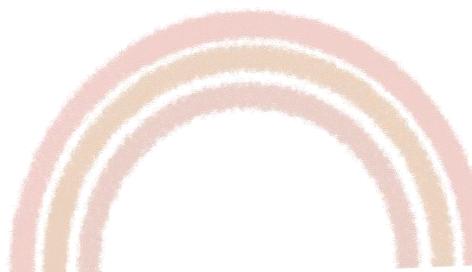
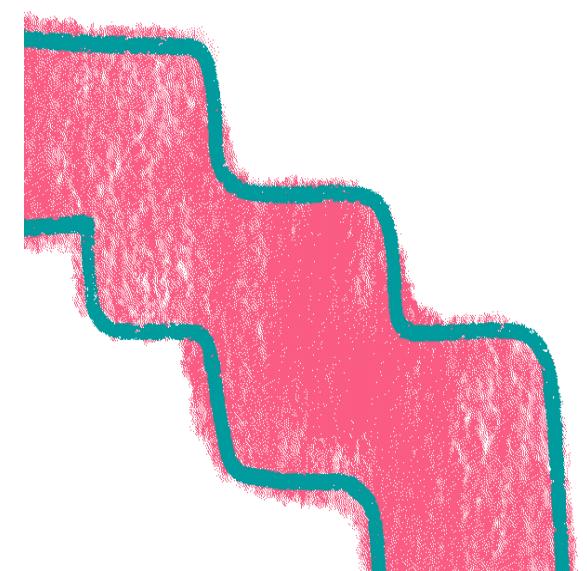


Course Title: Financial Accounting

Course Code: ACT 101

Course Instructor: Fairose Farin

Chapter 1: Accounting in Action



PREVIEW OF CHAPTER

ACCOUNTING IN ACTION

What Is Accounting?	The Building Blocks of Accounting	The Basic Accounting Equation	Using the Accounting Equation	Financial Statements
<ul style="list-style-type: none">• Three activities• Who uses accounting data?	<ul style="list-style-type: none">• Ethics in financial reporting• Accounting standards• Measurement principles• Assumptions	<ul style="list-style-type: none">• Assets• Liabilities• Equity	<ul style="list-style-type: none">• Transaction analysis• Summary of transactions	<ul style="list-style-type: none">• Income statement• Retained earnings statement• Statement of financial position• Statement of cash flows• Comprehensive income statement

CHAPTER

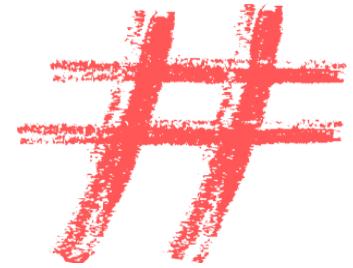
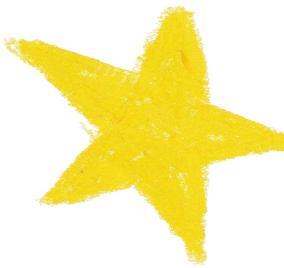
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Accounting in Action

LEARNING OBJECTIVES

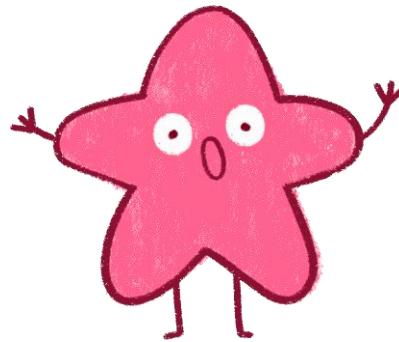
After studying this chapter, you should be able to:

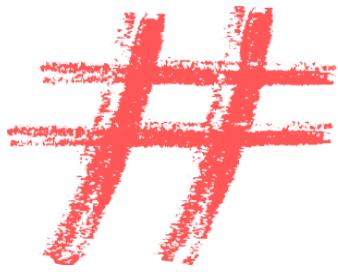
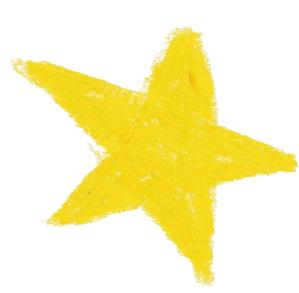
- 1** Explain what accounting is.
- 2** Identify the users and uses of accounting.
- 3** Understand why ethics is a fundamental business concept.
- 4** Explain accounting standards and measurement principles.
- 5** Explain the monetary unit assumption and the economic entity assumption.
- 6** State the accounting equation, and define its components.
- 7** Analyze the effects of business transactions on the accounting equation.
- 8** Understand the five financial statements and how they are prepared.



What Is Accounting?

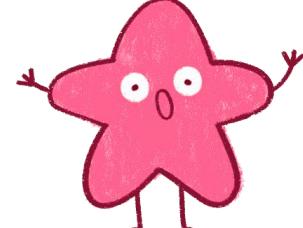
- Accounting consists of **three basic activities** - identifies, records and communicates the **economic events** of an organization to interested users. "**Economic events**" are real-world **financial transactions or occurrences** that affect the company's financial position (**assets, liabilities, equity, income, or expenses**) — and are therefore recorded in the accounting system.
- Accounting helps businesses to **keep track of their income, expenses and overall financial health.**
- The main goal of financial accounting is to **provide clear financial information to the interested users to aid them in making good business decisions.**





