# Introduction to Balance Sheet With Sage 50 Complete Accounting Section 0150A

## Presentation Objectives

The goal of this section is to present the following concepts to the reader.

1. Recap of the flow of the four basic financial statements.
2. Recap accessing Sage 50 Complete Accounting financial reports.
3. An introduction into balance sheet basics.
4. Balance sheet presentations – Book or report formats.
5. An introduction into assets and their classifications within Sage 50 Complete Accounting.
6. An introduction into liabilities and their classifications within Sage 50 Complete Accounting.
7. An introduction into owners' equity and their classifications within Sage 50 Complete Accounting..

## Contents

## Copyright and Legal Protection Issues

This text section is using Sage 50 Complete Accounting and the example companies, Bellwether Garden Supply and Stone Arbor Landscaping, provided for education, personal, and professional development within that product. Sage Software, Inc. has legal protections in place such as copyrights and patents for its products. I believe I am within those boundaries when I use their included assets for the use of education, personal, and professional development in this manner.

## Support File

There is a Microsoft Excel file, 0150A-Intro to the Balance Sheet with Sage 50 Complete Accounting-2015-01-01, in support of this section. There are also PDF files of several companies annual shareholders' reports and SEC filings in the directory.

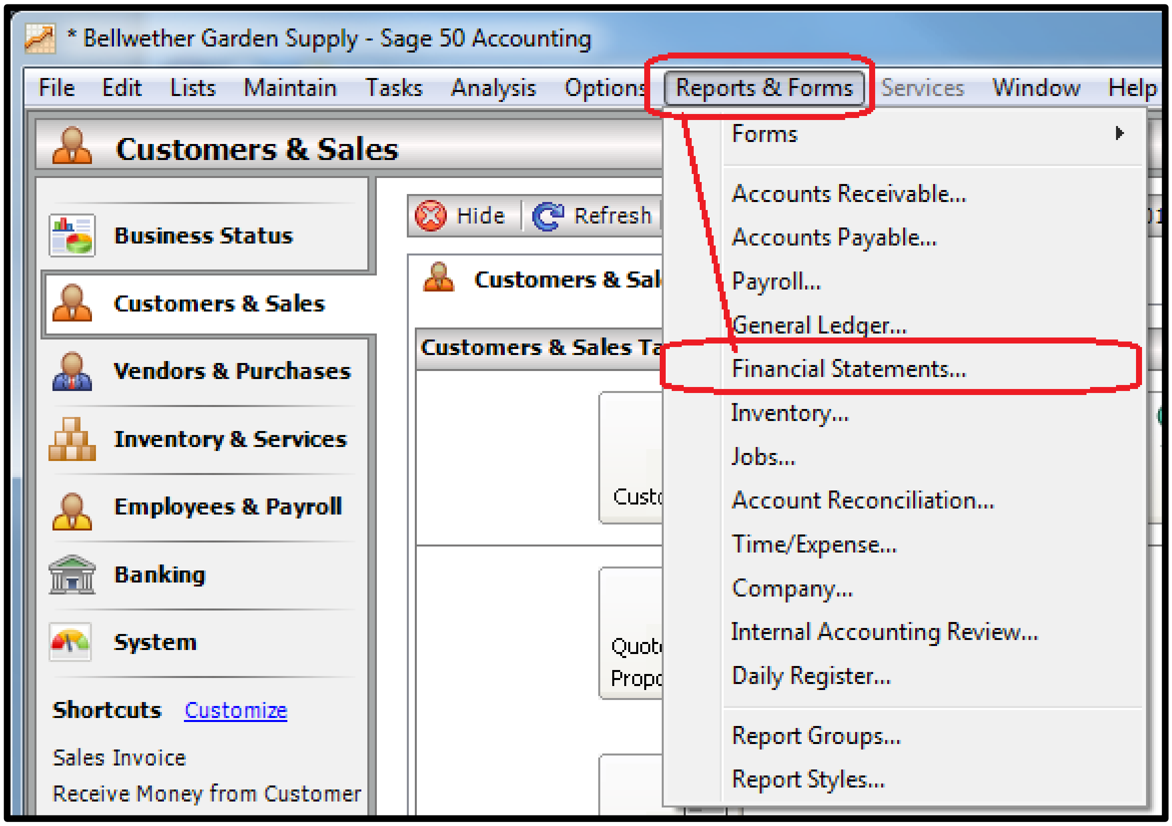
## The Flow of the Four Basic Financial Statements

As presented in the 0120 series, Intro to Financial Statements with Sage 50 Complete Accounting, there are four financial statements and they flow in a sequence of the income statement, the retained earnings statement, balance sheet, and the statement of cash flows. The income statement and balance sheet have rather intense interactions passing through the statement of retained earnings as shown in the 0120 series. Computerized accounting applications such as Sage 50 Complete Accounting are primarily management and data manipulation tools. This is not a negative comment, the primary activity of management is to manage, not report, and presented information needs to be of assistance in that process. The output of these systems frequently does not meet the needs or desires for publicly released financial statements. If you look at the several of the reference files for company reporting in the Class Support Files directory you will see that the financials are "comparative," showing more than one year in all reports. This comparative presentation is usually done outside of the computerized accounting package in use by the company, often within an application such as Microsoft Excel. This is most likely one of the reasons Sage 50 Complete Accounting has export tools to Microsoft Excel in almost all reports.

