# Finance and Accounting Term Project

-- APS 313S --

Mr. John Gleason

Thursday, January 30, 1997

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# Executive Summary

This financial report is for the year ending December 31, 1996. Included in this report are the journal entries, general ledger T-accounts, balance sheet, income statement, and statement of changes in financial position. All financial records are derived in accordance with Generally Accepted Accounting Principles.

ABC Incorporated earned a net income of $250 000 during the fiscal year of 1996. Revenue was reported at $1-million from the sale of 100 widgets. As a result of the profits, total shareholders' equity increased from $61 000 in 1995 to $311 000 at the end of this fiscal year. Net working capital has increased $262 000, from $28 000 in 1995 to $290 000. On the issue of debt financing, ABC Incorporated converted the note payable for $10 000 (due Dec. 26, 1996) into a long-term debt at an interest rate of 13% per annum.

A very serious problem with cash flow has surfaced from the financial statements. Total cash has reached a negative value of -$4 000. This may have resulted from writing cheques for cash payments without the knowledge of the running balance on the current account. In other words, cheques were written for amounts greater than the current account balance. Unless a source of cash can be quickly found and deposited into the account, non-sufficient funds status will result on those cheques, causing serious financial difficulties with the bank.

# Journal Entries

| | | Debit | Credit |
|---|---|---|---|
| 1. | Dr. Accrued Interest Payable | $1 000 | |
| | Cr. Cash | | $1 000 |
| | Paid accrued interest owed for 1995. | | |
| 2. | Dr. Accrued Wages Payable | $5 000 | |
| | Cr. Cash | | $5 000 |
| | Paid wages owed for 1995. | | |
| 3. | Dr. Taxes Payable | $1 000 | |
| | Cr. Cash | | $1 000 |
| | Paid taxes owed for 1995. | | |
| 4. | Dr. Inventory | $1 008 000 | |
| | Cr. Accounts Payable | | $864 000 |
| | Cr. Accrued Wages Payable | | $144 000 |
| | Produced 144 widgets, accounting for wages and raw materials from suppliers. | | |
| 5. | Dr. Interest Expense | $500 | |
| | Cr. Cash | | $500 |
| | 1st interest payment on Notes Payable at 10% per annum (June 1996). | | |
| 6. | Dr. Cash | $1 000 000 | |
| | Cr. Sales | | $1 000 000 |
| | Sold 100 widgets. | | |
| 7. | Dr. Cost of Goods Sold | $698 000 | |
| | Cr. Inventory | | $698 000 |
| | Cost of 100 widgets sold (following FIFO). | | |
| 8. | Dr. Accrued Wages Payable | $144 000 | |
| | Cr. Cash | | $144 000 |
| | Paid wages owed for 1996. | | |
| 9. | Dr. Accounts Payable | $854 000 | |
| | Cr. Cash | | $854 000 |
| | Paid a portion owed to suppliers. | | |
| 10. | Dr. Salaries Expense | $48 000 | |
| | Cr. Cash | | $48 000 |
| | Annual executive salaries expense. | | |
| 11. | Dr. Bonus Wages Expense | $1 000 | |
| | Cr. Accrued Bonus Wages Payable | | $1 000 |
| | Bonus wages owed for 1996. | | |

| | | | |
|---|---|---|---|
| 12. | Dr. Depreciation Expense - Office Equipment | $1 000 | |
| | Cr. Depreciation - Office Equipment | | $1 000 |
| | Depreciation of office equipment. | | |
| 13. | Dr. Depreciation Expense - Vehicles | $1 000 | |
| | Cr. Depreciation - Vehicles | | $1 000 |
| | Depreciation of vehicles. | | |
| 14. | Dr. Interest Expense | $500 | |
| | Cr. Cash | | $500 |
| | 2nd interest payment on Notes Payable at 10% per annum (Dec. 1996). | | |
| 15. | Dr. Notes Payable | $10 000 | |
| | Cr. Long Term Debt | | $10 000 |
| | Converted Notes Payable into Long Term Debt at 13% per annum. | | |

# Ledger Accounts

**(10) Cash**

| Debit | Credit |
|---|---|
| $50 000 | $1 000 [1] |
| [6] $1 000 000 | $5 000 [2] |
| | $1 000 [3] |
| | $500 [5] |
| | $144 000 [8] |
| | $854 000 [9] |
| | $48 000 [10] |
| | $500 [14] |

