

JUMP START PROGRAM

Jump Start: Accounting

September 18, 2013

Have patience. All things are difficult before they become easy.

--Saadi



Our Time Together

Foster MBA – Accounting Jump Start 2013 Syllabus

Coach: Frank Hodge

Website: <http://faculty.washington.edu/hodge/>
*Contact information and course materials for Jump Start are located here. I'll switch over to using Canvas, the Foster School's course management system, when fall quarter starts.

Class time: Wednesday (9/18) 9:00 – 12:00 Shansby Auditorium
Thursday (9/19) 9:00 – 12:00 Shansby Auditorium
Friday (9/20) 9:00 – 12:00 Shansby Auditorium

Objective: The objective of Jump Start is to help those of you with little accounting knowledge gain an understanding of the important role accounting plays in society, and to gain confidence recording economic transactions and creating financial statements.

Readings: In Jump Start I will briefly touch on the topics covered in the first five chapters of your text. Reading the first five chapters before, during, or shortly after Jump Start will help solidify the critical foundation you need to fully understand and appreciate accounting and its role in society. In addition, reading the first five chapters of the text before the fall quarter starts will greatly reduce the feeling of being overwhelmed you are likely to encounter during the first two weeks of the quarter.

In Class: You will learn by doing. Jump Start classes will be interactive and filled with problem-solving exercises. I do not believe in passive learning. Please come ready to actively participate in class and have some fun.

Our Time Together

Topics and Assignments

Wednesday (9/18)

Topics: Introduction to Connect
Painting the big picture: Accounting in society
Introduction to the four financial statements
Introduction to the accounts found on each statement
Introduction to recording economic transactions

Thursday (9/19)

Topics: Practice recording economic transactions
Practice creating balance sheets
Practice creating income statements

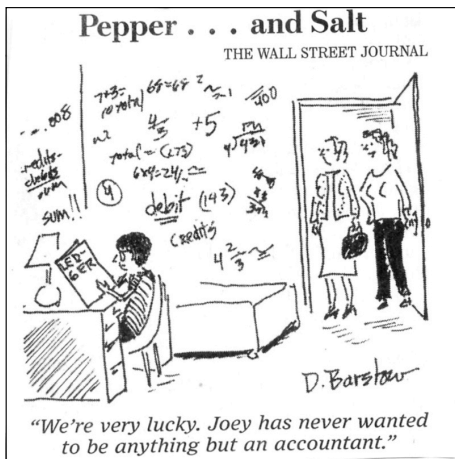
Friday (9/20)

Topics: Introduction to creating cash flow statements
Review of how everything fits together
Practice exam

Tools

- Jump Start website
- Canvas
- Connect

Accounting Knowledge



THE WALL STREET JOURNAL.

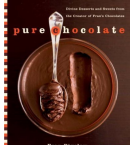
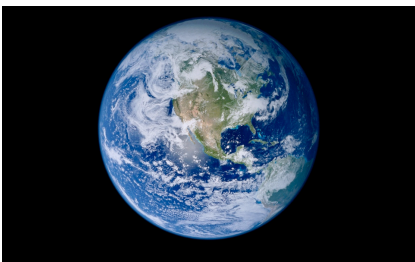
WSJ.com

TECHNOLOGY | Updated August 20, 2012, 8:53 p.m. ET

Apple Now Biggest-Ever U.S. Company

What is
ACCOUNTING?

ACCOUNTING
Identifying, recording, reporting
and analyzing economic
transactions to provide useful
information so that interested
parties can make informed
decisions.



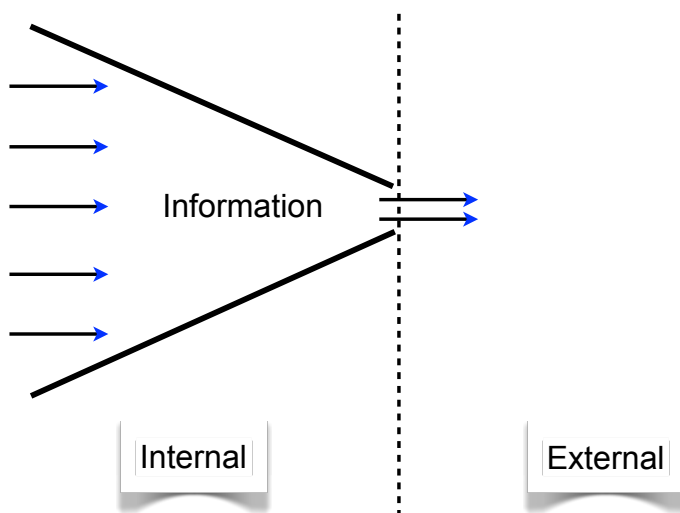
Types of Accounting

- **Financial accounting** ⇒ **Foundation**
- **Managerial accounting**
 - Budgeting
- **Tax accounting**
- **Not-for-profit accounting**

Ownership Structures

- Sole proprietorships
- Partnerships
- ➔ Corporations

Corporations



Science or Art...

...It seems to me fundamentally important to recognize that the accounts of a modern business are not entirely statements of fact, but are, to a large extent, expressions of opinion based partly on accounting convention, partly on assumptions, explicit and implicit, and partly on judgment.

--George May

My Model of Accounting

Acronyms

- CPA
- AICPA
- Big 4
- SOX
- IFRS
- Dr. and Cr.


Speaking the Lingo...



The Financial Statements

--12/31/11--

--12/31/12--




Balance Sheet
 $A = L + OE$

Cash flow statement
 Δ in cash

Income statement
 $R - E = NI$

Owners' equity statement
 Δ in OE



Balance Sheet
 $A = L + OE$

Point in time Period of time Point in time

Footnotes to the financial statements

Balance Sheet

As of 12/31/12



Balance Sheet
 $A = L + OE$

Balance Sheet

--Assets--

- **Asset recognition criteria**
 - Ownership
 - Future economic benefits > costs
 - Benefits can be measured
- Value of assets on the balance sheet is a LOWER bound
- Some assets do not meet the above criteria and are therefore not recognized

Balance Sheet

--Assets--

- Order of presentation
 - **Current assets**
 - ✓ Assets that will benefit the firm over the next year or its operating cycle, whichever is longer.
 - ✓ Listed in order of liquidity
 - **Non-current or long-term assets**

Balance Sheet

--Liabilities--

- **Liability recognition criteria**
 - An obligation exists
 - Amount and timing of obligation can be measured

Balance Sheet --Liabilities--

- Order of presentation
 - **Current liabilities**
 - ✓ Liabilities that a firm expects to satisfy with current assets (i.e., typically within one year)
 - **Non-current or long-term liabilities**
 - ✓ Long-term liabilities are typically reported at their "present value"

Classified Balance Sheet --Shareholders' Equity--

- Remember...

$$\text{Owners' Equity} = \text{Asset} - \text{Liabilities}$$

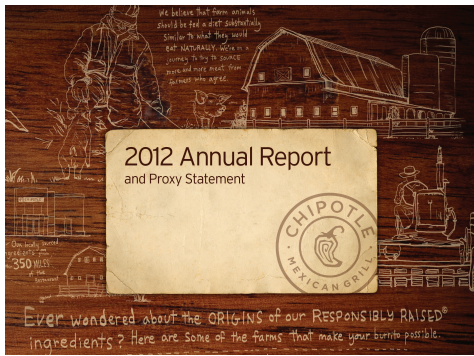
- Terms you might encounter:

- Worth
- Net worth or net assets
- Equity
- Shareholders' equity
- Owners' equity
- Book value

**They all mean
the same thing**

Classified Balance Sheet --Shareholders' Equity--

- Order of presentation
 - **Stock** (contributed capital)
 - **Retained earnings** (earned capital)
 - ✓ Beginning balance + net income - dividends = ending balance
 - **Other (if any...typically minor)**



2012 Annual Report Contents

- Cover (1) → PDF page #...not 10K page #
- Letter to Shareholders (2)
- 10K
 - Introduction and overview (3 - 11)
 - Discussion of risk factors (11 - 25)
 - Market information (e.g., stock price) (28 - 29)
 - Management's discussion and analysis (MD&A) (31 - 39)
 - Auditor's audit letter (41)
 - Financial statements (42 - 45)
 - Footnotes (46 - 59)
 - Management's letter (60)
 - Auditor's internal controls letter (61)



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 1-32731

CHIPOTLE MEXICAN GRILL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1219301
(IRS Employer
Identification No.)

