Accounting Basics

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| Accounting Equation: Assets=Liabilities + Owner’s Equity | | |
| **Assets** | **Liabilities** | **Owner’s Equity** |
| ***Current Assets*** | ***Current Liabilities*** | Preferred Stock |
| Cash & Cash Equivalents | Accounts Payable | Common Stock |
| Receivables | Wages and Salaries Payable | Additional Paid In Capital |
| Inventories | Income Taxes Payable | (Treasury Stock) |
| Prepaids | Unearned Revenue | Retained Earnings |
| ***Long-term Assets*** | Notes Payable | Net Income |
| *Long-term Investments* | Accrued expenses | Revenues |
| Securities | Interest payable | (Expenses) |
| Land/Buildings etc. not for business use | Current Portion of Long-Term Debt | (Dividends) |
| *Property Plant and Equipment* | ***Long-Term Liabilities*** |  |
| Land | Notes Payable |  |
| Buildings | Bonds Payable |  |
| Land Improvements | Mortgages payable |  |
| Equipment |  |  |
| Machinery |  |  |
| Vehicles |  |  |
| Furniture |  |  |
| (Accumulated Depreciation) |  |  |
| *Intangible Assets* |  |  |
| Goodwill |  |  |
| Patents |  |  |
| Copyrights |  |  |
| Trademarks |  |  |

\*(account) indicates account’s normal balance is the opposite of its category’s normal balance

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| --- | --- | --- | --- |
|  | Assets | Liabilities | Equity |
| Normal Balance | Debit | Credit | Credit |
| Increased by: | Debits | Credits | Credits |
| Decreased by: | Credits | Debits | Debits |

|  |  |
| --- | --- |
| Debits | Credits |

Balance Sheet

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| **Assets** |  |  |  | **Liabilities** |  |  |
| ***Current Assets*** |  |  |  | *Current Liabilities* |  |  |
| Cash & Cash Equivalents | $xxx.xx |  |  | Accounts Payable | $xxx.xx |  |
| Receivables | xxx.xx |  |  | Wages and Salaries Payable | xxx.xx |  |
| Inventories | xxx.xx |  |  | Income Taxes Payable | xxx.xx |  |
| Prepaids | xxx.xx |  |  | Unearned Revenue | xxx.xx |  |
| Total Current Assets |  | $x,xxx.xx |  | Notes Payable | xxx.xx |  |
| ***Long-Term Assets*** |  |  |  | Accrued Expenses | xxx.xx |  |
| *Long-Term Investments* |  |  |  | Interest Payable | xxx.xx |  |
| Securities | xxx.xx |  |  | Current Portion of Long Term Debt | xxx.xx |  |
| Land/Buildings etc. (not for business use) | xxx.xx |  |  | Total Current Liabilities |  | $x,xxx.xx |
| *Property Plant and Equipment* |  |  |  | *Long-Term Liabilities* |  |  |
| Land | xxx.xx |  |  | Notes Payable | xxx.xx |  |
| Buildings | xxx.xx |  |  | Bonds Payable | xxx.xx |  |
| Land Improvements | xxx.xx |  |  | Mortgages Payable | xxx.xx |  |
| Equipment | xxx.xx |  |  | Total Long-Term Liabilities |  | x,xxx.xx |
| Machinery | xxx.xx |  |  | Total Liabilities |  | x,xxx.xx |
| Vehicles | xxx.xx |  |  | **Owner’s Equity** |  |  |
| Furniture | xxx.xx |  |  | Preferred Stock | xxx.xx |  |
| Accumulated Depreciation | (xxx.xx) |  |  | Common Stock | xxx.xx |  |
| *Intangible Assets* |  |  |  | Additional Paid In Capital | xxx.xx |  |
| Goodwill | xxx.xx |  |  | Treasury Stock | xxx.xx |  |
| Patents | xxx.xx |  |  | Retained Earnings | xxx.xx |  |
| Copyrights | xxx.xx |  |  | Total Owner's Equity |  | x,xxx.xx |
| Trademarks | xxx.xx |  |  | Total Liabilities & Owner's Equity |  | $x,xxx.xx |
| Total Long-Term Assets |  | x,xxx.xx |  |  |  |  |
| Total Assets |  | $x,xxx.xx |  |  |  |  |

