DIAGRAM OF T-ACCOUNTS

Balance Sheet as of 12/31/2100

Assets	=	Liabilities	+	Equity
↑ ↓	=	↓ ↑	+	↓ ↑ ← ←

Income Statement, year ended 12/31/2100

T-Account

| Debit | Credit |

Revenue	-	Expense
↓ ↑	-	↑ ↓

Profit or loss recorded to Retained Earnings

= Net income increases RE → →
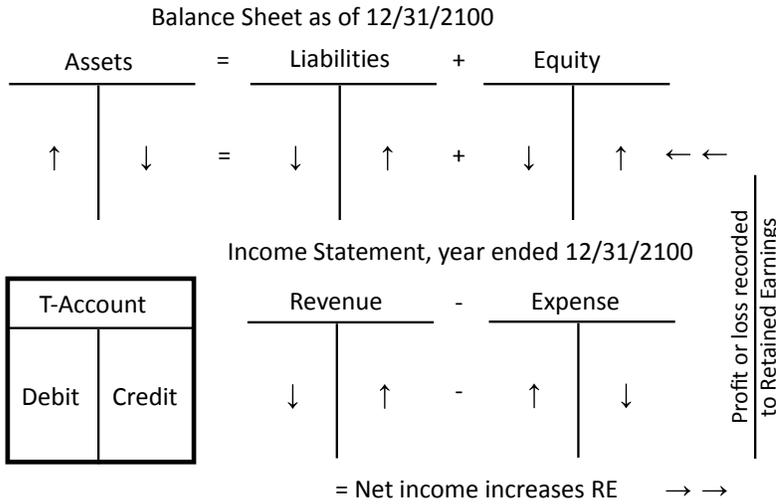
METHODS & ORGS

Accrual basis Follows the matching principle and recognizes transactions as they occur (GAAP Method)

Cash basis Recognizes transactions when cash or equivalents have been exchanged (Not GAAP)

US-GAAP Generally Accepted Accounting Principles system established by FASB that governs financial reporting

IFRS International Financial Reporting Standards Financial reporting standard adopted widely outside of US
(No LIFO permitted, different FMV valuation permitted)

ACCOUNTING EQUATION

Equation
Assets = Liabilities + Equity
Equity = Assets - Liabilities

Cost of Goods Sold (COGS)

Beginning inventory
+ Purchases
– Ending inventory
_____
Cost of Goods Sold (COGS)

Journal Entry | debit | credit
Cash | 100 |
Common stock | | 100
Receive cash for common stock

Gross Profit | Revenue x
Revenue | (1 - Gross profit rate)
- COGS |
_____
Gross Profit | COGS

INVENTORY

Valuation at lower of cost or market
Higher ending inventory = Lower Cost of Goods Sold
Lower Cost of Goods Sold = Higher Net Income

FIFO First In First Out
Early purchases come out of inventory first

LIFO Last In First Out
Early purchases tend to stay in inventory

Average cost Total cost / Quantity = Cost per unit

Perpetual inventory tracked in real time

Periodic inventory tracked by counting at end of period

DEBITS & CREDITS

Increases & Decreases **Bolded**: Natural balance	Increase	Decrease
Balance Sheet		
Asset	**debit**	credit
Contra asset	**credit**	debit
Contra assets: Accumulated depreciation,		
Allowance for doubtful accounts		
Liability	**credit**	debit
Equity	**credit**	debit
Contra equity	**debit**	credit
Contra equity: Treasury stock		
Income Statement		
Revenue	**credit**	debit
Most transactions: Typically credits		
Expense	**debit**	credit
Most transactions: Typically debits		

Net Income Comparison

Price	FIFO	LIFO	Average
Rising	Higher	Lower	Middle
Falling	Lower	Higher	Middle

Rule: In a period of **increasing** inventory costs, FIFO method results in higher net income compared to LIFO

