

ACCOUNTING

P R E P A R E D B Y : L U I S M E I N G

OBJECTIVES:

01

Definition

02

Concepts in Accountancy

03

Types of Accounting

04

SAP in Accounting



Accounting

- is the measurement, processing, and communication of financial and non-financial information about economic entities such as businesses and corporations

1.1 Definition

Accounting

- is the measuring of organizations using money

1.1 Definition

Assets

- anything that has current or future economic value to a business

1.1 Definition

Liability

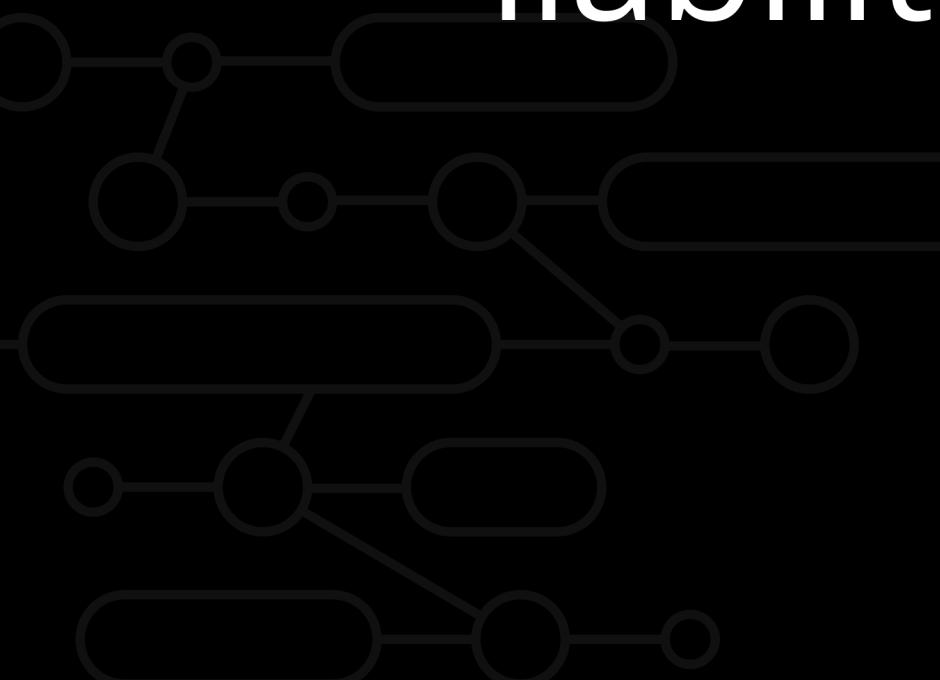
- any kind of financial obligation that a business has to pay at the end of an accounting period to a person or a business

1.1 Definition

Equity



- is equal to total assets minus its total liabilities





Balance Sheet

- an overview of a company's assets, liabilities, and shareholders' equity as a snapshot in time

1.2 Financial Statements

Example Corporation
Balance Sheet
December 31, 2021

ASSETS

Current assets

Cash and cash equivalents	\$ 2,200
Short-term investments	10,000
Accounts receivable - net	39,500
Other receivables	1,000
Inventory	31,000
Supplies	3,800
Prepaid expenses	1,500
Total current assets	<u>89,000</u>

Investments

Property, plant & equipment - net

Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accumulated depreciation	(56,000)
Property, plant & equipment - net	<u>337,000</u>

Intangible assets

Goodwill	105,000
Other intangible assets	200,000
Total intangible assets	<u>305,000</u>

Other assets

Total assets

LIABILITIES

Current liabilities

Short-term loans payable	\$ 5,000
Current portion of long-term debt	15,000
Accounts payable	20,900
Accrued compensation and benefits	8,500
Income taxes payable	6,100
Other accrued liabilities	4,000
Deferred revenues	1,500
Total current liabilities	<u>61,000</u>

Long-term liabilities

Notes payable	20,000
Bonds payable	375,000
Deferred income taxes	25,000
Total long-term liabilities	<u>420,000</u>

Total liabilities

481,000

Commitments and contingencies (see notes)

STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	(50,000)
Total stockholders' equity	<u>289,000</u>
Total liabilities & stockholders' equity	<u>\$ 770,000</u>

The accompanying notes are an integral part of this statement.



