Jason

ACCOUNTING CYCLE

Study according to the case given by the youtuber. Ruff Times run an annual subscription.

Financial Accounting (The process) => Financial Transaction => Financial Statement

- Recording
- Summarising
- Analysing

Step of Financial Accounting: **(Accounting Cycle)**

1. **Identify Transaction:** For example, annual subs (subs yearly) and gain 40k
2. **Prepare Journal Entry:** A record of a financial transaction
3. **Post to General Ledger:** Database
4. **Unadjusted Trial Balance:**
5. **Post Adjusting Entries:**
6. **Adjusted Trial Balance:**
7. **Create Financial Statements:** Summarize Performance, Position, Cashflow
8. **Post Closing Entries**

Financial Accounting Core Principle: ACCOUNTING EQUATION
STUFF YOUR BUSINESS OWNS = STUFF YOUR BUSINESS OWES
ASSETS = LIABILITIES + EQUITY

Stuff Your Business Owns:

- Assets = Resources that i will benefit from in the future (Cash and Inventory)

Stuff Your Business Owes:

- Liabilities (For Third Parties) = Owes stuff to third parties lenders or suppliers = Obligation that you need to fulfill in the future)
- Equity (For Owners) = Claim on the business net assets

Credits and Debits: (Double Entry Accounting)

- Credits = The sources that economic benefit flows from
- Debits = Destination that the economic benefit flows to

So from the subscription example. I **DEBIT CASH** to increase **ASSETS** and I **CREDIT SUBSCRIPTION REVENUE** to record my income

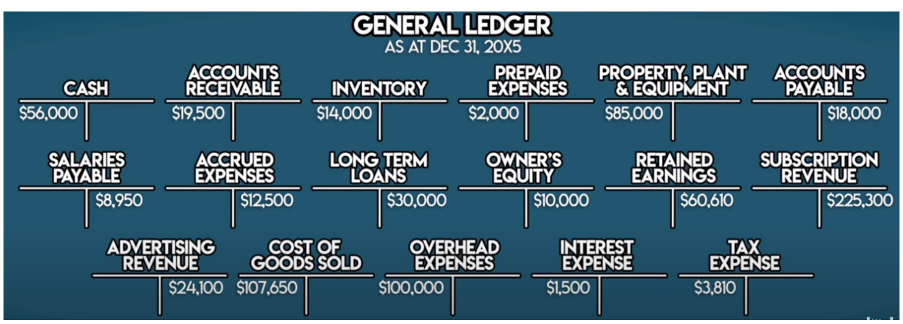
General Ledger = A database that stores a complete record of all accounts & journal entries

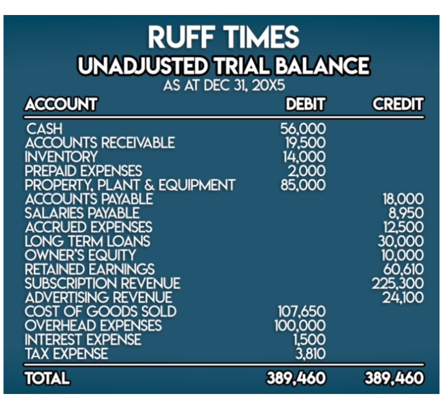
Account = Place where we record, sort, & store all financial transactions that affect a related group of items. There is 6 types of account:

- Assets
- Liabilities
- Equity:
  - Revenue
  - Expenses
  - Withdrawal / Dividends

The Journal entry shown above affect 2 Accounts (T - Account). Debit on the left and Credit on the right.

Trial balance = Internal report that summarize the closing numbers / balances of all General Ledger Accounts. It helps with checking error and making financial statements.





RUFF TIMES
UNADJUSTED TRIAL BALANCE
AS AT DEC 31, 20X5

ACCOUNT	DEBIT	CREDIT
CASH	56,000	
ACCOUNTS RECEIVABLE	19,500	
INVENTORY	14,000	
PREPAID EXPENSES	2,000	
PROPERTY, PLANT & EQUIPMENT	85,000	
ACCOUNTS PAYABLE		18,000
SALARIES PAYABLE		8,950
ACCRUED EXPENSES		12,500
LONG TERM LOANS		30,000
OWNER'S EQUITY		10,000
RETAINED EARNINGS		60,610
SUBSCRIPTION REVENUE		225,300
ADVERTISING REVENUE		24,100
COST OF GOODS SOLD	107,650	
OVERHEAD EXPENSES	100,000	
INTEREST EXPENSE	1,500	
TAX EXPENSE	3,810	
TOTAL	389,460	389,460

General Ledger -> Unadjusted Trial Balance
To check if debit and credit are in balance or not.

