

SBM Record Keeping

Course Information

Administrative Data

Course Title - SBM Record Keeping
Number - SBMT2130

Total Credits - 3

Course Description

In this class the business owner or manager will learn the basics of record keeping with emphasis on the organization of the chart of accounts, balance sheet and income statement. The course will also focus on data entry to the accounting system, including revenues, expenses, assets and liabilities.

Performance Expectations

Units

A. Organization and Management of the Chart of Accounts

1. Compare Charts of Accounts for Different Business Structures
2. Identify Asset Accounts
3. Identify Liability Accounts
4. Identify Equity Accounts
5. Identify Revenue Accounts
6. Identify Cost/Expense Accounts
7. Organize Chart of Accounts
8. Construct Formatted Balance Sheet with Accounts
9. Construct Formatted Profit & Loss Statement with Accounts

B. Source Documents, Data Entry and Journal Transaction

1. Identify Source Documents for Balance Sheet
2. Identify Source Documents for Sales Accounts
3. Identify Source Documents for Expense Accounts

4. Construct Revenue Journal
5. Construct Expense Journal
6. Create General Ledger

C. Building and Reading Basic Financial Reports

1. Interpret Asset Section of Balance Sheet
2. Interpret Liability Section of Balance Sheet
3. Interpret Equity Section of Balance Sheet
4. Construct Opening Balance Sheet
5. Interpret Revenue Section of Income Statement
6. Interpret Cost of Sales Section of Income Statement
7. Interpret Expense Section of Income Statement
8. Construct Income Statement for Accounting Period

Instructor Information

Instructor Name:
E-mail Address:

Instructor Office Information

Room:
Campus:
Address:
City:
Office Phone:
Fax:
Office Hours:

Grading Information

Grading Rationale: Grades will be assigned based on instructor evaluation of effort and quality of record system created for the business.

Grading Scale

Pass/Fail	At least a C grade requirement
A	Record system with complete sales and

expense journals, balanced and reconciled with checking account
B. Record system with sales and expense journals in place and daily entries being made
C. Sales and expense journals organized and ready for daily entries
D. Sales and expense journals incomplete
F. No effort to develop record keeping system

Policies and Information

SBM Record Keeping

SBMT 2130

Section 1: Organization and Management of the Chart of Accounts

Different Chart of Accounts	1
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Cost of Goods Section	4
Project: Piper Plumbing and Heating	6
Profit or Loss and Distribution of Income Comparison	9
Example of Manufacture Chart of Accounts	
Example of Retail Chart of Accounts	
Example of Service Chart of Accounts	
Glossary of Terms	

SMALL BUSINESS MANAGEMENT
CHART OF ACCUONTS
SERVICE OR RETAIL BUSINESS

ASSETS

Current Assets

- 1010 Cash in Bank
- 1020 Cash in Savings
- 1030 Cash in Till
- 1040 Petty Cash
- 1050 Accounts Receivable
- 1110 Inventory

Fixed Assets

- 1410 Land
- 1510 Buildings
- 1520 Leasehold Improvements/Building Improvements
- 1530 Equipment, Tools & Fixtures
- 1540 Vehicles
- 1610 Accum. Depreciation

LIABILITIES

Current Liabilities

- 2010 Accounts Payable
- 2030 FICA Fed Payable
- 2040 FUTA Payable
- 2050 State Payable
- 2060 SUTA Payable
- 2070 State Sales Tax Payable
- 2080 Notes Payable – Current
- 2090 Other Current Liabilities

Long-Term Liabilities

- 2810 Notes Payable – bank, other
- 2910 Mortgage Payable
- 2930 Other Long-Term Liabilities

OWNER'S EQUITY

- 3010 Capital Account – Owner
- 3020 Current Period Profit or Loss
- 3030 Owner's Withdrawal
- 3040 Retained Earnings

INCOME

- 4010 Sales, Revenue, Services
- 4110 Misc. Income (interest, rent)
- 4210 Sales Discounts

PURCHASES

- 5010 Purchases
- 5110 Freight In

OPERATING EXPENSES

- 60210 Gross Wages, Salaries, Payroll
- 6020 Payroll Tax Expense
- 6030 Subcontracting Labor
- 6040 Advertising
- 6050 Utilities (heat, lights & water)
- 6060 Telephone
- 6070 Insurance (auto, building, medical, liability, umbrellas, business owners)
- 6080 Insurance - Worker's Compensation
- 6090 Vehicle Expense (gas, oil, repairs)
- 6100 Lease Expense
- 6110 Rent
- 6120 Property Tax Expense
- 6140 Office Expense & Postage Expense
- 6150 Contributions & Donations
- 6160 Legal & Accounting
- 6170 Travel & Conventions
- 6180 Entertainment
- 6190 Licenses & Permits
- 6200 Dues & Subscriptions
- 6210 Shop/Warehouse Supplies
- 6220 Depreciation Expense
- 6230 Repairs & Maintenance (land, buildings equipment)
- 6240 Interest Expense
- 6250 Bad Debt Expense
- 6260 Cash Short/Over
- 6270 Miscellaneous Expense

The Five Account Groups

The following items may appear on either the income statement or the balance sheet. In the blanks opposite each word or phrase, check whether the description refers to an expense, a revenue, an asset, a liability, or some form of shareholder's equity. Also, indicate on which financial statement the account appears. Assume accrual method of accounting.

	Asset	Liability	Equity	Revenue	Expense		
1. Sales	_____	_____	_____	_____	_____	B/S	I/S
2. Insurance Paid	_____	_____	_____	_____	_____	B/S	I/S
3. Officers' Salaries	_____	_____	_____	_____	_____	B/S	I/S
4. Bad Debt Expense	_____	_____	_____	_____	_____	B/S	I/S
5. Depreciation Expense	_____	_____	_____	_____	_____	B/S	I/S
6. Utilities Expense	_____	_____	_____	_____	_____	B/S	I/S
7. Principle on Loans	_____	_____	_____	_____	_____	B/S	I/S
8. Subcontractors Paid	_____	_____	_____	_____	_____	B/S	I/S
9. Accumulated Depreciation	_____	_____	_____	_____	_____	B/S	I/S
10. Rental Income	_____	_____	_____	_____	_____	B/S	I/S
11. Cost of Goods	_____	_____	_____	_____	_____	B/S	I/S
12. Sales Tax Collected	_____	_____	_____	_____	_____	B/S	I/S
13. Advertising Expenditures	_____	_____	_____	_____	_____	B/S	I/S
14. Finance Charges Paid to You by Customers	_____	_____	_____	_____	_____	B/S	I/S
15. Interest Paid on Notes	_____	_____	_____	_____	_____	B/S	I/S

THE PROFIT AND LOSS STATEMENT

COST OF GOODS SOLD

The Cost of Goods Sold section contains accounts that record the expenses that are directly related to the cost of the product. These are sometimes called the "variable expenses", the expenses that vary according to sales volume.

The Cost of Goods Sold section also varies as to the type of business you are in. For example, in a retail business, the variable or directly related expenses that would appear in the Cost of Goods Section would be merchandise or inventory purchases and sales commissions or bonuses. In a service business, parts purchased and direct labor would be the directly related expenses. In a manufacturing business, the Cost of Goods Sold section becomes much more complicated and detailed. See sample below.

