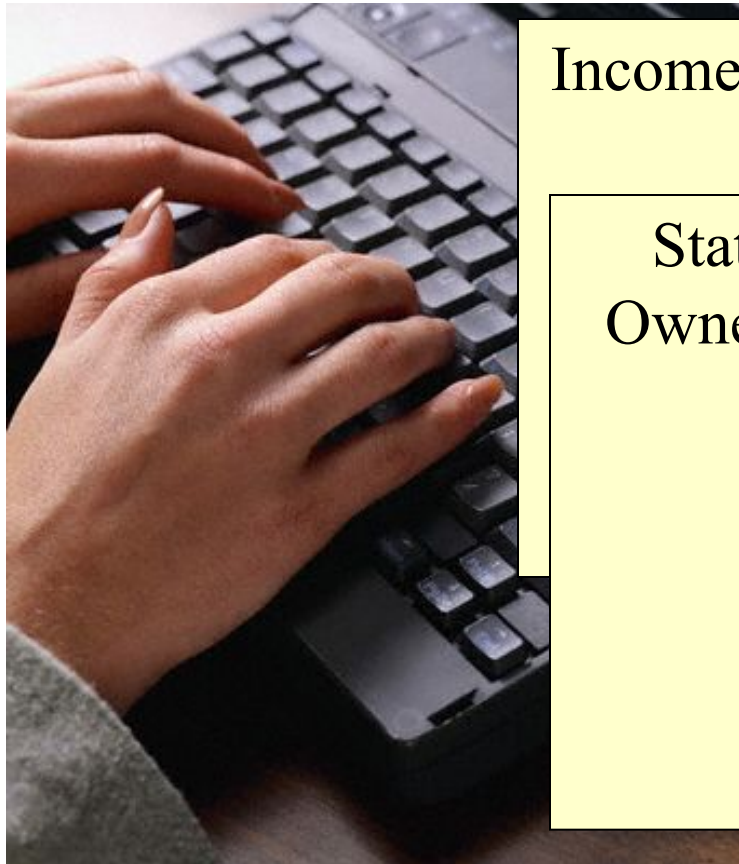


# **MBA in Food & Agribusiness**

## Financial Management

*Users of Accounting Information and the  
Financial Statements*

# Financial Statements



Income Statement

Statement of  
Owner's Equity

Balance Sheet

Statement of  
Cash Flows

# Financial Statements - Income Statement

Date reflects revenues and expenses incurred over a period of time

**Ramirez Agency  
Income Statement  
For the Month Ended December 31, 20xx**

**Revenues**

Commissions earned \$7,000

**Expenses**

Equipment rental expense \$1,400

Wages expense 800

Utilities expense 600

Total expenses 2,800

**Net income** \$4,200

Net income figure used to prepare statement of owner's equity

# Balance Sheet

Date reflects account balances as of a certain date

<b>Ramirez Agency Balance Sheet December 31, 20xx</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$31,200	Accounts payable	\$ 1,200
Accounts receivable	2,000	Total liabilities	\$ 1,200
Supplies	1,000	<b>Owner's Equity</b>	
Land	20,000	R. Ramirez, Capital	\$103,000
Buildings	<u>50,000</u>	Total liabilities and owner's equity	<u>\$104,200</u>
Total assets	<u>\$104,200</u>		

Ending balance of owner's capital comes from statement of owner's equity

# Financial Statements - Statement of Owner's Equity

**Ramirez Agency**  
**Statement of Owner's Equity**  
**For the Month Ended December 31, 20xx**

R. Ramirez, Capital, December 1, 20xx	\$ 0
Investment by R. Ramirez	100,000
Net income for the month	4,200
Subtotal	<u>\$104,200</u>
Less withdrawals	<u>1,200</u>
R. Ramirez, Capital, December 31, 20xx	<u><u>\$103,000</u></u>

Ending balance of owner's capital used to prepare the balance sheet

Net income figure comes from income statement

# Double Entry System

**DEBIT**

**CREDIT**

**EXPENSE**

**LIABILITIES**

**ASSET**

**INCOME**

**DIVIDEND**

**CAPITAL**

**DR = CR**

# Accounts Illustrated

<b>Assets</b>	<b>=</b>	<b>Liabilities</b>	<b>+</b>	<b>Stockholders' Equity</b>
700		200		500
100		100		
800	<b>=</b>	300	<b>+</b>	500

If a debit increases assets by \$100, then a credit must increase stockholders' equity or liabilities by \$100 for the accounting equation to stay in balance.



**LO1, LO6** Preparation and Interpretation of Financial Statements



**P 3.** Below are the financial accounts of Landscape Design. The company has just completed its third year of operations ended November 30, 20x8.