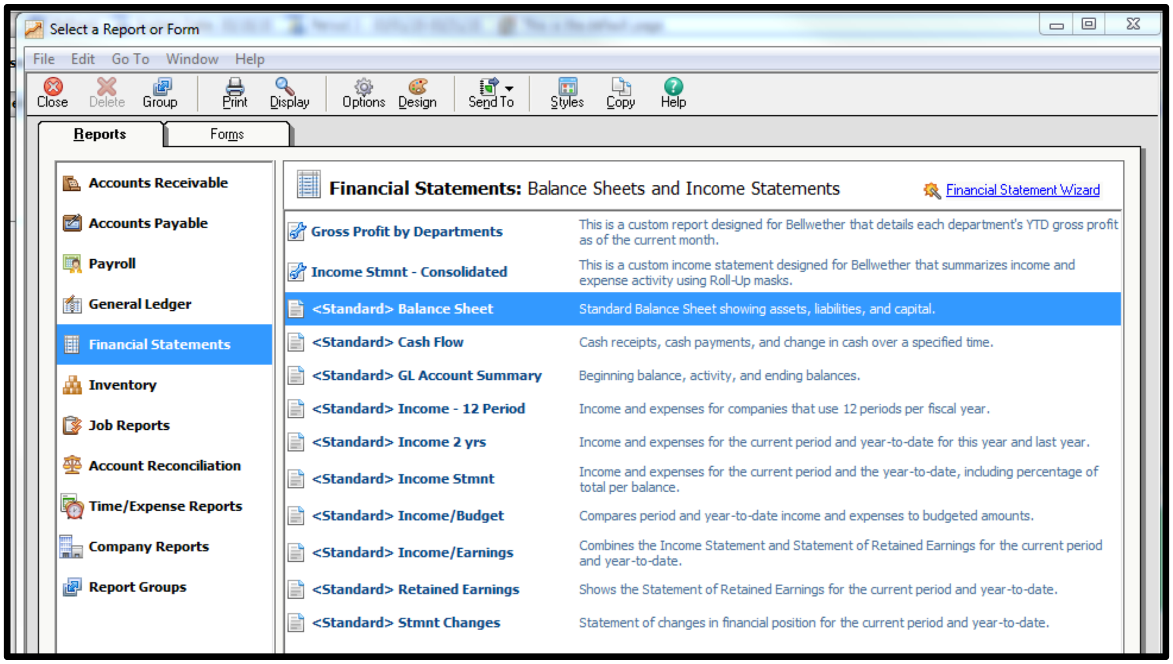
In this section we will look at several of the income related reports of Sage 50 Complete Accounting. I have downloaded many of them and saved them in the 0150A-Intro to the Balance Sheet with Sage 50 Complete Accounting reference file. Only portions of them are reprinted here.

## Accessing Sage 50 Complete Accounting Financial Reports

By clicking on Forms & Reports of the menu bar of Sage 50 Complete Accounting you will attain access to the drop-down menu options.



Click on the Financial Statements option to access the various financial statements available within Sage 50 Complete Accounting.




Within Sage 50 Complete Accounting there is one preformatted balance sheet option. The “<Standard>” in front of it lets you know that this is preformatted. You have the ability within Sage 50 Complete Accounting to create your own reports and establish the formats within some limits. All of these standard reports are actually reports focused on the needs of management presenting information for decision-making. The balance sheet for Bellwether Garden Supplies has been exported into the Microsoft Excel reference file, 0150A-Intro to the Balance Sheet with Sage 50 Complete Accounting. It may have been slightly reformatted for easier reading and display.

