Balance Sheet

What is a Balance Sheet?
The Balance sheet is a “Snap Shot” of what a company owns and owes at a given point in time. It is based off of this following equation:

\[
\text{Assets} = \text{Liabilities} + \text{Shareholder’s Equity (SE)}
\]

What is an Asset?
- **Assets** are the economic resources owned by a company.
- Each resource is expected to provide a future benefit or have value.
- Examples:
  - Cash
  - Accounts Receivables (money that is owed to you)
  - Inventory
  - PP & E (Property, Plant, and Equipment)

What is a Liability?
- **Liabilities** are the company’s debts or obligations (i.e., what the company owes to others).
- Each liability is expected to require the sacrifice of a benefit.
- Examples:
  - Accounts Payable (Money owed to others that has not been paid yet)
  - Notes/Loans Payable

What is SE?
- **SE** is what’s left after subtracting what the entity owes (its liabilities) from what the entity owns (its assets).
- It is comprised of two separate accounts:
  - Retained Earnings: the amount of earnings (profits) reinvested in the business.
  - Contributed Capital: the investment of cash and other assets in the business by owners of the business.

\[
\text{SE} = \text{Retained Earnings} + \text{Contributed Capital}
\]
Income Statement

What is an Income Statement?
It is the report of the economic performance of a company over a period of time
It is based off of this following Equation:

Net Income = Revenue - Expenses

What is Net Income?
· Net Income measures a company’s success in selling goods and services for more than their cost to produce and sell
· If Net Income is negative, it is called a Net Loss

Beginning Period Retained Earnings
+ Net Income
- Dividends (a sum of money paid regularly, typically quarterly, by a company to its shareholders out of its profits)

= Ending Retained Earnings (SE)

What is Revenue?
· Revenue is earned when cash or promises to pay are received and the firm delivers its goods or services
· Example:
  - Sales Revenue

What are Expenses?
· Expenses are incurred when resources are used to earn that period’s revenue
· Examples:
  - Supplies Expense (used supplies)
  - Cost of Goods Sold (How much money it took to produce what you are selling)
  - Salary/Wage Expense
  - Utility Expense
  - Rent Expense
  - Interest Expense
Debits = Credits

What are debits and credits?
Debits and Credits are used to increase or decrease account balances
The amount debited will *always* have to equal the amount credited to accounts
Journal Entries

What are Journal Entries?
Journal Entries are used to update account balances through debiting and crediting impacted accounts

Ref# | Account Title (effect) | Debit | Credit
---|---|---|---
(1) | Debited Account (+A or -L or -SE) | $$ | 
| Credited Account (-A or +L or +SE) | $$ | 

*Example: Chipotle pays $1 Million in Cash exchange for Tortillas*