

# ACC 1701XA

# Accounting for Decision Makers

## LECTURE 04

Lecturer: Dr. Hanny Kusnadi

*Accounting*

*The language of the business world*



# Prior Lecture Refresher

## Chapter 04 – Part 1:

- Accrual basis – better matching of revenues and expenses
  - Revenue recognition principle
  - Matching principle – expense recognition
- Adjustments – getting revenues and expenses into the right period
  - Unearned Revenue / Accrued Revenue
  - Prepaid Expense / Accrued Expense



# Lec 03 In Class Exercise

## SodaPup Company Solution

**Refer to Canvas > Assignments > Week 3 In Class Exercise – SodaPup Company**

- You should have already submitted your work through Assignments in Canvas
- We will be discussing the solution in class together





# Preparing Financial Statements

Chapter 04 – PART 2

# Goals for Today (Chapter 04 – Part 2)

## Concepts

- Importance of periodic reporting
- Importance of accrual accounting
- Adjustments and their purposes

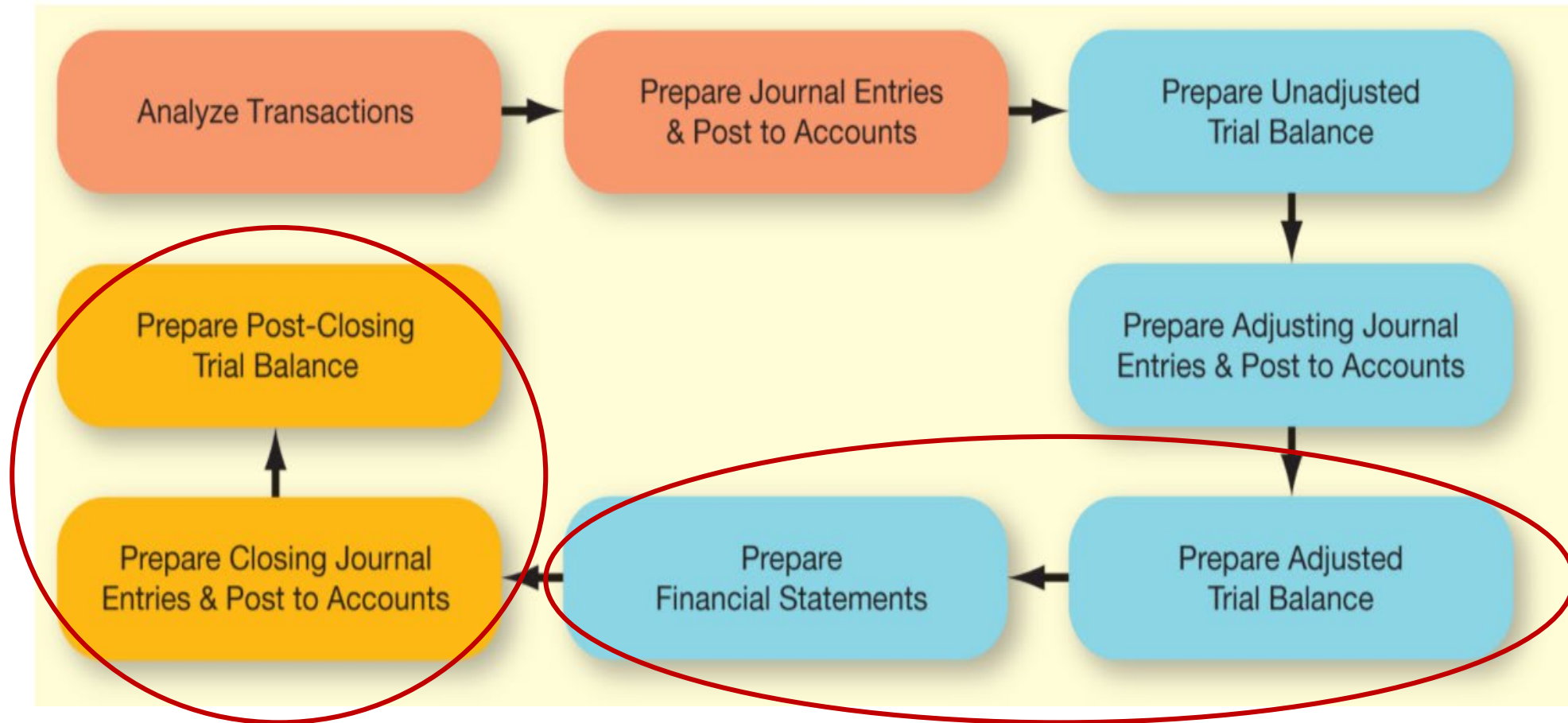
## Accounting Procedures

- Prepare adjusting entries
- Prepare adjusted trial balance
- Prepare financial statements from adjusted trial balance
- Closing the books

## Financial Analysis

- Profit Margin

# The Accounting Cycle



Today's Focus




# RECALL Apple Story

## Trial Balance

Recall that we learnt how to prepare a Trial Balance in lecture 02:

<b>Accounts</b>	<b>Debit</b>	<b>Credit</b>
Cash	36,800	
Equipment	200	
Prepaid Rent	3,500	
Long-term Debt		5,000
Unearned Sales Revenue		11,000
Contribute Capital		1,300
Dividends	4,000	
Sales Revenue		50,000
Development Expense	800	
Cost of Goods Sold	22,000	
<b>Total</b>	<b>67,300</b>	<b>67,300</b>



This is an  
**Unadjusted  
Trial Balance**

# Adjusted Trial Balance

- In lecture 03, we learnt about **adjustments** and how to do AJEs (adjusting journal entries)
- After AJEs are done, what's next?
  - At the end of an accounting period, AJEs are posted.
  - AJEs will update our *unadjusted* trial balance resulting in an *adjusted* trial balance.
- An **unadjusted trial balance** is a list of accounts and balances prepared before adjustments are recorded.
- An **adjusted trial balance** is a list of accounts and balances prepared after adjusting entries have been recorded and posted to the ledger.