Cost of Goods Sold Comparison

Price	FIFO	LIFO	Average
Rising	Lower	Higher	Middle
Falling	Higher	Lower	Middle

PRINCIPLES, GUIDELINES, ASSUMPTIONS

Comparability	Financial statements must be comparable period to period
Conservatism	Considers all risks | strict rules
Consistency	Same accounting methods year to year
Constraints	Information has a cost/benefit and is material
Cost principle	Keep costs at purchase price or lower (lower of cost or market)
Economic entity	Maintain separate records for each entity
Full disclosure	Provides detailed information in addition to financial statements
Going concern	Assume business is going to and has capability to continue
Matching	Recognize cost the same time as benefit
Materiality	Significance to the overall financial picture
Monetary unit	Currency is used to record transactions and is assumed to be constant
Relevance	Financial reporting has predictive, feedback, and timeliness value
Reliability	Financial reporting is neutral, valid, and verifiable
Revenue recognition	Conditions of how an organization records revenue
Time period	Report financial activity in specific time periods

TEST VOCABULARY

Cost basis	Original cost of investment minus prior accumulated depreciation
Disposition	Sale, scrapping, or removal of an item, typically an asset
Gross | Net	Gross = total number | Net = gross number minus expenses
Goodwill	Purchase price less tangible value of physical assets purchased
Net asset value	Cost basis minus accumulated depreciation (prior total depreciation)
NSF	Non-sufficient funds, typically a returned check
Principal	The amount, typically of a loan
Unrealized gain | loss	Investment that has increased | decreased in value, but not yet sold
Unrealized calculation	Basis minus fair market value (FMV)

INTEREST FORMULAS

Monthly interest $\quad\quad$ P X (r / 12)
Compound interest $\quad\quad$ $A = P(1 + (r/n))^{nt}$

A = Amount, P = Principal, r = Rate
n = compoundings per period, t = number of periods

BUSINESS TYPES

Sole Proprietorship One owner, no liability protection
Partnership Two or more owners, no liability protection
Limited Partnership Two or more owners, liability protection
LLC Limited Liability Company Liability protection, flexible
Corporation Liability protection, double taxation issues

BANK RECONCILIATION

```
      Balance per bank
+     Deposits in transit
-     Outstanding checks
+/-   Errors, fees, returned items
      ─────────────────
      Balance per books
```

Accounting Cheat Sheet

TECHNICAL INVENTORY AND COSTING

FOB shipping point	Buyer's books at year end, title passes when goods delivered
FOB destination	Seller's books at year end, title passes when goods received
Raw materials	Direct costs of materials manufactured such as steel
Overhead costs	Costs typically thought of as expenses that are added to cost of goods
Work in process (WIP)	Goods in the process of being manufactured (assets)

ASSET SALES

Sale of inventory	Increase AR, Increase sales, Decrease inventory, Increase cost of goods sold
Debits and credits	Debit AR, Credit sales, Credit inventory, Debit cost of goods sold
Sell appreciated stock	Increase cash, Increase realized gain, Decrease stock
Debits and credits	Debit cash, Credit realized gain, Credit stock
Sell stock for a loss	Increase cash, Increase realized loss, Decrease stock
Debits and credits	Debit cash, Debit realized loss, Credit stock
Sell depreciated asset, gain	Increase cash, Decrease asset, Decrease accumulated depreciation, Increase gain
Debits and credits	Debit cash, Credit asset, Debit accumulated depreciation, Credit gain on sale
Sell depreciated asset, loss	Increase cash, Decrease asset, Decrease accumulated depreciation, Increase loss
Debits and credits	Debit cash, Credit asset, Debit accumulated depreciation, Debit loss on sale

BONDS

Bonds Financial instrument (agreement) issued by a company to borrow money from investors at a specified term (time) and rate
Issuer Company that is raising the money
Face value Amount that is repaid at the end of term
Stated coupon rate Interest that bond pays investor
Effective interest Rate of interest investor receives if the bond is purchased at a discount or premium
Premium Amount company is paid in excess of face value, often paid when coupon rate is greater than market rate
Premium = Price paid for bond - face value
Discount Amount below the face value paid for a bond often occurs when coupon rate is less than market rate
Discount = Face value - price paid for bond

