

Accounting Principles

Lectures 1, 2 & 3

Objectives

To develop an understanding of financial statements to serve as a basis for all analysis of business situations.

Outline

- Financial Information
- Financial Statements
- Accounting Principles
- Ratio Analyses

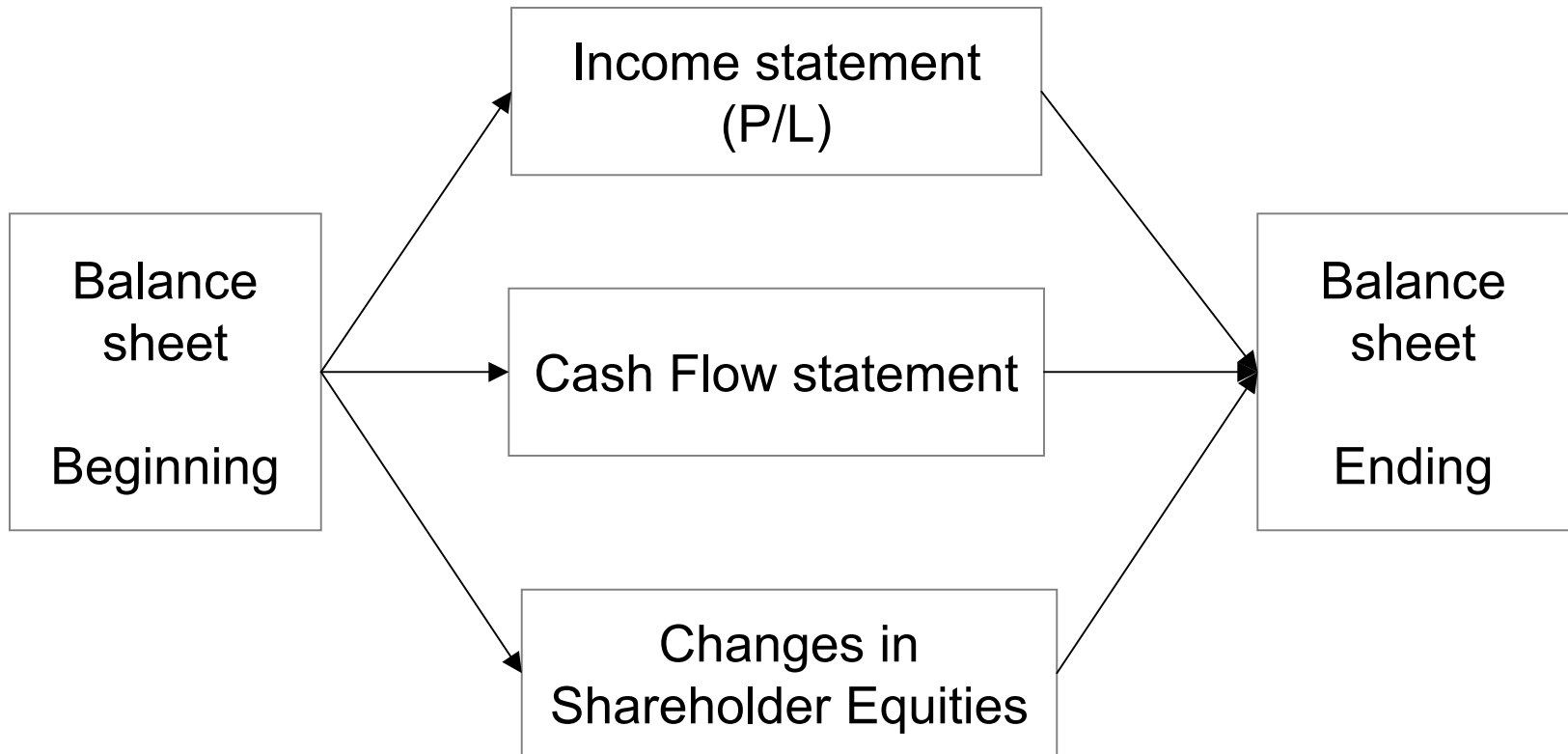
Need for Financial Information

- Control
- Coordination
- Planning

Financial Information

- Financial Perspective
- Customer Perspective
- Internal Business Process Perspective
- Learning and Growth Perspective