# Example: Recording AJEs on the Trial Balance

Account Types	Unadjusted		AJEs		Adjusted	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	130,000				130,000	
Accounts Receivable	45,000				45,000	
Loss Allowance	-					-
Inventory	20,000				20,000	
Prepaid Rent	14,000				14,000	
Property, Plant & Equipment	100,000				100,000	
Accumulated Depreciation		20,000				20,000
Accounts Payable		44,000				44,000
Income Tax Payable		1,500				1,500
Unearned Revenue		19,500				19,500
Dividends Payable		4,500				4,500
Long-term Debt		50,000				50,000
Share Capital		120,000				120,000
Retained Earnings		31,000				31,000
Dividends	4,500				4,500	
Sales Revenue		65,000				65,000
Cost of Goods Sold	15,000				15,000	
Salaries Expense	20,000				20,000	
General Admin Expense	7,000				7,000	
Rent Expense	-				-	
Depreciation Expense	-				-	
Bad Debt Expense	-				-	
Income Tax Expense	-				-	
Total	355,500	355,500			355,500	355,500

An expanded TB worksheet includes unadjusted balances, the adjustments, and finally the adjusted balances:

- Here is the unadjusted trial balance of Saja & Co. at the end of 2025
- Saja & Co. is performing its end-of-period adjustments.
- Let's refresh what we learnt in the last lecture and look at a few of Saja & Co. AJEs



# Example: Recording AJEs

Account Types	Unadjusted		AJEs		Adjusted	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	130,000				130,000	
Accounts Receivable	45,000				45,000	
Loss Allowance	-					-
Inventory	20,000		(b)	3,400	16,600	
Prepaid Rent	14,000				14,000	
Property, Plant & Equipment	100,000				100,000	
Accumulated Depreciation		20,000				20,000
Accounts Payable		44,000				44,000
Income Tax Payable		1,500				1,500
Unearned Revenue		19,500	(a)	15,000		4,500
Dividends Payable		4,500				4,500
Long-term Debt		50,000				50,000
Share Capital		120,000				120,000
Retained Earnings		31,000				31,000
Dividends	4,500				4,500	
Sales Revenue		65,000	(a)	15,000		80,000
Cost of Goods Sold	15,000		(b)	3,400	18,400	
Salaries Expense	20,000				20,000	
General Admin Expense	7,000				7,000	
Rent Expense	-				-	
Depreciation Expense	-				-	
Bad Debt Expense	-				-	
Income Tax Expense	-				-	
Total	355,500	355,500	18,400	18,400	355,500	355,500

## (a) Unearned Revenue:

Saja & Co delivered \$15,000 worth of goods this period (2025), of which it has already received advance payment for last year in 2024.

Unearned Revenue                      \$15,000

Sales Revenue                              \$15,000

## (b) Cost of Goods Sold:

The cost of goods sold from event (a) above is \$3,400.

Cost of Sales                              \$3,400

Inventory                                      \$3,400

Remember Always:  
**DEBIT = CREDIT**



(c) Prepaid Expense:

Rent Expense	\$7,000
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Prepaid Rent	\$7,000
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(d) Depreciation Expense:

Depreciation Expense	\$10,000
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Accumulated Depreciation \$10,000

Remember Always:  
**DEBIT = CREDIT**



(e) Bad Debt Expense:

Bad Debt Expense	\$2,100
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(f) Income Tax Expense:

Income Tax Expense \$1,300

Income Tax Payable    \$1,300

A white ceramic mug is shown from a slightly elevated angle, resting on a light-colored wooden surface. The mug has a simple, modern design with a C-shaped handle on the right side. Printed in bold, black, sans-serif capital letters on the front of the mug is the phrase "HAPPINESS DEBITS = CREDITS". The word "HAPPINESS" is on the top line, and "DEBITS = CREDITS" is on the line below it, enclosed within a thin black rectangular border. A silver spoon is partially submerged in the mug, with its handle extending upwards and to the left. The background is softly blurred, showing hints of a kitchen environment.

# Preparing the Financial Statements

## STEP 1

### Income Statement

**NET INCOME**

*NI is a component to determine ending RE*

## STEP 2

### Statement of Changes in Equity

Beg Equity + share capital changes  
+ **Net Income** – Dividends  
+ OCI = Ending Equity

*Ending RE = Beg RE +  
Net Income - Dividends*

### Statement of Cash Flow (SCF)

Reports changes in cash  
→ **CASH (End balance)**

**(Statement of Cash Flow  
preparation to be covered in  
Lecture 11 – Chapter 14)**

- *Ending Cash is reported on the SFP's Assets.*
- *SCF provides greater details on how cash changes*

## STEP 3

### Statement of Financial Position

Assets (**Cash**)  
Liabilities  
Shareholders' Equity (ending equity, including **RE**)



# Example: Preparing Financial Statements

Account Types	Adjusted	
	Debit	Credit
Cash	130,000	
Accounts Receivable	45,000	
Loss Allowance		2,100
Inventory	16,600	
Prepaid Rent	7,000	
Property, Plant & Equipment	100,000	
Accumulated Depreciation		30,000
Accounts Payable		44,000
Income Tax Payable		2,800
Unearned Revenue		4,500
Dividends Payable		4,500
Long-term Debt		50,000
Share Capital		120,000
Retained Earnings		31,000
Dividends	4,500	
Sales Revenue		80,000
Cost of Goods Sold	18,400	
Salaries Expense	20,000	
General Admin Expense	7,000	
Rent Expense	7,000	
Depreciation Expense	10,000	
Bad Debt Expense	2,100	
Income Tax Expense	1,300	
Total	368,900	368,900

