

# Financial Accounting



## Accounting in Action

What is Accounting ?

المحاسبة ؟

ما هي

Accounting consists of three basic activities - it

**identifies, records, and communicates** the economic events of an organization to interested users.

تتألف المحاسبة من ثلاثة أنشطة أساسية ؛

تحديد و تسجيل، وتوصيل الأحداث الاقتصادية للمنظمة الى المستخدمين المهتمين

Who Uses Accounting Data

من يستخدم المحاسبة

**Internal Users**

المستخدمون الداخليين

Human Resource الموارد البشرية, Management الإدارة Finance التمويل

Marketing التسويق.

**External Users**

المستخدمين الخارجيين

Taxing Authorities سلطات الضرائب Customers العملاء Labor Unions نقابات العمال

Investors المستثمرين Regulatory Agencies الهيئات التنظيمية

lender, creditor, Shareholders, Regulatory, Suppliers

**Accounting Standards**

معايير

المحاسبة

International Accounting Standards Board (IASB)

International Financial Reporting Standards (IFRS)

Financial Accounting Standards Board (FASB)

# Generally Accepted Accounting Principles (GAAP)

## Measurement Principles

## مبادئ القياس

**Cost Principle** – or historical cost principle, dictates that companies record assets at their cost.

بتكلفتها

مبدأ التكلفة - أو مبدأ التكلفة التاريخية، يملّي ان الشركات تسجل اصولها

**Fair Value Principle** – states that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

مبدأ القيمة العادلة - تنص على أن الموجودات والمطلوبات وينبغي تسجيلها بالقيمة العادلة (سعر تلقى لبيع أحد الأصول أو تسوية المطلوبات).

## Assumptions

## الافتراضات

**Monetary Unit** – include in the accounting records only transaction data that can be expressed in money terms.

وحدة النقد - تدرج في السجلات المحاسبية فقط بيانات المعاملات التي يمكن التعبير عنها من حيث المال

**Economic Entity** – requires that activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

كيان اقتصادي - يتطلب أن أنشطة الكيان يجب أن تبقى منفصلة ومتميزة من أنشطة صاحبها وجميع الكيانات الاقتصادية الأخرى.

## Forms of Business Ownership

## أنواع ملاك الأعمال

### Proprietorship

### فردية ملكية

Generally owned by one person, Often small service-type businesses, Owner receives any profits, suffers any losses, and is personally liable for all debts

ملك شخص واحد وتقدم أعمال صغيره وصاحبها مسئول شخصيا عن كل الديون والالتزامات

### Partnership

### شركة محدودة الأشخاص

Owned by two or more persons, Often retail and service-type businesses, Generally unlimited personal liability.

المملوكة من قبل شخصين أو أكثر، في كثير من الأحيان شركات البيع بالتجزئة وخدمة من نوع والمسؤولية الشخصية غير محدودة عموما

## Corporation

شركة مساهمة

Ownership divided into shares. Separate legal entity, organized under corporation law Limited liability

ملكه مقسمه إلى أسهم ولها كيان قانوني منفصل ومنظمه تحت قانون الشركات والمسئولية بها محدودة

## The Basic Accounting Equation

المعادلة المحاسبية الأساسية

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

**Assets** الأصول

Resources a business owns Provide future services or benefits.

الموارد التي تمتلكها الشركة وتساعد في تقديم خدمات أو منافع مستقبلية

Cash نقدية , Inventory مخزون , Supplies مستلزمات , Equipment معدات , Land ارض

Accounts Receivable مدينون , Note receivable أوراق قبض , Car سيارة , building  
..... , اثاث furniture , مصروفات مدفوعة مقدما , prepaid expenses , شاحنه Truck مبنى  
Receivable

**Liabilities** الديون (الالتزامات)

Claims against assets (debts and obligations). Creditors - party to whom money is owed

مطالبات ضد الأصول (الديون والالتزامات)... الدائنين - الطرف الذي هو مستحق المال

Accounts payable دائنون , Notes payable أوراق دفع , bonds سندات , loans قروض ,  
unearned revenues إيرادات غير مستحقة , payable ..... *Deferred*

