Basics of Accounting for Interviews

Part 1

Content:

- Accounting Cycle & Accounting Equation
- List of Accounts and its classification
- Accounting Principles
- Journal Entries, Adjusting Entries, & Closing Entries
- Financial Statements

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Accounting:

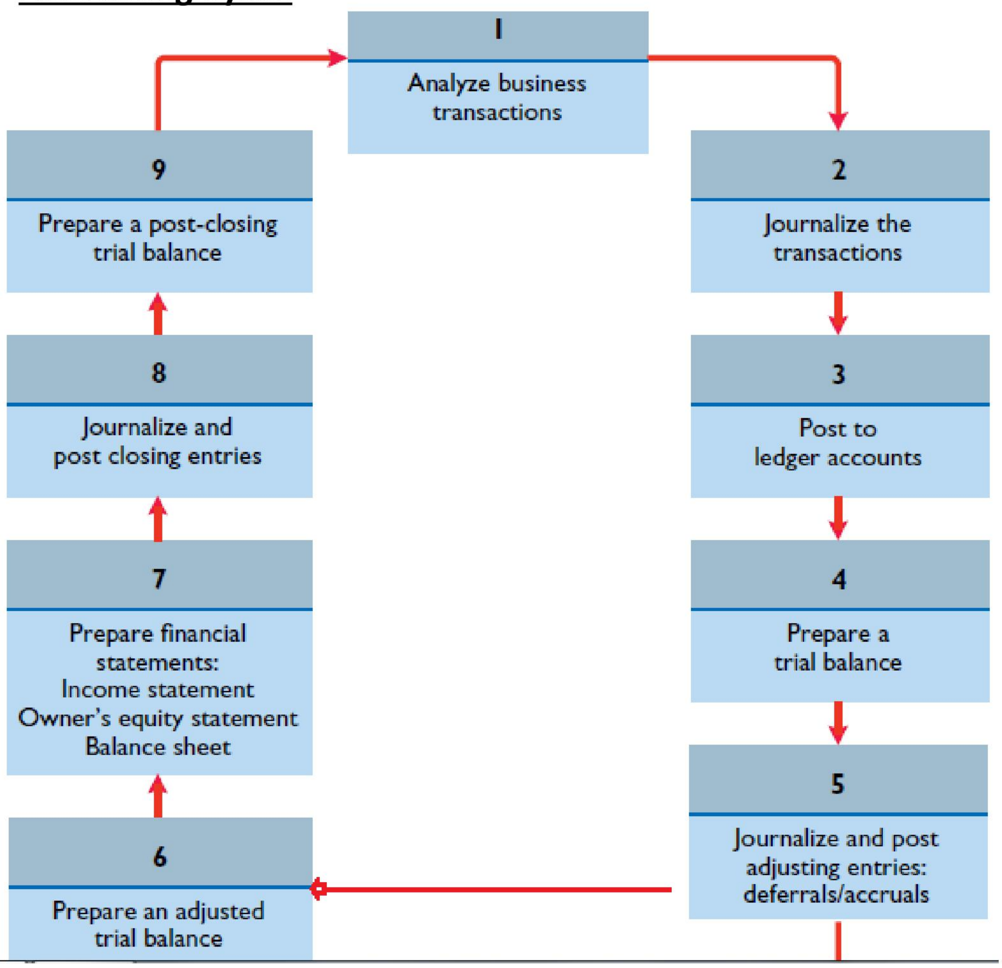
Is an information system that **identifies, records and communicates** the economic events of an organization to interested users (internal and external users).

Accounting consists of three basic activities:

1) **Identifying** the economic events relevant to its business.
2) **Recording** consists of keeping a systematic, chronological diary of events, measured in dollars and cents. Also called ***Bookkeeping***.
   Recording also includes classifying and summarizing the economic events. (**Record, classify and summarize**.)
3) **Communicating** the collected information to interested users by means of accounting reports **(financial statements)**.
   Communicating includes prepare accounting reports, and analyze and interpret reported information for users.

- **Standard-setting bodies:**
  - Financial Accounting Standards Board (FASB) → GAAP (Generally Accepted Accounting Principles)
  - International Accounting Standards Board (IASB) → IFRS (International Financial Reporting Standards.
  - Egyptian Accounting Standards - معايير المحاسبة المصرية

- **Accounting Cycle:**



- **<u>The accounting equation and its components:</u>**

Assets = Liabilities + Owner's Equity

Assets: are the resources a business owns.
Examples of the assets are Cash, Accounts Receivable, Equipment, Buildings, Supplies, and Inventory, these assets are used to provide future services or benefits.
The assets of a business are claimed by either creditors (liabilities) or owners (owner's capital).