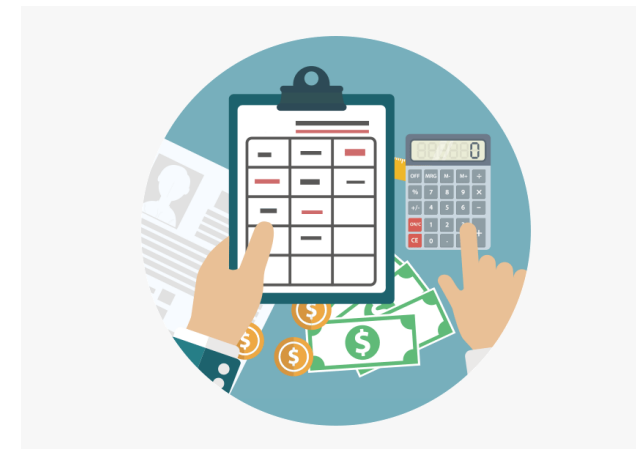
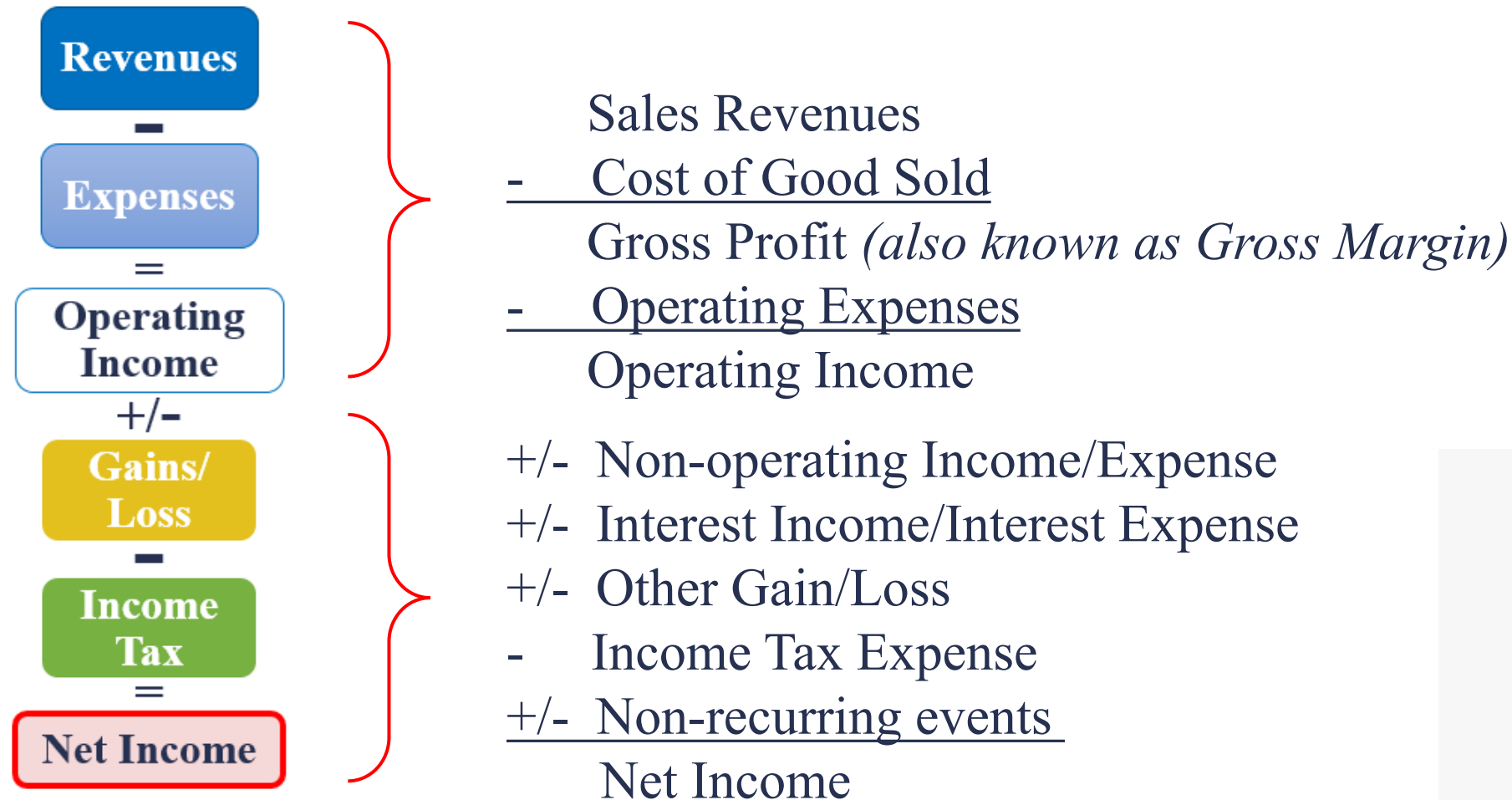
- This is the adjusted trial balance of Saja & Co
- Let's prepare the financial statements of Saja & Co (exclude Statement of Cash Flow):
  - 1) Income Statement
  - 2) Statement of Changes in Equity
  - 3) Statement of Financial Position
- You can download the “Saja & Co Working File” excel sheet from Canvas to help in the preparation of the AJEs, Adjusted Trial Balance, Worksheet and the Financial Statements.