**Equity**

حقوق الملكية

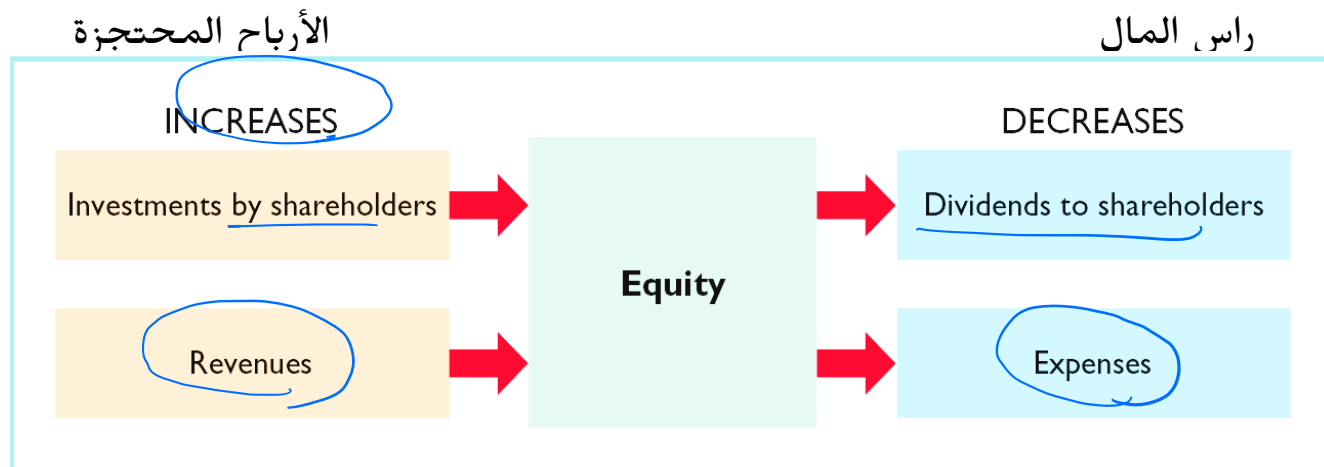
Ownership claim on total assets.

المطالبة بملكية على إجمالي الأصول.

C.S

RE end

## Share capital-ordinary + retained earnings



Revenues الإيرادات

result from business activities entered into for the purpose of earning income

ينتج عن الأنشطة التجارية المبرمة لغرض كسب الدخل.

Generally results from selling merchandise, performing services, renting property, and lending money.

ينتج عادة من بيع البضائع والخدمات أداء، تأجير الممتلكات، وإقراض المال

Sales revenue إيرادات مبيعات, services revenue إيرادات خدمات, fees earned رسوم مستحقة, commotion fees عمولات مستحقة, ..... revenue

Expenses المصروفات

are the cost of assets consumed or services used in the process of earning revenue.

تكلفة الأصول المستهلكة أو الخدمات المستخدمة في عملية كسب الإيرادات

salaries expense رواتب, wages expense رواتب, rent expense إيجار, interest  
expense فائدة, property tax expense ضرائب, insurance expense تأمين,  
advertising expense إعلانات, utilities expense , ..... expense

## Dividends الأرباح الموزعة

are the distribution of cash or other assets to shareholders ( not an expense )

هي توزيع النقدية أو الأصول الأخرى للمساهمين ( لا يعتبر مصروف )

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Share capital-ordinary

+ retained earnings

Revenues

- Expenses

- Dividends

Equity ending =

Equity beginning + additional investment + Revenues - Expenses - Dividends

## Using the Accounting Equation

**Transactions** are a business's economic events recorded by accountants.

المعاملات هي الأحداث الاقتصادية والتجارية التي تسجل من قبل المحاسبين

May be external or internal. Not all activities represent transactions. Each transaction has a dual effect on the accounting equation.

قد تكون خارجية أو داخلية. لا تمثل جميع أنشطة المعاملات. كل معاملة لها تأثير مزدوج على المعادلة المحاسبية

### Transaction Analysis

**Transaction (1)..** Ray and Barbara Neal decides to open a computer programming service which he names Softbyte. On September 1, 2014, they invest €15,000 cash in exchange for €15,000 of ordinary shares C.S 789 15000

**Transaction (2).** Softbyte purchases computer equipment for €7,000 cash

**Transaction (3).** Softbyte purchases for €1,600 from Acme Supply Company computer paper and other supplies expected to last several months. The purchase is on account. 1

**Transaction (4).** Softbyte receives €1,200 cash from customers for programming services it has provided. Rev 1200

**Transaction (5).** Softbyte receives a bill for €250 from the Daily News for advertising but postpones payment until a later date. L 250 Ad Exp 250

**Transaction (6).** Softbyte provides €3,500 of programming services for customers. The company receives cash of €1,500 from customers, and it bills the balance of €2,000 on account.

