

BUSI 1001 – Principles of Financial Accounting
Chapter 1 – Introduction to Financial Statements
Video Sequence

Video #	Video Title	Page*
1	The Balance Sheet	2 - 7
2	ICP1-1: Harrison Corporation	8
3	The Income Statement and ICP1-2	9 – 10
4	Statement of Changes in Equity	11 - 12
5	ICP1-3: Peters Corporation	13 - 16

* page numbers refer to the pages in this documents that are referred to in the videos.

When you are done watching the videos, work through as many problems as you can. The list of problems is on page 17 of this document. The actual problems and solutions can be found in the course notes.



BUSI 1001

Chapter 1 - Introduction to Financial Accounting and Financial Statements

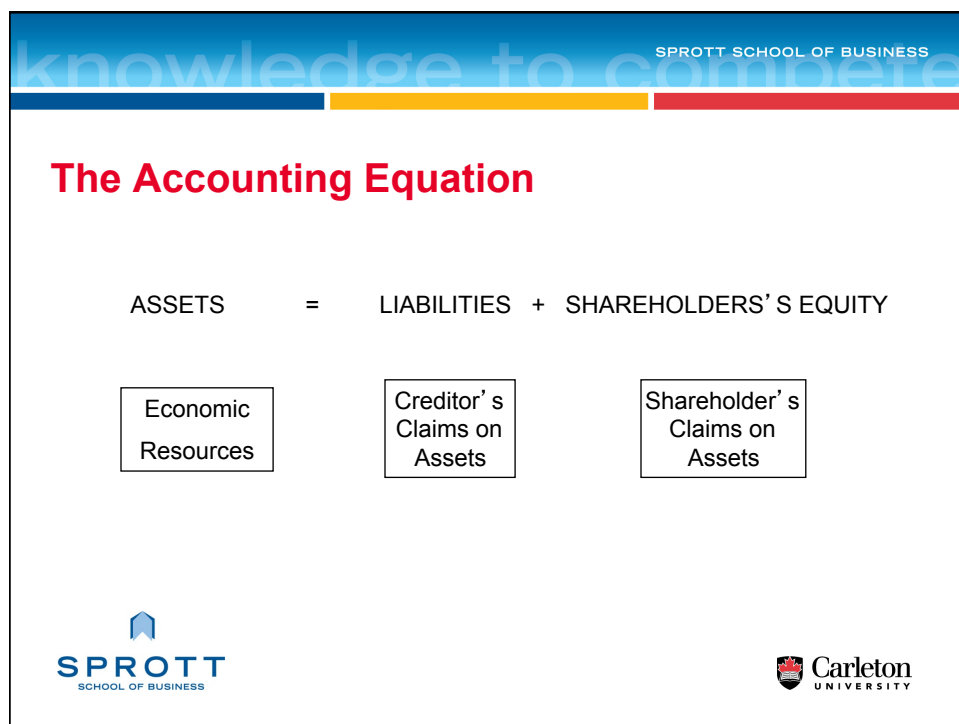
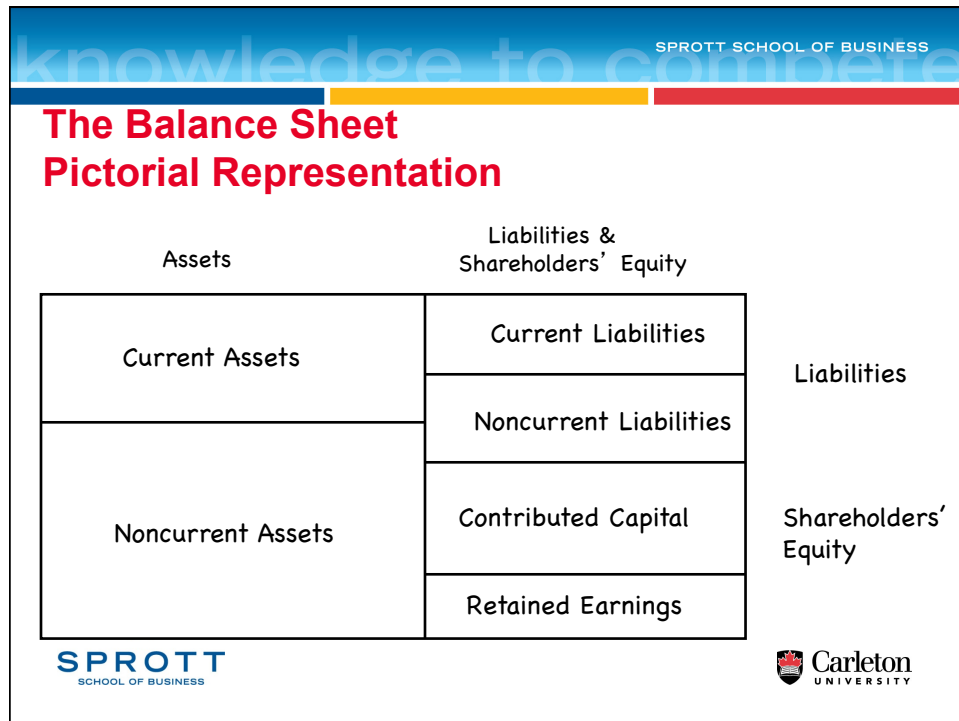
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The Balance Sheet