Understanding Accounting in Context of Unilever

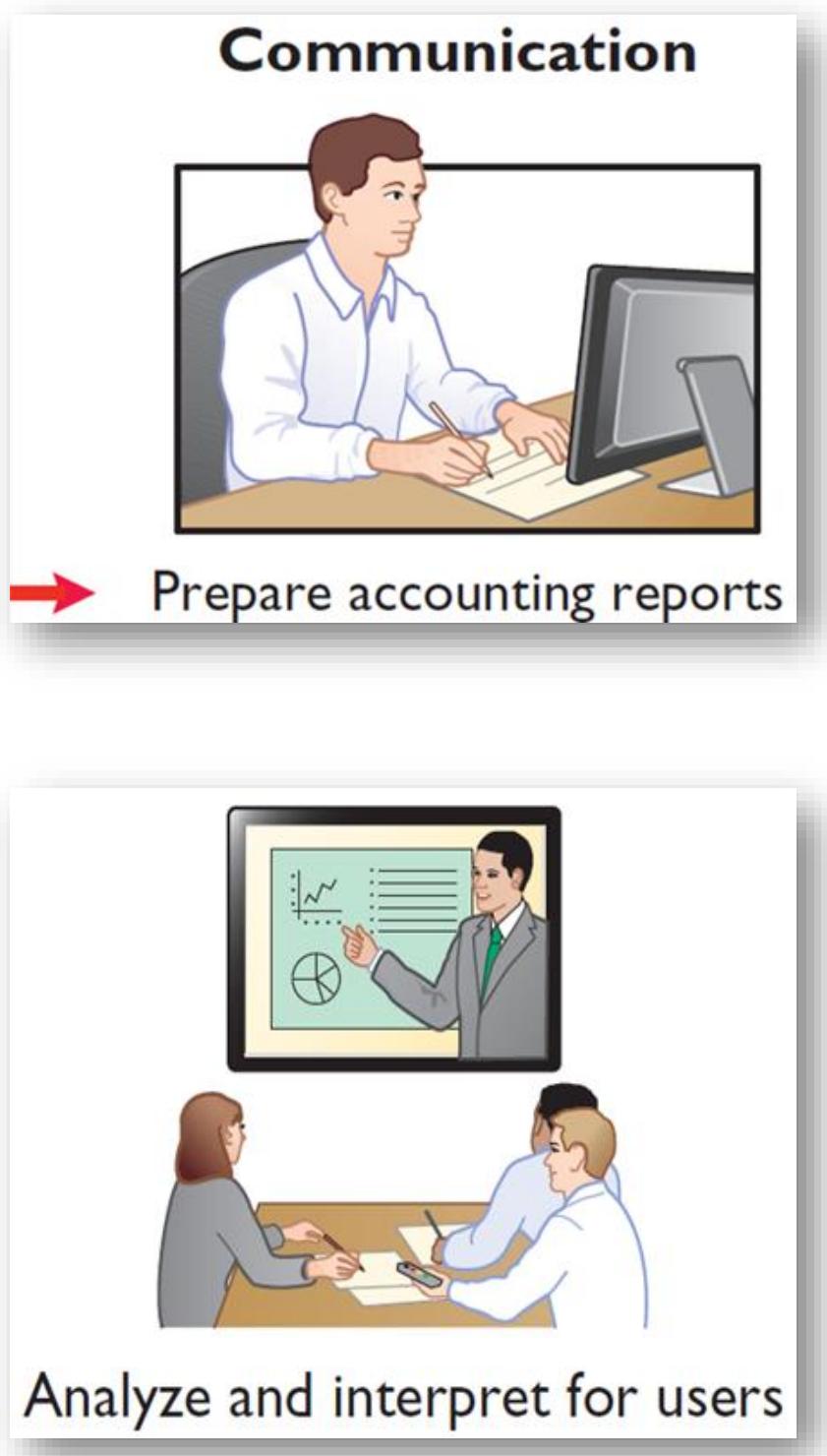
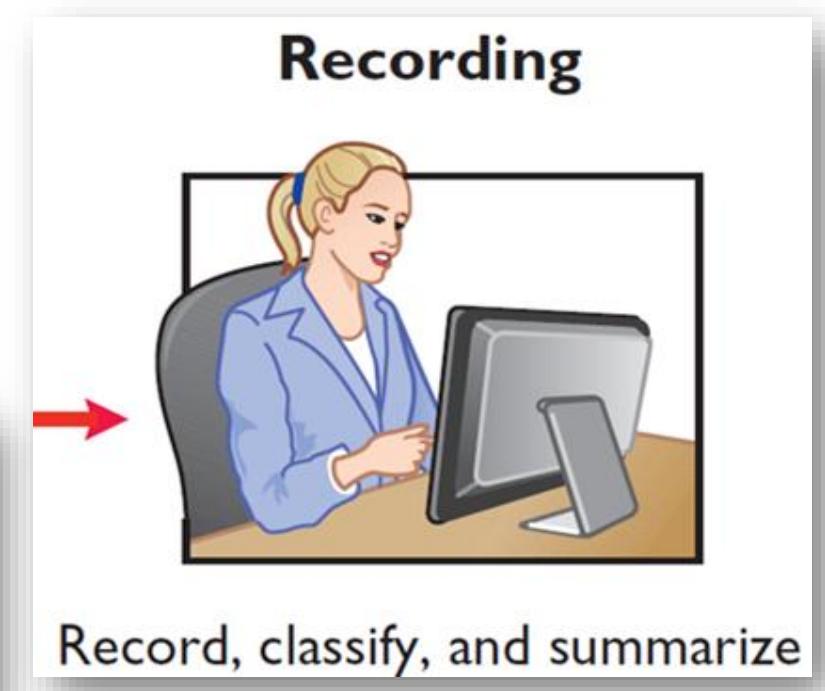
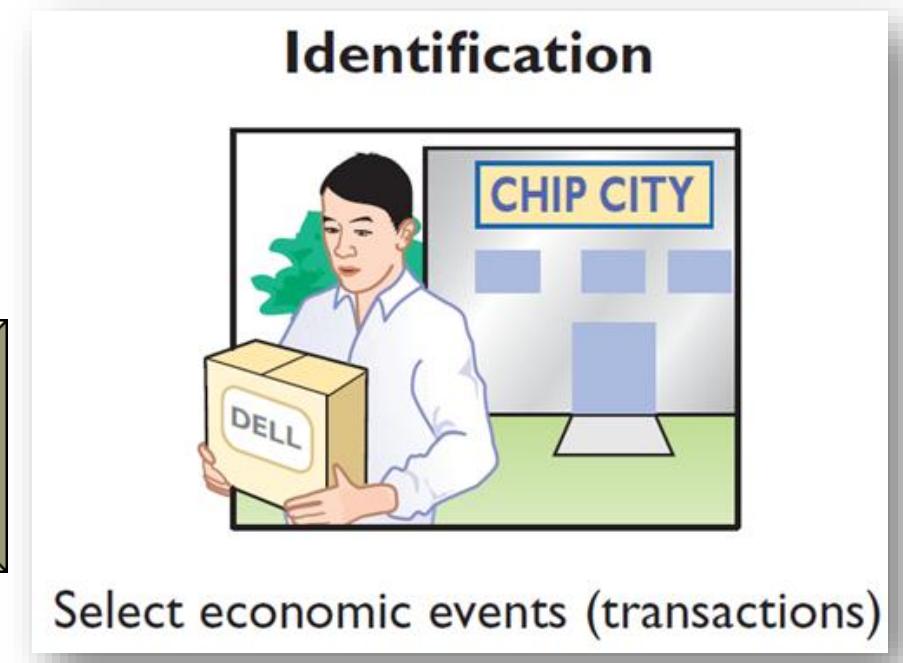
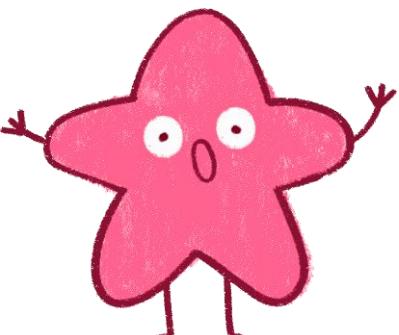
- As a starting point to the accounting process, a company **identifies the economic events relevant to its business**. Examples of economic events are the **sale of food and snacks by Unilever**.
- Next , it **records** those events in order to provide a history of its **financial activities**. Recording consists of keeping a **systematic, chronological diary of events**, measured in monetary units. In recording, Unilever also **classifies and summarizes economic events**.
- Finally, Unilever **communicates the collected information** to interested users by means of **accounting reports**. **The most common of these reports are called financial statements** (Income statement, Statement of Financial Position Etc.)
- A vital element in communicating economic events is the **accountant's ability to analyze and interpret the reported information**. Analysis involves use of ratios, percentages, graphs, and charts to highlight significant financial trends and relationships. Interpretation involves explaining the uses, meaning, and limitations of reported data.

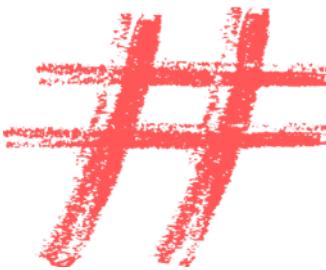


The Accounting Process

- ✓ Identify economic events
- ✓ Record data systematically
- ✓ Communicate via financial reports

The accounting process includes the **bookkeeping** function.





Who Uses Accounting Data?

❖ Internal Users:

- ✓ Internal users of accounting information **are individuals within an organization** who use financial data for decision-making.
- ✓ This information is communicated through internal and management reports.

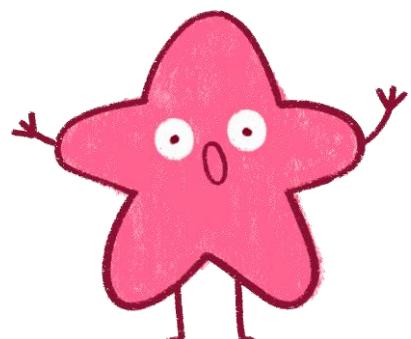
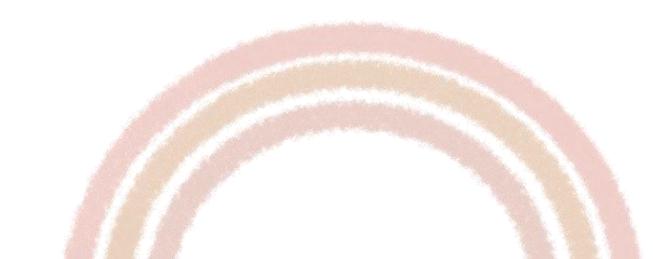
- **Managers**
- **HR**
- **Marketing**
- **Finance.**

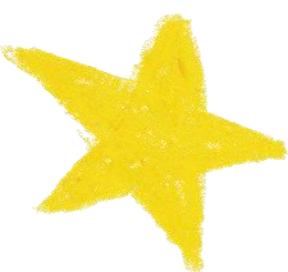
**Managerial
Accounting**

❖ External Users:

- ✓ External users of accounting information **are individuals or entities outside of a business** who rely on financial data for decision-making.
- ✓ They use this information to assess the **company's financial health, make investment decisions, evaluate creditworthiness, and ensure compliance with regulations.**
- **Investors**
- **creditors, regulators**
- **tax authorities etc.**

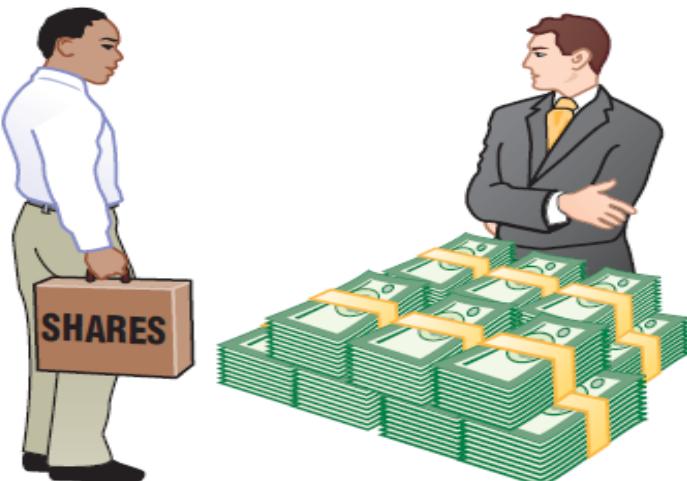
**Financial
Accounting**





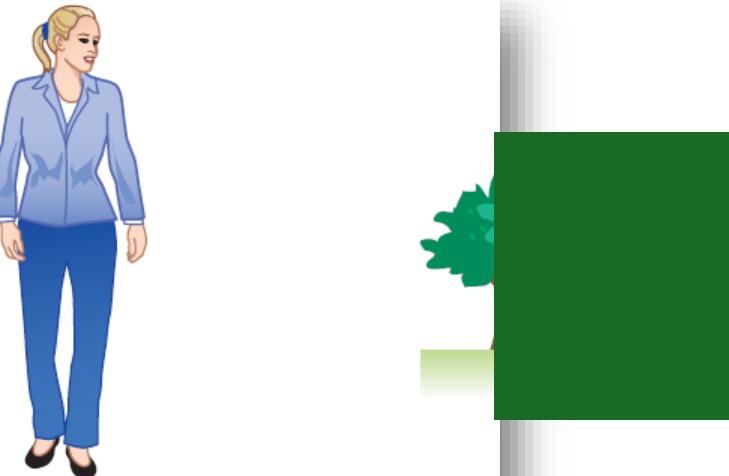
Who Uses Accounting Data?

INTERNAL USERS



Finance

Is cash sufficient to pay dividends to **SAP** shareholders?