Financial statements



Accounting

Luca Pacioli, 15th century monk

- Typical Accounting Period: 1 yr
- Double Entry Bookkeeping

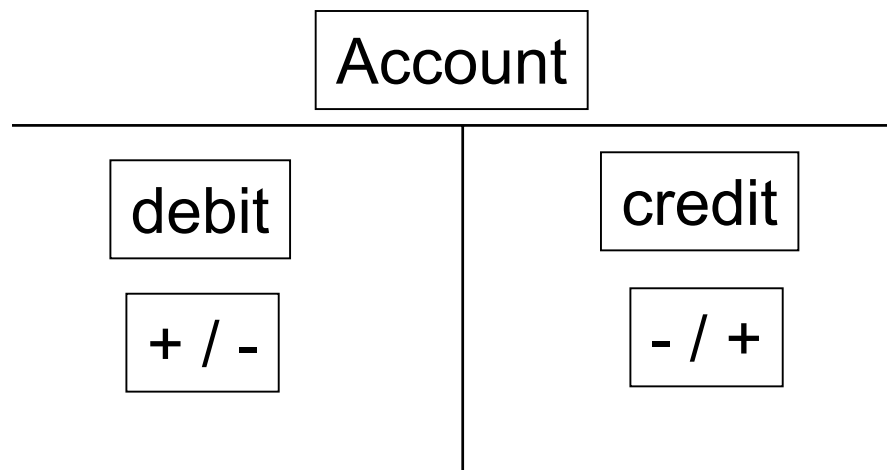
Bookkeeping

- The chart of accounts
- T-account

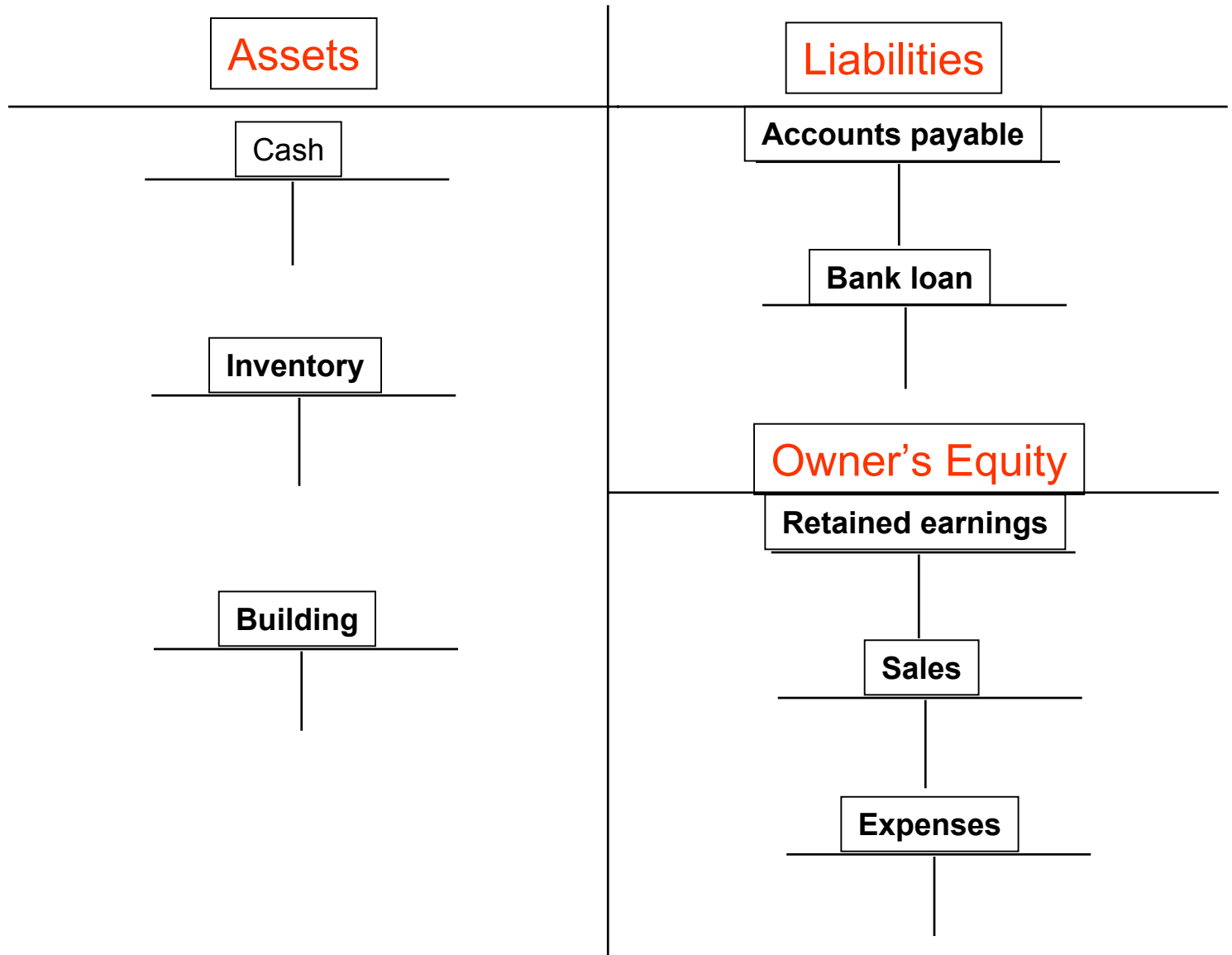
The Chart of Accounts (multi-layered)

1000	Current Assets
1100	Cash
1110	Cash, Bank 1
1111	Cash, Bank 1, Account 1
5000	Property
5100	Land
5110	Land, Singapore

T Account



Business Account



Accounting Principles

- Measurement unit: \$
- Double entry
- Cost (not value)
- Conservative
- Going concern
- Period
- Realization
- Matching (Accrual)
- Consistency
- Materiality

Accounting Record Example

2.96 -Management of Engineering

Starting Balance

King's Shoe Store, Inc.