The Cost of Goods Sold section would appear as follows:

Retail Business:

Beginning Inventory
+Merchandise Purchases
-Ending Inventory
=Cost of Goods Sold

Service Business:

Parts Purchased
Direct Labor
Outside Labor

COST OF GOODS SOLD

MANUFACTURING

Beginning Inventory:

Raw Material Inventory	\$35,000	
Goods In Process Inventory	40,000	
Finished Goods Inventory	60,000	
Total Beginning Inventory		\$135,000

Raw Material Purchases		25,000
Supplies		20,000
Direct Labor		185,000
Factory Overhead:		
Heat	12,000	
Utilities	8,000	
Insurance	15,000	
Payroll Taxes	7,500	
Total Factory Overhead		\$ 42,500

Less Ending Inventory:

Raw Material Inventory	\$50,000	
Goods In Process Inventory	55,000	
Finished Goods Inventory	70,000	
Total Ending Inventory		\$175,000

Cost of Goods Sold		\$232,500
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ACCRUED TRANSACTIONS
PIPER PLUMBING & HEATING

Use standard accounting 4-column paper to record the transactions in the combined journal

- 9/1 Received bill - \$8,000 of merchandise for resale from vendor Westburn, Inc.
- 9/1 Paid rent to Golden Inc. - \$800
- 9/10 Sent invoice to customer Don Olson for service work done - \$1200
- 9/14 Paid subcontractor for 2 weeks in Sept. - \$1500 - Dave Fleming
- 9/15 Sent invoice to James Jones for installation of bathroom fixture - \$6000
- 9/17 Received a bill for office supplies from Cannon Valley Supply - \$300
- 9/15 Paid Payroll Expenses - \$3000
- 9/19 Received bill from Goodyear Tire for new tire on truck - \$200
- 9/20 Paid Piper owners draw - \$1000
- 9/21 Borrowed from State Bank - \$5000
- 9/21 Paid vendor Westburn \$1000 on account
- 9/22 Received bill from KQRW for advertising - \$600
- 9/30 Received on Account \$600 from customer Don Olson
- 9/30 Paid bank loan \$500 (\$400-P \$100-I)
- 9/30 Send invoice to Swanson Builders for installation of heating fixture at 1700 Green Leaf Road, Lakeville for \$14,000.
- 9/30 Paid payroll expenses - \$3,000

INCOME STATEMENT

FROM _____ TO _____

INCOME

4040 Sales, Revenue \$ _____
 4110 Misc. Income _____
 4210 Sales Discounts _____

Total Income \$ _____

COST

Beginning Inventory \$ _____
 5010 Purchases \$ _____
 5110 Freight In _____
 Goods Available \$ _____
 Ending Inventory _____
 Costs of Goods Sold \$ _____

Gross Profit \$ _____

EXPENSE

6010 Gross Wages \$ _____
 6020 Payroll Tax Expense _____
 6030 Subcontracting Labor _____
 6040 Advertising _____
 6050 Utilities (heat, light & water) _____
 6060 Telephone _____
 6070 Insurance - General _____
 6080 Insurance – Worker’s Compensation _____
 6090 Vehicle Expense (gas, oil, repairs) _____
 6100 Lease Expense _____
 6110 Rent _____
 6120 Property Tax Expense _____
 6140 Office Expense & Postage Expense _____
 6150 Contributions & Donations _____
 6160 Legal & Accounting _____
 6170 Travel & Conventions _____
 6180 Entertainment _____
 6190 Licenses & Permits _____
 6200 Dues & Subscriptions _____
 6210 Shop/Warehouse Supplies _____
 6220 Depreciation Expense _____
 6230 Repairs & Maintenance (land, buildings, equipment) _____
 6240 Interest Expense _____
 6250 Bad Debt Expense _____
 6260 Cash Short/Over _____
 6270 Miscellaneous Expense _____

Total Expense \$ _____

Net Profit Before Taxes

\$ _____

Balance Sheet

Date: _____

Assets

Current Assets

1010 Cash \$ _____
1050 Accounts Receivable _____
1110 Inventory _____
1220 Other Current Assets _____

Total Current Assets \$ _____

Fixed Assets

1410 Land \$ _____
1510 Buildings _____
1530 Equipment _____
1540 Vehicle _____
1610 Accumulated Depreciation _____

Total Fixed Assets \$ _____

Total Assets \$ _____

Liabilities

Current Liabilities

2010 Accounts Payable \$ _____
2060 Federal and State Taxes Payable _____
2080 Notes Payable _____
2090 Other Current Liabilities _____

Total Current Liabilities \$ _____

Long-Term Liabilities

2010 Notes Payable to Bank \$ _____
2910 Mortgages Payable _____
2930 Other Long-Term Liabilities _____

Total Long-Term Liabilities \$ _____

Total Liabilities \$ _____

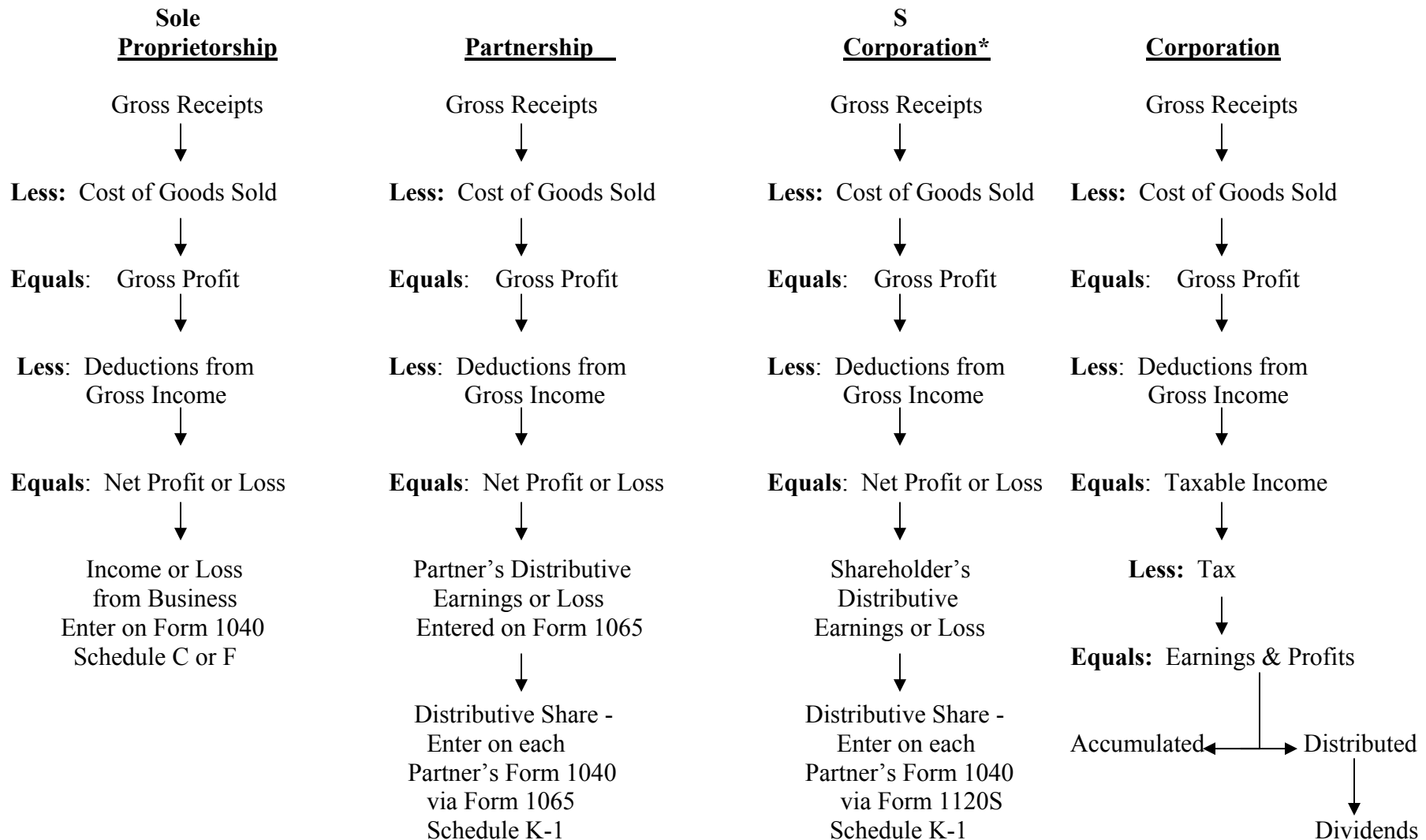
Owners Equity

3010 Capital \$ _____
3020 Net Profit _____
3030 Owner's Draw _____
3040 Retained Earnings _____

Total Owner's Equity \$ _____

Total Liabilities + Owner's Equity \$ _____

PROFIT OR LOSS AND DISTRIBUTION OF INCOME COMPARISON



* Note the similarities between S Corporations and Partnerships

BALANCE SHEET EQUATION

Dr (+) (+)Cr	Assets	(-)Cr	=	Dr (-)	Liabilities	(+ Cr	+	Dr (-)	Equity
To increase these accounts, a debit entry will be made Acct. # 100	To decrease these accounts, a credit entry will be made		=		To increase these accounts, a credit entry will be made		+		To increase these accounts, a credit entry will be made
				To decrease these accounts, a debit entry will be made Acct. # 200	To increase these accounts, a credit entry will be made				To decrease these accounts, a debit entry will be made Acct. # 300