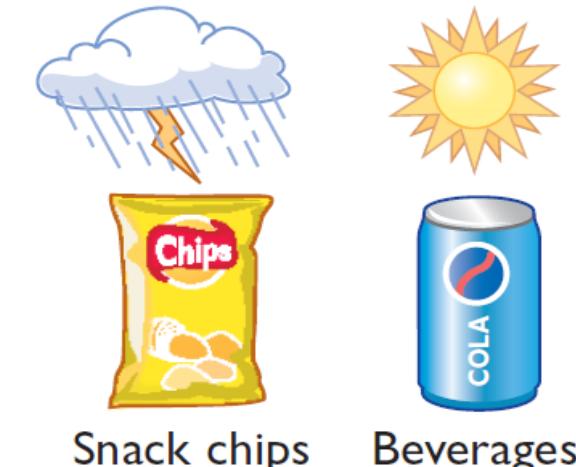
Marketing

What price for a **Nokia** cell phone will maximize the company's net income?



Human Resources

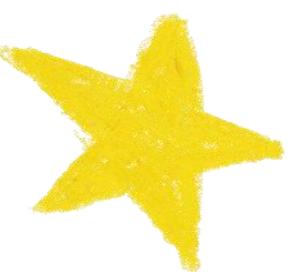
Can we afford to give **Toyota** employees pay raises this year?



Management

Which **PepsiCo** product line is the most profitable? Should any product lines be eliminated?





Who Uses Accounting Data?

EXTERNAL USERS

What do we do if they catch us?

Creditors

Will **Singapore Airlines** be able to pay its debts as they come due?

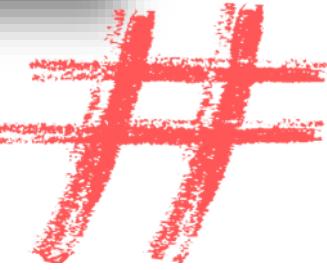
Yeah!

Investors

Is **Royal Dutch Shell** earning satisfactory income?

Investors

How does **Disney** compare in size and profitability with **Time Warner**?



Accounting Standards

**International Accounting
Standards Board (IASB)**

<http://www.iasb.org/>

**Financial Accounting
Standards Board (FASB)**

<http://www.fasb.org/>

- To ensure high-quality financial reporting, accountants present financial statements in conformity with accounting standards that are issued by standard setting bodies.
- Presently, there are two primary accounting standard-setting bodies—
- **International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB).**

Accounting Standards

International Accounting Standards Board (IASB) <http://www.iasb.org/>



International Financial Reporting Standards

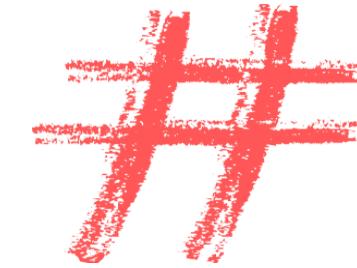


Financial Accounting Standards Board (FASB)
<http://www.fasb.org/>

Generally Accepted Accounting Principles (GAAP)

- More than 130 countries follow standards referred to as International Financial Reporting Standards (IFRS). **IFRSs are determined by the IASB.**

- Most companies in the United States follow standards issued by the FASB, referred to as **generally accepted accounting principles (GAAP).**



Measurement Principles

- **HISTORICAL COST PRINCIPLE (or cost principle)**
 - ✓ It **dictates that companies record assets at their cost.**
 - ✓ For example, if Gazprom (RUS) **purchases** land for \$300,000, the company initially **reports it in its accounting records** at \$300,000. But what does Gazprom do if, by the end of the next year, the fair value of the land has increased to \$400,000?
 - ❖ **Under the historical cost principle, it continues to report the land at \$300,000.**

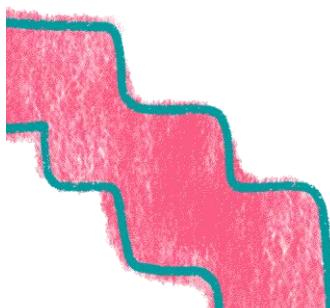




Measurement Principles

□ FAIR VALUE PRINCIPLE

- ✓ states that **assets and liabilities** should be reported at Fair value . **Fair value means the current market price of an asset or liability — what it could be sold or settled for today.** Whereas the Historical cost is the original price paid for it.
- ✓ Sometimes, fair value is more helpful than historical cost. For example, with **investments like stocks or bonds**, it's easy to find their current market price, so companies report them using fair value.



Measurement Principles Cont.

When deciding which method to use (fair value or historical cost), companies think about two things:

- **Historical cost** is based on real, documented prices (it's more "**factual**").
 - **Fair value** is **more current** and may be more "**relevant**" for decision-making.
- ✓ Although accounting rules (IFRS) allow companies to update the value of things like **buildings or equipment** to fair value, **most companies still stick with the original cost**.
- ✓ They only **use fair value a lot when the asset is actively traded** and market prices are easy to find, like with investments.

Assumptions

□ MONETARY UNIT ASSUMPTION

- ✓ requires that companies include in the accounting records only transaction data that can be expressed in terms of money. This assumption enables accounting to quantify (measure) economic events.
- ✓ For example, the health of a company's owner, the quality of service, and the morale of employees are not included.
- ✓ The reason: Companies cannot quantify this information in money terms. Though this information is important, companies record only events that can be measured in money.

Assumptions

□ **ECONOMIC ENTITY ASSUMPTION** requires that **activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.**

- ✓ For an example - Sally Rider, owner of Sally's Boutique, must keep her personal living costs separate from the expenses of the boutique.
- ✓ Another example: If the owner of a small bakery uses business funds to pay for their personal vacation, and this is recorded as a business expense, the **bakery's profit will appear lower than it actually is**. This misleads investors or creditors about how profitable or stable the business really is.

- ◆ Proprietorship
- ◆ Partnership
- ◆ Corporation



Forms of Business
Ownership

Why it's important to ensure the Economic Entity Assumption ?

- 1. Clear Financial Reporting** -Without separating the business from its owners, it would be impossible to determine the true financial performance and position of the business. Personal transactions of owners could distort the business's income, expenses, assets, and liabilities.
- 2. Legal & Tax Compliance** -Many legal systems require businesses to keep records distinct from personal finances for tax reporting and legal responsibility. Violating this can lead to legal complications .
- 3. Decision Making**- Investors, creditors, and management need accurate, unbiased information to make informed decisions. Mixing personal and business finances reduces the usefulness of financial statements for these stakeholders.
- 4. Auditing and Accountability**-Auditors rely on the economic entity assumption when verifying a company's financial statements.
- 5. Consistency and Comparability**-Allows businesses to be compared with one another. It also ensures consistency over time for tracking business performance.

Forms of Business Ownership

Proprietorship

- ◆ Owned by one person
- ◆ Owner is often manager/operator
- ◆ Owner receives any profits, suffers any losses, and is personally liable for all debts

Partnership

- ◆ Owned by two or more persons
- ◆ Often retail and service-type businesses
- ◆ Generally unlimited personal liability
- ◆ Partnership agreement

Corporation

- ◆ Ownership divided into shares
- ◆ Separate legal entity organized under corporation law
- ◆ Limited liability

The Basic Accounting Equation

Basic Accounting Equation

- **Assets must equal the sum of liabilities and equity.**
- Provides the **underlying framework** for recording and summarizing economic events.
- The accounting equation **applies to all economic entities** regardless of size , nature of business or form of business organization.

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Assets

- ◆ Resources a business owns.
- ◆ Provide future services or benefits.
- ◆ Example: **Cash, Inventory, Equipment, Buildings** etc.

Basic Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Liabilities এমন কিছু যা একজন ব্যক্তি বা কোম্পানির কাছে পাওনা থাকে, সাধারণত কিছু অথ

- ◆ **Claims against assets (existing debts and obligations). What business owes to others .**
- ◆ **Creditors (party to whom money is owed).**
- ◆ **Example: Accounts Payable, Notes Payable, Salaries and Wages Payable etc.**

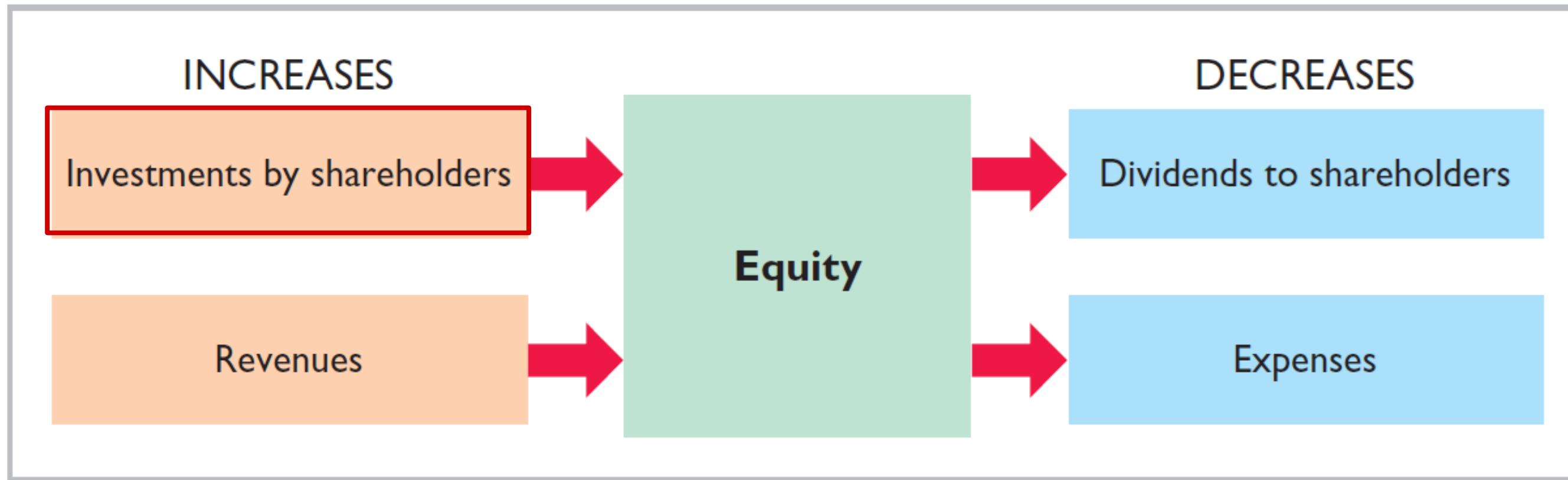
Basic Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Equity মোট সম্পদ থেকে সমস্ত দায় বিয়োগ করার পর একটি কোম্পানিতে মালিকের স্বার্থের অবশিষ্ট মূল্য

