CHAPTER 1

NUMBERS, NUMBERS, NUMBERS: THE WHY AND THE HOW

STATISTICS AND NUMBERS THAT CONFOUND US

My attitude toward numbers was strongly influenced by having Miss Ball for Algebra in the 10th grade. She was most successful—in turning off any interest I had in numbers! Her stated philosophy was: ''Don't try to understand why. Just do it!'' Most of us have run into such a figure at some time in our youth. If we ever thought that there wasn't much fun in numbers, Miss Ball made sure we forever believed it. To be fair, there were other, kinder teachers who explained reasons and tried to tie mathematics to popular applications. But they were hampered by being required to use textbooks that asked questions such as:

> Mary had twice as many apples in her basket as John had chickens in a number of boxes, and the number of boxes was the square root of Alice's age. Alice was twice as old as Mary and half of John's age. How many wings did the chickens have and should they be fried or broiled?

Who cares? This attitude carries over to our adult lives. We hear statistics about the gross national product, the unemployment rate, stock prices, averages, the national debt, and our employer's productivity gains. We know that all of these things are important, but the basketball game or the latest movie on HBO is usually more appealing.

SCORES: NUMBERS WE ENJOY

Yes, these experiences made most of us averse to numbers, particularly when they appear formally on tax returns, financial reports, bank statements, and so forth. But note that we still find numbers to be friendly in informal areas such as the point spread in the Super Bowl, a golf handicap, or a tennis score. Those of us who have been to Las Vegas or Atlantic City know all the combinations of numbers that add up to 21, although we would rather we had never become acquainted with the combinations that add up to 22 or more.

Years after my experience with Miss Ball, I became comfortable with numbers and spent much of my time involved with them. How? I took the easy step from sports and other leisure activities to business. I say it's an easy step, for business has been described as ''sports, but for real.'' Business is competitive. If you commit a foul, the judge will penalize you, and score is kept in dollars. So, if you need or want to be more comfortable with financial reports and the like, think of them as scorecards. If your company, division, or other area of responsibility has made more profit or reduced expenses, you have won. The prize is more income, a promotion, or both. For example:

> You manage a restaurant for the G-Spoon Eatery chain. Compared to last year, sales have increased by $500,000. Net profit has increased by $100,000, and net income as a percentage of sales is 17 percent, compared to 5 percent last year. It sounds good, but it's still a bunch of numbers—pretty dry stuff. However, if you make some more computations, you find that, because of the increase in sales and profits, your bonus will be $50,000. Now the numbers become much more interesting. And if you want to equate that $50,000 to being able to turn in your old Chevrolet for a Porsche, the numbers become extremely interesting.

So, as you read on in this chapter, think of the numbers as a scorecard. Just as a tennis book will explain the intricacies of tennis scorekeeping, this and the following chapters will explain the intricacies of business scorekeeping. Or think of it this way: Most of us like to talk (remember all those bull sessions as a teenager?); in other words, we are social animals who like to communicate with each other. When we communicate about boyfriends, girlfriends, spouses, war, peace, or

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Uncle Lem, words are the language of communication. When we communicate about business, we use numbers as well as words, for financial numbers are the basic language of business. So, when you study financial numbers, you are merely adding to your vocabulary.

SIMPLICITY MAKES IT EASIER

In most of the examples and case studies in this book, you will find numbers rounded to the nearest hundreds or thousands of dollars because that makes it easier to understand the concepts. You can do the same with your own numbers. If you are dealing in millions of dollars, round off the numbers you are working with to the nearest thousand. If you are dealing in thousands, round off to the nearest hundred, and so on. Of course, pennies should almost always be disregarded (unless you are dealing with costs per each item, as discussed in the next paragraph). After all, if sales are actually $8,573,425.76, and you round it off to $8,573,000 you have introduced an error of only 0.005 of 1 percent—hardly enough to alter any decisions made based upon the report.

Accountants call this concept ***materiality***. A ***material error*** is one which is large enough to cause people to make a decision that is different from a decision they would make if they had the correct figures.

