect partial payment from Fry Guys)			
8	DR: Inventory	103	3,000	
	CR: Accounts Payable	201		3,000
	(To record purchase of food/supplies)			
9	DR: Accounts Payable	201	300	
	CR: Cash	101		300
	(To pay Daily Bruin invoice)			
10	DR: Drawings	302	1,400	
	CR: Cash	101		1,400
	(To record drawing paid to owner)			
11	DR: Cash	101	5,000	
	CR: Revenue	401		5,000
	DR: Cost of Goods Sold	501	2,000	
	CR: Inventory	103		2,000
	(Record sales of inventory to customers for cash)			
12	DR: Cash	101	3,000	
	CR: Notes Payable	202		3,000
	(To record loan from bank)			

Chapter 2 – Accounting for Business Transactions
MGMT 1A

Bruin Bites
General Ledger

Assets	=	Liabilities	+	Owner's Equity	
Cash (101) <hr/> <div>40,000</div> <div>22,000</div> <div>3,500</div> <div>700</div> <div>1,000</div> <div>300</div> <div>1,400</div> <div>5,000</div> <div>3,000</div> <hr/> <div>21,100</div>		Accounts Payable (201) <hr/> <div>300</div> <div>3,000</div> <div>300</div> <hr/> <div>3,000</div>		Drawings (302) <hr/> <div>1,400</div> <div>1,400</div> <hr/>	Contributions (301) <hr/> <div>40,000</div> <div>40,000</div> <hr/>
Accounts Receivable (102) <hr/> <div>4,000</div> <div>1,000</div> <div>3,000</div> <hr/>		Notes Payable (202) <hr/> <div>3,000</div> <div>3,000</div> <hr/>		Expenses (501) <hr/> <div>3,500</div> <div>700</div> <div>300</div> <div>2,000</div> <hr/> <div>2,500</div>	Revenues (401) <hr/> <div>4,000</div> <div>5,000</div> <hr/> <div>9,000</div>
Inventory (103) <hr/> <div>3,000</div> <div>2,000</div> <div>1,000</div> <hr/>					
PP&E (104) <hr/> <div>12,000</div> <div>12,000</div> <hr/>					
Land (106) <hr/> <div>10,000</div> <div>10,000</div> <hr/>					

Chapter 2 – Accounting for Business Transactions
MGMT 1A

III. Apple Financial Statements

Apple Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 29, 2018	September 30, 2017	September 24, 2016
Net sales	\$ 265,595	\$ 229,234	\$ 215,639
Cost of sales	163,756	141,048	131,376
Gross margin	101,839	88,186	84,263
Operating expenses:			
Research and development	14,236	11,581	10,045
Selling, general and administrative	16,705	15,261	14,194
Total operating expenses	30,941	26,842	24,239
Operating income	70,898	61,344	60,024
Other income/(expense), net	2,005	2,745	1,348
Income before provision for income taxes	72,903	64,089	61,372
Provision for income taxes	13,372	15,738	15,685
Net income	\$ 59,531	\$ 48,351	\$ 45,687
Earnings per share:			
Basic	\$ 12.01	\$ 9.27	\$ 8.35
Diluted	\$ 11.91	\$ 9.21	\$ 8.31
Shares used in computing earnings per share:			
Basic	4,955,377	5,217,242	5,470,820
Diluted	5,000,109	5,251,692	5,500,281

See accompanying Notes to Consolidated Financial Statements.

A. Heading:

Company Name
Title of Statement
Date

(For the Year Ended 12/31/XX – or – As of 12/31/XX)

Period Statement

(I/S, SOCF, SSOE)

Point in time Statement

(B/S)

