

Brandywine homecare essay

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Brandywine Homecare, a not-for-profit business, had revenues of \$12 million in 2007. Expenses other than depreciation totaled 75 percent of revenues, and depreciation expense was \$1.5 million. All revenues were collected in cash during the year and all expenses other than depreciation were paid in cash.

1. Construct Brandywine's 2007 income statement. An income statement, also known as a profit and loss statement shows how much money a company has spent over a period of time. It also shows the costs and expenses that are associated with earning that revenue.

It is an important measure of the company's profitability. The simple building blocks of a net income formula are revenues minus expenses equal net income.

Brandywine Homecare 2007 Income Statement
 Total Revenue: \$12,000,000
 Expenses: \$9,000,000
 Depreciation Expense: \$1,500,000
 Total Expenses: \$10,500,000
 Net Income: \$1,500,000

2. What were Brandywine's 2007 net income, total profit margin, and cash flow? As stated above, net income is the company's total earnings. Net income = Total revenue - Expenses
 Net Income = \$12,000,000 - \$1,500,000 = \$1,500,000
 Brandywine's net income for 2007 was \$1,500,000.

A profit margin is the difference between sales generated and the cost to produce each of the units sold. A profit margin refers to a measure of profitability and is an indicator of a company's pricing strategy and how well it controls costs. Businesses pay especially close attention to profit margins because they can provide valuable information as to the financial condition of the company. Profit margins are presented in percentage terms.

Total Profit Margin = Net Income / Total Revenues
 Total Profit Margin = 1,500,000 / 12,000,000 = .125 = 12.5%
 Brandywine's total profit margin is 12.5%.

% . This shows that Brandywine make 12.5 cents on every dollar of total revenues. A cash flow, also known as a cash flow statement simply reports the inflows and outflows of cash in a company. Cash flow is important because businesses need cash in order to pay for expenses and purchase other assets. A cash flow statement also shows changes over time and is usually has three parts which reviews the cash flow from operating activities, investing activities, and financing activities. Cash flow is the actual amount of cash that is generated by the company in a year.

Cash Flow = Net Income + Depreciation
Cash Flow = 1,500,000 + 1,500,000 = \$3,000,000
Brandywine's cash flow is \$3,000,000. 3. Suppose the company changed its depreciation calculation procedures (still within GAAP) such that its depreciation expense doubles. How would this change affect Brandywine's net income, total profit margin, and cash flow? If Brandywine changed its depreciation so that the depreciation expense doubled, the depreciation expense would now be ($\$1,500,000 \times 2 = \$3,000,000$) the depreciation expense is now \$3,000,000.

Net Income = \$12,000,000 (total revenue) - \$12,000,000 (expenses and depreciation) = 0
The net income for Brandywine will be zero and they will show no profit.
Total Profit Margin = Net Income / Total Revenues
Total Profit Margin = 0 / \$12,000,000
Total Profit Margin = 0 = 0%
The total profit margin for Brandywine is 0%.
Cash Flow = \$0 (net income) + 3,000,000 = \$3,000,000
The cash flow remains at \$3,000,000 and the depreciation doubled therefore the cash flow remains the same. The cash flow for Brandywine is \$3,000,000. 4.

Explain the difference between cash and accrual accounting. Be sure to include a discussion of the revenue recognition and matching principles. Cash and accrual accounting are two similar methods of maintaining accurate accounting records. The two approaches have many aspects in common but there are two key differences that distinguish one from the other. The difference in cash accounting and accrual accounting is the way debits and credits are applied in bookkeeping. Cash based accounting recognizes income at the time it is actually received.

This means that invoiced income is not counted as an asset until payment for the invoice is received. This approach is also used for debits and any expenses incurred are not posted until they are paid. Small businesses often time use the cash accounting because it is simple and easy. It is important to recognize that this type of accounting can complicate matters when the business is up for sale or a merger is offered. The type of accounting method used in any business should not be assumed. In accrual accounting, an expense is recognized when the business is obligated to pay it.

As goods or services are invoiced, the invoices are posted and counted as assets. Expenses are also posted at the time they are incurred. Accrual accounting is used at most mid-level and large businesses and provides a more accurate picture of the company's current condition, it is however more expensive to implement. This type of accounting is required by GAAP. Although this type of accounting is more complex, it allows one to track receivables and payables, and match revenues to expenses, which gives more meaning to financial reports.

There are also two principles that are key components of accrual accounting. They are revenue recognition and matching principles. Revenue recognition requires that revenues be recognized in the period that they are realized and earned. This is usually in the period in which the service(s) are provided. The matching principle requires that the businesses expenses be matched with the revenues to which they are related in the same period. Although the concept appears simple, it can create problems especially with long-lived assets such as equipment and buildings.

In this case, the business must forecast the costs associated with the revenues collected and record them in the same time period, which is not a simple task. 5. Explain the difference between equity section of a not-for-profit business and an investor-owned business. Not-for-profit businesses and investor owned businesses have many differences. The not-for-profit business does not have any shareholders and there are no ownership rights to the earnings of the business. They do not have access to equity markets and they cannot sell stock to raise equity capital.

The equity section of the not-for-profit business on a balance sheet is called net assets. Financial decisions are usually made by a set of managers that must decide how to allocate capital. A not-for-profit business derives its income from government grants and charities and they must reinvest their earnings back into the business. They also do not pay taxes and are usually exempt from taxation, including property and income taxes, and are able to issue tax-exempt debt. Individuals that contribute to the not-for-profit business are able to deduct their contribution from their taxes.

Investor owned businesses are business that want and need to make a profit. Their primary goal is to make money. They have stockholders who are the owners of the business and can claim earnings from the business and dividend payments from earnings can be made to the stockholders. In addition, investor owned businesses must pay taxes. Equity in investor owned businesses is the ownership claim against total assets and is called stockholder equity. The equity section in the balance sheet has two sources of equity financing, retained earnings and new stock sales.

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