For instance, let's say you are the president of the Pointless Pencil Company. Your accounting department has a clerk who, after rounding off too many numbers and making several errors, computes that each pencil costs $0.01 to manufacture. You and your chief accountant decide, therefore, that you can sell the pencils, in jobber lots, at $0.013 each. You do so, and after several months find that the company checkbook has a zero balance and many bills remain unpaid. Your accountant reviews the clerk's figures and finds that he rounded the cost from the actual figure of $0.014 per pencil to $0.01. Of course, had you known that the pencils really cost you $0.014, you would not have run the company into bankruptcy by selling them for only $0.013 each. The error the clerk made was a whopping 29 percent ($0.004 ÷ $0.014) and was obviously material, for it caused an incorrect decision. The moral: Round off whenever it will not be material (as the 0.005 percent error in the first example), but be careful. Sometimes even a fraction of a penny can be material.

GOING INTO BUSINESS (OUR NOVEL)

Business schools use the case study method of instruction. Why should we be different? What follows is a story of a company that starts in simple fashion as a retailer. The evolution of this company will serve to

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illustrate many basic concepts. In later chapters, the company expands into service, contracting, and manufacturing, so nearly all types of businesses are illustrated.

You did know that accountants are frustrated novelists, didn't you? That is why, woven through the figures in this book, you will find the story of Rosie Rouse and how she started and ran the Spouse House Company. What's a Spouse House? Until recent times, disgraced or out-of-favor spouses were banished to the doghouse in the backyard. Poor Rover, displaced from his home, had to do the best he could under the porch or in the bushes. Now, with the emerging support for animal rights, Rover can no longer be evicted from his doghouse. The disgraced spouse must find shelter elsewhere. Here is a new need, a new market—shelter for discredited spouses.

Rosie is the first to see this new market, and the first to fill it. She decides to sell Spouse Houses—buildings that are much larger than doghouses but small enough to fit in backyards. These buildings include amenities such as recliner, carpet, and insulation. She starts the business by making arrangements with Fred's Sheds, a manufacturer of Dutch colonial garden storage sheds. To fill Rosie's orders, Fred will modify sheds into Spouse Houses by adding the amenities.

Rosie rents a small office, has a telephone installed, and places some advertising in the newspaper. She also has some stationery and business cards printed and leases (for one year) the automobile in which she will make sales calls. During January, her first month, the following occurs:

- Rosie sells three Spouse Houses at $1,500 each, for cash.
- She purchases the three Spouse Houses from Fred's Sheds for $900 each. She pays him for two of the Spouse Houses ($1,800) and promises to pay him for the third one on February 5.
- She pays $800 for her office ($400 for January rent and $400 as a security deposit).
- She pays $150 to purchase a telephone and $30 for service during January.
- She buys newspaper advertising for $300.
- On February 5, she receives an electric bill for electricity used during January. It totals $100.
- She charges the January rent of the automobile ($280) to her credit card, which she does not pay until February 15.

Now, because you are reading this book, Rosie has selected you to be her accountant. She asks for a report on her January business. There are a couple of ways you can prepare it for her.

BASIC CONCEPT (CASH ACCOUNTING AND ACCRUAL ACCOUNTING)

Report Version 1

Cash receipts and cash disbursements (what went into or out of Rosie's checkbook and/or pocket):

January Report

Cash receipts:		
For sale of 3 Spouse Houses		$4,500
Cash disbursements:		
Purchase of 2 Spouse Houses	$1,800	
Office deposit and rent	800	
Telephone purchase	150	
Telephone service	30	
Advertising	300	
Total cash disbursements		3,080
Excess of receipts over disbursements		$1,420

For clarification, let's define the headings of ''cash receipts'' and ''cash disbursements.'' ***Cash receipts*** are all the checks, money orders, and cash received in a given period of time. ***Cash disbursements*** are all the checks written (and mailed) or cash paid out in a given period of time.

Report Version 2

Income and expense (what was earned and what were the costs and expenses related to the earnings):

January Report

Revenue:		
Sales, 3 Spouse Houses		$ 4,500
Subtract: Cost of goods sold (3 Spouse Houses @ $900)		2,700
Gross profit		1,800
Expenses:		
Office rent	$400	
Telephone service	30	
Automobile rent	280	
Electricity	100	
Advertising	300	
Total expenses		1,110
Net income		$ 690

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There's a difference between the two reports. Just looking at Rosie's checkbook as reflected in report 1 indicates she is ahead by $1,420 but in report 2, she has a net income of only $690. Why the difference? While the differences may look obvious, let's review them in detail, for they are simple examples of what is forever confusing about sophisticated financial reports and budgets.