PROFIT & LOSS EQUATION

	Dr (-) Sales Income	Cr (+)	-	Cost Dr (+) Expenses	Cr (-) = Net
Profit or Loss					
To decrease these accounts, a debit entry will be made Acct. # 400	To increase these accounts, a credit entry will be made			To increase these accounts, a debit entry will be made Acct. # 500 # 600	To decrease these accounts, a credit entry will be made

ACCOUNTING GLOSSARY OF TERMS

Accounting Period	The 12 month business period upon which you compute profit or loss and pay taxes; may be other than the calendar year
Accounts Payable	The money a company owes to a supplier or vendor.
Accounts Payable Ledger	Shows the account activity for each vendor.
Accounts Receivable	The monies owed to the company for merchandise, products, or services sold or performed but not collected.
Accounts Receivable Ledger	Shows the account activity for each customer.
Amortization	A way to recover capital expenditures, like business start-up cost and
Assets	The cash, money owed, merchandise, land, buildings, and equipment that a company owns or that has money value.
Balance Sheet	Lists the types of amounts of assets, liabilities, and equity as of a specific date.
Bank Reconciliation	The process of bringing the balance of the bank statement and the balance of the cash account into agreement.
Break-Even Point	The point where income just equals total costs, leaving no profit or loss
Budget or Forecast	An itemized listing of anticipated income and expenses for a period of time like a month or year, and often based on prior actual records.
Capital	See " <i>Owner's Equity</i> "
Cash	Money you have control of and access to.
Cash Balance	The difference between cash in-flow and cash out-flow in any given time.
Chart of Accounts	A list of all the accounts used by a company, showing the identifying number assigned to each account.
Collateral	Stocks, bonds and other marketable properties (chattels) which a borrower pledges as security for a loan.
Commission	A percentage of money taken in on sales given as pay to a sales clerk or agent.
Consignment	The physical transfer of goods from a seller to another person or business who acts as a selling agent.
Cost of Goods Sold	For a retail or wholesale business, it is the total price paid for the products sold plus the cost of having it delivered to the store, during the accounting period.
Coverage	All the risk covered by an insurance agency
Credit	An amount entered on the right side of an account in double-entry accounting. A decrease in asset and expense accounts. An increase in liability, capital and income accounts.

Credit Memos	Refunds for merchandise that is returned by a customer. Also known as a credit invoice.
Creditors	One who is due money from another; your banker, suppliers, commercial credit agencies, (vendors)
Current Assets	The sum of cash, notes, and accounts receivable (less reserves for bad debts), advances on inventories, inventories, and any other item that can be converted into cash in a short time, usually less than a year.
Current Liabilities	The total of all monies owed by the company that will fall due within one year.
Customer Ledger	Shows account activity for each customer.
Customers	A person who buys, especially one who buys from or patronizes an establishment regularly.
Debit	An amount entered on the left side of an account in double-entry accounting. A decrease in liabilities, capital and income accounts. An increase in asset and expense accounts.
Deposit	Funds given to a bank for the purpose of establishing and maintaining a credit balance with the bank, upon which checks can be written.
Depreciation	The estimated decrease in value of a fixed asset over its useful life. This is classified as an expense on the income statement, thus reducing taxes.
Disbursement	Funds paid out.
Dividend	The portion of a corporation's net earnings paid to shareholders at a specified rate per shares.
Double-Entry	A bookkeeping system utilizing debit and credit entries for all transactions; a decrease or increase in another account allowing for an absolute accuracy check.
Drawing	Cash or goods taken out of a business by the owner at regular intervals; represents a portion of anticipated business profits.
Equity	The difference between the assets and liabilities or what the business has left after the debts are paid.
Expenses	The cost of doing business. It includes such items as wages, telephone, insurance, depreciation, interest, and advertising.
Finance Charges	The charge assessed, usually in the form of a percentage, for the use of money.
Fixed Assets	Land, building equipment, fixtures, machinery, tools, furniture, office devices, patterns, drawings, less salvage value and depreciation.
Gross Profit	Net Sales or Income minus the Cost of Sales also the profit before expenses, interest, other charges and federal taxes have been deducted.
Income	The money or other gain received, especially in a given period, by an individual, corporation, etc. for labor or service or from property, investments, operations, etc.
Interest	Cost of borrowing; may be compared to the rent one pays for using property. The objective of borrowing money is to use it to generate profit in excess of the cost of borrowing.
Invoice	A bill that shows an itemized list of goods shipped or services

	rendered, stating quantities, prices, fees, and shipping charges.
Landscape Orientation	The direction of the page in which the long edge of the paper runs horizontally - printing
Liabilities	Everything that a company owes to a creditor; liabilities are the debts owed by the company to others. Liabilities are accounts such as: notes payable, accounts payable, or accruals. There are two categories of liabilities, current liabilities and long-term liabilities.
Long Term Debt	Sometimes called long term liabilities, it is all the obligations such as mortgages, bonds, term loans, and any other monies that come due more than one year from the date of the statement.
Mark Up	The amount added to the cost to cover overhead and profit in arriving at the selling price
Markdown	A reduction from a usual or listed price.
Marketing	All business activities involved in the moving of goods from the producer to the customer
Merchandise	Goods bought from and sold to others to earn revenue for merchandising businesses.
Mortgage	Legal paper that pledges property to cover a debt.
Net Loss	The sum remaining after fixed and variable costs are deducted from the income of a business, (if negative).
Net Profit	The sum remaining after fixed and variable costs are deducted from the income of a business, (if positive). The amount left over after expenses.
Net Worth	What the owner (s) has represented on a balance sheet as the difference between all assets and all liabilities, in other words, the owner's equity.
Notes Payable	Money borrowed by the company that will be paid back within one year.
Operating Expenses	Any expense incurred by a business in normal operation of the business.
Owner's Equity	The financial interest of the owner of a business. The total of all owner equity is equal to the business's assets minus its liabilities. The owner's equity represents total investments in the business plus or minus any profits or losses the business has accrued to date.
Perpetual Inventory	In a perpetual inventory system, an up-to-date record of inventory is maintained. In a perpetual inventory system, the inventory account is revised each time a purchase or sale is made.
Portrait Orientation	The direction of the page in which the long edge of the paper runs vertically - printing
Posting	The process of copying journal entry information from a journal to the ledger.
Profit and Loss	(Should be stated as Profit <u>or</u> Loss), the amount of money remaining after all expenses are subtracted from income, may be a negative amount indicating a loss.

Purchase Orders	The business form used by the purchasing department to place an order with a vendor. Purchase Orders, abbreviated P.O., authorize the vendor to ship the ordered merchandise at the stated price and terms.
Ratio	A comparison of two different figures; an asset to liability (asset:liability) ration of 2:1 means there are twice as many assets as there are liabilities, or for every one dollar of liabilities there are two dollars of assets.
Retained Earnings	The portion of a corporation's net earnings not paid to shareholders in the form of dividends. Retained earnings are reinvested in the company. They accumulate over the life of the company. Prior years profit or loss.
Return on Investment (ROI)	Profit earned by an investment of money or its equivalent.
Sales	(or net sales) The total dollar volume of all sales less returns, allowances, discounts, and rebates.
Sales Volume	The total amount of goods or services, sold during a given period.
Self-Employed	Working for oneself, with direct control over work, services, etc., undertaken and fees, charges, etc. set
Service	Delivery or performing a task or service for a customer usually with few materials being sold; largest cost or expense item is the labor cost.
Service Invoice	An alternative to the standard invoice. Use it when you want to create an invoice without inventory items.
Single-Entry	A bookkeeping system where transactions are recorded only once; lacks an absolute accuracy check.
Sole Proprietorship	A business owned and operated by only one person.
Source documents	Written evidence of a business transaction. Examples of source documents are sales invoices, purchase invoices, and a check register.
Start-Up Costs	A cost of going-into-business including capital assets, supplies, merchandise; usually includes all expenses that must be paid before the business begins to make a profit (income exceeds expenses).
Statement of Financial Position	Another name for a balance sheet.
Unearned Revenue	A liability account used to report advance collections from customers or clients.
Variable Cost	Expenses that increase as the volume of business increases.
Vendor Ledger	Shows the account activity for each vendor
Wholesale	The middleman between the manufacturer and the retailer; buys directly from the manufacturer and sells to the retailer with no direct contact with the consumer.
Working Capital	Current assets less current liabilities.