**Transaction (7).** Softbyte pays the following expenses in cash for September: rent €600, salaries and wages of employees €900, and utilities €200.

**Transaction (8).** Softbyte pays its €250 Daily News bill in cash.

**Transaction (9).** Softbyte receives €600 in cash from customers who had been billed for services [in Transaction (6)].

**Transaction (10).** The corporation pays a dividend of €1,300 in cash.

[illegible]

# Financial Statements

## القوائم المالية

Companies prepare **five** financial statements

الشركات تعد **خمس** قوائم مالية

Income Statement

قائمه

الدخل

Retained Earnings Statement

قائمه الأرباح

المحتجزة

Statement of Financial Position

قائمه المركز

المالي

B.S

Statement of Cash Flows

قائمه التدفق

النقدي

Comprehensive Income Statement



## Income Statement قائمه الدخل

① Company Name  
② Income Statement

③ For the month ended July 31, 2014

### Revenues

Service revenue	xxx
Sales revenue	xxx
..... revenue	xxx

**total revenues** **xxxx**

### expenses

Salaries and wages expense	xxx
Rent expense	xxx
Utilities expense	xxx
..... expense	

		total expenses	xxxx
(+)	net income	ربح	xxxx
(-)	net loss	خسارة	(xxxx)
(Revenues – expenses)			

Revenues > expenses → net income

Revenues < expenses → net loss

## Retained Earnings Statement

قائمة الارباح المحتجزة

Company Name  
Retained Earnings Statement  
For the month ended July 31, 2014

Retained earnings, ( beginning )	xxx
Add: Net income	xxx
or ( - ) Net loss	xxx
Less: Dividends	(xxx)
Retained earnings, ( ending )	xxxx

**Retained earnings, ( ending ) = Retained earnings, ( beginning ) + Net income - Dividends**



**Statement of Financial Position**

قائمه المركز

المالي

Company Name  
Statement of Financial Position  
July 31, 2014

<u>Assets</u>		
Equipment	XXX	
Supplies	XXX	
Accounts receivable	XXX	
Cash		
Total Assets		XXXX
<u>Equity and Liabilities</u>		
<u>Equity</u>		
Share capital-ordinary	XX	
Retained earnings.(end)	XX	XXX
<u>Liabilities</u>		
Accounts payable	XX	
Unearned revenues	XX	XXX
Total Equity and Liabilities		XXXX

**End of Chapter ( 1 )**  
**With my best wishes**

## GLOSSARY

**Accounting** The information system that identifies, records, and communicates the economic events of an organization to interested users.

**Assets** Resources a business owns.

**Basic accounting equation**  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .

**Bookkeeping** A part of accounting that involves only the recording of economic events.

**Convergence** Effort to reduce differences between U.S. GAAP and IFRS to enhance comparability.

**Corporation** A business organized as a separate legal entity under corporation law, having ownership divided into transferable shares.

**Dividend** A distribution of cash or other assets by a corporation to its shareholders.

**Economic entity assumption** An assumption that requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities. *business*

**Equity** The ownership claim on a corporation's total assets.

**Ethics** The standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair.

**Expanded accounting equation**  $\text{Assets} = \text{Liabilities} + \text{Share Capital} - \text{Ordinary Revenues} - \text{Expenses} - \text{Dividends}$ .

**Expenses** The cost of assets consumed or services used in the process of earning revenue.

**Fair value principle** An accounting principle stating that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

**Faithful representation** Numbers and descriptions match what really existed or happened—they are factual.

**Financial accounting** The field of accounting that provides economic and financial information for investors, creditors, and other external users.

**Financial Accounting Standards Board (FASB)** An organization that establishes generally accepted accounting principles in the United States (GAAP).

**Generally accepted accounting principles (GAAP)** Accounting standards issued in the United States by the Financial Accounting Standards Board.

**Historical cost principle (cost principle)** An accounting principle that states that companies should record assets at their cost.

**Income statement** A financial statement that presents the revenues and expenses and resulting net income or net loss of a company for a specific period of time.

**International Accounting Standards Board (IASB)** An accounting standard-setting body that issues standards adopted by many countries outside of the United States.

**International Financial Reporting Standards (IFRS)** International accounting standards set by the International Accounting Standards Board (IASB). *IASB*  
*IFRS*

**Liabilities** Creditor claims on total assets.

**Managerial accounting** The field of accounting that provides internal reports to help users make decisions about their companies.