1401 Wynkoop Street, Suite 500 Denver, CO
(Address of Principal Executive Offices)

80202
(Zip Code)

Registrant's telephone number, including area code: (303) 595-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
---------------------	---

Common stock, par value \$0.01 per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None



CHIPOTLE MEXICAN GRILL, INC.
CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)

	December 31	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 322,553	\$ 401,243
Accounts receivable, net of allowance for doubtful accounts of \$1,187 and \$208 as of December 31, 2012 and 2011, respectively	16,800	8,389
Inventory	11,096	8,913
Current deferred tax asset	8,862	6,238
Prepaid expenses and other current assets	27,378	21,404
Income tax receivable	9,612	—
Investments	150,306	55,005
Total current assets	546,607	501,192
Leasehold improvements, property and equipment, net	866,703	751,951
Long term investments	190,868	128,241
Other assets	42,550	21,985
Goodwill	21,939	21,939
Total assets	\$ 1,668,667	\$ 1,425,308



CHIPOTLE MEXICAN GRILL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollar and share amounts in thousands, unless otherwise specified)

1. Description of Business and Summary of Significant Accounting Policies

Chipotle Mexican Grill, Inc. (the "Company"), a Delaware corporation, develops and operates fast-casual, fresh Mexican food restaurants throughout the United States. The Company also has five restaurants in Canada, five in London, England, and one in Paris, France. Further, the Company operates one ShopHouse Southeast Asian Kitchen, serving fast-casual, Asian inspired cuisine. The Company manages its operations based on six regions and has aggregated its operations to one reportable segment.

Cash and Cash Equivalents

The Company considers all highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents.

Leasehold Improvements, Property and Equipment

Leasehold improvements, property and equipment are recorded at cost. Internal costs directly associated with the acquisition, development and construction of a restaurant are capitalized and were \$10,038, \$9,616 and \$8,167 for the years ended December 31, 2012, 2011 and 2010, respectively. Expenditures for major renewals and improvements are capitalized while expenditures for minor replacements, maintenance and repairs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term, which generally includes reasonably assured option periods, or the estimated useful lives of the assets. Upon retirement or disposal of assets, the accounts are relieved of cost and accumulated depreciation and the related gain or loss, if any, is reflected in loss on disposal of assets in the consolidated statement of income and comprehensive income.

At least annually, the Company evaluates, and adjusts when necessary, the estimated useful lives. The changes in estimated useful lives did not have a material impact on depreciation in any period. The estimated useful lives are:

Leasehold improvements and buildings	3-20 years
Furniture and fixtures	4-10 years
Equipment	3-7 years

Leasehold improvements, property and equipment were as follows:

	December 31	
	2012	2011
Land	\$ 11,062	\$ 11,062
Leasehold improvements and buildings	996,080	849,102
Furniture and fixtures	100,416	89,180
Equipment	204,062	172,776
	1,311,620	1,122,120
Accumulated depreciation	(444,917)	(370,169)
	<u>\$ 866,703</u>	<u>\$ 751,951</u>



CHIPOTLE MEXICAN GRILL, INC.
CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)

	December 31	
	2012	2011
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 58,700	\$ 46,382
Accrued payroll and benefits	71,731	60,241
Accrued liabilities	56,278	46,456
Current portion of deemed landlord financing	143	133
Income tax payable	—	4,241
Total current liabilities	186,852	157,453
Deferred rent	167,057	143,284
Deemed landlord financing	3,386	3,529
Deferred income tax liability	48,947	64,381
Other liabilities	16,499	12,435
Total liabilities	422,741	381,082
Shareholders' equity:		
Preferred stock, \$0.01 par value, 600,000 shares authorized, no shares issued as of December 31, 2012 and 2011	—	—
Common stock \$0.01 par value, 230,000 shares authorized, and 34,912 and 34,357 shares issued as of December 31, 2012 and 2011, respectively	349	344
Additional paid-in capital	816,612	676,652
Treasury stock, at cost, 3,819 and 3,105 common shares at December 31, 2012 and 2011, respectively	(521,518)	(304,426)
Accumulated other comprehensive income	1,024	197
Retained earnings	949,459	671,459
Total shareholders' equity	1,245,926	1,044,226
Total liabilities and shareholders' equity	\$ 1,668,667	\$ 1,425,308



CHIPOTLE MEXICAN GRILL, INC.
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	Years ended December 31		
	2012	2011	2010
Revenue	\$ 2,731,224	\$ 2,269,548	\$ 1,835,922
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):			
Food, beverage and packaging	891,003	738,720	561,107
Labor	641,836	543,119	453,573
Occupancy	171,435	147,274	128,933
Other operating costs	286,610	251,208	202,904
General and administrative expenses	183,409	149,426	118,590
Depreciation and amortization	84,130	74,938	68,921
Pre-opening costs	11,909	8,495	7,767
Loss on disposal of assets	5,027	5,806	6,296
Total operating expenses	2,275,359	1,918,986	1,548,091
Income from operations	455,865	350,562	287,831
Interest and other income (expense), net	1,820	(857)	1,230
Income before income taxes	457,685	349,705	289,061
Provision for income taxes	(179,685)	(134,760)	(110,080)
Net income	\$ 278,000	\$ 214,945	\$ 178,981
Other comprehensive income:			
Foreign currency translation adjustments	827	(409)	577
Comprehensive income	\$ 278,827	\$ 214,536	\$ 179,558

Income Statement Accounts

- **Revenues are...**
 - Increases in assets or settlements of liabilities from ongoing operations.
- **Expenses are...**
 - Decreases in assets or increases in liabilities from ongoing operations incurred to generate revenues during the period.

Income Statement Accounts

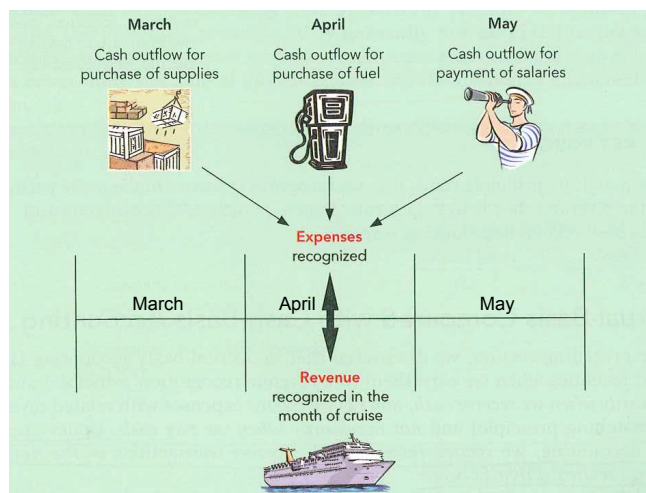
- **Revenue recognition**

- We record revenue in the period in which it is **earned**, which may or may not be the period in which we receive cash.