\*Total Assets must equal total Liabilities & Owner’s Equity

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| Income Statements and Retained Earnings Statement | | |
|  |  |  |
| Single Step Income Statement | | |
| Revenues: |  |  |
| Sales/Services | $xxx.xx |  |
| Rent Revenue | xxx.xx |  |
| Total Revenues |  | $x,xxx.xx |
| Expenses: |  |  |
| Cost of Goods Sold | xxx.xx |  |
| Wages Expense | xxx.xx |  |
| Utilities Expense | xxx.xx |  |
| Interest Expense | xxx.xx |  |
| Other Expenses | xxx.xx |  |
| Total Expenses (Deduct from Total Revenues) |  | xxx.xx |
| Income Before Income Tax |  | xxx.xx |
| Income Tax Expense (Deduct from IBIT) |  | xxx.xx |
| Net Income |  | $xxx.xx |
|  |  |  |
| Multiple-Step Income statement | | |
| Sales |  | $x,xxx.xx |
| Less: Cost of Goods Sold |  | xxx.xx |
| Gross Margin |  | x,xxx.xx |
| Operating Expenses: |  |  |
| Wages Expense | xxx.xx |  |
| Utilities Expenses | xxx.xx |  |
| Total Operating Expenses (Deduct from GM) |  | xxx.xx |
| Operating Income |  | xxx.xx |
| Other Revenues |  |  |
| Rent Revenue (Add to Op. Inc.) |  | xxx.xx |
| Other Expenses |  |  |
| Interest Expenses (Deduct from Op. Inc.) |  | xxx.xx |
| Income Before Income Tax |  | xxx.xx |
| Income Tax Expense (Deduct from IBIT) |  | xxx.xx |
| Net Income |  | xxx.xx |
|  |  |  |
| Statement of Retained Earnings | | |
| Retained Earnings Jan 1, 2xxx |  | $xxx.xx |
| Add: Net Income |  | xxx.xx |
| Deduct: Dividends Paid |  | xxx.xx |
| Retained Earnings Dec 31, 2xxx |  | $xxx.xx |

Cash Flows and Depreciation

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| --- | --- | --- |
| Statement of Cash Flows | | |
| Cash Flows from Operating Activities |  |  |
| Net Income | $x,xxx.xx |  |
| Add: Increase in Current Payables | xxx.xx |  |
| Add: Decrease in Current Receivables | xxx.xx |  |
| Add: Depreciation | xxx.xx |  |
| Add: Losses | xxx.xx |  |
| Deduct: Increase in Current Receivables | (xxx.xx) |  |
| Deduct: Decrease in Current Payables | (xxx.xx) |  |
| Deduct: Gains | (xxx.xx) |  |
| Net Cash Received (Used) by Operating Activities |  | $xxx.xx |
| Cash Flows from Investing Activities |  |  |
| Add: Cash Received for Sale of L-T Asset | xxx.xx |  |
| Deduct: Cash Used to Purchases LT Asset | (xxx.xx) |  |
| Net Cash Received (Used) by Investing Activities |  | xxx.xx |
| Cash Flows from Financing Activities |  |  |
| Add: Cash Received for Notes/Bonds or Other LT Liabilities | xxx.xx |  |
| Deduct: Cash Paid on Notes/Bonds or Other LT Liabilities | (xxx.xx) |  |
| Add: Cash Received from Sale of Stocks | xxx.xx |  |
| Less: Cash Paid for Dividends | (xxx.xx) |  |
| Net Cash Received (Used) by Financing Activities |  | xxx.xx |
| Increase (Decrease) in Cash |  | x,xxx.xx |
| Cash at Beginning of Period |  | xxx.xx |
| Cash at End of Period |  | $x,xxx.xx |