Report 1 is just a reflection of Rosie's checkbook, but report 2 is based on what accountants call the ***matching principle***. If three Spouse Houses are sold during January, the offsetting cost of those sales, which is the cost of three Spouse Houses, should be recorded as the January cost that matches the January sales. So, the cost (at $900 each) of the three Spouse Houses sold in January (at $1,500 each) of $2,700 is displayed as the ''cost of goods sold,'' even though the third house was not paid for as of January 31. In other words, the ***matching principle*** requires that expenses be deducted from related revenues in the periods in which they occur.

Similarly, report 2 for January reflects the expense of car rental of $280, even though Rosie does not write a check for it until February 15. We cannot tie the car rental expense to a particular product sale, as we could tie the cost of the third Spouse House to its sale. However, we can tie it to a time period—the month of January, in this case. Because January has come and gone, the related automobile rental expense has occurred; it is ***matched*** with January and therefore is listed as a January expense, regardless of when payment is made.

This process of recording transactions when they happen (not when they are paid for) to meet the matching principle is called ***accrual*** accounting. It is the basis on which all publicly held companies* report their earnings, and it reflects better the true results of a company's operations. For instance, report 1 suggests that Rosie may have $1,420 to spend as she pleases. Of course, she doesn't, partly because she owes Fred's Sheds $900 of that cash, she owes the credit card company $280 for the car rental, and she owes the electric company $100.

There are two other differences between reports 1 and 2, or between cash and accrual accounting. Report 1 records the $800 as paid for the office rent and deposit. In the accrual report 2, it is listed as only $400, the rent for January. The $400 deposit is not an expense of January. In fact, it is never an expense, for some day Rosie (or one of her heirs) will close

*The concept of ***publicly held*** companies is more fully discussed in Chaps. 8 and 11. Briefly, it refers to companies whose stock is owned by many people and actively traded, as on a stock exchange.

the office and receive a refund of the $400. In the same way, the purchase of the telephone is not an expense of January, but an expense of all the years during which it may last and be used by the company. Actually, a very small part of that cost of the telephone is January expense, but it is so small that we can ignore it for now. In Chap. 5 we will cover this item and its computation, which is known as ***depreciation***.

WHEN TO USE AND NOT USE CASH ACCOUNTING

One of the accounting rules is that, with few exceptions, reports of the income of a business should be prepared on the accrual basis. You may ask If accrual accounting is preferred, why even discuss cash-basis accounting? The answer is that the cash-basis bookkeeping is very simple, and for small companies in a business of providing service, it may be adequate. If you are on a cash basis, you have only to take your checkbook to your accountant in order to have a tax return prepared. (Of course, you can save some accounting fees if you or an assistant do some of the basic bookkeeping before you hand over your records to the accountant.)

Another reason to use the cash method of accounting is that the Internal Revenue Service (IRS) will allow certain businesses to compute their income taxes using the cash basis. (Check with your tax advisor as to the rules for your type of business.) This may or may not be an advantage, depending on circumstances.

Consider Dr. Drybones: Every day he sees several patients and conducts medical procedures for which he sends out bills. While a few patients may write a check for his services as they leave his office, most of the doctor's invoices go to insurance companies and health maintenance organizations (HMOs). Due to the bureaucracy of these payers, it may be weeks or even months before he is paid for his services. In the meantime, of course, he has had to pay his employees (medical assistant, receptionist, billing clerk) and rent, purchase medical supplies, and meet other expenses with immediate cash outlays. If he computed his income taxes by using the accrual method, all those invoices that he sent out today would show up on his tax return as income. In other words, he would be paying tax on money that he may not see for months and, in some cases, may never see. Obviously, it is to his advantage to consider only the money collected as income. As to his expenses, he can deduct his expenses almost immediately as he pays for them. (Do you think his medical assistant would wait for her paycheck for three months until the doctor is paid? Fat chance!)

If a business pays for a product after making a sale and collecting cash for the sale (as Rosie did for the third Spouse House), the cash basis would be a disadvantage. For the sake of explanation, assume that Rosie had to file and pay income taxes monthly. Using the cash method (report version 1), she would pay tax on $1,420 of income. Using the accrual method (report version 2), she would pay tax on only $690 of income.

It is also possible to combine the accrual and cash method of accounting. Refer back to the report versions 1 and 2. The major difference in net income is caused by the third Spouse House, for which Rosie did not pay until February. On the other hand, if she paid the telephone bill a month early or a month later, the $30 item would make little difference in the computation of income. So, to better reflect actual income and at the same time avoid the detailed work of accruing expenses, many companies use the accrual method to compute gross profits (see report version 2) and the cash method to report general expenses. In fact, unless your business is quite small (sales of under $1 million at this writing) and you want to report your taxes on the cash basis, the IRS will require that you at least use this combination method.