Adjusting Entries = Journal entries posted at the end of an accounting period to bring a business's book in line with the accrual method of accounting.

International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) = Make sure our financial statements reflect a fair view of business.

Accrual Method = Revenue is recognised as it's earned and Expenses are recorded as they are incurred

From my understanding, **Cash accounting** is when we recognize revenue as we received the money and record expenses as we paid it out. But the problem is, receiving cash is not the same as earning revenue. For example in this annual subscription, We get the cash from the start, but we actually earned the money in the span of 1 year. This is called the **Accrual Method**.

ADJUSTING ENTRY

J/E NUMBER: 1178

DATE	ACCOUNT	DEBIT	CREDIT
DEC 31, 20X5	SUBSCRIPTION REVENUE	$10,000	
	DEFERRED REVENUE		$10,000

UNEARNED SUBSCRIPTION REVENUE

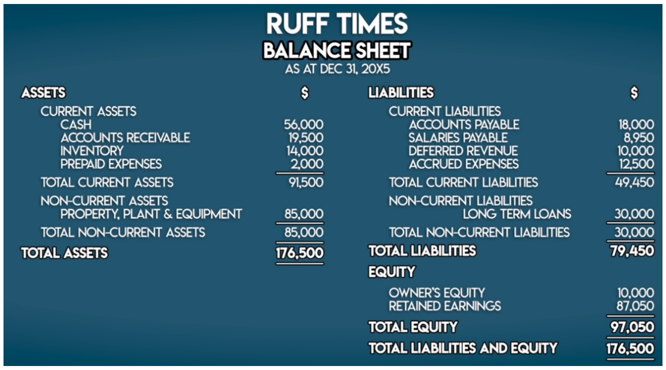
To fix riff times unadjusted trial balance, we just need to reverse 3 out of 12 months of subscription revenue because ruff times started at march. We also temporarily holding it as liability in an account called deferred revenue

RUFF TIMES
ADJUSTED TRIAL BALANCE
AS AT DEC 31, 20X5

ACCOUNT	DEBIT	CREDIT
CASH	56,000	
ACCOUNTS RECEIVABLE	19,500	
INVENTORY	14,000	
PREPAID EXPENSES	2,000	
PROPERTY, PLANT & EQUIPMENT	85,000	
ACCOUNTS PAYABLE		18,000
SALARIES PAYABLE		8,950
DEFERRED REVENUE		10,000
ACCRUED EXPENSES		12,500
LONG TERM LOANS		30,000
OWNER'S EQUITY		10,000
RETAINED EARNINGS		60,610
SUBSCRIPTION REVENUE		215,300
ADVERTISING REVENUE		24,100
COST OF GOODS SOLD	107,650	
OVERHEAD EXPENSES	100,000	
INTEREST EXPENSE	1,500	
TAX EXPENSE	3,810	
TOTAL	**389,460**	**389,460**

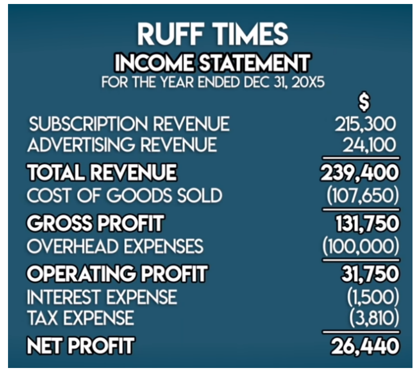
Now we can see that the left and right hand side is still the same. Because we subtract the subscription revenue and keep it as liability in an account called deferred revenue.