SBM RECORD KEEPING

SBMT 2130 SECTION 2: Source Documents, Data, Entry, and Journal Transaction

Accounting Cycle
Source documents
Transaction Entering
Balance Accounts
Construct Balance Sheet
Construct Income Statement

PROBLEM

The purpose of this exercise is to acquaint you with the Accounting Cycle. The cycle begins with source documents showing transactions for rent, salaries, sales, and purchases of materials, and it ends up with financial reports like the Balance Sheet and the Income Statement.

As you complete this exercise, you will see how each transaction has a dual economic effect on the assets, liabilities, and equity of a business. The following are some suggestions to help you complete this exercise:

1. Enter each of the 10 transactions (20 separate entries) into the General Journal.
 - * Use the Chart of Accounts to assign the proper account number to each transaction.
2. After the transactions are entered into the General Journal, record them into separate accounts in the General Ledger, too.
 - * See Rent Entry.
3. After all transactions have been transferred to the General Ledger, total all the Debit and Credit columns in each account.
 - * Some may have entries on only one side. See Rent
4. Take the differences in each General Ledger account and transfer them to the Trial Balance section on the worksheet.
 - * Debit Balances to the Debit column. Credit Balances to the Credit column.
5. When both columns in the Trial Balance section agree, move the individual numbers across the page, ignoring the Adjustments column, to either the Income Statement section or the Balance Sheet section.
 - * If the columns do not balance, an error has occurred either in addition, or in putting a debit number into a Credit column or vice versa-
 - * All Asset, Liability, and Equity accounts go to the Balance Sheet Section. All Revenue and Expense accounts belong in the Income Section.
6. Once all numbers have been transferred to the Balance Sheet and Income Statement sections, total each column. If Revenues are greater than the Expenses, a profit is reported. If expenses are greater, a loss is reported. The Balance Sheet section will show a similar gain or decrease and this will be either added to or subtracted Retained Earnings account.

Understand accounting, because it is the language of business. The better your grasp. the greater your potential success can be.

-John D. Rockefeller

Complete accounting problem for income statement and balance sheet is in workbook *The Language of Money* by Greatapes

Not satisfactorily scanned

CHART OF ACCOUNTS - TRANSACTIONS

The Bottom Line Chart of Accounts	
100	Cash
110	Securites
120	Accounts Receivable
160	Equipment
200	Accounts Payable
260	Loan Payable
300	Capital Stock
310	Retained Earnings
400	Revenues
500	Rent
510	Salaries
520	Materials
530	Advertising
540	Interest Expense

TRANSACTIONS FOR OCTOBER

1. 1 October Paid rent \$500 (by check)
2. 2 October Purchased materials \$200 (on account)
3. 4 October Collected accounts receivable \$7,700
4. 9 October Paid for advenising \$400 (by check)
5. 10 October Paid accounts payables \$2,000 (by check)
6. 15 October Paid salaries \$2,800 (by check)
7. 22 October Paid interest \$200 (by check)
8. 24 October Cash sale \$100
9. 31 October Paid salaries \$2,800 (by check)
10. 31 October Billed customers \$7,500

(SEE SOURCE DOCUMENTS)

Transaction 1

1415	
October 1 19	
To	PD PROPERTIES
For	
RENT for OCTOBER	
Total	
Amount this check	500 -
Balance	

PD PROPERTIES STATEMENT	
TO:	Bottom Line
Rent/Oct	\$500
TOTAL	\$500

Transaction 2

PURCHASE ORDER	To:	MILLER SUPPLY	
	Address		
	Ship to:		
	Address		
		BIG TIME	10-2
	Qty	Please supply item listed below	Price Unit
		MATERIALS	200 -

IMPORTANT
 our order number must appear on all invoices/packages
 please notify us immediately if you are unable to ship complete order by date specified

Duffin

ORIGINAL

Transaction 3

Deposit Ticket THE BOTTOM LINE	
Date	10-4
Currency	
Coin	
Cheque (per each receipt)	
BIG TIME	7,700 -
Total From Other Side Or Attached List	
TOTAL	7,700 -

BIG TIME INDUSTRIES	10-4-93
Pay to the Order of	The Bottom Line \$ 7,700
	Seven thousand seven hundred Dollars
FROM	<i>Tom Jones</i>
001407652812000	

SBM RECORD KEEPING

SBMT 2130

Section 3: Building and Reading Basis Financial Reports

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BALANCE SHEET INFORMATION

1. Definition of the Balance Sheet

2. What information does the Balance Sheet provide.

3. There are three (3) major sections of a Balance Sheet. Name them.
 - a.
 - b.
 - c.

4. What is the definition of a current asset.

5. List examples of current assets.
 - a. _____
 - b. _____
 - c. _____
 - d. _____

5. What is the definition of fixed assets?

6. List examples of fixed assets.
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 - e. _____

7. List the definition of current liabilities?

8. List examples of current liabilities.
 - a. _____
 - b. _____
 - c. _____
 - d. _____

9. What is the Balance Sheet Equation?

10. The Debit and Credit Rule:

- a. Asset Rule: Increases are recorded on the _____ side and the decreases are recorded on the _____ side.
- b. Liability Rule: Increases are recorded on the _____ side and the decreases are recorded on the _____ side.
- c. Equity Rule: Increases are recorded on the _____ side and the decreases are recorded on the _____ side.
- d. Income Rule: Increases are recorded on the _____ side and the decreases are recorded on the _____ side.
- e. Expense Rule: Increases are recorded on the _____ side and the decreases are recorded on the _____ side.

11. The balance sheet must always _____.

12. Rule governing the Balance Sheet:

- a. When an asset increases, there must be a corresponding.....
_____ in a liability, or
_____ in owners equity
_____ in another asset
- b. When as asset decreases, there must be a corresponding.....
_____ in a liability or
_____ in owner's equity
- c. When ownership (equity) increases, there must be a corresponding.....
_____ in assets
_____ in liabilities
- d. When a liability increases, there must be a corresponding.....
_____ in an asset
_____ in owner's equity

Practice:

Ms. Piper inherited a small Plumbing & Heating firm at the end of December, 2001. In conversation with her bookkeeper, she discovered the company had a balance of \$5000 in the checking account. The company was owed money to the tune of \$30,000 and had inventory of \$6000. The company purchased equipment for \$130,000 that had depreciated by \$51,000.

Piper Plumbing & Heating owed its vendors \$5000 and had \$8000 on a line of credit. Long term debt owed to Valley Bank was determined to be \$87,000.

The will provided that she obtain all 6000 shares (valued at \$1/share) provided she put in an additional \$1000 of additional equity. Retained earnings totaled \$13,000.

CONSTRUCT A BALANCE SHEET FOR MS. PIPER

Balance Sheet : Piper Plumbing & Heating, Inc. Date: 12-31-2001

Assets:

Current Assets

1010	Cash	\$	_____
1050	Accounts Receivable		_____
1110	Inventory		_____
1220	Other Current Assets		_____
	Total Current Assets	\$	_____

Fixed Assets

1410	Land	\$	_____
1510	Buildings		_____
1530	Equipment		_____
1540	Vehicle		_____
1610	Accumulated Depreciation		_____
	Total Fixed Assets	\$	_____

Total Assets	\$	_____
--------------	----	-------

Liabilities

Current Liabilities

2010	Accounts Payable	\$	_____
2060	Federal and State Taxes Payable		_____
2080	Notes Payable		_____
2090	Other Current Liabilities		_____
	Total Current Liabilities	\$	_____

Long-Term Liabilities

2010	Notes Payable to Bank	\$	_____
2910	Mortgages Payable		_____
2930	Other Long-Term Liabilities		_____
Total Liabilities	\$	_____	

Owners Equity

3010	Capital	\$	_____
3020	Net Profit		_____
3030	Owner's Draw		_____
3040	Retained Earnings		_____
Total Owner's Equity	\$	_____	

Total Liabilities + Owner's Equity	\$	_____
------------------------------------	----	-------

THE PROFIT AND LOSS STATEMENT

Exercise

1. The Profit & Loss Statement is sometimes called:

a.

b.

2. The definition of a Profit and Loss Statement is:

3. Define or explain the following Profit and Loss terms:

a. Sales (on cash basis):

b. Sales (on accrual basis):

c. Cost of Goods Sold:

d. Gross Profit:

e. Operating Expenses:

f. Net Profit:

4. The format for calculating a Profit and Loss Statement is:

5. The following items are generally found on a Profit and Loss Statement. In the space next to each item, indicate if it belongs under: S, Sales C, Cost of Goods, O, Operating Expenses.