Depreciation Methods

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| --- | --- | --- |
| Straight Line= | Cost-Residual Value | |
| Useful Life | |
| Double Declining Balance= | | Book Value x Depreciation Rate | |

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| Double Declining Depreciation Rate= | 200% |
| Useful Life |

Book Value= Cost-Accumulated Depreciation

Inventories

*Periodic Inventory System*= Inventory & COGS at End of Period

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| --- | --- | --- |
| Beginning Inventory |  | Beginning Inventory |
| Add Purchases |  | Add Purchases |
| Goods Available for Sale | or | Goods Available for Sale |
| Less: Ending Inventory |  | Less: Cost of Goods Sold |
| Cost of Goods Sold |  | Ending Inventory |

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|  | |
| *Perpetual Inventory System*= Update Continually | |
|  | |
| *Specific Identification*= Individual Units Tracked | |
|  | |
| *FIFO*=First In (bought), First Out (sold). | |
| COGS=First Items Bought | |
| Ending Inventory=Last Items Bought | |
|  | |
| *LIFO*=Last In (bought), First Out (sold) | |
| COGS=Last Items Bought | |
| Ending Inventory=First Items Bought | |
|  | |
| *Average Cost*= Uses Average Cost per Unit. | |
| Price per Unit= | Total Cost |
| Total units |
| COGS= # of Units Sold x Price per Unit | |
| Ending Inventory= Remaining Units x Price per Unit | |

Accounting Ratios

Profitability

|  |  |  |
| --- | --- | --- |
| Gross Profit Margin Ratio | = | Gross Profit |
| Net Sales |

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| --- | --- | --- |
| Rate of Return on Common Equity | = | Net Income-Preferred Dividends |
| Average Common Stockholders' Equity |

|  |  |  |
| --- | --- | --- |
| Net Profit Margin Ratio | = | Net Profit |
| Net Sales |

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| --- | --- | --- |
| Earnings Per Share (EPS) | = | Net Income-Preferred Dividends |
| Average Common Shares Outstanding |

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| --- | --- | --- |
| Rate of Return on Assets Ratio | = | Net Income |
| Average Total Assets |

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| --- | --- | --- |
| Dividend Payout Ratio | = | Total Cash Dividends |
| Net Income |

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| --- | --- | --- |
| Price to Earnings Ratio | = | Average Market Price per Share of Stock |
| Earnings per Share |

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| --- | --- | --- |
| Diluted EPS | = | Net Income-Adjusted Preferred Dividends |
| Adjusted Weighted Average # of Common Shares |

Efficiency

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| --- | --- | --- |
| Asset Turnover Ratio | = | Net Sales |
| Average Total Assets |

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| --- | --- | --- |
| Receivables Turnover Ratio | = | Net Sales |
| Average Accounts Receivable |

|  |  |  |
| --- | --- | --- |
| Average AR Collect in days | = | 365 |
| Receivables Turnover Ratio |

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| --- | --- | --- |
| Inventory Turnover Ratio | = | Cost of Goods Sold |
| Average Inventory |

|  |  |  |
| --- | --- | --- |
| Average Inventory Holding Period in Days | = | 365 |
| Inventory Turnover Ratio |

Liquidity

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| --- | --- | --- |
| Current Ratio | = | Current Assets |
| Current Liabilities |

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| --- | --- | --- |
| Quick Ratio | = | Cash + Short-term Investments+ Current Receivables |
| Current Liabilities |

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| --- | --- | --- |
| Operating Cash Flow to Current Debt Ratio | = | Cash Provided by Operating Activities |
| Average Current Liabilities |

Solvency

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| --- | --- | --- |
| Debt Ratio | = | Total Liabilities |
| Total Assets |

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| --- | --- | --- |
| Times Interest Earned Ratio | = | Earnings Before Interest and Income Taxes |
| Interest Expense |

|  |  |  |
| --- | --- | --- |
| Debt to Equity Ratio | = | Total Liabilities |
| Total Equity |

|  |  |  |
| --- | --- | --- |
| Operating Cash Flow Coverage Ratio | = | Cash Provided by Operating Activities |
| Average Total Liabilities |