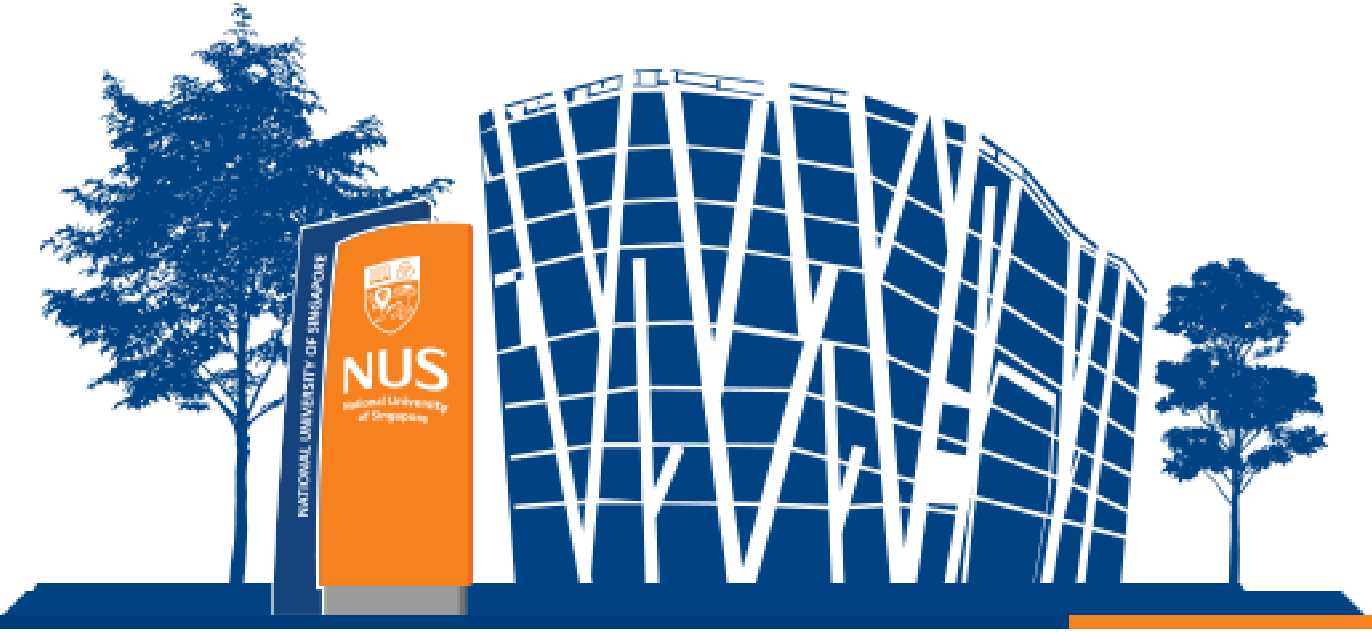
ACC 1701XA
Accounting for Decision Makers

LECTURE 05

Lecturer: Dr. Hanny Kusnadi

Accounting

The language of the business world



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Prior Lecture Refresher

- 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

Goals for Lecture 05

Financial Statements Integrity
(Chapter 5)

- Potential Problems in Financial Statements (LO1)
- Safeguards to Minimize Problems (LO2)
  - Principles of Internal Controls
- Earnings Management (LO3)
- Role of Auditors (LO5)
- Accounting Scandals Cases

*Sarbanes-Oxley Act (LO4) & SEC (LO6) will **NOT** be covered.*

Cash
(Chapter 6)

- Major activities of a business (LO1)
- Cash & internal controls (LO2)
- Buying & Selling: discounts & returns
  - Purchase transactions (part of LO3)
  - Sales transactions (Refer only to this lecture 05 slides)

*Petty Cash (part of LO3) and Bank Reconciliation (LO4) will **NOT** be covered .*

Chapter 5

Financial Statements Integrity

Potential Problems in Financial Statements

(1) Errors - unintentional mistakes, which are corrected when detected.

- Not entering a transaction into the system – e.g. an invoice from a supplier was lost
- Entering the wrong amount/information into the system – e.g. an invoice for $500 was incorrectly entered as $5,000
- Entering wrong accounts– e.g. debiting the wrong expense account

(2) Disagreements on judgement

- Accounting involves judgement and estimates, so different parties can reach different conclusions based on the same facts!
- For example: Determining the amount of revenue “earned” during the period for project spanning multiple periods.

(3) Frauds - Intentional errors in order to manipulate financial statements

Errors Effects - Saja & Co.
Example #1

Example #1: Saja & Co. paid its 2025 rent in advance in 2024, but mistakenly recorded it all as Rent Expense in 2024.

What is the effect of this error on its:

(a) 2024 Income Statement?

(b) 2025 Income Statement?

(c) 2024 Statement of Financial Position?

(d) 2025 Statement of Financial Position?

Errors Effects - Saja & Co. Example #1

Example #1: Saja & Co. paid its 2025 rent in advance in 2024, but mistakenly recorded it all as Rent Expense in 2024.

What was recorded:	**What should have been recorded:**
In 2024: Dr Rent Expense Cr Cash (a) <u>Effect on 2024 IS:</u> Expense is overstated → **NI is understated** (c) <u>Effect on 2024 SFP:</u> NI is understated → **Equity understated** Missing prepaid → **Asset is understated**	*In 2024:* Dr Prepaid Rent Cr Cash
In 2025: No entry. (b) <u>Effect on 2025 IS:</u> Missing expense → **NI is overstated** (c) <u>Effect on 2025 SFP:</u> 2024 NI understatement = 2025 NI overstatement → **Equity balance is correct.** No more prepaid → **Asset balance is correct.**	*In 2025:* Dr Rent Expense Cr Prepaid Rent

Errors Effects - Saja & Co.
Example #2

Example #2: Saja & Co. mistakenly recorded payment of an accounts payable twice in 2025. Effect on its 2025 IS & SFP?

