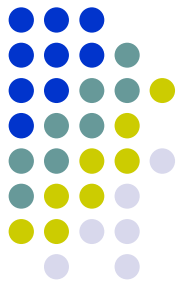


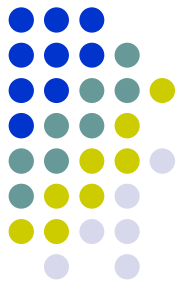
Should we recognize the asset?



Assets arise from transactions and events

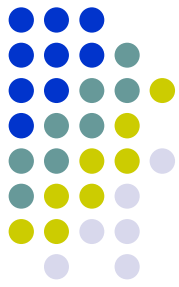
- A well-known scientist is hired to manage the R&D function for 480K a year. Employment starts next month.
- The firm receives an order for \$15K in products.
- The firm writes a check for \$1M to obtain an option to purchase a tract of land.
- A firm receives notice from a supplier that it has shipped raw materials of \$200K. The firm has title to the goods while in transit.
- The firm purchases a patent from its creator for \$1.2M

Should we recognize the liability?



Liabilities arise from transactions and events

- The firm owes its attorneys \$50K in legal expenses.
- The firm provides warranties on its products.
- The firm borrows \$60K from the bank for a 90-day period.

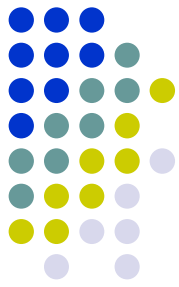


Emily's Bakery

(1) Emily contributes \$10,000 in cash

(1) Emily contributes \$10,000 in

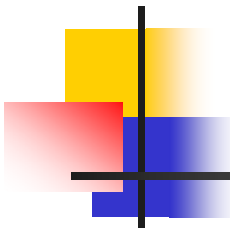
- Assets = Liabilities + Owners' Equity
- | | |
|-------------|---------------------|
| ● Cash | Contributed Capital |
| ● +\$10,000 | +\$10,000 |



Transactions and the Accounting Equation

Preview from Notesale.co.uk
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Cash	+	A/R	+	Equip.	=	L/P	+	C. Cap.	+	R/E
+10,000								+10,000		
+ 3,000						+ 3,000				
- 5,000				+ 5,000						
+ 8,000		+ 4,000								+12,000
- 9,000										- 9,000



Summary

- Balance Sheet

- Listing of

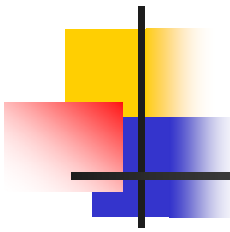
- Resources owned by a firm (assets or investments)
- Financing of the assets through obligations to external parties (liabilities)
- Financing of the investments through residual claimants (shareholders' equity)
- Preparing a balance sheet (and other financial statements) using transaction history



Initial Balance Sheet

Starting a Company

- (5) Returns defective raw materials purchased in (4) and costing \$900 to the supplier. The account has not yet been paid.
- (6) Pays the supplier in (4) and (5) the amount due, less a 2-percent discount for prompt payment. The firm treats cash discount as a reduction in the acquisition cost of raw materials.
- (7) Obtains a fire insurance policy providing \$500,000 coverage beginning next month. It pays the 1-year premium of \$4,950.



Initial Balance Sheet

Starting a Company

- (8) Issues a check for \$1,800 for 3 months rent in advance for office space.
- (9) Purchases a patent on a machine process for \$90,000 cash.
- (10) Purchases office equipment for \$2,700, making a down payment of \$250 and agreeing to pay the balance in 30 days.
- (11) Pays \$825 to Express Trucking Company for delivering the equipment purchased in (3).