___ Employee wages

___ Inventory purchases

___ Commissions to sales people

___ Accountants fees

___ Telephone

___ Printing of brochures

___ Part sales

___ Subcontract labor

___ Garbage pickup

___ Returns & allowances

___ Interest paid

___ Social Security taxes paid

___ Parts purchased

___ Computer lease

___ Advertising & promotions

___ Beginning inventory

___ Fuel for vehicles

___ Service sales

___ Repairs to computer

___ Depreciation

Construct Income Stagement:

INCOME STATEMENT

FROM _____ TO _____

INCOME

4040 Sales, Revenue \$ _____
 4110 Misc. Income _____
 4210 Sales Discounts _____

Total Income \$ _____

COST

Beginning Inventory \$ _____
 5010 Purchases \$ _____
 5110 Freight In _____
 Goods Available \$ _____
 Ending Inventory _____
 Costs of Goods Sold \$ _____

Gross Profit \$ _____

EXPENSE

6010 Gross Wages \$ _____
 6020 Payroll Tax Expense _____
 6030 Subcontracting Labor _____
 6040 Advertising _____
 6050 Utilities (heat, light & water) _____
 6060 Telephone _____
 6070 Insurance - General _____
 6080 Insurance – Worker’s Compensation _____
 6090 Vehicle Expense (gas, oil, repairs) _____
 6100 Lease Expense _____
 6110 Rent _____
 6120 Property Tax Expense _____
 6140 Office Expense & Postage Expense _____
 6150 Contributions & Donations _____
 6160 Legal & Accounting _____
 6170 Travel & Conventions _____
 6180 Entertainment _____
 6190 Licenses & Permits _____
 6200 Dues & Subscriptions _____
 6210 Shop/Warehouse Supplies _____
 6220 Depreciation Expense _____
 6230 Repairs & Maintenance (land, buildings, equipment) _____
 6240 Interest Expense _____
 6250 Bad Debt Expense _____
 6260 Cash Short/Over _____
 6270 Miscellaneous Expense _____

Total Expense \$ _____

Net Profit Before Taxes \$ _____

ACCOUNTING FOR DEPRECIATION

The accounting for depreciation is a general journal entry. The two accounts are accumulated depreciation (a fixed asset) and depreciation expense. Your transaction should lower the accumulated depreciation and increase depreciation expense. Entering the transaction monthly will make your financial statement more accurate.

Depreciation

When accountants value a company's fixed assets, the usual practice is to start from the assumption that an asset is worth just what it cost. Thereafter, the value is the original cost minus arbitrary deductions for losses of value due to use. This arbitrary deduction is referred to as depreciation. Depreciation has little to do with the actual value but is an accounting procedure.

The accounting concept of depreciation is that an asset has a fixed life. For example, because of wear and tear, your delivery truck can only be expected to last a certain amount of time before it has to be replaced. If a company buys a truck for \$1,200, and expects it to last five years, and then sell it for \$200, the difference, \$1,000, would be depreciated and considered a cost of doing business.

Straightline Depreciation Method

The straightline depreciation method figures depreciation by dividing the \$1,000 by the number of years the company expects to use the truck. In this case five years, so \$200 will be allocated for depreciation each year.

A building, unlike a truck, has a much longer life, and in many situations, especially in inflationary periods, the building could be worth more than it originally cost. In the straightline depreciation method, the process is allocation, not valuation, so a set amount is depreciated. Accurate values will not be a likely result of this method. Also, if prices rise or fall, the use of what accountants refer to as historical costs or the actual cost may present a very misleading impression of the present value of the asset.

Accumulated depreciation is the name given to these allocations. Depreciation is also an accounting procedure to write off the value of the equipment and buildings for tax purposes. There are several methods of depreciation which are approved by the IRS. Your accountant should be able to recommend the best schedule for your firm to use.

The accumulated depreciation is referred to as a contra asset. When a buyer, banker or investor looks at the accumulated depreciation, they can get an idea of the condition of the equipment by the amount of accumulated depreciation.

A good manager takes a close look at depreciation when it appears, because all equipment wears out, even if it's not used. As a consequence, the time comes when cash will be needed to replace or upgrade the worn out or obsolete equipment. If proper steps are not taken at the time depreciation takes place, the business may run into difficulty when it is time to replace a worn out asset and funds are not available. The business may not be able to compete, and will lose customers.

Look for depreciation in your financial statements and make sure you understand how it has been computed and also know the actual condition of the asset.

Depletion, Amortization and Goodwill

There are a few other asset items that you might see on a balance sheet: depletion, amortization, and goodwill.

Depletion works in the same manner as depreciation, only depletion refers to the exhaustion of a natural resource. A company that mines coal sets a value on the coal underneath the earth to which it has mineral rights. As they deplete the coal reserves, they would adjust this figure on the balance sheet.

Amortization is used to show the use of an intangible asset. Just as equipment is depreciated, and natural resources depleted, intangible assets are amortized.

A patent is an intangible asset. A patent good for ten years will have a value based on the cost of acquiring the patent.

Although it is not common, goodwill is an intangible asset. If the company were sold, goodwill would represent the difference between what a buyer pays and what a buyer receives in actual assets. If you come across goodwill listed as an asset, it has been decided that the reputation of the company or its "know how", is worth more than the physical assets. The names Coca Cola and Pepsi are probably as valuable as all the fixed assets each corporation owns.

Rev. 7/31/01

The Business

School Desk Co. wants to start a new line of business. Team members will purchase and assemble parts to produce a new type of school desk. The assembled desk units will sell for \$1000. Your suppliers will provide parts at the costs listed below.

Purchases - One Desk

1 frame	@ \$180.00	\$180.00
1 Top	@ \$120.00	\$120.00
2 seats	@ \$ 60.00	\$120.00
2 book trays	@ \$ 60.00	\$120.00
1 hardware pkg	@ \$100.00	\$100.00

Total purchase per unit		\$640.00

You will need equipment to set up your assembly and shipping business. Needed equipment will cost \$24,000.00. This should give you a shop capacity of more than 40 units per month.

Equipment Needed

Air Compressor	\$10,000.00
Power Tools	2,000.00
Conveyor	6,000.00
Work Benches	4,000.00
Packing Equipment	2,000.00

	\$24,000.00

Monthly Operating Expense

salaries(4 weeks)	\$3,200.00
utilities	300.00
rent	400.00
depreciation	200.00
office & shop supplies	100.00
other expenses	0

	\$ 4,200.00

Terms Of Payments

Equipment must be paid for on delivery

Monthly operating expense must be paid at the end of month

Purchases must be paid on fifteenth day of following month

Customer will pay you thirty days after shipment

Questions to Ponder

Is \$44,000.00 enough cash to get your business started?

Could School Desk Company make a profit?

What would happen if you run out of cash?

Adding Up the Score

The **Income Statement** runs for one month, then you start a new one. The **Cash Flow Statement** also runs for one month, then you start a new one. The **Balance Sheet** goes on and on, month after month.... It is cumulative.