Depreciation terms

Cost	Price paid for asset (may include costs to install)
Book value	Cost - Accumulated depreciation
Salvage value	Estimated scrap value at the end of asset life
Accelerated methods	Methods resulting in greater depreciation during earlier years
MACRS / ACRS / DDB	Accelerated depreciation methods
Depreciation	Expense taken on a physical asset over time
Amortization	Expense taken on an intangible asset over time

Depreciation methods

Straight line	Rate = (Cost - Salvage value / Useful life)
Declining	Book value x Depreciation rate
(Accelerated method)	Rate = Straight line rate x Applicable %
	Applicable % = 150% for 150 DB and 200% for double declining
Sum-of-years'-digits	(Cost - Salvage value) X Applicable fraction
(Accelerated method)	Applicable fraction = Years of estimated life remaining / Sum of years digits

FINANCIAL STATEMENTS

BALANCE SHEET
As of 12/31/2100

Assets	
Cash	1,497
Accounts receivable	400
Allowance for doubtful accounts	(90)
Equipment	200
Accumulated depreciation	(40)
Inventory	-
Total Assets	1,967
Liabilities	
Accounts payable	-
Wages payable	300
Note payable	405
Dividends payable	-
Total Liabilities	705
Equity	
Common stock	1,010
Treasury stock	(175)
Retained earnings	427
Total Equity	1,262
Liabilities + Equity	1,967

BALANCE SHEET FEATURES

Balance sheet (statement of financial position) shows the ending balances of assets, liabilities, and equity at the end of the accounting period
Mechanics Assets always equal liabilities plus equity, (which forms the accounting equation)

ASSETS
Current assets To be used within one year of the balance sheet date or longer, if the operating cycle is greater
Current assets Cash and equivalents, accounts receivable, inventory, prepaid expenses to be used within a year
Long-term assets Expected benefit greater than one year
Examples: property, plant, equipment, intangible assets (copyrights, trademarks, goodwill)
Accounts receivable (AR) Cash due from customers who have purchased goods or received services not yet paid for
Inventory Goods for sale or manufacture, valued under GAAP at lower of cost or market
Prepaid expense Expenses paid in advance, considered an asset until used (such as a two year insurance policy)
Accumulated depreciation | amortization The sum of all prior depreciation | amortization (contra asset) increases with a credit and offsets the value of depreciable assets reported at cost

LIABILITIES
Current liabilities Obligations due in one year or less
Long-term liabilities Debts owed to creditors, due in more than one year from the balance sheet date
Accounts payable (AP) Money owed to creditors and vendors
Notes payable Debts owed to banks or other creditors based on written agreements
Accrued expenses Expenses incurred before the end of the accounting period, but not yet paid for
Deferred revenue Cash received in advance, but not yet earned
Long-term bonds payable Money borrowed to finance company operations, due in more than one year

SHAREHOLDERS' EQUITY
Common stock Sold to investors for ownership of a corporation
Preferred stock Investors receive dividends before common stockholders and usually do not have voting rights
Additional paid-in capital Investment received by corporation, in excess of par value per share (APIC = Issuance price - Par value)
Par (stated) value Per share amount on stock certificates, also referred to as legal capital (no relation to market value)
Retained earnings Sum of all previous profit and losses, less dividends
Treasury stock Stock repurchased by company
Dividends Corporate profits paid to shareholders from retained earnings (not an expense)

INCOME STATEMENT

Year ended 12/31/2100

Income	
Revenue	930
Cost of goods sold	(10)
Gross profit	920
Expense	
Bad debt	90
Depreciation	40
Interest	5
Utilities	50
Wages	300
Total Expense	485
Net Income (Profit)	435

INCOME STATEMENT FEATURES

Income statement (profit and loss) shows the performance of a business by reporting revenue earned minus expenses incurred to equal net income or loss (profit or loss)
Mechanics Reports the business activity for a specific period of time and results in net income or loss, which gets recorded to retained earnings at the end of the accounting period

