

# ACC 1701XA

# Accounting for Decision Makers

## LECTURE 01

Lecturer: Dr. Hanny Kusnadi

*Accounting*

*The language of the business world*



**NUS**  
National University  
of Singapore

**NUS**  
BUSINESS  
SCHOOL



# Introduction

# Who am I + Who are you?

- Since we will be spending the next couple of weeks together, I would really like to get to know all of you.
- Share with me, and the class, a little about yourself in the collaborative slide in Canvas: : <https://canvas.nus.edu.sg/>

## **ACC1701XA > Collaborations > Let's Get to Know Each Other.**

- Please do it after the lecture at your own time.
- Remember, the collaborative slides are visible to ALL in the class, do keep it professional but fun! 😊



# Course Overview

- **Refer to Course Information in Canvas.**

# Seating Chart & Name Cards

## Seating Arrangement

- Students are required to sit in the **SAME** seat for the whole of the semester!
- Where you are sitting now, is where you will be sitting for the rest of the semester.
- A seating chart will be created after the first class session.

## Name Card Display

- Students **must display their name card in class at all times!**
- Helps me to track your class participation (CP). If you don't display your name card, you risk unrecorded CP.

# Tips for surviving this class successfully

- **Before** each lecture, read the assigned chapter ahead of time and review the lecture slides before class. This will benefit you.
- **After** each lecture, review the materials after class. This will help you “digest” the materials covered.
- Attempt the assigned self-study practice problems and review the given solutions carefully at your own time. This will help to further solidify your understanding of the materials.
- Complete all the assigned tutorial questions **before** your tutorial sessions and be prepared to contribute to the discussions during tutorial classes.
- Always raise questions when you have them. Do not let them accumulate as each chapter builds on prior chapter(s). Make sure you **do not let yourself fall behind!**
- Enjoy and immerse yourself in the wonders of accounting!



# Lecture Etiquette

## # 1 Rule to adhere to at all times: ***BE PROFESSIONAL***

- Be punctual and come to the class **on time**. Latecomers may be denied entry.
- Be **respectful** – avoid doing other tasks not related to lecture. (e.g. checking emails, chit-chatting, playing games)
- If you have any questions, please raise your hand.
- You can also ask me questions during the break or after the lecture. I will be around to answer questions during the break and after the lecture.
- **Questions should also be directed to the discussion forums in Canvas.**
- Inappropriate language will **not** be tolerated. I will request you to leave if you are engaging in inappropriate or distracting behavior.
- Always come to class ready to learn and have some accounting fun!



# Let's link to PollEv

## Important Note on PollEv

- I will be using PollEv frequently throughout my class.
- The link for all PollEv activities in class is:

**[PollEv.com/bizhann](https://pollev.com/bizhann)**

- Or scan the QR code.
- You may want to bookmark the above PollEv link for future lectures.
- You should participate in all in-class poll activities, as it will be used to assess your CP.
- **Sign-in required for Polls!** (If you don't sign in, I cannot track your CP)







Chapter 01 & 02

# **Accounting in Business & Financial Statements Overview**

# Do you speak Accounting?

FINANCIAL TIMES

HOME WORLD US COMPANIES TECH MARKETS CLIMATE OPINION LEX WORK & CAREERS LIFE & ARTS HTSI

US companies Added

## Berkshire Hathaway earnings take \$3.8bn hit from Kraft Heinz stake writedown

Warren Buffett's landmark 2015 consumer goods tie-up has struggled and the company is exploring a break-up

X

f

in

Share

Saved

A photograph of Warren Buffett, an elderly man with white hair and glasses, wearing a dark suit and tie. He is holding a yellow popsicle in his mouth and looking towards the camera. In the background, other people are partially visible, including a man in a suit and glasses.

Warren Buffett combined Heinz, which Berkshire Hathaway owned alongside investment group 3G Capital, with publicly listed Kraft in 2015 © Rick Wilking/Reuters

# The need for Accounting:

## Andy's AI Company

- Andy just graduated from NUS.
- He is starting his own artificial intelligence (AI) company providing automated business solutions.
- To grow his business, he needs **\$10 million!**
- BUT, the ten million dollar question is:

**Where can Andy get \$10 million?**



# Importance of Accounting

## *Andy's AI Company:*

- How can Andy convince people to invest in his company?
- Without **RELIABLE FINANCIAL STATEMENTS**, he can't!!!
- What can Andy's financial statements tell investors about his company?
  - What resources & obligations does the company has?
  - How much money does the business make? or will make?
- Financial statements reports **economic information** to users
- Accounting is the system used to **identify, record, and communicate** quantitative information, primarily financial in nature, about a business organization that is useful for decision making.

**Accounting is the language of the business world!**



# Let's Learn the Accounting Language

- Accounting helps us to better understand the business world!

- World's 3<sup>rd</sup> Richest Man (Forbes 2025) : Jeff Bezos.

- How much money does Amazon make?

