

Week Five

Ricky is happy and eager to start a new week. The summer is moving right along; this is when your family takes it's annual vacation. There are only a couple of weeks before the vacation, and after that school starts. This means that you only have a brief time left to operate your orange juice stand and learn more about accounting. What's the first thing you will do? **Roll up the earnings from last week.** Please go ahead and do that.

| <u>Account</u> | <u>Debit(Dr)</u> | <u>Credit(Cr)</u> |
|--|-------------------------|-------------------------|
| Earnings Week to Date | \$ <input type="text"/> | |
| Retained Earnings | | \$ <input type="text"/> |
| Total | \$ <input type="text"/> | \$ <input type="text"/> |
| Description: To roll up the earnings from week four. | | |

BALANCE SHEET

| ASSETS | | LIABILITIES | |
|--------------------------|----------------|-------------------------------------|--------------------------------|
| Cash | \$41.00 | Accounts Payable | \$23.00 |
| Accounts Receivable | 16.00 | Notes Payable | <u>0.00</u> |
| | | TOTAL LIABILITIES | 23.00 |
| Inventory: | | Owner's Equity: | |
| Raw Material | \$10.00 | Original Investment | \$ 5.00 |
| Finished Goods | <u>0.00</u> | Retained Earnings | <input type="text"/> |
| | 10.00 | Earning Week to date | <input type="text"/> |
| Prepaid Expenses | 2.00 | Total Owner's Equity | <input type="text"/> |
| Fixed Assests: | | | |
| Stand | \$10.00 | | |
| Land | 2.00 | | |
| Less- Accu. Depreciation | <u>(1.00)</u> | | |
| | 11.00 | | |
| TOTAL ASSETS | <u>\$80.00</u> | TOTAL LIABILITIES & OWNERS'S EQUITY | <u>\$ <input type="text"/></u> |

Talking Points

Charts of Accounts. Now you can see how the business is growing, and the balance sheet too! This is due to the fact that you can create a new account every time you need it. If you use an accounting software, it will tell you or suggest which account to use in order for that transaction to be properly posted (in the proper account).

Okay, with last week officially behind us, it's time to tackle a new week's challenge. The first challenge isn't long in coming. Business is slow and, at first, you can't figure out why. The weather is nice and warm. Certainly everyone seems to like your new stand. No one seems to have minded that your orange juice is no longer made from scratch. What gives?

A friend rides by on her bike. You yell at her to stop for some orange juice. She yells back, "I can't right now. My brother's playing in the basketball tournament at the park. If I don't get there early I won't find a seat be-

cause everyone's going to be there!" Ah-ha!

A lot of potential customers are gathered at the park's basketball courts. But your stand is nailed to the ground here! If only you could find a way to get your great-tasting orange juice to this mass of customers...

Then, you think, "I should get a mobile orange juice stand!" "I should go to where crowd is - because if I can't get my customers to come to where my business is located, then a smart businessperson goes to where the customers are!"

You search the Internet and make a lot of calls. Finally, you find a company which sells mobile refreshment stands, but they're thousands of dollars! Well, there's no way you can afford one of those, so it's time to get creative. Let's see. You don't need anything with a motor. So you'll likely have to pull this unit by yourself. It doesn't have to be that big, you know - just big enough to carry your supplies. And it can't cost too much.

Then it hits you like a bolt from the blue! A wagon! Like the one you saw in the hardware store when you were there buying paint. Yes!

You get Dad to drive you to the hardware store. The lady who sells wagons is Ms. Richards.

"I'm interested in buying a wagon," you tell her. "How much are they?"

"We happen to be running a special on our very best model," she tells you. "It's built of the highest grade steel. Its paint and rust-resistant. The tires are puncture-proof. A wonderful example of old-world craftsmanship. It has an estimated life of ten years, and the cost is a mere \$20."

This woman obviously knows her wagons! You immediately decide you want it, you need it - you buy it!

