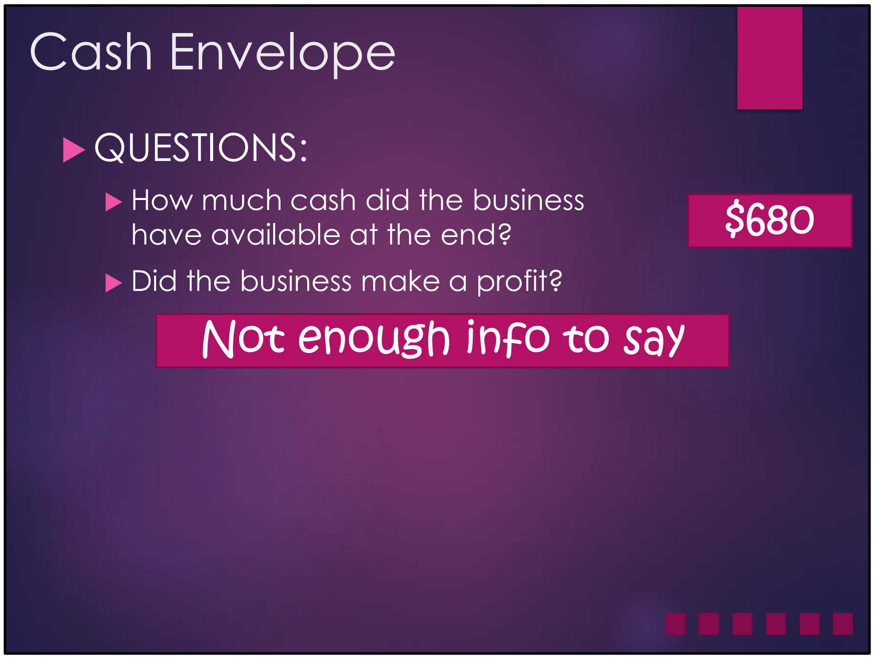
Double Entry Bookkeeping

WHAT DID YOU LEARN?

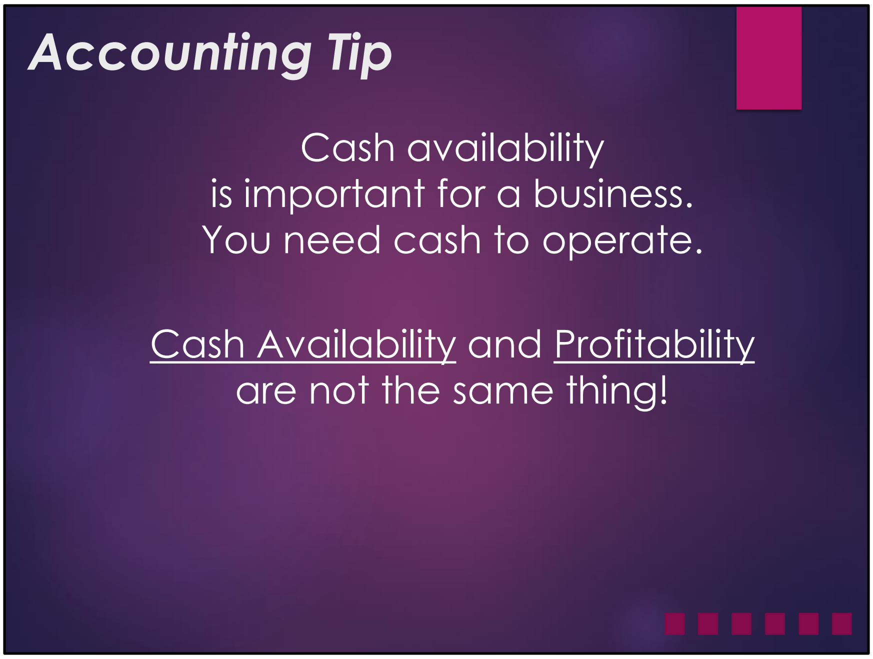


In this case, the business started with $2000 and ended with $680.
Is that good or bad?

Obviously we wish we had more and more and more cash.

There is a lot more to profit than cash, but both are important.