Incorrect additional entry recorded:

Dr Accounts Payable

Cr Cash

(a) Effect on NI : No revenue/exp account affected → **No effect.**

(b) Effect on SFP: Reduced more payables → **Liabilities understated**

Reduced more cash → **Assets understated**

Errors Effects - Saja & Co. Example #3

Example #3: Saja & Co. mistakenly recorded a cash purchase of PPE in the amount of $1,600 by debiting Misc. Expense and crediting cash.
What journal entry should it record to correct the error?
What is the effect on its IS & SFP if the error was not corrected?

Incorrect entry:	Dr Misc. Expense	1,600	
	Cr Cash		1,600
Entry to correct error:	**Dr PPE**	**1,600**	
	Cr. Misc. Expense		**1,600**

Effects on FS if error is not corrected:

(a) Effect on NI: Expense overstated → **NI understated.**

(b) Effect on SFP: Missing PPE → **Assets understated**

NI understated → **Equity is understated**

Safeguarding through Internal Control System

Internal control refers to policies and procedures designed to:

- Ensures reliable and accurate financial records
- Properly account for and safeguard assets
- Promotes efficient operations
- Ensure adherence to company policies
- Urge compliance with laws and regulation

Internal Control Structure

Five Basic Categories of Internal Control Structure

(1) The control environment - actions, policies, and procedures that reflect the overall attitudes of top management about control and its importance to the company.

- Organizational structure – to identify clear lines of authority and responsibility
- Board of directors - independent directors to provide independent oversight of management decisions
  - Audit committee - financially literate, and responsible for the appointment of the external auditor. Both internal and external auditors are accountable to the audit committee.

(2) Control activities - policies and procedures used by management to meet their objectives *(refer to next slides)*

(3) Risk Assessment (usually covered in Auditing course)

(4) Information and communication (usually covered in Auditing course)

(5) Monitoring

Control Activities:
Principles of Internal Control

Preventive Controls:

(1) Establish responsibilities and segregate duties

- Do not make one party/department responsible for all/conflicting parts of the process:
- Eg. Employee in charge of purchasing from supplier should not approve payments.
- Eg. Warehouse employee in charge of physical inventory should not maintain the inventory accounting records

(2) Proper procedures for authorization

- Different levels of authority – e.g. Setting authorizing limits on certain transactions

(3) Physical control over assets and records:

- Adequate safeguards to protects resources and records
- E.g. Fireproof vault for important documents, security cameras in warehouse

Principles of Internal Control

Detective Controls:

(4) Maintain adequate records.

- Good recordkeeping helps protect assets and ensures that employees use prescribed procedures.
- Eg. Paying suppliers using prenumbered checks and digitally documented electronic fund transfers.

(5) Perform regular and independent reviews.

- Check others' work.
- Eg. Supervisor reviews subordinate's work
- Frequent reviews of procedures to evaluate effectiveness and promote adherence
- Eg. Internal auditors not directly involved in the activities being audited gives impartial perspective and provides check
- Eg. External auditors independent of the company provides assurance of financial statements

Limitation of Internal Control

Internal controls can never completely prevent and detect errors and fraud.

Human error or Human fraud

- Human error: negligence, fatigue, mis-judgement, confusion, carelessness
- Human fraud: Intent to defeat internal control or collude for person gain

Costs must not exceed benefits

- Companies can only implement internal controls if the benefits outweigh the costs
- Eg. Eliminate shoplifting (benefits) by body searching every customer, but such an irritating policy would drive customers away (costs from loss of sales).

Role of Auditors: Internal Auditors

- Auditors provide management (and stockholders) with some assurance that:
  - The internal control system is functioning properly.
  - The financial statements fairly represent the financial performance of the firm.
- Internal Auditors: an independent group of experts in controls, accounting, and operations.

Works of Internal Auditors
Monitor operating results and financial records
Evaluate internal controls
Assist with increasing the efficiency and effectiveness of operations
Make sure that laws and regulations are complied
Detect fraud

Role of Auditors: External Auditors

- Independent certified public accountants (CPAs) that examine an organization's financial statements to determine if they are prepared and presented in accordance with the prevailing accounting standards (e.g. IFRS, GAAP) and are free from material (significant) misstatement.
  - E.g. KPMG, EY, Deloitte, PWC
- Issue opinions about the reliability of an organization's internal controls
- Disclose key audit matters (KAMs) in the audit report – usually include areas of significant management judgement
- Note that it is not possible for auditors to guarantee that financial statements are "correct."

Can only provide **reasonable assurance** that financial statements are "presented fairly."

Real FS:
Samsung 2024 Annual Report – Audit Opinion

SAMSUNG

Provide reasonable assurance that financial statements are "presented fairly."

Independent Auditors' Report

To the Shareholders and Board of Directors of Samsung Electronics Co., Ltd.:

What are the Key Audit Matters (KAM) highlighted by the auditors for Samsung?

Opinion

We have audited the accompanying consolidated financial statements of Samsung Electronics Co., Ltd. and its subsidiaries ("the Group"), expressed in Korean won, which comprise the consolidated statements of financial position as of December 31, 2024, and 2023 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2024 and 2023 and its consolidated financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("Korean IFRS").

Earnings Quality

- Recall that the objective of financial statements is to provide <u>useful</u> information to users.
- Financial information has to be of **high quality** to be useful.
  - Relevant
  - Reliable (free from error & fair representation)
- When the statements don't tell what really happened; instead, they tell what management wants them to tell. This is what we call "cooking" the books!
  - Using accounting gimmicks to make a company's financial results look better than they actually are!