- **Expense recognition**

- We record expenses in the same period we recognize the revenues they helped generate.
- We **match** the expenses with the revenues they helped generate (this is called the “matching principle”).

Accrual Accounting



Cash Accounting

- **Revenue recognition**

- We record revenue in the period in which we receive cash.

- **Expense recognition**

- We record expenses in the period in which we pay cash.

- **Both GAAP and IFRS require accrual (not cash) accounting.**

- Why?

Accrual vs *Cash* Accounting

- **Example...**

- On May 20 we buy an inventory item on account for \$50.
- On May 25 we sell the inventory item to a customer on account for \$80.
- Account for these transactions under an **accrual system** of accounting.
- Account for these transactions under a **cash system** of accounting.

CASH ≠ INCOME

- May 20: Buy shoes on credit from supplier for \$50
- May 25: Sell (same) shoes to customer on credit for \$80

ACCRUAL

Assets = Liabilities + Equity

CASH

Accrual vs *Cash* Accounting

- **Accrual accounting...**

- Records transactions

- **Cash accounting...**

- Records the inflows and outflows of cash

- **The key difference between the two...**

TIMING

The World Around You...

Emmert made \$1.7 million, according to NCAA tax return

Steve Berkowitz, USA TODAY Sports 1:16 p.m. EDT July 14, 2013

The return, which the NCAA provided Wednesday in response to a request from USA TODAY Sports, shows that Emmert received:

- \$1,201,159 in base compensation.
- \$234,300 in retirement and deferred compensation.
- \$214,947 in other reportable compensation.
- \$23,689 in nontaxable benefits.

Emmert's total of \$1,674,095 means he received 46% more in compensation than Brand did.

The New York Times

May 6, 2013

Worst of the 'What Were They Thinking?' Contracts

By BENJAMIN HOFFMAN

BOBBY BONILLA, 2000

1 year, \$5.9 million

A special case in which the dollar figure was quite low, but the ramifications were far-reaching. To save some money when Bonilla was released before the 2000 season, the Mets asked him to accept deferred payments instead of the \$5.9 million he was owed. In 2011, Bonilla received the first of those payments, and he will continue to receive annual checks for a little less than \$1.2 million until 2035. In all, this creative accounting will result in Bonilla's being paid \$29.8 million. This season, Bonilla, who retired in 2001, is making more than 18 players on the Mets' active roster.



CHIPOTLE MEXICAN GRILL, INC.

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME (in thousands, except per share data)

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Occupancy	171,435	147,274	128,933
Other operating costs	286,610	251,208	202,904
General and administrative expenses	183,409	149,426	118,590
Depreciation and amortization	84,130	74,938	68,921
Pre-opening costs	11,909	8,495	7,767
Loss on disposal of assets	5,027	5,806	6,296
Total operating expenses	2,275,359	1,918,986	1,548,091
Income from operations	455,865	350,562	287,831
Interest and other income (expense), net	1,820	(857)	1,230
Income before income taxes	457,685	349,705	289,061
Provision for income taxes	(179,685)	(134,760)	(110,080)
Net income	\$ 278,000	\$ 214,945	\$ 178,981
Other comprehensive income:			
Foreign currency translation adjustments	827	(409)	577
Comprehensive income	\$ 278,827	\$ 214,536	\$ 179,558

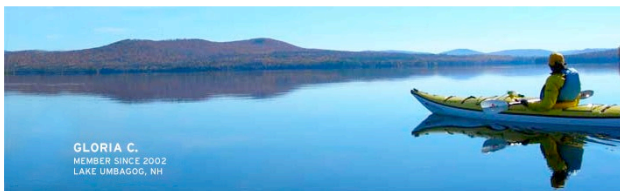


REI Stewardship
 REI in the Community
 Sustainable Operations
 Workplace
 Stewardship Report

Report to Members
 President's Message
 Chairman's Message
Financial Information

Board of Directors
 REI Directors

About REI



CONSOLIDATED BALANCE SHEETS
 (in thousands)



December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 168,321	\$ 128,305
Short-term investments	178,312	197,443
Accounts receivable, less allowance for doubtful accounts of \$28 and \$232, respectively	17,905	17,048
Inventories	338,977	316,088
Current deferred income taxes, net	34,940	34,439
Prepaid expenses and other	12,689	12,457
Total current assets	<u>751,144</u>	<u>705,780</u>
Property and equipment, net of accumulated depreciation of \$483,702 and \$421,461, respectively	426,497	399,282
Deferred income taxes, net	5,352	5,967
Other	8,871	7,934
Total assets	<u>\$ 1,191,864</u>	<u>\$ 1,118,963</u>

	2012	2011
Liabilities and members' equity		
Current liabilities:		
Accounts payable	\$ 127,135	\$ 134,342
Customer-related obligations	183,281	155,999
Patronage dividends payable	98,796	94,704
Accrued payroll and benefits	57,423	58,882
Business taxes and other accrued liabilities	34,458	30,335
Income taxes payable	4,362	5,923
Total current liabilities	<u>505,455</u>	<u>480,185</u>
Deferred rent and other long-term liabilities	59,564	57,667
Members' equity:		
Memberships	176,920	160,054
Accumulated other comprehensive income	255	392
Retained earnings	449,670	420,665
Total members' equity	<u>626,845</u>	<u>581,111</u>
Total liabilities and members' equity	<u>\$ 1,191,864</u>	<u>\$ 1,118,963</u>



	2012	2011
Net sales	\$ 1,930,635	\$ 1,798,009
Cost of sales	<u>1,128,065</u>	<u>1,034,924</u>
Gross profit	802,570	763,085
Operating expenses:		
Payroll-related expenses	351,201	336,175
Occupancy, general and administrative	<u>314,778</u>	<u>293,676</u>
	<u>665,979</u>	<u>629,851</u>
Operating income	136,591	133,234
Other expense, net	<u>(2,747)</u>	<u>(4,808)</u>
Income before patronage dividends and income taxes	133,844	128,426
Patronage dividends, net	<u>89,262</u>	<u>81,871</u>
Income before income taxes	44,582	46,555
Provision for income taxes	<u>15,577</u>	<u>16,387</u>
Net income	<u>\$ 29,005</u>	<u>\$ 30,168</u>



Balance Sheet Quiz

Ullrich Company sells bicycles. Ullrich's financial records contain the following accounts and balances (as of 12/31/12). The accounts are randomly listed.

Accounts payable	\$50,000	Accounts receivable	\$11,000
Common stock	\$78,000	Unearned revenue	\$55,000
Cash	\$36,000	Prepaid rent	\$20,000
Land	\$30,000	Retained earnings	\$82,000
Inventory	\$110,000	Equipment, net	\$145,000
Taxes payable	\$10,000	Wages payable	\$10,000
		Notes payable	\$67,000

★What are Ullrich's total assets?

★What are Ullrich's total liabilities?

Income Statement Quiz

Ullrich Company sells bicycles. Ullrich's financial records contain the following accounts and balances (as of 12/31/12). The accounts are randomly listed.

Rent expense	\$24,000	Accounts receivable	\$11,000
Accounts payable	\$50,000	Unearned revenue	\$55,000
Common stock	\$78,000	Depreciation expense	\$7,000
Cost of goods sold	\$231,000	Prepaid rent	\$20,000
Cash	\$36,000	Bike sales	\$712,000
Land	\$30,000	Interest expense	\$5,000
Inventory	\$110,000	Retained earnings	\$82,000
Service revenue	\$293,000	Equipment, net	\$145,000
Wage expense	\$195,000	Wages payable	\$10,000
Taxes payable	\$10,000	Notes payable	\$67,000

★What is Ullrich's net income?