**Accounting can give you the answer!**



**US\$59B net income in 2024,  
US\$30B net income in 2023.  
BUT, US\$2.7B net loss in 2022.  
Why??**

**US\$638B revenues in 2024!**

	Year Ended December 31,		
	2022	2023	2024
Net product sales	\$ 242,901	\$ 255,887	\$ 272,311
Net service sales	271,082	318,898	365,648
<b>Total net sales</b>	<b>513,983</b>	<b>574,785</b>	<b>637,959</b>
Operating expenses:			
Cost of sales	288,831	304,739	326,288
Fulfillment	84,299	90,619	98,505
Technology and infrastructure	73,213	85,622	88,544
Sales and marketing	42,238	44,370	43,907
General and administrative	11,891	11,816	11,359
Other operating expense (income), net	1,263	767	763
<b>Total operating expenses</b>	<b>501,735</b>	<b>537,933</b>	<b>569,366</b>
Operating income	12,248	36,852	68,593
Interest income	989	2,949	4,677
Interest expense	(2,367)	(3,182)	(2,406)
Other income (expense), net	(16,806)	938	(2,250)
<b>Total non-operating income (expense)</b>	<b>(18,184)</b>	<b>705</b>	<b>21</b>
Income (loss) before income taxes	(5,936)	37,557	68,614
Benefit (provision) for income taxes	3,217	(7,120)	(9,265)
Equity-method investment activity, net of tax	(3)	(12)	(101)
<b>Net income (loss)</b>	<b>\$ (2,722)</b>	<b>\$ 30,425</b>	<b>\$ 59,248</b>

# Users of Accounting Information

Why do different parties care about a company's financial statements?

## External Users:

- Shareholders and potential investors - *dividends, “purchase low, sell high”*
- Creditors - *whether to lend money or not*
- Suppliers - *pay money in time, maintain demand*
- Customers - *deliver products in time, maintain supply, maintain price*
- Competitors – *to understand your “enemy”*
- Regulators – *oversee the “players” and fairness in the market*
- Taxing Authorities - *collect appropriate level of taxes*

## Internal Users:

- Managers and employees - *plan operations, to be well paid, to get promoted*



# The Accounting System

## 3 Types of Accounting

- Financial accounting system
  - Reporting of economic information to external users
  - Periodic financial statements and related disclosures
  - e.g. Investors, creditors, suppliers, customers
- Managerial accounting system
  - Reporting of economic information to internal users.
  - Detailed plans and continuous performance reports
  - e.g. internal decision makers such as managers
- Tax accounting - Reporting of information to tax authorities.

**This course will focus on Financial Accounting!**

The primary objective of external financial reporting is to provide useful economic information about a business to help external parties, primarily investors and creditors, make sound financial decisions.

# Types of Business Entities



Sole Proprietorship	Partnership	Corporation
Single Owner	Owned by two or more partners	Owned by many holders through shares (shareholders)
Unlimited liability	Unlimited liability shared by partners	Limited liability

- A corporation/company is a separate legal entity (i.e. separate from its owners). Shareholders are NOT personally liable for the corporation's acts.



# Financial Accounting Standards

Who determines the content of financial statements?

International Accounting Standards Board (**IASB**) issues International Financial Reporting Standards (**IFRS**)

- In Singapore, companies incorporated here must follow the Singapore Financial Reporting Standards (FRS)
- Singapore FRS is based on the IFRS
- Singapore FRS are set by the Accounting Standards Council (**ASC**)
- Note: some old IFRS were issued as International Accounting Standards (**IAS**), so the term IFRS and IAS can be used interchangeably.



# Standard Setters

## International



International Accounting Standards Board (IASB)

*Since 2001*



**International Financial Reporting Standards (IFRS)**

## Singapore



Accounting Standards Council  
Singapore

*Since 2007*

*[2002-2007: Council on Corporate Disclosure and Governance (CCDG)]*



**Singapore Financial Reporting Standards (FRS) / International Financial Reporting Standards (IFRS)**

## U.S.A



U.S. Securities and Exchange Commission (SEC)

*Since 1934*



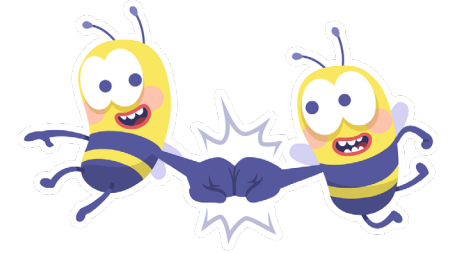
**Generally Accepted Accounting Principles (GAAP)**

# IFRS around the World

Global convergence to IFRS in response to global demand for comparability of accounting reports.



