



# Accounting

## Ten Important Points about Stock Investing

If you're committed to investing in stocks, keep these points in mind as you make your choices and reap your rewards. After all, stock investing is fun and frightening, sane and crazy-making, complicated and simple — and you may need reminders to stay focused.

1. You're not buying a stock; you're buying a company.
2. The primary reason you invest in a stock is because the company is making a profit.
3. If you buy a stock when the company isn't making a profit, you're not investing — you're speculating.
4. A stock (or stocks in general) should never be 100 percent of your assets.
5. In some cases (such as a severe bear market), stocks aren't a good investment at all.
6. A stock's price is dependent on the company, which in turn is dependent on its environment, which includes its customer base, its industry, the general economy, and the political climate.
7. Your common sense and logic can be just as important in choosing a good stock as the advice of any investment expert.
8. Always have well-reasoned answers to questions such as "Why are you investing in stocks?" and "Why are you investing in a particular stock?"
9. If you have no idea about the prospects of a company (and sometimes even if you think you do), always use stop-loss orders.
10. Even if your philosophy is to buy and hold for the long term, continue to monitor your stocks and consider selling them if they're not appreciating or if general economic conditions have changed.

# HOMEWORK CHECK...

- Page 133
  - Review Questions (not #12)
- Page 134
  - Exercise 2-A,C
  - Exercise 5-A,B,C,D

## Review Questions

1. What two classifications appear on the income statement?
  2. How do you calculate net income? Net loss?
  3. Name the three persons or groups who use the income statement.
  4. Why are owners keenly interested in the income statement?
  5. Why are bankers interested in seeing the income statement of a business to which the bank has loaned money?
  6. Why must a business produce an income statement for the government?
  7. Define the term "fiscal period."
  8. Define the GAAP "time period concept."
  9. How does the date on the income statement heading differ from that on the balance sheet?
  10. Explain the "matching principle."
13. What types of account balances are normally found in an asset account? A liability account? A Revenue account? An Expense account? The Drawings account? The Capital account?

Exercise 2, p. 134

Emily Stokaluk

Trial Balance

March 31, 20--

A.

ACCOUNTS	DEBIT		CREDIT
Bank	101 00	--	
Accounts Receivable	83 00	--	
Supplies	95 00	--	
Land	35 00	--	
Building	110 00	--	
Equipment	22 00	--	
Automobiles	24 00	--	
Accounts Payable			28 00
Bank Loan			10 00
Mortgage Payable			75 00
E. Stokaluk, Capital			52 08
E. Stokaluk, Drawings	15 00	--	
Fees Earned			132 50
Interest Earned			1 00
Advertising Expense	12 00	--	
Bank Charges Expense	3 50	--	
Building Maintenance Expense	4 20	--	
Gas and Oil Expense	18 00	--	
Utilities Expense	16 40	--	
Miscellaneous Expense	1 28	--	
Car Repair Expense	8 50	--	
Wages Expense	41 65	--	
	<b>273 38</b>	<b>--</b>	<b>273 38</b>



**Exercise 5, p. 135**

*Atlas Associates*

**A.**

*Income Statement*

*Month Ended November 30, 20--*

<u>Revenue</u>									
Fees Earned									\$ 31 7 0 0
<u>Expenses</u>									
Advertising Expense	\$	6	0	0	-				
Car Expense		3	7	0	0	-			
General Expense		1	2	0	0	-			
Utilities Expense		3	5	0	0	-			
Rent Expense		6	0	0	0	-			
Salaries Expense		13	4	0	0	-			
<b>Total Expenses</b>									<b>28 4 0 0</b>
<b>Net Income</b>									<b>\$ 3 3 0 0</b>

- B.** *The clerk violated the matching principle because November and December are two different fiscal periods. Each expense item should be recorded in the same fiscal period as the revenue it helped earn. December's salaries expense should be matched with December's revenue, not November's.*
- C.** *The November net income would be \$1900.*
- D.** *For December, net income would be higher because an expense was placed in the wrong month.*



# TRANSACTIONS



- 0. Purchased Boardwalk for \$400 cash. (DR = CR)

CASH			BOARDWALK
400		400	
	(0)		(0)

- 1. Bought houses for Boardwalk and Park place for \$250 each. (DR = CR)

CASH	
500	(1)

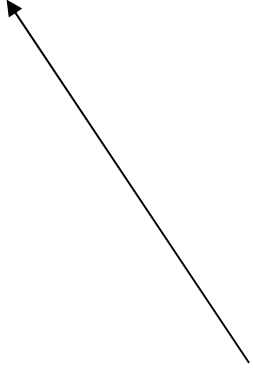
	BOARDWALK
(1)	400
	250

	PARK PLACE
(1)	400
	250

- 2. Collected \$200 for passing GO.

