

### Quiz 5

Nombre: David Corzo

Carné: 20190432

1. ¿Para qué nos sirven los índices de liquidez (Liquidity Ratios)? Escribe un índice con fórmula y explícalo.

Serves to assess how capable is a company of paying and fulfilling its financial obligations using its current assets, usually the higher the better.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

la misma que current ratio pero sin inventario

2. ¿Para qué nos sirven los índices rentabilidad (Profitability Ratios)? Escribe un índice con fórmula y explícalo.

Para ver quién es más eficiente la empresa está usando sus activos (Return on assets) y quién tan bien está usando sus capitales, da una mejor evaluación que el net income.

Return on shareholders equity

3. ¿Para qué nos sirven los índices de apalancamiento financiero (Financial Leverage Ratios)? Escribe un índice y explícalo.

Serves to assess how much of a company is financed by debt, there is another that checks the comparison between the debt part of the company and the part financed by investors (debt-to-investors-Ratio).

4. Menciona una ventaja o desventaja del apalancamiento financiero (Pros and Cons of Financial Leverage)?

Si una empresa se financia más con leverage hay mayor lucro para la persona dueña de la empresa, pero hay mucho riesgo también ya que no es muy bueno que las empresas sean de mucho leverage; se puede ganar más pero es más arriesgado.

5. Escribe un índice de rotación de activos (Asset Turnover Ratios) y explícalo.

Que tan bien están utilizando los activos en comparación del tamaño de la empresa es uno (Asset turnover), esto es que tan bien están utilizando sus activos

1/2

### Quiz 4

Nombre: David Gorze

Carné: 20190432

#### 1. ¿Qué es la amortización (amortization)?

La depreciación de un bien intangible a través del tiempo usando straight line depreciation.

#### 2. ¿Qué es método perpetuo de inventario (Perpetual Method of Inventory)?

Método que emplea tecnología ~~para~~ (como barcodes) para llevar una cuenta precisa de qué hay en el inventario, item-by-item; este método es más preciso y uno puede saber qué hay en el inventario en cualquier momento; lo malo es el costo de implementación.

#### 3. ¿Qué es método periódico de inventario (Periodic Method of Inventory)?

Que se toma nota de la cantidad de inventario al inicio del mes o período y al final del período, es menos preciso que el Perpetual pero se incurren menos costos de implementación, y se hacen ciertas suposiciones por falta de información.

#### 4. ¿Cómo se calcula el Costo de Ventas (Cost of Goods Sold CoGS) bajo el método periódico de inventario (Periodic Method of Inventory)?

$$\text{beginning inventory} + \text{purchases} - \text{ending inventory} = \text{CoGS}$$

#### 5. ¿Qué es el método de primeras entradas y primeras salidas (First In, First Out)?

Que la "last unit is assumed to be sold first" es una de las suposiciones que se tiene que hacer en el periodo method por dicha falta de información.

### Quiz 3

Nombre: David Gabriel Corzo Carné: 20190432  
*McNamee*

1. Explicar el método del devengado (The Accrual Method) y el método de efectivo (The Cash Method). Explicar la diferencia entre los dos métodos.

The cash method records transactions when they are paid for, the accrual method records when the services delivered or goods delivered, regardless if it has already been paid for.

2. Para cumplir con las normas GAAP ¿qué método debo utilizar?

The accrual method, it is the method used because it depicts best the economic reality of the situation.

3. Mencionar un concepto GAAP y explicarlo.

~~Historical cost~~: Assets are recorded by their historical cost (~~cost of purchase~~). Materiality = if transactions are not recorded but when you find out you didn't record them they didn't cause much financial impact that's called a ~~in~~ material purchase, if they indeed do make an impact they are material.

It is a way of recording how much value an item uses over a period of its useful life, there are many ways of measuring depreciation.

4. ¿Qué es la depreciación?

- Straight line depreciation = you distribute the cost of the asset evenly over the period of useful life estimated.
- Use depreciation = you measure the rate of depreciation by unit produced not measured in time, measured in usage.

