



# A REFERENCE GUIDE IN ACCOUNTING



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## Guidelines and Principles

<b>Comparability</b>	Financial statements must be comparable period to period
<b>Consistency</b>	Same accounting methods year to year
<b>Cost principle</b>	Keep costs at purchase price or lower (lower of cost or market)
<b>Full disclosure</b>	Provides detailed information in addition to financial statements
<b>Matching</b>	Recognize cost the same time as benefit
<b>Monetary unit</b>	Currency is used to record transactions and is assumed to be constant
<b>Reliability</b>	Financial reporting is neutral, valid, and verifiable
<b>Time period</b>	Report financial activity in specific time periods

## Vocabulary

<b>Cost Basis</b>	Original cost of investment minus prior accumulated depreciation
<b>Disposition</b>	Sale, scrapping, or removal of an item, typically an asset
<b>Gross   Net</b>	Gross = Total Number   Net = Gross Number minus Expenses
<b>Goodwill</b>	Purchase price less tangible value of physical assets purchased
<b>Net Asset Value</b>	Cost basis minus accumulated depreciation (prior total depreciation)
<b>NSF</b>	Non-sufficient funds, typically a returned check
<b>Principal</b>	The amount, typically of a loan
<b>Unrealized Gain   Loss</b>	Investment that has increased   decreased in value, but yet not sold
<b>Unrealized Calculation</b>	Basis minus fair market value (FMV)

## Business Types

<b>Sole Proprietorship</b>	One owner, no liability protection
<b>Partnership</b>	Two or more owners, no liability protection
<b>Limited Partnership</b>	Two or more owners, liability protection
<b>LLC Limited Liability Company</b>	Liability protection, flexible
<b>Corporation</b>	Liability protection, double taxation issues

## Interest Formulas

<b>Monthly Interest</b>	$P \times (R \div 12)$
<b>Compound Interest</b>	$A = P (1 + (R/N))^{nt}$
<b>A</b>	= Amount
<b>P</b>	= Principal
<b>R</b>	= Rate
<b>n</b>	= Compounding per period
<b>t</b>	= Number of periods

## Bank Reconciliation

Balance per bank
+ Deposits in transit
- Outstanding checks
+/- Errors, fees, returned items
Balance per books

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## Technical Inventory and Costing

<b>FOB Shipping Point</b>	Buyer's books at year end, title passes when goods delivered
<b>FOB Destination</b>	Seller's books at year end, title passes when goods received
<b>Raw Materials</b>	Direct cost of materials manufactured such as steel
<b>Overhead Costs</b>	Costs typically thought of as expenses that are added to cost of goods
<b>Work in Process (WIP)</b>	Goods in the process of begin manufactured (assets)

## Asset Sales

<b>Sale of inventory</b>	Increase AR, Increase sales, Decrease inventory, Increase cost of goods sold
<b>Debits and credits</b>	Debit AR, Credit sales, Credit inventory, Debit cost of goods sold
<b>Sell appreciated stock</b>	Increase cash, Increase realized gain, Decrease stock
<b>Debits and credits</b>	Debit cash, Credit realized gain, Credit stock
<b>Sell stock for a loss</b>	Increase cash, Increase realized loss, Decrease stock
<b>Debits and credits</b>	Debit cash, Debit realized loss, Credit stock
<b>Sell depreciated asset, gain</b>	Increase cash, Decrease asset, Decrease accumulated depreciation, Increase gain
<b>Debits and credits</b>	Debit cash, Credit asset, Debit accumulated depreciation, Credit gain on sale
<b>Sell depreciated asset, loss</b>	Increase cash, Decrease asset, Decrease accumulated depreciation, Increase loss
<b>Debits and credits</b>	Debit cash, Credit asset, Debit accumulated depreciation, Debit loss on sale

## Bonds

<b>Bonds</b>	Financial instrument (agreement) issued by a company to borrow money from investors at a specified term (time) and rate
<b>Issuer</b>	Company that is raising the money
<b>Face Value</b>	Amount that is repaid at the end of term
<b>Stated Coupon Rate</b>	Interest that bond pays investor
<b>Effective Interest</b>	Rate of interest investor receives if the bond is purchased at a discount or premium
<b>Premium</b>	Amount company is paid in excess of face value, often paid when coupon rate is greater than market rate <b>Premium</b> = Price paid for bond - face value
<b>Discount</b>	Amount below the face value paid for a bond often occurs when coupon rate is less than market rate <b>Discount</b> = Face value - price paid for bond