Countries in blue  
have adopted  
IFRS



*Note:*

*US. GAAP and IFRS are pursuing a convergence process → aimed to achieve a single set of accounting standards for global use*

<https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>

# IASB Conceptual Framework

## Conceptual Framework for Financial Reporting (revised 2018)

- Starting point for the development of IFRS standards
- Deals with the objective of financial reporting – providing useful information
- Defines basic accounting concepts
- Gives guidelines for good accounting : **Qualitative Characteristics**
- Qualitative characteristics define the types of information that are likely to be most useful to users

# Qualitative Characteristics

## Fundamental Qualitative Characteristics

### (1) Relevance

- Gives numbers that users need for decisions
- Predictive – future outcomes
- Confirmatory – confirm past evaluations

### (2) Faithful Representation

- Provides true, fair and neutral view
- Neutrality is supported by prudence, which is the exercise of caution when making judgements under uncertainty



# Qualitative Characteristics

## Enhancing Qualitative Characteristics

### (1) Comparability

- Can compare company X to company Y; or company X this year to company X last year

### (2) Verifiability

- Can check if the numbers are correct

### (3) Timeliness

- Information is not stale or out of date

### (4) Understandability

- Users can understand the information





# Ethical Conduct

- Ethics – beliefs that distinguish right from wrong: good vs bad behavior
- For accounting to be useful, it must be **TRUSTED** by its users. Accountants are perceived as being responsible for making sure misrepresentation does not occur.

## → Ethics is crucial to accounting!

- Accounting scandals driven by greed and poor ethics:
  - Wirecard 2020 – German payments company inflated revenues and profits through fraudulent activities. €1.9 billion of “missing” cash.
  - Luckin Coffee 2020 – Chinese coffee chain inflated sales by more than RMB 2billion in 2019 through fake coupons.
  - Hin Leong 2020 – Singapore oil trading company overstated assets by US\$3 billion and fabricated documents to conceal US\$800m losses
  - Accounting scandal is a constant pandemic: Enron 2001, WorldCom 2002, AIG 2005, Lehman Brothers 2008, Satyam 2009, Bernie-Madoff 2008



**Remember: Good ethics are good business!**

# Auditors & External Audit

## What is an external audit?

- Financial reports and underlying transactions incorporated into financial statements are examined to ensure compliance with accounting standards.
- Financial statements are the responsibility of a company's management.

## What is an Auditor?

- An auditor is an independent certified public accountant (CPA) who performs an external audit on a company's financial statements, and issues an audit report that contains an *auditing opinion* on whether the financial statements comply with prevailing accounting standards.

## Why audit financial statements?

- While an audit report does not guarantee accuracy, it however provides the public with additional assurance, beyond the management's own assertions, that a company's financial statements are not misleading, and can therefore be relied upon.

The “Big Four”

Deloitte.



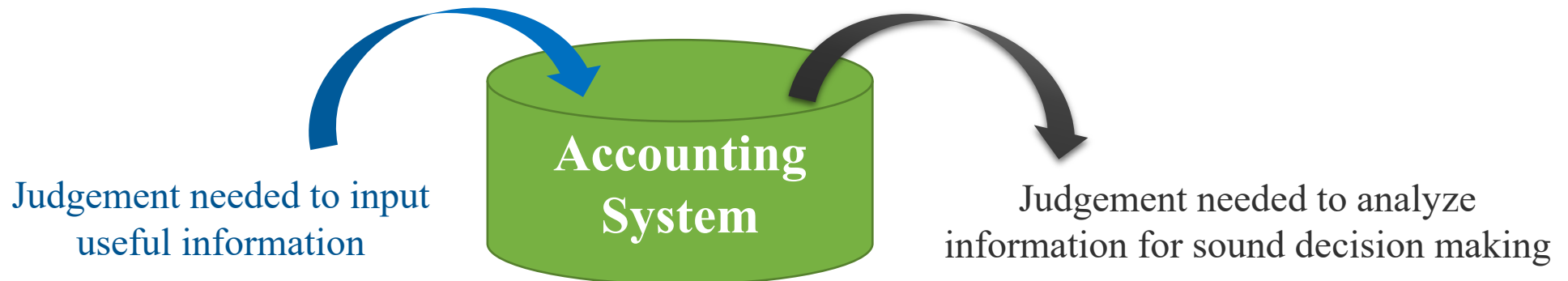


# Accounting & Technology

While technology has allowed companies to:

- Automate routine bookkeeping functions
- Easily gather vast amounts of information about individual transactions.
- Compile large amounts of data quickly and accurately
- Acquire and help analyze financial information in a more effective and efficient manner.

**However, technology has NOT replaced judgement!**



# Environment, Social and Governance (ESG)

- ESG efforts have become a "mainstream" mindset influencing decisions in business.
- Debate exists over whether corporate social responsibility (CSR) should be part of a company's mission statement.
- The rapid spread of company misconduct via social media has urged companies to consider issues like:
  - Equal treatment of employees (e.g. gender, race, etc.)
  - Fair compensation (e.g. pay disparity)
  - Responsible customer treatment (e.g. food safety)
  - Environmental impact (e.g. carbon emissions, climate change, water pollution)
  - Effective governance (e.g. board directors)

# ESG Concerns have Real Consequences

- Evidence shows that ESG performance affects:
  - Financing sources and cost of capital
  - Employee recruitment
  - Customer attraction and retention
  - Overall financial performance
- ➔ Accounting is expanding its scope to report ESG performance.
- ISSB (International Sustainability Standards Board) was formed in 2021 to develop sustainability standards.
  - In 2023, ISSB issued two disclosure standards (IFRS S1 & IFRS S2) for sustainability and climate-related risks.
  - Effective for reporting periods starting 1 January 2024.
- TCFD (Task Force on Climate-Related Financial Disclosures) four pillars: governance, strategy, risk management, and metrics/targets.