David Gabriel Corzo

20190432

Universidad Francisco Marroqín  
Accounting Based Decision Making  
Sección B  
Catedrático Leonela Méndez

29/07/2019

Quiz 2

65

Nombre:

Carné:

1. ¿Cuál es la diferencia entre un Estado de Resultados (Income Statement) y un Estado de Flujo de Caja (Cash Flow Statement)?

El cash flow registra transacciones que el income statement no, el cash flow registra cuando entra el dinero de lo que nos deben.

2. ¿Cuáles son las tres categorías del Estado de Flujo de Caja (Cash Flow Statement) y una breve descripción?

cash flow finance, hay tres una registra pagos a las deudas bancarias dividendos;

X

Falta

3. ¿Qué son las GAAP (Generally Accepted Accounting Principles)?

Son principios que deben de seguir las empresas para evitar el fraude de contabilidad (que digan que van bien contablemente y no)

4. ¿Un crédito (credit) aumenta o disminuye un activo (asset)?

Un crédito aumenta un activo, resta liabilities y equity.

X

5. ¿Qué es el libro mayor (General Ledger) y para qué nos sirve?

Sirve para registrar todas las journal entries hechas, es un libro muy importante

Quiz 1

80

Nombre:

Carné:

1. ¿Cuál es la ecuación contable (The Accounting Equation)?

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

2. ¿Qué es un Balance General (Balance Sheet)?

Es una forma de representar la ecuación contable, y representa el estado financiero de una empresa en un punto del tiempo.

3. ¿Cuál es la diferencia entre un pasivo corriente y un pasivo de largo plazo?

Pasivo Corriente: Es todo lo que debemos pagar en un intervalo de 12 meses. (deudas por ejemplo)

Pasivo Largo plazo: Se refiere a todo lo apartado a pasivo corriente. (bank loans Por ejemplo).

4. ¿Qué es un Estados de Resultados (Income Statement)?

El estado de resultados representa la salud por decirlo así de una empresa en un intervalo de tiempo (usualmente un año), si la balance sheet es como una foto y el income statement es como un video, representar la performance en un intervalo.

5.. Completar la siguiente ecuación para el Estado de Utilidades Retenidas (The Statement of Retained Earnings):

Utilidades Retenidas (Retained Earnings, Ending) = Utilidades Retenidas al inicio del periodo

(Retained Earnings, Beginning) + Utilidad del periodo (Net Income) - operating expenses

X

Quiz 7

Nombre: David Corzo

Carné: 20190432

1. ¿Cuáles son las diferencias entre una empresa de servicio y una comercial?

Servicios, no manejan bienes tangibles por lo que no manejan muchas cuentas como inventario costo de ventas por ejemplo, se dedican a venta de servicios comerciales, se dedican a vender bienes tangibles por lo que manejan cuentas como inventario, costo de ventas, etcétera, etcétera, ellos se dedican a venta de mercancía.

2. Mencionar y explicar los dos sistemas de registro de inventario que existen en las empresas comerciales.

Está el perpetuo y el periódico, el perpetuo es un sistema en el cual solo se maneja la cuenta inventario y se puede saber el valor en inventario que hay a cualquier hora; el periódico es menos preciso que el perpetuo ya que se registran transacciones hasta el final del período y se usan más cuentas que solo inventario.

3. ¿Cuál es la fórmula para obtener el costo de la mercancía vendida?

En el costo de la mercancía vendida están contemplados costo de ventas, mas los gastos varios como flete, seguros para asegurar que se compensen los gastos extra incurridos.

4. ¿Qué gastos adicionales deben formar parte del costo del producto?

Seguros, impuestos de importación, fletes; dependiendo de que se use LAD de embarque o LAD de destino. Se paga el vendedor o el comprador.

5. ¿Qué es el cierre contable?

Es el último de los cuatro pasos, se pretende dejar en cero las cuentas correspondientes de acuerdo a que sistema se use, este paso varía un poco en las empresas de servicios y las de comercio (por las de comercio tener dos sistemas de inventario), el cierre consolida todo para registrar lo correspondiente al General.