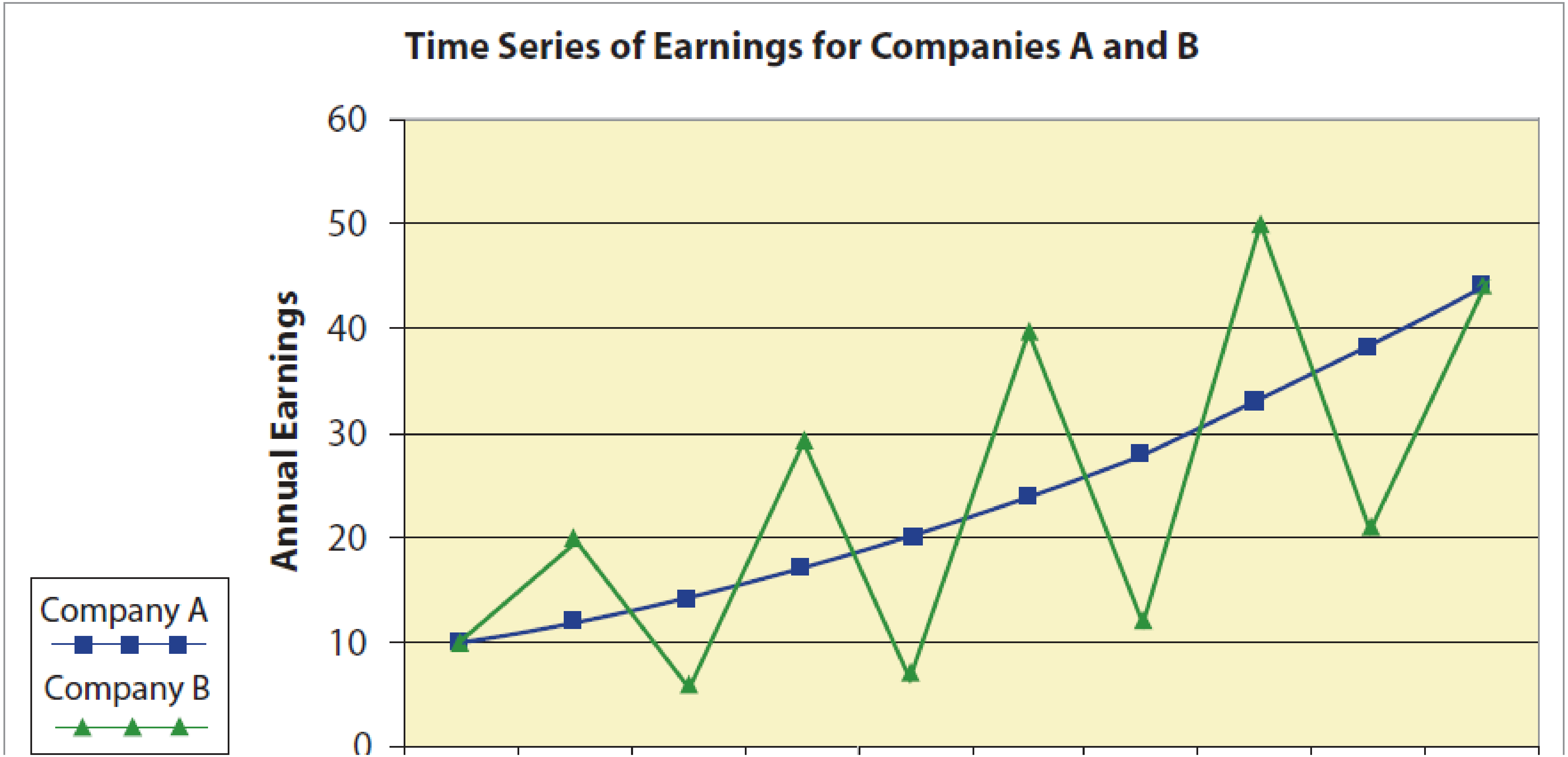
"I am quite certain that there was absolutely no 'cooking' of the books. Reheating however..."

Earnings Management: Why companies “cook” the books?

Firms and individuals have **incentives** to manage reported financial statement and manage earnings in various settings:

- To meet internal targets
  - E.g. To reach certain management bonus threshold / targets
- To meet external expectations: investors & other stakeholders (e.g. customers, suppliers, financial analysts)
  - E.g. Missing an analyst earnings forecast usually results in drop of share price
  - E.g. Companies would rather report a small profit than a small loss.
- To smooth income in order to appear less risky /cover up mistakes
  - E.g. A smooth trend of earnings is more desirable than volatile earnings
- To window dress (look good), for example for an IPO or a bank loan

Income Smoothing



Earnings Management & Importance of Accounting

- A prudent financial statement user should recognize those situations in which a company is under great pressure to manage earnings.
  - In such cases, the <u>assumptions</u> underlying the financial statement numbers should be carefully scrutinized.
  - You, as a financial statement user, need to critically consider the estimates and assumptions made by the firms in preparing its financial statements.

That's WHY knowledge of Accounting is important!!!

In-class Exercise:
Fixing Errors in Jinu'nFrens Inc.'s FS

We will work through the following In-class Exercise together in detail. I encourage you to take a few minutes to preview the questions before class. If you would like to challenge yourself, you might even try drafting answers to some of the questions in advance.

During the year-end audit, the auditors found some errors in Jinu'nFrens Inc.'s financial statements. For the following independent scenarios: (1) Prepare the necessary journal entries to correct each error and (2) Explain the effects of the errors on the FS if they are not corrected.

a) No adjusting entry was made for salaries of $15,000 that were earned in December but will not be paid until January.