## Balance Sheet Basics

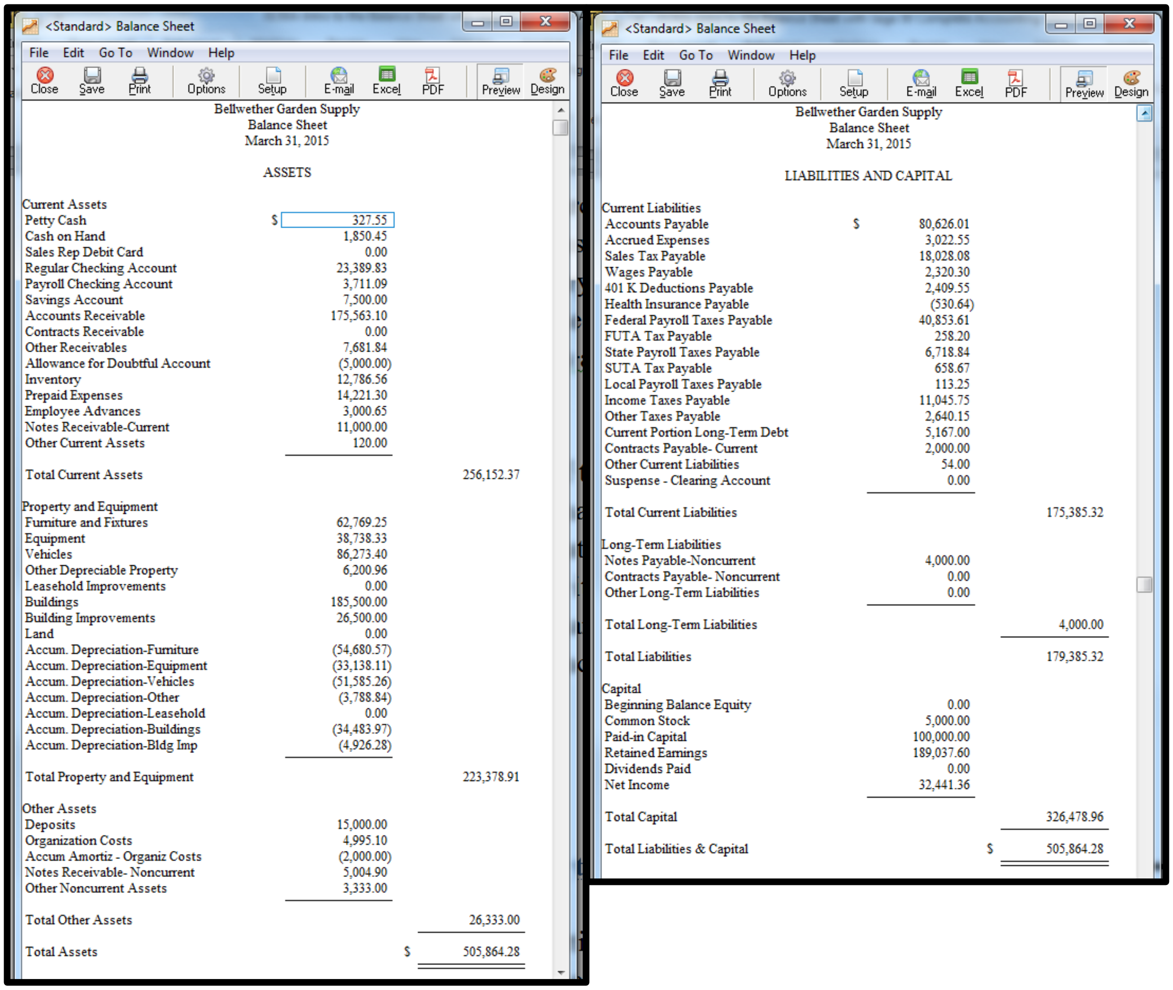
The balance sheet breaks the trend shown in the income statement, statement of retained earnings and resumed in the statement of cash flows. Rather than a period report showing activity in a month, quarter, or year type period of time, the balance sheet is a “from birth until …” statement. While the first two lines of the balance sheet follow the requirement of the full, legal, name of the company and the name of the report, the third line is not a statement of range but simply a date. While the range statements, the income statement, the statement of retained earnings, and the statement of cash flows will contain that line such as “For the Month Ended January 31, 2015,” the balance sheet will simply have “January 31, 2015.” The logic is this, the balance sheet shows resources – assets, obligations – liabilities, and owners’ equity. These presentations answer questions such as “How much money does the company have as of January 31, 2015?” and “What does the company owe as of January 31, 2015?” The question “How did my cash change due the month ended January 31, 2015?” is answered in the statement of cash flows, a range statement.

Remember that the name in the first line of the balance sheet report cannot be changed or abbreviated. If the company’s name is Miramar Student Accounting Services Incorporated, you cannot abbreviate it in the title line to Miramar Student Accounting Services Inc. because you feel it is too long to spell it out. For publicly traded companies the best location of the names is on the SEC filed reports. The second line will be the title of the report. While balance sheet is most commonly used, you will find other titles such as Position of Financial Standing or Financial Position.

## Balance Sheet Presentations – Book or Report Formats

The balance sheet for Bellwether Garden Supply, Sage Software’s sample company, as of March 31, 2015, is provided. Sage 50 Complete Accounting displays or prints the balance sheet in a “report” format. This is a vertical format of assets, liabilities, then owners’ equity. The option is the “book” format where assets are shown on the left side and the liabilities and owners’ equity accounts are shown on the right side. In providing the sample balance sheet for Bellwether here I utilized some of Microsoft’s Windows and Office’s graphics handling capabilities, copy, crop, paste, and group, to turn the report format balance sheet into a book format balance sheet – with the exception of the header.




Bellwether Garden Supply
Balance Sheet
March 31, 2015

ASSETS

| | | |
|---|---|---|
| **Current Assets** | | |
| Petty Cash | $ 327.55 | |
| Cash on Hand | 1,850.45 | |
| Sales Rep Debit Card | 0.00 | |
| Regular Checking Account | 23,389.83 | |
| Payroll Checking Account | 3,711.09 | |
| Savings Account | 7,500.00 | |
| Accounts Receivable | 175,563.10 | |
| Contracts Receivable | 0.00 | |
| Other Receivables | 7,681.84 | |
| Allowance for Doubtful Account | (5,000.00) | |
| Inventory | 12,786.56 | |
| Prepaid Expenses | 14,221.30 | |
| Employee Advances | 3,000.65 | |
| Notes Receivable-Current | 11,000.00 | |
| Other Current Assets | 120.00 | |
| Total Current Assets | | 256,152.37 |
| **Property and Equipment** | | |
| Furniture and Fixtures | 62,769.25 | |
| Equipment | 38,738.33 | |
| Vehicles | 86,273.40 | |
| Other Depreciable Property | 6,200.96 | |
| Leasehold Improvements | 0.00 | |
| Buildings | 185,500.00 | |
| Building Improvements | 26,500.00 | |
| Land | 0.00 | |
| Accum. Depreciation-Furniture | (54,680.57) | |
| Accum. Depreciation-Equipment | (33,138.11) | |
| Accum. Depreciation-Vehicles | (51,585.26) | |
| Accum. Depreciation-Other | (3,788.84) | |
| Accum. Depreciation-Leasehold | 0.00 | |
| Accum. Depreciation-Buildings | (34,483.97) | |
| Accum. Depreciation-Bldg Imp | (4,926.28) | |
| Total Property and Equipment | | 223,378.91 |
| **Other Assets** | | |
| Deposits | 15,000.00 | |
| Organization Costs | 4,995.10 | |
| Accum Amortiz - Organiz Costs | (2,000.00) | |
| Notes Receivable- Noncurrent | 5,004.90 | |
| Other Noncurrent Assets | 3,333.00 | |
| Total Other Assets | | 26,333.00 |
| Total Assets | | $ 505,864.28 |