We are going to learn about that now.

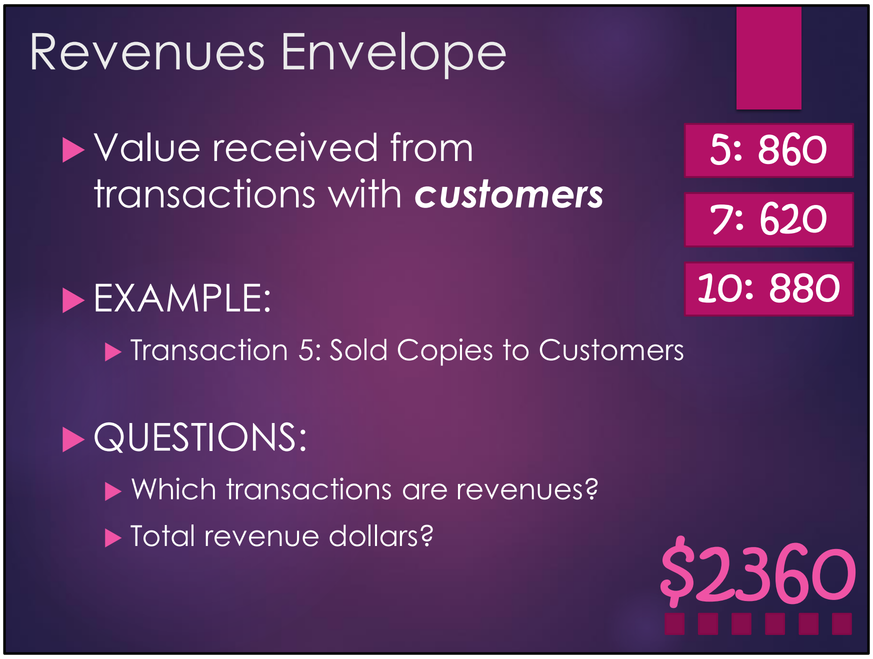


Cash is one of the envelopes that you had.

Profitability is about two entirely different envelopes: Revenues and Expenses. Let's talk about those now.

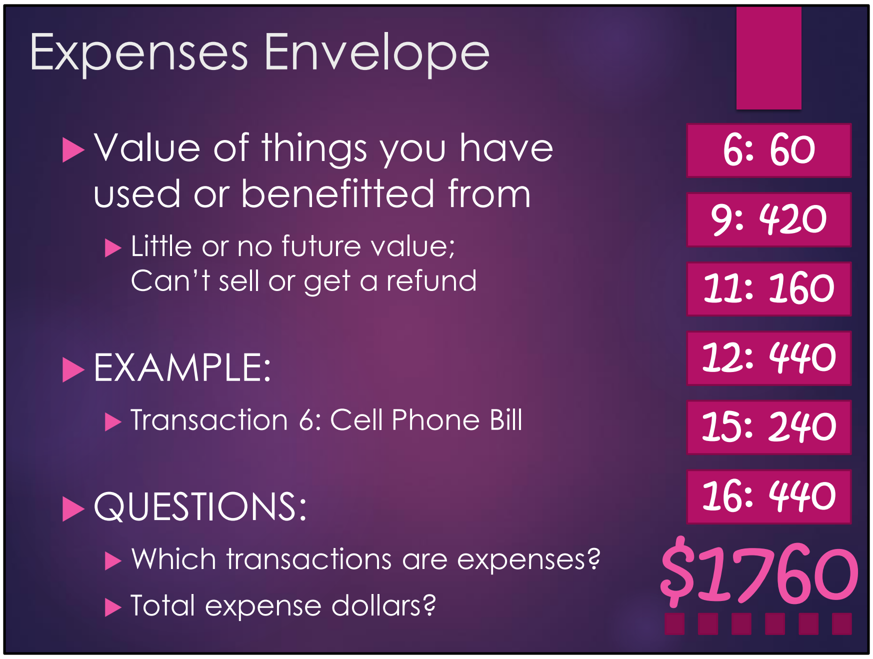
5 Account Types

THE OTHER 5 ENVELOPES



All of these transactions have one thing in common: they involve work we do for customers. That's what makes it a revenue.