- ◆ Ownership claim on total assets. What the business owes to the owner.
- ◆ It is equal to total assets minus total liabilities. Here is why: The assets of a business are claimed by either creditors or shareholders. To find out what belongs to shareholders, we subtract creditors' claims (the liabilities) from the assets. The remainder is the shareholders' claim on the assets—equity.
- ◆ Referred to as **residual equity**.
- ◆ **Equity generally consists of (1) Share Capital—Ordinary and (2) Retained Earnings.**

Equity

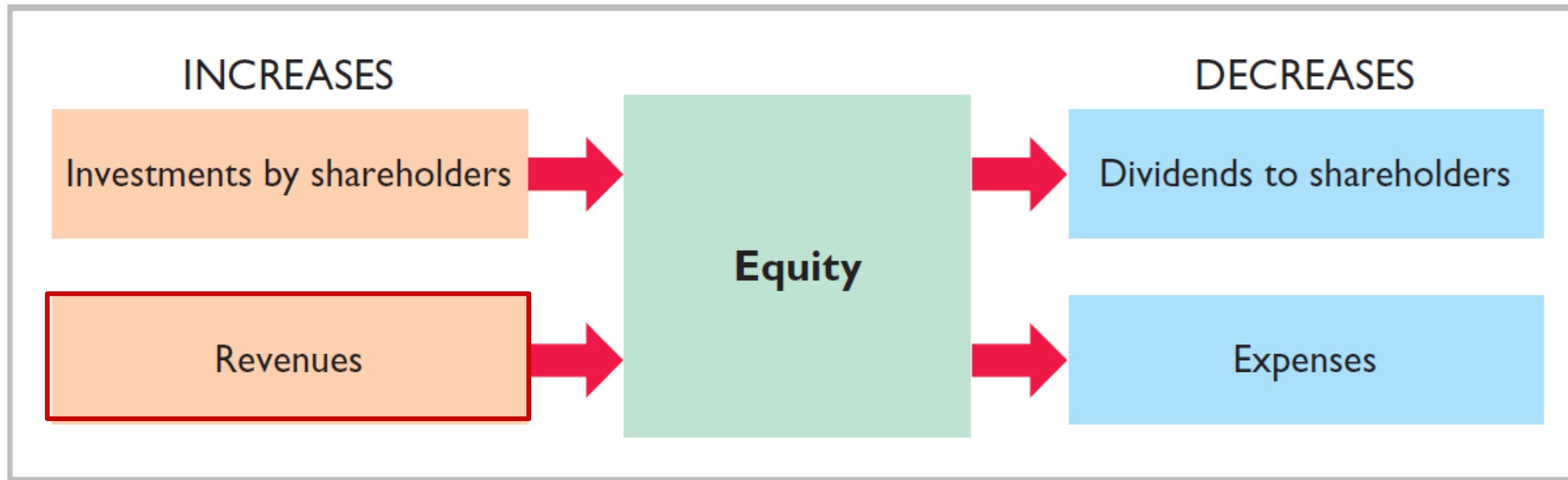


- **Share Capital—Ordinary**

Investments by shareholders represent the total amount paid in by shareholders for the ordinary shares they purchase.

Illustration 1-7
Increases and
decreases in equity

Equity

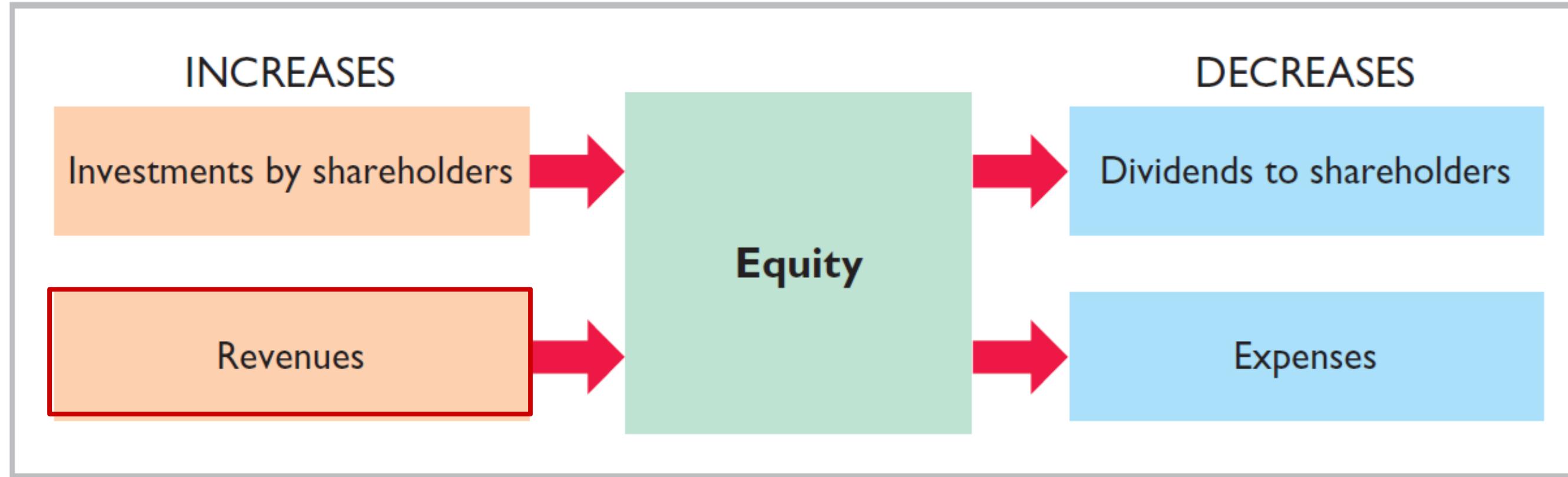


- **Retained Earnings**

Retained earnings is determined by three items: revenues, expenses, and dividends.

Illustration 1-7
Increases and
decreases in equity

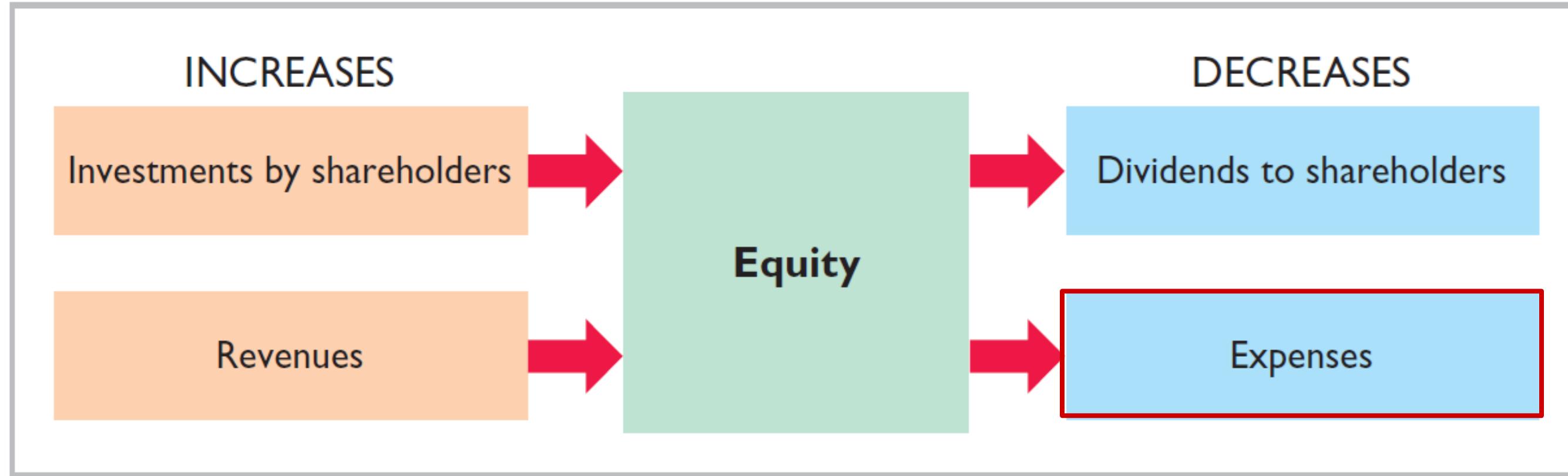
Stockholders' Equity



- ✓ **Revenues** result from business activities entered into for the purpose of earning income.
- ✓ Common sources of revenue are **sales, fees, services, commissions, interest, dividends, royalties, and rent**.