Quiz 6

Nombre: David Largo

Carné: 20190432

1. ¿Qué tipo de organizaciones económicas existen y en qué difieren?

Están las ~~no lucrativas, no gubernamentales, lucrativas persiguen otra apartando valor a sus clientes y la utilidad residual la toman los dueños, las no lucrativas son mas que todo por razones sociales y la utilidad residual se re invierte no la toman los dueños, las gubernamentales~~ lucrativas persiguen otra apartando valor a sus clientes y la utilidad residual la toman los dueños, las no lucrativas son mas que todo por razones sociales y la utilidad residual se re invierte no la toman los dueños, las gubernamentales

2. ¿Qué es el gobierno corporativo? es financiada por impuestos. conjunto de leyes emitidas para regular la presentación y emisión de los partidas contables.

X

3. ¿Qué subsistemas de información contable existen y qué necesidades cubren?

contabilidad financiera: genera información relevante para usuarios externos.

contabilidad fiscal: genera información relevante para el fisco, o sea para calcular impuestos a pagar por ejemplo

contabilidad administrativa: genera información relevante para usuarios internos

4. ¿Quiénes utilizan los estados financieros de una empresa? (Nombrar por lo menos tres usuarios).

- Accionistas

- Miembros de organizaciones del tributo, fisco.

- Inversionistas

5. Nombrar y elaborar sobre una entidad de emisión de normas de información financiera o de supervisión financiera.

IASB: emite normas de contabilidad para globalizar su interpretación y resguardar inversores del fraude contable.

# REPASO DE LECTURA: CONTABILIDAD FINANCIERA CAPÍTULO #1 2019/08/26

- Evolución de la información financiera
- La partida doble
- Gobierno corporativo
- Organizaciones lucrativas, no lucrativas, gubernamentales
- Sociedad Anónima
  - Asamblea de accionistas
  - Consejo de administración
- Sociedad de capitales, sociedades mercantiles públicas.
- La información financiera como herramienta
- Tipos de usuarios:
  - internos
  - externos
- Contabilidad financiera, administrativa, fiscal.  
ISLR
- Profesión contable
  - independiente
  - dependiente
- Entidades emisoras de normas y supervisoras
  - Emisores de normas
    - IASB
    - FASB
    - CINIF
    - USGAP
  - Supervisores
    - Comisiones nacionales de bolsa y banca
    - Securities and exchange commission (SEC)

} Ejemplo Elon Musk

# Accounting Based Decision Making

## Cash vs Accrual

2019/08/05

### Prepaid = Anticipo

- es un gasto operativo (Arrendamiento)

	D	H
- A Cash		60,000
A Gto por anticipo	60,000	
0		

en agosto...

	D	H
- c gasto renta	3000	
- A Gto pagos anticipados		3000

### Historical Cost: Precio de compra

- sucede con terrenos, edificio, etc.

• Precio del mercado = precio actual

### Materialidad: qué tanto afecta?

- menor importancia
- mediana importancia
- mayor importancia

• Unidad Monetaria, es en qué moneda se registra todo.

• Entity Assumption: la cuenta de la empresa es diferente a la del dueño.

### Valor de rescate: precio que yo lo voy a vender,

$$\begin{cases} \text{costo} = 200,000 \\ \text{VR} = 50,000 \end{cases}$$

$$t = 5 \text{ años}$$

valor de rescate =

$$\text{Depreciación} = \frac{\text{costo del bien} - \text{valor residual}}{\text{años de vida útil}}$$

$$= \frac{200,000 - 50,000}{5} = 30,000$$

**Cash-Flow** - es el **Entrada y salida de efectivo**

31/07/2019

- Registra todo el efectivo

\* el ingreso  
es por ~~los~~ servicios

### ■ Operativo

- compra de inventario
- Pago empleado
- Pago cuentas por cobrar

• Para trabajar el cash flow se

### ■ Inversión

- compra vehículo
- compra maquinaria

• Gastos no son pasivos al menos que sean por pagar.