What if we did work for a customer and they promised to pay us later? Is that still a revenue?
YES IT IS.
We GAVE a service
We GOT a promise to pay



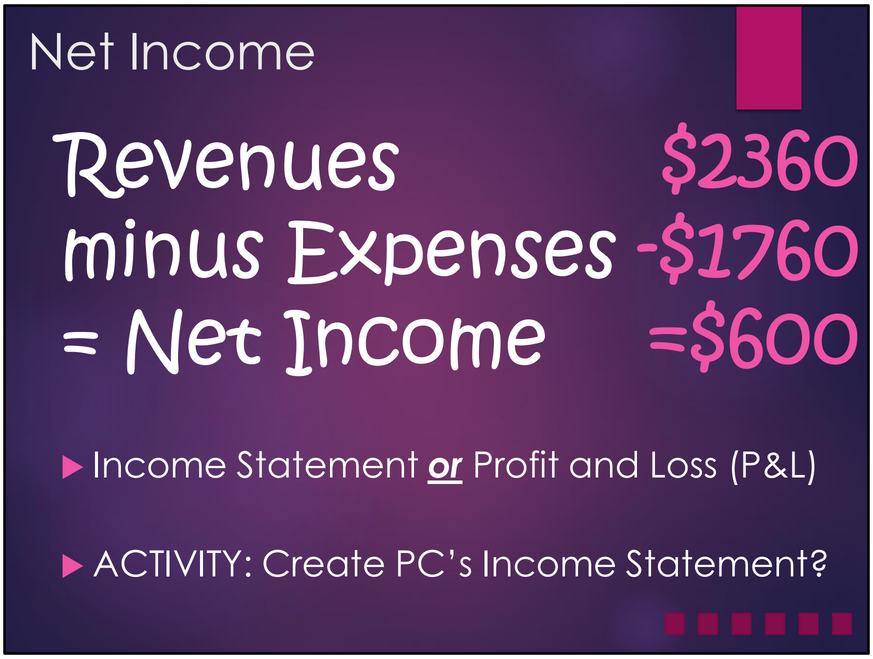
What do all of these transactions have in common?
They represent the value of something that the business used or benefitted from.

Did we pay cash for all of these transactions? NO!

In transactions 6, 9, 11, and 12 we GAVE cash.
We GOT a service (6=cell phone, 9=advertising, 11=repair, 12=labor), all expenses

In 15: We GOT electricity (an expense).
We GAVE a promise to pay later.

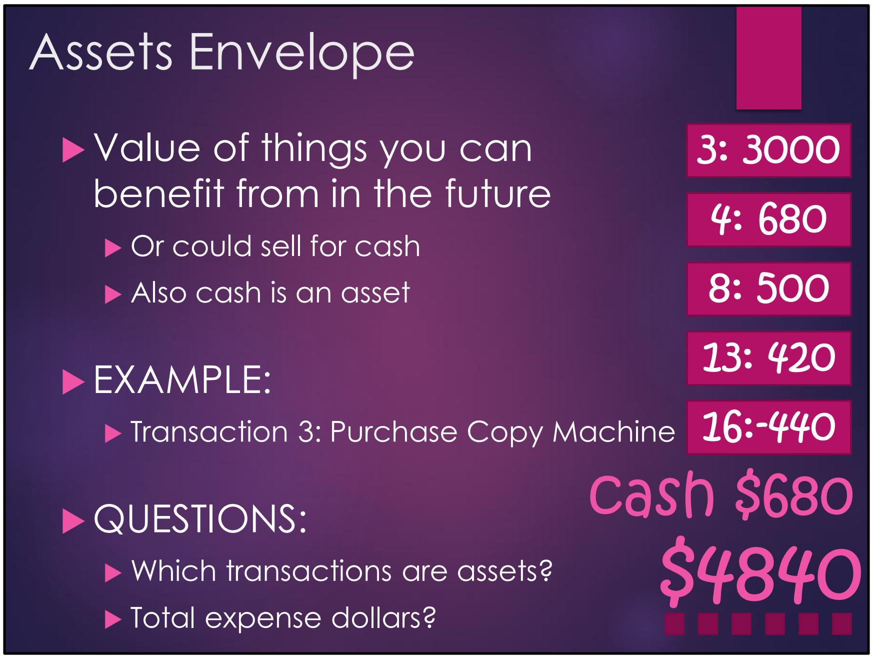
In 16: We GOT the use of supplies (an expense).
We GAVE the supplies we had.
This is an example of buying something earlier (and calling it an asset), and then using it later (and calling it an expense).