Bellwether Garden Supply
Balance Sheet
March 31, 2015

LIABILITIES AND CAPITAL

| | | |
|---|---|---|
| **Current Liabilities** | | |
| Accounts Payable | $ 80,626.01 | |
| Accrued Expenses | 3,022.55 | |
| Sales Tax Payable | 18,028.08 | |
| Wages Payable | 2,320.30 | |
| 401 K Deductions Payable | 2,409.55 | |
| Health Insurance Payable | (530.64) | |
| Federal Payroll Taxes Payable | 40,853.61 | |
| FUTA Tax Payable | 258.20 | |
| State Payroll Taxes Payable | 6,718.84 | |
| SUTA Tax Payable | 658.67 | |
| Local Payroll Taxes Payable | 113.25 | |
| Income Taxes Payable | 11,045.75 | |
| Other Taxes Payable | 2,640.15 | |
| Current Portion Long-Term Debt | 5,167.00 | |
| Contracts Payable- Current | 2,000.00 | |
| Other Current Liabilities | 54.00 | |
| Suspense - Clearing Account | 0.00 | |
| Total Current Liabilities | | 175,385.32 |
| **Long-Term Liabilities** | | |
| Notes Payable-Noncurrent | 4,000.00 | |
| Contracts Payable- Noncurrent | 0.00 | |
| Other Long-Term Liabilities | 0.00 | |
| Total Long-Term Liabilities | | 4,000.00 |
| Total Liabilities | | 179,385.32 |
| **Capital** | | |
| Beginning Balance Equity | 0.00 | |
| Common Stock | 5,000.00 | |
| Paid-in Capital | 100,000.00 | |
| Retained Earnings | 189,037.60 | |
| Dividends Paid | 0.00 | |
| Net Income | 32,441.36 | |
| Total Capital | | 326,478.96 |
| Total Liabilities & Capital | | $ 505,864.28 |

Recall the Accounting Equation, Assets = Liabilities + Owners' Equity. This is the balance sheet in book format. A learning and memory tool. Plus, the principle asset accounts are on the left and they increase with left, debit, entries. The principle liabilities and owners' equity accounts are on the right and they increase with right, credit, entries. All learning and operating clues.

| | |
|---|---|
| Contracts Receivable | 0.00 |
| Other Receivables | 7,681.84 |
| Allowance for Doubtful Account | (5,000.00) |
| Inventory | 12,786.56 |

| | |
|---|---|
| Land | 0.00 |
| Accum. Depreciation-Furniture | (54,680.57) |
| Accum. Depreciation-Equipment | (33,138.11) |
| Accum. Depreciation-Vehicles | (51,585.26) |
| Accum. Depreciation-Other | (3,788.84) |
| Accum. Depreciation-Leasehold | 0.00 |
| Accum. Depreciation-Buildings | (34,483.97) |
| Accum. Depreciation-Bldg Imp | (4,926.28) |

Note that there can be adjunct and contra accounts on the balance sheet. In this section of Bellwether's balance sheet the contra accounts of Allowance for Doubtful Accounts and the various Accumulated Depreciation are shown. Their ***OPPOSSING NORMAL BALANCES*** values, credit values rather than debit value, is shown by placing them in parenthesis. This screen print is a portion of Bellwether's liabilities. Note that only Health Insurance Payable is shown in parenthesis. Liabilities normally carry a credit value. This one account, Health Insurance Payable, appears to have been overpaid for some reason, it is carrying a ***DEBIT BALANCE*** in the liabilities area as indicated by the parenthesis.

| | |
|---|---|
| 401 K Deductions Payable | 2,409.55 |
| Health Insurance Payable | (530.64) |
| Federal Payroll Taxes Payable | 40,853.61 |
| FUTA Tax Payable | 258.20 |

## Assets

Assets are resources owned or controlled by the company. My simple definition is things that will render a value or service to the company in the future. The future may be in the next second, in the next month, or over the next forty years. The Bellwether chart of accounts is provided in the section reference file as a resource.

Textbook and formal accounting has numerous types of assets including Current Assets, Long-term Assets, Fixed Assets or Property, Plant, & Equipment, and Intangible Assets. Sage 50 Complete Accounting has other asset account classifications so that the presentation is better handled and displayed through digital processing. Sage 50 Complete Accounting's asset categories include Cash, Accounts Receivable, Inventory, Other Current Assets, Other Assets, Fixed Assets, and Accumulated Depreciation for Bellwether.

### Cash

The Cash category includes petty cash, the till for cash registers, general checking, payroll checking, impress checking, and debit cards. With the exception of petty cash and the till for the cash registers ("tills" are the beginning cash held in the drawer so change can be made) these accounts are actually values held by others for your use and access. These are assets because you can resolve liabilities and meet other obligations with them. You have the ability to pay bills, wages, purchase materials, etc. Credit cards are not Cash category assets even though they give you similar capabilities of paying bills, purchasing materials, etc. Credit cards are not holding your cash, they are "loaning" you money with payment due in accordance with their terms. As such credit cards are usually current liabilities.

#### Common Cash Category Account Titles

Common Cash category account titles include:

Petty Cash
Cash on Hand
Regular Checking Account
Payroll Checking Account
Savings Account
Deposits

### Accounts Receivable

Accounts receivable are often called trade accounts. They are established for convenience and to secure the loyalty of your clients and customers. While they may have terms such as "Due not later than the 15th day of the month, 1 ½% interest per month for overdue accounts," accounts receivable are not considered to be a long-term, interest earning asset. The goal is to provide your client and customer easy access to make purchases from your firm with payment in accordance with the terms. To protect your assets, you must ensure that you have a high probability of receiving payment from clients and customers before extending credit through accounts receivable.

