$$\text{Assets} = \text{Liabilities} + \text{Equity}$$
$$\text{Equity} = \text{Shared Capital} + \text{Revenues} - \text{Expenses} - \text{Dividends}$$

0.1 Basic Financial Statements

Income Statement:

$$\text{Net Income} = \text{Revenues} - \text{Expenses}$$
$$\text{Comprehensive Income} = \text{Net Income} + \text{OCI}$$

Statement of Changes in Equity:

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

Statement of Cash Flows:

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

0.2 Journal Entry

Category	Normal Balance	Examples
Assets	Debit	Cash, AR, PPE
Liabilities	Credit	AP, Notes Payable
Equity	Credit	Share Capital, Retained Earnings
Revenues	Credit	Sales Revenue
Expenses	Debit	Rent, Salaries, COGS
Dividends	Debit	Dividends Declared

0.3 Revenue Recognition Principle

- Goods delivered or services rendered
- Seller's price fixed or determinable
- Persuasive evidence of payment arrangement exists
- Payment realized/realizable

1 4 Types of Adjusting Entries

1. **Prepaid Expenses (Deferral)** — Cash paid before use
2. **Unearned Revenue (Deferral)** — Cash received before earning
3. **Accrued Expenses (Accrual)** — Incurred but not paid
4. **Accrued Revenue (Accrual)** — Earned but not received

Critical Rules:

1. **Adjusting entries NEVER use Cash**
2. **Depreciation:** Dr Depreciation Exp, Cr Accumulated Depreciation
3. **Supplies:** Expense = Beg + Purchases - Ending
4. **Unearned Revenue:** Only adjust earned portion
5. **Convert months correctly** (spanning months, mid-month)

Without Adjustment Effects:

Error	Effect on NI	Effect on Assets	Effect on Liabilities
Missing accrued expense	NI ↑	Assets OK	Liabilities ↓
Prepaid expense recorded fully as expense	NI ↓	Assets ↓	Liabilities OK
Unearned revenue recorded as revenue	NI ↑	Assets OK	Liabilities ↓
AR collection recorded twice	NI =	Cash ↓	Liabilities =
Loan overstated	NI =	Cash ↑	Liabilities ↑
Incorrect cash credit for depreciation	NI correct	Cash ↓ / Acc. Dep ↓	Liabilities =

Common Journal Entries

Accrued Salaries: Dr Salaries Exp, Cr Salaries Payable
Unbilled Revenue: Dr AR, Cr Service Revenue
Prepaid Insurance: Dr Insurance Exp, Cr Prepaid Insurance
Unearned → Earned: Dr Unearned Revenue, Cr Revenue
Depreciation: Dr Depreciation Exp, Cr Accum Depreciation

2 Cash

Credit Terms: 2/10, n/30 = 2% off if paid in 10 days, else full in 30

Purchase (Buyer)	Sales (Seller)
Dr A/P	Dr Cash
Cr Inventory (disc)	Dr Sales Discount (disc)
Cr Cash (paid)	Cr A/R

- **Contra-Revenue:** Sales Discount, Sales Returns
- **Contra-Assets:** Loss Allowance, Accumulated Depreciation, Accumulated Impairment
- **Contra-Equity:** Treasury Shares

3 Receivables

Credit Sales:
- Record: Dr A/R, Cr Sales Revenue *(+COGS)*
- Collect: Dr Cash, Cr A/R

Note: Not all receivables are valuable

3.1 Direct Write Off

Bad debt = ECL, Loss Allowance = Doubtful
- Write off: Dr Expected Credit Loss, Cr A/R
- If recovers:
  - Dr A/R, Cr ECL *(reinstate)*
  - Dr Cash, Cr A/R *(collect)*

3.2 Allowance Method

- Calculate: A/R × Estimated Percent
- Record: Dr ECL Exp, Cr Loss Allowance
- Balance Sheet: A/R – Loss Allow = Net A/R