# ESG Disclosure Standards: IFRS S1 & IFRS S2

- In 2023, ISSB issued two disclosure standards (IFRS S1 & IFRS S2) for sustainability and climate-related risks. (Effective starting 1 January 2024)
- Seven Key Metrics:
  - 1) GHG (Greenhouse Gas) emissions (CO<sub>2</sub> equivalent)
  - 2) Climate-related transition/physical risks
  - 3) Climate opportunities
  - 4) Capital for low-carbon initiatives
  - 5) Internal carbon prices
  - 6) Executive remuneration linked to climate
  - 7) Scope 1, 2, and 3 GHG emissions

# What does a Sustainability Report Looks Like?

## SINGTEL



[Singtel 2025 Sustainability Report](#)

(also available for download from Canvas)

# What is Rumi worth?

- Rumi has \$2m in property, and \$2m in debt. How much is Rumi worth?

ASSETS	LIABILITIES
Property \$2,000,000	Debt \$2,000,000

- Net worth = Assets – Liabilities (\$2M - \$2M)

→ Rumi's net worth is **ZERO!**

If Rumi earns \$100,000 in cash (which she didn't spend), what would her net worth be now?

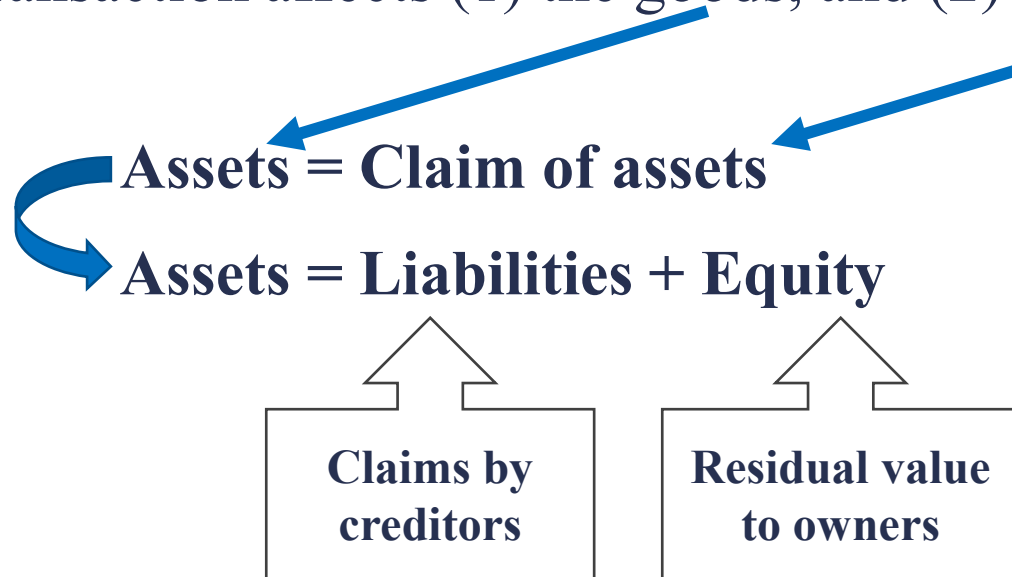
→ Assets \$2.1M – Liabilities \$2M = net worth \$100k



# The Fundamental Accounting Equation

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$

- Luca Pacioli, a Renaissance era monk, developed a method for tracking the success or failure of trading ventures.
- A transaction affects (1) the goods, and (2) the claim of it.



Luca Pacioli,  
Father of Modern Accounting

**The Accounting Equation ALWAYS balances!**

# IASB Conceptual Framework Defines

## ASSETS

- A **resource** controlled by the entity in the **present**
- Due to **past** event
- That will give rise to **future** benefits

Common Assets		
Asset	Definition	Example
Cash	Coins, currency, checks.	The amount in a company's checking account.
Accounts Receivable	An economic resource arising from providing goods or services to a customer on account.	The company providing a consulting service to a client on account will give rise to the company accounts receivable from the client.
Inventory	Items that are purchased or manufactured by a company and will be resold.	The items you see on the shelves in Carrefour are considered by Carrefour as inventory.
Buildings	Structures used in the operations of a business.	The physical store itself is classified by Carrefour as a building.



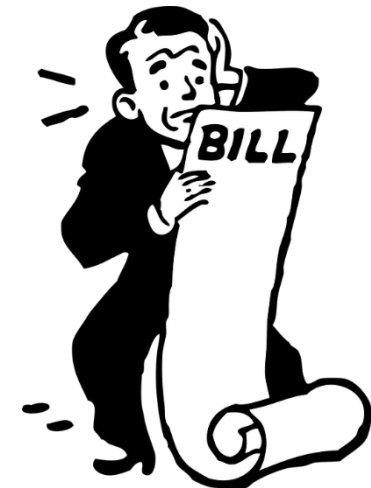


# IASB Conceptual Framework Defines

## LIABILITIES

- A **present** obligation
- Arising from **past** event
- That is **expected** to lead to a **future** outflow of resources upon settlement
- Creditor's claim on assets.