Liabilities: what the business owes, the business usually borrows money to purchase merchandise on credit or on account, the business is committed to pay these liabilities (debts and obligations) later.
Examples of the liabilities: Accounts Payable, Notes payable, Salaries and Wages Payable.

Owner's Equity: the ownership claim on total assets is owner's equity.
The assets of a business are claimed by either creditors (liabilities) or owner's, to find out what belongs to owners, we subtract the creditors ' claims (the liabilities) from assets, the reminder is the owner's claim on the assets (the owner's equity), the owner's equity is often referred to as **residual equity**.

- **List of Accounts and its Classification:**

ACCOUNT CLASSIFICATION AND PRESENTATION			
Account Title	Classification	Financial Statement	Normal Balance
A			
Accounts Payable	Current Liability	Balance Sheet	Credit
Accounts Receivable	Current Asset	Balance Sheet	Debit
Accumulated Depreciation—Buildings	Plant Asset—Contra	Balance Sheet	Credit
Accumulated Depreciation—Equipment	Plant Asset—Contra	Balance Sheet	Credit
Advertising Expense	Operating Expense	Income Statement	Debit
Allowance for Doubtful Accounts	Current Asset—Contra	Balance Sheet	Credit
Amortization Expense	Operating Expense	Income Statement	Debit
B			
Bad Debt Expense	Operating Expense	Income Statement	Debit
Bonds Payable	Long-Term Liability	Balance Sheet	Credit
Buildings	Plant Asset	Balance Sheet	Debit
C			
Cash	Current Asset	Balance Sheet	Debit
Common Stock	Stockholders' Equity	Balance Sheet	Credit
Copyrights	Intangible Asset	Balance Sheet	Debit
Cost of Goods Sold	Cost of Goods Sold	Income Statement	Debit

Account Title	Classification	Financial Statement	Normal Balance
D			
Debt Investments	Current Asset/Long-Term Investment	Balance Sheet	Debit
Depreciation Expense	Operating Expense	Income Statement	Debit
Discount on Bonds Payable	Long-Term Liability—Contra	Balance Sheet	Debit
Dividends	Temporary account closed to Retained Earnings	Retained Earnings Statement	Debit
Dividends Payable	Current Liability	Balance Sheet	Credit
E			
Equipment	Plant Asset	Balance Sheet	Debit
F			
Freight-Out	Operating Expense	Income Statement	Debit
G			
Gain on Disposal of Plant Assets	Other Income	Income Statement	Credit
Goodwill	Intangible Asset	Balance Sheet	Debit
I			
Income Summary	Temporary account closed to Retained Earnings	Not Applicable	(1)
Income Tax Expense	Income Tax Expense	Income Statement	Debit
Income Taxes Payable	Current Liability	Balance Sheet	Credit
Insurance Expense	Operating Expense	Income Statement	Debit
Interest Expense	Other Expense	Income Statement	Debit
Interest Payable	Current Liability	Balance Sheet	Credit
Interest Receivable	Current Asset	Balance Sheet	Debit
Interest Revenue	Other Income	Income Statement	Credit
Inventory	Current Asset	Balance Sheet (2)	Debit
L			
Land	Plant Asset	Balance Sheet	Debit
Loss on Disposal of Plant Assets	Other Expense	Income Statement	Debit
M			
Maintenance and Repairs Expense	Operating Expense	Income Statement	Debit
Mortgage Payable	Long-Term Liability	Balance Sheet	Credit
N			
Notes Payable	Current Liability/ Long-Term Liability	Balance Sheet	Credit
O			
Owner's Capital	Owner's Equity	Owner's Equity and Balance Sheet	Credit
Owner's Drawings	Temporary account closed to Owner's Capital	Owner's Equity	Debit

Note:
(1) The normal balance for Income Summary will be credit when there is a net income, debit when there is a net loss. The Income Summary account does not appear on any financial statement.