Of course, if you do not keep a significant amount of inventory, the combination method and the IRS rules are not factors. For instance, Dr. Drybones' inventory consists of only disposable gloves, tissues, and Band-Aids. He does not have to worry about reporting any part of his business using the accrual method.

A FEW BASIC TERMS

There are some terms in report 2 that will be with us not only for the rest of this book, but for the rest of our lives:

Sales refers to what is charged to customers for goods or services. The term is used almost synonymously with ***revenue***.

Revenue refers to the income that flows to an enterprise before deduction for any costs or expenses. In a business, the term is used almost synonymously with ***sales***. In government and nonprofit organizations, it includes taxes and grants.

Cost of goods sold means the cost, to the company, of the merchandise that was sold to customers.

Gross profit is what's left after you subtract cost of goods sold from sales. (***Gross margin*** means about the same thing.)

While on the subject of margin, let's go over the distinction between two related terms: Profit margin percentage and markup percentage. ***Profit margin percentage*** is the difference between the selling price and the cost price of a product, divided by the ***selling*** price. ***Markup percentage*** is that same difference (between selling price and cost price) divided by the ***cost*** price. We can apply this to Spouse Houses. The facts are as follows:

Selling price, each Spouse House	$1,500
Subtract cost of each Spouse House	900
Gross profit (margin), one Spouse House	$ 600
Gross profit (margin) percentage = $600 ÷ $1,500 =	40%
Markup percentage = $600 ÷ $900 =	67%

Expenses are other costs that are not matched with sales as part of cost of goods sold, but are matched with a specific time period, as, for example, the Spouse House Company's rent of $400 per month.

Net income, also called ***net profit*** or ***earnings***, is what's left after you subtract expenses from cost of goods sold. The ''net'' part does not refer to basketball or tennis, but it might relate to fishing in that the ''fish left in the net'' are what is left of sales after all the costs and expenses have drained out. This net income is often referred to as ***the bottom line***. You will hear accountants use ***net*** as a verb, saying that a minus figure was ***netted*** to a positive figure. They mean that, for example, if −3 is netted to +5, the result is 2.

In hard times, net income can be negative, in which case it is called a ***loss***. That occurs when cost of goods sold and expenses are larger than sales.

FINANCIAL STATEMENTS AND REPORTS

Up to this point we have referred to our display of operating numbers as reports. For much of this book we will talk about reports, but at times we will talk about financial statements, which are documents that took just like some reports. What's the difference?

What are reports? If you call or write one of the companies listed on a stock exchange and ask for their ***annual report***, you will receive a glossy booklet full of prose that extols the company's success, along with some pages full of numbers. When your boss asks for a report of your production last week, he or she probably wants a list of numbers, such as sales made or paperweights produced. The boss probably does not want a report full of prose, which might better be labeled ''excuses.'' While a report can contain anything from a fifth-grade exposition of the causes of

Mackenzie's Rebellion to a quarterly report of earnings of General Motors Corporation, this book will be concerned mainly with financial reports.

A ***financial report*** is anything that the management of an enterprise wants prepared. It could be a cash register tape of today's sales, a summary report of all the financial transactions for a year, and many things in between.

Financial statements are financial reports in a special, prescribed format. They should be put together in a format that meets the rules of Generally Accepted Accounting Principles (explained in the next section). I suppose they are called financial statements because they make a statement about operations and financial condition. Generally, they are suitable for distribution to creditors, bankers, investors, and so forth. A set of financial statements contains several displays of numbers in specific formats. We will be talking about them throughout this book and wind up with complete coverage in Chap. 12.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Why should financial statements be prepared according to Generally Accepted Accounting Principles if they are to be given to people outside of the company management? The idea is to have every company's financial statements prepared in the same way so that, for instance, a banker could compare two similar companies and decide which one was in better shape and deserving of his or her loan services. Does it work? Only ''sort of.'' Every company is different, so every company puts its financial statements together a little differently, but still within the framework of Generally Accepted Accounting Principles. Throughout this book we will find instances where the rules provide a company with alternative ways to report a given transaction.*

Generally Accepted Accounting Principles is a mouthful of a phrase if it has to be repeated several times. Accountants, not being given to verbosity, therefore shorten it to GAAP. When you hear these number crunchers talking about ''gap,'' they are not talking about a pass through the Blue Ridge Mountains. They are referring to Generally Accepted Accounting Principles.