Common Liabilities		
Liability	Definition	Example
Accounts Payable	Amount owed as a result of the purchase of goods and services on credit.	The amount owed by a company for inventory that was purchased on credit and has not been paid for yet.
Income Taxes Payable	Amount owed to governments resulting from the application of tax laws.	Corporate income tax owed but not yet paid.
Mortgage Payable	Amount owed relating to the purchase of property.	The loan associated with the purchase of a home or building.
Unearned Revenue	Amount owed in services or product (not money) to a customer who paid in advance.	A publisher owes a customer who bought a 12-month magazine subscription.



# IASB Conceptual Framework Defines

## EQUITY

- **Owner's claim** on the **residual interest** in the assets after deducting all liabilities, representing the **net assets** (total assets – total liabilities) of the company.
- Claims arising from:
  - 1) Share Capital / Capital Stock = portion of equity contributed by owners into the company in exchange for shares/stock.
  - 2) Retained earnings = equity earned by the company. The accumulated earnings of the business that have not been distributed to owners.

$$\begin{array}{c} \text{Equity} \\ \hline \text{Assets} = \text{Liabilities} + \text{Share Capital} + \text{Retained Earnings} \\ \quad = \text{Liabilities} + \text{Share Capital} + \text{Revenues} - \text{Expenses} - \text{Dividends} \end{array}$$



# Changes in Equity

## ➤ Equity **increases** when

- Owners make additional investments in a business.
- The business generates profits.

- Revenues – earned from company's operations
- Expenses – cost incurred in earning revenues



$$\text{Profits} = \text{Revenues} - \text{Expenses}$$

## ➤ Equity **decreases** when

- Owners take back part of their investment from the business.
- The business generates a loss.
  - Loss is when revenues is less than expenses.
- Dividends are distributed to shareholders. Dividends are portion of profits distributed back to shareholders.

# IASB Conceptual Framework Defines

## **INCOME (Revenue, Gains)**

- Inflow/enhancement of assets (OR decrease in liabilities resulting in **increase in equity**)
- During the accounting period other than contributions from owners

## **EXPENSE**

- Outflow/depletions of assets (OR incurrence of liability resulting in **decrease in equity**)
- During the accounting period other than distributions to owners

## **CAPITAL MAINTENANCE ADJUSTMENTS**

- Revaluation or restatement of assets/liabilities resulting in **changes in equity**
- Not included in the income statement
- Treated as **Other Comprehensive Income (OCI)**

# FRS (IAS) 1 Presentation of Financial Statements

- **Financial statements summarize the financial activities of a business.**
- FRS 1 states that a complete set of financial statements comprise of:

## The Four major statements (*also known as*)

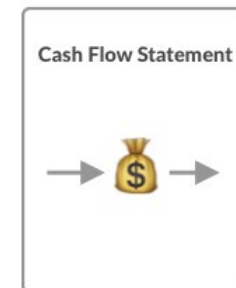
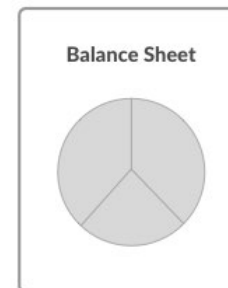
(1) SFP: Statement of Financial Position (*BS: Balance Sheet*)

(2) SCI: Statement of Comprehensive Income

- SPL: Statement of Profit & Loss (*IS: Income Statement*)

(3) SCE: Statement of Changes in Equity

(4) SCF: Statement of Cash Flows



# (1) Statement of Financial Position

SFP shows assets, liabilities and equity at a particular point in time

**The general format of a Classified Statement of Financial Position is:**

## (1) Assets

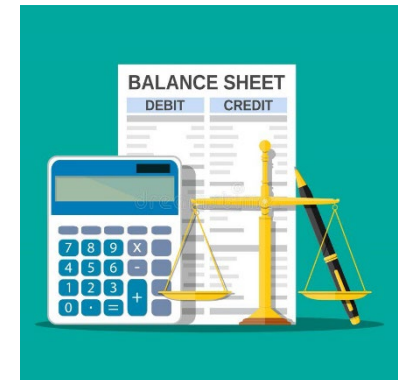
- Current Assets : to be used, or turned into cash, within a year
  - e.g. cash, receivables, short term assets, inventory, office supplies, prepaid expenses
- Noncurrent Assets : to be used for more than a year
  - e.g. long-term investment, fixed assets, intangible assets (such as goodwill)