Illustration 1-7
Increases and decreases in equity

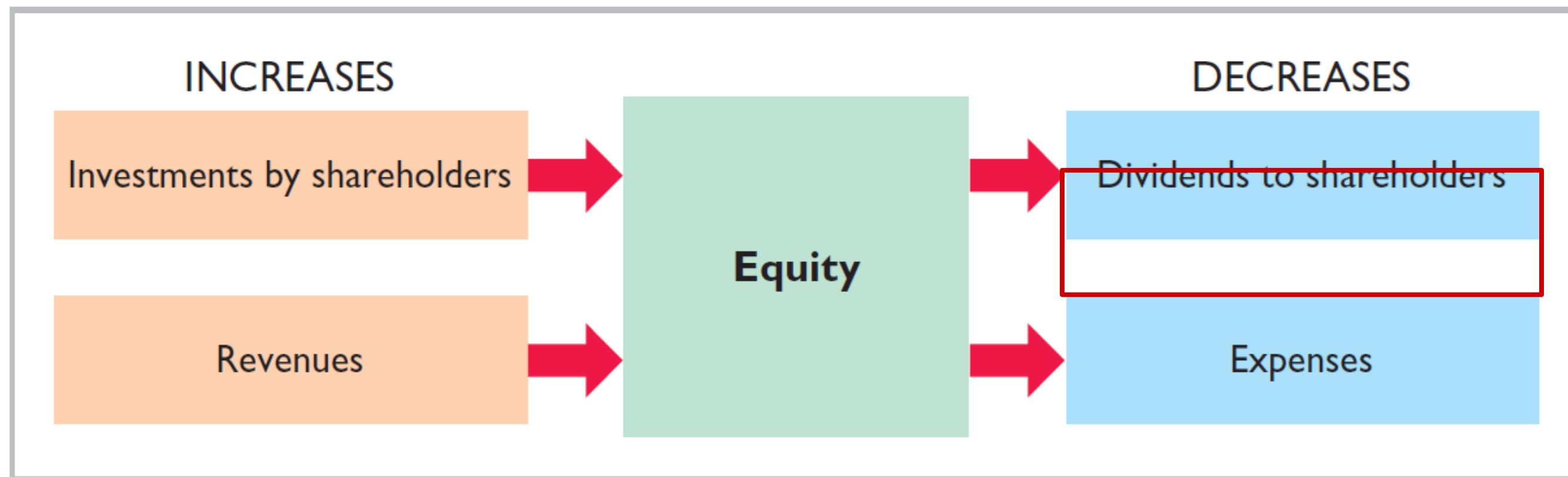
Stockholders' Equity



- ✓ **Expenses** are the cost of assets consumed, or services used in the process of earning revenue.
- ✓ Common expenses are- **salaries expense, rent expense, utilities expense, property tax expense** etc.

Illustration 1-7
Increases and decreases in equity

Stockholders' Equity



- ✓ **Dividends are the distribution of net income in terms of cash or other assets to shareholders.** They're not related to the operations of the business, and they do not appear on the income statement.
- ✓ **Dividends reduce retained earnings.** However, dividends are not expenses.

Illustration 1-7
Increases and decreases in equity



DO IT!

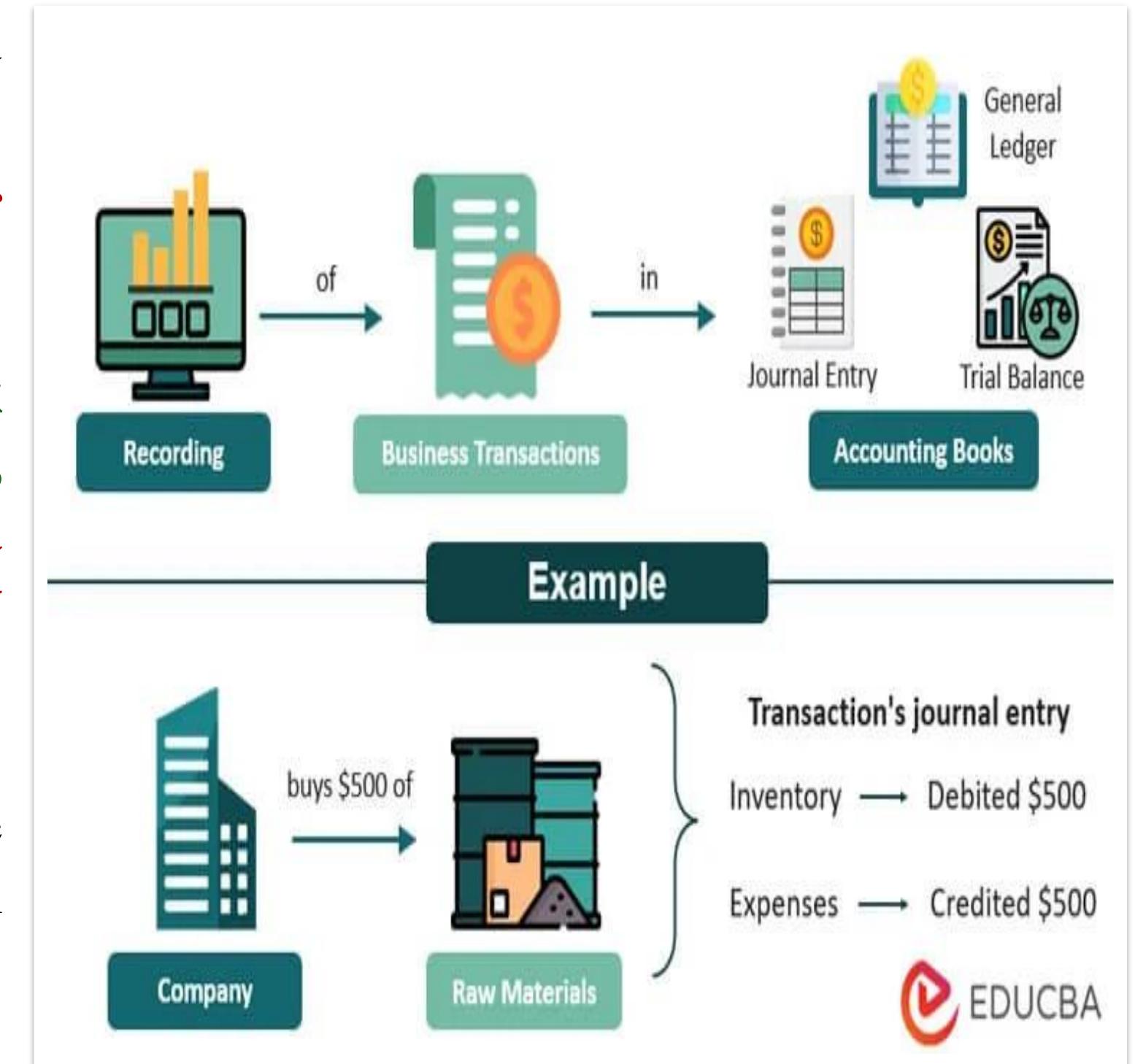
Book PDF Page-32

Classify the following items as issuance of stock, dividends, revenues, or expenses. Then indicate whether each item increases or decreases stockholders' equity.

	<u>Classification</u>	<u>Effect on Equity</u>
1. Rent Expense	Expense	Dec
2. Service Revenue	Revenue	Inc
3. Dividends	Dividends	Dec
4. Salaries and Wages Expense	Expense	Dec

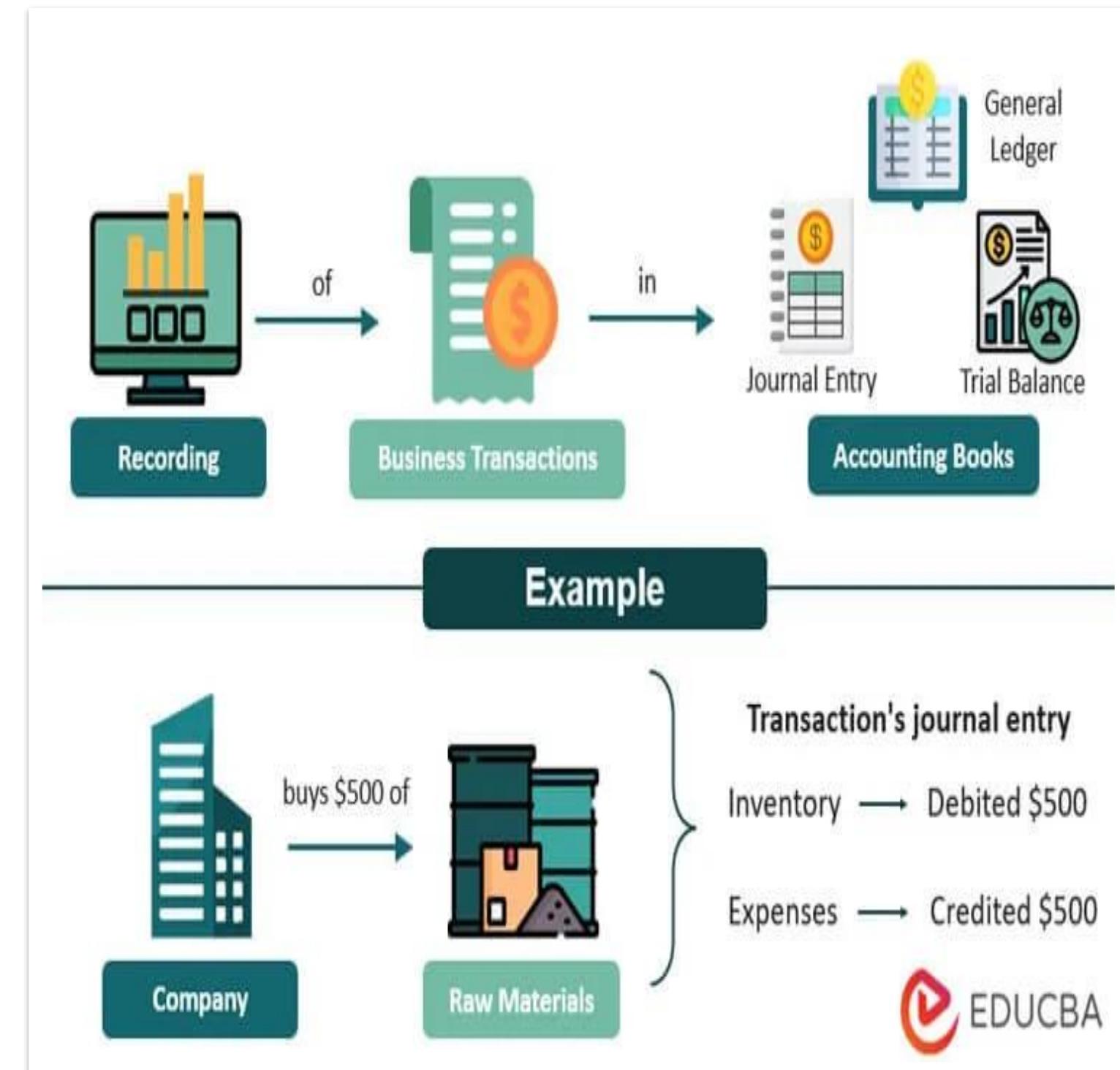
What is Transaction ?

