

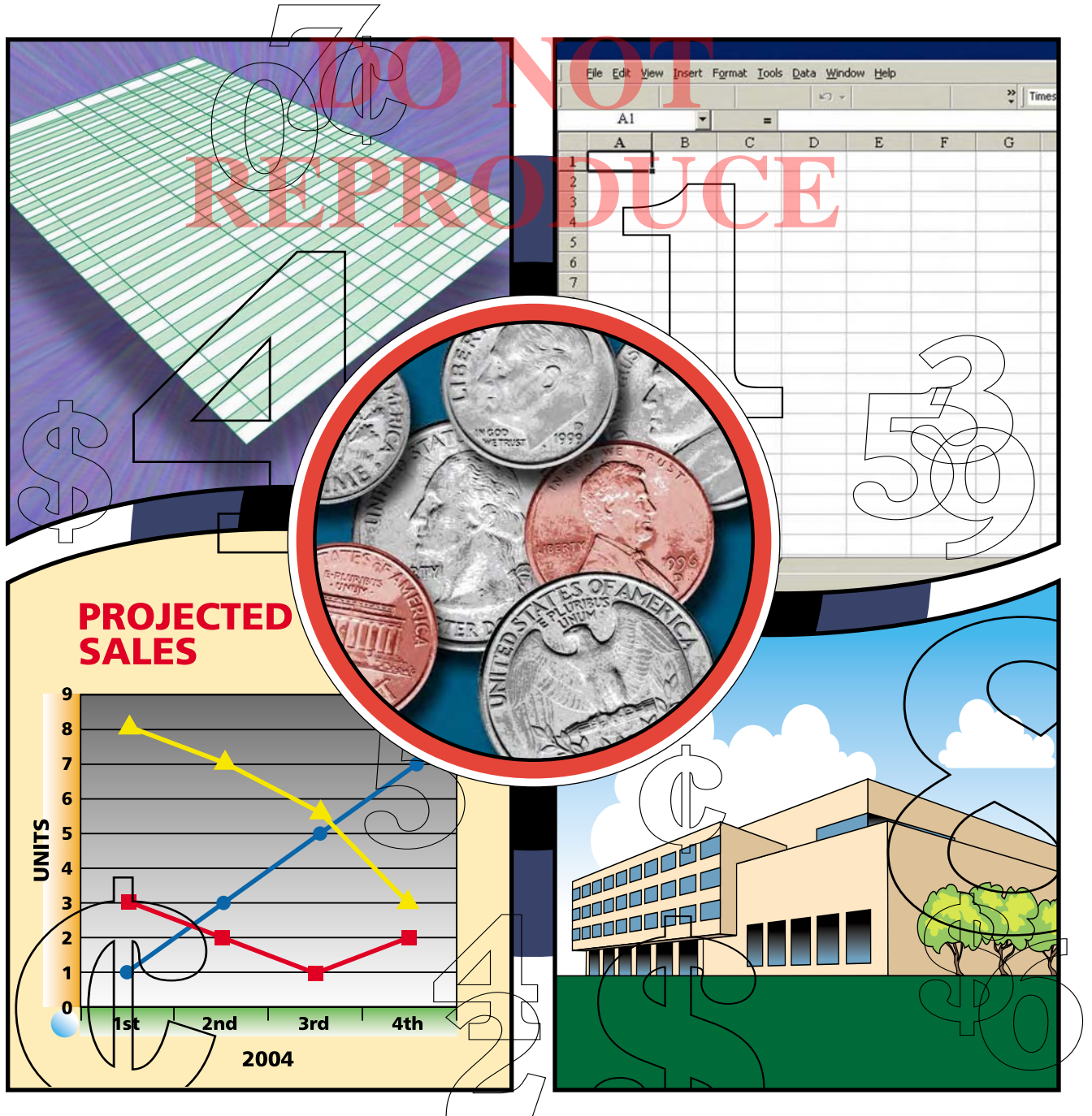
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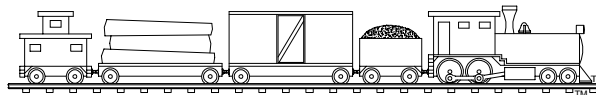
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PRACTICAL ACCOUNTING FUNDAMENTALS™