**(11) Inventory**

| Debit | Credit |
|---|---|
| $5 000 | $698 000 [7] |
| [4] $1 008 000 | |

**(12) Accounts Receivable**

| Debit | Credit |
|---|---|
| $10 000 | |

**(13) Office Equipment**

| Debit | Credit |
|---|---|
| $5 000 | |

**(14) Depreciation - Office Equipment**

| Debit | Credit |
|---|---|
| | $1 000 |
| | $1 000 [12] |

**(15) Vehicles**

| Debit | Credit |
|---|---|
| $10 000 | |

**(16) Depreciation - Vehicles**

| Debit | Credit |
|---|---|
| | $1 000 |
| | $1 000 [13] |

**(17) Land**

| Debit | Credit |
|---|---|
| $20 000 | |

**(20) Interest Expense**

| Debit | Credit |
|---|---|
| [5] $500 | |
| [14] $500 | |

**(21) Cost of Goods Sold**

| Debit | Credit |
|---|---|
| [7] $698 000 | |

**(22) Depreciation Expense - Office Equipment**

| Debit | Credit |
|---|---|
| [12] $1 000 | |

**(23) Depreciation Expense - Vehicles**

| Debit | Credit |
|---|---|
| [13] $1 000 | |

**(24) Salaries Expense**

| Debit | Credit |
|---|---|
| [10] $48 000 | |

**(25) Bonus Wages Expense**

| Debit | Credit |
|---|---|
| [11] $1 000 | |

**(30) Accounts Payable**

| Debit | Credit |
|---|---|
| [9] $854 000 | $20 000 |
| | $864 000 [4] |

**(31) Notes Payable**

| Debit | Credit |
|---|---|
| [15] $10 000 | $10 000 |

**(32) Accrued Interest Payable**

| Debit | Credit |
|---|---|
| [1] $1 000 | $1 000 |

**(33) Accrued Wages Payable**

| Debit | Credit |
|---|---|
| [2] $5 000 | $5 000 |
| [8] $144 000 | $144 000 [4] |

**(34) Taxes Payable**

| Debit | Credit |
|---|---|
| [3] $1 000 | $1 000 |

**(35) Long Term Debt**

| Debit | Credit |
|---|---|
| | $10 000 [15] |

**(36) Accrued Bonus Wages Payable**

| Debit | Credit |
|---|---|
| | $1 000 [11] |

# Ledger Accounts

**(40) Capital Stock**

| | |
|---|---|
| | $1 000 |

**(41) Retained Earnings**

| | |
|---|---|
| | $60 000 |
| | $250 000 |

**(50) Sales**

| | |
|---|---|
| | $1 000 000 [6] |

**ABC Inc.**

**For the Year Ended December 31, 1996.**

# Income Statement

| | | |
|---|---|---|
| Sales | $1 000 000 | |
| Cost of Goods Sold[7] | 698 000 | |
| Gross Margin | | $302 000 |
| Expenses: | | |
| Depreciation Expense - Office Equipment | 1 000 | |
| Depreciation Expense - Vehicles | 1 000 | |
| Salaries Expense | 48 000 | |
| Bonus Wages Expense | 1 000 | |
| Interest Expense | 1 000 | |
| Total Expenses | | 52 000 |
| **Net Income**[8] | | **$250 000** |

## ABC Inc.
## For the Year Ended December 31, 1996.
# Statement of Changes in Financial Position

| | | | |
|---|---|---|---|
| **Sources of funds** | | | |
| From Operations: | | | |
| Net Income | $250 000 | | |
| Depreciation[3,4] | 2 000 | | |
| Total from operations | | $252 000 | |
| Increase in long-term debt[5] | | 10 000 | |
| Total sources of funds | | | $262 000 |
| **Application of funds** | | | |
| Total application of funds | | | 0 |
| **Net increase in working capital** | | | **$262 000** |

| | |
|---|---|
| **Analysis of changes in working capital - 1996** | |
| Cash | (54 000) |
| Inventory[2] | 310 000 |
| Accounts Payable | (10 000) |
| Notes Payable[5] | 10 000 |
| Accrued Interest Payable | 1 000 |
| Accrued Wages Payable | 5 000 |
| Accrued Bonus Wages Payable | (1 000) |
| Taxes Payable[8] | 1 000 |
| **Net increase in working capital** | **$262 000** |

# Notes to Financial Statements

1. A negative cash balance has occurred because cash payments were made in the form of cheques. These cheques will trigger a non-sufficient funds problem with the bank. Cash must be placed into the bank account as soon a possible to prevent an overdraft from occurring.

2. Inventory is accounted using the FIFO convention. The value of inventory includes the value of raw materials ($6 000 per widget) plus wages ($1 000 per widget).

3. Office equipment is depreciated using the straight-line method at $1 000 per year for 5 years.

4. Vehicles are depreciated using the straight-line method at $1 000 per year for 10 years.

5. The note payable for $10 000 was renegotiated on its due date (December 31, 1996) and converted into long-term debt at 13% per annum. The original interest rate on the note payable was 10% per annum, payable semi-annually.

6. Retained earnings = retained earnings on Dec. 31, 1995 + net income for 1996.

7. Cost of goods sold includes raw materials ($6 000 per widget) and wages ($1 000 per widget).

8. Taxes payable are payroll taxes owing and the company pays no income tax.