## STEP 1: Prepare Income Statement

- Identify all revenue and expenses
- Revenues – Expenses = Net Income

# Income Statement Format

## The General Format of an Income Statement:



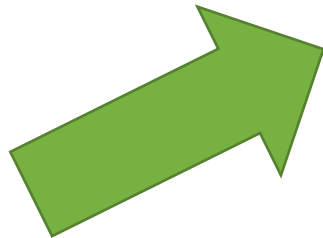




# Example: Preparing FS: IS

## STEP 1 : Prepare your Income Statement

Account Types	Adjusted	
	Debit	Credit
Cash	130,000	
Accounts Receivable	45,000	
Loss Allowance		2,100
Inventory	16,600	
Prepaid Rent	7,000	
Property, Plant & Equipment	100,000	
Accumulated Depreciation		30,000
Accounts Payable		44,000
Income Tax Payable		2,800
Unearned Revenue		4,500
Dividends Payable		4,500
Long-term Debt		50,000
Share Capital		120,000
Retained Earnings		31,000
Dividends	4,500	
Sales Revenue		80,000
Cost of Goods Sold	18,400	
Salaries Expense	20,000	
General Admin Expense	7,000	
Rent Expense	7,000	
Depreciation Expense	10,000	
Bad Debt Expense	2,100	
Income Tax Expense	1,300	
<b>Total</b>	<b>368,900</b>	<b>368,900</b>



Saja & Co. Income Statement For the Year Ended December 31, 2025	
Sales Revenue	\$ 80,000
Cost of Sales	\$ (18,400)
Gross Profit	\$ 61,600
Less Expenses:	
Salaries Expense	\$ (20,000)
General Admin Expense	\$ (7,000)
Rent Expense	\$ (7,000)
Depreciation Expense	\$ (10,000)
Bad Debt Expense	\$ (2,100)
Operating Income	\$ 15,500
Income Tax Expense	\$ (1,300)
<b>Net Income</b>	<b>\$ 14,200</b>

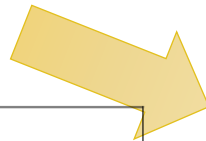




# Example: Preparing FS: SCE

Account Types	Adjusted	
	Debit	Credit
Share Capital		120,000
Retained Earnings		31,000
Dividends	4,500	

## STEP 2 : Prepare your Statement of Changes in Equity



Saja & Co. Income Statement For the Year Ended December 31, 2025	
Sales Revenue	\$ 80,000
Cost of Sales	\$ (18,400)
Gross Profit	\$ 61,600
Less Expenses:	
Salaries Expense	\$ (20,000)
General Admin Expense	\$ (7,000)
Rent Expense	\$ (7,000)
Depreciation Expense	\$ (10,000)
Bad Debt Expense	\$ (2,100)
Operating Income	\$ 15,500
Income Tax Expense	\$ (1,300)
<b>Net Income</b>	<b>\$ 14,200</b>

Saja & Co. Statement of Changes in Equity For the Year Ended December 31, 2025			
	Share Capital	Retained Earnings	Total Equity
Beginning Balance	\$ 120,000	\$ 31,000	\$ 151,000
Net Income		<b>\$ 14,200</b>	\$ 14,200
Dividends		\$ (4,500)	\$ (4,500)
Ending Balance	\$ 120,000	\$ 40,700	\$ 160,700

- Beg RE + Net Income – Dividends = Ending RE  
( \$31,000 + \$14,200 - \$4,500 = \$40,700)

# Statement of Financial Position (Classified)

## Recall the general format of a Statement of Financial Position:

### (1) Assets

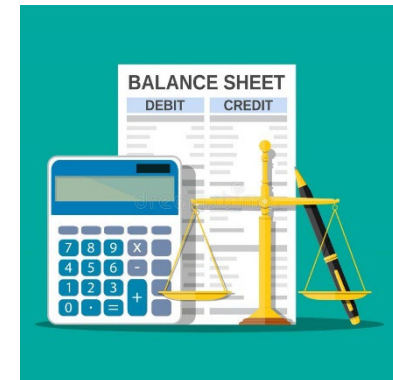
- Current Assets : to be used, or turned into cash, within a year
  - e.g. cash, receivables, short term assets, inventory, office supplies, prepaid expenses
- Noncurrent Assets : to be used for more than a year
  - e.g. long-term investment, fixed assets, intangible assets (such as goodwill)

### (2) Liabilities

- Current Liabilities : to be resolved within a year
  - e.g accounts payable, salaries payable, current portion of debt, unearned revenue
- Noncurrent Liabilities
  - e.g. long term notes payable (long-term debt), bonds payable, mortgages payable

### (3) Owners' Equity

- Share Capital
- Retained Earnings





# Example: Preparing FS: SFP

## STEP 3 : Prepare your Statement of Financial Position

Account Types	Adjusted	
	Debit	Credit
Cash	130,000	
Accounts Receivable	45,000	
Loss Allowance		2,100
Inventory	16,600	
Prepaid Rent	7,000	
Property, Plant & Equipment	100,000	
Accumulated Depreciation		30,000
Accounts Payable		44,000
Income Tax Payable		2,800
Unearned Revenue		4,500
Dividends Payable		4,500
Long-term Debt		50,000

From adjusted trial balance, extract the account balance of all the assets & liabilities accounts.