- el gasto también puede ser pasivos

### ■ Financiamiento

- Pago dividendo
- Financiamiento
- Emisión de acciones

■ Investigar las normas contables:

- NIIF
- NIC

• P6A

Idioma	Obligación	Derecho
Latín	Crédito	Debito
Inglés	Credit	Debit
Castellano	Haber	Debe

▲ Banco: La cante al níz

Generalmente desde este punto de vista

David	PDV Banco
D	H
Q 500	Q 1000 (obligación)
Banco	31/07 Q 500

David	PDV David
D	H
Q 1000	Q 500

$$\Delta \frac{A_{Debe}}{\uparrow} = P \uparrow + C \uparrow$$

utilidad de ejercicio =  
ingresos - gastos

$$Capital = Ut. Ej$$

$$Ut. ej = I(-) Gastos$$

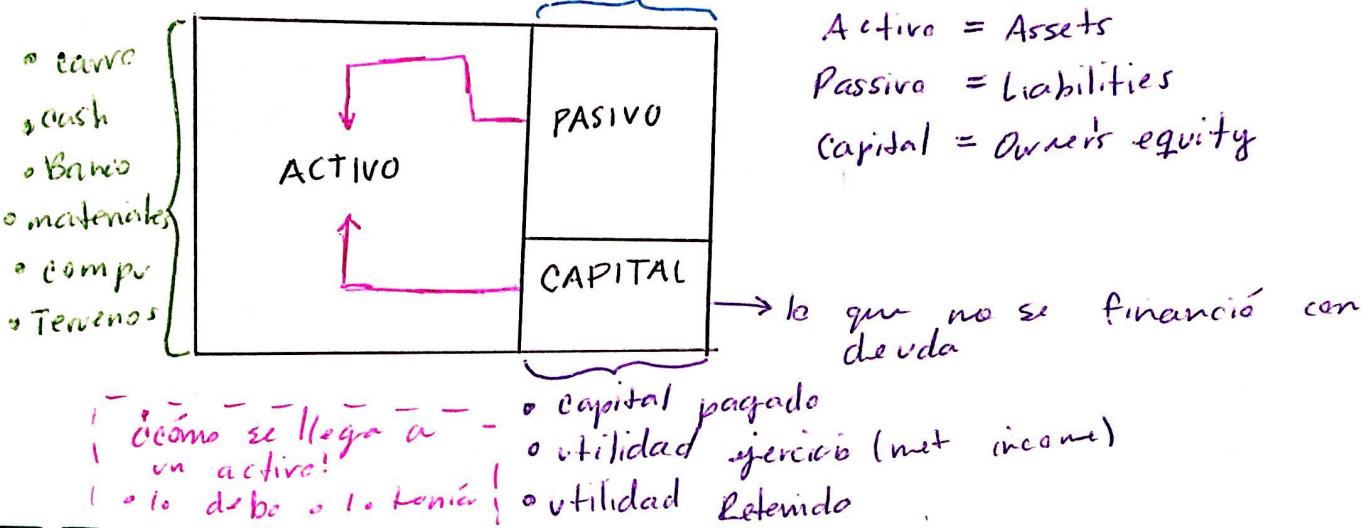
$$-\frac{A_{Debe}}{\uparrow} = P \uparrow + (I - G) \uparrow \downarrow$$

	Debe	Haber
Activo	+	-
Pasivo	-	+
Patrimonio	-	+
Ganancia	-	+
Pérdida	+	-

# Accounting based Decisions

July 24/2019

- La ecuación contable:  
deudas TPC



- Que crezca el patrimonio no significa que se esté enriqueciendo.
- **Balance General:** Balance sheet, informe financiero que refleja la situación del patrimonio en una empresa en un momento determinado, es una estrategia para afinar decisiones por ejemplo, si predice afinar la estrategia que tenga posibilidades de lucro.