Do we have enough Cash to pay for it? **Yes. You take \$20 from Cash to buy the mobile unit.**

Is the wagon another Asset? **Yes.**

What kind of Asset? **Fixed Asset.**

How much is it? **\$20.00.**

But do we want to simply throw the wagon in with our other fixed assets - the stand, lot, and sink? **No.**

Let's look at our other Fixed Assets, starting with our orange juice stand attached to the land? **Yes.** It's like a building, right? **Right**

What about this wagon? Is it attached to the land? **No, it's mobile.** Is the wagon like a building or plant? **No.**

A Fixed Asset that's movable is called what? **Equipment.**

A-ha! There are different types of Fixed Assets.

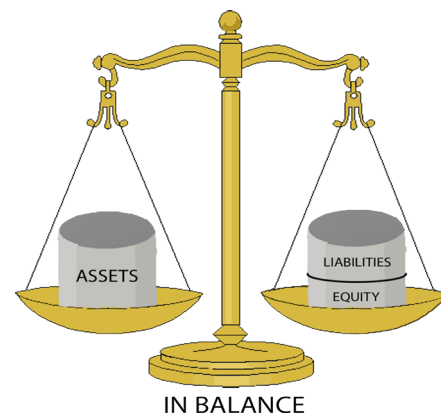
Many companies separate equipment from buildings on the Balance Sheet. Now, because the wagon is equipment, is that the only reason it's set up a separate fixed asset on the Balance Sheet? **No.**

Can you think of another reason why?

Well, another reason is, since it's a different type of Fixed Asset, we can depreciate it differently.

Let's do the next Balance Sheet, reflecting the wagon purchase, but first let's do the journal entry (fill out the account name on your own).

| <u>Account</u> | <u>Debit(Dr)</u> | <u>Credit(Cr)</u> |
|--|------------------|-------------------|
| <input type="text"/> | | |
| c/Wagon | \$20.00 | |
| <input type="text"/> | | \$20.00 |
| Total | <u>\$20.00</u> | <u>\$20.00</u> |
| Description: To record the purchase of the new wagon for the business. | | |



Remember:
The two sides must balance!

BALANCE SHEET

| ASSETS | | LIABILITIES | |
|--------------------------|-----------------------------|-------------------------------------|----------------|
| Cash | \$ <input type="text"/> | Accounts Payable | \$23.00 |
| Accounts Receivable | 16.00 | Notes Payable | <u>0.00</u> |
| | | TOTAL LIABILITIES | 23.00 |
| Inventory: | | Owner's Equity: | |
| Raw Material | \$10.00 | Original Investment | \$5.00 |
| Finished Goods | <u>0.00</u> | Retained Earnings | 52.00 |
| | 10.00 | Earning Week to date | <u>0.00</u> |
| Prepaid Expenses | 2.00 | | |
| Fixed Assests: | | <i>Total Owner's Equity</i> | 57.00 |
| Wagon | <input type="text"/> | | |
| Stand | \$10.00 | | |
| Land | <u>2.00</u> | | |
| Less- Accu. Depreciation | (1.00) <input type="text"/> | | |
| | | | |
| TOTAL ASSETS | \$ <input type="text"/> | TOTAL LIABILITIES & OWNERS'S EQUITY | <u>\$80.00</u> |

Are we in balance? **Yes.**

It's very late on Saturday afternoon when you start for the basketball tournament. Not to worry - it's an evening tournament and the first game gets underway in fifteen minutes.

On the way, you go by Peter's grocery store to buy more Orange Farm Co. juice, but the store is closed! You don't know what's going on - then you remember Mr. Peter said he was closing early today so he could go to the game. You're a little worried about Peter's store being closed because you need more inventory. You decide to push on. Hey, there's bound to be a store near the National Park. Sure enough, a mere block from the park you see that you're in luck! There is a store and it's open. But, once inside, you realize it's one of the warehouse type stores that sells only in bulk. You look at the price and you really feel sick. Because the price here is \$30; ten dollars more than what you paid at Peter's for the same quantity.

Thirty dollars! Your heart sinks. What are you going to do? Because you only have \$21 in the cigar box you brought along (See the cash account in your last balance sheet above).