In-class Exercise (continued): Fixing Errors in Jinu’nFrens Inc.’s FS

b) On November 1, Jinu'nFrens made an insurance payment of $12,000 for a twelve month policy. On November 1, the full $12,000 was debited to insurance expense. No adjusting entries were made to insurance expense at year end.

c) In December, Jinu'nFrens received a $5,000 prepayment for services that will be performed in January. Cash was debited and service revenue was credited when the cash was received.

d) A collection of $15,000 cash on its accounts receivables was recorded twice.

e) Jinu'nFrens borrowed $20,000 from a bank by signing a note. The transaction was recorded as $200,000.

f) Jinu’nFrens credited the cash account when it recorded depreciation expense of $35,000.

g) The acquisition of inventory for $40,000 was recorded to the supplies account (asset).

Accounting Scandals

The information in the following slides are general business knowledge to broaden your horizon on accounting issues.

They are not from the textbook.

Frauds in Accounting

- What is Fraud?
- Ways that companies can manipulate the books
- Cash Flow Hocus Pocus
  - Netflix's cash flow manipulation
- Infamous Accounting Frauds Case Studies
  - Wirecard (2020)
  - Satyam (2009)
  - Enron (2001)

What is Fraud?

Fraud is generally defined as an attempt to deceive others for personal gain.

Corruption

Misusing one's position for inappropriate personal gain.

Theft (embezzlement) of company resources

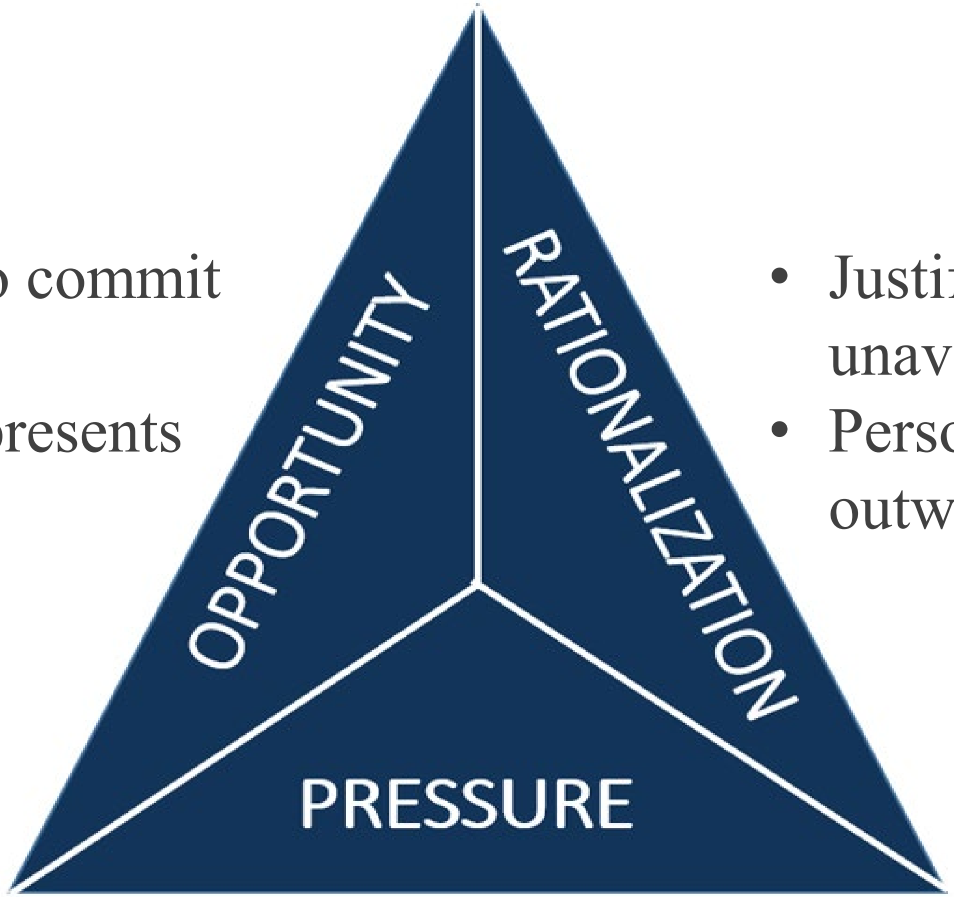
Asset Misappropriation

Financial Statement Fraud

Misreporting amounts in the financial statements to portray more favorable financial results.

The Fraud Triangle

- Employee has means to commit the fraud
- Weak internal control presents opportunities



- Justification of action as unavoidable/necessary.
- Personal feeling of entitlement outweighs moral principles

- Pressure to meet financial, personal, societal goals/expectations
- eg. loan covenants, maintain stock price, attract investors

How do companies "cook" the books?

Common ways companies manipulate the books:

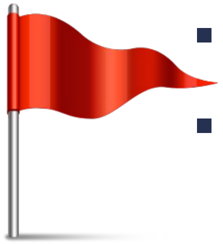
- **Manipulating revenues**
  - Improper recognition
  - Fake/fictitious revenues
  - Through improper transactions, typically with related parties
  - Channel stuffing
- **Manipulating estimates**
  - Inappropriate methodologies (eg. depreciation, write-offs)
- **Manipulating expenses**
  - Improper capitalization of expenses
- **Manipulating cash flow**
- **Manipulating weak internal controls**

Cash Flow Hocus Pocus
Interesting Case of Cash Flow Manipulation

- Cash is tangible, so surely it cannot be manipulated?

Think again!