3.3 Notes Receivable

Formal written promise to pay
- Sales *(sold goods for note)*: Dr N/R, Cr Revenue
- Convert A/R *(A/R → note)*: Dr N/R, Cr A/R
- Lending *(loaned cash)*: Dr N/R, Cr Cash

Interest
- Formula: Principal × Rate × (Months/12) - If annually
- AJE: Dr Interest Receivable, Cr Interest Income

4 Inventory

Inventory Ownership — Own it = count it, regardless of location
Goods In Transit:
- **FOB Shipping Point:** Buyer owns in transit
- **FOB Destination:** Seller owns in transit

Consignment: Consignor owns (consignee = agent, never records)
Damaged/Obsolete: Include at NRV or write down to 0, not full cost

4.1 Perpetual and Periodic System

COGS = Beginning Inv + Net Purchases – Ending Inv
Note: Only Periodic

Transaction	Perpetual	Periodic
Purchase	Dr Inventory, Cr Cash/AP	Dr Purchases, Cr Cash/AP
Return	Dr AP, Cr Inventory	Dr AP, Cr Purchase Returns
Discount	Dr AP, Cr Inventory	Dr AP, Cr Purchase Discounts
Freight-In	Dr Inventory, Cr Cash/AP	Dr Freight-In, Cr Cash/AP
Sale (revenue)	Dr AR/Cash, Cr Sales	Dr AR/Cash, Cr Sales
Sale (COGS)	Dr COGS, Cr Inventory	× No entry
Return from cust.	Dr Sales Returns, Cr AR	Dr Sales Returns, Cr AR
COGS (end-period)	Auto during sales	Use formula

4.2 Inventory Costing Method

- **Specific ID:** Track actual cost of each item (e.g. cars, jewelry)
- **FIFO:** Sell oldest first → ending inv at newest prices → higher profit when prices ↑
- **LIFO:** Sell newest first → ending inv at oldest prices → lower profit when prices ↑ *(not IFRS!)*
- **Weighted Avg:** COGS & ending inv at avg cost = Total cost ÷ Total units

5 Liabilities

5.1 Current Liabilities

Note: 1 Year or Lesser

5.2 Contingent Liabilities

Potential liability from past event, depends on future outcome (e.g. lawsuits, debt guarantees)

	Probable (>50% IFRS, >70% GAAP)	**Reasonably Possible**	**Remote**
Estimable	Record as Liability	Disclose in Notes	No disclosure
Non-estimable	Disclose in Notes	Disclose in Notes	No disclosure

6 PPE and Intangible Assets

Tangible (physical):
- PPE (land, buildings, equipment)
- Natural resources (minerals, timber, oil)

Intangible (no physical):
- Definite life (patents, copyrights, franchises, licenses)
- Indefinite life (trademarks, goodwill)

$$\text{Allocated Cost} = \text{Total Cost} \times \frac{\text{Asset FMV}}{\text{Total FMV}}$$

- For lump-sum (basket) purchases of multiple assets
- Allocate total cost based on relative fair market values
- FMV is fair market value

6.1 Depreciation

Depreciation — cost allocation matching asset cost to periods benefited (matching principle)
- Entry: Dr Depr. Exp, Cr Accum. Depr. (contra-asset)
- Net Book Value = Cost – Accum. Depr. *(aka carrying amount)*

Straight Line:

$$(\text{Depreciation Expense}) = \frac{\text{Cost} - \text{Residual Value}}{\text{Useful Life}}$$

- Most common method, equal expense each year

Units of Production:

$$\text{Depreciation Rate per unit} = \frac{\text{Cost} - \text{Residual}}{\text{Total Est. Units}}$$
$$(\text{Depreciation Expense}) = \text{Rate per Unit} \times \text{Actual Units Produced}$$

Declining-balance Method:

$$\text{Net Book Value} \times \frac{x}{\text{Useful Life}}$$

- Accelerated method: higher expense early, lower later
- DDB (Double Declining): x = 2 | 1.5 Declining: x = 1.5
- Residual value is IGNORED in calculation (but don't depreciate below it)