- the balance sheet provides a list of all assets controlled by an entity and a list of how these assets are financed: either through liabilities or shareholders' equity
- also known as a statement of financial position





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Definitions

Asset - a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity

Liability - a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

Equity is defined as the residual interest in the assets of the entity after deducting all its liabilities.



 

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Current Assets

- current assets: resources that are expected to be converted into cash, sold or consumed within a year or the operating cycle, whichever is longer
- cash, short-term investments, accounts receivable, inventory, prepaid expenses

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Noncurrent assets

- assets that will be used up in the business for periods exceeding one year
- long-term investments
- tangible capital assets: land, buildings and equipment
- intangible capital assets: patents, trademarks, goodwill



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Shoppers' Drug Mart

As at December 31, 2011, January 1, 2011 and January 3, 2010
(in thousands of Canadian dollars)

	Note	December 31, 2011	January 1, 2011 ⁽¹⁾	January 3, 2010 ⁽¹⁾
Current assets				
Cash		\$ 118,566	\$ 64,354	\$ 44,391
Accounts receivable		493,338	432,089	470,935
Inventory		2,042,302	1,957,525	1,852,441
Income taxes recoverable		—	20,384	—
Prepaid expenses and deposits		41,441	68,468	74,206
Total current assets		2,695,647	2,542,820	2,441,973
Non-current assets				
Property and equipment	15	1,767,543	1,677,340	1,541,841
Investment property	15	16,372	12,770	5,884
Goodwill	16	2,499,722	2,493,108	2,483,430
Intangible assets	17	281,737	272,217	258,766
Other assets		18,214	19,678	16,716
Deferred tax assets	14	21,075	26,264	28,456
Total non-current assets		4,604,663	4,501,377	4,335,093
Total assets		\$ 7,300,310	\$ 7,044,197	\$ 6,777,066



 

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Liabilities

- current liabilities - obligations that are reasonably expected to be liquidated within one year
- includes accounts payable, bank indebtedness, dividends payable, returnable deposits, unearned revenues, sales taxes, employee related liabilities, current portion of long-term debt
- long-term liabilities: those liabilities that are due after one year



 

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Shareholders' Equity

- share capital (common shares) - the investment made by shareholders in the company
- retained earnings: undistributed surplus =
Retained earnings, beginning of year
Add Net income for the year
Less dividends declared to shareholders during the year
= Retained Earnings, end of year

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Liabilities			
Bank indebtedness	19	\$ 172,262	\$ 209,013 \$ 270,332
Commercial paper	19	–	127,828 260,386
Accounts payable and accrued liabilities	18	1,109,444	990,244 970,831
Income taxes payable		26,538	– 17,046
Dividends payable	24	53,119	48,927 46,748
Current portion of long-term debt	20	249,971	– –
Provisions	22	12,024	12,562 11,009
Associate interest		152,880	138,993 130,189
Total current liabilities		1,776,238	1,527,567 1,706,541
Long-term debt	20	695,675	943,412 946,098
Other long-term liabilities	23	520,188	442,124 386,262
Provisions	22	1,701	1,852 1,062
Deferred tax liabilities	14	38,678	26,607 25,219
Total long-term liabilities		1,256,242	1,413,995 1,358,641
Total liabilities		3,032,480	2,941,562 3,065,182
Shareholders' equity			
Share capital	24	1,486,455	1,520,558 1,519,870
Treasury shares	24	(4,735)	– –
Contributed surplus	26	10,246	11,702 10,274
Accumulated other comprehensive loss	7	(30,214)	(8,643) (1,125)
Retained earnings		2,806,078	2,579,018 2,182,865
Total shareholders' equity		4,267,830	4,102,635 3,711,884
Total liabilities and shareholders' equity		\$ 7,300,310	\$ 7,044,197 \$ 6,777,066

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ICP 1-1

The following is a list of accounts taken from the records of the Harrison Corporation as at December 31, 20x5:



Accounts Payable	\$ 22,500
Accounts Receivable	26,000
Accumulated Depreciation – Building	35,000
Accumulated Depreciation – Equipment	15,000
Building	140,000
Capital Stock	50,000
Cash	11,000
Equipment	56,000
Interest Payable	1,500
Inventory	46,000
Land	25,000
Long-term Debt	80,000
Long-Term Investments	10,000
Office supplies	4,500
Patents	30,000
Retained Earnings	141,000
Salaries Payable	3,500

Prepare a classified statement of financial position as at December 31, 20x5.