- **Netflix *(Misclassifying Inventory Purchases)***
  - When Netflix first started, its original business was in renting out DVDs to customers by mail.
  - For years, Netflix has treated its purchase of DVDs -- the essential inventory of its business -- as an <u>investing outflow</u>, rather than an operating outflow.
  - This is especially curious, because most of Netflix's new DVDs are amortized over a period of just one year.
  - Netflix's accounting treatment provides a big boost for its operating cash flows.
  - **Red Flag:** Always question large investing outflows when they appear to be part of a company's normal cost of operations.



“Largest” Fraud in European History: WIRECARD

- Founded in 1999 – German payments processing fintech
- Once hailed as the “German Paypal”, it had market cap of $24 billion at its peak in 2018.
- Declared insolvency in June 2020, **owing creditors €3.5 billion.**
- Its stock price plunged from €100 to €2 in matter of days!
- CEO Marcus Braum was arrested for fraud & market manipulation – he continues to deny any wrongdoings and knowledge of the fraud.
- CFO Jan Marsalek “vanished” into thin air (in his private jet) – He is now one of the most wanted men on the planet!

"Largest" Fraud in European History: WIRECARD

€4 billion Accounting Fraud

- Fraudulently inflated sales and profits.
- €1.9 billion cash "MISSING" - this is ¼ of its whole balance sheet!
- For many years, Wirecard lied to its auditors EY of large sums of money held in Singapore's OCBC – and for many years EY failed to verify the existence of funds with the Singapore bank, instead relying on "forged" documents provided by a Singapore-based trustee.
- Wirecard tried to acquire Deutsche Bank in an attempt to plug its massive fraud. (subject to a clean bill of health by special audit to be performed by KPMG)
  - During the special audit, Wirecard told KPMG that money were transferred out of OCBC to two Philippines banks. It even hired actors in Philippines to pretend as bank officials in an attempt "convince" the auditors.
  - In its April 2020 report, KPMG stated it could not verify the funds.
- In June 2020, EY refused to sign off on the annual audit stating €1.9 b cash was "spurious". One week later, WireCard collapsed and filed for insolvency!

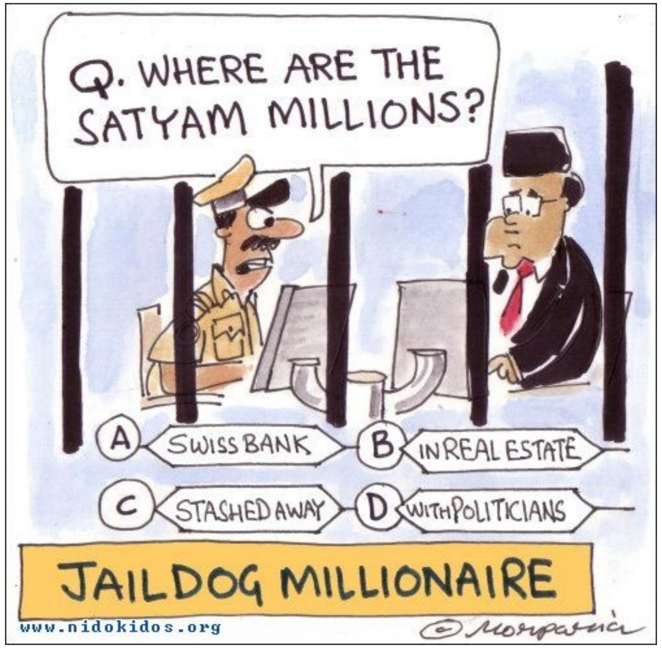
Now you see it , now you don't! Where did the $$ go? SATYAM

- Indian IT services company – World Economic Forum named it one of the 100 most pioneering tech company in 2000
- Listed in NYSE in 2001, with over 50k employees by 2008
- In Dec 2008, a botched acquisition attempt of Maytas triggered chain of events that led to Founder-Chairman Raju confessing in Jan 2009 that the company's accounts were falsified for many years.
- Major Perpetrators:
  - B. Ramalinga Raju (Founder/Chairman)
  - B. Rama Raju (Brother/ Managing Dir.)
  - V Srinivas (CFO)
  - PWC (Auditor)
  - Most of the perpetrators only got 7 years imprisonment!

Now you see it , now you don't! Where did the $$ go? SATYAM

Accounting scam of US$1.5 billion:

- Inflating revenues through false sales invoices
- Forging bank documents to show non-existent cash deposits.
- Funds funneled to Raju and his family members:
  - Family-controlled firms Maytas Properties and Maytas Infrastructures bought massive land and property
  - 356 investment companies controlled by Raju family members were allegedly used to divert funds
  - 13,000 fake non-existent employees used to embezzle funds
- In Dec 2008, Satyam tried to acquire Maytas (in an attempt to fill the gap in "fake" assets) but investors reacted negatively to the announced deal, questioned the nature of the related party transaction and its stocks plummeted.



The poster child of accounting scandal: ENRON

- Houston-based energy giant – 7th largest company in the U.S in 2001. Largest seller/buyer of natural gas and electricity with reported $100 billion revenues.
- Investigated in 2001 by SEC. Went bankrupt with US$74 billion in losses. All its employee retirement accounts wiped out!
- Major Perpetrators:
  - Ken Lay (Chairman/CEO) – died before sentencing in 2006.
  - Jeff Skilling (CEO) – served 12 years in federal prison, recently released in Feb 2019.
  - Andrew Fastow (CFO) – served 6 years in prison
  - Arthur Anderson (Auditors) – the accounting firm collapsed following Enron scandal.
  - Stock analysts? – who kept pushing Enron stock up