A. First fill in income statement from the information in story.

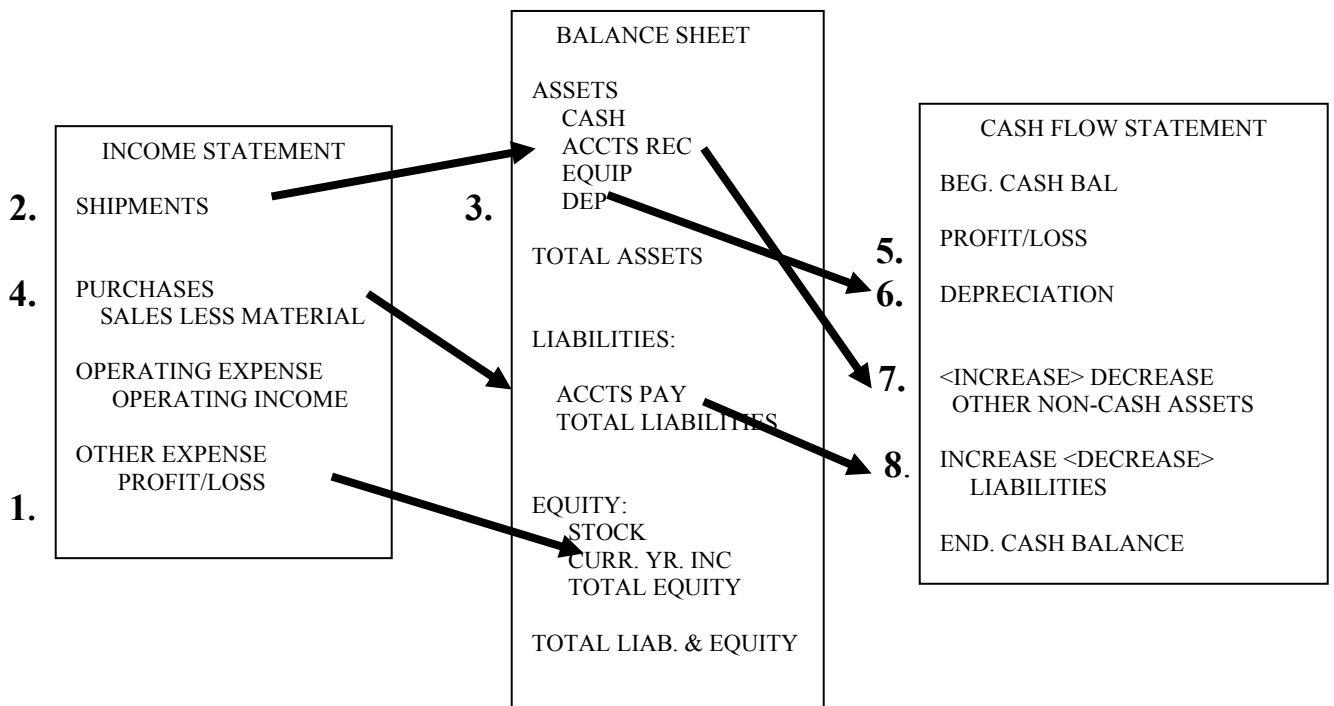
B. Next transfer the following from the income statement to the balance sheet:

1. Profit/loss is added to current years income. (Accumulated)
2. Shipments become accounts receivable.
3. Depreciation is recorded as a loss in value.
4. Purchases become accounts payable.

C. Next use the balance sheet to help fill in the cash flow statement.

5. Fill in the increase or <decrease> in current years income, last month to this month. (Profit/Loss)
6. Add back the month's depreciation. It is a non-cash expense
7. Fill in the <increase> or decrease in Non-Cash Assets, last month to this month.
8. Fill in the increase or <decrease> in liabilities, last month to this month.

D. Total end of month cash goes to balance sheet. Then add assets. They should equal L + OE



Starting the Game - Company A / Company B

January 1

The game has started. It is January 1. Your equipment will arrive tomorrow and must be paid for at that time.

You have bookings for 10 units in January, 20 units in February and 25 units in March.

Purchases must be ordered for January production. Your suppliers will deliver parts on Jan. 15. They must be paid for on Feb. 15.

JANUARY						
	1					
	15					
			31			

Your first shipment is due to go out the door at the end of January. Set up your production line and get your equipment in place at this time. We will use a roll of paper to draw the factory floor plan.

January 15

Time to order parts for Feb. production. Remember, purchases take two weeks to arrive and must be paid for on the 15th day of the following month.

Time to start assembly on the 10 units booked for January. We will use Lego blocks to simulate this part of the process. Your machinists will get 2 weeks salary this month.

FEBRUARY						
				1		
				15		
				29		

January 31

Time to ship January production to the customer. Remember, the customer pays you 30 days after the units are shipped. Why is on-time shipment important?

Find the monthly score sheets inside the back cover of this book. We will fill them out together.

February - The Game Continues

February 1

Your purchases for February have arrived. Time to start assembly on the 20 units booked for February. If you do some training and improve teamwork you may be able to increase production to 25 or 30 units per month. Training will cost \$500. The \$500 would have to be added to your operating expense for February.

Company A decides to spend \$500 on training this month

February 15

The bill is due for January purchases. Pay \$6,400 from cash. How is machining going? You have just 2 weeks to meet your ship date. Bookings for March are 25 units.

February 28

Payment is received from the customer for January shipment. Add \$10,000 to cash.

February production is shipped on time. The customer is happy and he will pay you in 30 days.

Time to pay your monthly bills. Pay operating expense from cash. What is the score at the end of February? Do you have any profit? Do you have any cash? Fill out the monthly score sheets to find out.

AND - - Did you remember to order your purchases for March production? What will happen if you forgot?

MARCH						
				1		
				15		
						31

March - Company A

March 1

Your purchases for March have arrived. Time to start assembly on the 25 units booked for March. Teamwork seems to be improving productivity but it is too soon to be sure. Weekly team meetings take up some time also.

March 15

The air compressor went down this morning. With good teamwork it was up and running again by early afternoon. Assembly was delayed 4 hours but you are still on schedule for the month. Repair charges for the compressor are \$1,000.00. This must be added to your operating expense for March.

The bill is due for February purchases. Pay \$12,800.00 from cash. A potential order for 40 units in May has been received. A team has been formed to help decide how much of this business you could handle.

Bookings for April are 25 units.

APRIL					

March 31

Payment is received from the customer for February shipment. Add \$20,000 to cash.

March production is shipped on time. The customer is very happy. She may place an additional order in a few months.

Time to pay your monthly bills. Don't forget to pay for the compressor repair. Do you have any profit? How much cash do you have? Fill out the monthly score sheets for March.

April - Company A

April 1

Your purchases for April have arrived. 25 units are booked for this month. Two scratched desk tops are observed at the top sub-assembly station during the second week of the month.

April 15

Quality is reviewed at each weekly team meeting. Last week 2 scratched desk tops had to be reworked. The cause of the scratching was identified and a process change was made at the top sub-assembly station. The rework will add \$100 to operating expense for this month.

The Quality Plus program at Company A has the following goals:

1. No defective units will be shipped to the customer.
- + 2. Continuous improvement to achieve zero defects.
-
3. Drive rework to zero, customer satisfaction to 100%

The bill is due for March purchases. Pay \$16,000 from cash.

Booking for May is 40 units. Time to order your purchases.

April 30

Payment is received for March shipment. Add \$25,000 to cash. April production is shipped on time. Your customers are happy.

Time to pay your monthly bills. Don't forget to add the quality charge of \$100 for rework. Fill out the score sheets for April.

No lost time accidents this month. Safety First meetings are scheduled for next week.

May - Company A

May 1

Your purchases for May have arrived. A temp is hired to work in assembly as 40 units need to be completed.

Safety rules and procedures are reviewed at the weekly team meeting. With the Safety First program in place everyone knows that you first learn how to do the work safely, then do the work.

May 15

The bill is due for April purchases. Pay this from cash.

Bookings for June are 50 units. Blue top desks are required by this customer. If you have any units in inventory they can not be used next month. Time to order your purchases for next month.

May 30

Payment is received for April shipment. Add \$25,000 to cash. Overtime was needed to complete the shipment on time. Add \$1,000 to salaries for overtime and the temp worker.

All units are shipped on time. The bonus plan payout for the end of June is looking good. One month to go.

Time to pay monthly bills. Workers Comp insurance payment is due this month. Because of your great safety record the rate has gone down. Pay \$500 for insurance.

Are we making a profit? How much cash do we have? Fill out the income statement, balance sheet and cash flow statement to get your score.

June - Company A

June 3

Your purchases for June have arrived. Business looks very good. 50 units need to be completed this month.

Keep an eye on Company B as they may be going up for sale. This would be an opportunity to buy inventory and equipment at a very good price.

June 15

The bill is due for May purchases. Pay this from cash.

Bookings for July are 50 units.

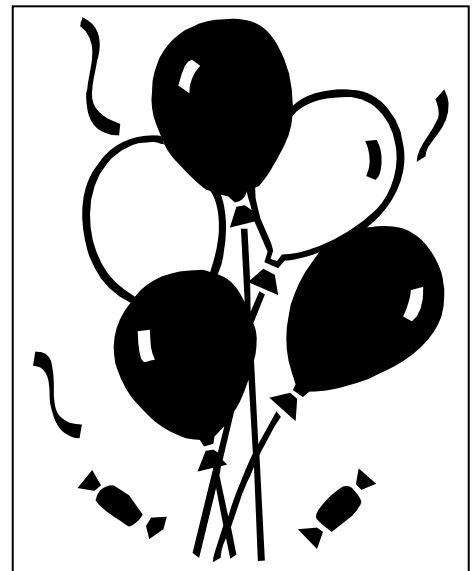
The compressor needed repairs this week. Parts and labor will cost \$300. This must be added to operating expense for the month.