Account Title	Classification	Financial Statement	Normal Balance
		P	
Patents	Intangible Asset	Balance Sheet	Debit
Paid-in Capital in Excess of Par—Common Stock	Stockholders' Equity	Balance Sheet	Credit
Paid-in Capital in Excess of Par—Preferred Stock	Stockholders' Equity	Balance Sheet	Credit
Preferred Stock	Stockholders' Equity	Balance Sheet	Credit
Premium on Bonds Payable	Long-Term Liability	Balance Sheet	Credit
Prepaid Insurance	Current Asset	Balance Sheet	Debit
Prepaid Rent	Current Asset	Balance Sheet	Debit
		R	
Rent Expense	Operating Expense	Income Statement	Debit
Retained Earnings	Stockholders' Equity	Balance Sheet and Retained Earnings Statement	Credit
		S	
Salaries and Wages Expense	Operating Expense	Income Statement	Debit
Salaries and Wages Payable	Current Liability	Balance Sheet	Credit
Sales Discounts	Revenue—Contra	Income Statement	Debit
Sales Returns and Allowances	Revenue—Contra	Income Statement	Debit
Sales Revenue	Revenue	Income Statement	Credit
Selling Expenses	Operating Expense	Income Statement	Debit
Service Revenue	Revenue	Income Statement	Credit
Stock Investments	Current Asset/Long-Term Investment	Balance Sheet	Debit
Supplies	Current Asset	Balance Sheet	Debit
Supplies Expense	Operating Expense	Income Statement	Debit
		T	
Treasury Stock	Stockholders' Equity—Contra	Balance Sheet	Debit
		U	
Unearned Service Revenue	Current Liability	Balance Sheet	Credit
Utilities Expense	Operating Expense	Income Statement	Debit

- **Accounting Principles, Assumptions and Methods:**

Historical Cost Principle:	The **historical cost principle** (or cost principle) dictates that companies record Assets at their cost. This is true not only at the time the asset is purchased, but also over the time the asset is held.
Fair Value Principle:	The **fair value principle** states that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability). Fair value information may be more useful than historical cost for certain types of assets and Liabilities.
Accrual-Basis Accounting	- Under the accrual basis, companies record transactions that change a company's financial statements **in the periods in which the events occur**. - Companies recognize revenues when they perform services. Recognizing expenses when incurred. - It is the used basis in Accounting (in accordance with GAAP)

Cash-Basis Accounting	- Under cash-basis accounting, companies record revenue when they receive cash. They record an expense when they pay out cash.
Revenue Recognition Principle:	The **revenue recognition principle** requires that companies recognize revenue in the accounting period in which the performance obligation is satisfied. (When it to performs a service or sell a product to a customer)
Matching Principle	Match expenses with revenues in the period when the company makes efforts to generate those revenues. This practice of expense recognition is referred to as the **expense recognition principle.** It dictates that efforts (expenses) be matched with results (revenues).
Monetary Unit Assumption:	The **monetary unit assumption** requires that companies include in the accounting records only transaction data that can be expressed in money terms. - This assumption enables accounting to quantify (measure) economic events. - The monetary unit assumption is vital to applying the historical cost principle.
Economic Entity Assumption:	The **economic entity assumption** requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.
Time Period Assumption:	An assumption that accountants can divide the economic life of a business into artificial time periods. Also called the ***periodicity assumption***
Consistency Concept:	A company uses the same accounting principle and method from year to year. - Method should be used consistently to enhance comparability. - Although consistency is preferred, a company may change its method. It should disclose the change in the notes to financial statements and its effect on net income.
Lower-of-Cost-or-Market Rule (LCM):	Requires that inventory be reported in the financial statements at whichever is lower: The Historical cost or Market value (current replacement cost) If the replacement cost of inventory is less than its historical cost, the business must write down (decrease) the inventory value. (Occur in periods when prices decline).
Conservatism Principle:	**The conservatism** says that a business must report the least favorable figures in the financial statements. The goal of conservatism is to report realistic figures. Therefore, conservatism says: - Anticipate no gains, but provide for all probable losses. - Record an asset at the lowest amount and a liability at the highest amount. - When there is a question, record an expense rather than asset.
Materiality Concept:	States that if an item would not make a difference in decision making the company does not have to follow GAAP in reporting that item. **Materiality:** the impact of an item's size on the company's financial operations.