-  In accounting, a transaction is any business activity that impacts a company's financial position, typically involving the exchange of money or assets.
- These activities are documented to track financial changes, like sales, purchases, payments, and investments. **Transactions are a business's economic events recorded by accountants.**
- Not all activities represent transactions(must be an activity that impacts a company's financial statements).



What is Transaction ?

- Transactions may be **external or internal**.
- **External transactions** involve economic events between the company and some outside enterprise.
- **Internal transactions** are economic events that occur entirely within one company.
- Each transaction has a **dual effect** on the accounting equation **that means every transaction has two effects on the accounting equation**.
- The equation always stays balanced.



Transaction Analysis

Illustration: Are the following events recorded in the accounting records?

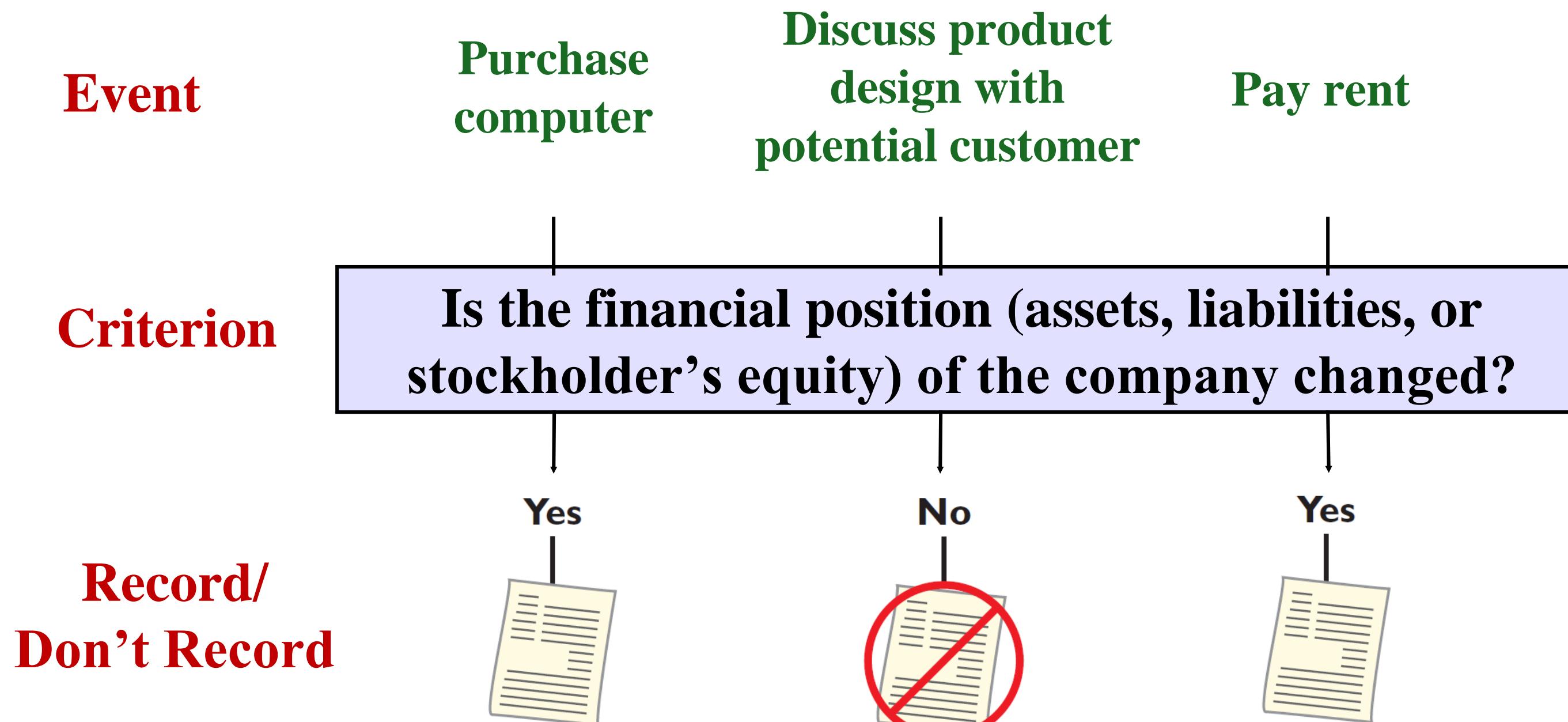


Illustration 1-8

Transaction-
identification process

LO 7

Transaction Analysis

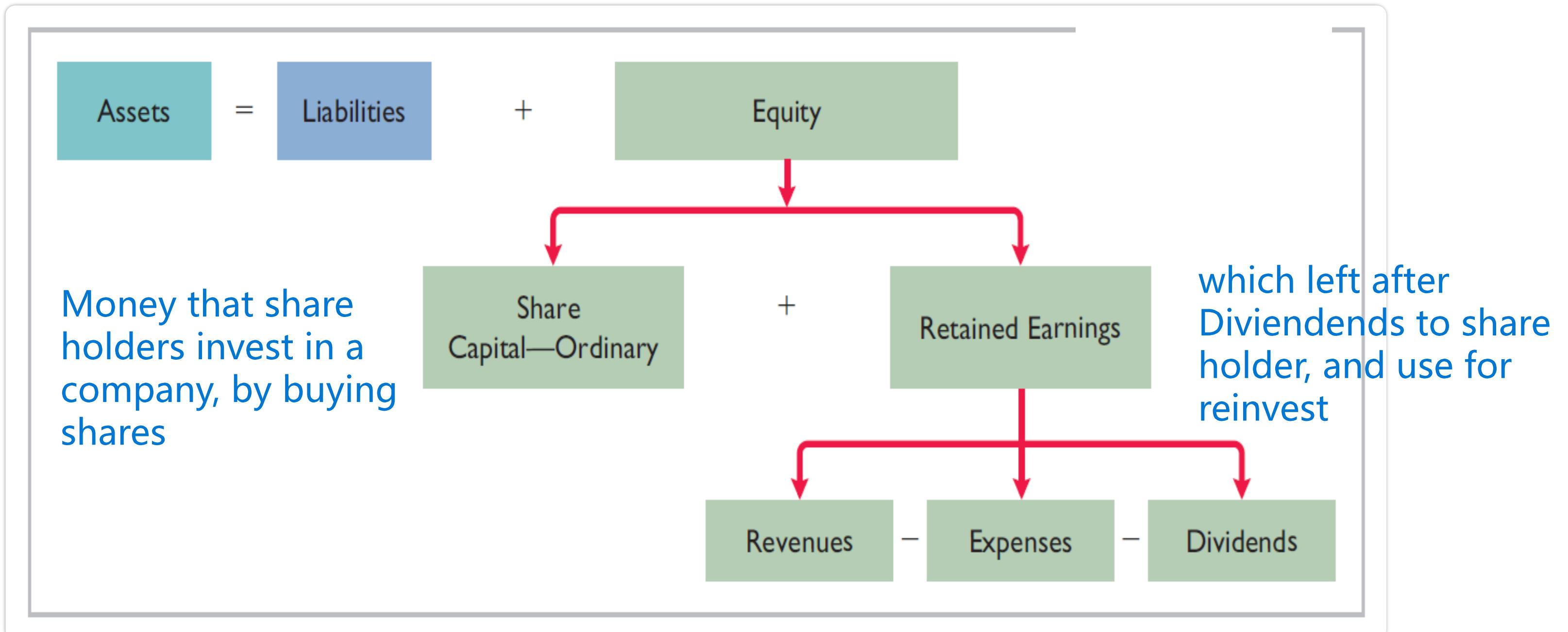


Illustration 1-9
Expanded accounting equation

Transaction Analysis

BOOK PDF- PG34

TRANSACTION 1. INVESTMENT BY STOCKHOLDERS Ray and Barbara Neal decide to start a smartphone app development company that they incorporate as Softbyte SA. On September 1, 2017, they invest **€15,000 cash** in the business in exchange for **€15,000 of ordinary shares**. The ordinary shares indicates the ownership interest that the Neals have in Softbyte SA. This transaction results in an equal increase in both assets and equity.

Illustration 1-10

	Assets				= Liabilities	+ Equity		
Trans- action	Cash	+ Accounts Receivable	+ Supplies	+Equipment	= Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.	
1.	+15,000					+15,000		

TRANSACTION 2. PURCHASE OF EQUIPMENT FOR CASH Softbyte SA
 purchases computer equipment for **€7,000 cash**.