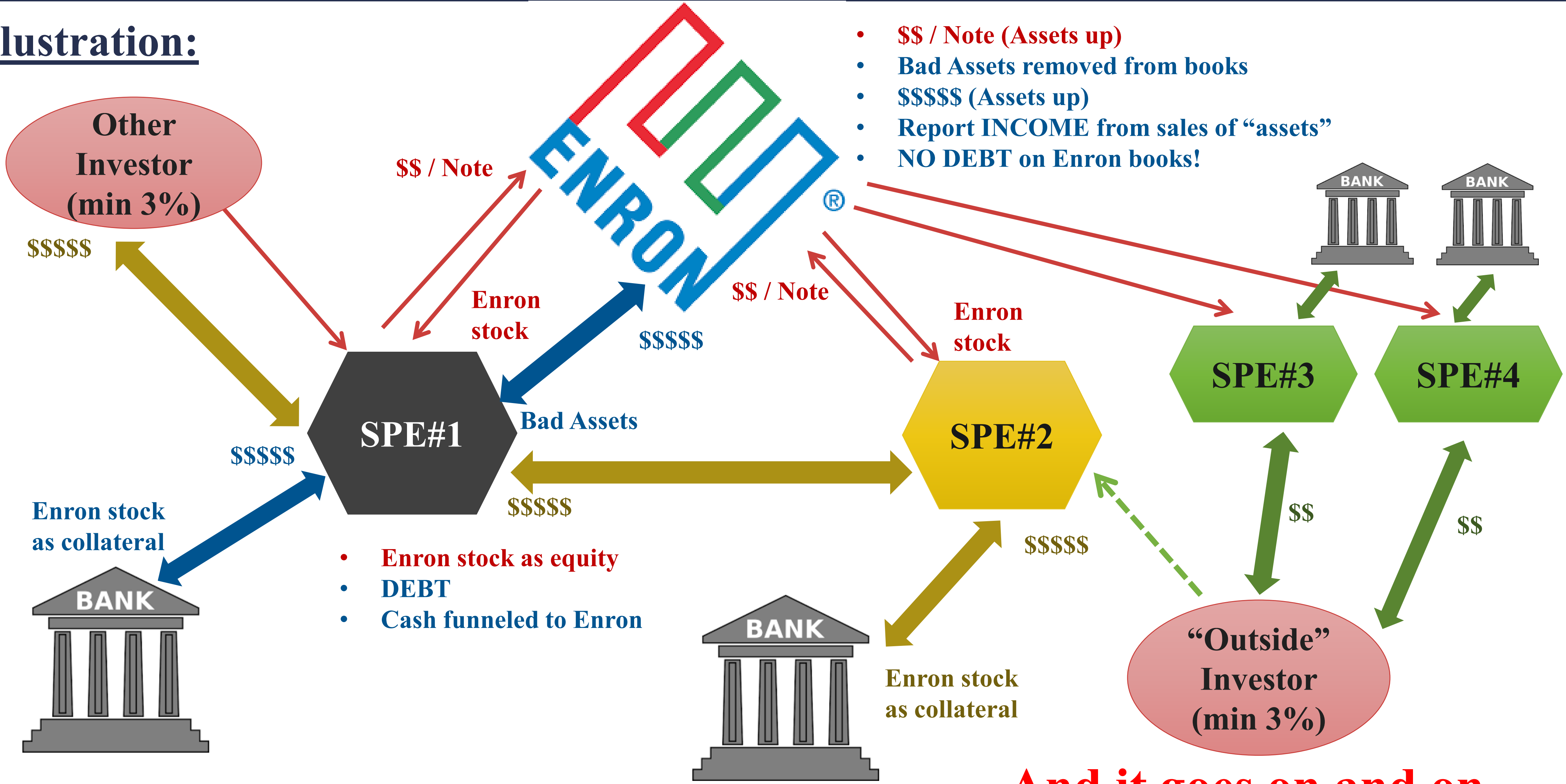
The poster child of accounting scandal: ENRON

Through various complex and dubious accounting schemes, Enron managed to:

- Inflate income and profit
  - Using long –term energy contracts to recognize future inflow as revenues causing massive inflation in non-existent revenues
- Hide losses and debts in off-balance sheet subsidiaries
  - Using complex SPEs (special purpose entities) to engage in fraudulent transactions and hide debts and losses from Enron's Balance Sheet.
  - It created more than 500 SPEs and thousands of dubious partnerships.
- Inflate stock price and credit ratings (maintaining its credit rating is vital in keeping stock price high)
- Funnel funds to personal parties (themselves, family, friends)
- Fraudulently misrepresent Enron's financial performance in public reports
- Reduce tax payments

A tangled web of lies and deceit:
ENRON

SPEs Illustration:



And it goes on and on….

Chapter 6

CASH

Goals for Lecture 06

Financial Statements Integrity
(Chapter 5)

- Potential Problems in Financial Statements (LO1)
- Safeguards to Minimize Problems (LO2)
  - Principles of Internal Controls
- Earnings Management (LO3)
- Role of Auditors (LO5)
- Accounting Scandals (if time permits. Not examinable)
- *Sarbanes-Oxley Act (LO4) & SEC (LO6) will **NOT** be covered.*

Cash
(Chapter 6)

- Major activities of a business (LO1)
- Cash & internal controls (LO2)
- Buying & Selling: discounts & returns
  - Purchase transactions (part of LO3)
  - Sales transactions (Refer only to this lecture 06 slides)

*Petty Cash (part of LO3) and Bank Reconciliation (LO4) will **NOT** be covered .*

Major Activities of a Business

Operating Activities: (associated with <u>primary</u> purpose of the business)

- Selling products or services
- Buying inventory for resale (for merchandising companies)
- Incurring and paying for necessary expenses in the primary operations

Investing Activities:

- Purchase of assets (e.g. PPE, financial assets) for use in the business.
- Occur less frequently & involving larger amounts