Revenue Expenditures	**Capital Expenditures**
Characteristics of Revenue expenditures: - Small amounts (immaterial) - Occur frequently	Characteristics of Capital expenditures: - Material amounts (large) - Occur infrequently
The expenditures to **maintain** the operating efficiency and productive life of the unit (asset).	Costs incurred to **increase** the operating efficiency, productive capacity, or useful life.
Revenue Expenditures recorded as Expense when they are incurred. **Expense → Income Statement**	Capital Expenditures are debited to the cost of plant asset affected. **Asset Cost → Balance Sheet**

▪ **Journal Entries:**

Basic Definitions:

- **Account** A record of increases and decreases in specific asset, liability, or owner's equity items.
- **Debit** The left side of an account (Dr).
- **Credit** The right side of an account (Cr).
- **Normal balance** An account balance on the side where an increase in the account is recorded.
- **Journal:** An accounting record in which transactions are initially recorded in chronological order (day-by-day).
- **Double-entry system:** A system that records in appropriate accounts the dual effect of each transaction. The Equality of Debits and Credits; each financial transaction has Debit and Credit party. Debit must be equal to Credit.
- **Simple entry:** A journal entry that involves only two accounts.
- **Compound entry:** A journal entry that involves three or more accounts.
- **Ledger:** The entire group of accounts maintained by a company.
  - Each asset, liability, owner's equity, expense and revenue has only one separate account showing increases and decreases in that account.
  - The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances.
- **Trial balance:** Is a list of accounts and their balances at a given time.
  - Customarily, companies prepare a trial balance at the end of an accounting period.
  - They list accounts in the order in which they appear in the ledger.
  - Debit balances appear in the left column and credit balances in the right column.
  - The trial balance proves the mathematical equality of debits and credits after posting.
  - In addition, a trial balance is useful in the preparation of financial statements.

Applying X- Rule: Determining debit and credit account in each financial transaction:

Items	Dr	Cr
B.S		
Assets	+	-
Liabilities + Owner's equity	-	+
O.E	Drawing	
I.S	Expenses	Revenue

Example:

Menna is a licensed dentist. During the first month of operation of her business, the following events and transactions occurred.

April 01: Invested $40,000 cash.
April 02: Paid office rent expense for the month $1,000.
April 03: Purchased dental supplies on account from Smile Company $4,000.
April 10: Provided dental services and billed insurance company $5,100.
April 11: Received $1,000 cash from the insurance company.
April 20: Received $2,200 cash for service completed and delivered to John Stanly.
April 30: Paid secretary-receptionist at a salary expense for the month $2,400.
April 30: Paid $1,600 to smile Company for accounts payable due.
April 30: Withdrew $1,000 cash

Required: Record each transaction in the general journal form. Include a brief explanation of the transaction.

Answer:

Menna Licensed Dentist
General Journal
April , 2011

Date	Accounts Title and Explanations	Debit	Credit
April 1	Cash	40000	
	Menna, Capital		40000
	Issued capital		
April 2	Rent Expense	1000	
	Cash		1000
	Paid rent		
April 03	Supplies	4000	
	Accounts payable		4000
	Purchased supplies		
April 10	Accounts Receivable	5100	
	Revenue		5100
	Provide services		
April 11	Cash	1000	
	Accounts Receivable		1000
	Received cash		
April 20	Cash	2200	
	Revenue		2200
	Provide a service cash		
April 30	Salary expense	2400	
	Cash		2400
	Paid salary expense		
April 30	Accounts payable	1600	
	Cash		1600
	Paid accounts payable		
April 30	Withdrawals	1000	
	Cash		1000
	Withdrew cash		

▪ Merchandising Entries:

- **Purchase Transactions:**

Transaction	Entry	Dr	Cr
Purchase of Inventory	Inventory Acc Pay / Cash	xx	 xx
Freight In	Inventory Cash / Acc Pay	xx	 xx
Purchases Returns and Allowances	Acc Pay / Cash Inventory	xx	 xx

Payment within Discount period	Acc Pay
	        Cash
	        Inventory
		xx	
			xx
			xx

Payment After Discount Period	Acc Pay Cash	xx	 xx

- **Sales Transactions:**

Transaction	Entry	Dr	Cr
Sale: **Rev → Selling price**	Acc Rec / Cash Sales Rev	xx	 xx
Inv → Cost	COGS Inventory	xx	 xx
Freight Out	Delivery Exp Cash / Acc Pay	xx	 xx
Sales Returns **Sales → Price**	Sales R & A Acc Rec / Cash	xx	 xx
Inv → Cost	Inventory COGS	xx	 xx
Sales Allowance	Sales R & A Acc Rec / Cash	xx	 xx
Receiving cash payment within discount period	Cash Sales Discount Acc Rec	xx xx	 xx
Receiving cash payment After Discount period	Cash Acc Rec	xx	 xx