B. Units = in millions

Chapter 2 – Accounting for Business Transactions
MGMT 1A

Apple Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Common Stock and Additional Paid-In Capital		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances as of September 26, 2015	5,578,753	\$ 27,416	\$ 92,284	\$ (345)	\$ 119,355
Net income	—	—	45,687	—	45,687
Other comprehensive income/(loss)	—	—	—	979	979
Dividends and dividend equivalents declared at \$2.18 per share or RSU	—	—	(12,188)	—	(12,188)
Repurchase of common stock	(279,609)	—	(29,000)	—	(29,000)
Share-based compensation	—	4,262	—	—	4,262
Common stock issued, net of shares withheld for employee taxes	37,022	(806)	(419)	—	(1,225)
Tax benefit from equity awards, including transfer pricing adjustments	—	379	—	—	379
Balances as of September 24, 2016	5,336,166	31,251	96,364	634	128,249
Net income	—	—	48,351	—	48,351
Other comprehensive income/(loss)	—	—	—	(784)	(784)
Dividends and dividend equivalents declared at \$2.40 per share or RSU	—	—	(12,803)	—	(12,803)
Repurchase of common stock	(246,496)	—	(33,001)	—	(33,001)
Share-based compensation	—	4,909	—	—	4,909
Common stock issued, net of shares withheld for employee taxes	36,531	(913)	(581)	—	(1,494)
Tax benefit from equity awards, including transfer pricing adjustments	—	620	—	—	620
Balances as of September 30, 2017	5,126,201	35,867	98,330	(150)	134,047
Cumulative effect of change in accounting principle	—	—	278	(278)	—
Net income	—	—	59,531	—	59,531
Other comprehensive income/(loss)	—	—	—	(3,026)	(3,026)
Dividends and dividend equivalents declared at \$2.72 per share or RSU	—	—	(13,735)	—	(13,735)
Repurchase of common stock	(405,549)	—	(73,056)	—	(73,056)
Share-based compensation	—	5,443	—	—	5,443
Common stock issued, net of shares withheld for employee taxes	34,334	(1,109)	(948)	—	(2,057)
Balances as of September 29, 2018	4,754,986	\$ 40,201	\$ 70,400	\$ (3,454)	\$ 107,147

See accompanying Notes to Consolidated Financial Statements.

Chapter 2 – Accounting for Business Transactions
MGMT 1A

Apple Inc.		
CONSOLIDATED BALANCE SHEETS		
(In millions, except number of shares which are reflected in thousands and par value)		
	September 29, 2018	September 30, 2017
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 25,913	\$ 20,289
Marketable securities	40,388	53,892
Accounts receivable, net	23,186	17,874
Inventories	3,956	4,855
Vendor non-trade receivables	25,809	17,799
Other current assets	12,087	13,936
Total current assets	131,339	128,645
Non-current assets:		
Marketable securities	170,799	194,714
Property, plant and equipment, net	41,304	33,783
Other non-current assets	22,283	18,177
Total non-current assets	234,386	246,674
Total assets	\$ 365,725	\$ 375,319
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 55,888	\$ 44,242
Other current liabilities	32,687	30,551
Deferred revenue	7,543	7,548
Commercial paper	11,964	11,977
Term debt	8,784	6,496
Total current liabilities	116,866	100,814
Non-current liabilities:		
Deferred revenue	2,797	2,836
Term debt	93,735	97,207
Other non-current liabilities	45,180	40,415
Total non-current liabilities	141,712	140,458
Total liabilities	258,578	241,272
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 12,600,000 shares authorized; 4,754,985 and 5,126,201 shares issued and outstanding, respectively	40,201	35,867
Retained earnings	70,400	98,330
Accumulated other comprehensive income(loss)	(3,454)	(150)
Total shareholders' equity	107,147	134,047
Total liabilities and shareholders' equity	\$ 365,725	\$ 375,319