In this matrix, it becomes apparent why establishing a process to ensure a high probability of collecting from clients and customers. Assume that Sale #1 is made for $100 on account with a cost of goods sold of $55 and a selling expense of $15. Without payment and the sale of a second unit with the same values your revenues are now $100 for the "sale" two units with a total cost of goods sold of $110 and total selling expenses of $30 resulting in a loss due to operations of $40. With the third unit "sold" total revenues are now $200 with total cost of goods sold of $165, and total selling expenses of $45 resulting in a loss from operations of $10. It is not until the fourth unit is sold resulting in total revenues from “sales” of $300 and total cost of goods sold of $220 with total selling expenses of $60 before the company has a favorable net income of $20. However, they are still below the income from operations if they had collected on the first sale. This matrix with formulas is on the Cost Recovery tab of the section reference Microsoft Excel file.

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| **Revenues:** | $0 | $100 | $200 | $300 | $400 |
| **Cost of Goods Sold:** | 55 | 110 | 165 | 220 | 275 |
| **Gross Profit:** | (55) | (10) | 35 | 80 | 125 |
| **Selling Expense:** | 15 | 30 | 45 | 60 | 75 |
| **Income from Operations:** | ($70) | ($40) | ($10) | $20 | $50 |

### Allowance for Doubtful Accounts (AFDA)

Because of this issue of collectability and the requirement not to overstate assets, the requirement to have an Allowance for Doubtful Accounts, sometimes called the Allowance for Uncollectable Accounts is required. This is a contra account, its principle account, Accounts Receivable, carries a normal debit balance to the normal balance of the Allowance for Doubtful Accounts (AFDA) account carries a credit balance.

| | |
|---|---|
| Contracts Receivable | 0.00 |
| Other Receivables | 7,681.84 |
| Allowance for Doubtful Account | (5,000.00) |
| Inventory | 12,786.56 |

### Net Realizable Value (NRV)

With Accounts Receivable less Allowance for Doubtful Accounts we attain Net Realizable Value or NRV. Net Realizable Value is what we actually expect to receive from our clients and customers due to the probability of non-payment. The question is often asked, If we do not expect to collect our accounts receivable, why do we use them? We sell on account because we exercise professional control and restraint on the acceptance of risk of non-payment by a client or customer. We evaluate their financial ability to pay as well as their ethical desire to pay if possible. With good credit policies in place we can keep our losses due to collectability down to less than 4%~5%. This loss must exceed the additional business brought in by our credit policies.

From a U.S. Government release through the Department of Commerce several years ago the values were presented as this:

| Days in receivables: | Uncollectable rates: |
| --- | --- |
| Less than 31 days | 4% uncollectible |
| 31 to less than 61 days | 10% uncollectible |
| 61 to less than 91 days | 17% uncollectible |
| 91 to less than 121 days | 26% uncollectible |

After 120 days a 3%~4% increase from 26% for each 30 day period.

### Common Accounts Receivable Category Account Titles

Common accounts receivable category account titles include:

- Accounts Receivable
- Interest Receivable
- Other Receivables
- Allowance for Doubtful Account

## Inventory

As a wholesaler, retailer, or reseller, inventory is what you intend to sell to clients and customers without significant modification from the condition you purchased it in. As a manufacturer you may have inventory accounts for raw materials, work-in-process (or work-in-progress), semi-finished goods, and finished goods. As a service provider you may have inventory that allows you to provide your services such as repair parts. Inventory is different from supplies. Supplies are what you use to run your business – the paper in your printer, the staples in your stapler.

### Common Inventory Category Account Titles

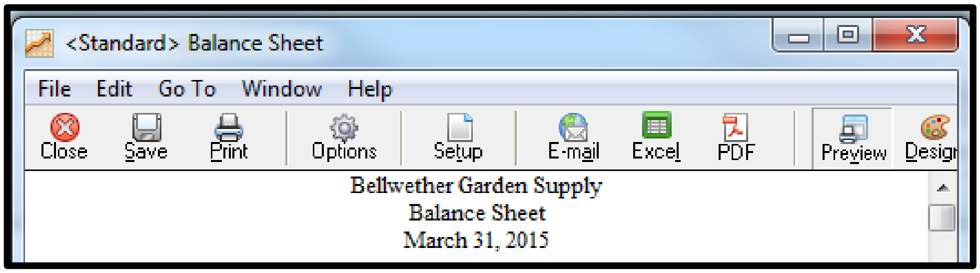
Common inventory category account titles include:

- Inventory
- Raw Materials Inventory
- Work in Process Inventory
- Semi-finished Goods Inventory
- Finished Goods Inventory
- Natural Resources Inventory
- Manufacturing Overhead

## Other Current Assets

The Other Current Assets category is related to the date of the balance sheet. Assume that the date is March 31, 2015, as shown here.




Current assets are those assets that are expected to render a value or service within the next twelve months, through March 31, 2016, if not classified elsewhere.

### Common Other Current Asset Category Accounts Titles

Common Other Current Asset category accounts titles include:

Prepaid Interest
Prepaid Insurance
Prepaid Rent
Prepaid Expenses
Prepaid Advertising
Office Supplies
Store Supplies
Other Current Assets
Notes Receivable-Current

## Other Assets

The Other Assets category is for items that have a life longer than 12 months from the balance sheet and are not classified elsewhere, such as in the Fixed Assets category. In other textbooks and computerized accounting applications you may find this category as Long-term Assets.