6.1.1 Changes to Depreciation Estimates

New Depr. =
(Net Book Value at change – New Residual)
÷ New Remaining Life

6.2 Capitalize vs Expense

Revenue Exp. → Expense (I/S)	Capital Exp. → Capitalize (SFP)
Maintains condition No ↑ productivity No life extension Small, recurring → ↓ NI now	Major overhaul ↑ efficiency Extends useful life Big, infrequent → ↑ NI now (depr. later)

6.3 Impairment of PPE

Impairment is the loss of a portion of the utility and value of an asset
Impairment of PPE = when carrying amt (NBV) > recoverable amt
- Impairment Loss = Carrying Amt – Recoverable Amt
- Entry: Dr Impairment Loss, Cr Accum. Impairment Loss

6.4 Disposal of PPE

Disposal of PPE — Sale:
1. Update depreciation to date: Dr Depr. Exp, Cr Accum. Depr.
2. Gain/Loss = Cash received – Net Book Value
   - Entry: Dr Cash, Dr Accum. Depr., Cr Asset, Cr Gain *(or Dr Loss)*

Disposal of PPE — Discarding
- Fully depreciated: Dr Accum. Depr., Cr Asset (no gain/loss)
- Not fully depreciated: Dr Accum. Depr., Dr Loss on Disposal (Net Book Value), Cr Asset

7 Equity

Ordinary Shares	Preference Shares
Par: Dr Cash, Cr Share Capital–Ord (par), Cr Share Premium–Ord (excess) No Par: Dr Cash, Cr Share Capital–Ord (full amt)	Par: Dr Cash, Cr Share Capital–Pref (par), Cr Share Premium–Pref (excess) No Par: Dr Cash, Cr Share Capital–Pref (full amt)

Share Types
Authorized (max in charter) =
(Issued (sold) = (Outstanding (held by shareholders) + Treasury (reacquired by co.)))
1. Unissued (never sold)

Par vs No Par:
- Par = nominal amt, excess = Share Premium
- No Par = no nominal amt *(SG uses no par, no authorized capital)*

Ordinary (Common):
- Voting (1 share = 1 vote), dividends, ranks after pref., preemptive rights

Preference (Preferred):
- Usually no vote
- fixed dividends
- priority in div. & liquidation
- Types: Convertible | Redeemable | Cumulative *(arrears paid first)* | Participating

7.1 Journal Entries

8 Formula

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

- **Solvency** ratio measuring debt relative to assets
- High ratio = high financial leverage = higher risk

$$\text{ROA} = \frac{\text{Net profit}}{\text{Average total assets}}$$

- **Profitability** ratio measuring return from assets
- Also known as "Return on Investment"
- Higher ratio preferred

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

- **Profitability** ratio measuring net profit per dollar of sales
- Also known as "Return on Sales"
- High margin = indicator of future growth

Depreciation: $\frac{\text{Cost} - \text{Residual}}{\text{Useful Life}}$

Supplies Used: Beg + Purchases – Ending

Statement of Changes in Equity: Beg Retained Earnings + Net Income – Dividends = End Retained Earning

$$\text{A/R Turnover} = \frac{\text{Net Sales}}{\text{Avg A/R}}$$

- Measures how often are receivables received and collected how many times a year a company converts its average accounts receivables into cash.
- Avg A/R = (Beg + End) / 2

$$\text{Avg Collection Period} = \frac{365}{\text{A/R Turnover}}$$

- Days to collect A/R
- Lower = better liquidity

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Avg Inventory}}$$

- How many Times per year inventory is sold
- Avg Inventory = (Beg + End) / 2

$$\text{Days' Sales in Inventory} = \frac{365}{\text{Inventory Turnover}}$$

Days to convert inventory to cash/AR

$$\text{Operating Cycle} = \text{Avg Collection Period} + \text{Days' Sales in Inventory}$$