June 29

Payment is received for May shipment. Add \$40,000 to cash. Overtime was needed to complete the shipment on time. Add \$1,200 to salaries for overtime and temp worker.

A celebration was held when unit number 50 went out the door. This was a new record for production. Add \$300 to operating expense for the food and balloons.

Time to get back to work and complete the financial statements. How much profit did we make? How much cash do we have on hand? Can we afford to buy out Company B?



COMPANY A
INCOME STATEMENT
 FOR THE MONTH OF

	PROJ	JAN	FEB	MARCH	APRIL	MAY	JUNE
SHIPMENTS	20,000	10,000	20,000				
PURCHASES	12,800	6,400					
GROSS PROFIT	7,200						
OPERATING EXPENSE	4,200	2,600					
OPERATING INCOME	3,000						
OTHER EXPENSE	0	0	0	0			
PROFIT/LOSS	3,000						

COMPANY A

BALANCE SHEET

	PROJ	Jan 31	Feb 28	Mar 31	Apr 30	May 30	Jun 29
ASSETS							
CASH	44,000						
ACCTS REC		10,000	20,000				
EQUIP		24,000	24,000	24,000			
DEP		<200>	<400>	<600>			
TOTAL ASSETS	44,000						
LIABILITIES:							
ACCTS PAY		6,400	12,800				
TOTAL LIABILITIES		6,400	12,800				
EQUITY:							
STOCK	44,000	44,000	44,000	44,000	44,000		
CURRENT YEAR INCOME							
TOTAL EQUITY	44,000						
TOTAL LIAB. & EQUITY		44,000					

COMPANY A
CASH FLOW STATEMENT
FOR THE MONTH OF

	PROJ	JAN.	FEB.	MARCH	APRIL	MAY	JUNE
BEG. CASH BAL.	44,000	44,000	17,600				
PROFIT/LOSS		1,000					
DEPRECIATION		200	200	200			
<INCREASE> DECREASE		<34,000>	<10,000>				
A/R							
NON-CASH ASSETS							
INCREASE <DECREASE> LIABILITIES		6,400					
END. CASH BALANCE	44,000						

The Business

School Desk Co. wants to start a new line of business. Team members will purchase and assemble parts to produce a new type of school desk. The assembled desk units will sell for \$1000. Your suppliers will provide parts at the costs listed below.

Purchases - One Desk

1 frame	@ \$180.00	\$180.00
1 Top	@ \$120.00	\$120.00
2 seats	@ \$ 60.00	\$120.00
2 book trays	@ \$ 60.00	\$120.00
1 hardware pkg	@ \$100.00	\$100.00

Total purchase per unit		\$640.00

You will need equipment to set up your assembly and shipping business. Needed equipment will cost \$24,000.00. This should give you a shop capacity of more than 40 units per month.

Equipment Needed

Air Compressor	\$10,000.00
Power Tools	2,000.00
Conveyor	6,000.00
Work Benches	4,000.00
Packing Equipment	2,000.00

	\$24,000.00

Monthly Operating Expense

salaries(4 weeks)	\$3,200.00
utilities	300.00
rent	400.00
depreciation	200.00
office & shop supplies	100.00
other expenses	0

	\$ 4,200.00

Terms Of Payments

Equipment must be paid for on delivery

Monthly operating expense must be paid at the end of month

Purchases must be paid on fifteenth day of following month

Customer will pay you thirty days after shipment

Questions to Ponder

Is \$44,000.00 enough cash to get your business started?

Could School Desk Company make a profit?

What would happen if you run out of cash?

Adding Up the Score

The **Income Statement** runs for one month, then you start a new one. The **Cash Flow Statement** also runs for one month, then you start a new one. The **Balance Sheet** goes on and on, month after month.... It is cumulative.

A. First fill in income statement from the information in story.

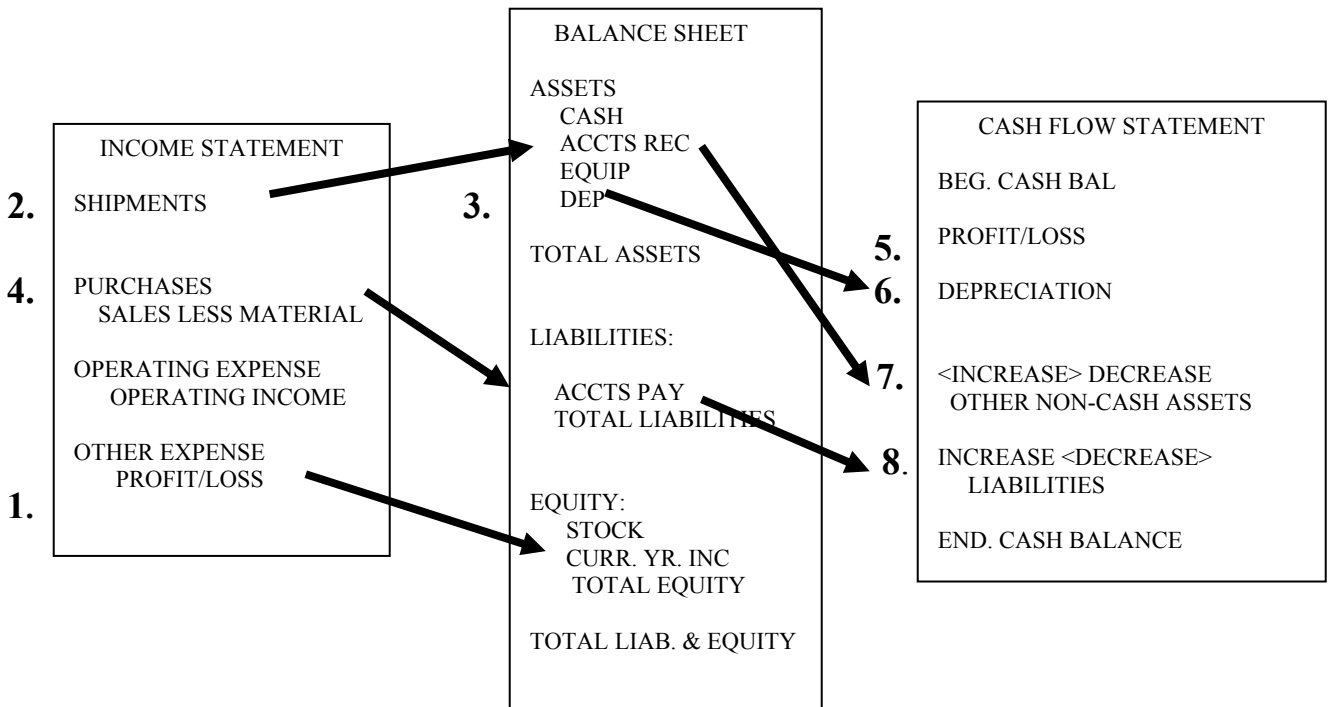
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6. Shipments become accounts receivable.
7. Depreciation is recorded as a loss in value.
8. Purchases become accounts payable.

C. Next use the balance sheet to help fill in the cash flow statement.

5. Fill in the increase or <decrease> in current years income, last month to this month. (Profit/Loss)
6. Add back the month's depreciation. It is a non-cash expense
7. Fill in the <increase> or decrease in Non-Cash Assets, last month to this month.
8. Fill in the increase or <decrease> in liabilities, last month to this month.

D. Total end of month cash goes to balance sheet. Then add assets. They should equal L + OE.



Starting the Game - Company A / Company B

January 1

The game has started. It is January 1. Your equipment will arrive tomorrow and must be paid for at that time.

You have bookings for 10 units in January, 20 units in February and 25 units in March.

Purchases must be ordered for January production. Your suppliers will deliver parts on Jan. 15. They must be paid for on Feb. 15.

JANUARY						
1						
15						
				31		

Your first shipment is due to go out the door at the end of January. Set up your production line and get your equipment in place at this time. We will use a roll of paper to draw the factory floor plan.

January 15

Time to order parts for Feb. production. Remember, purchases take two weeks to arrive and must be paid for on the 15th day of the following month.

Time to start assembly on the 10 units booked for January. We will use Lego blocks to simulate this part of the process. Your machinists will get 2 weeks salary this month.

FEBRUARY						
				1		
				15		
				29		

January 31

Time to ship January production to the customer. Remember, the customer pays you 30 days after the units are shipped. Why is on-time shipment important?