Adjusting Entry for Inventory

Compare

Physical Count of Inventory ←→ Book Balance

Physical Count < Book balance	**PC = BB**	**Physical Count > Book balance**
⬇	⬇	⬇
Shrinkage (Shortage)	No Adjusting Entry	**Surplus**
Decrease Inventory → Cr		Increase Inventory → Dr

COGS	xx	
Inventory		xx

Inventory	xx	
COGS		xx

- **<u>Adjusting Entries:</u>**

  - Adjusting entries ensure that the revenue recognition and expense recognition principles are followed.
  - Adjusting entries are necessary because the trial balance may not contain up-to-date and complete data.
  - Adjusting entries are required every time a company prepares financial statements.
  - Adjusting entries are classified as either **deferrals** or **accruals**.

  - **Deferrals:** are expenses or revenues that are recognized at a date later than the point when cash was originally exchanged. (Cash comes first)
    1. **Prepaid expenses**: Expenses paid in cash before they are used or consumed.
    2. **Unearned revenues**: Cash received before services are performed.

  - **Accruals:** (Cash comes later)
    1. **Accrued revenues**: Revenues for services performed but not yet received in cash or recorded.
    2. **Accrued expenses**: Expenses incurred but not yet paid in cash or recorded.

Type	**Prepaid Expense**	**Supplies**	**Depreciation**	**Accrued Expense**
Adjusting Entry	Rent Expense Prepaid Rent	Supplies Expense Supplies	Dep. Exp. – Asset Acc. Dep. Asset	Salary Expense Salary Payable
Other types	Insurance, Advertising			Interest, Rent

Type	**Accrued Revenue**	**Unearned Revenue**
Adjusting Entry	Account Receivable Service Revenue	Unearned Revenue Service Revenue

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- **<u>Closing Entries:</u>**

To Close Revenues	Service Reveune	xx	
	Other Revenue	xx	
	Income Summary		xx
To Close Expenses and Debit Accounts	Income Summary	xx	
	Rent Expense		xx
	Salary Expense		xx
	Cost of Good Sold		xx
	Sales Returns and Allowance		xx
	Sales Discount		xx
To close Income Summary	Income Summary	xx	
- **In case of Net Profit:**	Owner's Capital / Retained Earnings		xx
	Owner's Capital / Retained Earnings	xx	
- **In case of Net loss**	Income Summary		xx
To close Owner's Drawings or Dividends	Owner's Capital / Retained Earnings	xx	
	Drawings / Dividends		xx

- Owner's Capital and Drawings in case of sole proprietorship form of business.
- Retained Earnings and Dividends in case of Corporate form of business

- **Financial Statements:**

Companies prepare financial statements that provide relevant financial data for internal and external users, which are:

1. **Income Statement (Profit and Loss Statement)**
2. **Owner's Equity Statement / Stockholders' Equity Statement / Retained Earnings' Statement**
3. **Balance Sheet (Statement of Financial Position)**
4. **Statement of Cash Flows**
5. **Notes to Financial Statements**

1) Income Statement:

- Also called an **earnings statement** or a **profit and loss statement.** It is an accounting statement that matches a company's revenues with its expenses over a period of time, usually a quarter or a year.
- The purpose of the income statement is to provide a financial summary of the firm's operating results during a specified time period.
- It is a flow measure statement, meaning that each value on an income statement represents the cumulative amount of that item through the given accounting period.