- Total days from inventory purchase to cash collection

$$\text{Days' Purchases in AP} = \frac{365}{\frac{\text{Purchases}}{\text{Avg AP}}}$$

- Days to pay suppliers
- Purchases = End Inv – Beg Inv + COGS

$$\text{Net Operating Cycle} = \text{Operating Cycle} - \text{Days' Purchases in AP}$$

- Difference in Time a company pays for its inventory and time to collect from customer
- +NOC = need external financing
- –NOC = excess temporary capital

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- **Liquidity** ratio measuring ability to pay short-term obligations
- Higher = better liquidity (but too high = inefficient resource use)

$$\text{Acid-Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

- Quick Assets = Cash + Short-term Investments + A/R (excludes inventory, prepaids)
- Measures ability to pay short-term obligations with liquid assets only

$$\text{Fixed Assets Turnover} = \frac{\text{Net Sales}}{\text{Avg Fixed Assets}}$$

- **Efficiency** ratio measuring sales generated per $ of PPE
- Avg Fixed Assets = (Beg Net PPE + End Net PPE) / 2

$$\text{Total Assets Turnover} = \frac{\text{Net Sales}}{\text{Avg Total Assets}}$$

- **Efficiency** ratio measuring sales generated per $ of total assets
- Avg Total Assets = (Beg + End) / 2

$$\text{Common-Size \%} = \frac{\text{Amount}}{\text{Base}} \times 100\%$$

- I/S base = Net Sales | B/S base = Total Assets

$$\text{Dollar Change} = \text{Current Year} - \text{Prior Year}$$

$$\text{Percent Change} = \frac{\text{Dollar Change}}{\text{Prior Year}} \times 100\%$$

- Comparing performance across periods

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

- Profit after COGS per dollar of sales

$$\text{Debt-to-Equity} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

- How much debt vs equity financing | Higher = more leveraged

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

- Proportion of assets funded by equity | Higher = less risky

$$\text{EPS} = \frac{\text{Net Income} - \text{Pref. Dividends}}{\text{Wtd Avg. Ordinary Shares}}$$

- Earnings attributable per ordinary share

$$\text{PE Ratio} = \frac{\text{Market Price per Share}}{\text{EPS}}$$

- How much investors pay per dollar of earnings | High = growth expectation

$$\text{Net Sales} = \text{Gross Sales} - \text{Sales Returns} - \text{Sales Allowances} - \text{Sales Discounts}$$

$$\text{Dividend Yield} = \frac{\text{Dividend per Share}}{\text{Market Price per Share}}$$

- Return from dividends relative to share price

$$\text{Dividend Payout} = \frac{\text{Total Dividends}}{\text{Net Income}}$$

- Proportion of earnings paid as dividends

$$\text{ROE} = \text{Profit Margin} \times \text{Total Asset Turnover} \times \text{Equity Multiplier}$$

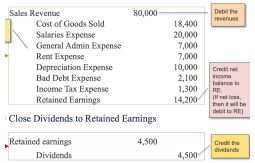
$$\text{Equity Multiplier} = \frac{\text{Avg Total Assets}}{\text{Avg Equity}}$$

- Decomposes ROE into profitability, efficiency, and leverage

$$\text{Times Interest Earned} = \frac{\text{EBIT}}{\text{Interest Expense}}$$

- **Solvency** ratio measuring ability to pay interest on debt
- EBIT = Net Income + Interest Exp + Tax Exp
- Higher = better ability to cover interest payments

9 Closing Accounts



10 Adjusted Entries

Account Types	Unadjusted		AJEs		Adjusted	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	130,000				130,000	
Accounts Receivable	45,000				45,000	
Loss Allowance	-		*(e)*	*2,100*		2,100
Inventory	20,000		*(b)*	*3,400*	16,600	
Prepaid Rent	14,000		*(c)*	*7,000*	7,000	
Property, Plant & Equipment	100,000				100,000	
Accumulated Depreciation		20,000	*(d)*	*10,000*		30,000
Accounts Payable		44,000				44,000
Income Tax Payable		1,500	*(f)*	*1,300*		2,800
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	-		*(c)*	*7,000*	7,000	
Depreciation Expense	-		*(d)*	*10,000*	10,000	
Bad Debt Expense	-		*(e)*	*2,100*	2,100	
Income Tax Expense	-		*(f)*	*1,300*	1,300	
Total	355,500	355,500	*38,800*	*38,800*	368,900	368,900