**Monetary unit assumption** An assumption stating that companies include in the accounting records only transaction data that can be expressed in terms of money.

**Net income** The amount by which revenues exceed expenses.

**Net loss** The amount by which expenses exceed revenues.

**Partnership** A business owned by two or more persons associated as partners.

**Proprietorship** A business owned by one person.

**Relevance** Financial information that is capable of making a difference in a decision.

**Retained earnings statement** A financial statement that summarizes the changes in retained earnings for a specific period of time.

**Revenues** The gross increase in equity resulting from business activities entered into for the purpose of earning income.

**Share capital—ordinary** Amounts paid in by shareholders for the ordinary shares they purchase.

**Statement of cash flows** A financial statement that summarizes information about the cash inflows (receipts) and cash outflows (payments) for a specific period of time.

**Statement of financial position (balance sheet)** A financial statement that reports the assets, liabilities, and equity of a company at a specific date.

**Transactions** The economic events of a business that are recorded by accountants.

## EXERCISES

**BE1-2** Given the accounting equation, answer each of the following questions.

(a) The liabilities of Shumway Company are \$120,000 and the equity is \$232,000. What is the amount of Shumway Company's total assets?

$L + E = A$

(b) The total assets of Shumway Company are \$190,000 and its equity is \$80,000. What is the amount of its total liabilities?

(c) The total assets of Shumway Company are \$600,000 and its liabilities are equal to one half of its total assets. What is the amount of Shumway Company's equity?

**BE1-3** At the beginning of the year, Gonzales Company had total assets of €870,000 and total liabilities of €500,000. Answer the following questions.

(a) If total assets increased €150,000 during the year and total liabilities decreased €80,000, what is the amount of equity at the end of the year?

$$\begin{aligned} 870 + 150 &= [500 - 80] + \text{€} \\ 1020 &= 420 + \text{€} \\ \text{€} &= 590, \text{---} \end{aligned}$$

(b) During the year, total liabilities increased €100,000 and equity decreased €70,000. What is the amount of total assets at the end of the year?

(c) If total assets decreased €80,000 and equity increased €120,000 during the year, what is the amount of total liabilities at the end of the year?

**BE1-4** Use the accounting equation to answer each of the following questions.

(a) The liabilities of Alli Company are £90,000. Share capital—ordinary is £150,000; dividends are £40,000; revenues, £450,000; and expenses, £320,000. What is the amount of Alli Company's total assets? 330,000

57,-

31

A

=

L

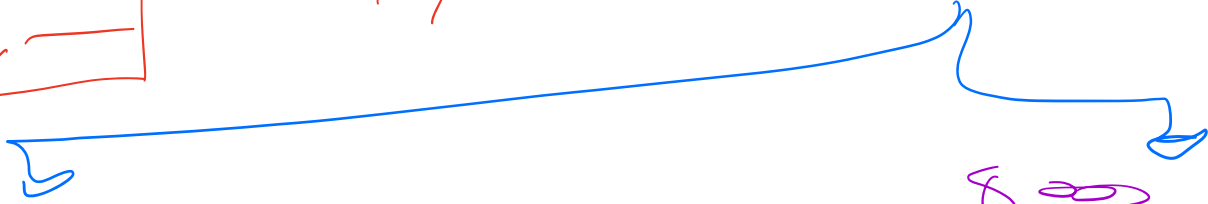
+

€

240

~~A~~  
330,-

90,-



800

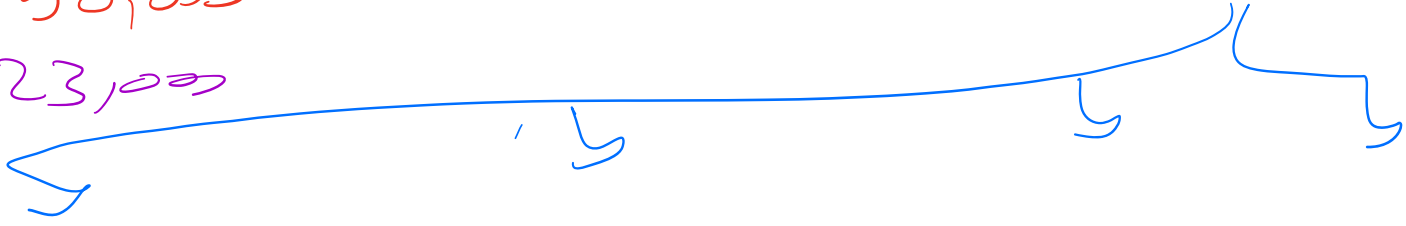
RE End

90,-

C.S

150,000

23,000



RE beg

0

↓

assume

+ Rev

- Exp - Div

450,-

- 320,000 - 40,-

50,-

- 3500

- 7000

Ⓟ  $57 - 31 = 26, -$



(b) The total assets of Planke Company are £57,000. Share capital—ordinary is £23,000; dividends are £7,000; revenues, £50,000; and expenses, £35,000. What is the amount of the company's total liabilities? 26,000