## (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) Equity

- Capital Stock / Share Capital
- Retained Earnings



# (1) Statement of Financial Position Example

NThropic Inc. Statement of Financial Position At December 31, 2024 and 2023			
	2024	2023	
<b>Assets</b>			
Current Assets:			
Cash	100,000	80,000	
Receivables	50,000	40,000	
Inventory of merchandise	30,000	10,000	
Total Current Assets	180,000	130,000	
Non-current Assets:			
Property, Plant & Equipment	100,000	100,000	
Less: Accumulated Depreciation	(30,000)	(20,000)	
Total Non-current Assets	70,000	80,000	
<b>Total Assets</b>	<b>250,000</b>	<b>210,000</b>	
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	25,000	15,000	
Unearned Revenue	20,000	0	
Tax payable	5,000	3,000	
Total Current Liabilities	50,000	18,000	
Non-current Liabilities:			
Long term Debt	10,000	10,000	
<b>Total Liabilities</b>	<b>60,000</b>	<b>28,000</b>	
<b>Equity</b>			
Share Capital	150,000	150,000	
Retained Earnings	39,000	31,000	
Other Reserves	1,000	1,000	
Total Equity	190,000	182,000	
<b>Total Liabilities &amp; Equity</b>	<b>250,000</b>	<b>210,000</b>	

- Assets: a company's resources that will give future benefits
- Liabilities: a company's obligations to be settled in the future
- Equity: owner's claim to residual interest of the company

$$A = L + E$$



Think of the balance sheet as a camera *snapshot* of a company's economic resources and obligations at a point in time.

liquidity

High

Low

liquidity

High

Low



# Limitations of the SFP

- Assets recorded at **cost**, not **market value**. Usually, book value < market value.
  - Book value = value of equity recorded on the books
  - Market value = market price per share x number of shares (known as “Market Capitalization”)
- Not all economic assets are reflected in the SFP (e.g. company’s reputation, in-house brand)



nVIDIA.



World's Top 10 Companies by Market Capitalization vs. Book Value (in US\$bn)			
Rank	Company (Country)	Market Cap @ 31 March 2024*	Net Book Value @2023/2024* FYE
1	Microsoft (U.S.A)	3,126	268*
2	Apple (U.S.A)	2,648	62
3	Nvidia Corporation (U.S.A)	2,224	43*
4	Saudi Aramco (Saudi Arabia)	1,991	463
5	Alphabet (U.S.A) <Google>	1,884	283
6	Amazon (U.S.A)	1,874	202
7	Meta (U.S.A) <Facebook>	1,238	153
8	Berkshire Hathaway (U.S.A)	909	571
9	Eli Lilly and Company (U.S.A)	701	11
10	Taiwan Semiconductor (Taiwan)	632	106

\*Source: PWC Global Top 100 Companies Report



أرامكو السعودية  
Saudi Aramco



amazon

BERKSHIRE HATHAWAY INC.





## (2) Statement of Comprehensive Income (SCI)

Shows the firm's economic performance over a period of time. (e.g. month/yr)

Revenues	\$ X
Less: Expenses	<u>(X)</u>
<b>Net income (NI)</b>	<b>X</b>
Other Comprehensive income (OCI)	<u>X</u>
<b>Comprehensive income</b>	<b><u>\$ X</u></b>

- **Net Income (NI)** = Revenues – Expenses
    - Net income increases equity (retained earnings), while net loss decreases equity (retained earnings).
  - **Other Comprehensive Income (OCI)**
    - Revaluation or restatement of assets/liabilities resulting in changes in equity.
    - OCI is an equity, NOT revenue or expense.
- **Comprehensive Income (CI)** = NI + OCI

IAS 1 allows companies to present Comprehensive Income on either a single statement OR two separate statements:

- 1) Income Statement (IS) – also known as the Statement of Profit & Loss (SPL)
- 2) Statement of Comprehensive Income

# SCI Examples

## Two statements (IS + SCI) vs. One statement (SCI)

### Two separate statements:

NThropic Inc. Income Statement For the Years Ended December 31, 2024 and 2023		
	2024	2023
Sales Revenue	50,000	65,000
Cost of Goods Sold	(15,000)	(20,000)
Gross Profit	35,000	45,000
Operating Expense	(24,000)	(30,000)
Operating Income	11,000	15,000
Non-operating Expense	(800)	(500)
Interest Expense	(2,000)	(1,300)
Gain/(loss)	500	0
Profit Before Tax	8,700	13,200
Income Tax Expense	(700)	(1,100)
<b>Net Income</b>	<b>8,000</b>	<b>12,100</b>

NThropic Inc. Statement of Comprehensive Income For the Years Ended December 31, 2024 and 2023		
	2024	2023
<b>Net Income</b>	8,000	12,100
Other Comprehensive Income	0	800
<b>Comprehensive Income</b>	<b>8,000</b>	<b>12,900</b>

### One single statement:

NThropic Inc. Statement of Comprehensive Income For the Years Ended December 31, 2024 and 2023		
	2024	2023
Sales Revenue	50,000	65,000
Cost of Goods Sold	(15,000)	(20,000)
Gross Profit	35,000	45,000
Operating Expense	(24,000)	(30,000)
Operating Income	11,000	15,000
Non-operating Expense	(800)	(500)
Interest Expense	(2,000)	(1,300)
Gain/(loss)	500	0
Profit Before Tax	8,700	13,200
Income Tax Expense	(700)	(1,100)
<b>Net Income</b>	<b>8,000</b>	<b>12,100</b>
Other Comprehensive Income	0	800
<b>Comprehensive Income</b>	<b>8,000</b>	<b>12,900</b>

*NI is often referred to as the "bottom line"*

Think of the SCI as a *movie*, a video camera capturing the economic activities of the company over a period of time.