Income Statement

- covers a range of time
- provides an overview of revenues, expenses, net income, and earnings per share

Example Corporation

Income Statement

Years ended December 31

	(in thousands of dollars)		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net sales	\$ 3,980	\$ 3,750	\$ 3,400
Cost of sales	3,100	2,950	2,700
Gross profit	880	800	700
Selling, general and administrative expenses	640	590	510
Operating income	240	210	190
Interest expense	20	15	15
Loss on sale of equipment	5	-	4
Income before income taxes	215	195	171
Income tax expense	50	40	36
Net income	\$ 165	\$ 155	\$ 135

See notes to the financial statements.



Cash Flow Statement

- measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments

1.2 Financial Statements

Example Corporation Statement of Cash Flows For the year ended December 31, 2021

Cash flows from operating activities	\$230,000
Net income	
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>	
Depreciation and amortization	63,000
Loss on sale of equipment	15,000
<i>Changes in current assets and liabilities:</i>	
Increase in accounts receivable	(21,000)
Decrease in prepaid expenses	3,000
Decrease in accounts payable	(28,000)
Net cash provided by operating activities	<u>262,000</u>
Cash flows from investing activities	
Capital expenditures	(300,000)
Proceeds from sale of equipment	40,000
Net cash used for investing activities	<u>(260,000)</u>
Cash flows from financing activities	
Proceeds from issuing debt	200,000
Dividends paid	(110,000)
Net cash provided by financing activities	<u>90,000</u>
Net increase in cash during the year	92,000
Cash at the beginning of the year	101,000
Cash at the end of the year	<u>\$193,000</u>

Notes to the financial statements.

2.1 Concepts in Accountancy

Concepts in Accountancy

- are a number of conceptual issues that must be understood in order to develop a firm foundation of how accounting works

2.1 Concepts in Accountancy

Accrual

- Revenue is recognized when earned, and expenses are recognized when assets are consumed

Conservatism

- Revenue is only recognized when there is a reasonable certainty that it will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred

Consistency

- Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis

2.1 Concepts in Accountancy

Economic Entity

- The transactions of a business are to be kept separate from those of its owners

2.1 Concepts in Accountancy

Going Concern

- Financial statements are prepared on the assumption that the business will remain in operation in future periods

2.1 Concepts in Accountancy

Matching

- This is the concept that, when you record revenue, you should record all related expenses at the same time

Materiality

- Transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements

3.1 Types of Accounting

Corporate Accounting

- involves the use, handling, and filing of a company's financial data often for the purpose of external reporting and tax compliance

3.1 Types of Accounting

Public Accounting

- is to help ensure their financial statements, records, and filings are accurate