Melvin G. Peterman



INSIGHT TECHNICAL EDUCATION

WRITTEN BY LORI PETERMAN

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Whenever you are asked if you can do a job, tell 'em, "Certainly, I can!" Then get busy and find out how to do it. ~ Theodore Roosevelt

DO NOT REPRODUCE The Balance Sheet

In this chapter, and the next three, there will be an example of a financial statement along with some explanation and definitions to get you started. We will assume that the companies we will be talking about are corporations. In Chapter 20, we will discuss the various forms of business that are commonly found and the differences in accounting for them. We will use the ABC Supply Company's financial statements for the year 2002 for these four chapters.

Here is an example of a balance sheet. The current assets are totaled and then added to the total of the long-term assets to give us total assets. Likewise, the current liabilities are totaled and added to the total of the stockholders' equity to give us total equities. Total equities and total assets should be equal.

ABC Supply Company
Balance Sheet
December 31, 2002

Assets		Equities	
Current assets:		Current liabilities:	
Cash	\$13,000	Accounts payable	\$15,500
Accounts receivable	9,500	Salaries payable	<u>3,000</u> \$18,500
Inventory	<u>10,000</u> \$32,500		
Long-term investment:		Stockholders' equity:	
Investment in land	<u>15,000</u>	Capital stock, 2700 shares issued & outstanding	\$27,000
	<u>\$47,500</u>	Retained earnings	<u>2,000</u> <u>29,000</u>
			<u>\$47,500</u>

It is customary to put a dollar sign beside the first amount in each column and beside an amount appearing below an underline. It is also customary to list detail figures in a column with the total to the right of the last item. Final totals are double underlined.

The balance sheet shows a picture of the business at a particular moment in time. It tells you what the assets of the business are, its liabilities, and the owners' (stockholders') equity. The balance sheet is always "in balance", i.e., the assets always equal the equities.

Assets

Let's discuss the elements of the balance sheet. Assets are future economic benefits that the business owns the rights to. Assets are considered to provide future economic benefits for a number of reasons, which include the following:

1. The asset may have purchasing power. Cash is an example; other assets may be acquired with it.
2. The asset is a claim for money. Accounts receivable is an example.
3. The asset can be sold in order to gain cash. Merchandise inventory is an example.
4. The asset offers potential services. Buildings, land, machinery, and equipment are examples.

The primary asset categories are:

- Current assets
- Long-term investments
- Property, plant, and equipment
- Intangible assets
- Other assets

Questions:

1. What is a journal entry?
2. What is a compound journal entry?
3. What is an account?
4. What is a ledger?
5. What are debits and credits?
6. What accounts normally carry a debit balance?
7. What accounts normally carry a credit balance?
8. What is double-entry accounting?

Problems:

A. Journalize the following transactions.

1. Purchased merchandise on account for \$65,000.
2. Made cash sales of \$70,000.
3. Cost of goods sold in #2 was \$42,000.
4. Spend \$3,500 on miscellaneous expenses.
5. Paid salaries of \$20,000.
6. Paid \$30,000 on account.

B. Journalize the following transactions for the Smiling Onion Company (you may use whatever dates you choose – as long as they're all in the same year!):

1. Issued capital stock for cash of \$90,000.
2. Purchased merchandise for \$8,000 cash.
3. Made cash sales of \$14,000.
4. The cost of the goods sold in #3 was \$5,500.
5. Purchased merchandise on account for \$80,000.
6. Spent \$1,500 on advertising.
7. Sold merchandise on account for \$110,000.
8. The cost of the goods sold in #7 was \$60,000.
9. Paid rent of \$7,500.
10. Paid salaries of \$16,000.
11. Received payment from customers for \$80,000.
12. Paid \$20,000 in cash for land.
13. Salaries owed at the end of the year were \$5,000.
14. Paid dividends of \$2,500.