Illustration 1-10

Trans- action	Assets				= Liabilities		+ Equity		
	Cash	+ Accounts Receivable	+ Supplies	+Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings	+ Rev. - Exp. - Div.
1.	+15,000						+15,000		
2.	-7,000			+7,000					

TRANSACTION 3. PURCHASE OF SUPPLIES ON CREDIT Softbyte SA purchases for **€1,600** headsets and other accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

Illustration 1-10

	Assets				= Liabilities		+ Equity		
Trans- action	Cash	+ Accounts Receivable	+ Supplies	+Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings	+ Rev. - Exp. - Div.
1.	+15,000							+15,000	
2.	-7,000				+7,000				
3.			+1,600			+1,600			

TRANSACTION 4. SERVICES PERFORMED FOR CASH Softbyte SA receives **€1,200 cash** from customers for app development services it has performed.

Illustration 1-10

	Assets				= Liabilities		+ Equity		
Trans- action	Cash	+ Accounts Receivable	+ Supplies	+Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings	+ Rev. - Exp. - Div.
1.	+15,000							+15,000	
2.	-7,000			+7,000					
3.			+1,600			+1,600			
4.				+1,200				+1,200	

TRANSACTION 5. PURCHASE OF ADVERTISING ON CREDIT Softbyte SA receives a bill for €250 from the *Programming News* for advertising on its website but postpones payment until a later date.

Illustration 1-10

	Assets				= Liabilities		+ Equity		
Trans- action	Cash	+ Accounts Receivable	+ Supplies	+Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings	+ Rev. - Exp. - Div.
1.	+15,000							+15,000	
2.	-7,000				+7,000				
3.			+1,600			+1,600			
4.	+1,200							+1,200	
5.					+250				-250

TRANSACTION 6. SERVICES PROVIDED FOR CASH AND CREDIT.

Softbyte provides **€3,500 of services**. The company receives **cash of €1,500** from customers, and it bills the balance of **€2,000 on account**.

Illustration 1-10

Trans- action	Assets				= Liabilities		+ Equity		
	Cash	+ Accounts Receivable	+ Supplies	+Equipment	= Accounts Payable	+ Share Capital	+ Retained Earnings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					
3.			+1,600		+1,600				
4.	+1,200						+1,200		
5.				+250				-250	
6.	+1,500	+2,000						+3,500	

TRANSACTION 7. PAYMENT OF EXPENSES Softbyte SA pays the following expenses in cash for September: **office rent €600**, salaries and **wages of employees €900**, and **utilities €200**.

Illustration 1-10

Trans- action	Assets				= Liabilities		+ Equity		
	Cash	+ Accounts Receivable	+ Supplies	+Equipment	= Accounts Payable	+ Share Capital	+ Retained Earnings	+ Rev.	- Exp.
1.	+15,000						+15,000		
2.	-7,000				+7,000				
3.			+1,600			+1,600			
4.	+1,200						+1,200		
5.					+250			-250	
6.	+1,500	+2,000					+3,500		
7.	-1,700							-600	
								-900	
								-200	

TRANSACTION 8. PAYMENT OF ACCOUNTS PAYABLE Softbyte SA **pays its €250 *Programming News* bill in cash.** The company previously (in Transaction 5) recorded the bill as an increase in Accounts Payable.

Illustration 1-10

	Assets				= Liabilities		+ Equity		
Trans- action	Cash	+ Accounts Receivable	+ Supplies	+Equipment	= Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.		
1.	+15,000						+15,000		
2.	-7,000				+7,000				
3.			+1,600			+1,600			
4.	+1,200						+1,200		
5.					+250		-250		
6.	+1,500	+2,000					+3,500		
7.	-1,700						-600		
							-900		
							-200		
8.	-250				-250				

TRANSACTION 9. RECEIPT OF CASH ON ACCOUNT Softbyte SA receives €600 in cash from customers who had been billed for services (in Transaction 6).

Illustration 1-10

Trans- action	Assets				= Liabilities		+ Equity		
	Cash	+ Accounts Receivable	+ Supplies	+Equipment	= Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.		
1.	+15,000						+15,000		
2.	-7,000				+7,000				
3.			+1,600			+1,600			
4.	+1,200						+1,200		
5.							+250		
-250									
6.	+1,500	+2,000							
+3,500									
7.	-1,700								
-600									
-900									
8.	-250						-250		
9200	+600	-600							

TRANSACTION 10. DIVIDENDS The corporation pays a **dividend of €1,300 in cash** to Ray and Barbara Neal, the shareholders of Softbyte SA.

BOOK
pdf-39

Illustration 1-10

Assets = Liabilities + Equity							
Trans- action	Cash	+ Accounts Receivable	+ Supplies	+Equipment	= Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.
1.	+15,000					+15,000	
2.	-7,000			+7,000			
3.			+1,600		+1,600		
4.	+1,200					+1,200	
5.				+250		-250	
6.	+1,500	+2,000				+3,500	
7.	-1,700					-600	
						-900	
						-200	
8.	-250			250			
9.	+600	-600					
10.	-1,300						-1,300

€18,050

€18,050

LO 7

Summary of Transactions

1. Each transaction must be analyzed in terms of its effect on:
 - a. **The three components of the basic accounting equation.**
 - b. **Specific types (kinds) of items within each component.**
2. **The two sides of the equation must always be equal.**
3. The Share Capital—Ordinary and Retained Earnings columns indicate the causes of each change in the shareholders' claim on assets.

Transaction Analysis

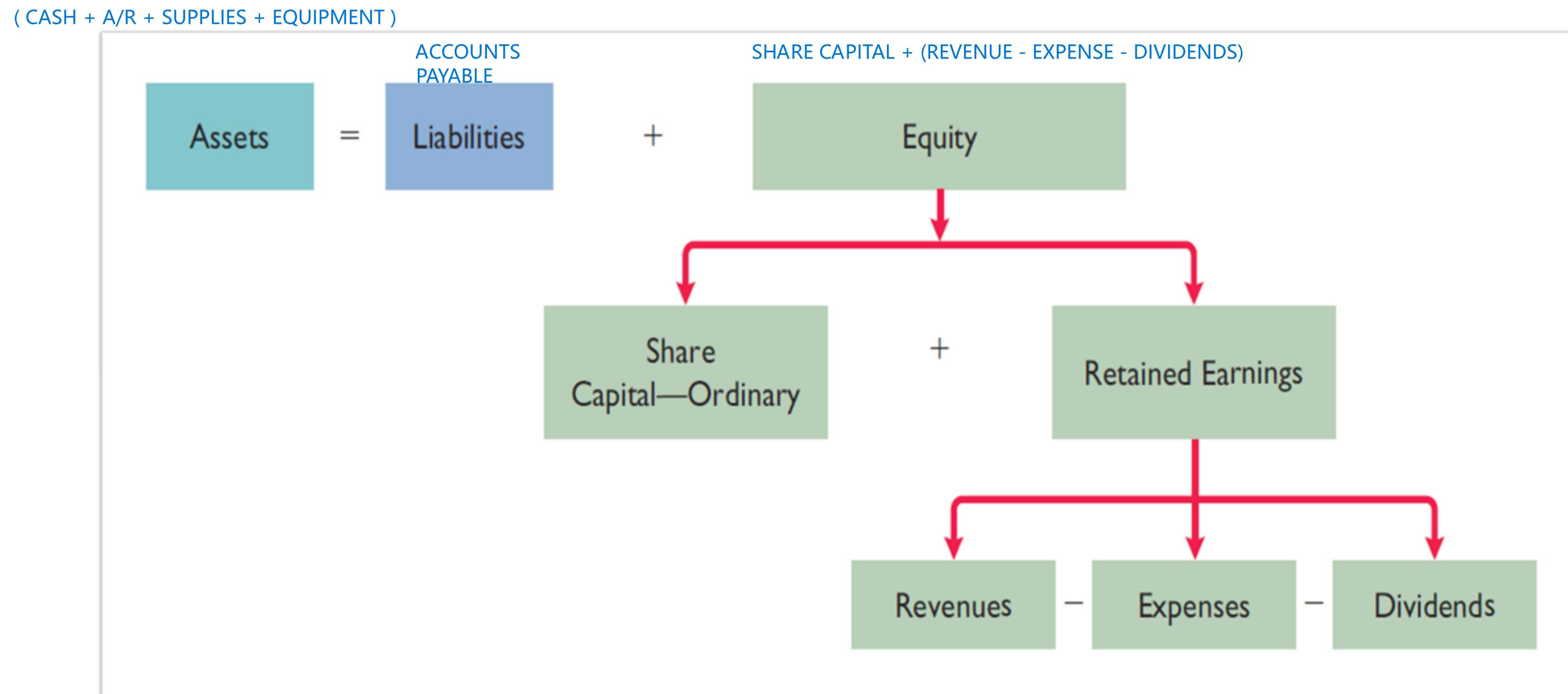


Illustration 1-9
Expanded accounting equation

DO IT!

TRANSACTION ANALYSIS

Transactions made by Virmari & Co. SA, a public accounting firm, for the month of August are shown below. Prepare a tabular analysis which shows the effects of these transactions on the expanded accounting equation, similar to that shown in Illustration 1-10.

1. The company issued ordinary shares for €25,000 cash.
2. The company purchased €7,000 of office equipment on credit.
3. The company received €8,000 cash in exchange for services performed.
4. The company paid €850 for this month's rent.
5. The company paid a dividend of €1,000 in cash to shareholders.

>

DO IT!

1. The company issued ordinary shares for €25,000 cash.

	Assets		=	Liabilities +		Equity		
Trans- action	Cash	+ Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.	-	-
1.	+25,000				+25,000			

>

DO IT!

2. The company purchased €7,000 of office equipment on credit.

Trans- action	Assets		=	Liabilities +	Equity	
	Cash	+ Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.
1.	+25,000				+25,000	
2.		+7,000		+7,000		

>

DO IT!

3. The company received €8,000 cash in exchange for services performed.

Trans- action	Assets		=	Liabilities +	Equity	
	Cash	+ Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.
1.	+25,000				+25,000	
2.		+7,000		+7,000		
3.	+8,000				+8,000	

>

DO IT!