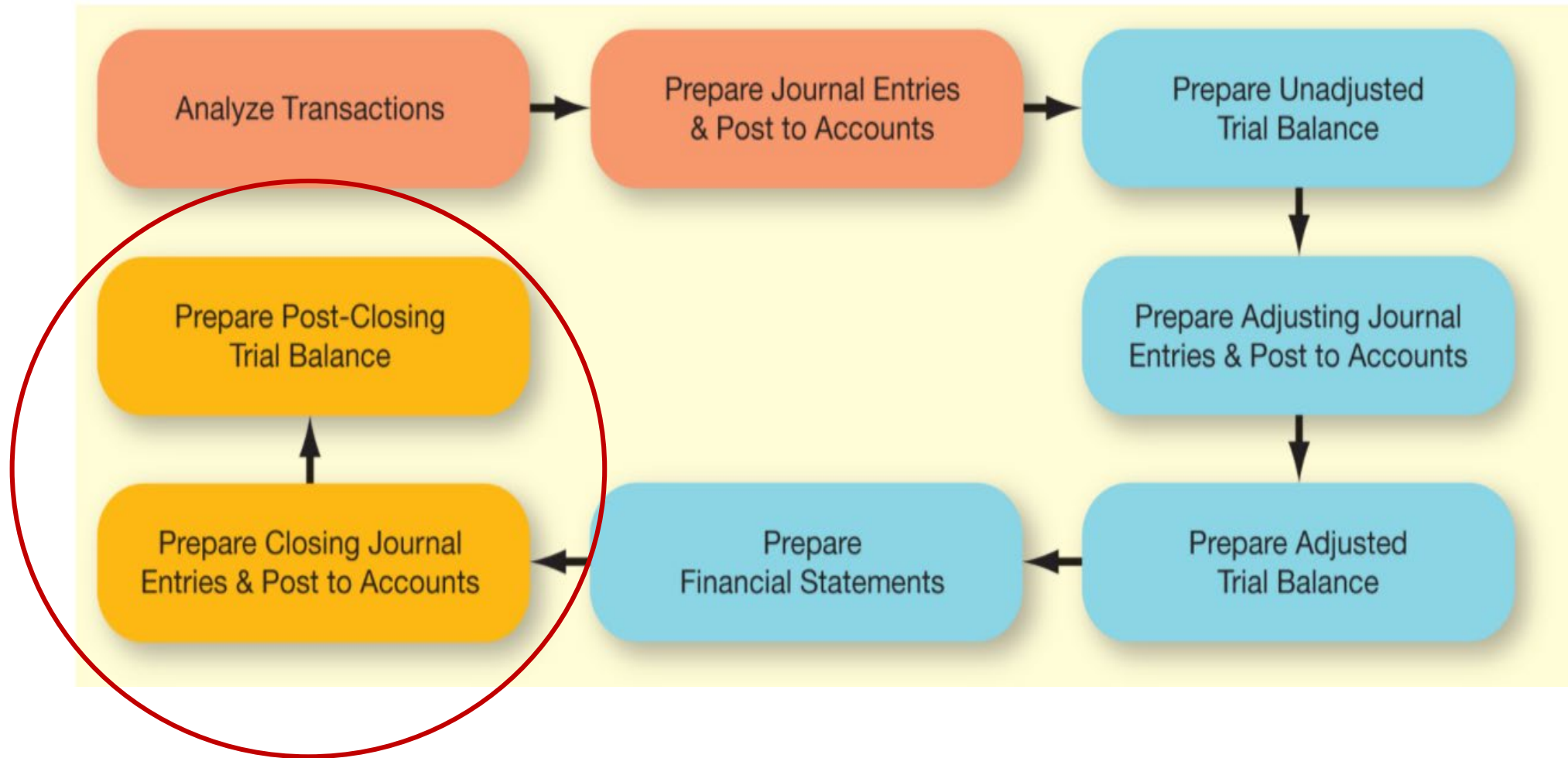
Saja & Co. Statement of Changes in Equity For the Year Ended December 31, 2025			
	Share Capital	Retained Earnings	Total Equity
Beginning Balance	\$ 120,000	\$ 31,000	\$ 151,000
Net Income		\$ 14,200	\$ 14,200
Dividends		\$ (4,500)	\$ (4,500)
Ending Balance	\$ 120,000	\$ 40,700	\$ 160,700

Use the Statement of Changes in Equity to help complete the equity portion.



Saja & Co. Statement of Financial Position At December 31, 2025	
<b>Assets</b>	
Current Assets	
Cash	\$ 130,000
Accounts Receivables (net)	\$ 42,900
Inventory	\$ 16,600
Prepays	\$ 7,000
Total Current Assets	\$ 196,500
Non-current Assets	
Property, Plant & Equipment (net)	\$ 70,000
Total Non-current Assets	\$ 70,000
<b>Total Assets</b>	<b>\$ 266,500</b>
<b>Liabilities</b>	
Current Liabilities	
Accounts payable	\$ 44,000
Income Tax Payable	\$ 2,800
Unearned Revenue	\$ 4,500
Dividends Payable	\$ 4,500
Total Current Liabilities	\$ 55,800
Non-current Liabilities	
Long-term Debt	\$ 50,000
Total Non-current Liabilities	\$ 50,000
<b>Total Liabilities</b>	<b>\$ 105,800</b>
<b>Stockholders' Equity</b>	
Share Capital	\$ 120,000
Retained Earnings	\$ 40,700
<b>Total Equity</b>	<b>160,700</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 266,500</b>

# The Accounting Cycle



# Closing the Books

## Permanent versus Temporary Accounts

### Real (Permanent) accounts:

- Balance Sheet accounts
  - Assets
  - Liabilities
  - Stockholders' Equity (Share Capital, Retained Earnings)
- **Accounts not closed at end of accounting period.**
- **Ending balance carried over to the next accounting period (i.e. next period's beginning balance)**

### Nominal (Temporary) accounts:

- Income statement accounts
  - Revenues
  - Expenses
  - Gains / Losses
  - Dividends
- **Accounts closed at the end of the accounting period to **Retained Earnings**.**
- **Ending balance reset to zero, thus next accounting period beginning balance is zero.**