Accounts Receivable	\$ 9,100
Accounts Payable	7,400
Cash	141,600
Design Service Revenue	248,000
J. Hope, Capital, November 30, 20x7	70,400
Marketing Expense	19,700
Office Rent Expense	18,200
Salaries Expense	96,000
Salaries Payable	2,700
Supplies	800
Supplies Expense	3,100
Withdrawals	40,000

### ***Required***

1. Prepare the income statement, statement of owner's equity, and balance sheet for Landscape Design. There were no investments by the owner during the year.
2. **User Insight:** Evaluate the company's ability to meet its bills when they come due.

# Answer P3 - 1

<b>Landscape Design</b>		
<b>Income Statement</b>		
<b>For the Year Ended November 30, 20x8</b>		
<b>Revenue</b>		
	<b>Design service revenue</b>	<b>\$248.000</b>
<b>Expenses</b>		
	<b>Marketing expense</b>	<b>\$19.700</b>
	<b>Office rent expense</b>	<b>18.200</b>
	<b>Salaries expense</b>	<b>96.000</b>
	<b>Supplies expense</b>	<b>3.100</b>
	<b>Total expenses</b>	<b><u>137.000</u></b>
<b>Net income</b>		<b><u><u>\$111.000</u></u></b>

# Answer P3 - 2

<b>Landscape Design</b>	
<b>Statement of Owner's Equity</b>	
<b>For the Year Ended November 30, 20x8</b>	
<b>J. Hope, Capital, November 30, 20x7</b>	<b>\$ 70.400</b>
<b>Net income for the year</b>	<b>111.000</b>
<b>Subtotal</b>	<b><u>\$181.400</u></b>
<b>Less withdrawals</b>	<b><u>40.000</u></b>
<b>J. Hope, Capital, November 30, 20x8</b>	<b><u><u>\$141.400</u></u></b>

# Answer P3 - 3

<b>Landscape Design</b>			
<b>Balance Sheet</b>			
<b>November 30, 20x8</b>			
<b>Assets</b>		<b>Liabilities</b>	
<b>Cash</b>	<b>\$141.600</b>	<b>Accounts payable</b>	<b>\$ 7.400</b>
<b>Accounts receivable</b>	<b>9.100</b>	<b>Salaries payable</b>	<b><u>2.700</u></b>
<b>Supplies</b>	<b><u>800</u></b>	<b>Total liabilities</b>	<b>\$ 10.100</b>
		<b>Owner's Equity</b>	
		<b>J. Hope, Capital</b>	<b><u>141.400</u></b>
		<b>Total liabilities and</b>	
<b>Total assets</b>	<b><u>\$151.500</u></b>	<b>owner's equity</b>	<b><u>\$151.500</u></b>

# Financial statement analysis

- *Balance sheet ratios*
  - Short-term *liquidity* ratios
    - **Current ratio** = Current assets/Current liabilities
    - **Days Sales Uncollected** = [(Accounts receivable Year 2 + Accounts receivable Year 1)/2 x 365]/Sales
    - **Days Inventory on hand**= [(Inventory Year 2 + Inventory 1)/2 x 365]/Sales

# Financial statement analysis

- *Balance sheet ratios*
  - Long-term *solvency* ratios
    - **Debt to equity ratio** = Total Liabilities/ Stockholders equity.
- *Profitability ratios*
  - **Profit margin** = Net income/Sales
  - **Return on shareholders' equity (ROE)** = Net income/Average equity

# *Analysing Business Transactions*



# The T account illustrated

DR	Cash	CR
	100,000	70,000
	3,000	400
	<hr/>	<u>1,200</u>
	103,000	71,600
Normal balance	31,400	

↓

Goes to Trial Balance

Not the same!

# The Trial Balance

<b>Treadle Website Design, Inc.</b>		
<b>Trial Balance</b>		
<b>July 31, 20xx</b>		
Cash	\$22,480	
Accounts Receivable	4,600	
Office Supplies	5,200	
Prepaid Rent	3,200	
Office Equipment	16,320	
Accounts Payable		\$ 6,280
Unearned Design Revenue		1,400
Common Stock		40,000
Dividends	2,800	
Design Revenue		12,400
Wages Expense	4,800	
Utilities Expense	680	
	\$60,080	\$60,080

Record debit  
balances in left  
column

Record credit  
balances in right  
column

Total each column

**LO1, LO3, LO4 Transaction Analysis, I Accounts, and Trial Balance**



**P 4.** Hiroshi Mori began an upholstery cleaning business on October 1 and engaged in the following transactions during the month:

- Oct. 1 Began the business by depositing \$12,000 in a bank account in the name of the company.
- 2 Ordered cleaning supplies, \$1,000.
- 3 Purchased cleaning equipment for cash, \$2,800.
- 4 Made two months' van lease payment in advance, \$1,200.
- 7 Received the cleaning supplies ordered on October 2 and agreed to pay half the amount in 10 days and the rest in 30 days.