# Classifying the Income Statement

## Revenues vs. Gain/Losses

- **Revenue** refers to income earned in the normal operation of the business - appears at the very top of the income statement.
  - E.g. Dyson sells vacuums, income from selling the vacuums is called sales revenue. Salons provide services, income from providing the service is called service revenue.
- **Gain/Loss** refers to money made or lost on activities outside the normal business of a company – appears at the bottom of the income statement after operating income.
  - E.g. Dyson makes money from *selling an office building*, this amount is called a gain. A salon had to dispose an equipment early due to a workplace accident, this amount is called a loss.

## Operating vs. Non-Operating Categories

- Expenses are divided into operating and non-operating:
  - Operating expenses – expenses incurred in the normal operation of the business (e.g. salaries expense, rent expense, admin expense, depreciation expense etc...)
  - Non-operating revenues/expenses - NO connection with the specific nature of the operation of the business. (e.g. interest revenue, interest expense, tax expense, etc...)

# (3) Statement of Changes in Equity (SCE)

Shows how equity changes over a reporting period

▪ Recall:

$$\begin{array}{rcl} & & \text{Equity} \\ & & \hline \text{Assets} & = & \text{Liabilities} + \text{Share Capital} + \text{Retained Earnings} \\ & = & \text{Liabilities} + \text{Share Capital} + \text{Revenues} - \text{Expenses} - \text{Dividends} \end{array}$$

▪ Equity is made up of:

- 1) Share Capital : amount invested in the company by the owners
- 2) Retained Earnings (RE) : amount of a business's earnings that have been accumulated & retained in the business.
  - The earnings that have not been retained are distributed to owners in the form of a *dividend*.
  - Ending RE = Beginning RE + Net Income – Dividends
- 3) Other Equity (e.g. Reserves : used to track OCI items)

# SCE Example

**NThropic Inc.**  
**Statement of Changes in Equity**  
**For the Year Ended December 31, 2024**

	Share Capital	Retained Earnings	Other Reserves	Total Equity
Beginning Balance	<u>\$ 150,000</u>	<u>\$ 31,000</u>	<u>\$ 1,000</u>	<u>\$ 182,000</u>
Net Income		8,000		8,000
OCI			-	
Dividends		-		-
Ending Balance	<u>\$ 150,000</u>	<u>\$ 39,000</u>	<u>\$ 1,000</u>	<u>\$ 190,000</u>

**Beginning Equity**  
+ Net increase/(decrease)  
in share capital  
+ Net income  
- Dividends  
+ OCI  
= **Ending Equity**

# (4) Statement of Cash Flows (SCF)

Shows a company's cash inflow and outflows over a period of time.

**NThropic Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2024**

**Cash flows from operating activities**

Cash generated from operations	\$ 25,000
Net cash from operating activities	\$ 25,000

**Cash flows from investing activities**

Purchase of equipment	\$ (5,000)
Net cash from investing activities	\$ (5,000)

**Cash flows from financing activities**

Proceeds from share issuance/loans	\$ -
Payment of Dividends	\$ -
Net cash from financing activities	\$ -

**Net increase in cash** \$ 20,000

Cash balance, January 1, 2024 \$ 80,000

**Cash balance, December 31, 2024** \$ 100,000

## Three Elements of Statement of Cash Flow

### (1) Cash Flows from Operating Activities (CFO)

- Cash flows directly related to the company's main business operations that generates revenue
- E.g. receiving payment from customers, paying suppliers, paying salaries, paying taxes

### (2) Cash Flows from Investing Activities (CFI)

- Cash flows related to acquisition or sale of company's productive assets
- E.g. buying/selling equipment, land and building

### (3) Cash Flows from Financing Activities (CFF)

- Cash flows related to financing of the company
- E.g. receiving money from investors and creditors, paying loans, paying dividends

**Changes in cash = CFO + CFI + CFF**

# Notes to Financial Statements

- Notes to Financial statements provide supplemental information about the financial conditions and economic performance of a company.
- Considered an integral part of the financial statements
- Four categories of notes:

Summary of Significant Accounting Policies

Additional Information about the Summary Totals

Disclosure of Information Not Recognized

Supplementary Information (required by the IASB)



# What does an Annual Report Looks Like?

## SINGTEL



[Singtel 2025 Annual Report](#)

(also available for download from Canvas)

# Understanding the Financial Statements: Relationships Among the 4 FS

- How do each financial statements relate to each other?