Starting Balance

1-Jan-00

	Accounts with Debit Balances	Accounts with Credit Balances
Cash (A)	30,000	
Account Receivable (A)	63,000	
Merchandise Inventory (A)	175,000	
Land (A)	100,000	
Building and Equipment (A)	525,000	
Accumulated Depreciation (XA)		85,000
Accounts Payable (L)		135,000
Bonds Payable (L)		100,000
Common Stock (SE)		250,000
Additional Paid-in Capital (SE)		200,000
Retained Earnings (SE)		123,000
Total	893,000	893,000

(A) Asset (XA) Contra Account

(L) Liability

(SE) Shareholders' Equity

Transactions

- (1) The firm purchases shoe-making equipment in cash costing \$10,000
- (2) The firm sells merchandise during the year 2000 at a total selling price of \$625,000. It receives \$225,000 immediately, with the remainder sold on account
- (3) The cost of merchandise sold during the year 2000 is \$90,000
- (4) The firm pays salaries in cash of \$110,000 for employee services received during the year 2000
- (5) The firm collects cash of \$325,000 from customers who had purchased on account
- (6) The firm makes payments of \$70,000 to merchandise suppliers for purchases on account
- (7) The firm pays a premium of \$1,500 on January 1, 2000 for a three-year property and liability insurance policy
- (8) The firm issues common stock of \$50,000 for cash on January 28, 2000.

(1) The firm purchases shoe-making equipment in cash costing \$10,000

Transaction Number	Accounts	Debit	Credit
1	Building and Equipment (A)	10,000	
	Cash (A)		10,000

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Retained Earnings (SE)	
Bal. 1/1	30,000		135,000	Bal. 1/1		123,000	Bal. 1/1
	10,000 (1)		135,000	Bal. 12/31		123,000	Bal. 12/31
Bal. 12/31	20,000						
Account Receivable (A)			Dividends Payable (L)			Sales Revenue (SE)	
Bal. 1/1	63,000		-	Bal. 1/1		-	Bal. 1/1
Bal. 12/31	63,000		-	Bal. 12/31		-	Bal. 12/31
Merchandise Inventory (A)						Cost of Goods Sold (SE)	
Bal. 1/1	175,000				Bal. 1/1	-	
Bal. 12/31	175,000				Bal. 12/31	-	
Prepaid Insurance (A)						Salary Expense (SE)	
Bal. 1/1	-				Bal. 1/1	-	
Bal. 12/31	-				Bal. 12/31	-	
Building and Equipment (A)							
Bal. 1/1	525,000						
(1)	10,000						
Bal. 12/31	535,000						

(2) The firm sells merchandise during the year 2000 at a total selling price of \$625,000. It receives \$225,000 immediately, with the remainder sold on account

Transaction Number	Accounts	Debit	Credit
2	Cash (A)	225,000	
	Account Receivable (A)	400,000	
	Sales Revenue (SE)		625,000

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Retained Earnings (SE)	
Bal. 1/1	30,000		135,000	Bal. 1/1		123,000	Bal. 1/1
(2)	225,000						
	10,000	(1)					
			135,000	Bal. 12/31		123,000	Bal. 12/31
Bal. 12/31	245,000						
Account Receivable (A)			Sales Revenue (SE)			Sales Revenue (SE)	
Bal. 1/1	63,000					-	Bal. 1/1
(2)	400,000					625,000	(2)
Bal. 12/31	463,000					625,000	Bal. 12/31
Merchandise Inventory (A)			Cost of Goods Sold (SE)			Cost of Goods Sold (SE)	
Bal. 1/1	175,000					-	Bal. 1/1
Bal. 12/31	175,000					-	Bal. 12/31
Prepaid Insurance (A)			Salary Expense (SE)			Salary Expense (SE)	
Bal. 1/1	-					-	Bal. 1/1
Bal. 12/31	-					-	Bal. 12/31
Building and Equipment (A)							
Bal. 1/1	525,000						
(1)	10,000						
Bal. 12/31	535,000						

(3) The cost of merchandise sold during the year 2000 is \$90,000

Transaction Number	Accounts	Debit	Credit
3	Cost of Goods Sold (SE)	90,000	
	Merchandise Inventory (A)		90,000

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Retained Earnings (SE)	
Bal. 1/1	30,000		135,000	Bal. 1/1		123,000	Bal. 1/1
(2)	225,000						
	10,000	(1)					
			<u>135,000</u>	Bal. 12/31		<u>123,000</u>	Bal. 12/31
Bal. 12/31	<u>245,000</u>						
Account Receivable (A)						Sales Revenue (SE)	
Bal. 1/1	63,000					-	Bal. 1/1
(2)	400,000					625,000	(2)
Bal. 12/31	<u>463,000</u>					<u>625,000</u>	Bal. 12/31
Merchandise Inventory (A)						Cost of Goods Sold (SE)	
Bal. 1/1	175,000				Bal. 1/1	-	
	90,000	(3)			(3)	90,000	
Bal. 12/31	<u>85,000</u>				Bal. 12/31	<u>90,000</u>	
Prepaid Insurance (A)						Salary Expense (SE)	
Bal. 1/1	-				Bal. 1/1	-	
Bal. 12/31	<u>-</u>				Bal. 12/31	<u>-</u>	
Building and Equipment (A)							
Bal. 1/1	525,000						
(1)	10,000						
Bal. 12/31	<u>535,000</u>						

(4) The firm pays salaries in cash of \$110,000 for employee services received during the year 2000

