CONCEPT: <u>FUNDAMENTAL ACCOUNTING EQUATION</u>

This equation is the foundation of the financial accounting system:

$$Assets = Liabilities + Equity$$

- ***Assets*** – Anything tangible or intangible ____________ by the company
  - ☐ *Current Assets* – Cash or any asset convertible to cash in less than ___________________
  - ☐ *Long-term (Fixed) Assets* – Assets expected to be used for more than _______________ (i.e. land or machinery)
- ***Liabilities*** – Money that the company ____________ to others
  - ☐ *Current Liabilities* – must be paid in under ____________ (i.e. accounts payable or short-term debt)
  - ☐ *Long-term Liabilities* – Payable in over ____________ (i.e. bonds payable)
- ***Equity*** has two main components:
  - ☐ The money that stockholders paid into the company when the company ___________ raised capital
  - ☐ The _____________ accumulated and _______________________ over the course of the company's lifespan
    - **- Paid-in Capital** – the amount that stockholders have _________________ in the corporation
    - **- Retained Earnings** – income from _____________________ that has not been distributed as dividends
    - **- Revenues** – ____________ of resources (generally cash) from delivering goods or services to customers
    - **- Expenses** – ____________ of resources from receiving goods or services from outsiders
    - **- Dividends** – payments to shareholders that are taken from _________________________
      - **DIVIDENDS ARE ________ AN EXPENSE**!
    - **- Income/Loss** – the net amount of revenue minus expenses will result in income or loss.
      - Income and Profit are synonymous; Revenue is not the same as Income!

EXAMPLE: Equity when purchasing a home

The home costs $150,000 and you make a $30,000 down payment. The remainder is a mortgage from the bank.	You pay back $20,000 of the principal on the mortgage.

PRACTICE: A company has assets totaling $50,000 and equity of $20,000. What are their liabilities?

a) $0
b) $20,000
c) $30,000
d) $70,000

PRACTICE: A company has liabilities of $25,000 and assets of $35,000. What is the company's equity?

a) $10,000
b) $20,000
c) $30,000
d) $60,000

PRACTICE: If a company has liabilities of $65,000 and equity of $25,000, what are the company's assets worth?

a) $25,000
b) $40,000
c) $60,000
d) $90,000