## Income Statement

**NET INCOME**

*NI is a component to  
determine ending RE*

## 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)**

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

## Statement of Financial Position

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

# Fundamental Concepts & Assumptions of Accounting

- **Separate entity concept** : Activity of a business entity is separate from its individual owners.
- **Time-period assumption** : A business entity's activities can be divided into specific time periods (e.g. monthly, quarterly, annually)
- **Assumption of arm's-length transactions** : Business dealings between independent and rational parties who are looking out for their own interests (i.e. no bias)
- **Cost principle** : Transactions are recorded at historical costs, which is the original amount paid/received, representing the fair market value at the time of transaction.
- **Fair value principle** : Some assets and liabilities are measured at fair value so that relevance of accounting information is improved (IFRS allows fair value approach for valuation of certain assets/liabilities)
- **Monetary measurement concept** : Only economic activities measurable in monetary terms (i.e. money) are recorded in the accounting system
- **Going concern assumption** : Assume that a business entity will continue to exist in the foreseeable future

# Take Away for Lecture 01

## (Chapter 1 & 2)

- Accounting is the language of business:
  - Used by external & internal users for decision making
  - Financial accounting - provides useful economic information about a business to help external parties make financial decisions.
- Accounting is guided by ethics, principles and standards:
  - IASB → IFRS – Singapore uses Singapore FRS based on IFRS
  - Qualitative characteristics of accounting: relevance, faithful representation, comparability, verifiability, timeliness & understandability.
- Fundamental Accounting Equation: (remember, the equation must **always balance!**)

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

- Four major Financial Statements: SFP, SCI, SCE & SCF

# The Four Major Financial Statements

## Fundamental Equations Summary

### (1) Statement of Financial Position (Balance Sheet)

- *Think of a snapshot of the company at a specific date*

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



### (2) Statement of Comprehensive Income (Income Statement + SCI)

- *Think of a movie of the company for a period of time*

$$\text{Revenues} - \text{Expenses} = \text{Net Income}$$

$$\text{Net Income} + \text{OCI} = \text{Comprehensive Income}$$



### (3) Statement of Changes in Equity

$$\begin{aligned} &\text{Beg Equity} + \text{Net increase/(decrease) in Capital} + \\ &\text{Net Income} - \text{Dividends} + \text{OCI} = \text{End Equity} \end{aligned}$$

### (4) Statement of Cash Flows

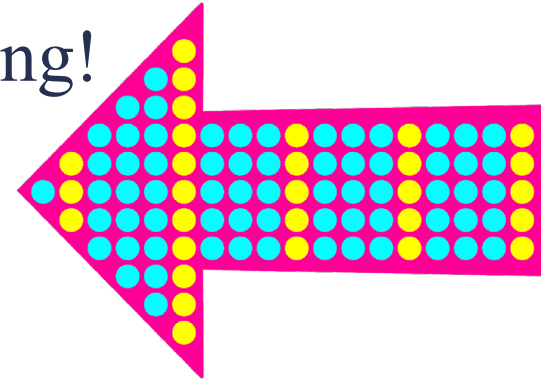
$$\text{Changes in Cash} = \text{CFO} + \text{CFI} + \text{CFF}$$

# What to expect for next lecture?

## Chapter 03:

- The double-entry system: the backbone of accounting!

### DEBIT / CREDIT



- How to analyze and record transactions
  - Journal entries
  - T-accounts & General Ledger
  - Preparing Trial Balance (TB)
- Financial Statement Analysis (FSA) – Financial Ratios
  - Return on Assets (ROA)
  - Debt Ratio

# Final words before we our first class

Don't forget to:

- Review the chapter & lecture slides
- Practice the self-study questions
- Canvas discussion forum: let's create a lively community!
  - Post questions (& answers) on the forum
  - Share and learn together
  - Most times, your classmates is one of your most valuable resource, help each other out.
  - Feel free to post accounting-related issues to discuss
- Don't let your questions accumulate! Stay on top of the materials.
- For consultation, email me at [hanny.kusnadi@nus.edu.sg](mailto:hanny.kusnadi@nus.edu.sg)



# That's All Folks for Today!

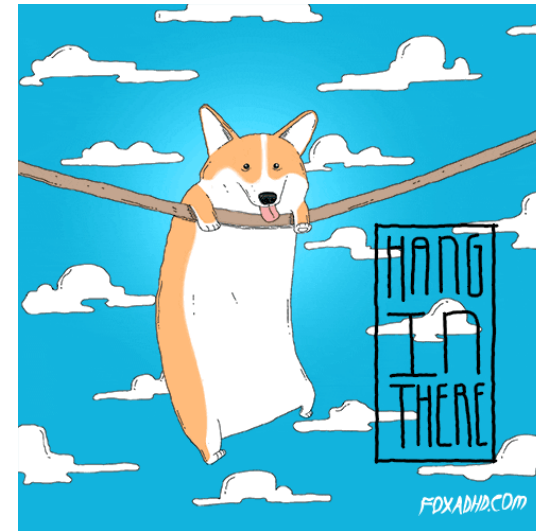
**A bit tired?**

**Feeling overwhelmed?**



**Don't worry.**

**It will get better so hang in there!**



**SEE YOU NEXT WEEK! STAY SAFE!**