



Accounting

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Tyler Edginton

Balance Sheet

13-Sep-12

Assets

Cash

Properties

-Illinois Ave.

-Virginia Ave.

Total Assets

\$240.00

\$160.00

\$1,788.00

Liabilities

Total Liabilities

\$0.00

Owner's Equity

T.Edginton, Capital

\$1,788.00

\$1,788.00

\$1,788.00

In the news...

• <http://www.cbc.ca/news/business/story/2012/09/12/biz-apple-iphone5-launch.html>



- If each iPhone costs approximately \$209.00 to produce, what is the ROI (**Return on Investment**) for the 16GB, 32GB, and 64GB iPhones, respectively?

Formula: Price Markup

$$\frac{\text{-----}}{\text{Cost}} \times 100 = \text{---} \%$$

Intuitive Example..

- Cost: \$200
 - Retail: \$400
-
- Markup = \$200 or 100% more than cost.
-
- Formula: $\text{ROI} = \text{markup} / \text{cost} = 200/200$
= 100%

\$699



\$799



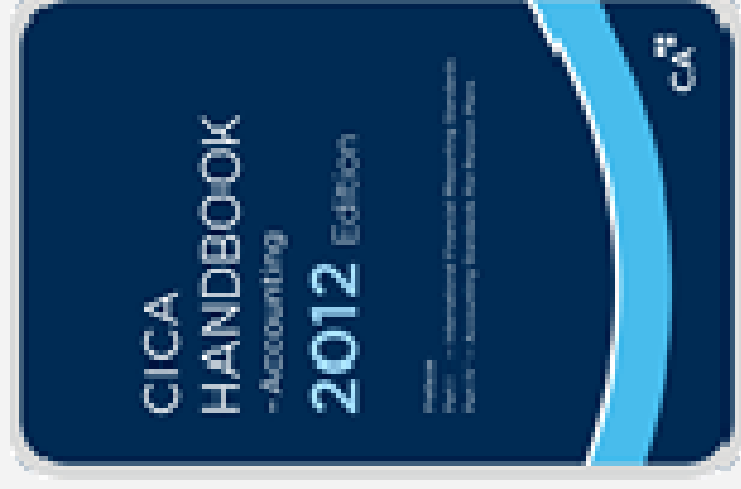
\$899



GAAP

Generally Accepted Accounting
Principles

- Over the years, the CICA have established GAAP (Generally Accepted Accounting Principles)
- GAAP are the standards and rules for accountants in Canada.



GAAP – The Business Entity Concept

- The balance sheet of a business must reflect the financial position of the business alone.
- Personal expenditures are charged to the owner.

GAAP - The Continuing Concern Concept

- It is expected that the business will continue to operate.
- If it is known that it will not continue, it must be made known.

GAAP – The Principle of Conservatism

- Prices should be recorded at fair amounts.
 - If there is uncertainty, a best ‘conservative’ guess should be use.
 - eg. We will probably make \$20, but maybe someone will come along and pay us \$100!!
- (Record the value at \$20.)

Claims against the assets:

- If a business were to go out of business, what would happen?
- To whom do the assets belong?
 - The claims of **creditors** are settled first.
 - The **owner** gets what is left after the creditors are paid.

Consider the following:

Joe Owner's Company
Balance Sheet
Dec 31, 2020

<u>Assets</u>		<u>Liabilities</u>	
Bank	75,000	Bank Loan	100,000
Land & Building	250,000	A/P	50,000
		Total Liabilities	<u>150,000</u>
		<u>Owner's Equity</u>	
		Joe Owner, Capital	175,000
Total Assets	<u><u>325,000</u></u>	Total Liab. & OE	<u><u>325,000</u></u>

How much would Joe have left, if the company went out of business, and he was able to sell the Land & Building quickly for \$200,000?

Liquidated Assets: 275,000 To Creditors: 150,000 Left over: \$125,000

The Changing face of the balance sheet..

- The balance sheet can be thought of as a ‘snapshot’ of a company’s finances.
- It shows what a company is worth at a given moment in time.
- What if a company makes a profit or sells some of its assets?
- The company’s snapshot has changed, and this will be reflected in the balance sheet.

Transactions

- On any given day, different events occur that cause the financial position of a business to change.
- These events are called **Transactions**.
- For example:
 - A business buys a truck for \$20,000.
 - Its asset 'cash' would decrease by \$20,000
 - Its asset 'trucks' would increase by \$20,000

- A business transaction is defined as a **financial event that causes a change in financial position.**

What is this?

If a business were to buy an asset, it must have a business paper or document to verify the amount paid. This record of the transaction is called a **'source document.'**

WAL★MART
ALWAYS LOW PRICES.

Always.

ALWAYS THE LOWEST PRICE

MARKER MARK TORRES
(574) 732 - 0221

ST# 1329 OP# 00003316 TE# 21 TR# 09054

PRODUCT SERIAL # CE126104164

PS3 60GB HW 071171980000

SUBTOTAL 599.00 X

TAX 1 6.00 % 35.94

TOTAL 634.94

VISA TEND 634.94

ACCOUNT #

APPROVAL #

TRANS ID

VALIDATION -B4CP

PAYMENT SERVICE - E

CHANGE DUE 0.00

ITEMS SOLD 1

TC# 3090 2810 8274 7304 7660 2

Get 300+ generic scripts at \$4 each,
up to a 30 day supply. Select states.
12/14/06 14:36:05

CUSTOMER COPY

Source Documents

- Include:
 - Telephone Bills
 - Store Receipts
 - Debit card slips
 - Cancelled Cheques
 - Invoices(Information needed by the accounting department to record the transaction.)