Chapter 2 – Accounting for Business Transactions
MGMT 1A

Apple Inc.			
CONSOLIDATED STATEMENTS OF CASH FLOWS			
(In millions)			
	Years ended		
	September 29, 2018	September 30, 2017	September 24, 2016
Cash and cash equivalents, beginning of the year	\$ 20,289	\$ 20,484	\$ 21,120
Operating activities:			
Net income	59,531	48,351	45,687
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	10,903	10,157	10,505
Share-based compensation expense	5,340	4,840	4,210
Deferred income tax expense/(benefit)	(32,590)	5,966	4,938
Other	(444)	(166)	486
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,322)	(2,093)	527
Inventories	828	(2,723)	217
Vendor non-trade receivables	(8,010)	(4,254)	(51)
Other current and non-current assets	(423)	(5,318)	1,055
Accounts payable	9,175	8,966	2,117
Deferred revenue	(44)	(626)	(1,554)
Other current and non-current liabilities	38,490	1,125	(1,906)
Cash generated by operating activities	77,434	64,225	66,231
Investing activities:			
Purchases of marketable securities	(71,356)	(159,486)	(142,428)
Proceeds from maturities of marketable securities	55,881	31,775	21,258
Proceeds from sales of marketable securities	47,838	94,564	90,536
Payments for acquisition of property, plant and equipment	(13,313)	(12,451)	(12,734)
Payments made in connection with business acquisitions, net	(721)	(329)	(297)
Purchases of non-marketable securities	(1,871)	(521)	(1,388)
Proceeds from non-marketable securities	353	126	—
Other	(745)	(124)	(924)
Cash generated by/(used in) investing activities	16,066	(46,446)	(45,977)
Financing activities:			
Proceeds from issuance of common stock	669	555	495
Payments for taxes related to net share settlement of equity awards	(2,527)	(1,874)	(1,570)
Payments for dividends and dividend equivalents	(13,712)	(12,769)	(12,150)
Repurchases of common stock	(72,738)	(32,900)	(29,722)
Proceeds from issuance of term debt, net	6,969	28,662	24,954
Repayments of term debt	(6,500)	(3,500)	(2,500)
Change in commercial paper, net	(37)	3,852	(397)
Cash used in financing activities	(87,876)	(17,974)	(20,890)
Increase/(Decrease) in cash and cash equivalents	5,624	(195)	(636)
Cash and cash equivalents, end of the year	\$ 25,913	\$ 20,289	\$ 20,484
Supplemental cash flow disclosure:			
Cash paid for income taxes, net	\$ 10,417	\$ 11,591	\$ 10,444
Cash paid for interest	\$ 3,022	\$ 2,092	\$ 1,316

See accompanying Notes to Consolidated Financial Statements.

C. Standard conventions:

- Most recent year is presented first/left justified
- Show three years: (*Period Statement*)
 - Income Statement
 - Statement of Shareholders Equity
 - Statement of Cash Flows
- Show two years: (*Point in time Statement*)
 - Balance Sheet

Chapter 2 – Accounting for Business Transactions
MGMT 1A

IV. Create the basic financial statements for Bruin Bites

A. The Basics:

1. Make sure the General Ledger balances ($A = L + OE$) $Assets = \$47,100$
 $Liab: \$6,000 + OE: \$41,100 = \$47,100$

If you are out of balance STOP!

- a. How much are we off? \$3 (odd number). Look for an account that has this balance - was it skipped or is it a typo.

Debits	Credits
8	
	21
16	3 ← missing
<u>24</u>	21 24

- b. How much are we off? \$6 (even number). Look for an account that has the wrong sign.

Debits	Credits
8	
	21
16	
3	3 ← wrong side
<u>27</u>	<u>21</u>

- c. How much are we off? \$495. If the sum of the digits is divisible by 9, it is a transposition error. Transposition means the digits are in the wrong order.

Debits	Credits
103	
	805
207	
702	
<u>310</u>	<u>805</u>
805	

$$4 + 9 + 5 = 18 \text{ (divisible by 9)}$$

Chapter 2 – Accounting for Business Transactions
MGMT 1A

B. Income Statement

1. Which accounts belong on the Income Statement? Revenue & Expense.

<i>Bruin Bites</i>		
<i>Income Statement</i>		
<i>For the year ended 12/31</i>		
<i>Revenue (Sales)</i>		<i>\$9,000</i>
<i>Expenses</i>		
<i>COGS</i>	<i>\$2,000</i>	
<i>Rent Expense</i>	<i>\$3,500</i>	
<i>Salaries Expense</i>	<i>\$700</i>	
<i>Advertising Expense</i>	<i>\$300</i>	
<i>Total Expenses</i>		<i><u>\$6,500</u></i>
<i>Net Income (= Revenue – Expense)</i>		<i><u>\$2,500</u></i>