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Income Statement



- provides the results of operation (profitability) for a period of time, usually one year
- typical format:
 - Sales
 - Cost of goods sold
 - = Gross Profit or Gross Margin
 - Operating Expenses
 - = Operating Income
 - ± Other expenses/revenues
 - = Net Income before Taxes
 - Income Tax Expense
 - = Net Income

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For the 52 weeks ended December 31, 2011 and January 1, 2011
(in thousands of Canadian dollars, except per share amounts)

	Note	2011	2010 ⁽¹⁾
Sales		\$ 10,458,652	\$ 10,192,714
Cost of goods sold	9	(6,416,208)	(6,283,634)
Gross profit		4,042,444	3,909,080
Operating and administrative expenses	10, 11, 13	(3,131,539)	(3,011,758)
Operating income		910,905	897,322
Finance expenses	12	(64,038)	(60,633)
Earnings before income taxes		846,867	836,689
Income taxes	14		
Current		(208,696)	(238,779)
Deferred		(24,237)	(6,059)
		(232,933)	(244,838)
Net earnings		\$ 613,934	\$ 591,851
Net earnings per common share			
Basic	25	\$ 2.84	\$ 2.72
Diluted	25	\$ 2.84	\$ 2.72

ICP 1-2

The following are taken from the accounts for the Noble Corporation for the year ended December 31, 20x8:

Accounts receivable	38,500
Accumulated depreciation	56,000
Cost of goods sold	500,000
Depreciation expense	68,000
Income tax expense	35,000
Insurance expense	16,800
Interest expense	20,000
Interest revenue	15,000
Land	45,000
Miscellaneous expenses	6,000
Office Supplies	4,800
Office supplies expense	5,600
Rent expense	96,000
Salaries expense	165,000
Sales	950,000

Prepare an income statement for Noble Corporation.

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Statement of Changes in Shareholders' Equity



- shows the change in each of the shareholders' equity items from the beginning of the year to the end of the year
- contributed capital (common stock / preferred stock) increases by new investments made by shareholders; decreases by repurchase of stock by company
- private companies only need to present a statement of changes in Retained Earnings




SPROTT SCHOOL OF BUSINESS

For the 52 weeks ended December 31, 2011 and January 1, 2011
(in thousands of Canadian dollars)

	Note	Share Capital	Treasury Shares	Contributed Surplus	Accumulated Other Comprehensive Loss (Notes 18 and 21)	Retained Earnings	Total
Balance as at January 1, 2011 ⁽¹⁾		\$ 1,520,558	\$ –	\$ 11,702	\$ (8,643)	\$ 2,579,018	\$ 4,102,635
Total comprehensive income		–	–	–	(21,571)	613,934	592,363
Dividends	24	–	–	–	–	(215,671)	(215,671)
Share repurchases	24	(35,576)	(4,735)	–	–	(171,203)	(211,514)
Share-based payments	26	–	–	(1,210)	–	–	(1,210)
Share options exercised	26	1,466	–	(246)	–	–	1,220
Repayment of share-purchase loans		7	–	–	–	–	7
Balance as at December 31, 2011		\$ 1,486,455	\$ (4,735)	\$ 10,246	\$ (30,214)	\$ 2,806,078	\$ 4,267,830
Balance as at January 3, 2010 ⁽¹⁾		\$ 1,519,870	\$ –	\$ 10,274	\$ (1,125)	\$ 2,182,865	\$ 3,711,884
Total comprehensive income		–	–	–	(7,518)	591,851	584,333
Dividends	24	–	–	–	–	(195,698)	(195,698)
Share-based payments	26	–	–	1,592	–	–	1,592
Share options exercised	26	655	–	(164)	–	–	491
Repayment of share-purchase loans		33	–	–	–	–	33
Balance as at January 1, 2011⁽¹⁾		\$ 1,520,558	\$ –	\$ 11,702	\$ (8,643)	\$ 2,579,018	\$ 4,102,635



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Accounting Standards in Canada

- Publicly Accountable Companies must follow International Financial Reporting Standards (IFRS)
- Private companies have the option to follow Accounting Standards for Private Enterprises (ASPE) or IFRS's.... most follow ASPE
- Nonprofit organizations follow standards for non-profit enterprises... outside the scope of this course

ICP 1-3

The following is an alphabetical list of account balances at December 31, 20x3 for the Peters Corporation. You are also told that the company issued \$250,000 of Capital Stock during the year and declared a total of \$50,000 of dividends.