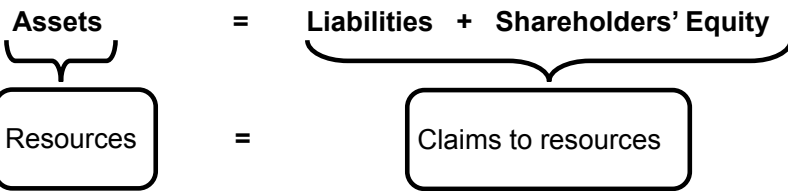
Recording Transactions

- 1 Analyze transactions
- 2 Determine effect on accounting equation ($A = L + SE$)
- 3 Determine whether to debit or credit affected accounts
- 4 Record transaction in the journal
- 5 Post transaction to the ledger
- 6 Prepare trial balance / financial statements

- 1 Analyze transactions

- What are source documents?
- Why do we need source documents?

2 Determine effect on accounting equation ($A = L + SE$)



Each transaction will have a dual effect, which is the foundation of...
A DOUBLE ENTRY ACCOUNTING SYSTEM

2 Determine effect on accounting equation ($A = L + OE$)



Each transaction will have a dual effect, which is the foundation of...
A DOUBLE ENTRY ACCOUNTING SYSTEM

2 Determine effect on accounting equation ($A = L + SE$)

- **When determining the effect on the accounting equation ask yourself...**
 - What are the accounts that are affected?
 - Do those accounts increase or decrease?
 - By how much do they increase or decrease?

2 Determine effect on accounting equation ($A = L + SE$)

• **Keep in mind...**

- $A = L + OE$
- Need 3 pieces of information:
 1. Accounts
 2. Direction
 3. Amount

Recording Transactions

1 Analyze transactions

2 Determine effect on accounting equation ($A = L + SE$)

3 Determine whether to debit or credit affected accounts

4 Record transaction in the journal

5 Post transaction to the ledger

6 Prepare trial balance / financial statements

New York Times (January 8, 2013)

JANUARY 8, 2013, 4:44 PM

Despite Promise, Federal Tax-Refund Debit Cards a No Go

By ANN CARRNS

Giving consumers who lack accounts at a bank or credit union the option of getting tax refunds on multiuse, prepaid debit cards may help bring them into the financial mainstream, a report from the [Urban Institute](#) finds. But the accounts must be low-cost, easy to use and available early in the tax season to encourage their use.

Many Words Have Multiple Meanings

“Engaged”

Not “Engaged”

3 Determine whether to debit or credit affected accounts

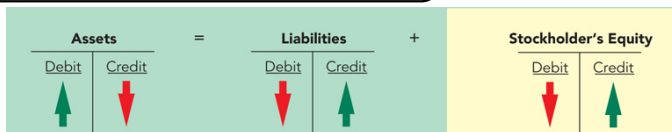
DEBIT

On
the
left

CREDIT

On
the
right

3 Determine whether to debit or credit affected accounts



By following these “rules” after every transaction is recorded:

- 1) debits = credits
- 2) $A = L + OE$

3 Determine whether to debit or credit affected accounts

• **When determining whether to debit or credit an account ask yourself...**

- What are the accounts that are affected?
 - Is the account an asset account, a liability account, or a shareholders' equity account?
- Do those accounts increase or decrease?
 - Should I debit or credit the account?
- By how much do they increase or decrease?

3 Determine whether to debit or credit affected accounts

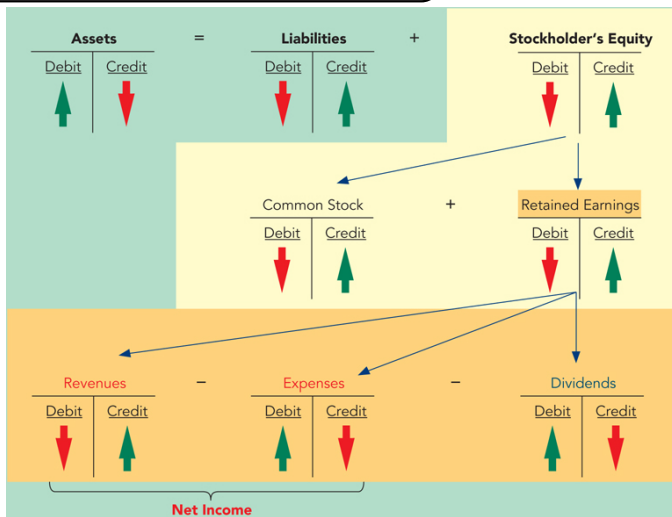
DEBIT

On the left

USEFUL?

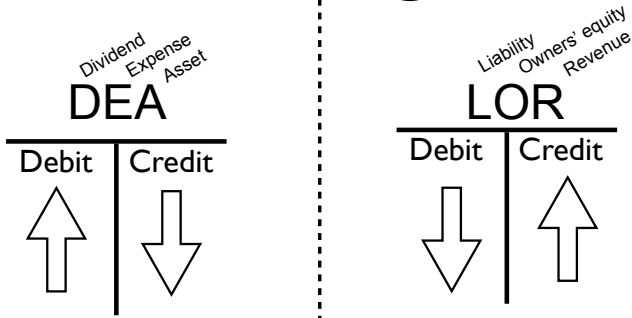
On the right

3 Determine whether to debit or credit affected accounts



3 Determine whether to debit or credit affected accounts

DEALOR



Recording Transactions

1 Analyze transactions

2 Determine effect on accounting equation ($A = L + SE$)

3 Determine whether to debit or credit affected accounts

4 Record transaction in the journal

5 Post transaction to the ledger

6 Prepare trial balance / financial statements

4 Record transaction in the journal

- **What is a journal?**
 - A chronological record of all transactions affecting a firm.

			LEFT	RIGHT
Date	Ref #	Accounts	Debit	Credit
		Account name	Amount	
		Account name		Amount

**Description of transaction (we often leave this out when practicing)*

4

Record transaction in the journal

- **What is a journal?**

- A chronological record of all transactions affecting a firm.

LEFT RIGHT

Date	Ref #	Accounts	Debit	Credit
1/10/13	1	Equipment (+A) Cash (-A)	500	500

Recording Transactions

- **What is a journal?**

- A chronological record of all transactions affecting a firm.

JOURNAL ENTRIES

DATE	REF #	ACCOUNTS	DEBITS	CREDITS
5/15/10	1	Cash (+A) Accounts receivable (-A)	11,000	11,000
5/16/10	2	Accounts payable (-L) Cash (-A)	18,000	18,000
4/18/11	3	Inventory (+A) Accounts payable (+L)	20,000	20,000
4/20/11	4	Cash (+A) Unearned revenue (+L)	140,000	140,000
4/21/11	5	Accounts receivable (+A) Unearned revenue (+L)	7,000	7,000

5

Post transaction to the ledger

- **What is a ledger?**

- All accounts used to record a company's transactions.
- The process of transferring the debit and credit information from the journal to individual accounts in the ledger is called "posting"

Account name	
debits	credits



1. Jan 1: We sell common stock for \$10,000 cash.
2. Jan 25: We borrow \$3,000 cash from the bank.
3. Feb 10: We purchase equipment for \$5,000 cash.
4. Feb 12: We purchase \$500 of inventory on credit.
5. Mar 15: We sell goods for \$12,000 cash.
The goods cost us \$500.
6. Mar 30: We pay \$200 cash for rent expense.
7. Mar 30: We pay \$500 cash for salary expense.
8. Mar 30: We receive \$500 cash in advance for goods that we will deliver next week.