4. The company paid €850 for this month's rent.

Trans- action	Assets		=	Liabilities +	Equity	
	Cash	+ Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings + Rev. - Exp. - Div.
1	.+25,000				+25,000	
2.		+7,000		+7,000		
3.	+8,000				+8,000	
4.	-850					-850



DO IT!

5. The company paid a dividend of €1,000 in cash to shareholders.

#

Final Equation Check

Assets: €31,150 (Cash) + €7,000 (Equipment) = **€38,150**

Liabilities + Equity:

Liabilities: €7,000

Share Capital: €25,000

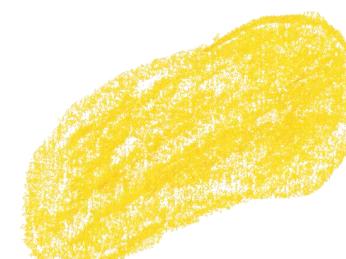
Revenues: €8,000

Expenses: -€850

Dividends: -€1,000

Total Equity = €25,000 + €8,000 - €850 - €1,000 = **€31,150**

Total Liabilities + Equity: €7,000 + €31,150 = **€38,150**



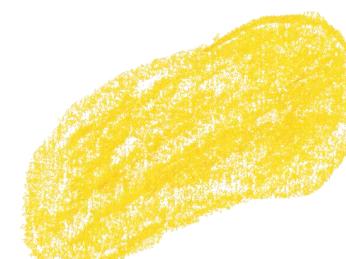
#

Video

FINANCIAL ACCOUNTING

Full 10-Hour Course

Over 20 challenging
problems explained



FINANCIAL STATEMENTS

Companies prepare **five financial statements :**

**Income
Statement**

**Statement of
Retained
Earnings
Statement**

**Statement of
Financial
Position**

**Statement of
Cash Flows**

**Comprehensive
Income
Statement**

Income Statement

- ✓ An income statement **is a financial statement** that **shows you the company's income and expenditures.**
- ✓ It also shows whether a company is **making profit or loss** for a given period.
- ✓ The income statement, along with balance sheet and cash flow statement, helps you understand the financial health of your business.

COMPANY B INCOME STATEMENT	
For Year Ended September 28, 2019 (In thousands)	
NET SALES	\$ 4,358,100
COST OF SALES	2,738,714
GROSS PROFIT	1,619,386
SELLING AND OPERATING EXPENSES	560,430
GENERAL AND ADMINISTRATIVE EXPENSES	293,729
TOTAL OPERATING EXPENSES	854,159
OPERATING INCOME	765,227
OTHER INCOME	960
GAIN (LOSS) ON FINANCIAL INSTRUMENTS	5,513
(LOSS) GAIN ON FOREIGN CURRENCY	(12,649)
INTEREST EXPENSE	(18,177)
INCOME BEFORE TAXES	740,874
INCOME TAX EXPENSE	257,642
NET INCOME	\$ 483,232

SOFTBYTE SA
Income Statement
For the Month Ended September 30, 2017

Revenues	
Service revenue	€ 4,700
Expenses	
Salaries and wages expense	€900
Rent expense	600
Advertising expense	250
Utilities expense	200
Total expenses	<u>1,950</u>
Net income	<u>€2,750</u>

SOFTBYTE SA
Retained Earnings Statement
For the Month Ended September 30, 2017

Retained earnings, September 1	€ 0
Add: Net income	2,750
	<u>2,750</u>
Less: Dividends	1,300
Retained earnings, September 30	€1,450

LO 8

SOFTBYTE SA		
Retained Earnings Statement		
For the Month Ended September 30, 2017		
Retained earnings, September 1	€ 0	
Add: Net income	2,750	1
	2,750	
Less: Dividends	1,300	
Retained earnings, September 30	€1,450	
SOFTBYTE SA		
Statement of Financial Position		
September 30, 2017		
<u>Assets</u>		
Equipment	€ 7,000	
Supplies	1,600	
Accounts receivable	1,400	
Cash	8,050	2
Total assets	€18,050	
<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	€15,000	
Retained earnings	1,450	
Liabilities		
Accounts payable	1,600	
Total equity and liabilities	€18,050	

Illustration 1-11

LO 8

Balance sheet and income statement are needed to prepare statement of cash flows.

Illustration 1-11
Financial statements and their interrelationships

SOFTBYTE SA Statement of Financial Position September 30, 2017		
Assets		
Equipment		€ 7,000
Supplies		1,600
Accounts receivable		1,400
Cash		8,050
Total assets		<u>€18,050</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	€15,000	
Retained earnings	1,450	
Liabilities		
Accounts payable		1,600
Total equity and liabilities		<u>€18,050</u>
SOFTBYTE SA Statement of Cash Flows For the Month Ended September 30, 2017		
Cash flows from operating activities		
Cash receipts from revenues	€ 3,300	
Cash payments for expenses	(1,950)	
Net cash provided by operating activities		1,350
Cash flows from investing activities		
Purchase of equipment	(7,000)	
Cash flows from financing activities		
Sale of ordinary shares	€15,000	
Payment of cash dividends	(1,300)	13,700
Net increase in cash		8,050
Cash at the beginning of the period		0
→ Cash at the end of the period		€ 8,050

Income Statement

Key Notes:

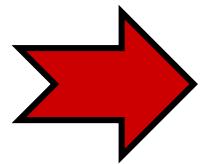
- ◆ Reports the **profitability** of the company's operations over a specific period of time.
- ◆ Lists **revenues first, followed by expenses.**
- ◆ Shows net income (or net loss).
- ◆ Does not include investment and dividend transactions between the shareholders and the business.

Financial Statements

Review Question

Net income will result during a time period when:

- a. assets exceed liabilities.
- b. assets exceed revenues.
- c. expenses exceed revenues.
- d. revenues exceed expenses.**



Retained Earnings Statement

- ◆ Reports the changes in retained earnings for a specific period of time.
- ◆ The time period is the same as that covered by the income statement.
- ◆ Information provided indicates the reasons why retained earnings increased or decreased during the period.

Statement of Financial Position

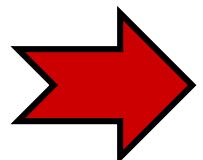
- ◆ Reports the assets, liabilities, and equity at a specific date.
- ◆ Lists assets at the top, followed by liabilities and equity.
- ◆ Total assets must equal total liabilities and equity.
- ◆ Is a snapshot of the company's financial condition at a specific moment in time (usually the month-end or year-end).

Financial Statements

Review Question

The financial statement that reports assets, liabilities, and equity is the:

- a. income statement.
- b. retained earnings statement.
- c. statement of financial position.**
- d. statement of cash flows.



Statement of Cash Flows

- ◆ Information on the cash receipts and payments for a specific period of time.
- ◆ Answers the following:
 - ▶ Where did cash come from?
 - ▶ What was cash used for?
 - ▶ What was the change in the cash balance?

HELPFUL HINT

Investing activities pertain to investments made by the company, not investments made by the owners.

Comprehensive Income Statement

- ◆ Other comprehensive income items are not part of net income.
- ◆ Reported either by
 - ▶ Combining with income statement, or
 - ▶ Separate statement.

SOFTBYTE SA	
Comprehensive Income Statement	
For the Month Ended September 30, 2017	
Net income	€2,750
Other comprehensive income	600
Comprehensive income	<u>€3,350</u>

Illustration 1-13
Comprehensive income statement

>

DO IT!

Presented below is selected information related to Flanagan Group plc at December 31, 2017. Flanagan reports financial information monthly.

Equipment	£10,000	Utilities Expense	£ 4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Dividends	5,000

- (a) Determine the total assets of Flanagan at December 31, 2017.
- (b) Determine the net income that Flanagan reported for December 2017.
- (c) Determine the equity of Flanagan at December 31, 2017.

>

DO IT!

Presented below is selected information related to Flanagan Group plc at December 31, 2017. Flanagan reports financial information monthly.

Equipment	£10,000	Utilities Expense	£ 4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Dividends	5,000

- (a) Determine the total assets of Flanagan at December 31, 2017.
- (b) Determine the net income that Flanagan reported for December 2017.
- (c) Determine the equity of Flanagan at December 31, 2017.

Information related to Flanagan Group plc at December 31, 2017.

Equipment	£10,000	Utilities Expense	£ 4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Dividends	5,000

(a) Determine the total assets of Flanagan at December 31, 2017.

Equipment	£10,000
Cash	8,000
Accounts Receivable	9,000
Total assets	£27,000

Information related to Flanagan Group plc at December 31, 2017.

Equipment	£10,000	Utilities Expense	£ 4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Dividends	5,000

(b) Determine the net income reported for December 2017.

Revenues	
Service revenue	£36,000
Expenses	
Rent expense	£11,000
Salaries and wages expense	7,000
Utilities expense	4,000
Total expenses	22,000
Net income	£14,000

Information related to Flanagan Group plc at December 31, 2017.

Equipment	£10,000	Utilities Expense	£ 4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Dividends	5,000

(c) Determine the equity of Flanagan at December 31, 2017.

Total assets [as computed in (a)]	£27,000
Less: Liabilities	
Notes payable	£16,500
Accounts payable	2,000
Equity	£ 8,500

Public Accounting

Careers in auditing, taxation, and management consulting serving the general public.

Governmental Accounting

Careers with the tax authorities, law enforcement agencies, and corporate regulators.

Forensic Accounting

Uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud.

Learning Objective 9

Explain the career opportunities in accounting.

Private Accounting

Careers in industry working in cost accounting, budgeting, accounting information systems, and taxation.

Assignment

- ◆ BE1-6, BE1-7, E1-6, E1-7
- ◆ P1-1A

THANK YOU

