



CLUTCH

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CONCEPT: DEBITS AND CREDITS

- **Transaction** – you _____ something and you _____ something in return
 - Every transaction will affect at least _____ accounts
 - We use a system of **debits** and **credits** to account for transactions
 - Every transaction must have an _____ amount of debits and credits
 - **Asset** and **Expense** accounts are increased with _____
 - **Liabilities, Equity,** and **Revenue** accounts are increased with _____

Increase with	Increase with
Assets	Liabilities
Expenses	Equity
	Revenues

EXAMPLE: Fun Times Happy Company purchased a machine for \$50,000. Record the transaction.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

PRACTICE: The Goods Company purchased goods from its suppliers. The goods cost \$20,000. Record the transaction.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

CONCEPT: THE GENERAL FLOW OF ACCOUNTS

- Accounts follow this general flow:

$$\textit{Beginning Balance} + \textit{Additions} - \textit{Subtractions} = \textit{Ending Balance}$$

- Let's use this formula to see the flow in two different accounts: Accounts Receivable and Retained Earnings

- **Accounts Receivable** – amounts that customers owe to the company

- Beginning Balance: amounts already owed to the company from previous periods
- Additions: sales to customers made _____ increase the balance of Accounts Receivable
- Subtractions: receipts of _____ from credit customers decrease the balance of Accounts Receivable
- Ending Balance: amounts still owed to the company at the end of the period

EXAMPLE: A company had a beginning balance in Accounts Receivable of \$1,200. Throughout the month, the company sold \$3,000 in cash and \$2,000 on credit. The final balance in Accounts Receivable was \$1,800. What amount of cash was collected from customers throughout the month?

- **Retained earnings** – holding place for _____ that has not been paid to stockholder's as _____

- Beginning Balance: accumulation of net income held by company from previous periods
- Additions: this year's _____
- Subtractions: declaration of _____ to stockholders
- Ending Balance: accumulation of net income still held by company after dividends paid

EXAMPLE: A company had a beginning balance in Retained Earnings of \$55,000. This year, the company had Revenues of \$40,000 and Expenses of \$32,000. The company also declared and paid a dividend of \$6,000. What is the final balance in Retained Earnings?

CONCEPT: TRANSACTION ANALYSIS – BUSINESS FORMATION EXAMPLE

(a) Upon establishing Clutch Tutoring, Inc., Johnny Clutch paid \$50,000 cash, for which the company issued common stock.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

(b) Clutch purchased \$40,000 of land with cash.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

(c) Clutch purchased \$8,000 of supplies **on account**.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

(d) Clutch held several reviews throughout the month, charging \$5,000 to its customers **on account**.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

(e) Clutch paid its tutors for the month in cash for a total of \$3,000.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

(f) Clutch received payments on account from customers totaling \$3,500.

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

(g) Clutch paid a dividend to its stockholder, in the amount of \$500.

Journal Entry:

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

(h) Johnny Clutch was excited about the company's success and bought his girlfriend a new car for \$20,000.

Journal Entry:

Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

CONCEPT: TRIAL BALANCE

- To find the final balance in an account, we must _____ all transactions that affected that account
 - We use a **T-account** to help us visualize the transactions in an account.

EXAMPLE: Throughout the Clutch example, we had multiple transactions that affected cash. In journal entries (a), (b), (e), (f), and (g), a debit or credit was made to the cash account. Find the final balance of cash after these transactions. Also, show the final balance in accounts payable (journal entry (c)).

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- **Trial Balance** – lists all accounts and their _____ balance
 - We use the _____ trial balance to create our financial statements
 - Order: (1) _____, (2) _____, (3) _____, (4) _____, (5) _____

Account	Debit	Credit
Cash		
Accounts Receivable		
Supplies		
Land		
Accounts Payable		
Common Stock		
Dividends		
Revenues		
Wage Expense		
Total		

CONCEPT: CLASSIFIED BALANCE SHEET COMPONENTS

- The **balance sheet** shows the company's assets, liabilities, and equity at a _____
 - A **classified balance sheet** splits up assets and liabilities into _____ categories.
 - **Current Assets** – any asset that can or will be converted into _____ within _____
 - **Long Term Assets** – assets that will be in use by the company for longer than _____
 - **Current Liabilities** – any liability that must be paid (cash outflow) within _____
 - **Long Term Liabilities** – liabilities that will not be paid back for more than _____
 - Current assets are presented in order of **liquidity**, starting with the most liquid.
 - **Liquidity** – how easily the asset can be converted into cash
 - In general, the order of liquidity is:
 - 1.
 - 2.
 - 3.
 - 4.
 - 5.

Balance Sheet for XYZ Company
 on December 31, 2015

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 350,000	Accounts Payable	\$ 420,000
Accounts Receivable	410,000	Accrued Expenses	680,000
Inventory	850,000	Short-term Debt	440,000
Prepaid Expenses	250,000	Total Current Liabilities	<u>1,540,000</u>
Total Current Assets	1,860,000	Bonds Payable	1,000,000
Land	1,500,000	Notes Payable	<u>500,000</u>
Equipment (net)	2,800,000	Total Long Term Liabilities	<u>1,500,000</u>
Total Fixed Assets	4,300,000	Total Liabilities	<u>3,040,000</u>
Total Assets	<u><u>\$ 6,160,000</u></u>		
		<u>Equity</u>	
		Common Stock (\$5 par)	750,000
		Additional Paid-in Capital	1,250,000
		Retained Earnings	<u>1,120,000</u>
		Total Equity	<u>3,120,000</u>
		Total Liabilities and Equity	<u><u>\$ 6,160,000</u></u>