ASSETS = **LIABILITIES** + **OWNERS' EQUITY**

4

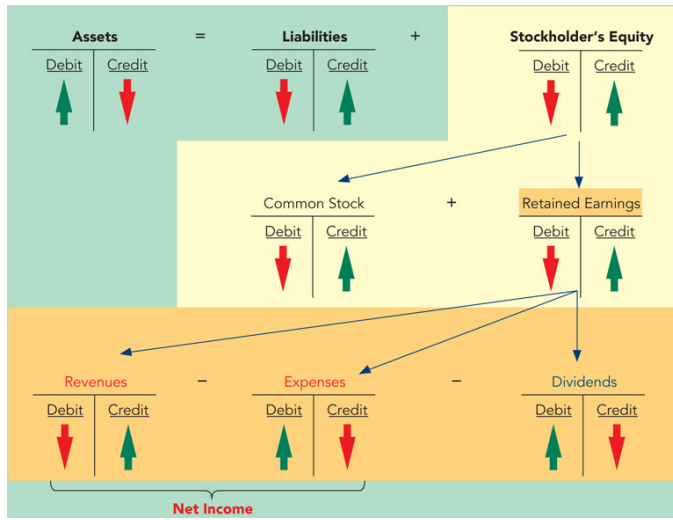
Record transaction in the journal

5

Post transaction to the ledger

1. Jan 1: We sell common stock for \$10,000 cash.
2. Jan 25: We borrow \$3,000 cash from the bank.
3. Feb 10: We purchase equipment for \$5,000 cash.
4. Feb 12: We purchase \$500 of inventory on credit.
5. Mar 15: We sell goods for \$12,000 cash.
The goods cost us \$500.
6. Mar 30: We pay \$200 cash for rent expense.
7. Mar 30: We pay \$500 cash for salary expense.
8. Mar 30: We receive \$500 cash in advance for goods that we will deliver next week.

Debits and Credits



4 Record transaction in the journal

DATE	REF #	ACCOUNTS	DEBIT	CREDIT
1-Jan	1	Cash (+A) Common stock (+SE)	10,000	10,000
25-Jan	2	Cash (+A) Note payable +(L)	3,000	3,000
10-Feb	3	Equipment (+A) Cash (-A)	5,000	5,000
12-Feb	4	Inventory (+A) Accounts payable (+L)	500	500
15-Mar	5	Cash (+A) Revenue (+R, +SE) Cost of goods sold (+E, -SE) Inventory (-A)	12,000 500	12,000 500
30-Mar	6	Rent expense (+E, -SE) Cash (-A)	200	200
30-Mar	7	Salary expense (+E, -SE) Cash (-A)	500	500
30-Mar	8	Cash (+A) Unearned revenue (+L)	500	500

LEDGER

Cash (A)	Inventory (A)	Equipment (A)
Accounts Payable (L)	Unearned Revenue (L)	Loan payable (L)
Common Stock (SE)	Retained Earnings (SE)	
Revenues (R)	Cost of Goods Sold (E)	Rent Expense (E)
Salary Expense (E)		

Post transaction to the ledger

Quiz

- True or false: Under a double-entry accounting system a single transaction may affect three accounts.
- True or false: Under a double-entry accounting system a single transaction may affect three accounts.

Quiz

- Does a debit increase or decrease the following account?

Inventory	
Debit	Credit

Quiz

- Does a debit increase or decrease the following account?

Notes payable	
Debit	Credit

Quiz

- Does a debit increase or decrease the following account?

Common stock	
Debit	Credit

Quiz

- Does a debit increase or decrease the following account?

Sales	
Debit	Credit

Quiz

- Does a debit increase or decrease the following account?

Rent expense	
Debit	Credit

Quiz

- Interpret the following journal entry.

Date	Ref #	Accounts	Debit	Credit
1/15/13	2	Accounts receivable (+A) Sales (+R, +OE)	500	500

Quiz

- Interpret the following journal entry.

Date	Ref #	Accounts	Debit	Credit
1/15/13	3	Cost of goods sold (+E, -OE) Inventory (-A)	500	500

Quiz

- Interpret the following journal entry.

Date	Ref #	Accounts	Debit	Credit
1/15/13	4	Cash (+A) Accounts receivable (+A) Bike revenue (+R, +OE) Service revenue (+R, +OE)	500 600	800 300

Recording Transactions

- 1 Analyze transactions
- 2 Determine effect on accounting equation ($A = L + SE$)
- 3 Determine whether to debit or credit affected accounts
- 4 Record transaction in the journal
- 5 Post transaction to the ledger
- 6 Prepare trial balance / financial statements

6 Prepare a trial balance

• What is a trial balance?

- A list of all accounts and their balances at a particular date, showing that total debits equal total credits.
- A trial balance is for internal purposes only. It is not disclosed to external parties.
- A trial balance provides a check on the equality of the debits and credits.

6 Prepare a trial balance

EAGLE GOLF ACADEMY Trial Balance January 31

Accounts	Debit	Credit
Cash	\$ 6,200	
Accounts Receivable	2,500	
Supplies	2,300	
Prepaid Rent	6,000	
Equipment	24,000	
Accounts Payable		\$ 2,300
Unearned Revenue		600
Notes Payable		10,000
Common Stock		25,000
Retained Earnings		0
Dividends	200	
Service Revenue		6,100
Salaries Expense	2,800	
Totals	<u>\$44,000</u>	<u>\$44,000</u>

Post transaction to the ledger

Cash (A)		Inventory (A)		Equipment (A)	
1	10,000	4	500	3	5,000
2	3,000		500	5b	
	5,000	3			
5a	12,000				
	200	6			
	500	7			
8	500				
	19,800			5,000	
<hr/>		<hr/>		<hr/>	
Accounts payable (L)		Unearned revenue (L)		Loan payable (L)	
	500	4	500	8	3,000
	500		500		3,000
<hr/>		<hr/>		<hr/>	
Common stock (SE)		Retained earnings (SE)			
	10,000	1			
	10,000				
<hr/>		<hr/>		<hr/>	
Revenues (R)		Cost of goods sold (E)		Rent expense (E)	
	12,000	5a	500	6	200
	12,000		500		200
<hr/>		<hr/>		<hr/>	
Salary expense (E)					
	7500				
	500				
<hr/>		<hr/>		<hr/>	

Prepare a trial balance

ACCOUNTS	DEBIT	CREDIT
Cash	19,800	
Inventory	-	
Equipment	5,000	
Accounts payable		500
Unearned revenue		500
Loan payable		3,000
Common stock		10,000
Retained earnings		-
Revenues		12,000
Cost of goods sold	500	
Rent expense	200	
Salary expense	500	
	<u>26,000</u>	<u>26,000</u>

The closing process

- The purpose of the closing process is to close out all temporary accounts (income statement accounts) into retained earnings.
- Steps in the closing process**
 - Close all revenue accounts to retained earnings.
 - Close all expense accounts to retained earnings.
 - Account for any dividends declared.

