

Recording video expenses

	<u>Cash</u>	<u>Video Asset</u>	<u>Retained Earn.</u>
Buy Video	(20)	20	
Rent 50x @\$3each	150		150
End of Y1		(15)	(15)
Rent 17x @\$3each	51		51

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Estimate 1 and Estimate 2

	<u>Cash</u>	<u>Video Asset</u>	<u>Retained Earn.</u>
Buy Video	(20)	20	
Rent 50x @\$3each	150		150
End of Y1		(15) (10)	(15) (10)
Rent 17x @\$3each	51		51
End of Y2		(5) (5)	(5) (5)
End of Y3		(5)	(5)
Total video expenses =	\$20	\$20	

What is Cost of Goods Sold?

- Freshest Grocer buys \$10,000 worth of cereals from Quality Foods for cash.

■ Assets = L + OE

■ Cash Inventory

■ -10,000 +10,000

- Exchange of one asset for another asset
- Operating outflow = \$10,000

Advantages of Income Statement Components

- 1997 Net Income (= ICO) = \$100,000
- In 1998, the total income was \$100,000 also.
- M earned \$90,000 income whereas N earned only \$10,000.
- **On December 31, 1998, Firm A decides to discontinue the business segment N.**
- It **expects to lose** \$15,000 by disposing off the assets of N.
- i.e., it will generate \$15,000 less cash compared to the net book value of the assets of segment N.

Advantages of Income Statement Components

- What would Firm A disclose in its 1998 financial statements?

- Usually comparative statements are provided

	1998	1997
■ Income from Cont. Ops.	\$90,000	\$70,000
■ Income from Disc. Ops.	10,000	30,000
■ Loss on sale of Disc. Ops.	(15,000)	
■ Net Income	85,000	100,000