- Oct. 9 Paid for repairs on the van with cash, \$80.  
12 Received cash for cleaning upholstery, \$960.  
17 Paid half the amount owed on supplies purchased on October 7, \$500.  
21 Billed customers for cleaning upholstery, \$1,340.  
24 Paid cash for additional repairs on the van, \$80.  
27 Received \$600 from the customers billed on October 21.  
31 Made a cash withdrawal of \$700.

**Required**

1. Set up the following T accounts: Cash; Accounts Receivable; Cleaning Supplies; Prepaid Lease; Cleaning Equipment; Accounts Payable; H. Mori, Capital; H. Mori, Withdrawals; Cleaning Revenue; and Repair Expense.
2. Record transactions directly in the T accounts. Identify each entry by date.
3. Prepare a trial balance for Mori Upholstery Cleaning as of October 31, 20xx.
4. **User Insight:** Compare and contrast how the issues of recognition, valuation, and classification are settled in the transactions of October 7 and 9.

# Answer P4 - 1

Cash						Accounts Receivable					
Oct.	1	12.000	Oct.	3	2.800	Oct.	21	1.340	Oct.	27	600
	12	960		4	1.200	<i>Bal.</i>		740			
	27	600		9	80						
				17	500						
				24	80						
				31	700						
		<b>13.560</b>			<b>5.360</b>						
<i>Bal.</i>		<b>8.200</b>									
Cleaning Supplies						Prepaid Lease					
Oct.	7	1.000				Oct.	4	1.200			



# Answer P4 - 3

<b>Mori Upholstery Cleaning</b>		
<b>Trial Balance</b>		
<b>October 31, 20xx</b>		
<b>Cash</b>	<b>\$ 8.200</b>	
<b>Accounts Receivable</b>	<b>740</b>	
<b>Cleaning Supplies</b>	<b>1.000</b>	
<b>Prepaid Lease</b>	<b>1.200</b>	
<b>Cleaning Equipment</b>	<b>2.800</b>	
<b>Accounts Payable</b>		<b>\$ 500</b>
<b>H. Mori, Capital</b>		<b>12.000</b>
<b>H. Mori, Withdrawals</b>	<b>700</b>	
<b>Cleaning Revenue</b>		<b>2.300</b>
<b>Repair Expense</b>	<b>160</b>	
	<b><u>\$14.800</u></b>	<b><u>\$14.800</u></b>

**LO3, LO4, LO5, SO6**



**Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance**

**P 5.** The Acorn Nursery School Company provides baby-sitting and child-care programs. On January 31, 20xx, the company had the following trial balance:

Cash (111)	\$ 1,870	
Accounts Receivable (113)	1,700	
Equipment (141)	1,040	
Buses (143)	17,400	
Notes Payable (211)		\$15,000
Accounts Payable (212)		1,640
J. Wells, Capital (311)		5,370
	<u>\$22,010</u>	<u>\$22,010</u>

During the month of February, the company completed the following transactions:



- Feb. 2 Paid this month's rent, \$270.  
3 Received fees for this month's services, \$650.  
4 Purchased supplies on account, \$85.  
5 Reimbursed the bus driver for gas expenses, \$40.  
6 Ordered playground equipment, \$1,000.  
8 Made a payment on account, \$170.  
9 Received cash from customers on account, \$1,200.  
10 Billed customers who had not yet paid for this month's services,  
\$700.  
11 Paid for the supplies purchased on February 4.  
13 Received and purchased playground equipment ordered on  
February 6 for cash, \$1,000.  
17 Purchased equipment on account, \$290.  
19 Paid this month's utility bill, \$145.

- Feb. 22 Received cash for one month's services from customers previously billed, \$500.
- 26 Paid part-time assistants for services, \$460.
- 27 Purchased gas and oil for the bus on account, \$325.
- 28 Made a cash withdrawal of \$110.

### **Required**

1. Open accounts in the ledger for the accounts in the trial balance plus the following ones: Supplies (115); J. Wells, Withdrawals (313); Service Revenue (411); Rent Expense (511); Gas and Oil Expense (512); Wages Expense (513); and Utilities Expense (514).
2. Enter the January 31, 20xx, account balances from the trial balance.
3. Enter the above transactions in the general journal (Pages 17 and 18).
4. Post the entries to the ledger accounts. Be sure to make the appropriate posting references in the journal and ledger as you post.
5. Prepare a trial balance as of February 28, 20xx.
6. **User Insight:** Examine the transactions for February 3, 9, 10, and 22. What were the revenues and how much cash was received from the revenues? What business issue might you see arising from the differences in these numbers?