Transaction Number	Accounts	Debit	Credit
4	Salary Expense (SE)	110,000	

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Retained Earnings (SE)	
Bal. 1/1	30,000		135,000	Bal. 1/1		123,000	Bal. 1/1
(2)	225,000						
			10,000	(1)			
			110,000	(4)			
Bal. 12/31	<u>135,000</u>		<u>135,000</u>	Bal. 12/31		<u>123,000</u>	Bal. 12/31
Account Receivable (A)						Sales Revenue (SE)	
Bal. 1/1	63,000					-	Bal. 1/1
(2)	400,000					625,000	(2)
Bal. 12/31	<u>463,000</u>					<u>625,000</u>	Bal. 12/31
Merchandise Inventory (A)						Cost of Goods Sold (SE)	
Bal. 1/1	175,000					-	Bal. 1/1
						(3)	90,000
Bal. 12/31	<u>85,000</u>					<u>90,000</u>	Bal. 12/31
Prepaid Insurance (A)						Salary Expense (SE)	
Bal. 1/1	-						Bal. 1/1
Bal. 12/31	<u>-</u>					(4)	<u>110,000</u>
Building and Equipment (A)							Bal. 12/31
Bal. 1/1	525,000						<u>110,000</u>
(1)	10,000						
Bal. 12/31	<u>535,000</u>						

(5) The firm collects cash of \$325,000 from customers who had purchased on account

Transaction Number	Accounts	Debit	Credit
5	Cash (A)	325,000	
	Account Receivable (A)		325,000

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Retained Earnings (SE)	
Bal. 1/1	30,000		135,000	Bal. 1/1		123,000	Bal. 1/1
(2)	225,000	10,000 (1)					
(5)	325,000	110,000 (4)	135,000	Bal. 12/31		123,000	Bal. 12/31
Bal. 12/31	460,000						
Account Receivable (A)						Sales Revenue (SE)	
Bal. 1/1	63,000					-	Bal. 1/1
(2)	400,000	325,000 (5)				625,000	(2)
Bal. 12/31	138,000					625,000	Bal. 12/31
Merchandise Inventory (A)						Cost of Goods Sold (SE)	
Bal. 1/1	175,000				Bal. 1/1	-	
		90,000 (3)			(3)	90,000	
Bal. 12/31	85,000				Bal. 12/31	90,000	
Prepaid Insurance (A)						Salary Expense (SE)	
Bal. 1/1	-				Bal. 1/1	-	
Bal. 12/31	-				(4)	110,000	
					Bal. 12/31	110,000	
Building and Equipment (A)							
Bal. 1/1	525,000						
(1)	10,000						
Bal. 12/31	535,000						

(6) The firm makes payments of \$70,000 to merchandise supplies for purchases on account

Transaction Number	Accounts	Debit	Credit
6	Account Payable (L)	70,000	
	Cash (A)		70,000

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Retained Earnings (SE)	
Bal. 1/1	30,000			135,000		Bal. 1/1	123,000
(2)	225,000		10,000	(1)			
(5)	325,000		110,000	(4)			
			70,000	(6)			
Bal. 12/31	<u>390,000</u>			<u>65,000</u>		Bal. 12/31	<u>123,000</u>
Account Receivable (A)						Sales Revenue (SE)	
Bal. 1/1	63,000					Bal. 1/1	-
(2)	400,000		325,000	(5)			625,000 (2)
Bal. 12/31	<u>138,000</u>					Bal. 12/31	<u>625,000</u>
Merchandise Inventory (A)						Cost of Goods Sold (SE)	
Bal. 1/1	175,000				Bal. 1/1		-
			90,000	(3)	(3)		90,000
Bal. 12/31	<u>85,000</u>				Bal. 12/31		<u>90,000</u>
Prepaid Insurance (A)						Salary Expense (SE)	
Bal. 1/1	-				Bal. 1/1		-
Bal. 12/31	<u>-</u>				(4)		110,000
					Bal. 12/31		<u>110,000</u>
Building and Equipment (A)							
Bal. 1/1	525,000						
(1)	10,000						
Bal. 12/31	<u>535,000</u>						

(7) The firm pays a premium of \$1,500 on January 1, 2000 for a three-year property and liability insurance policy

Transaction Number	Accounts	Debit	Credit
7	Prepaid Insurance (A)	1,500	
	Cash (A)		1,500

Asset

=

Liabilities

+

Shareholders' Equity

Cash (A)		Account Receivable (A)		Merchandise Inventory (A)		Prepaid Insurance (A)		Building and Equipment (A)	
Bal. 1/1	30,000			Bal. 1/1	175,000		Bal. 1/1	525,000	
(2)	225,000	10,000	(1)	(1)	10,000		(7)	1,500	
(5)	325,000	110,000	(4)		90,000	(3)			
		70,000	(6)						
		1,500	(7)						
Bal. 12/31	<u>388,500</u>			Bal. 12/31	<u>138,000</u>		Bal. 12/31	<u>1,500</u>	

Account Payable (L)	
Bal. 1/1	135,000
(6)	70,000
Bal. 12/31	<u>65,000</u>

Retained Earnings (SE)	
Bal. 1/1	123,000
Bal. 12/31	<u>123,000</u>

Sales Revenue (SE)	
Bal. 1/1	-
(2)	625,000
Bal. 12/31	<u>625,000</u>

Cost of Goods Sold (SE)	
Bal. 1/1	-
(3)	90,000
Bal. 12/31	<u>90,000</u>

Salary Expense (SE)	
Bal. 1/1	-
(4)	110,000
Bal. 12/31	<u>110,000</u>

(8) The firm issues common stock of \$50,000 for cash on January 28, 2000.