5 Post transaction to the ledger

Cash (A)		Inventory (A)		Equipment (A)	
1	10,000	4	500	3	5,000
2	3,000			5b	
	5,000	3			
5a	12,000				
	200	6			
	500	7			
8	500				
	19,800				5,000
<hr/>		<hr/>		<hr/>	
Accounts payable (L)		Unearned revenue (L)		Loan payable (L)	
	500	4		500	8
					3,000
	500				3,000
<hr/>		<hr/>		<hr/>	
Common stock (SE)		Retained earnings (SE)			
	10,000	1			
	10,000				
<hr/>		<hr/>			

Revenues (R)		Cost of goods sold (E)		Rent expense (E)	
	12,000	5a			
	12,000	5b	500	6	200
<hr/>		<hr/>		<hr/>	
Salary expense (E)					
	7				
	500				
<hr/>					
	500				
<hr/>					

6 Prepare a trial balance

ACCOUNTS	DEBIT	CREDIT
Cash	19,800	
Inventory	-	
Equipment	5,000	
Accounts payable		500
Unearned revenue		500
Loan payable		3,000
Common stock		10,000
Retained earnings		-
Revenues		12,000
Cost of goods sold	500	
Rent expense	200	
Salary expense	500	
	<u>26,000</u>	<u>26,000</u>

6 Prepare a trial balance

Before closing			After closing		
ACCOUNTS	DEBIT	CREDIT	ACCOUNTS	DEBIT	CREDIT
Cash	19,800		Cash	19,800	
Inventory	-		Inventory	-	
Equipment	5,000		Equipment	5,000	
Accounts payable		500	Accounts payable		500
Unearned revenue		500	Unearned revenue		500
Loan payable		3,000	Loan payable		3,000
Common stock		10,000	Common stock		10,000
Retained earnings		-	Retained earnings		10,800
Revenues		12,000		<u>24,800</u>	<u>24,800</u>
Cost of goods sold	500				
Rent expense	200				
Salary expense	500				
	<u>26,000</u>	<u>26,000</u>			

Before closing: 26,000
After closing: 24,800
Difference: 1,200
Why the difference?

Create Final Financial Statements

INCOME STATEMENT (for the period ending Mar 30)

Revenues	12,000
Expenses	
Cost of goods sold	500
Rent expense	200
Salary expense	500
Net income	<u>10,800</u>

OWNERS' EQUITY STATEMENT (for the period ending Mar 30)

	Common stock	Ret. Earnings	Total
Beginning balance	-	-	-
Issuance of stock	10,000		10,000
Net income		<input type="text"/>	<input type="text"/>
Dividend		<input type="text"/>	<input type="text"/>
Ending balance	10,000	<input type="text"/>	<input type="text"/>

BALANCE SHEET (as of Mar 30)

ASSETS

Current assets:	
Cash	19,800
Inventory	-
Total current assets	<u>19,800</u>
Long-term assets:	
Equipment, net	<u>5,000</u>
Total assets	<u><u>24,800</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	500
Unearned revenue	<u>500</u>
Total current liabilities	1,000
Long-term liabilities:	
Loan payable	<u>3,000</u>
Total liabilities	<u>4,000</u>

OWNERS' EQUITY

Common stock	10,000
Retained earnings	<input type="text"/>
Total owners' equity	<input type="text"/>
Total liab. & OE	<u><input type="text"/></u>

Little 500*

*"I've attended Super Bowls, World Series, and the Monaco Grand Prix,
but the coolest event I ever attended was the Little 500."*

--Lance Armstrong, 1997

Started in 1951, the Little 500 is the premier collegiate cycling event in the nation. It is held every year in Armstrong Stadium on the campus of Indiana University. Teams of four ride laps around a quarter-mile cinder track. Riders continue until they are too tired to continue, at which point the bike is passed on to a teammate. Fraternity, sorority, residence hall, and independent teams (known as "cutters") race to be the first bike to cross the finish line after 500 laps. To date, the race has raised over one million dollars for scholarships. Below is the income statement and balance sheet for the student committee that runs the race. The committee is behind in its accounting. Please help them update their financial statements to May 1, 2011.

*Prepared by Professor Frank Hodge of the University of Washington Foster School of Business. Revised May 2011.

INCOME STATEMENT (for the period ending May 1, 2012)


Ticket Revenues	\$80,000
Concession Revenues	20,000
Expenses	
Cost of goods sold	9,000
Wage expense	10,000
Scholarship expense	40,000
Rent expense	5,000
Security expense	18,000
Net income	<u>\$18,000</u>

2012

BALANCE SHEET (as of May 1, 2012)

Current assets		Current liabilities	
Cash	\$15,000	Accounts payable	\$18,000
Accounts receivable	11,000		
Inventory	6,000	Long-term debt	9,000
Total current assets	32,000		
		Owners' equity	
Investments	500,000	Retained earnings	505,000
Total assets	<u>\$532,000</u>	Total liabilities & owners' equity	<u>\$532,000</u>

THE FOLLOWING EVENT TOOK PLACE FROM MAY 1, 2012 TO MAY 1, 2013

- May 15, 2012: Collected all of our accounts receivable.
- May 16, 2012: Paid all of our accounts payable.
- April 18, 2013: Purchased \$20,000 worth of inventory (food and beverages) on credit. We plan to pay for the inventory on May 10, 2013.
- April 20, 2013: Sold 20,000 tickets in advance. Each ticket costs \$7. All were paid for with cash.
- April 21, 2013: Sold 1,000 tickets in advance. Each ticket costs \$7. All were purchased on credit.
- April 25, 2013: RACE DAY 
- April 25, 2013: Sold concessions for \$21,000 cash. The cost of the inventory (food and beverages) sold was \$17,000.
- April 30, 2013: Incurred security expense (police) of \$25,000. Will pay on May 12, 2013.
- April 30, 2013: Paid wage expense of \$12,000 in cash.
- April 30, 2013: Paid rent expense of \$6,000 in cash.
- April 30, 2013: Paid scholarship expense of \$45,000 in cash.
- April 30, 2013: Purchased \$30,000 worth of investments (e.g., stock) with cash.

Recording Transactions

- 1 Analyze transactions
- 2 Determine effect on accounting equation (A = L + SE)
- 3 Determine whether to debit or credit affected accounts
- 4 Record transaction in the journal
- 5 Post transaction to the ledger
- 6 Prepare trial balance / financial statements

JOURNAL ENTRIES

DATE REF # ACCOUNTS DEBITS CREDITS

Record transaction in the journal

Post transaction to the ledger

Cash	Accounts receivable	Inventory
BB 15,000	BB 11,000	BB 6,000
I 11,000	11,000 I	S 20,000
4 140,000	5 7,000	17,000 7b
7a 21,000		
12,000 9		
6,000 10		
45,000 11		
30,000 12		
76,000	7,000	9,000
Investments	Accounts payable	Unearned revenue
BB 500,000	18,000 BB	- BB
12 30,000	2 18,000	140,000 4
	20,000 3	7,000 5
	20,000	147,000 6
530,000		
Security payable	Long-term debt	Ticket revenues
- BB	9,000 BB	-
25,000 8		147,000 4
25,000	9,000	147,000
Concession revenues	Cost of goods sold	Security expense
21,000 7a	7b 17,000	8 25,000
21,000	17,000	25,000
Wage expense	Rent expense	Scholarship expense
9 12,000	10 6,000	11 45,000
12,000	6,000	45,000
Retained earnings		
	505,000 BB	
	505,000	

Prepare a trial balance

ACCOUNTS	DEBIT	CREDIT
Cash	76,000	
Accounts receivable	7,000	
Inventory	9,000	
Investments	530,000	
Accounts payable		20,000
Unearned revenues		-
Security payable		25,000
Long-term debt		9,000
Retained earnings		505,000
Ticket revenues		147,000
Concession revenues		21,000
Cost of goods sold	17,000	
Security expense	25,000	
Wage expense	12,000	
Rent expense	6,000	
Scholarship expense	45,000	
	<u>727,000</u>	<u>727,000</u>

For the Little 500...