Financial Statements = Accounting reports that summarise a business's activities over a period of time. This is external reports to let investors, lenders, and creditors an understanding of your business's financial health. 3 main financial statements includes:



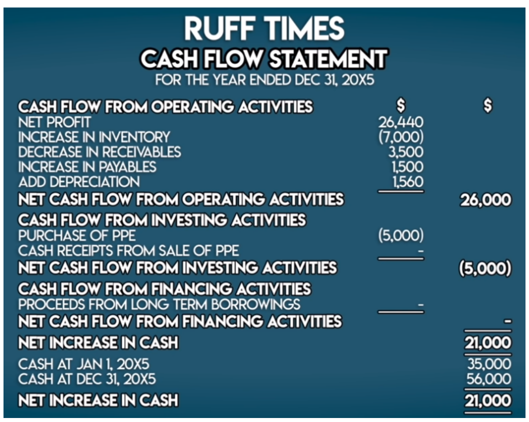
RUFF TIMES
BALANCE SHEET
AS AT DEC 31, 20X5

ASSETS	$	LIABILITIES	$
CURRENT ASSETS		CURRENT LIABILITIES	
CASH	56,000	ACCOUNTS PAYABLE	18,000
ACCOUNTS RECEIVABLE	19,500	SALARIES PAYABLE	8,950
INVENTORY	14,000	DEFERRED REVENUE	10,000
PREPAID EXPENSES	2,000	ACCRUED EXPENSES	12,500
TOTAL CURRENT ASSETS	91,500	TOTAL CURRENT LIABILITIES	49,450
NON-CURRENT ASSETS		NON-CURRENT LIABILITIES	
PROPERTY, PLANT & EQUIPMENT	85,000	LONG TERM LOANS	30,000
TOTAL NON-CURRENT ASSETS	85,000	TOTAL NON-CURRENT LIABILITIES	30,000
TOTAL ASSETS	176,500	TOTAL LIABILITIES	79,450
		EQUITY	
		OWNER'S EQUITY	10,000
		RETAINED EARNINGS	87,050
		TOTAL EQUITY	97,050
		TOTAL LIABILITIES AND EQUITY	176,500



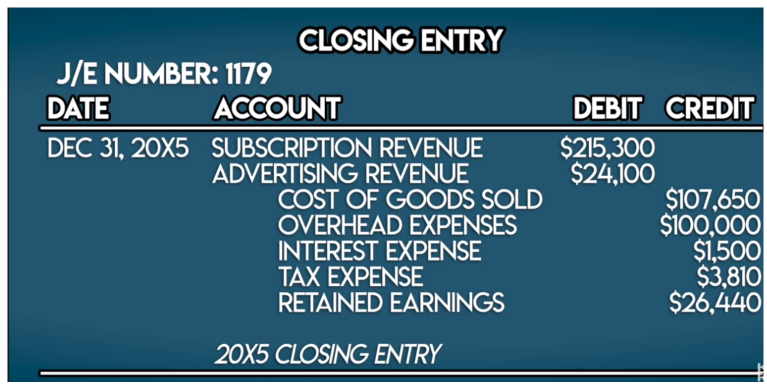
RUFF TIMES
INCOME STATEMENT
FOR THE YEAR ENDED DEC 31, 20X5

	$
SUBSCRIPTION REVENUE	215,300
ADVERTISING REVENUE	24,100
TOTAL REVENUE	239,400
COST OF GOODS SOLD	(107,650)
GROSS PROFIT	131,750
OVERHEAD EXPENSES	(100,000)
OPERATING PROFIT	31,750
INTEREST EXPENSE	(1,500)
TAX EXPENSE	(3,810)
NET PROFIT	26,440



RUFF TIMES
CASH FLOW STATEMENT
FOR THE YEAR ENDED DEC 31, 20X5

CASH FLOW FROM OPERATING ACTIVITIES	$	$
NET PROFIT	26,440	
INCREASE IN INVENTORY	(7,000)	
DECREASE IN RECEIVABLES	3,500	
INCREASE IN PAYABLES	1,500	
ADD DEPRECIATION	1,560	
NET CASH FLOW FROM OPERATING ACTIVITIES		26,000
CASH FLOW FROM INVESTING ACTIVITIES		
PURCHASE OF PPE	(5,000)	
CASH RECEIPTS FROM SALE OF PPE	-	
NET CASH FLOW FROM INVESTING ACTIVITIES		(5,000)
CASH FLOW FROM FINANCING ACTIVITIES		
PROCEEDS FROM LONG TERM BORROWINGS	-	
NET CASH FLOW FROM FINANCING ACTIVITIES		-
NET INCREASE IN CASH		21,000
CASH AT JAN 1, 20X5		35,000
CASH AT DEC 31, 20X5		56,000
NET INCREASE IN CASH		21,000



CLOSING ENTRY
J/E NUMBER: 1179

DATE	ACCOUNT	DEBIT	CREDIT
DEC 31, 20X5	SUBSCRIPTION REVENUE	$215,300	
	ADVERTISING REVENUE	$24,100	
	COST OF GOODS SOLD		$107,650
	OVERHEAD EXPENSES		$100,000
	INTEREST EXPENSE		$1,500
	TAX EXPENSE		$3,810
	RETAINED EARNINGS		$26,440
	20X5 CLOSING ENTRY		