Transaction Number	Accounts	Debit	Credit
8	Cash (A)	50,000	
	Common Stock (SE)		50,000

Asset = Liabilities + Shareholders' Equity

Cash (A)	
Bal. 1/1	30,000
(2)	225,000
(5)	325,000
(8)	50,000
Bal. 12/31	<u>438,500</u>

Account Payable (L)	
Bal. 1/1	135,000
(6)	70,000
Bal. 12/31	<u>65,000</u>

Common Stock (SE)	
Bal. 1/1	250,000
(8)	50,000
Bal. 12/31	<u>300,000</u>

Retained Earnings (SE)	
Bal. 1/1	123,000
Bal. 12/31	<u>123,000</u>

Sales Revenue (SE)	
Bal. 1/1	-
(2)	625,000
Bal. 12/31	<u>625,000</u>

Cost of Goods Sold (SE)	
Bal. 1/1	-
(3)	90,000
Bal. 12/31	<u>90,000</u>

Salary Expense (SE)	
Bal. 1/1	-
(4)	110,000
Bal. 12/31	<u>110,000</u>

Account Receivable (A)	
Bal. 1/1	63,000
(2)	400,000
Bal. 12/31	<u>138,000</u>

Merchandise Inventory (A)	
Bal. 1/1	175,000
Bal. 12/31	<u>85,000</u>

Prepaid Insurance (A)	
Bal. 1/1	-
(7)	1,500
Bal. 12/31	<u>1,500</u>

Building and Equipment (A)	
Bal. 1/1	525,000
(1)	10,000
Bal. 12/31	<u>535,000</u>

Summary

Asset

=

Liabilities

+

Shareholders' Equity

Cash (A)				
Bal. 1/1	30,000			
(2)	225,000	10,000	(1)	
(5)	325,000	110,000	(4)	
(8)	50,000	70,000	(6)	
		1,500	(7)	
Bal. 12/31	<u>438,500</u>			
Account Receivable (A)				
Bal. 1/1	63,000			
(2)	400,000	325,000	(5)	
Bal. 12/31	<u>138,000</u>			
Merchandise Inventory (A)				
Bal. 1/1	175,000			
		90,000	(3)	
Bal. 12/31	<u>85,000</u>			
Prepaid Insurance (A)				
Bal. 1/1	-			
(7)	1,500			
Bal. 12/31	<u>1,500</u>			
Land (A)				
Bal. 1/1	100,000			
Bal. 12/31	<u>100,000</u>			
Building and Equipment (A)				
Bal. 1/1	525,000			
(1)	10,000			
Bal. 12/31	<u>535,000</u>			
Accumulated Depreciation (XA)				
		85,000	Balance 1/1	
		<u>85,000</u>	Balance 12/31	

Account Payable (L)			
		135,000	Bal. 1/1
(6)	70,000		
		<u>65,000</u>	Bal. 12/31
Bonds Payable (L)			
		100,000	Bal. 1/1
		<u>100,000</u>	Bal. 12/31

Common Stock (SE)		
	250,000	Bal. 1/1
	50,000	(8)
	<u>300,000</u>	Bal. 12/31
Additional Paid-in Capital (SE)		
	200,000	Bal. 1/1
	<u>200,000</u>	Bal. 12/31
Retained Earnings (SE)		
	123,000	Bal. 1/1
	<u>123,000</u>	Bal. 12/31
Sales Revenue (SE)		
	-	Bal. 1/1
	625,000	(2)
	<u>625,000</u>	Bal. 12/31
Cost of Goods Sold (SE)		
Bal. 1/1	-	
(3)	90,000	
Bal. 12/31	<u>90,000</u>	
Salary Expense (SE)		
Bal. 1/1	-	
(4)	110,000	
Bal. 12/31	<u>110,000</u>	

Unadjusted Balance

King's Shoe Store, Inc.
Unadjusted Balance
31-Dec-00

	Accounts with Debit Balances	Accounts with Credit Balances
Cash (A)	438,500	
Account Receivable (A)	138,000	
Merchandise Inventory (A)	85,000	
Prepaid Insurance (A)	1,500	
Land (A)	100,000	
Building and Equipment (A)	535,000	
Accumulated Depreciation (XA)		85,000
Accounts Payable (L)		65,000
Bonds Payable (L)		100,000
Common Stock (SE)		300,000
Additional Paid-in Capital (SE)		200,000
Retained Earnings (SE)		123,000
Sales Revenue (SE)		625,000
Cost of Goods Sold (SE)	90,000	
Salary Expense (SE)	110,000	
Total	1,498,000	1,498,000

Adjusting Entries

- Adjusting the events that continually occur for which no specific transaction signals the requirement for a journal entry but that still affect the net income for the period and the financial position at the end of the period
- Adjusting entries prepared at the end of the accounting period change the balances in the general ledger accounts so that all revenues and expenses are recognized
- For example,
 - Recognition of accrued revenues and receivables
 - Recognition of accrued expenses and payables
 - Allocation of prepaid operating costs, e.g. prepaid insurance cost
 - Recognition of Depreciation
 - Correction of errors, etc.