REVENUE AND EXPENSE

Revenue recognition Recognize (book into accounting record) revenue when it is earned and realizable
Expense recognition Expenses are recognized when incurred, as goods are used and services received
Net income or loss Revenue minus expenses results in net income or net loss also referred to as profit or loss
Net income increases retained earnings and net loss decreases retained earnings

STATEMENT OF CASH FLOWS FEATURES

Statement of cash flows Shows the flow of cash in and out of the business
Mechanics Starts with beginning cash from the prior period and reconciles to ending cash in the current period showing the changes
Usefulness Shows actual changes in cash on a cash basis, instead of the accrual basis which does not necessarily reflect the flow of cash
Indirect method of preparation uses the changes in accrual basis accounts
Direct method of preparation (uncommon) presents specific cash flows such as cash received from customers and paid to suppliers

STATEMENT OF CASH FLOWS FEATURES

Year ended 12/31/2100

Cash flows from operating activities:	
Net income	435
Adjustments to reconcile cash used for operations	
Depreciation and amortization	40
Changes in operating assets and liabilities:	
Accounts receivable	(400)
Inventories	10
Accounts payable	-
Allowance for doubtful accounts	90
Accrued expenses	300
Total adjustments	40
Net cash used in operating activities	475
Cash flows from investing activities:	
Purchase of property and equipment	(200)
Net cash used in investing activities	(200)
Cash flows from financing activities:	
Proceeds from notes payable	500
Proceeds from issuance of common stock	1,000
Purchase of treasury stock	(175)
Principal on loan payment	(95)
Dividend paid	(8)
Net cash provided by financing activities	1,222
Net increase in cash and equivalents	1,497
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	1,497

STATEMENT OF OWNERS' EQUITY FEATURES

Statement of owners' equity shows sources of capital (business funding), additional paid in capital and common stock breakdown, changes in retained earnings, and treasury stock (stock repurchased)
Mechanics The statement starts with beginning balances and reconciles to ending period balance

		Common stock	Retained earnings	Treasury stock	Total
STATEMENT OF OWNERS' EQUITY					
As of 12/31/2100					
Balance					
	December 31, 2099	10			10
	Net income for 2100		435		435
	Common stock issued	1,000			1,000
	Treasury stock			(175)	(175)
	Dividends		(8)		(8)
Balance					
	December 31, 2100	1,010	427	(175)	1,262

Accounting Cheat Sheet

COMMON JOURNAL ENTRIES
Year ended 12/31/2014

		debit	credit
Receive 1,000 investment for common stock			
Cash		1,000	
	Common stock		1,000
Receive $500 loan			
Cash		500	
	Note payable		500
Purchase $200 equipment			
Equipment		200	
	Cash		200
Make $900 credit sale for services performed			
Accounts receivable		900	
	Revenue		900
Collect $500 credit sale			
Cash		500	
	Accounts receivable		500
Establish $90 Allowance for doubtful accounts			
Bad debt expense		90	
	Allowance for doubtful		90
Record utilities expense $50 after receiving bill			
Utilities expense		50	
	Accounts payable		50
Pay utility company $50 in cash for prior bills			
Accounts payable		50	
	Cash		50
Accrue $300 in wage expense			
Wage expense		300	
	Wages payable		300
Make $100 payment on note payable with cash:			
$5 interest $95 principal			
Interest expense		5	
Note payable		95	
	Cash		100
Record $40 of depreciation expense			
Depreciation expense		40	
	Accumulated depreciation		40

		debit	credit
Make $30 cash sale, 1 unit, cost $10			
Cash		30	
	Revenue		30
Cost of goods sold		10	
	Inventory		10
Repurchase $175 of company stock			
Treasury account		175	
	Cash		175
Close out income statement accounts to income summary			
Revenue		930	
	Bad debt		90
	Cost of goods sold		10
	Depreciation		40
	Interest		5
	Utilities		50
	Wages		300
Income summary		435	
Close income summary to retained earnings			
Income summary		435	
	Retained earnings		435
Declare $8 dividend			
Retained earnings		8	
	Dividends payable		8
Pay $8 dividend			
Dividends payable		8	
	Cash		8

US $7.99

Visit Us At

www.AccountingPlay.com