

CONCEPT: THE GENERAL FLOW OF ACCOUNTS

- Accounts follow this general flow:

$$\textit{Beginning Balance} + \textit{Additions} - \textit{Subtractions} = \textit{Ending Balance}$$

- ☐ Let's use this formula to see the flow in two different accounts: Accounts Receivable and Retained Earnings

- **Accounts Receivable** – amounts that customers owe to the company

- ☐ Beginning Balance: amounts already owed to the company from previous periods
- ☐ Additions: sales to customers made _____ increase the balance of Accounts Receivable
- ☐ Subtractions: receipts of _____ from credit customers decrease the balance of Accounts Receivable
- ☐ Ending Balance: amounts still owed to the company at the end of the period

EXAMPLE: A company had a beginning balance in Accounts Receivable of \$1,200. Throughout the month, the company sold \$3,000 in cash and \$2,000 on credit. The final balance in Accounts Receivable was \$1,800. What amount of cash was collected from customers throughout the month?

- **Retained earnings** – holding place for _____ that has not been paid to stockholder's as _____

- ☐ Beginning Balance: accumulation of net income held by company from previous periods
- ☐ Additions: this year's _____
- ☐ Subtractions: declaration of _____ to stockholders
- ☐ Ending Balance: accumulation of net income still held by company after dividends paid

EXAMPLE: A company had a beginning balance in Retained Earnings of \$55,000. This year, the company had Revenues of \$40,000 and Expenses of \$32,000. The company also declared and paid a dividend of \$6,000. What is the final balance in Retained Earnings?