(1) Allocation of prepaid insurance cost

- King's Shoe Store paid \$1,500 on January 1, 2000, for a three-year insurance policy - Transaction #7
- During the year 2000, one-third of the coverage expired, so \$500 of the premium should leave the asset account on the balance sheet and become an insurance expense, reducing income and retained earnings.
- In other words, the balance sheet on December 31, 2000, should show only \$1,000 of prepaid insurance as an asset.

Transaction Number	Accounts	Debit	Credit
9	Insurance Expense (SE)	500	
	Prepaid Insurance (A)		500

Transaction Number	Accounts	Debit	Credit
9	Insurance Expense (SE)	500	

Prepaid Insurance (A) 500

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Common Stock (SE)	
Bal. 1/1	30,000			135,000	Bal. 1/1	250,000	Bal. 1/1
(2)	225,000	10,000	(1)			50,000	(8)
(5)	325,000	110,000	(4)			300,000	Bal. 12/31
(8)	50,000	70,000	(6)				
		1,500	(7)				
Bal. 12/31	<u>438,500</u>			<u>65,000</u>	Bal. 12/31		
Account Receivable (A)			Bonds Payable (L)			Additional Paid-in Capital (SE)	
Bal. 1/1	63,000			100,000	Bal. 1/1	200,000	Bal. 1/1
(2)	400,000	325,000	(5)			200,000	Bal. 12/31
Bal. 12/31	<u>138,000</u>			<u>100,000</u>	Bal. 12/31		
Merchandise Inventory (A)						Retained Earnings (SE)	
Bal. 1/1	175,000					123,000	Bal. 1/1
		90,000	(3)				
Bal. 12/31	<u>85,000</u>					<u>123,000</u>	Bal. 12/31
Prepaid Insurance (A)						Sales Revenue (SE)	
Bal. 1/1	-					-	Bal. 1/1
(7)	1,500	500	(9)			625,000	(2)
Bal. 12/31	<u>1,000</u>					<u>625,000</u>	Bal. 12/31
Land (A)						Cost of Goods Sold (SE)	
Bal. 1/1	100,000				Bal. 1/1	-	
Bal. 12/31	<u>100,000</u>				(3)	90,000	
Building and Equipment (A)						Bal. 12/31	<u>90,000</u>
Bal. 1/1	525,000					Salary Expense (SE)	
(1)	10,000				Bal. 1/1	-	
Bal. 12/31	<u>535,000</u>				(4)	10,000	
Accumulated Depreciation (XA)					Bal. 12/31	<u>110,000</u>	
		85,000	Balance 1/1			Insurance Expense (SE)	
		85,000	Balance 12/31		Bal. 1/1	-	
					(9)	500	
					Bal. 12/31	<u>500</u>	

(2) Recognition of Depreciation

- Although the assets of buildings and equipment provide services for a number of years, their future benefits expire as time passes. Therefore, accounting spreads an asset's cost over the periods of the assets' estimated useful life.
- The term *depreciation* refers to the charge made to the current operations for the portion of the cost of such assets consumed during the current period. The *straight-line method* is widely used for depreciation calculations
- King's Shoe Store's internal records show that annual depreciation is \$30,000 per year.

Transaction Number	Accounts	Debit	Credit
10	Depreciation Expense (SE)	30,000	
	Accumulated Depreciation (XA)		30,000

Transaction Number	Accounts	Debit	Credit
10	Depreciation Expense (SE)	30,000	
	Accumulated Depreciation (XA)		30,000
Asset = Liabilities + Shareholders' Equity			
Cash (A)		Account Payable (L)	
Bal. 1/1	30,000	135,000	Bal. 1/1
(2)	225,000	10,000	(1)
(5)	325,000	110,000	(4)
(8)	50,000	70,000	(6)
		1,500	(7)
Bal. 12/31	<u>438,500</u>		
Account Receivable (A)		Bonds Payable (L)	
Bal. 1/1	63,000	100,000	Bal. 1/1
(2)	400,000	325,000	(5)
Bal. 12/31	<u>138,000</u>		
Merchandise Inventory (A)		Depreciation Expense (SE)	
Bal. 1/1	175,000		
		90,000	(3)
Bal. 12/31	<u>85,000</u>		
Prepaid Insurance (A)		Land (A)	
Bal. 1/1	-	100,000	
(7)	1,500	500	(9)
Bal. 12/31	<u>1,000</u>		
Building and Equipment (A)		Accumulated Depreciation (XA)	
Bal. 1/1	525,000	85,000	Balance 1/1
(1)	10,000	30,000	(10)
Bal. 12/31	<u>535,000</u>		
		115,000	Balance 12/31
Common Stock (SE)		Additional Paid-in Capital (SE)	
		250,000	Bal. 1/1
		50,000	(8)
		<u>300,000</u>	Bal. 12/31
Retained Earnings (SE)		Sales Revenue (SE)	
		200,000	Bal. 1/1
		200,000	Bal. 12/31
		123,000	Bal. 1/1
		<u>123,000</u>	Bal. 12/31
Cost of Goods Sold (SE)		Salary Expense (SE)	
Bal. 1/1	-		
(3)	90,000		
Bal. 12/31	<u>90,000</u>		
Insurance Expense (SE)		Depreciation Expense (SE)	
Bal. 1/1	-		
(4)	110,000		
Bal. 12/31	<u>110,000</u>		
Insurance Expense (SE)		Depreciation Expense (SE)	
Bal. 1/1	-		
(9)	500		
Bal. 12/31	<u>500</u>		