# Answer P5 - 1

<b>20xx</b>					
<b>Feb.</b>	<b>2</b>	<b>Rent Expense</b>	<b>511</b>	<b>270</b>	
		<b>Cash</b>	<b>111</b>		<b>270</b>
		<b>To pay February rent</b>			
	<b>3</b>	<b>Cash</b>	<b>111</b>	<b>650</b>	
		<b>Service Revenue</b>	<b>411</b>		<b>650</b>
		<b>To record receipt of fees for this</b>			
		<b>month's services</b>			
	<b>4</b>	<b>Supplies</b>	<b>115</b>	<b>85</b>	
		<b>Accounts Payable</b>	<b>212</b>		<b>85</b>
		<b>To purchase supplies on account</b>			

# Answer P5 - 2

	<b>5</b>	<b>Gas and Oil Expense</b>	<b>512</b>	<b>40</b>	
		<b>Cash</b>	<b>111</b>		<b>40</b>
		<b>To reimburse bus driver for gas</b>			
	<b>6</b>	<b>No entry</b>			
	<b>8</b>	<b>Accounts Payable</b>	<b>212</b>	<b>170</b>	
		<b>Cash</b>	<b>111</b>		<b>170</b>
		<b>To make payment to creditors</b>			
	<b>9</b>	<b>Cash</b>	<b>111</b>	<b>1.200</b>	
		<b>Accounts Receivable</b>	<b>113</b>		<b>1.200</b>
		<b>To record receipt of cash on account</b>			
	<b>10</b>	<b>Accounts Receivable</b>	<b>113</b>	<b>700</b>	
		<b>Service Revenue</b>	<b>411</b>		<b>700</b>
		<b>To bill customers for services</b>			

# Answer P5 - 3

<b>20xx</b>					
<b>Feb.</b>	<b>11</b>	<b>Accounts Payable</b>	<b>212</b>	<b>85</b>	
		<b>Cash</b>	<b>111</b>		<b>85</b>
		<b>To make payment to creditors</b>			
	<b>13</b>	<b>Equipment</b>	<b>141</b>	<b>1.000</b>	
		<b>Cash</b>	<b>111</b>		<b>1.000</b>
		<b>To purchase equipment</b>			
	<b>17</b>	<b>Equipment</b>	<b>141</b>	<b>290</b>	
		<b>Accounts Payable</b>	<b>212</b>		<b>290</b>
		<b>To purchase equipment on account</b>			
	<b>19</b>	<b>Utilities Expense</b>	<b>514</b>	<b>145</b>	
		<b>Cash</b>	<b>111</b>		<b>145</b>
		<b>To pay February utility bill</b>			

# Answer P5 - 4

	<b>22</b>	<b>Cash</b>	<b>111</b>	<b>500</b>	
		<b>    Accounts Receivable</b>	<b>113</b>		<b>500</b>
		<b>    To record receipt of cash on</b>			
		<b>    account from customers</b>			
	<b>26</b>	<b>Wages Expense</b>	<b>513</b>	<b>460</b>	
		<b>    Cash</b>	<b>111</b>		<b>460</b>
		<b>    To pay part-time assistants</b>			
	<b>27</b>	<b>Gas and Oil Expense</b>	<b>512</b>	<b>325</b>	
		<b>    Accounts Payable</b>	<b>212</b>		<b>325</b>
		<b>    To purchase gas and oil for bus</b>			
		<b>    on account</b>			
	<b>28</b>	<b>J. Wells, Withdrawals</b>	<b>313</b>	<b>110</b>	
		<b>    Cash</b>	<b>111</b>		<b>110</b>
		<b>    To make a cash withdrawal</b>			

# Answer P5 - 5

<b>Acorn Nursery School Company</b>		
<b>Trial Balance</b>		
<b>February 28, 20xx</b>		
<b>Cash</b>	<b>\$ 1.940</b>	
<b>Accounts Receivable</b>	<b>700</b>	
<b>Supplies</b>	<b>85</b>	
<b>Equipment</b>	<b>2.330</b>	
<b>Buses</b>	<b>17.400</b>	
<b>Notes Payable</b>		<b>\$15.000</b>
<b>Accounts Payable</b>		<b>2.085</b>
<b>J. Wells, Capital</b>		<b>5.370</b>
<b>J. Wells, Withdrawals</b>	<b>110</b>	
<b>Service Revenue</b>		<b>1.350</b>
<b>Rent Expense</b>	<b>270</b>	
<b>Gas and Oil Expense</b>	<b>365</b>	
<b>Wages Expense</b>	<b>460</b>	
<b>Utilities Expense</b>	<b>145</b>	
	<b><u>\$23.805</u></b>	<b><u>\$23.805</u></b>