So it turns out that Poppie's Copies was profitable.
Their Revenues (from customers) were $600 more than their Expenses (cost of doing business).

Why did Poppie's Copies cash go from $2000 to $680 if they were profitable?

Let's look at some of the sources and uses of Poppie's cash by looking at the other three envelopes.



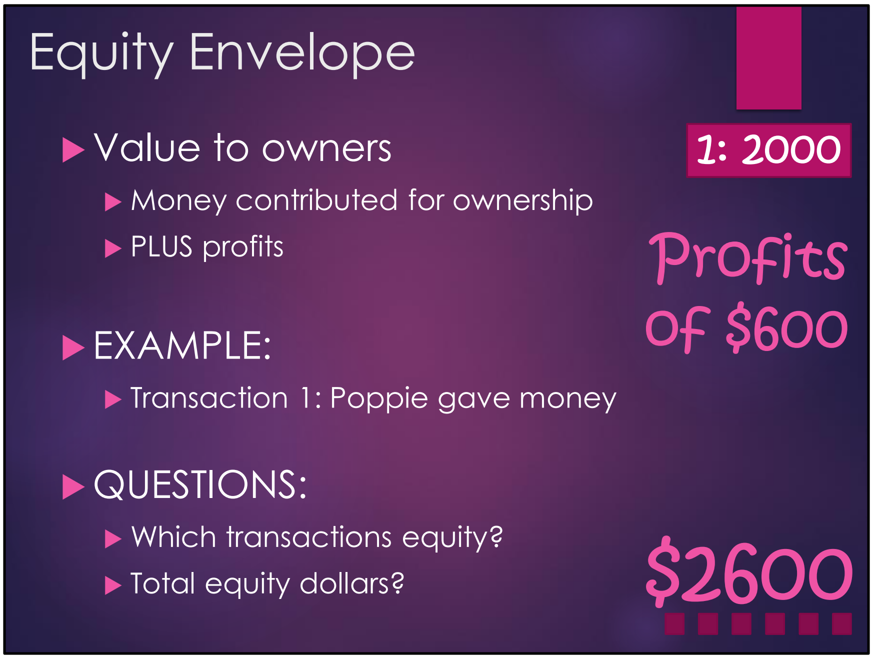
Other than cash, what assets does Poppie's Copies have?
3=Copy Machine
4=Supplies (but some got used up in 16)
8=Chromebook computer
13=A sign

What do all of these have in common? They can all be used in the future. That's what makes them assets.

But don't forget that Cash is an asset too.

Who does Poppie's Copies owe?
2: Poppie's Uncle who loaned $2500 (be we repaid him some in 14)
15: Electric company who billed us but we didn't pay them yet

Money we borrow and pay back does not affect profitability at all.



Owners buy into the company just once normally.
Poppie bought/created the company by giving $2000 of her own money to the business. That’s how she became the owner.

One day, if Poppie wants a partner, she may let someone else buy into the company too. Or she may stay the only owner forever.

The money contributed to owners does not affect profitability at all.

BUT PROFITABILITY HAS A HUGE IMPACT ON EQUITY!
Because the profits are part of equity.
Revenues minus expenses is net income
And that amount is added to equity.

This is the main reason people buy into companies, so they can get their share of the profits added to their equity. Poppies initial investment of $2000 grew to $2600 because of $600 in profits.

Remember, Assets = Liabilities + Equity is the accounting equation.

Everything the business owns (all of its assets) either
Is owed to someone (liabilities) or
Belongs to owners (equity).

In this case, the business is worth $4840 in assets.
But the business owes $2240 to someone else.
That means the owner (Poppie) is only entitled to $2600 of the assets.