(3) Recognition of Income Tax Expense

- Let us assume that King's Shoe Store should pay income tax at 35% of operating income
- The operating income can be calculated by subtracting total operating expenses from total revenue, i.e.,

$$\begin{aligned}\text{Operating income} &= \text{Total revenue} - \text{Total operating expenses} \\ &= \text{Total revenue} - (\text{Cost of Goods Sold} + \\ &\quad \text{Salary Expense} + \\ &\quad \text{Insurance Expense} + \\ &\quad \text{Depreciating Expenses})\end{aligned}$$

Transaction Number	Accounts	Debit	Credit
11	Income Tax Expense (SE)	138,075	
	Income Tax Payable (L)		138,075

Transaction Number	Accounts	Debit	Credit
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11 Income Tax Expense (SE) 138,075

Income Tax Payable (L) 138,075

Asset		=	Liabilities		+	Shareholders' Equity	
Cash (A)			Account Payable (L)			Common Stock (SE)	
Bal. 1/1	30,000			135,000	Bal. 1/1	250,000	Bal. 1/1
(2)	225,000	10,000	(6)	70,000		50,000	(8)
(5)	325,000	110,000				<u>300,000</u>	Bal. 12/31
(8)	50,000	70,000					
		1,500					
Bal. 12/31	<u>438,500</u>			<u>65,000</u>	Bal. 12/31		
Account Receivable (A)			Bonds Payable (L)			Additional Paid-in Capital (SE)	
Bal. 1/1	63,000			100,000	Bal. 1/1	200,000	Bal. 1/1
(2)	400,000	325,000	(5)			<u>200,000</u>	Bal. 12/31
Bal. 12/31	<u>138,000</u>			<u>100,000</u>	Bal. 12/31		
Merchandise Inventory (A)			Income Payable (L)			Retained Earnings (SE)	
Bal. 1/1	175,000			-	Bal. 1/1	123,000	Bal. 1/1
		90,000	(3)				
Bal. 12/31	<u>85,000</u>			<u>138,075</u>	(11)		
				138,075	Bal. 12/31	<u>123,000</u>	Bal. 12/31
Prepaid Insurance (A)			Depreciation Expense (SE)			Sales Revenue (SE)	
Bal. 1/1	-			-	Bal. 1/1	-	Bal. 1/1
(7)	1,500	500	(9)		(3)	625,000	(2)
Bal. 12/31	<u>1,000</u>			<u>30,000</u>	Bal. 12/31	<u>625,000</u>	Bal. 12/31
Land (A)			Income Tax Expense (SE)			Cost of Goods Sold (SE)	
Bal. 1/1	100,000			-	Bal. 1/1	-	
Bal. 12/31	<u>100,000</u>			<u>138,075</u>	(4)	90,000	
				138,075	Bal. 12/31	<u>90,000</u>	
Building and Equipment (A)			Salary Expense (SE)			Insurance Expense (SE)	
Bal. 1/1	525,000			-	Bal. 1/1	-	
(1)	10,000				(4)	110,000	
Bal. 12/31	<u>535,000</u>				Bal. 12/31	<u>110,000</u>	
Accumulated Depreciation (XA)			Income Tax Payable (L)				
		85,000	Balance 1/1				
		30,000	(10)				
		<u>115,000</u>	Balance 12/31				

Adjusted Balance

King's Shoe Store, Inc.

Adjusted Balance

31-Dec-00

	Unadjusted Balance		Adjusting Entries			Adjusted Balance	
	Debit	Credit	Debit	Credit	Transaction Number	Debit	Credit
Cash (A)	438,500					438,500	
Account Receivable (A)	138,000					138,000	
Merchandise Inventory (A)	85,000					85,000	
Prepaid Insurance (A)	1,500			500	(9)	1,000	
Land (A)	100,000					100,000	
Building and Equipment (A)	535,000					535,000	
Accumulated Depreciation (XA)		85,000		30,000	(10)		115,000
Accounts Payable (L)		65,000					65,000
Income Tax Payable (L)				138,075	(11)		138,075
Bonds Payable (L)		100,000					100,000
Common Stock (SE)		300,000					300,000
Additional Paid-in Capital (SE)		200,000					200,000
Retained Earnings (SE)		123,000					123,000
Sales Revenue (SE)		625,000					625,000
Cost of Goods Sold (SE)	90,000					90,000	
Salary Expense (SE)	110,000					110,000	
Insurance Expense (SE)			500		(9)	500	
Depreciation Expense (SE)			30,000		(10)	30,000	
Income Tax Expense (SE)			138,075		(11)	138,075	
Total	1,498,000	1,498,000	168,575	168,575		1,666,075	1,666,075