### Common Other Asset Category Accounts Titles

Common Other Asset category accounts titles include:

Organization Costs
Accumulated Amortization - Organizational Costs
Notes Receivable-Noncurrent
Bonds Receivable-Noncurrent
Bonds Receivable-Premium

Bonds Receivable-Discount
Short-term Investments
Other Noncurrent Assets
Patents and Copyrights
Franchise

## Fixed Assets

Fixed Assets are those long-term assets such as land, buildings, equipment, and improvements which allow you to operate your company. Land is not depreciated, reduced in value, through depreciation. All other fixed assets are. Read the Fixed Assets, Accumulated Depreciation, and Depreciation section for more information.

### Common Fixed Asset Category Account Titles

Common Fixed Asset category account titles include:

Land
Buildings
Building Improvements
Equipment
Vehicles
Furniture and Fixtures
Leasehold Improvements
Other Depreciable Property

## Accumulated Depreciation

Accumulated Depreciation is a contra asset account. It will maintain a normal balance opposite of its principle account. Since fixed assets retain normal debit balances, Accumulated Depreciation will retain a normal credit balance. Accumulated Depreciation is the indication of life consumed through operations and use. This is a mathematical process and value not a market value related appraisal. Read the Fixed Assets, Accumulated Depreciation, and Depreciation section for more information.

### Common Accumulated Depreciation Category Account Titles

Common Accumulated Depreciation category account titles include:

Accumulated Depreciation-Buildings
Accumulated Depreciation-Building Improvements
Accumulated Depreciation-Equipment

Accumulated Depreciation-Vehicles
Accumulated Depreciation-Furniture
Accumulated Depreciation-Leasehold (Improvements)
Accumulated Depreciation-Other

### Fixed Assets, Accumulated Depreciation, and Depreciation

There is a relationship between Fixed Assets, Accumulated Depreciation, and Depreciation. Fixed assets are recorded at historic costs related to long-term access and utilization. The purchase of a new truck includes the truck, sign painting of the company name, the equipment rack, titling costs with the purchase, etc. If the item, not to limit it to a vehicle, required transport or shipping, the cost of that shipping, insurance during shipping, installation, and testing are all costs that can be capitalized, to be on the balance sheet, and then depreciated over time. All of these are long-term usage items. Fees and costs that cannot be capitalized, put on the balance sheet as part of the acquisition cost are items such as periodic fees, annual licenses, and recurring safety / smog inspections associated with the operation of the vehicle. These types of costs must be expensed over their service life of one or two years usually.

The rule prohibiting the company from overstating assets applies to fixed assets as well as other assets. Fixed assets, other than land, are consumed through use, operations, and access. So the concept of depreciation is put into place. What depreciation does is takes a large value, such as the cost of purchasing a truck, and moves it from the balance sheet to the income statement in small increments to indicate its consume and its rendering of service in the revenue generating process. This also addresses the matching or recognition issues where the cost of earning revenues must be recorded in the same period / at the same time as those revenues are earned. With this total concept in place you will not expense the truck in one month but over its life for seven, ten, or more years as appropriate.

The journal entry to purchase a truck on January 2, 2015, is presented here. The cost of the truck is $75,000 in costs that can be capitalized, placed on the balance sheet as fixed assets. $1,200 is paid as a total of annual operating expenses such as licenses and smog fees. This purchase is done with cash and the journal entry might look like this.

| | | | |
|---|---|---|---|
| Jan 02, 2015 | Truck | 75,000.00 | |
| | Prepaid Operating Expenses | 1,200.00 | |
| | Cash | | 76,200.00 |
| | Purchased new truck with cash | | |

This journal entry places $75,000 on the balance sheet to be addressed with the depreciation concept, and $1,200 is placed on the balance to be addressed with adjusting entries over the next twelve months. The Prepaid Operating Expenses is addressed at the end of each fiscal period, using months for management reporting, with an entry which may look like this.

| | | | |
|---|---|---|---|
| Jan 31, 2015 | Operating Expenses | 100.00 | |
| | Prepaid Operating Expenses | | 100.00 |
| | Adjusting Entry - Prepaid Operating Expenses | | |

Since the fee is an annual fee and our management reporting process is monthly, ($1,200 ÷ 12 months) $100 per month is moved from the balance sheet to the income statement as Operating Expense. With the twelve monthly adjusting entries, the full $1,200 will be removed from the balance sheet as of the December 31, 2015, adjusting entry, the last of this series.

The depreciation side needs some additional information. The cost of the truck is $75,000 and its salvage or residual value, the value you expect it to have at the end of its service life, is $3,000. Therefore the truck's depreciable value is ($75,000 - $3,000) $72,000. You expect the truck to last six years so the annual depreciation is ($72,000 × 6 years) $12,000. This results in a monthly, straight-line, depreciation expense of $1,000. This is shown in the following table.

| | |
|---|---|
| Vehicle Cost: | $75,000 |
| Salvage or Residual Value: | 3,000 |
| Depreciable Cost: | 72,000 |
| Life in Years: | 6 |
| Annual Depreciation: | 12,000 |
| Months in Years: | 12 |
| Depreciation per Month: | $1,000 |

The monthly adjusting entry to recognize this expense would look like this.

| | | | |
|---|---|---|---|
| Jan 31, 2015 | Depreciation Expense - Truck | 1,000 | |
| | Accumulated Depreciation - Truck | | 1,000 |
| | Adjusting Entry - Truck depreciation | | |

With this journal entry, $1,000 of the truck's acquisition cost of $75,000 is moved to the income statement as an expense. This puts a matching value, or recognizes the cost of utilizing the truck to earn revenues. The credit is in the contra asset account Accumulated Depreciation – Truck on the balance sheet for $1,000. With depreciation recorded the term Book Value enters the vocabulary. Continue to read.