- Record closing journal entries
- Post closing entries to the ledger
- Create a post-closing trial balance
- Create an income statement and balance sheet

Record closing journal entries

5/1/13	13	Ticket revenues	147,000	
		Concession revenues	21,000	
		Retained earnings		168,000
5/1/13	14	Retained earnings	17,000	
		Cost of goods sold		17,000
5/1/13	15	Retained earnings	25,000	
		Security expense		25,000
5/1/13	16	Retained earnings	12,000	
		Wage expense		12,000
5/1/13	17	Retained earnings	6,000	
		Rent expense		6,000
5/1/13	18	Retained earnings	45,000	
		Scholarship expense		45,000

Cash	Accounts receivable	Inventory
BB 15,000	BB 11,000	BB 6,000
I 11,000	11,000 I	3 20,000
4 140,000	5 7,000	17,000 7b
7a 21,000		
76,000	7,000	9,000
Investments	Accounts payable	Unearned revenue
BB 500,000	18,000 BB	- BB
I 30,000	20,000 3	140,000 4
	6 147,000	7,000 5
530,000	20,000	-
Security payable	Long-term debt	Ticket revenues
- BB	9,000 BB	147,000 6
25,000 8		
25,000	9,000	13 147,000
		147,000
Concession revenues	Cost of goods sold	Security expense
21,000 7a	17,000 7b	8 25,000
13 21,000	17,000 14	25,000 15
21,000	17,000	25,000
Wage expense	Rent expense	Scholarship expense
9 12,000	10 6,000	11 45,000
12,000	6,000	45,000 18
12,000	6,000	45,000
Retained earnings		
	505,000	
	168,000 13	
14 17,000		
15 25,000		
16 12,000		
17 6,000		
18 45,000		
	568,000	

Post closing entries to ledger

Create a post-closing trial balance

PRE-CLOSING TRIAL BALANCE			POST-CLOSING TRIAL BALANCE		
ACCOUNTS	DEBIT	CREDIT	ACCOUNTS	DEBIT	CREDIT
Cash	76,000		Cash	76,000	
Accounts receivable	7,000		Accounts receivable	7,000	
Inventory	9,000		Inventory	9,000	
Investments	530,000		Investments	530,000	
Accounts payable		20,000	Accounts payable		20,000
Unearned revenues		-	Unearned revenues		-
Security payable		25,000	Security payable		25,000
Long-term debt		9,000	Long-term debt		9,000
Retained earnings		505,000	Retained earnings		568,000
Ticket revenues		147,000		622,000	622,000
Concession revenues		21,000			
Cost of goods sold	17,000				
Security expense	25,000				
Wage expense	12,000				
Rent expense	6,000				
Scholarship expense	45,000				
	727,000	727,000			

INCOME STATEMENT (for the period ending May 1, 2013)

Ticket revenues	147,000
Concession revenues	21,000
Expenses	
Cost of goods sold	17,000
Security expense	25,000
Wage expense	12,000
Rent expense	6,000
Scholarship expense	45,000
Net income	<u>63,000</u>

2013

BALANCE SHEET (as of May 1, 2013)

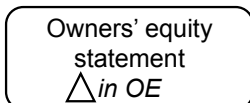
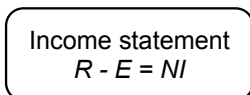
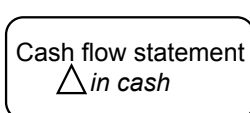
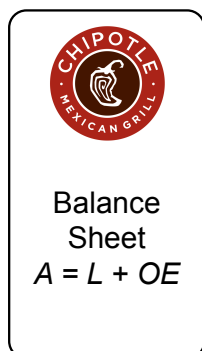
ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	76,000	Accounts payable	20,000
Accounts receivable	7,000	Security payable	25,000
Inventory	9,000	Total current liabilities	<u>45,000</u>
Total current assets	<u>92,000</u>	Long-term debt	9,000
Investments	530,000	OWNERS' EQUITY	
Total assets	<u>622,000</u>	Retained earnings	568,000
		Total liabilities & owners' equity	<u>622,000</u>

Bring on the cash flow statement

The Financial Statements

--12/31/11--

--12/31/12--



Point in time \rightarrow Period of time \rightarrow Point in time

Footnotes to the financial statements

Overview

- **What is the cash flow statement?**
 - A statement that describes changes in the cash account.
 - A schedule of cash receipts and payments, classified by operating, investing, and financing activities.

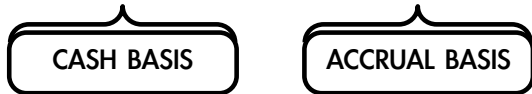


Statement of Cash Flows (in thousands)	Year Ended December 31,		
	2012	2011	2010
Net increase in cash & cash equivalents	(\$78,690)	\$176,405	\$5,272
Cash & cash equivalents, beginning of the year	\$401,243	\$224,838	\$219,566
Cash & cash equivalents, end of the year	\$322,553	\$401,243	\$224,838

Overview

- **What is the purpose of the cash flow statement?**
 - To provide information about the operating performance of a firm...the same purpose as the income statement.

- CASH FLOWS \neq INCOME



Preparing The Statement of CF

- **Two methods:**

**Different paths
Same destination**

- **Direct**
 - ✓ All three sections of the statement of cash flows directly summarize cash inflows and outflows.
- **Indirect**
 - ✓ The **operating section** of the statement of cash flows adjusts net income to derive operating cash flows.
 - ✓ The investing and financing section directly summarize cash inflows and outflows (same as direct method).

Preparing The Statement of CF

- **Two methods:**

**Different paths
Same destination**

	Indirect	Direct
Operating	Adjusts net income	Directly reports cash inflows/outflows
Investing	SAME	
Financing	SAME	
Total	SAME	

Preparing The Statement of CF

- **Four steps** (same for **direct** and **indirect** methods):
 1. Prepare the operating section.
 2. Prepare the investing section.
 3. Prepare the financing section.
 4. Combine the three sections and reconcile the net amount with the cash balance reported on the balance sheet.

Preparing The Operating Section

- The **direct** method:
 1. Go down the income statement adjusting each revenue and expense item to a cash amount.
 2. Sum amounts to get net cash from operating activities.

Preparing The Operating Section

- **The indirect method:**
 1. Start with net income.
 2. Adjust net income for “non-cash” revenues/gains and expenses/losses.
 3. Adjust net income for changes in current assets and current liabilities.
 4. Sum amounts to get net cash from operating activities.

Preparing The Operating Section

- **The indirect method: The logic**

- A company reports security expense of \$25,000, which as you know, is reported on the income statement and is reflected in net income. Where would you look to see if the company paid cash for the expense?