Documents...

- provide proof of payment
- are proof of purchase
- are used for reference
- are filed (for at least 6 years) in case owners, managers, or auditors wish to refer to them.

CAR INVOICE

ROHRER CHEVROLET CO.

Admiral Wilson Boulevard adjacent Cooper River
Camden, N. J. 08101 Phone, (609) 964-7820

No 19664



Sold To:

Phillip Cornett
918 E. Clements Bridge Rd.
Runnemede, N. J.
931- 2399

Date 6/29/66

Salesman Barrett

MAKE	MODEL	NEW or USED	SERIAL No.	KEY No.	Price of Unit
Chevrolet	19467	New	194676S122891	D8402 T9125	1-66 Corvette Conv. Black # 9541 4639.15
4 speed transmission Positraction AM/FM Radio W/W Tires					
Tags, Title etc. 19.25 In. S. Mos. Ded. 330.08 Life Ins. NOTW Interest					
TOTAL SALE					4988.48
Cash on Delivery					19.25
Deposit					
Note					
Used Car 66 Ford Mustang					2439.15
Allowance 6T070263788					
Pay-off					
Notes 36 Months @ 70.28					
To GMAC Starting 7/29/66					2530.08
TOTAL					4988.48

GAAP

- The **objectivity** principle states that accounting will be recorded on the basis of objective evidence. (Receipts & Source Documents)

HOMework:

- Page 38, Review Exercises
 - 1 A-E
 - 2-5
- Page 50, Exercises
 - 1 and 4

*These can be found online or in the text.

Using Your Knowledge

1 For each of the following questions, write in your Workbook the letter that represents the best possible answer.

- A. The financial position of a business is:
- the difference between total assets and total liabilities.
 - represented by the assets, the liabilities, and the capital.
 - the same as the net worth of the business.

B. If the total assets increase by \$10 000 and the total liabilities decrease by \$10 000, the capital will:

- increase by \$20 000.
- be unchanged.
- decrease by \$20 000.

C. Which one of the following is not true?

- $A - E = L$
- $A - L = E$
- $A + L = E$
- $A = L + E$

D,E

- D. A balance sheet shows:
- all of the owner's assets and liabilities.
 - a financial picture of the business on a certain date.
 - the progress of the business over a period of time.
- E. Which one of the following is not true?
- The heading of a balance sheet shows the date as of which it was prepared.
 - Assets are listed in the order of their liquidity.
 - Accounts receivable are considered to be a liquid asset.
 - Personal assets have no place on the business balance sheet.
 - A truck that cost \$10 000 and for which \$6 000 is owed is listed on the balance sheet at \$4 000.

- 5 Carmen Ing is a graphic designer who creates web pages for various businesses. She prepared a balance sheet for Carmen's Web Creations, which is shown below:

Carmen's Web Creations				
September 30, 20--				
Balance Sheet				
Accounts Receivable			Liabilities	
- Tse Networks	\$ 1 7 8 0 .00		Drive Computer Co.	\$ 6 7 6 .98
- Nina's Creations	4 6 0 .50		Wilson's Supply	1 0 0 .90
Cash	3 6 5 2 .80		Zip Software	4 1 2 .00
equipment	6 5 0 0 .30		Bank Loan	3 5 0 0 .00
supplies	9 0 0 .25		Total Liabilities	\$ 4 6 8 9 .88
			Owner's Equity	
Total Assets	13 2 9 3 .85		Carmen's Web Creations	8 6 0 3 .97
			Total Liabilities and Equity	\$13 2 9 3 .85

- A. List the errors that Carmen made when she prepared the balance sheet.
 (You should be able to find more than 10 errors.)
- B. Prepare a new balance sheet for Carmen's Web Creations.

Review Questions

1. What is a business transaction?
2. Give an example of a transaction, other than the ones noted in this section.
3. Give an example of an event in a business, other than the one noted in this section, that is not a transaction.
4. What is a source document?
5. Give several examples of source documents
6. What happens to source documents after the accounting entries have been completed?
7. State and explain the objectivity principle. Give an example.

4.

Box 500, Horseshoe Valley, Ontario L3V 3B0

THE DAVEY COMPANY

TROPHIES GIFTWARE ENGRAVERS

Sold to: Smokey Valley Ski Club
R.R. #1
Horseshoe Valley, ON L3V 3B0
Date Dec. 5, 20-

PURCH. ORDER NO.	GST	PST	DELIVERY DATE	TERMS	SHIP VIA
6506	10.36	11.84	12/5	30 days	CPX

35	Name tags	148.00
	Tax	22.20
		170.20

- A. Who issued the bill?
- B. Who received the bill?
- C. When was the bill issued?
- D. When were the goods delivered? How were they delivered?
- E. When is this bill due for payment?
- F. Why was this bill issued?
- G. Was this a cash sale transaction?
- H. Why does the bill represent good objective evidence?