# The Closing Process

- Close ALL revenue, expense and dividend account balances to Retained Earnings at the end of the accounting period.
  - Recall: revenue account has a normal credit balance, while expense and dividend accounts have normal debit balance. To close out the accounts, reverse the entries.
  - The balance will either be a debit or credit to Retained Earnings.
- Closing Journal Entries Example:

## If $\text{Rev} > (\text{Exp} + \text{Div})$

Revenues	1,000	
Expenses		500
Dividend		100
Retained Earnings		400

## If $\text{Rev} < (\text{Exp} + \text{Div})$

Revenues	1,000	
Retained Earnings	300	
Expenses		1,200
Dividend		100

### Note on Dividends:

- Dividends are not expenses and will not be reported on the income statement and statement of comprehensive income.
- They are distributions of the company's earnings to stockholders.
- *To be covered in Lecture 10 – Chapter 12.*



# Example: Closing the Books – Closing Entry

Account Types	Adjusted	
	Debit	Credit
Cash	130,000	
Accounts Receivable	45,000	
Loss Allowance		2,100
Inventory	16,600	
Prepaid Rent	7,000	
Property, Plant & Equipment	100,000	
Accumulated Depreciation		30,000
Accounts Payable		44,000
Income Tax Payable		2,800
Unearned Revenue		4,500
Dividends Payable		4,500
Long-term Debt		50,000
Share Capital		120,000
Retained Earnings		31,000
Dividends	4,500	
Sales Revenue		80,000
Cost of Goods Sold	18,400	
Salaries Expense	20,000	
General Admin Expense	7,000	
Rent Expense	7,000	
Depreciation Expense	10,000	
Bad Debt Expense	2,100	
Income Tax Expense	1,300	
Total	368,900	368,900

To close Saja & Co. books on 31<sup>st</sup> December 2025:

- Close revenue & expense accounts to Retained Earnings:

Sales Revenue	80,000
Cost of Goods Sold	18,400
Salaries Expense	20,000
General Admin Expense	7,000
Rent Expense	7,000
Depreciation Expense	10,000
Bad Debt Expense	2,100
Income Tax Expense	1,300
Retained Earnings	14,200

Debit the revenues

Credit the expenses

Credit net income balance to RE.  
(If net loss, then it will be debit to RE)

- Close Dividends to Retained Earnings

Retained earnings	4,500
Dividends	4,500

Credit the dividends

*Note: The above entries can also be combined into one entry.*





# Example: Closing the Books – Post Closing TB

Account Types	Adjusted	
	Debit	Credit
Cash	130,000	
Accounts Receivable	45,000	
Loss Allowance		2,100
Inventory	16,600	
Prepaid Rent	7,000	
Property, Plant & Equipment	100,000	
Accumulated Depreciation		30,000
Accounts Payable		44,000
Income Tax Payable		2,800
Unearned Revenue		4,500
Dividends Payable		4,500
Long-term Debt		50,000
Share Capital		120,000
<b>Retained Earnings</b>		<b>31,000</b>
Dividends	4,500	
Sales Revenue		80,000
Cost of Goods Sold	18,400	
Salaries Expense	20,000	
General Admin Expense	7,000	
Rent Expense	7,000	
Depreciation Expense	10,000	
Bad Debt Expense	2,100	
Income Tax Expense	1,300	
<b>Total</b>	<b>368,900</b>	<b>368,900</b>

- After closing, all nominal (temporary) accounts will have zero balance.
- Ending RE = Beg RE + NI - Dividends  