Closing Entries

King's Shoe Store, Inc.
Adjusted Balance
31-Dec-00

	Unadjusted Balance		Adjusting Entries			Adjusted Balance		Closing Entries (Income Statement)		Post-Closing Balance (Balance Sheet)	
	Debit	Credit	Debit	Credit	Transaction Number	Debit	Credit	Debit	Credit	Debit	Credit
Cash (A)	438,500					438,500				438,500	
Account Receivable (A)	138,000					138,000				138,000	
Merchandise Inventory (A)	85,000					85,000				85,000	
Prepaid Insurance (A)	1,500			500	(9)	1,000				1,000	
Land (A)	100,000					100,000				100,000	
Building and Equipment (A)	535,000					535,000				535,000	
Accumulated Depreciation (XA)		85,000		30,000	(10)		115,000				115,000
Accounts Payable (L)		65,000					65,000				65,000
Income Tax Payable (L)				138,075	(11)		138,075				138,075
Bonds Payable (L)		100,000					100,000				100,000
Common Stock (SE)		300,000					300,000				300,000
Additional Paid-in Capital (SE)		200,000					200,000				200,000
Retained Earnings (SE)		123,000					123,000				379,425
Sales Revenue (SE)		625,000					625,000	625,000			-
Cost of Goods Sold (SE)	90,000					90,000			90,000		-
Salary Expense (SE)	110,000					110,000			110,000		-
Insurance Expense (SE)			500		(9)	500			500		-
Depreciation Expense (SE)			30,000		(10)	30,000			30,000		-
Income Tax Expense (SE)			138,075		(11)	138,075			138,075		-
Total	<u>1,498,000</u>	<u>1,498,000</u>	<u>168,575</u>	<u>168,575</u>		<u>1,666,075</u>	<u>1,666,075</u>	<u>625,000</u>	<u>625,000</u>	<u>1,297,500</u>	<u>1,297,500</u>

Balance Sheet

King's Shoe Store, Inc.
Comparative Balance Sheet
 As of December 31, 1999 and 2000

Assets	Liabilities and Shareholders' Equity			
	December 31, 2000	December 31, 1999	December 31, 2000	December 31, 1999
Current Assets:			Current Liabilities	
Cash	438,500	30,000	Account Payable	65,000 135,000
Account Receivable	138,000	63,000	Income Tax Payable	138,075 -
Merchandise Inventory	85,000	175,000	Total Current Liabilities	203,075 135,000
Prepaid Insurance	1,000	-	Long-Term Debt	
Total Current Assets	662,500	268,000	Bonds Payable	100,000 100,000
Property, Plant, and Equipment			Total Liabilities	303,075 235,000
Land	100,000	100,000	Shareholders' Equity	
Building and Equipment (at acquisition cost)	535,000	525,000	Common Stock (at par value)	300,000 250,000
Less: Accumulated Depreciation	(115,000)	(85,000)	Additional Paid-in Capital	200,000 200,000
Building and Equipment (net)	420,000	440,000	Retained Earnings	379,425 123,000
Total Property, Plant, and Equipment	520,000	540,000	Total Shareholders' Equity	879,425 573,000
Total Assets	1,182,500	808,000	Total Liabilities and	1,182,500 808,000

Income Statement

King's Shoe Store, Inc.

Income Statement for the Year Ending December 31, 2000

Revenue:		
Sales Revenue	625,000	
Other Revenue	-	
Total Revenue		<u>625,000</u>
Expenses:		
Cost of Goods Sold	90,000	
Salary Expense	110,000	
Insurance Expense	500	
Depreciation Expense	30,000	
Total Expense		<u>230,500</u>
Operating Income		<u>394,500</u>
Less Income taxes (35%)		<u>(138,075)</u>
Net Income		<u>256,425</u>

Statement of Cash Flows

Cash Flow from Operating Activities:	
Net Income	256,425
Noncash Adjustments	
Depreciation	30,000
Decrease in accounts payable	(70,000)
Increase in tax payable	138,075
Increase in accounts receivable	(75,000)
Decrease in inventory	90,000
Increase in prepaid expenses	<u>(1,000)</u>
Net cash increase from operating activities	368,500
Cash Flow from Investing Activities:	
Purchase of Building and Equipment	(10,000)
Net cash increase from Investing activities	(10,000)
Cash Flow from Financing Activities:	
Issuance of Common Stocks	50,000
Net cash increase from Financing activities	<u>50,000</u>
Increase in Cash during 2000	408,500
Beginning Cash Balance	<u>30,000</u>
Ending Cash Balance	<u><u>438,500</u></u>

Financial Ratios

Net Income	256,425
Total Assets	1,182,500
Sales Revenue	625,000
Total Assets	1,182,500
	808,000

Profitability Ratios

- Return on Assets (ROA) = (Net Income / Total Assets) x 100
- Return on Equity (ROE) = (Net Income / Shareholders' Equity) x 100
- Profit Margin = (Net Income / Sales Revenue) x 100

= 21.7 %
= 29.2 %
= 41.0 %

Activity Ratios

- Asset Turnover = Sales Revenue / [(Beginning Assets + Ending Assets) / 2]
- Days of Receivables = (Receivables / Sales Revenue) x Days in Period
- Inventory Turnover = Cost of Good Sold / [(Beginning Inventory + Ending Inventory) / 2]

= 0.63
= 81
= 0.69

Leverage Ratios

Total Current Assets	662,500
Total Current Liabilities	203,075

- Current Ratio = Current Assets / Current Liabilities
- Debt-to-Equity Ratio = Total Liabilities / Shareholders' Equity

= 3.26
= 0.34