11 Preparing Income Statement

Saja & Co.
Income Statement
For the Year Ended December 31, 2025

Sales Revenue	$ 80,000
Cost of Sales / cost of goods	$ (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)
Net Income	**$ 14,200**

Operating Expenses

+/- gain/loss

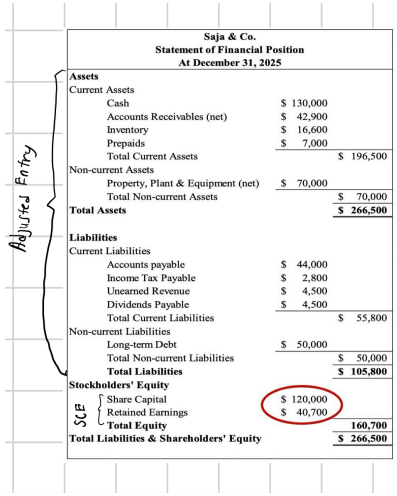
12 Statement of Changes in Equity (SCE)

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

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

13 Statement of Financial Position (SFP)



14 Statement of Cash Flows (SCF)

- If it is day-to-day business operations ⟶ CFO
- If it is a long-term asset ⟶ CFI
- If it is financing by owners or creditors ⟶ CFF

	+ Inflow	– Outflow
CFO	Receive from customers, royalties, fees	Pay suppliers, wages, taxes, rent
CFI	Sell PPE/investments, receive loan repayment	Buy PPE/investments, make loans
CFF	Borrow (loans/bonds), issue shares	Repay debt, repurchase shares, pay dividends

CFO — Indirect Method

Start: PBT

1. A: Non-cash exp (depr., amort.)

± B: Working capital — CA ↑ = –, CA ↓ = + | CL ↑ = +, CL ↓ = –
± C: Remove non-operating — Gain on PPE = –, Loss on PPE = +
± D: IFRS disclosures — taxes paid, interest exp/inc, dividend inc
= **CFO**

CFI

$$\text{Beg PPE} + \text{Purchases} - \text{Disposals} = \text{End PPE}$$

CFF

$$\text{Beg Share Capital} + \text{Issuance} - \text{Retirement} = \text{End Share Capital}$$

$$\text{Beg RE} + \text{NI} - \text{Dividends} = \text{End RE}$$

Rizz Tea Company
Statement of Cash Flows
For the Year Ended Dec 31, 2025

Cash Flows from Operating Activities:		
Profit before taxes	**46,797**	
Adjustments to reconcile profit to net cash from operating activities:		
Depreciation Expense	**8,891**	
Changes in non cash current assets & liabilities:		
Accounts Receivable	**(4,549)**	
Inventories	**(858)**	
Prepaid expenses	**6,457**	
Accounts payable	**(1,798)**	
Accrued expenses	**(396)**	
Loss on disposal of asset	**2,500**	
Interest income	**(860)**	
Cash generated from operations	**56,184**	
Income tax paid	**(11,055)** (1)	
Interest income received	**410** (2)	
Net cash from operating activities		**45,539**
Cash Flows from Investing Activities:		
Cash received from disposal of asset	**1,009** (3)	
Cash paid for purchases of asset	**(10,000)** (3)	
Net cash from investing activities		**(8,991)**
Cash Flows from Financing Activities:		
Cash received from share issuance	**645** (4)	
Cash paid for dividends	**(7,550)** (5)	
Net cash from financing activities		**(6,905)**
Net increase in cash		**29,643**
Beginning cash balance		**54,497**
Ending cash balance		**84,140**