### Book Value of Fixed Assets

Book value is associated with fixed assets in this case. The balance sheet, in one option of presentation, will show the truck with a $75,000 historic cost and the associated contra account of Accumulated Depreciation – Truck of $1,000 in this manner.

| | | |
|---|---|---|
| Truck | 75,000 | |
| Accumulated Depreciation - Truck | 1,000 | 74,000 |

You may see "Less" Accumulated Depreciation – Truck" in some cases. In this presentation historic cost is shown, $75,000. To date $1,000 has been placed into the Accumulated Depreciation – Truck contra asset account. This results in a "book value" of ($75,000 - $1,000) $74,000. This $74,000 is not the current market value but a mathematical calculation of the truck's value to the company at this time.

## Liabilities

Liabilities are obligations to others which must be addressed by the rendering of a value or a service at some point in the future. With Wages Payable this obligation to employees will be resolved with cash. With Unearned Subscriptions a publisher would resolve this obligation with recurring magazine mailings. Some liabilities are easily computed – the amount owed to employees as wages. Some are estimates as warranty obligations. Some liabilities are "contingent liabilities" where the cost or obligation may not be finalized until the court ruling or arbitration is complete.

## Accounts Payable

Accounts Payable is usually unsecured debt, obligations owed in the normal conduct of business. Those trade account actions where you are purchasing materials for your company to operate in a day-to-day manner. These obligations are normally expected to be resolved in the next thirty days or so, specific to the terms of the agreement. When offices supplies are purchased on account for $250 on January 15, 2015, with terms of 2/10, N30, the company incurs, accepts, an obligation, a liability. The journal entry for that event would look like this.

| | | | |
|---|---|---|---|
| Jan 15, 2015 | Office Supplies | 250.00 | |
| | Accounts Payable | | 250.00 |
| | Purchased office supplies on account, terms 2/10, N30 | | |

This journal entry increases the Office Supplies asset account and increases the Accounts Payable liability account. Because of these terms, the company can pay on or before January 25, 2015, and take advantage of the discount. The journal entry on January 25, 2015, to pay with the discount of ($250 × 2%) $5 ***<u>COULD</u>*** look like this. There are options addressed later.

| | | | |
|---|---|---|---|
| Jan 25, 2015 | Accounts Payable | 250.00 | |
| | Cash | | 245.00 |
| | Office Supplies | | 5.00 |
| | Paid on account with 2% discount | | |

With this journal entry the asset Cash on the balance sheet has decreased by $245. The liability Accounts Payable has decreased by the full $250 owed if not paid within the discount period. The "missing" $5 reduces the value of the Office Supplies asset. Some textbooks while have discounts on Office Supplies taken to the Purchases Discounts account, which is a contra account for Inventory. Inventory is a different type of asset and this is generally not considered correct.

In Accounts Receivable you learned about an Allowance for Doubtful Accounts (AFDA) concept. That is if someone does not pay you. Under the continuing business concept and ethical acceptance of obligations, it is expected that you will pay all your bills. There is no parallel type of account associated with Accounts Payable as Allowance for Doubtful Accounts.

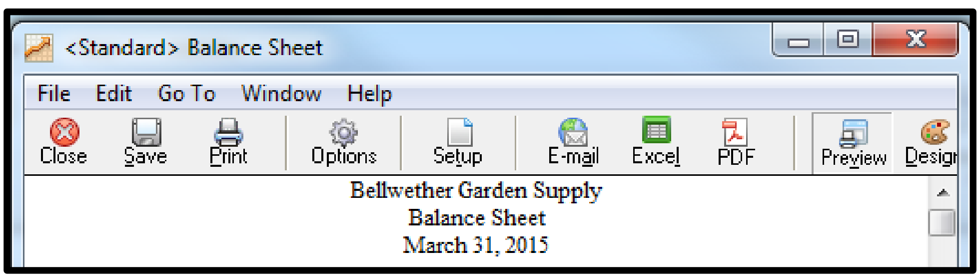
### Common Accounts Payable Category Account Titles

Common Accounts Payable category account titles include:

Accounts Payable
Interest Payable
Legal Fees Payable
Preferred Stock Dividend Payable
Common Stock Dividend Payable

## Other Current Liabilities

Other Current Liabilities parallels the concept of Other Current Assets. These are obligations which are expected to be resolved by rendering a value or a service in the next twelve months based on the balance sheet date. In this example these are obligations that will be addressed by March 31, 2015. They may be resolved with cash, such as those accounts with "Payable" in the title. They may be resolved by providing a service, the accounts with the word "Unearned" in the title are often good examples. Some are absolute values already known, some are estimates – Warranty Liability or Warranty Obligation.




### Common Other Current Liabilities Category Account Titles

Common Other Current Liabilities category account titles include:

Warranty Liability
Unearned Service Revenues
Unearned Admissions Revenues
Unearned Legal Fees
Unearned Rent Revenues
Accrued Expenses Payable
Wages Payable
Sales Tax Payable
401 K Deductions Payable
Health Insurance Payable
Federal Payroll Taxes Payable

FUTA Tax Payable
State Payroll Taxes Payable
SUTA Tax Payable
Local Payroll Taxes Payable
Income Taxes Payable
Other Taxes Payable
Current Portion Long-Term Debt
Contracts Payable-Current
Other Current Liabilities
Suspense-Clearing Account

### Long Term Liabilities

Long-term liabilities parallel the long-term assets category. These are obligations that are expected to be resolved outside the next twelve months from the balance sheet date. Most items in this category are secured debts, notes payable, and bonds payable. There may be adjunct accounts such as Bond Payable – Premium and contra accounts such as Bonds Payable – Discount.