Accounts payable	136,000
Accounts Receivable	89,000
Accumulated depreciation - building	389,000
Accumulated depreciation - equipment	151,000
Building	1,116,000
Capital Stock	612,000
Cash	48,000
Cost of goods sold	756,000
Depreciation expense	58,000
Dividends payable	7,000
Franchise	29,000
Income tax expense	165,000
Insurance expense	4,000
Interest expense	54,000
Interest income	7,000
Interest payable	12,000
Interest receivable	9,000
Inventories	155,000
Land	202,000
Long-term debt	720,000
Long-term investments	25,000
Machinery and equipment	615,000
Patents	109,000
Prepaid expenses	12,000
Rent expense	11,000
Rental revenues	36,000
Retained Earnings (beginning of year balance less dividends)	220,000
Salaries expense	115,000
Sales	1,370,000
Short-term investments	131,000
Unearned revenues	43,000

Required -

Prepare a Statement of Income, a Statement of Financial Position and a Statement of changes in Shareholders' Equity.

ICP 1-3**Peters Corporation
Statement of Income
for the year ended December 31, 20x3**

Sales		\$1,370,000
Cost of goods sold		<u>756,000</u>
Gross margin		614,000
Expenses		
Depreciation	\$58,000	
Insurance	4,000	
Rent	11,000	
Salaries	<u>115,000</u>	<u>188,000</u>
Operating Income		426,000
Interest expense		-54,000
Interest income		7,000
Rental revenues		<u>36,000</u>
Net income before taxes		415,000
Income tax expense		<u>165,000</u>
Net income		<u><u>\$250,000</u></u>

Peters Corporation
Statement of changes in Shareholders' Equity
for the year ended December 31, 20x3

	<i>Capital Stock</i>	<i>Retained Earnings</i>	<i>Total</i>
Balance, December 31, 20x1	\$362,000	\$270,000	\$ 632,000
Issue of Capital Stock	250,000		250,000
Net income		250,000	250,000
Dividends		(50,000)	(50,000)
Balance, December 31, 20x2	<u>\$612,000</u>	<u>\$470,000</u>	<u>\$1,082,000</u>

Note that the opening balance of retained earnings is calculated as follows:

Balance per trial balance	220,000
Add dividends declared during the year	<u>50,000</u>
	<u>270,000</u>

Peters Corporation
Statement of Financial Position
as at December 31, 20x3

ASSETS

Current Assets

Cash		48,000
Short-term Investments		131,000
Accounts Receivable		89,000
Interest Receivable		9,000
Inventories		155,000
Prepaid Expenses		12,000
		<u>444,000</u>

Noncurrent Assets

Long-term investments		\$25,000
Land		202,000
Building	\$1,116,000	
Less Accumulated depreciation	<u>389,000</u>	727,000
Machinery and equipment	615,000	
Less Accumulated depreciation	<u>151,000</u>	464,000
Patents		109,000
Franchise		29,000
		<u>1,556,000</u>
		<u><u>\$2,000,000</u></u>

LIABILITIES & SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	136,000
Dividends payable	7,000
Interest payable	12,000
Unearned revenues	43,000
	<u>198,000</u>

Long-term debt

720,000

Shareholders' Equity


Capital Stock	\$612,000
Retained Earnings	470,000
	<u>1,082,000</u>





\$2,000,000

BUSI 1001 – Principles of Financial Accounting**Suggested Problems with Solutions****Chapter 1 – Introduction to Financial Accounting and Financial Statements**

At the end of every chapter, I will provide you with a recommend list of problems for you to tackle on your own. The solutions to these are in the course notes at the end of the problems section. I break out the recommended problems into two lists: the primary list is the list of problems I recommend all students attempt. The secondary list is a list of problems that should be attempted only if you are having difficulty absorbing the course materials.

In Chapter 1, there are 21 problems on pages 28-38. Solutions to these problems are on pages 39 – 57.

Recall that the problems with a  icon are taken up in a video.

Problem	Primary List	Secondary List
1-1	✓	
1-2	✓	
1-3	✓	
1-4		✓
1-5		✓
1-6		✓
1-7	✓	
1-8		✓
1-9		✓
1-10		✓
1-11		✓
1-12		✓
1-13 	✓	
1-14 	✓	
1-15 	✓	
1-16		✓
1-17		✓
1-18		✓
1-19 	✓	
1-20		✓
1-21		✓