## MAJOR BALANCE SHEET CLASSIFICATIONS

### Assets
- Current Assets
- Long-Term Investments
- Property, Plant, & Equipment
- Intangible Assets
- Other Assets

### Liabilities
- Current Liabilities
- Long-Term Debt
- Deferred Taxes

### Stockholder’s Equity
- Capital Stock
  - Preferred Stock
  - Common Stock
- Additional Paid-In Capital
- Retained Earnings
- Treasury Stock

**Assets** are probable future economic benefits obtained by or controlled by an entity as a result of past transactions or events.

**Liabilities** are probable future sacrifices of economic benefits arising from present obligations of an entity to transfer assets or provide goods or services to other entities in the future as a result of past transactions or events.

**Stockholder’s Equity** is residual interest in the assets of an entity that remains after deducting its liabilities. In a business enterprise, equity is the ownership interest.
Indication of entity’s liquidity

**CURRENT ASSETS**

1. Cash
2. Short-term investments
3. Receivable
4. Inventories
5. Prepaid expenses

**CURRENT LIABILITIES**

1. Short-term debt
2. Accounts payable
3. Advances from customers
4. Income taxes payable
5. Current portion of long-term debt

**WORKING CAPITAL**

\[ \text{Current assets} - \text{Current liabilities} \]

Indication of *flexibility* in meeting financial demands of

**THE OPERATING CYCLE**

- Cash
- Receivables
- Inventories
## DOUBLE-ENTRY ACCOUNTING SYSTEM

### REAL (PERMANENT) ACCOUNTS

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
<th>CAPITAL/STOCKHOLDER’S EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit/Dr</td>
<td>Credit/Cr</td>
<td>Debit/Dr</td>
</tr>
<tr>
<td>Increase</td>
<td>Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>+ ↑</td>
<td>- ↓</td>
<td>- ↓</td>
</tr>
</tbody>
</table>

### Rules of Thumb

- **If the “normal balance” for an account is a debit, then the account is increased by a debit and decreased by a credit.**

- **If the “normal balance” for an account is a credit, then the account is increased by a credit and decreased by a debit.**

### Contra Accounts

- Contra Accounts have normal balances that are the opposite of their “parent” accounts.

### RETAINED EARNINGS

<table>
<thead>
<tr>
<th>Debit/Dr</th>
<th>Credit/Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>- ↓</td>
<td>+ ↑</td>
</tr>
</tbody>
</table>

### NOMINAL ACCOUNTS

#### REVENUES (and GAINS)

<table>
<thead>
<tr>
<th>Debit/Dr</th>
<th>Credit/Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>- ↓</td>
<td>+ ↑</td>
</tr>
</tbody>
</table>

#### EXPENSES (and LOSSES)

<table>
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<th>Credit/Cr</th>
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<td>Increase</td>
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Edited by Scott Daniels
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