	CASH	
(2)	<u>200</u>	

	GO REVENUE	
	<u>200</u>	(2)



\* Could also be labelled: Misc. Revenue, Other Revenue, etc.

- 3. Paid \$50 to get out of jail.

CASH	
50	(3)

	JAIL EXPENSE
(3)	50

- 4. Paid income tax of \$200.

CASH	INCOME TAX EXPENSE
200	200
(4)	

- 5. Paid rent to another player, \$24 cash.

CASH			RENT EXPENSE
24		(5)	24

- 6. Collected rent from another player for \$320.

	CASH	
(6)	<u>350</u>	

	RENTAL REVENUE	
	<u>350</u>	(6)

- 7. Sold Boardwalk for \$1000. (And only paid \$400 for it.)

(7)	CASH	1,000
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BOARDWALK	400	400	(7)
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MISC. REVENUE	600	(7)
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- 8. Landed on Free Parking (There was \$785 in the middle.)

CASH  
785

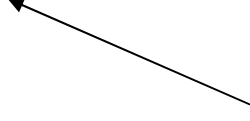
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(8)

MISC. REVENUE  
785

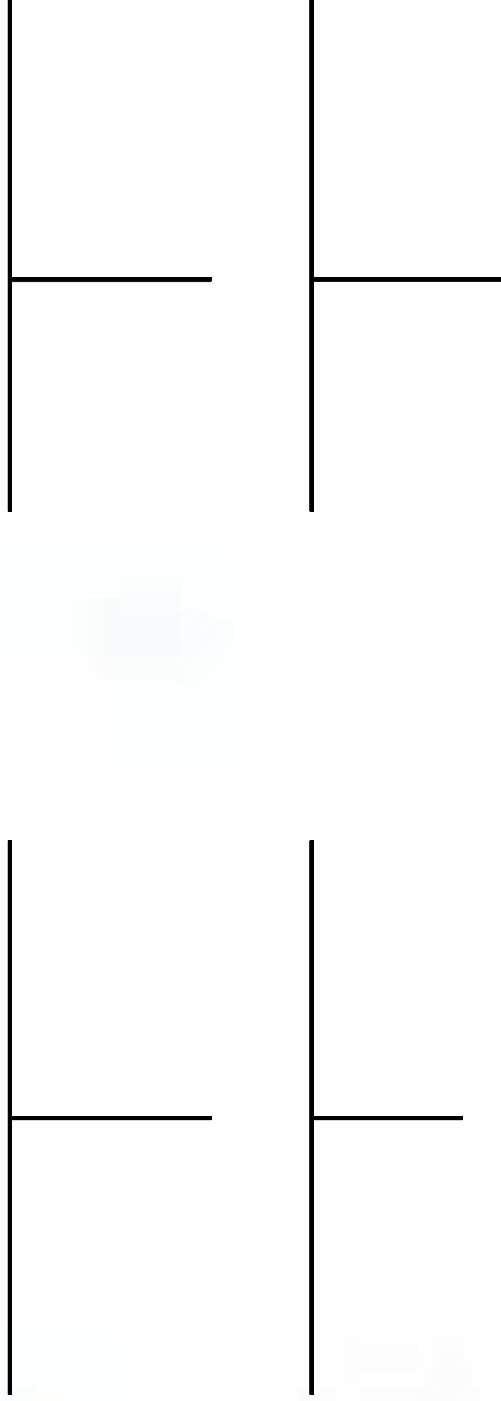
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(8)



Or 'Free Parking Revenue'

OTHERS?



- You have until \_\_\_\_\_ to complete your game.
- When the time is up, do a physical count of how much cash you have.
- Total each of the accounts in your ledger.
  - Make up a trial balance with your account totals. (It needs to balance!! – see next slide -)
  - From your trial balance, prepare a:
    - Income Statement ‘For the Game Ended, March 5, 2012’

# NOT BALANCING?

- Make sure your DR = CR for each transaction!
- Does your physical count of cash match your account total in your ledger?
- How much are you out by? Do you see a transaction for that amount? (This could be a clue as to what you are missing!)
- Try to double that amount. Is there a transaction for that amount?
- Re-add your trial balance and ledger accounts.