Looks like we have a major, MAJOR problem. What are we going to do? What would you do?

Now what? Go to the bank and borrow some money. Is the bank open Saturday afternoons? **No, it closes at noon on Saturday.**

You have this shiny and new mobile unit, but no orange juice to sell! What should you do? Sell the mobile unit!

Are you going to have the time to sell the mobile unit and run to some other store for pre-made orange juice?

No. Besides, you need a place to put your orange juice. What else might you do?

Put the squeeze on your friends who still owe you money! **The Accounts Receivable.** Yo have \$16! Maybe, but none of them are at the game.

Can you return the wagon and get your money back? **No. The vendor is at the tournament like everyone else.**

Desperate people try desperate measures. You decide to use the old inventory.

But, for how long has it been hanging around? **Weeks and weeks by now.** So, can we use it? **Only if we want a visit from the health inspector and a possible lawsuit on our hands.**

Okay, what do a lot of start-up businesses do? **Sell stock and go public.**

Finally, you ask some friends for advice. One of them says, “You’ve been bragging about all those retained earnings you’ve been rolling up all summer. Why don’t you just spend some of those?” Actually, you have \$52! Ah, a true friend!

Let’s try this one, you decide.

You rush back to the store and say to the first clerk you see, “I want to buy some Orange Farm Co. pre-made orange juice.”

“Yes, we carry it,” the clerk says.

“How much is it?” You ask, hoping you misread the high price.

“Thirty dollars,” the clerk says. “We only sell it by the shrink-wrapped case.”

“Cool, I’ll take it,” you say.

“How will you pay?” The clerk then asks.

“Well, I would like to give you \$21 in cash and \$9 of my retained earnings.” “Sorry,” the clerk says. “Cash only.”

You lay out the \$21 dollars.

“That’s not enough,” the clerk says. “Where’s the rest?”

“I have \$9 in retained earnings. My earnings are as good as cash!” You insist. What we take here is green - the real stuff. But won’t you take my retained earnings?

Please, PLEASE! People have always told me I could spend my earnings. The only difference is my cash is green and my earnings are black.”

“Sorry, no,” the clerk says. With that, he smiles, shrugs, and walks away.

So, can you spend earnings? **No. You cannot spend earnings.** You can only spend what? **Cash.**

You’re more than a little bewildered by this experience. Well, you think, if I can’t spend my earnings, what good are they? And, by the way, if they aren’t cash, where are they? You resolve to figure that out later. Meanwhile, you’re desperate! You’re only \$9 dollars short and no one will help you.

Then, you decide to go back to the store and say, “Hey sir, let me open an account”. Maybe this nice-looking clerk at the warehouse-type store will let you charge the orange juice. You chase after him. You find him dusting shrink-wrapped cartons of toothpicks. “Okay,” you say, with as much confidence as you can muster. “I’d like to give you \$21 cash and charge the balance. Will you do it?”

“I don’t know you, kid,” the clerk replies. “How do I know you will pay it back?”

“How about calling my personal grocer, Peter, across town? I’ve got credit with him and I’ve paid all my bills.”

Then you remember, again, that Peter’s at the tournament, like everyone else.

Finally, the clerk agrees to talk to the manager on your behalf. And, miracle of miracles, the manager agrees to let you open an account. He said something about knowing Peter and that anyone who could get credit from Peter is probably okay.

We give the clerk how much cash? **\$21.00**

The clerk gives us how much orange juice? **\$30.00**

Go ahead and demonstrate the transaction. Let’s first do the journal entry. Fill out the account names.

| <u>Account</u> | <u>Debit(Dr)</u> | <u>Credit(Cr)</u> |
|--|------------------|-------------------|
| <input type="text"/> | \$30.00 | |
| <input type="text"/> | | \$21.00 |
| <input type="text"/> | | 9.00 |
| Total | <u>\$30.00</u> | <u>\$30.00</u> |
| Description: To record the purchase of inventory with \$9 as credit. | | |