ABC Company Income Statement For the year ended December 31, 2016		
Sales Revenue	$ 520,000	
Less: Sales Returns and Allowances	(12,000)	
Sales Discount	(8,000)	
Net Sales		**$ 500,000**
Less: Cost of Goods Sold		**(300,000)**
Gross Profit		**200,000**
Less: Operating Expenses:		
Selling Expenses	$ 30,000	
General and Administrative Expenses	20,000	
Depreciation Expenses	10,000	
Advertising Expenses	5,000	
Insurance Expenses	5,000	
Total Operating Expenses		(70,000)
Operating Profits (EBIT)		**130,000**
Less: Interest Expenses		(10,000)
+ Other Revenues and Gains		0
Less: Other Expenses and Losses		0
Net Profits before Taxes		**120,000**
Less: Taxes (30%)		(36,000)
Net Profits after Taxes		**$ 84,000**

2) Balance Sheet:

Also called Financial Position Statement.
A balance sheet reports the assets, liabilities, and owner's equity at a specific date. In the balance sheet, assets are listed at the top, followed by liabilities and owner's equity. Total assets must equal total liabilities and owner's equity.
The balance sheet is prepared at a specific moment in time (e.g., the month-end or year-end) to present the company's financial condition.
The statement balances the firm's *assets* (what it owns) against its financing, which can be either **debt** (what it owes) or **equity** (what was provided by owners).

The balance Sheet are classified to the following categories (depends on each business):

Assets	Liabilities and Owner's Equity
- Current assets - Long-term investments - Property, plant, and equipment - Intangible assets	- Current liabilities - Long-term liabilities - Owner's (Stockholders') equity

- **Current assets** are assets that a company expects to convert to cash or use up within one year or its operating cycle, whichever is longer.
  Common types of current assets are
  (1) cash, (2) investments (such as short-term U.S. government securities),
  (3) receivables (notes receivable, accounts receivable, and interest receivable),
  (4) inventories, and (5) prepaid expenses (supplies and insurance).
  On the balance sheet, companies usually list these items in the order in which they expect to convert them into cash.

- **Long-term investments** are generally
  (1) investments in stocks and bonds of other companies that are normally held for many years,
  (2) long-term assets such as land or buildings that a company is not currently using in its operating activities, and (3) long-term notes receivable.

- **Property, plant, and equipment** are assets with relatively long useful lives that a company is currently using in operating the business.
  This category includes land, buildings, machinery and equipment, delivery equipment, and furniture.

- **Intangible assets** are long-lived assets that do not have physical substance yet often are very valuable.
  One significant intangible asset is goodwill. Others include patents, copyrights, and trademarks.

- **Current liabilities** are obligations that the company is to pay within the coming year or its operating cycle, whichever is longer.
  Common examples are accounts payable, salaries and wages payable, notes payable, interest payable, and income taxes payable.
  Also included as current liabilities are current maturities of long-term obligations—payments to be made within the next year on long-term obligations.

- **Long-term liabilities** are obligations that a company expects to pay **after** one year. Liabilities in this category include bonds payable, mortgages payable, long-term notes payable, lease liabilities, and pension liabilities.

FRANKLIN COMPANY
Balance Sheet
October 31, 2017

Assets			
Current assets			
Cash		$ 6,600	
Debt investments		2,000	
Accounts receivable		7,000	
Notes receivable		1,000	
Inventory		3,000	
Supplies		2,100	
Prepaid insurance		400	
Total current assets			$22,100
Long-term investments			
Stock investments		5,200	
Investment in real estate		2,000	7,200
Property, plant, and equipment			
Land		10,000	
Equipment	$24,000		
Less: Accumulated depreciation—equipment	5,000	19,000	29,000
Intangible assets			
Patents			3,100
Total assets			$61,400
Liabilities and Owner's Equity			
Current liabilities			
Notes payable		$11,000	
Accounts payable		2,100	
Unearned service revenue		900	
Salaries and wages payable		1,600	
Interest payable		450	
Total current liabilities			$16,050
Long-term liabilities			
Mortgage payable		10,000	
Notes payable		1,300	
Total long-term liabilities			11,300
Total liabilities			27,350
Owner's equity			
Owner's capital			34,050
Total liabilities and owner's equity			$61,400

3) Cash Flow Statement:

The **statement of cash flows** reports the cash receipts, cash payments, and net change in cash resulting from operating, investing, and financing activities during a specific period of time.
It reports why cash increased or decreased. Cash flow statement is useful because investors, creditors and others want to know what is happening to a company's most liquid resource.

1. Operating activities:

Include the cash effects of transactions that create revenues and expenses. They thus enter into the determination of net income.
Items included from Income statement, current assets and current liabilities.

2. Investing activities:

Include (a) acquiring and disposing of investments and property, plant, and equipment, and (b) lending money and collecting the loans.
Items included from Long term Assets (Fixed assets)

3. Financing activities:

Include (a) obtaining cash from issuing debt and repaying the amounts borrowed, and (b) obtaining cash from stockholders, repurchasing shares, and paying dividends.
Items included from Long term liabilities and Equity.