## Depreciation Terms

<b>Cost</b>	Price paid for asset (may include costs to install)
<b>Book value</b>	Cost - Accumulated depreciation
<b>Salvage value</b>	Estimated scrap value at the end of asset life
<b>Accelerated methods</b>	Methods resulting in greater depreciation during earlier years
<b>MACRS / ACRS / DDB</b>	Accelerated depreciation methods
<b>Depreciation</b>	Expense taken on a physical asset over time
<b>Amortization</b>	Expense taken on an intangible asset over time

## Depreciation Methods

<b>Straight Line</b>	Rate = (Cost - Salvage value / Useful life)
<b>Declining</b>	Book value x Depreciation rate
<b>(Accelerated method)</b>	Rate = Straight line rate x Applicable % Applicable % = 150% for 150 DB and 200% for double declining
<b>Sum-of-years'-digits</b>	(Cost - Salvage value) X Applicable fraction
<b>(Accelerated method)</b>	Applicable fraction = Years of estimated life remaining / Sum of years digits

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## Financial Statements

### ASSETS

#### Current Assets

To be used within one year of the balance sheet date or longer, if the operating cycle is greater. Cash and equivalents, account receivable, inventory, prepaid expenses to be used within a year.

#### Long-term Assets

Expected benefit greater than one year. EX| property, plant, equipment, intangible assets (copyrights, trademarks, goodwill).

#### Account Receivable (AR)

Cash due from customers who have purchased goods or received services not yet paid for.

#### Inventory

Goods for sale or manufacture, valued under GAAP at lower cost or market.

#### Prepaid Expenses

Expenses paid in advance, considered as asset until used (such as two year insurance policy).

#### Accumulated Depreciation | Amortization

The sum of all prior depreciation | amortization (contra asset) increases with a credit and offsets the value of depreciable assets reported at cost.

### LIABILITIES

#### Current Liabilities

Obligations due in one year or less.

#### Long-term Liabilities

Debts owed to creditors, due in more than one year from balance sheet date.

#### Accounts Payable (AP)

Money owed to creditors and vendors.

#### Notes Payable

Debts owed to banks or other creditors based on written agreements.

#### Accrued Expenses

Expenses incurred before the end of the accounting period, but not yet paid for.

#### Deferred Revenue

Cash received in advance, but not yet earned.

#### Long-term Bonds Payable

Money borrowed to finance company operations, due in more than one year.

### SHAREHOLDERS' EQUITY

#### Common Stock

Sold to investors for ownership of a corporation.

#### Preferred Stock

Investors received dividends before common stockholders and usually do not have voting rights.

#### Additional Paid-in Capital

Investment received by corporation, in excess of par value per share (AIPC = Issuance Price - Par Value).

#### Par (stated) Value

Per share amount on stock certificates, also referred to as legal capital (no relation to market value).

#### Retained Earnings

Sum of all previous profits and losses, less dividends.

#### Treasury Stock

Stock repurchased by company.

#### Dividends

Corporate profits paid to shareholders from retained earnings (not an expense).

## Balance Sheet

As of 12/31/22XX

### Assets

Cash	1,497
Accounts receivable	400
Allowance for doubtful accounts	(90)
Equipment	200
Accumulated depreciation	(40)
Inventory	-
<b>Total Assets</b>	<b>1,967</b>

### Liabilities

Accounts payable	-
Wages payable	300
Note payable	405
Dividends payable	-
<b>Total Liabilities</b>	<b>705</b>

### Equity

Common stock	1,010
Treasury stock	(175)
Retained earnings	427
<b>Total Equity</b>	<b>1,262</b>

### Liabilities + Equity

1,967

## Balance Sheet Features

### Balance Sheet (Statement of Financial Position)

Shows the ending balance of assets, liabilities, and equity at the end of the accounting period.

### Mechanics

Assets always equal liabilities plus equity; which forms the accounting equation.

