



**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 \_\_\_\_\_

<b>Increase with</b>	<b>Increase with</b>
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:

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

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

Journal Entry:

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

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

Journal Entry:

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		
<b>Total</b>		

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	1,540,000
Total Current Assets	1,860,000	Bonds Payable	1,000,000
Land	1,500,000	Notes Payable	500,000
Equipment (net)	2,800,000	Total Long Term Liabilities	1,500,000
Total Fixed Assets	4,300,000	Total Liabilities	3,040,000
Total Assets	\$ 6,160,000		
		<u>Equity</u>	
		Common Stock (\$5 par)	750,000
		Additional Paid-in Capital	1,250,000
		Retained Earnings	1,120,000
		Total Equity	3,120,000
		Total Liabilities and Equity	\$ 6,160,000