- Balance Sheet = Snapshot of business assets, liabilities, and equity at a single point in time. We can see what we own and owe at the end of the financial year
- Income Statement = Summarize business revenues and expenses over a period of time
- Cash Flow Statement = Keep track of cash flow. Cash Flow Statement summarize your cash inflows and outflows over the same period of time

All of this can be made with adjusted trial balance

Closing Entry = A journal entry that transfers balanced from temporary accounts to permanent accounts in the balance sheet.

Stakeholders = Existing and Potential investors, lenders, and creditors

KEY TO UNDERSTANDING FINANCIAL STATEMENT

Financial Statements = accounting reports that summarize a business 's activities over a period of time

Capital Contribution = Owner invest their own money to the business
Profit = Financial benefit that business gain when revenues > expenses
Retained Earnings = accumulated profits held for future use

DEBITS & CREDITS (HEAD & TAIL)

Debit & Credit Misconception:

- != Good & Bad
- != adding & substracting

Debit & Credit are words used to reflect the duality or double sided nature of all financial transaction

For money to go from 1 account, it need to go from another account.

Accountant consider every transaction to involve a flow of “Economic Benefit” from a “Source” to a “Destination”

Economic Benefit = potential for an asset to contribute either directly or indirectly to the flow of an entity’s cash

- Credits = The sources that economic benefit flows from
- Debits = Destination that the economic benefit flows to

Debits (Destination) (Increase when debited and decrease when credited)	**Credits** (Source) (Increase when credited and decrease when debited)
Assets (Cash, building, amount owed to you by others)	Owner’s Equity (Owner give cash to company)
Expenses (Business pay a third party for a good or service they provided)	Liabilities (Amount owed to a bank in exchange for a loan or to suppliers for providing good or service)
Dividends (Company distribute some of its cash to its owners)	Revenue

Usually:

- Assets = Debits
- Liabilities = Credits

Assets = Liabilities + Equity

Equity = Owner’s Equity - Dividends + Retained Earning
Retained Earning = Revenue - Expenses

Equity = Owner’s Equity - Dividends + Revenue - Expenses

Assets = Liabilities + Owner’s Equity - Dividends + Revenue - Expenses
Dividends + Expenses + Assets = Liabilities + Owner’s Equity + Revenue
DEALER

T-ACCOUNT

Account = Place where we record, sort, & store all financial transactions that affect a related group of items. There is 6 types of account:

T-Account = Visual representation of an account

General Ledger = A database that stores a complete record of all accounts & journal entries & financial transaction

Balance = total point at a point in time

Double entry book keeping = Every accounting entry has an opposite, corresponding entry in a different account

Cash = Simply Cash / Asset
Stock = Equity (Company owe us)
Loans Payable = Liability (Simply loans)
Equipment = Simply equipment
Supplies = Simply supplies
Account Payable = Liability (Simply we haven't payed the money but we still need to write it because we already get the supplies)
Revenue = Equity (Credit) Thats why we put 150 on cash cause our cash go up
Cost Of Sales = When we do sales, of course there is some cost, This is the cost of sales which is debited because our supplies are credited

JOURNAL ENTRIES

Why is record transaction important: (Bookkeeping)

- Measure business performance
- Manage cashflow
- Keep things organized
- Useful at tax time
- In case your business get audited

Journal Entry: A record of a financial transaction. It has:

- Journal number = unique number to identify the journal
- Journal entry date = Entry date of a journal
- Account = Names of account that are impacted by the journal for example (Cash and Owner's equity) (Indent the name of account that is credited)
- thJournal description (Good practice)

Automatic Journals save time // Manual Journals usually used only for adjusting entries and unique transaction

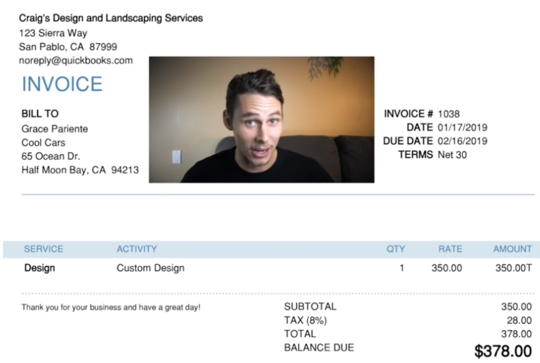
INVOICE

Invoice is simply all item listed, the price, terms of transaction, how long they need to make the payment. Literally almost everything about a transaction (What the buyer owe, what goods and services they are paying).