$$= \$31,000 + \$14,200 - \$4,500$$

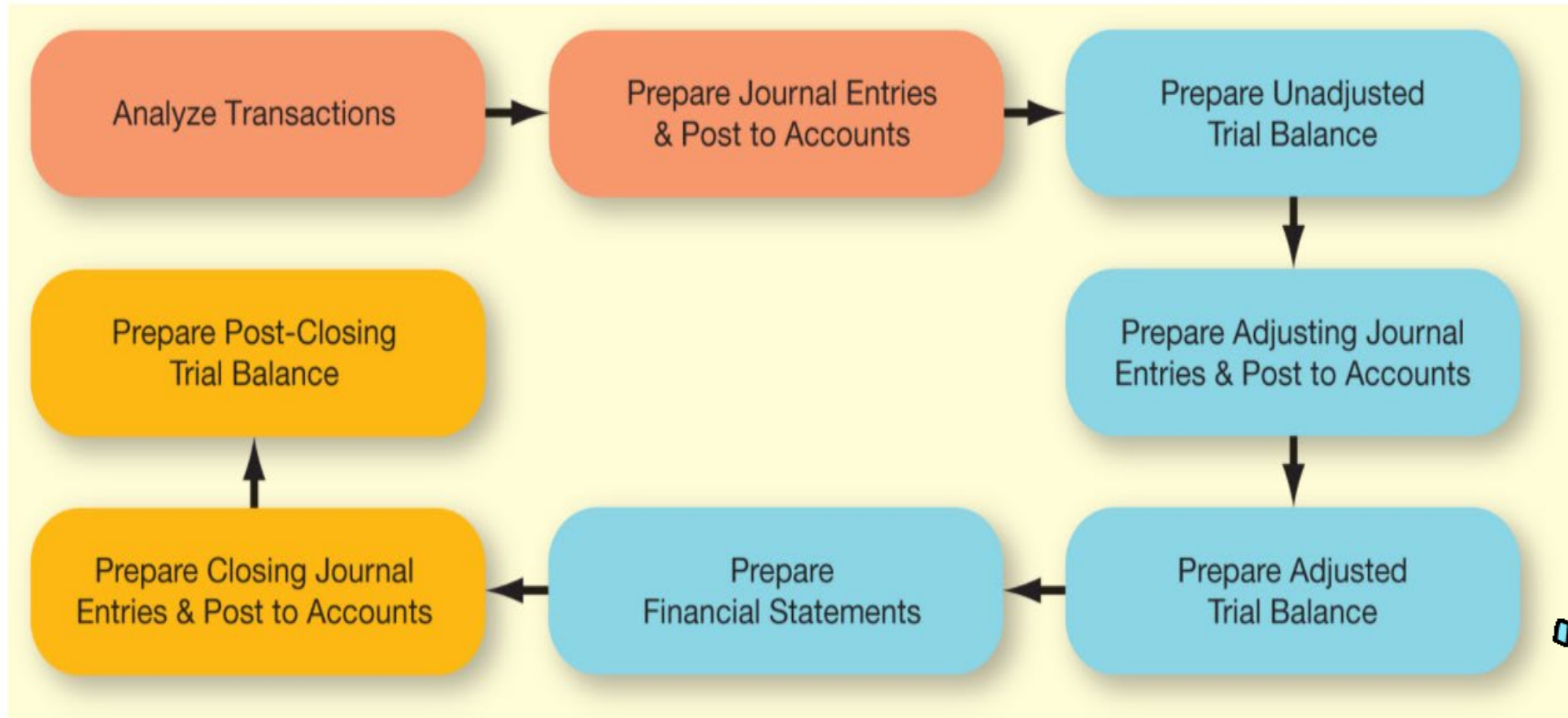
$$= \$40,700$$



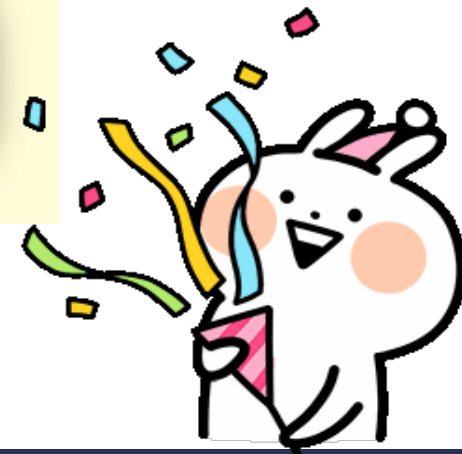
Account Types	Post Closing	
	Debit	Credit
Cash	130,000	
Accounts Receivable	45,000	
Loss Allowance		2,100
Inventory	16,600	
Prepaid Rent	7,000	
Property, Plant & Equipment	100,000	
Accumulated Depreciation		30,000
Accounts Payable		44,000
Income Tax Payable		2,800
Unearned Revenue		4,500
Dividends Payable		4,500
Long-term Debt		50,000
Share Capital		120,000
<b>Retained Earnings</b>		<b>40,700</b>



# The Accounting Cycle



**We have completed the Accounting Cycle!**



# Goals for Today (Chapter 04 – Part 2)

## Concepts

- Importance of periodic reporting
- Importance of accrual accounting
- Adjustments and their purposes

## Accounting Procedures

- Prepare adjusting entries
- Prepare adjusted trial balance
- Prepare financial statements from adjusted trial balance
- Closing the books

## Financial Analysis

- Profit Margin

# Assessing Profitability

## Net Profit Margin

### Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}}$$

- *Profitability* ratio that measures much how much net profit is generated from each dollar of sales.
- Also known as “Return on Sales”
- Useful for assessing company’s operating efficiency in generating profit from its sales activity
- High profit margin is an indicator of future growth

# Net Profit Margin

## An example: Samsung 2022 - 2024

### SPL

	Notes	2024	2023
		KRW	KRW
Revenue	29	300,870,903	258,935,494
Cost of sales	21	186,562,268	180,388,580
<b>Gross profit</b>		<b>114,308,635</b>	<b>78,546,914</b>
Selling and administrative expenses	21, 22	81,582,674	71,979,938
<b>Operating profit</b>	29	<b>32,725,961</b>	<b>6,566,976</b>
Other non-operating income	23	1,960,338	1,180,448
Other non-operating expense	23	1,625,229	1,083,327
Share of net profit of associates and joint ventures	9	751,044	887,550
Financial income	24	16,703,304	16,100,148
Financial expense	24	12,985,684	12,645,530
<b>Profit before income tax</b>		<b>37,529,734</b>	<b>11,006,265</b>
Income tax expense (benefit)	25	3,078,383	(4,480,835)
<b>Profit for the year</b>		<b>34,451,351</b>	<b>15,487,100</b>

	2024	2023	2022
<b>Profit Margin</b>	<b>11.45%</b>	<b>5.98%</b>	<b>18.41%</b>
Net Profit	34,451,351	14,487,100	55,654,077
Sales Revenue	300,870,903	258,935,494	302,231,360

How would you explain the pattern of its profit margin in the last 3 years?

- Weaker demand in 2023 caused a drop in revenues (from 2022), and a huge drop in net profit margin (from 18.41% → 5.98%). Android space is diversifying (e.g. Huawei, Xiaomi and other brands), which affected Samsung.
- Recovery in 2024, strong performance from its Memory Business. Net profit margin went up to 11.45%



**SAMSUNG**

# Net Profit Margin

## Samsung vs Apple

- Financial ratios are also useful for comparison with competitors, especially if they are on different currencies.

Let's compare Samsung with a competitor Apple:

	 (in millions KWR)			 (in millions USD)		
	2024	2023	2022	2024	2023	2022
<b>Profit Margin</b>	<b>11.45%</b>	<b>5.98%</b>	<b>18.41%</b>	<b>23.97%</b>	<b>25.31%</b>	<b>25.31%</b>
Net Profit	34,451,351	14,487,100	55,654,077	93,736	96,995	99,803
Sales Revenue	300,870,903	258,935,494	302,231,360	391,035	383,285	394,328

- Apple's net profit margin is more stable at around 24-25%. A slight dip in 2024 from 2023.
- In 2023, Apple outperformed Samsung in global smartphone sales for the first time since 2010, which affected Samsung and its net profit margin took a hit. There was some recovery in 2024.