*A good example of different, but acceptable, ways of preparing financial statements is in inventory valuation. See Chap. 3.

A MOVE TO REPLACE GAAP WITH INTERNATIONAL ACCOUNTING

Just so you're aware, financial regulators have been rattling their chains for several years now over a proposal that would require thousands of U.S. businesses and foreign companies operating here to switch from GAAP to International Financial Reporting Standards (IFRS). The proposed switch is currently slated for 2014, but the Securities and Exchange Commission (SEC), which currently is seeking public comment regarding the change, has said it will wait until 2011 to decide if it will enforce that deadline for publicly held companies.

The move is controversial, as you can well imagine. It would be a terribly expensive endeavor during a time when many businesses are already hurting due to current economic conditions. And experts warn that the process of switching from GAAP to international standards would be tedious and difficult.

Some business leaders, including the U.S. Chamber of Commerce, assert that the change would make the United States more competitive in the global marketplace and that universal accounting and oversight are necessary in a complicated, international business world.

Critics, however, caution that a universal system could result in huge legal and regulatory problems, particularly if companies aren't given ample time to implement the system.

It shouldn't come as a surprise, considering that Americans have never caught on to the metric system (the system of measurement employed by nearly every other country in the world), that U.S. corporations have been slow in responding to the move toward global accounting.

While many people seriously doubt whether we'll be switching to IFRS any time soon, stranger things have happened. Just be aware that the proposal is on the table and stay tuned for ongoing developments.

Meanwhile, let's get back to our discussion about GAAP, the system currently in place.

WHO MAKES THE RULES? WHO DEFINES GAAP?

What are those principles, and who makes them up? Until 1973, the accountants, through the American Institute of Certified Public Accountants, made up their own rules. (That's nice work, if you can get it.) They called them ''Generally Accepted Accounting Principles (GAAP),'' and that phrase still sticks around. But other people, such as bankers, stockbrokers, and so on wanted a voice in what should be found in financial statements. They convinced the accountants to let them in on the deal and together they formed the Financial Accounting Standards Board, which, since the early 1970s, has been churning out rules almost (but not quite) as fast as the Internal Revenue Service. Here again, accountants abbreviate and create new words. They call the Financial Accounting Standards Board the ''FASB'' and pronounce it ''fazz-be.''*

Do you really think the self-governing body of accountants volunteered to let nonaccountants in on their rule making just because they were nice guys? Technically, the SEC has the power to establish accounting rules, but it has deferred to the private body, probably for budgetary reasons. Accountants, by making the rule-making board (the FASB) open to nonaccountants, probably deferred active involvement of the SEC for many years. Now, since the accounting catastrophes such as those occurring at Enron, Global Crossings, and many others, the SEC and its newly created oversight board may become more directly involved in rule making.

Note that the SEC is concerned only with the rules and their enforcement for publicly traded companies. So, the neighborhood Certified Public Accountant (CPA) who assists the corner deli in setting up an accounting system and creating financial statements is concerned only with the rules from the FASB, and he or she could care less about the SEC rules.

A concise definition of GAAP is somewhat elusive if it is to avoid several technical accounting terms, but here is an attempt: ***Generally Accepted Accounting Principles*** is a broad set of rules, developed by tradition over centuries and now codified by the Financial Accounting Standards Board, that delineates how various transactions will be reported on financial statements.

Finance and accounting people often refer to financial statements as ***external*** or ***internal***. ***External*** financial statements refer to those that are put together according to the rules of GAAP for people outside of the company, such as bankers, other creditors, and investors. ***Internal*** financial statements are for use within the management of the company. There is no law that requires the latter to be assembled according to any rules. Management people can have them put together in any form that will best help them manage.

Do the examples in this book follow GAAP? If they are labeled ''financial statements,'' they essentially do, except they may be incomplete. If the examples are labeled ''operating reports'' or ''management reports,'' they may or may not be prepared according to GAAP.

*Actually, the structure of the FASB is quite complex. For the details, see its website at http://www.fasb.org/fasac/index.shtml.