3.1 Types of Accounting

Government Accounting

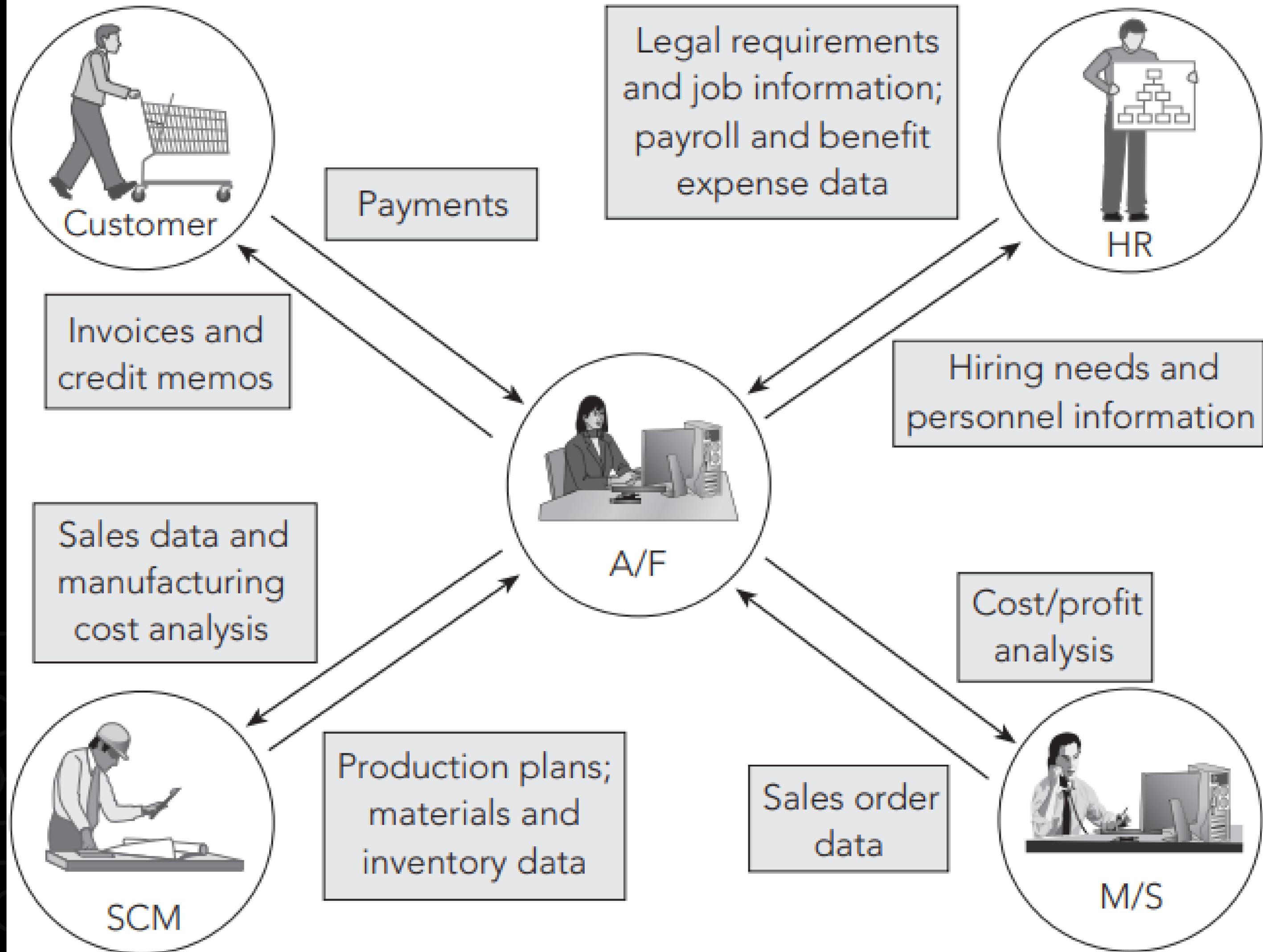
- work within the context of local, state, or federal government entities

3.1 Types of Accounting

Forensic Accounting

- refers to a branch of accounting that collects, recovers, and reconstructs financial data when it is difficult or impossible to obtain

4.1



Sales and Distribution **(SD)**

- records a sale and then creates an accounts receivable entry

Materials Management (MM)

- controls purchasing and records inventory changes
- The receipt of goods from a purchase order creates an accounts payable entry

Financial Accounting (FI)

- manages the accounts receivable and accounts payable items created in the SD and MM modules

Controlling (CO)

- tracks the costs associated with producing products

Human Resources (HR)

- manages the recruiting, hiring, compensation, termination, and severance of employees

Asset Management (AM)

- manages fixed-asset purchases (plant and machinery) and the related depreciation