INCOME STATEMENT (for the period ending May 1, 2013)

Ticket revenues	147,000	
Concession revenues	21,000	
Expenses		
Cost of goods sold	17,000	
Security expense	25,000	←
Wage expense	12,000	
Rent expense	6,000	
Scholarship expense	45,000	
Net income	<u>63,000</u>	

2013

BALANCE SHEET (as of May 1, 2013)

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	76,000	Accounts payable	20,000
Accounts receivable	7,000	Security payable	<u>25,000</u>
Inventory	9,000	Total current liabilities	45,000
Total current assets	<u>92,000</u>	Long-term debt	9,000
Investments	530,000	OWNERS' EQUITY	
Total assets	<u>622,000</u>	Retained earnings	568,000
		Total liabilities & owners' equity	<u>622,000</u>

Security payable	
	- BB
	25,000 8
	<u>25,000</u>

2013

BALANCE SHEET (as of May 1, 2013)

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	76,000	Accounts payable	20,000
Accounts receivable	7,000	Security payable	<u>25,000</u>
Inventory	9,000	Total current liabilities	45,000
Total current assets	<u>92,000</u>	Long-term debt	9,000
Investments	530,000	OWNERS' EQUITY	
Total assets	<u>622,000</u>	Retained earnings	568,000
		Total liabilities & owners' equity	<u>622,000</u>

Record transaction in the journal

JOURNAL ENTRIES

DATE	REF #	ACCOUNTS	DEBITS	CREDITS
5/15/12	1	Cash (+A) Accounts receivable (-A)	11,000	11,000
5/16/12	2	Accounts payable (-L) Cash (-A)	18,000	18,000
4/18/13	3	Inventory (+A) Accounts payable (+L)	20,000	20,000
4/20/13	4	Cash (+A) Unearned revenue (+L)	140,000	140,000
4/21/13	5	Accounts receivable (+A) Unearned revenue (+L)	7,000	7,000
4/25/13	6	Unearned revenue (-L) Ticket revenue (+R, +OE)	147,000	147,000
4/25/13	7a	Cash (+A) Concession Rev (+R, +OE)	21,000	21,000
4/25/13	7b	Cost of goods sold (+E, -OE) Inventory (-A)	17,000	17,000
4/30/13	8	Security expense (+E, -OE) Security payable (+L)	25,000	25,000
4/30/13	9	Wage expense (+E, -OE) Cash (-A)	12,000	12,000
4/30/13	10	Rent expenses (+E, -OE) Cash (-A)	6,000	6,000
4/30/13	11	Scholarship expense (+E, -OE) Cash (-A)	45,000	45,000
4/30/13	12	Investments (+A) Cash (-A)	30,000	30,000

DIRECT: CASH FLOWS FROM OPERATING ACTIVITIES

Cash collected from customers	\$ 172,000
Cash paid for inventory	(18,000)
Cash paid for security (could leave off)	-
Cash paid for wages	(12,000)
Cash paid for rent	(6,000)
Cash paid for scholarships	(45,000)
Net cash from operating activities	<u>\$ 91,000</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	\$ (30,000)
Net cash from investing activities	<u>\$ (30,000)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash from financing activities	<u>\$ -</u>
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Net increase (decrease) in cash	\$ 61,000
Cash at the beginning of the period	15,000
Cash at the end of the period	<u><u>\$ 76,000</u></u>

BALANCE SHEET (as of May 1, 2012)

2012

Current assets		Current liabilities	
Cash	\$15,000	Accounts payable	\$18,000
Accounts receivable	11,000		
Inventory	6,000	Long-term debt	9,000
Total current assets	<u>32,000</u>		
Investments	500,000	Owners' equity	
		Retained earnings	505,000
Total assets	<u>\$532,000</u>	Total liabilities & owners' equity	<u>\$532,000</u>

BALANCE SHEET (as of May 1, 2013)

2013

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	76,000	Accounts payable	20,000
Accounts receivable	7,000	Security payable	25,000
Inventory	9,000	Total current liabilities	<u>45,000</u>
Total current assets	<u>92,000</u>	Long-term debt	9,000
Investments	530,000	OWNERS' EQUITY	
		Retained earnings	568,000
Total assets	<u>622,000</u>	Total liabilities & owners' equity	<u>622,000</u>

INDIRECT: CASH FLOWS FROM OPERATING ACTIVITIES

Net income		\$	63,000
Adjustments:			
No depreciation or paper gains/losses to add back	-		
Add decrease in accounts receivable	4,000		
Subtract increase in inventory	(3,000)		
Add increase in accounts payable	2,000		
Add increase in security payable	25,000		
Total adjustments:			28,000
Net cash from operating activities		\$	91,000

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments		\$	(30,000)
Net cash from investing activities		\$	(30,000)

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash from financing activities		\$	-
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Net increase (decrease) in cash		\$	61,000
Cash at the beginning of the period			15,000
Cash at the end of the period		\$	<u>76,000</u>

DIRECT: CASH FLOWS FROM OPERATING ACTIVITIES

Cash collected from customers		\$	172,000
Cash paid for inventory			(18,000)
Cash paid for security (could leave off)			-
Cash paid for wages			(12,000)
Cash paid for rent			(6,000)
Cash paid for scholarships			(45,000)
Net cash from operating activities		\$	<u>91,000</u>

INDIRECT: CASH FLOWS FROM OPERATING ACTIVITIES

Net income		\$	63,000
Adjustments:			
No depreciation or paper gains/losses to add back	-		
Add decrease in accounts receivable	4,000		
Subtract increase in inventory	(3,000)		
Add increase in accounts payable	2,000		
Add increase in security payable	25,000		
Total adjustments:			28,000
Net cash from operating activities		\$	<u>91,000</u>

Our Time Together

Topics and Assignments**Wednesday (9/18)**

Topics: Introduction to Connect
Painting the big picture: Accounting in society
Introduction to the four financial statements
Introduction to the accounts found on each statement
Introduction to recording economic transactions

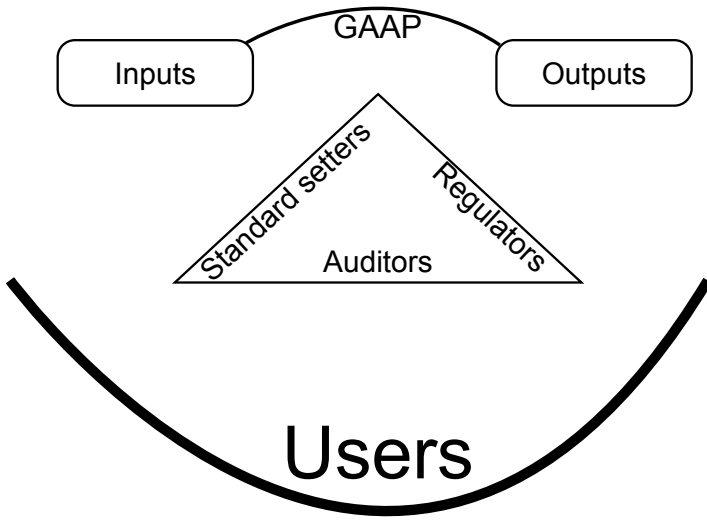
Thursday (9/19)

Topics: Practice recording economic transactions
Practice creating balance sheets
Practice creating income statements

Friday (9/20)

Topics: Introduction to creating cash flow statements
Review of how everything fits together
Practice exam


Frank's Model of Accounting



The Financial Statements

--12/31/11--

--12/31/12--




Balance Sheet
 $A = L + OE$

Cash flow statement
 Δ in cash

Income statement
 $R - E = NI$

Owners' equity statement
 Δ in OE



Balance Sheet
 $A = L + OE$

Point in time \rightarrow Period of time \rightarrow Point in time

Footnotes to the financial statements

JOURNAL ENTRIES

DATE

REF #

ACCOUNTS

DEBITS

CREDITS

LEDGER

Cash
15,000

Accounts receivable
11,000

Inventory
6,000

Investments
500,000

Accounts payable
18,000

Unearned revenue
0

Security payable
0

Long-term debt
9,000

Ticket revenues

Concession revenues

Cost of goods sold

Security expense

Wage expense

Rent expense

Scholarship expense