- **Activo:** Lo que la empresa posee o donde ha empleado la empresa los recursos
  - Caja: caja chica, Bancos, inversiones (certificado de depósito, o bolsa de valores)
  - Inventarios
  - Cuentas por cobrar:
  - Maquinarias
  - Terrenos

\* Certificado de depósito, tiene interés fijo y hay posibilidades

- Pasivo:
    - cuentas por pagar
    - prestamo por pagar
  - Capital:
    - capital pagado
    - Reserva legal: 5% de utilidades, por si hay quiebra técnica (cuando las deudas son > 30% del capital)
    - utilidades retenidas
    - utilidades del ejercicio
  - Pasivo corriente es menor a 12 meses y pasivo a largo plazo es mayor a 12 meses.
  - en el libro falta en el balance general ; Nombre de la empresa, fecha, moneda, firma .
  - Estado de Activos y Resultados (income statement):
    - Desempeño en un periodo
    - costo de venta: lo que costo producirlo.
    - venta: lo que se vendió.
    - Utilidad bruta: costo de venta menos ventas
  - Gastos:
    - Renta, transporte, etcétera
- + renta Neta } utilidad bruta } utilidad de operación  
- costo de venta } - Gastos de operación } +/-

+ ventas Neta  
- costos de vender  
= utilidad bruta  
- gastos de operación  
= utilidad de operación  
+/- otros gastos otros ingresos  
= utilidad antes de impuesto  
- impuestos  
= utilidad neta

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### Estado de utilidades retenidas

- Retained Earnings va a aparecer en el área de capital
- Todos van amarrados, no se puede hacer el income statement → Retained earnings → Balance general

# Chapter #6 - Accounting Based Decision Making

2019-08/21

## Financial Ratios

## SUMMARY

- Liquidity Ratios = used to determine the speed at which a company can pay their financial obligations, the higher the better.

- Current ratio = type of liquidity ratio, most used

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

- Company's ability to pay off current liabilities using its current assets
- Quick Ratio = type of liquidity method, same purpose as the current, it excludes inventory balances to assess worse case scenario.

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

- Profitability Ratios = provides a more accurate assessment of the net income.

$$\text{Return On Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$\text{Return On Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

- Return on Assets = profitability in comparison to company's size (in assets)
- Return on equity = profitability in comparison to company's equity (in equity), how efficiently is it handling it based on investors' money to profit.

- Gross profit Margin = percentage of sales remaining after covering costs of ~~sold~~ sold inventory.

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost Of Goods Sold}}{\text{Sales}}$$

Used for comparisons between companies to assess whom keeps the inventory costs down, usually done within the same industry.

- Financial Leverage Ratios = to what extent a company has used debt to finance its operations.

$$\text{Debt Ratios} = \frac{\text{Liabilities}}{\text{Assets}}$$

- Debt-to-equity = shows the debt as opposed to investments from investors.

$$\text{Debt-Equity Ratio} = \frac{\text{Liabilities}}{\text{Owners equity}}$$

- Pros & Cons Of financial Leverage

it's dangerous to have high leverage

it's ~~more~~ gives more to be leveraged in the shareholders' equity, but it's risky to run everything on loans

- Asset turnover Ratios = How efficient a company uses its assets.

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

shows how many times a company's inventory is sold and replaced in one period.

- Average Inventory = average inventory part of the equation is calculated:

$$\text{Average Inventory} = \frac{\text{Beginning Inventory} + \text{Ending Inventory}}{2}$$

- Inventory Period: how long inventory is on hand before being sold.

$$\text{Inventory Period} = \frac{365}{\text{Inventory Turnover}}$$

Higher means that inventory is being sold quick so management is doing a good job.

- Receivables Turnover = how quick accounts receivable is being collected.

$$\text{Receivables Turnover} = \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}}$$

- Average collection period = how much time a receivable is outstanding prior to collection.

$$\text{Average Collection Period} = \frac{365}{\text{Receivables Turnover}}$$

Higher is the goal.