(c) The total assets of Thao Co. are £600,000 and its liabilities are equal to two-thirds of its total assets. What is the amount of Thao Co.'s equity? 200,000

$$A = \left( \frac{2}{3} \times 600,000 \right) + E$$

$$600,000 = 400,000 + E$$

$$E = 200,000$$

**E1-5** Robinson Cleaners has the following statement of financial position items.

- ☐ Accounts payable
- ☐ Cash
- ☐ Equipment
- ☐ Supplies
- ☐ Accounts receivable
- ☐ Notes payable
- ☐ Salaries and wages payable
- ☐ Share capital—ordinary

**Instructions**

Classify each item as an asset, liability, or equity

Asset	Liability	Equity
Cash	A/P	C-S
Equip	N/P	
Supplies	S/P	
A/R		

**E1-6** Selected transactions for Spring Green Lawn Care Company are listed below.

1. Sold ordinary shares for cash to start business.  $E \uparrow, A \uparrow$
2. Paid monthly rent.  $Exp \uparrow, A \downarrow$

3. Purchased equipment on account.  $A \uparrow, L \uparrow$
4. Billed customers for services performed.  $Re \uparrow Eq, A/R \uparrow A$
5. Paid dividends.  $Eq \downarrow A \downarrow$
6. Received cash from customers billed in (4).  $A \uparrow, A \downarrow$
7. Incurred advertising expense on account.  $A \uparrow, L \uparrow, Eq \downarrow$
8. Purchased additional equipment for cash.  $A \downarrow A \uparrow$
9. Received cash from customers when service was performed.  $Eq \uparrow, A \uparrow$

#### Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and equity. For example, the first answer is (1) Increase in assets and increase in equity.

1. Increase in assets and increase in equity.
2. Decrease in assets and decrease in equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in equity.
5. Decrease in assets and decrease in equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in equity.

Indicate in the space provided by each item whether it would appear on the Income Statement (IS), Statement of Financial Position (FP), or Retained Earnings Statement (OE):

- A- Service Revenue IS  $Inc.$
- b- Utilities Expense IS  $Inc$
- c- Cash FP  $B.S$
- d- Accounts Payable FP  $B.S$
- e- Office Supplies FP  $B.S$
- f- Wage Expense IS  $Inc$
- g- Accounts Receivable FP  $B.S$
- h- Retained Earnings (ending) FP  $B.S$
- i- Equipment FP  $BS$
- j- Advertising Expense IS  $Inc$
- k- Dividends OE  $RE$
- l- Notes Payable FP  $B.S$
- m- unearned service revenue FP  $BS$
- n- prepaid insurance FP  $BS$

**P1-5A** Financial statement information about four different companies is as follows.

	Crosby Company	Stills Company	Nash Company	Young Company
January 1, 2014				
Assets	\$ 75,000	\$110,000	120,000 (g)	\$150,000
Liabilities	50,000	50,000 (d)	\$ 75,000	(j) 50,000
Equity	25,000 (a)	60,000	45,000	100,000
December 31, 2014				
Assets	95,000 (b)	137,000	200,000	(k) 220,000
Liabilities	55,000	75,000	(h) 70,000	80,000
Equity	40,000	62,000 (e)	130,000	140,000
Equity changes in year				
Additional investment	(c)	15,000	10,000	15,000
Dividends	10,000	(f)	14,000	10,000
Total revenues	350,000	420,000	(i)	500,000
Total expenses	330,000	385,000	342,000	(l)

### Instructions

- (a) Determine the missing amounts.
- (b) Prepare the retained earnings statement for Stills Company. Assume beginning retained earnings was \$20,000.