Financing Activities:

- Raising money to finance a business either through equity financing (selling ownership of business) or debt financing (borrowing money from creditors)

Major Activities of a Business:
What we will cover for the rest of the module

Operating Activities

- RECEIVABLES (Chapter 7) – selling products/services
- INVENTORY (Chapter 8) – acquiring products for resale
- CASH IN OPERATIONS (Chapter 6)
- CURRENT LIABILITIES

Financing Activities

- EQUITY FINANCING (Chapter 12)
- LT Debt Financing (not covered in this module)

Investing Activities

- PPE (Chapter 10) – buying and selling property, plant & equipment
- Investments (not covered in this module)

Financial Statements

- SCF (Statement of Cash Flow) (Chapter 14)
- FSA Analysis (Chapter 15)

3 Major Activities & Cash Flows

Operating Activities:

- Cash inflow: Selling products or services
- Cash outflow: Buying inventory for resale, incurring and paying for necessary expenses (e.g. salaries, rent and utilities)

Investing Activities:

- Cash outflow: Purchase of assets (e.g. PPE, financial assets) for use in the business.
- Cash inflow: Disposal/Sale of assets

Financing Activities:

- Cash inflow: Borrowing money from creditors or raising money from investors
- Cash outflow: Repayment of debts or distributing cash dividends to shareholders

Cash, Cash Equivalents, and Liquidity

Cash and similar assets are called liquid assets because they can be readily used to settle near-term obligations.

Cash

Currency, coins and amounts on deposit in bank accounts, checking accounts, and some savings accounts. Also includes items such as customer checks, cashier checks, certified checks, and money orders.

Cash Equivalents

Short-term, highly liquid investments that are:

1. Readily convertible to known amounts of cash.
2. Subject to an insignificant risk of changes in value.

Internal Controls of CASH

Cash is the most susceptible to theft and fraud.

Internal control of cash is essential, and an effective system that protects cash should meet these guidelines:

(1) Separation of duties

- Complete separation of cash receipts functions and cash disbursement function.
- E.g. person receiving should be different from person disbursing cash
- Without separation, cash can be easily stolen or "borrowed," and the employee can cover up the shortage by falsifying the records.

Internal Controls of CASH

(2) Effective prescribed policies & procedures

(a) Proper cash handling procedure

- E.g. Cash receipts are promptly deposited in the bank to prevent accumulation of cash on hand

(b) Separate approval of purchases & actual cash payments

(c) Cash disbursement by pre-numbered checks with different individuals for approval and check-signing

(d) Perform bank reconciliations periodically

Cash Management

The goals of cash management are twofold:

1. Plan cash receipts to meet cash payments when due.
2. Keep a minimum level of cash necessary to operate.

Effective cash management involves applying the following cash management principles:

- Encourage collection of receivables.
- Delay payment of liabilities.
- Keep only necessary levels of assets.
- Plan expenditures.
- Invest excess cash.

Buying and Selling Merchandise: Purchases & Sales

Purchase Merchandise

- Saja purchase $10k worth of inventory merchandise. $6k was paid in cash, remaining on credit.

Inventory	$10,000	
Cash		$6,000
Accounts Payable		$4,000

- Saja pays supplier one month later:

Accounts Payable	$4,000	
Cash		$4,000

NOTE: Assume Saja is on the perpetual inventory system. (We will cover inventory systems in lecture 07)

Merchandise Sales

- Saja sold merchandise for $15k. $3k received in cash, remaining on credit. Cost of inventory is $10k.

Cash	$3,000	
Accounts Receivable	$12,000	
Sales Revenue		$15,000
COGS	$10,000	
Inventory		$10,000

Customer pays Saja:

Cash	$12,000	
Accounts Receivable		$12,000

Credit Terms

Credit terms are often abbreviated in the following format:

2/10, n/30

Discount Percentage

Number of days discount is allowed

Net is due within credit period

Maximum Days in Credit Period

- It is read as “**Two ten, net thirty**” – meaning that there’s a 2% discount if paid in 10 days from date of sale/invoice, otherwise the full price (net of return) is due in 30 days from date of sale/invoice.

Discounts: Purchase Discounts & Sales Discounts

Purchase Discounts

- Saja purchase $10k worth of inventory merchandise on credit.

Inventory	$10,000	
Accounts Payable		$10,000

- Assume credit term is **5/5, n/30**, Saja pays full amount within 5 days:

Accounts Payable	$10,000	
Inventory (5%x$10k)		$ 500
Cash		$9,500

Sales Discounts

- Saja sold merchandise on credit for $15k.

Accounts Receivable	$15,000	
Sales Revenue		$15,000

(COGS entry not shown)

- Assume credit term given by Saja to its customer is **3/10, n/45**. Customer pays full amount within 10 days.

Cash	$14,550	
Sales discount (3%x$15k)	$ 450	
Accounts Receivable		$15,000

Returns: Purchase Returns & Sales Returns

Purchase Returns

- Saja returns merchandise worth $500 previously bought on credit, to its supplier:

Accounts Payable	$500	
Inventory		$500

Sales Returns

- A customer who had earlier bought merchandise on credit, returned part of the merchandise to Saja. The returned item was originally sold for $200 and cost $70 to Saja.

