

# Chapter 1

## Forms of a Business-

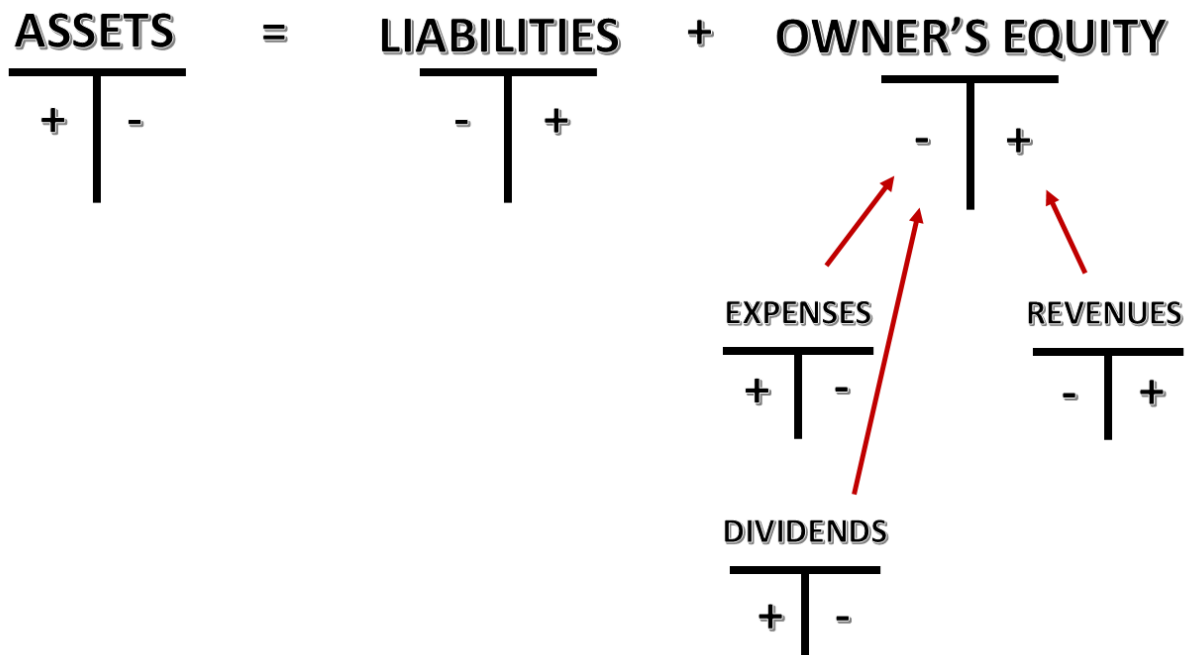
Sole Proprietorship

Partnership

Corporation, C and S

- Continuous Life
- Cost Principle
- Economic entity
- Continuous life
- Advantages and disadvantages
- Internal vs. external users
- Ethics: Sarbanes Oxley Act
- Business Activities: Operating, Investing, Financing
- CPAs
- Entity – separate entity assumption
- GAAP – Generally Accepted Accounting Principles
- FASB – Financial Accounting Standards Board
- Transferability of ownership
- Mutual agency
- Double taxation
- Government regulation
- Discussion Memorandum, Exposure Draft
- Auditor's Report
- Annual Report
- Going Concern
- Periodicity
- Equity Ratio =  $\frac{\text{Stockholders Equity}}{\text{Total Equities}}$
- Demonstration Problem
- New Terms at end of chapter

# Assets = Liabilities + Owner's Equity



External Reporting – Financial Statements (Next pages)

Creative Advertising, Inc.		
Income Statement		
For the Year Ended January 31, 20x7		
<b>Revenue</b>		
Advertising service revenue		\$159,200
<b>Expenses</b>		
Equipment rental expense	\$37,200	
Marketing expense	4,500	
Salaries expense	86,000	
Supplies expense	19,100	
Office rent expense	<u>10,800</u>	
Total expenses		<u>157,600</u>
Income before income taxes		\$ 1,600
Income taxes expense		<u>560</u>
Net income		<u>\$ 1,040</u>

Creative Advertising, Inc.	
Statement of Retained Earnings	
For the Year Ended January 31, 20x7	
Retained earnings, January 31, 20x6	\$ —
Net income for the year	<u>1,040</u>
Subtotal	\$ 1,040
Less dividends	<u>—</u>
Retained earnings, January 31, 20x7	<u>\$ 1,040</u>

Creative Advertising, Inc.				
Balance Sheet				
January 31, 20x7				
Assets		Liabilities		
Cash	\$ 1,800	Accounts payable	\$19,400	
Accounts receivable	24,600	Income taxes payable	560	
Supplies	<u>900</u>	Salaries payable	<u>1,300</u>	
		Total liabilities		\$ 21,260
		Stockholders' Equity		
		Common stock	\$ 5,000	
		Retained earnings	<u>1,040</u>	
		Total stockholders' equity		<u>6,040</u>
		Total liabilities and		
Total assets	<u>\$27,300</u>	stockholders' equity		<u>\$ 27,300</u>

O'Brien Corporation		
Statement of Cash Flows		
For the Year Ended December 31, 20x8		
<b>Cash flows from operating activities</b>		
Net income		\$ 5,500
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation	\$23,400	
Gain on sale of furniture and fixtures	( 3,500)	
Changes in current assets and current liabilities		
Decrease in accounts receivable	17,400	
Decrease in merchandise inventory	50,000	
Decrease in prepaid rent	500	
Decrease in accounts payable	( 28,500)	
Decrease in income taxes payable	( 1,500)	57,800
<b>Net cash flows from operating activities</b>		<b>\$63,300</b>
<b>Cash flows from investing activities</b>		
Sale of furniture and fixtures*	\$ 6,900	
Purchase of furniture and fixtures	( 19,800)	
<b>Net cash flows from investing activities</b>		<b>( 12,900)</b>
<b>Cash flows from financing activities</b>		
Repayment of notes payable	(\$10,000)	
Issue of notes payable	20,000	
Payment of dividends	( 3,000)	
<b>Net cash flows from financing activities</b>		<b>7,000</b>
<b>Net increase (decrease) in cash</b>		<b>\$57,400</b>
<b>Cash at beginning of year</b>		<b>25,000</b>
<b>Cash at end of year</b>		<b>\$82,400</b>
<b>Schedule of Noncash Investing and Financing Transactions</b>		
<b>Conversion of bonds into common stock</b>		<b>\$50,000</b>