The operating activities category is the most important. It shows the cash provided by company operations. This source of cash is generally considered to be the best measure of a company's ability to generate sufficient cash to continue as a going concern.

ABC Company **Statement of Cash Flow** **For the year ended Dec. 31, 2015**		
Cash Flow from Operating Activities:		
Net Income		xx
± Adjustments to reconcile net income to net cash flow from operating activities:		
(+) Depreciation (Amortization or Depletion) Expense	xx	
(-) Gain on Sale of long-term asset	(xx)	
(+) Loss on Sale of long-term asset (or loss on impairment)	xx	
(-) Increase in Current Assets other than cash	(xx)	
(+) Decrease in Current Assets other than cash	xx	
(+) Increase in Current Liabilities	xx	
(-) Decrease in Current Liabilities	(xx)	
		xx
± Net Cash provided by (used for) Operating Activities		XXX
Cash Flow from Investing Activities:		
(+) Cash receipt from sale of long-term asset	xx	
(-) cash paid for acquisition (purchase) of long-term asset	(xx)	
± Net Cash provided by (used for) Investing Activities		XXX

Cash Flow from Financing Activities:		
(+) Cash receipt from issuance of Notes/Bonds payable	xx	
(-) Cash payment of Notes/Bonds payable	(xx)	
(+) Cash receipt from issuance of stocks	xx	
(+) Cash receipt from sale of Treasury stocks	xx	
(-) Cash payments for purchase of Treasury stocks	(xx)	
(-) Cash payment for Dividends	(xx)	
± Net Cash provided by (used for) Financing Activities		XXX
± Net Increase (Decrease) in Cash		XXX
(+) Beginning Cash balance		XXX
(=) Ending Cash balance		**XXX**

▪ Direct Method of Cash Flow Statement

The only different between the direct method and indirect method of Cash Flow Statement is the ***"Operating Activities Section".***
Investing and Financing Activities are the same in both formats.

The Operating Section of Direct Method

Cash Flow from Operating Activities:		
(+) Receipts:		
Collections from customers	xx	
Interest received	xx	
Dividends received on investments	xx	
(+) Total Cash Receipts		XX
(-) Payments:		
To Suppliers	(xx)	
For Operating Expenses	(xx)	
To Employees	(xx)	
For Interest	(xx)	
For Income Tax	(xx)	
(-) Total Cash Payments		(XX)
± Net Cash Provided by (Used for) Operating Activities		**XXX**

4) Owner's Equity Statement:

An owner's equity statement summarizes the changes in owner's equity for a specific period of time. The owner's equity statement shows the owner's capital at the beginning of the period, additional investments, net income (or net loss) for the period, owner's drawings, and the owner's capital at the end of the period.

Owner's capital, January 1	xx
Add: Net income (or less net loss)	xx
Add: Additional Investment	xx
Less: Drawings	(xx)
Owner's capital, December 31	XX

- **Stockholders' Equity Section of the Balance Sheet:**

ABC INC. Balance Sheet (partial)		
Stockholders' equity		
Paid-in Capital:		
A- Capital Stock:		
• 9% preferred stock, $100 par value, 10,000 shares authorized, 6,000 Shares issued and outstanding	$ 600,000	
• Common stock, no par, $ 5 stated value, 500,000 Shares authorized, 400,000 shares issued, and 390,000 shares outstanding	2,000,000	
Total capital stock		2,600,000
B- Additional paid-in capital		
• In excess of par – preferred stock	$ 30,000	
• In excess of stated value – common stock	860,000	
• From treasury stock	140,000	
Total additional paid-in capital		1,030,000
Total paid-in capital		3,630,000
+ Retained earnings		1,058,000
Total paid-in capital and retained earnings		4,688,000
Less: Treasury stock (10,000 common shares) (at cost)		(80,000)
Total stockholders' equity		**$ 4,608,000**

- **Retained Earnings Statement:**

The statement of Retained Earnings reports how the company's retained earnings balance changed from the beginning of the period to the end of the period.

Retained Earnings, Jan 1, 2015	$5,100,000
Net Income for the year	1,000,000
	6,100,000
Cash and Stock Dividends Declared	(500,000)
Retained Earnings, Dec. 31, 2015	**$5,600,000**