Sales Returns	$200	
Accounts Receivable		$200
Inventory	$70	
Cost of Goods Sold		$70

Merchandise Sales – Contra-revenue & Net Sales

- Sales Discounts & Returns are **contra-revenue** accounts
- Contra-revenue accounts:
  - To track negative adjustments to sales
  - Reduces revenue (so it's like an expense)
  - Has a normal **debit** balance
- On the Income Statement, it is deducted away from gross revenue to get Net Sales Revenue. For example:

Sales Revenue	**$100,000**
Less: Sales discounts & returns	**($7,800)**
Net Sales	**$92,200**

Real FS: Samsung Sales Revenue

- Samsung's SPL:

	Notes	2024	2023
		KRW	KRW
Revenue	29	300,870,903	258,935,494
Cost of sales	21	186,562,268	180,388,580
Gross profit		**114,308,635**	**78,546,914**
Selling and administrative expenses	21, 22	81,582,674	71,979,938
Operating profit	29	**32,725,961**	**6,566,976**
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
Profit before income tax		**37,529,734**	**11,006,265**
Income tax expense (benefit)	25	3,078,383	(4,480,835)
Profit for the year		**34,451,351**	**15,487,100**

This Revenue amount is already a net figure. (refer to Note 2.15 for disclosure)

Note: Most published FS by public companies shows a "Revenue" amount that is already net of discounts, returns and other "contra-revenue" accounts.

- From Note:

2.15 Revenue Recognition

The Company's revenue primarily represents the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is net of value-added tax, returns, sales incentives, discounts and others.

Take Away for Lecture 05

FS Integrity

- Potential Problems in Financial Statements
  - Understanding the effects on financial statements
  - Correcting errors (MUST understand Jinu'nFrens Inc)
- Principles of Internal Controls
- Earnings Management & Earnings Quality

Cash

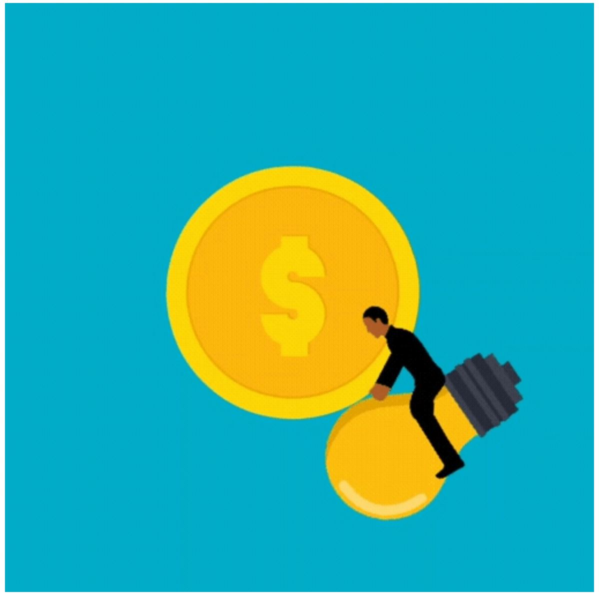
- Internal Control of Cash
- Buying & Selling: discounts & returns

"Half of the numbers are accurate, that's why we're auditing the remaining 56%."

Next Week's Lecture 06

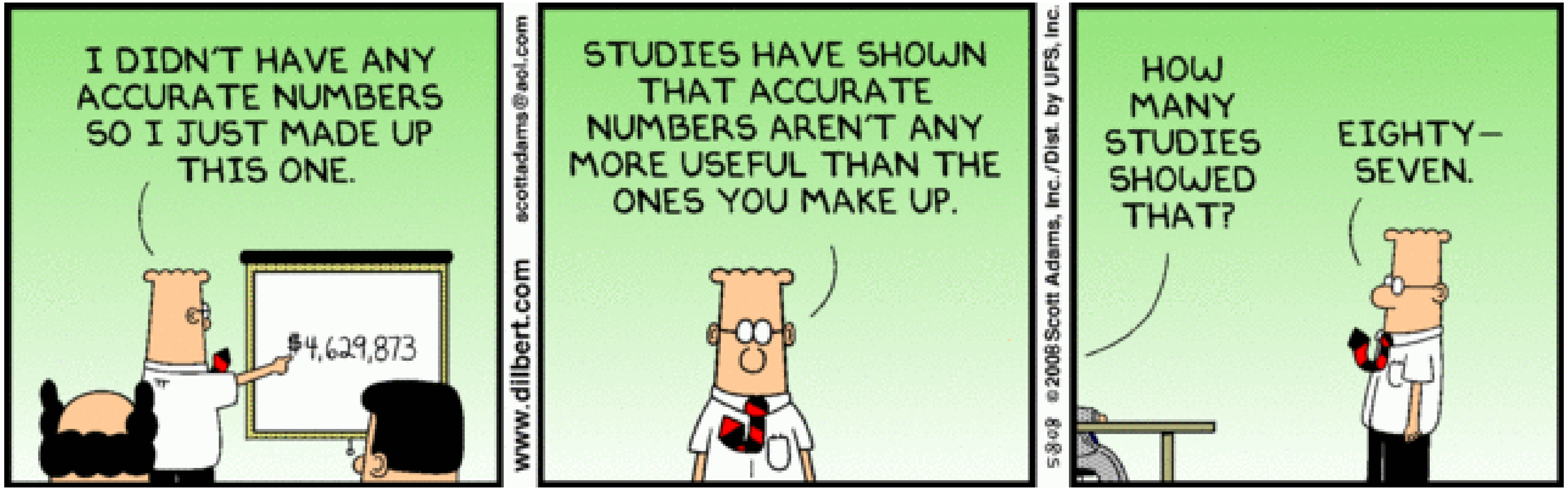
Operating Activities: Receivables (Chapter 7)

- Accounts Receivable (AR)
  - Direct write-off method vs Allowance method to account for impairment of AR
  - Assessment of impairment under allowance method
- Notes Receivable
- FSA:
  - Accounts Receivables Turnover
  - Average Collection Period



That's all for today!

SEE YOU NEXT WEEK!



Post any questions/discussion in the Canvas Discussion Forum.

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