07/08/2019

intangibles are not physical

- Amortization: depreciation of intangible assets

- expected life

- legal life

thirteen. inventory and cost of goods

Perpetual Method of inventory:

- allows to know what they have and track the cost
- accurate record keeping
- disadvantage: cost of implementation

Periodic Method of inventory:

at the beginning or end of the month

- cheap
- assumptions made

Calculating costs under periodic method

$$\text{Beginning inventory} + \frac{\text{Inventory purchased}}{\text{Inventory}} - \text{Ending inventory} = \text{cost of goods sold.}$$

Assumptions = business is dealing with changing per unit cost assumptions have to be made

First in First out: <sup>oldest</sup> ~~newest~~ are sold first

Last in First out: newest is sold first

Both result in different inventory balance

Both result in different purchases over the period

Average determining balance or average cost per unit.

$$\frac{\text{Beginn} + \text{purchaser}}{\text{End inv.} + \text{purchaser}} = \text{Avgr cost}$$

# Accounting Based Decision Making

## Cash vs Accrual

2019/06/05

### Prepaid = Anticipo

- es un gasto operativo (Arrendamiento)

	D	H
- A Cash		€9000
A Gto por anticipo	€9,000	
D		

en agosto...

	D	H
- c gasto ruta	3000	
- A Gto pag & anticipos		3000
D		

### Historical Cost: Precio de compra

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• Precio del mercado = precio actual

### Materialidad: qué tanto afecta?

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$t = 5 \text{ años}$

valor de rescate =

$$\text{Depreciación} = \frac{\text{costo del bien} - \text{valor residual}}{\text{años de vida útil}}$$

$$= \frac{200,000 - 50,000}{5} = 80,000$$

# Accounting Based Decision Making

2019/08/04

cap. 9, 10, 11

## Chapter 9

- small business = cash accounting
- Businesses = accrual accounting

} GAAP uses accrual.

— The cash method =

- sales are recorded when cash is received and
- expenses are recorded when cash is sent out.
- sometimes is not accurate of describing one's financial situation.
  - Pam only pays her rent for three months and is recorded by cash out, if a creditor was to look at her financial statements monthly it wouldn't reflect her financial status correctly

— The accrual method =

- recorded by services provided or goods delivered not cash received. (accounts receivable)
- Expenses are recognized when it receives them regardless of when it pays for them. (accounts payable)
- it gives a more accurate understanding of economic reality by better representing the time lag between a service being performed and a service being paid for.
- Accrual entry

— Prepaid expenses

- you pay prior to receiving services

— Unearned Revenue

- when you receive prepaid expenses of a customer you have not earned that money, hence after the time paid has expired you can use the money account = liability balance known as "unearned revenue"

# Chapter 10

## — Other GAAP Concepts and assumptions

### — Historical cost:

- Assets are recorded (amount paid for them) [the real estate example]
- Anything other subjective value ways of recording assets are more subjective.
- Historical cost is different from current market value.

### — Materiality

- material = refers to a transaction that is incorrect, causes viewers to make different decisions if they were recorded correctly
- immaterial = refers to a transaction that was not recorded but that does not impact the company's financial statement.
- material impacts a lot, immaterial impacts less.

### — Monetary unit assumption

- Dollars appreciate and depreciate, but adjusting the value in every transaction would not derive much benefit, it's assumed that money has a stable value.

### — Entity Assumption:

- a business and a business owner are different, transactions between the business' bank account and your bank account are recorded, but to you it will seem as if you are just moving your own money.

### — Matching principle

- Expenses must be matched to revenues they help generate
- Expenses must be recorded in the same period revenue was produced.

## Chapter 11

### Depreciation of fixed assets

- Company buys an asset that last 1 year, the cost of the asset is not an immediate expense. The cost is spread out over several years through depreciation.

#### — straight line depreciation

- the method: the cost is spread out evenly over the expected life of the asset.

— contra assets accounts are used to offset other accounts, they keep track of how much depreciation has gone.