We don't use " – " sign in accounting; we use "()" to show negative numbers

We don't need to () the expenses, because a sophisticated investor knows to subtract expenses from revenue

The only time we use () on an income statement is:

To signify a Net Loss (when expenses > revenues)

Chapter 2 – Accounting for Business Transactions
MGMT 1A

C. Statement of Owner's Equity

1. Which accounts belong on the Statement of Owner's Equity? Contributions & Drawings/Distributions.
2. Rollforward statement – explains how we got from the beginning balance to the ending balance

<i>Bruin Bites</i>		
<i>Statement of Owner's Equity</i>		
<i>For the Year Ended 12/31</i>		
<i>Beginning Capital</i>		<i>\$0</i>
<i>Capital Contributions</i>		<i>\$40,000</i>
<i>Net Income</i>		<i>\$2,500</i>
<i>Drawings</i>		<i><u>\$1,400</u></i>
<i>Ending Capital</i>		<i><u>\$41,100</u></i>

An alternative way to present the Statement of Owner's (Stockholder's) Equity

<i>Common Stock</i>	<i>\$40,000</i>
<i>Beginning Retained Earnings</i>	<i>\$0</i>
<i>Net Income</i>	<i>\$2,500</i>
<i>Drawings</i>	<i><u>\$1,400</u></i>
<i>Ending Retained Earnings</i>	<i>\$1,100</i>
<i>Ending Owner's Equity</i>	<i><u>\$41,100</u></i>

Called
"Statement
of Retained
Earnings"

Chapter 2 – Accounting for Business Transactions
MGMT 1A

D. Balance Sheet

1. Snapshot as of a point in time (*Titled, "As of"*)
2. Classified presentation ← *We break assets and liabilities up into these categories:*
 - a. Current = we expect to use up within a year
 - b. Noncurrent = will last longer than a year

Chapter 2 – Accounting for Business Transactions
MGMT 1A

3. Order of liquidity – present assets and liabilities in order of liquidity (most to least liquid)

CURRENT ASSETS (in order of liquidity)

“Liquid” means: How close is it to CASH?

Cash

Investments (Marketable Securities)

Accounts Receivable

Merchandise Inventory

Prepaid Expense

Supplies

NONCURRENT ASSETS

Fixed Assets (PP&E)

Land

Intangible Assets (means you can't touch them, like patent, copyright, customer list)

CURRENT LIABILITIES – we expect to pay in the near future.

Payables (Accounts Payable, Notes Payable, Tax Payable, Rent Payable)

Unearned Revenue (also called Deferred Revenue)

NONCURRENT LIABILITIES – not all going to be paid off within a year

Bonds

Loans (also called, “Notes Payable”)

Chapter 2 – Accounting for Business Transactions
MGMT 1A

<i>Bruin Bites</i>			
<i>Balance Sheet</i>			
<i>As of 12/31</i>			
<i>Assets</i>		<i>Liabilities</i>	
<i>Current Assets</i>		<i>Current Liabilities</i>	
<i>Cash</i>	<i>\$21,100</i>	<i>Accounts Payable</i>	<i><u>\$3,000</u></i>
<i>Accounts Receivable</i>	<i>3,000</i>	<i>Total Current Liabilities</i>	<i><u>\$3,000</u></i>
<i>Inventory</i>	<i><u>1,000</u></i>		
<i>Total Current Assets</i>	<i>\$25,100</i>	<i>Non-current Liabilities</i>	
		<i>Notes Payable</i>	<i>\$3,000</i>
<i>Non-current Assets</i>			
<i>PP&E</i>	<i>\$12,000</i>	<i>Owners' Equity</i>	<i>\$41,100</i>
<i>Land</i>	<i><u>\$10,000</u></i>		
<i>Total Assets</i>	<i><u>\$47,100</u></i>	<i>Total Liabilities & Owners Equity</i>	<i><u>\$47,100</u></i>