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My earlier mention of the Internal Revenue Service brings up another point in this rule discussion. The IRS makes rules for preparation of tax reporting. In many instances, the rules for financial statements, as set forth by the FASB, are much different. In this book, we will be concerned with accounting (communication) rules promulgated by the FASB, rather than with reporting taxes to the IRS. That is not to say, however, that we'll completely ignore the IRS rules. As with the cash method of accounting, some small businesses use the IRS rules for their financial statements, a method called the income tax basis of accounting. So where there are differences, we will often point them out. Even those businesses that use accrual accounting will often use the IRS rules in reporting items that are not material. For instance, as is covered later, the IRS rules for depreciation are based on much different criteria than are rules used for accrual method financial statements. But obviously, keeping two sets of depreciation records is a lot of work. Therefore, where the difference in the results of the two different depreciation methods is immaterial, most small businesses simply use the IRS rules for financial statements. (Don't worry about the details of depreciation now. They come later in this book.)

In our discussion of the accounting rules and the various examples, we will sometimes ignore some of the details of the rules. After all, our purpose here is to cover the basic concepts. So, if your friendly neighborhood CPA tries to mire you in confusing and detailed rules, explain that you are after the basics. When you run into a situation in which you need to know what the nitpicking details of a rule are, you can ask for the accountant's help in that area at that time. (This book should provide you with the words and enough skills to be able to ask the question and understand the reply.)

Perhaps it appears that we are getting too far away from finance when we discuss the intricacies of accounting rules. After all, this is a book on finance, not a book designed to turn you into an accountant. As I mentioned at the beginning of this chapter, the financial numbers are the language of business. To understand what the numbers mean and where they come from, we need to have some familiarity with the rules by which accountants put the numbers together. We will, though, omit any substantial discussion of the detailed process by which accountants accumulate, total, and then transfer the numbers to the reports with which we are dealing.

SUMMARY

Think of numbers as a scorecard for your business or department. Think in terms of the concept—what the numbers represent: sales, expenses, new equipment, and so forth. After you have visualized the concept, attach the numbers (rounded).

Activities of a business can be reported on a cash or accrual basis of accounting. Generally, accrual gives a more accurate picture of a company's operations during a given period. The accounting principles and rules are made up by the Financial Accounting Standards Board, not the Internal Revenue Service.

REVIEW QUESTIONS

1. The basic language of business is:

   a. financial numbers

   b. English

   c. universal business language

2. A material error is a mistake that affects a company's supplies and workplace materials. T F
3. Reports prepared using the accrual basis of accounting reflect income earned and expenses incurred, regardless of whether or not they've been paid for. T F
4. Most companies are better off employing the cash method of accounting. T F
5. While financial statements are specific and must adhere to certain guidelines, financial reports are less formal and can assume many forms. T F
6. Generally Accepted Accounting Principals, or GAAP, were established by the:

   a. Securities and Exchange Commission

   b. Small Business Administration

   c. American Institute of Certified Public Accountants

7. External financial statements are those prepared by someone from outside of the company to which they pertain. T F

CASE STUDY QUESTION

Wally's Wallpaper Company sells wallpaper, installed on the customer's wall. Wally does not stock the wallpaper, but buys it after the customer has made a selection. During April, his company picked up 500 rolls of wallpaper from the wholesale house and installed all 500 rolls, charging the customers $10 per roll, installed. At the end of the month, he had collected for all of his sales except for the sale to one customer (Uncle George), who still owed him for 25 rolls.

Wally has a charge account at the wholesale house, which charges him $4 per roll. He has paid for 350 of those wallpaper rolls and still owes the wholesaler for 150 rolls. During April, Wally's company also has these transactions:

- The company pays April rent of $300 for its small office.
- The company receives a telephone bill for $120 but does not pay it until May 5.
- Hot weather is coming, so Wally signs up for a drinking-water service. He writes a company check for $175. Of that, $50 is for a bottle of water, and $125 is a deposit on the cooler that holds the bottle of water. (When and if the cooler is returned to the water company, the deposit will be refunded to Wally's company.)
- Wally has one helper, Jack. Jack started with the company in late March and earned $300 in March and $800 in April. The company pays Jack on the first day of the month for all the work performed the previous month. In this computation, pretend the year is 1928—there is no social security or income tax withheld. Jack is paid his entire salary, with no deductions. (Remember, this is pretend, to make it simple. Do not pay your employees this way in these modern, IRS-afflicted times.)

Your assignment: Make up two reports for Wally's Wallpaper Company: (1) A cash receipts and disbursements report for April and (2) an accrual basis income and expense report for April.