#### Common Long-term Liabilities Category Account Titles

Common Long-term Liabilities category account titles include:

Notes Payable-Noncurrent
Contracts Payable-Noncurrent
Other Long-Term Liabilities
Bonds Payable-Noncurrent
Bonds Payable-Premium
Bonds Payable-Discount

## Owners' Equity

Owners' Equity is the value of what the owners have invested with cash or other assets and what the company has retained of its growth through operations. With the requirement to properly place values in the financials and the interaction between financial statements Sage 50 Complete Accounting has several categories. Each is addressed individual. Since all obligations of the company must be met to 100% of value, the owners / investors are guaranteed nothing in the process of liquidating the company. With this in mind, I refer to this value as value at risk.

## Equity-doesn't close

The accounts in the Equity-doesn't close category are primarily for investment accounts. There are several interesting accounts within Sage 50 Complete Accounting within this category. Beginning Balance Equity is a special account utilized when an operating company is brought into Sage 50 Complete Accounting.

The Unrealized Gains – Equity – credit balance, and Unrealized Losses – Equity – debit balance, accounts are accounts to meet a regulatory requirement to present the information related to gains and losses which will take place in the distance future and do not affect current cash balances. Using the Unrealized Gains – Equity account as an example, if the company has sustained a gain in which it does not expect to realize the cash advantage of for a long period of time, it will record the asset as a debit in the journal entry and the credit into the Unrealized Gains – Equity account with a credit. This will increase owners' equity without it appearing on the (conventional) income statement or passing through the statement of retained earnings. However, since the value of the company increased, that increase should be recognized. Assume that the company has a stock investment that it expects to hold for a long period of time. It has sustained an increase in value which the company does not feel is temporary. The journal entry to record that increase of $4,000 on January 31, 2015, would look like this.

| | | | |
|---|---|---|---|
| Jan 31, 2015 | Stock Investment - Long-term | 4,000.00 | |
| | Unrealized Gain - Long-term Investment | | 4,000.00 |
| | Market value of stock investment increased | | |

Both of these accounts are balance sheet accounts. While not technically correct or proper, the appearance of values in Retained Earnings indicates the ability to distribute dividends. Unrealized gains cannot be distributed. In accounting terms "unrealized" means cash has not moved yet.

### *Common Equity Doesn't Close Category Account Titles*

Common Equity Doesn't Close category account titles include:

Preferred Stock
Add Paid-in Capital- Preferred Stock
Common Stock
Add Paid-in Capital- Common Stock
Treasury Stock

Add Paid-in Capital- Treasury Stock
Beginning Balance Equity
Unrealized Gains-Equity
Unrealized Losses-Equity

### Equity-gets closed

Equity gets closed accounts are those nominal or temporary accounts associated with owners' equity. Most commonly they are dividends and Income Summary. While some textbooks and some computerized accounting applications avoid the Income Summary account it is a superb tool in keeping the flow of accounting in order in the closing process of nominal or temporary accounts at the end of a fiscal period. As presented in the flow of financial statements, after the financial have been printed, all revenue accounts are "closed" to the Income Summary account. Then all expense accounts are "closed" to the Income Summary account. At this point the balance of the Income Summary account ***MUST*** equal Net Income on the income statement. At this point all of the income statement's accounts, all nominal or temporary accounts, are closed for the period. Next in order is Retained Earnings, a permanent or real account on the statement of retained earnings. The Income Summary account, as a nominal or temporary account, is closed to the Retained earnings account. Then the Dividend(s) account(s) are closed directly to the Retained Earnings account. The memory or visual clue is that Dividends do not affect Net Income.

The closing journal entries for revenues, expenses, and dividends are shown here using example values.

| | | | |
|---|---|---|---|
| Jan 31, 2015 | Sales Revenues | 6,000.00 | |
| | Income Summary | | 6,000.00 |
| | Closing entry - Revenue accounts | | |

| | | | |
|---|---|---|---|
| Jan 31, 2015 | Income Summary | 2,285.00 | |
| | Rent Expense | | 750.00 |
| | Wages Expense | | 1,500.00 |
| | Supplies Expense | | 35.00 |
| | Closing entry - Expense accounts | | |

| | | | |
|---|---|---|---|
| Jan 31, 2015 | Income Summary | 3,715.00 | |
| | Retained Earnings | | 3,715.00 |
| | Closing entry - Income Summary | | |

| | | | |
|---|---|---|---|
| Jan 31, 2015 | Retained Earnings | 2,000.00 | |
| | Preferred Stock Dividends | | 1,200.00 |
| | Common Stock Dividends | | 800.00 |
| | Closing entry - Dividend accounts | | |

### *Common Equity Gets Closed Category Account Titles*

Common Equity Gets Closed category account titles include:

Preferred Stock Dividends
Common Stock Dividends
Income Summary

## Equity-Retained Earnings

The Retained Earnings account is the holder of growth through operations not distributed through dividends. As an Owners' Equity account it carries a normal credit balance. Companies operating in net losses may have Retained Earnings with debit, deficiency balances. This is a special account within Sage 50 Complete accounting. Do not attempt to delete, rename it, or create another account with the Equity – Retained Earnings account type. As such the only account in this category will be Retained Earnings.

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