— the net debit balance and the credit balance in accumulated depreciation = net equipment balance

"book value"

① cost of asset

② depreciation against the asset

DR Equipment 5000  
CR cash 5000

{ Net book value = original cost -  
( accumulated depreciation )

Depreciation 1000

Accumulated Depreciation 4000

finish — — — — —  
Accumulated depreciation 5000

Equipment 5000

— — — — —  
• then the equipment will be disposed

## — Salvage Value or "residual value"

- Used when the asset is sold before depreciation renders it worthless.
- Salvage value is the expected value after the planned number of years of use.

$$\boxed{\text{original cost} - \text{salvage value} = \text{depreciable cost}}$$

## — Gain or loss on sale

- you can sell the asset for more than its current depreciation and you must record a gain, if you sell below the current depreciation and you have to record a loss.

## — Other depreciation methods

- There are other approved methods of depreciation
  - Example:
    - Double declining balance method  
net training net book value \* percentage per year
    - the percentage used =  $2 * \text{percentage of the one used in straight line depreciation}$
  - units of production method: how much an asset is used

## — Intangible asset purchases

- Some assets are too insignificant to be recorded after some years, so these they generally are absorbed fully on the date of purchase.

## 5 — The cash flow statement

Reports the company's cash inflows and outflows.

- It's different from the income statement because

1) The cash flow statement reports received funds, the income statement in contrast can report funds that have not yet been received.

2) The cash flow statement reports several types of transactions not included in the income statement, dividend payment will appear in the cash flow statement.

### Categories of cash flow:

#### Cash flow from operating activities

Similar to operating income but the goal is to measure the cash flow of business operations.

Payment to suppliers, employees, taxes, etc.

#### Cash flow from investing activities

Cash spent or received on investments in financial securities

Ex. Property, plant, equipment; dividends investing purchase or sale

#### Cash flow from financing Activities

Related to transactions with the company's owners and creditors; loan payment, dividend payment, cash from investors.

## 6 — GAAP

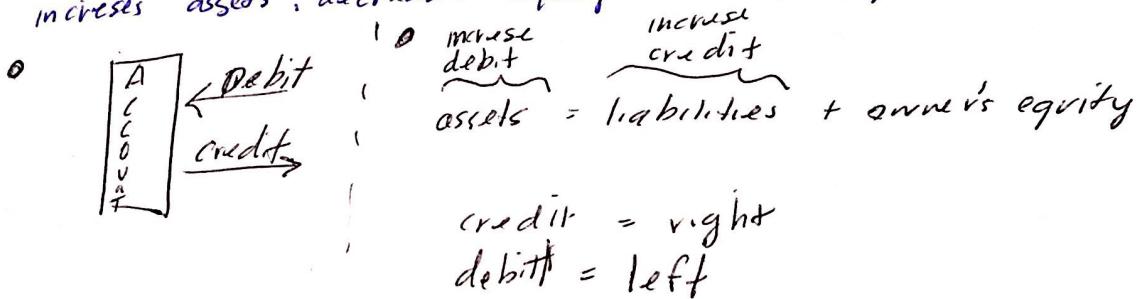
• Generally accepted accounting principles created by Financial accounting standards Board.

• Prevents fraudulent accounting and gives security to potential investors

## B — Debits and Credits

- In GAAP we must use the double entry system.
- The double entry (journal) is important because of the accounting equation without the double entry it doesn't maintain the equivalency.

- Credit: decreases assets, increases equity and liability.
- Debit: increases assets, decreases equity and liability.



### ◦ Revenue and expense account:

We register the journal entry in the income statement and the balance sheet

- Journal entry in to revenue account → credit
- Journal entry in to expense account → debit

### ◦ The general ledger:

Place where journal entries are recorded

### ◦ T-accounts

Period in question	
Beginning Balance	credit
debit	
ending Balance	

- Trial Balance: is a checking system to check if the credit = debit, in a general ledger account.
- Shows balance in each account at a given point in time.