# Take Away for Lecture 04

- Adjusted Trial balance
- Preparing Financial Statements using Adjusted Trial Balance
  - Income Statement
  - Statement of Changes in Equity
  - Statement of Financial Position
- Closing the Books
- Financial ratio: Net Profit Margin



# Next week's Lecture 05

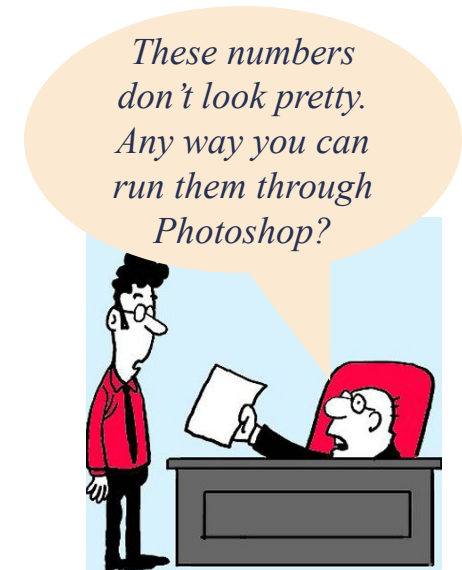
## Internal Controls & Financial Statements Integrity (Chapter 5)

- Safeguarding your accounting system – internal controls
- Roles of auditors
- Earnings management
- Accounting fraud cases

## Cash (Chapter 6)

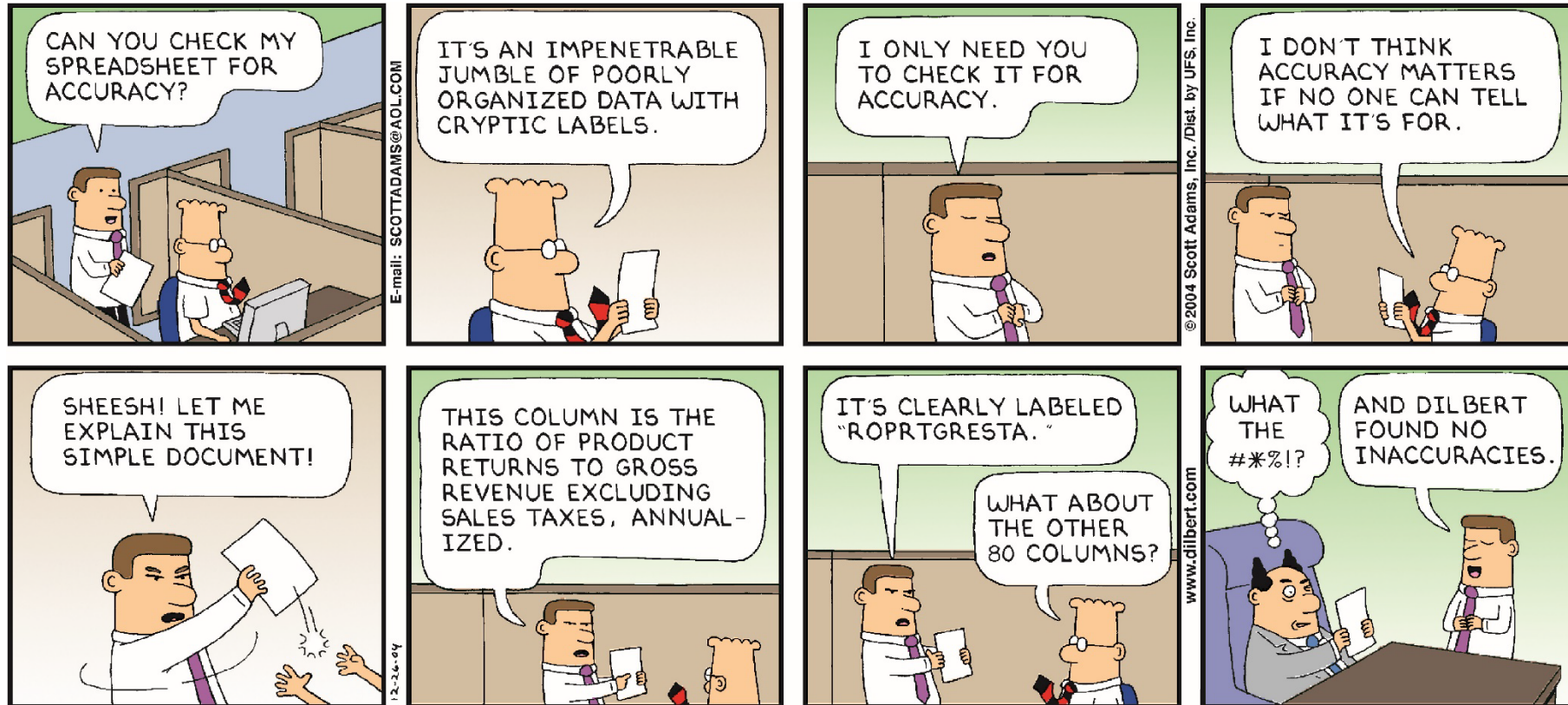
- Cash & Internal Controls
- Buying & Selling: discounts & returns

*(Note: Petty Cash & Bank Reconciliation will **NOT** be covered)*





# More fun accounting awaits you next week!



Post any questions/discussion in the Canvas Discussion Forum for Lecture 04.

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