Find the monthly score sheets inside the back cover of this book. We will fill them out together.

February - The Game Continues

February 1

Your purchases for February have arrived. Time to start assembly on the 20 units booked for February. If you do some training and improve teamwork you may be able to increase production to 25 or 30 units per month. Training will cost \$500. The \$500 would have to be added to your operating expense for February.

You decide not to spend the money on training.

February 15

The bill is due for January purchases. Pay \$6,400 from cash. How is assembly going? You have just 2 weeks to meet your ship date. Bookings for March are 25 units.

February 28

Payment is received from the customer for January shipment. Add \$10,000 to cash.

February production is shipped on time. The customer is happy and he will pay you in 30 days.

Time to pay your monthly bills. Pay operating expense from cash. What is the score at the end of February? Do you have any profit? Do you have any cash? Fill out the monthly score sheets to find out.

AND - - Did you remember to order your purchases for March production? What will happen if you forgot?

MARCH						
				1		
				15		
						31

March - Company B

March 1

Your purchases for March have arrived. Time to start machining on the 25 units booked for March. Some people are worried because you just barely finished 20 units on time last month.

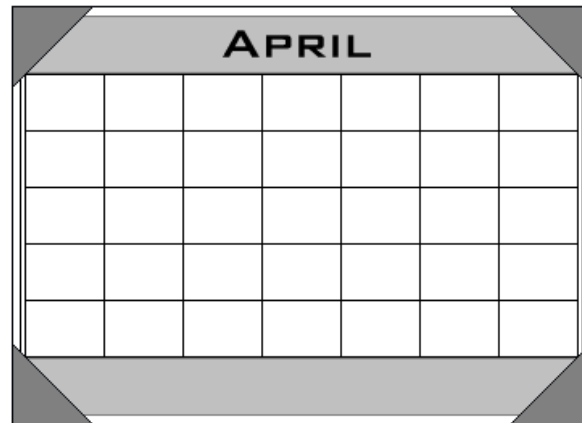
March 15

The air compressor went down this morning. One full day of production was lost while getting it up and running again. Assembly is behind schedule for the month. Repair charges for the compressor are \$1,000. This must be added to your operating expense for March.

The bill is due for February purchases. Pay \$12,800 from cash. A potential order for 40 units in May has been received. Most people want to go back to 20 units or less.

Bookings for April are 25 units.

Overtime work is being done in assembly to get back on schedule. Everyone is working very hard to meet the pack date and ship date.



March 31

Payment is received from the customer for February shipment. Add \$20,000 to cash.

Part of March production is not shipped on time. Eighteen units are shipped but the other 7 units will be a week late. Shipments for this month will be \$18,000 on the Income Statement.

Overtime will add \$600 to salaries. $\$3200 + \$600 = \$3800$

Time to pay your monthly bills. Don't forget to pay for the compressor repair. Do you have any profit? How much cash do you have? Fill out the monthly score sheets for March.

April - Company B

April 1

Your purchases for April have arrived. 25 units are booked for this month. Two scratched desk tops showed up on finished units at the packing station during the first week. They were sent back to the top sub-assembly station for rework. No one knew what caused the scratches. The rework will add \$100 to operating expense for this month.

Late shipment of \$7,000 went out April 7.

April 15

More scratched desk tops are found. More rework. The top sub-assembly station blames it on the book tray people, the book tray people are pointing fingers at someone else. Add \$500 more for rework.

The bill is due for March purchases. Pay \$16,000 from cash.

Booking for May is 40 units. Time to order your purchases.

April 30

Payment is received for March shipments. Add \$18,000 to cash. One of your customers found a scratched desk top on a unit you shipped last month. The customer is not happy. He told you to hold his shipment of 5 units. Twenty units are shipped on time.

You decide to add an inspection station and check every unit for scratches before it goes to the packing station. One more person must be hired next month to do inspection and rework.

Time to pay your monthly bills. Don't forget to add the quality charge of \$600 for rework. Fill out the score sheets for April.

Four lost time accidents this month. People will just have to work more carefully.

MAY - COMPANY B

May 1

Your purchases for May have arrived. The inspection/rework station has been set up at the end of the assembly line. New equipment for this station costs \$1000. Pay this from cash.

The new worker will cost \$800 per month. This must be added to salaries. Payment is received for late shipment in April. Add \$7,000 to cash.

One of your customers is still not happy. He canceled an order for 10 units in May. He may reorder later if last month's shipment is defect free.

30 units need to be assembled and shipped this month.

May 15

The bill is due for April purchases. Pay this from cash.

Bookings for June are 50 units. Red top desks are required by this customer so you can not ship units from inventory next month.

May 30

Payment is received for April shipment. Add \$20,000 to cash.

All 30 units are shipped on time this month.

Workers Comp insurance payment is due this month. Because of your poor safety record your rates have increased. Pay \$800 for insurance.

Rumor has it that Company B is for sale. Are you losing the game? Fill in the income statement, balance sheet and cash flow statement to find out.

JUNE - COMPANY B

June 1

Your purchases for June have arrived. 50 units need to be completed this month. No one thinks this is possible even with overtime.

Your bookkeeper looks very worried these days.

People from Company A have come to look at your inventory. It has been heard on the “grapevine” that the inventory is up for sale. The bookkeeper went to visit the bank on Friday. He still looks very worried.

June 15

The bill is due for May purchases. Pay this from cash.

ARE YOU STILL IN THE GAME?

COMPANY B
INCOME STATEMENT
 FOR THE MONTH OF

	<u>PROJ</u>	<u>JAN</u>	<u>FEB</u>	<u>MARCH</u>	<u>APRIL</u>	<u>MAY</u>	<u>JUNE</u>
SHIPMENTS	<u>20,000</u>	<u>10,000</u>	<u>20,000</u>				
PURCHASES	<u>12,800</u>	<u>6,400</u>					
GROSS PROFIT	<u>7,200</u>						
OPERATING EXPENSE	<u>4,200</u>	<u>2,600</u>					
OPERATING INCOME	<u>3,000</u>						
OTHER EXPENSE	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>			
PROFIT/LOSS	<u><u>3,000</u></u>	<u><u></u></u>	<u><u></u></u>	<u><u></u></u>	<u><u></u></u>	<u><u></u></u>	<u><u></u></u>

COMPANY B BALANCE SHEET

	PROJ	Jan 31	Feb 28	Mar 31	Apr 30	May 30	Jun 29
ASSETS							
CASH	44,000						
ACCTS REC		10,000	20,000				
EQUIP		24,000	24,000	24,000			
DEP		<200>	<400>	<600>			
TOTAL ASSETS	44,000						
LIABILITIES:							
ACCTS PAY		6,400	12,800				
TOTAL LIABILITIES		6,400	12,800				
EQUITY:							
STOCK	44,000	44,000	44,000	44,000	44,000		
CURRENT YEAR INCOME							
TOTAL EQUITY	44,000						
TOTAL LIAB. & EQUITY	44,000						

COMPANY B
CASH FLOW STATEMENT
FOR THE MONTH OF

	PROJ	JAN.	FEB.	MARCH	APRIL	MAY	JUNE
BEG. CASH BAL.	44,000	44,000	17,600				
PROFIT/LOSS		1,000					
DEPRECIATION		200	200	200			
<INCREASE> DECREASE		<34,000>	<10,000>				
A/R							
NON-CASH ASSETS							
INCREASE <DECREASE> LIABILITIES		6,400					
END. CASH BALANCE	44,000						

BALANCE SHEET EQUATION

Dr (+)	Assets	(-)Cr	=	Dr (-)	Liabilities	(+)Cr	+	Dr (-)	Equity	(+)Cr
To increase these accounts, a debit entry will be made	To decrease these accounts, a credit entry will be made			To decrease these accounts, a debit entry will be made	To increase these accounts, a credit entry will be made			To decrease these accounts, a debit entry will be made	To increase these accounts, a credit entry will be made	
Acct. # 100				Acct. # 200				Acct. # 300		

PROFIT & LOSS EQUATION

Dr (-) Sales	Income	Cr (+)	-	Dr (+)	Expenses	Cr (-) = Net Profit or Loss
<p>To decrease these accounts, a debit entry will be made</p> <p>Acct. # 400</p>	<p>To increase these accounts, a credit entry will be made</p>			<p>To increase these accounts, a debit entry will be made</p> <p>Acct. # 500 # 600</p>	<p>To decrease these accounts a credit entry will be made</p>	