# Accounting Based Decision Making July 23/2019

## Chapter One: The accounting Equation

### Summary

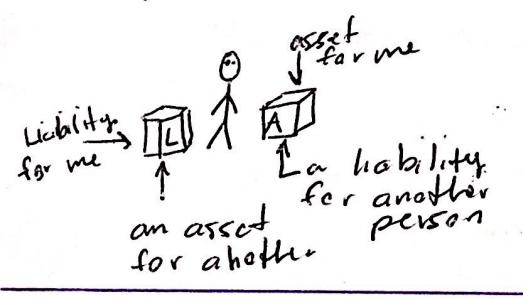
- Fundamental concepts, the accounting equation will be true, at all times, and with out exceptions.

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

- Assets = everything owned by the company
- Liabilities = current debt the company is pending.
- Shareholders equity = interest after all debts have been paid.  
or owners

$$\begin{array}{c} \text{Assets} \\ \$300,000 \\ \hline \end{array} = \begin{array}{c} \text{Liabilities} \\ \$230,000 \\ \hline \end{array} + \begin{array}{c} \text{Equity} \\ \$70,000 \end{array}$$

- Equity is what's left over after paying debt, owners' interest in company assets after paying back all debt.
- My asset is your liability



## Chapter two: The balance sheet

- three sections, are the accounting equation
- Balance sheet is a companies financial situation or a given point in time.

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S      • cash and cash equivalents: Balance and savings account, investments < 3 months  
S      • Inventory: goods in stock, for sale  
E      • Accounts receivable: Amount due for services already delivered.  
T      • Property, plant, and equipment: Assets that cannot be converted readily  
S      in to cash

L      {  
I      • Accounts Payable: amounts due for services that have been received  
A      • Notes payable: contractual obligations due to lenders (bank banks)

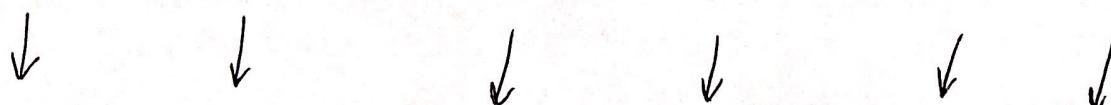
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common stock = amounts invested by the owners of the company  
Retained earnings = sum (net income) over life of business that  
has not been distributed to owners in the form of a dividend.

- current assets = assets expected to be converted into cash within 12 months or less. (accounts receivable, cash, inventory)
- long term asset = not a current asset, such as property, plant equipment is a long-term asset account.
- current liabilities = will need to be paid within 12 months or less (accounts payable); notes payable are paid off over a period of time are split up so they show up as current liabilities, the remainder however is a long-term liability
- Multiple-Period Balance sheets: they are to show the companies' status over time.

### Chapter three: The income statement

- income statement shows a company's financial performance over a period of time (usually a year). Balance sheet is a photo and the income statement is more like a video. sometimes referred as P&L, (Profit and loss)  

1 section = revenue	Gross Profit and Cost of goods sold:
2 section = expenses	Gross Profit: sum of revenue - cost of goods sold



## Operating Income vs. Net income

- operating expenses = cost of operation of a business, employees, rent, insurance. typically incurred
- Non-operating expenses = not typically incurred, not related to operations, a lawsuit for example.
- Separating these two allows the calculation of operating income, this is a better indicator than net income, this method is sometimes used in "creative accounting".
- Operating income = Gross profit - operating expenses
- Net income = operating income - non operating expenses

## Chapter four: The statement of retained Earnings

- Statement of retained earnings = details a company's retained earnings over a period of time, retained earnings being undistributed profits.
- The statement of retained earnings is much like a bridge between the income statement and the balance sheet
  - income statement → retained earnings → balance sheet
- final step in preparing the income statement is calculating net income.
- Net income is used to calculate the end of the year retained earnings
- Dividends are not an expense, they don't show up in an income statement they appear on the statement of retained earnings

- Retained earnings is not the same as cash:  
retained earnings = sum (company undistributed profit) over  
the existence of the company.
- Many times the earnings are reinvested in to  
the company.