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## Income Statement

Year ended 12/31/22XX	
<b>Income</b>	
Revenue	930
Cost of goods sold	(10)
Gross profit	920
<b>Expense</b>	
Bad debt	90
Depreciation	40
Interest	5
Utilities	50
Wages	300
Total Expense	485
<b>Net Income (Profit)</b>	<b>435</b>

## Income Statement Features

### Income Statement (Profits and Loss)

Shows the performance of a business by reporting revenue earned minus expenses incurred to equal net income or loss (profit or loss).

### Mechanics

Reports the business activity for a specific period of time and results in net income or loss, which gets recorded to retained earnings at the end of the accounting period.

## REVENUES AND EXPENSES

### Revenue Recognition

Recognize (book into accounting record) revenue when it is earned and realizable.

### Expenses Recognition

Expenses are recognized when incurred as goods are used services received.

### Net Income or Loss

Revenue minus expenses results in net income or loss also referred to as profits or loss.

### Net Income

Increases retained earnings and net loss decreases retained earnings.

## Statement of Cash Flow Features

### Statement of Cash Flow

Shows the cash flow of cash in and out of the business.

### Mechanics

Starts with beginning cash from the prior period and reconciles to ending cash in the current period showing the changes.

## Statement Of Cash Flows

Year ended 12/31/20XX	
<b>Cash flows from operating activities:</b>	
Net income	435
Adjustments to reconcile cash used for operations	
Depreciation and amortization	40
<b>Changes in operating assets and liabilities:</b>	
Accounts receivable	(400)
Inventories	10
Accounts payable	-
Allowance for doubtful accounts	90
Accrued expenses	300
Total adjustments	40
Net cash used in operating activities	475
<b>Cash flows from investing activities:</b>	
Purchase of property and equipment	(200)
Net cash used in investing activities	(200)
<b>Cash flows from financing activities:</b>	
Proceeds from notes payable	500
Proceeds from issuance of common stock	1,000
Purchase of treasury stock	(175)
Principal on loan payment	(95)
Dividend paid	(8)
Net cash provided by financing activities	1,222
Net increase in cash and equivalents	1,497
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	1,497

### Indirect Method

Preparation uses the changes in accrual basis accounts.

### Direct Method

Preparation (uncommon) presents specific cash flows such as cash received from customers and paid to suppliers.

### Usefulness

Shows actual changes in cash on a cash basis, instead of the accrual basis which does not necessarily reflect the flow of cash.

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## Statement Of Owner's Equity

### STATEMENT OF OWNERS' EQUITY

As of 12/31/20XX

	Common stock	Retained earnings	Treasury stock	Total
<b>Balance</b>				
December 31, 20XX	10			10
Net income for 20XX		435		435
Common stock issued	1,000			1,000
Treasury stock			(175)	(175)
Dividends		(8)		(8)
<b>Balance</b>				
<b>December 31, 2100</b>	<b>1,010</b>	<b>427</b>	<b>(175)</b>	<b>1,262</b>

## Statement of Owner's Equity Features

### Statement of Owner's Equity

Shows sources of capital (business funding), additional paid in capital and common stock breakdown, changes in retained earnings, and treasury stock (stock repurchased).

## Journaling Entries

Year ended 12/31/20XX

	debit	credit
Cash	1,000	
Common stock		1,000
Receive 1,000 investment for common stock		
Cash	500	
Note payable		500
Receive \$500 loan		
Equipment	200	
Cash		200
Purchase \$200 equipment		
Accounts receivable	900	
Revenue		900
Make \$900 credit sale for services performed		
Cash	500	
Accounts receivable		500
Collect \$500 credit sale		

### Mechanics

Statement starts with beginning balances and reconciles to ending period balance.

Bad debt expense	90	
Allowance for doubtful		90
Establish \$90 Allowance for doubtful accounts		
Utilities expense	50	
Accounts payable		50
Record utilities expense \$50 after receiving bill		
Accounts payable	50	
Cash		50
Pay utility company \$50 in cash for prior bills		
Wage expense	300	
Wages payable		300
Accrue \$300 in wage expense		
\$5 interest \$95 principal		
Interest expense	5	
Note payable		95
Cash		100
Make \$100 payment on note payable with cash:		
Depreciation expense	40	
Accumulated depreciation		40
Record \$40 of depreciation expense		