Crosby Company	Stills Company	Nash Company	Young Company
(a) \$ 25,000	(d) \$50,000	(g) \$120,000	(j) \$ 50,000
(b) 95,000	(e) 62,000	(h) 70,000	(k) 220,000
(c) 5,000	(f) 48,000	(i) 431,000	(l) 465,000

(b) **STILLS COMPANY**  
**Retained Earnings Statement** *RE S.*  
**For the Year Ended December 31, 2014**

Retained earnings, January 1.....	\$20,000
+ Add: Net income..... <i>420 - 385 =</i>	35,000
	55,000
Less: Dividends.....	48,000
<i>End</i> Retained earnings, December 31.....	<u>\$ 7,000</u>

**E1-14** Bear Park, a public camping ground near the Lake Mead National Recreation Area, has compiled the following financial information as of December 31, 2014.

Revenues during 2014—camping fees	\$140,000
Revenues during 2014—general store	47,000
Accounts payable	11,000
Cash on hand	20,000
Original cost of equipment	105,500
Fair value of equipment	140,000

Notes payable	\$ 60,000
Expenses during 2014	150,000
Supplies on hand	2,500
Share capital—ordinary	20,000
Retained earnings	?

### Instructions

- (a) Determine Bear Park's net income for 2014.  
 (b) Prepare a statement of financial position for Bear Park as of December 31, 2014.

(a)	Camping fee revenues.....	\$140,000
	General store revenues.....	47,000
	<b>Total revenue.....</b>	<b>187,000</b>
	Expenses.....	150,000
	<b>Net income.....</b>	<b>\$ 37,000</b>

(b)

**BEAR PARK**  
**Statement of Financial Position**  
**December 31, 2014**

Assets	
Equipment.....	\$105,500
Supplies.....	2,500
Cash.....	20,000
<b>Total assets.....</b>	<b>\$128,000</b>

Equity and Liabilities	
<b>Equity</b>	
Share capital—ordinary.....	\$20,000
Retained earnings.....	37,000
<b>Total equity.....</b>	<b>\$ 57,000</b>
<b>Liabilities</b>	
Notes payable.....	60,000
Accounts payable.....	11,000
<b>Total liabilities.....</b>	<b>71,000</b>
<b>Total equity and liabilities.....</b>	<b>\$128,000</b>

**P1-3A** On May 1, Park Flying School, a company that provides flying lessons, was started with an investment of ₩45,000 cash in the business. Following are the assets and liabilities of the company on May 31, 2014, and the revenues and expenses for the month of May (all amounts in thousands).

	Cash	₩4,500
A	Accounts Receivable	7,200
A	Equipment	64,000
Re	Service Revenue	6,800
Exp	Advertising Expense	500
L	Accounts Payable	1,400
L	Notes Payable	₩28,000

Exp	Rent Expense	1,200
Exp	Maintenance and Repairs Expense	400
Exp	Gasoline Expense	2,500
Exp	Utilities Expense	400
Re	Dividends	500

### Instructions

- (a) Prepare an income statement and a retained earnings statement for the month of May and a statement of financial position at May 31. (Show numbers in thousands.)

(a)

### PARK FLYING SCHOOL Income Statement (in thousands) For the Month Ended May 31, 2014

#### Revenues

Service revenue..... **₩6,800**

#### Expenses

Gasoline expense..... **₩2,500**

Rent expense..... **1,200**

Advertising expense..... **500**

Utilities expense..... **400**

Maintenance and repairs expense..... **400**

Total expenses.....

Net income..... **₩ 1,800**

### PARK FLYING SCHOOL Retained Earnings Statement (in thousands) For the Month Ended May 31, 2014

Retained Earnings, May 1..... **₩ 0**

Add: Net income..... **1,800**

**1,800**

Less: Dividends..... **500**

Retained earnings, May 31..... **₩ 1,300**

### PARK FLYING SCHOOL

**Statement of Financial Position (in thousands)**  
**May 31, 2014**

**Assets**

Equipment.....	W64,000
Accounts receivable.....	7,200
Cash.....	4,500
<b>Total assets.....</b>	<b><u>W 75,700</u></b>

**Equity and Liabilities**

**Equity**

Share capital—ordinary.....	W45,000
Retained earnings.....	<u>1,300</u>
<b>Total equity.....</b>	<b><u>W46,300</u></b>

**Liabilities**

Notes payable.....	W28,000
Accounts payable.....	<u>1,400</u>
<b>Total liabilities.....</b>	<b><u>29,400</u></b>

<b>Total equity and liabilities.....</b>	<b><u>W75,700</u></b>
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