Bills and Invoice are the same thing.

Invoice is a record of a transaction that splits out and identifies the sales tax so they're actually required by law for transaction involving registered businesses. (GST, VAT, STATE, PROVINCIAL)

Invoice trigger accounting entries and used to track accounts receivable and accounts payable


Craig's Design and Landscaping Services
123 Sierra Way
San Pablo, CA 87999
noreply@quickbooks.com

INVOICE

BILL TO
Grace Pariente
Cool Cars
65 Ocean Dr.
Half Moon Bay, CA 94213

INVOICE # 1038
DATE 01/17/2019
DUE DATE 02/16/2019
TERMS Net 30

SERVICE	ACTIVITY	QTY	RATE	AMOUNT
Design	Custom Design	1	350.00	350.00T

Thank you for your business and have a great day!

SUBTOTAL	350.00
TAX (8%)	28.00
TOTAL	378.00
BALANCE DUE	$378.00

Invoice need to have:

- Names & Address
- Buyer and Seller company name
- Invoice Number
- Invoice Date, Due Date, and Terms

Invoice FAQ:

- Invoice sent out mostly after goods and services are provided (Can vary).
- Invoice issued before payment and bills after the payment.
- Seller (Sales invoice) and Buyer (Supplier invoice)
- Invoice isn't legally binding (unless there is some form of agreement such as signed contract)

ASSETS

Assets are probable future economic benefits obtained or controlled by a particular entity as the result of past transaction or events. Assets is what business use to generate profit.

Assets categories:

- Current (Can turn into cash within a year)
  - Cash
  - Accounts Receivable (Customer owe money)
  - Inventory / Supplies
  - Pre payments / Prepaid expense = Pay something in advance
  - Short term investment = Stocks
- Non Current (Long term assets)
  - Long-term investments
  - Tangible assets (you can touch but hard to sell such as land or building or PPE <property land equipment> or furniture machinery and cars)
  - Intangible assets (Doesn't have physical form such as intellectual property, patents, royalty rights, trademarks, and copyright)
  - Goodwill (FB buy instagram at 2012)

Probable = probability (not certain)

If customer doesn't want to pay, accountants make allowance for doubtful debts and estimate what might not be recovered and expense it to provide for situations where there's uncertainty

Future economic benefit = bring value to your business either directly or indirectly
Economic life = laptop 5 years from $1000 to $0

Obtained or controlled (substance over form) = prioritize economic substance of transaction over their legal form (For example we rent building for 95% of its economic life, it can count as the business assets even tho legally it isn't theirs)

Balance Sheet = Snapshot of business assets, liabilities, and equity at a single point in time.

In Asset section of a balance sheet, we list all different types of assets that a business owns or controls and often arranged in order of liquidity (How fast you can turn assets into cash)

Capitalized = record it as an asset in the balance sheet as opposed to expensing it in the income statement (mostly for intangible assets purchased)

LIABILITIES (NOT SOMETHING BAD)

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Simply put, it is third party funding that a business uses to buy assets and fund operations. (arranged in order of due date short - long in balance sheet)

Liabilites categories:

- Current (Settled within 1 year)
    - Accounts payable
    - Salaries payable
    - Taxes payable
    - Interest payable
    - Accrual / Accrued Expenses
    - Unearned revenue (Hasn't paid yet)
    - Short-term loans
- Non Current (Not settle within 1 year)
    - Long term loans
    - Bonds (Raise from public money)
    - Mortgages
    - Employee Pensions
    - Deferred Income Tax
- Contingent = Risk management (If can be estimated then count as liability)
    - Probable
    - Possible
    - Remote

EQUITY (NET ASSETS)

Equity is the residual value of an entity's assets after deducting all it's liabilities. Equity represent the net funds invested into a business by it's owners

Entity Type:

- Sole Proprietor (Alone) **(SP)**
- Partnership (50/50) **(P)**
- Corporation (Separate legal entity that's owned by its shareholders) **(C)**

What makes up equity:

- Capital Contribution = Owner invest to business with their own pockets
  - SP: Owner's Equity
  - P: Partner Contributions
  - C: Shareholder's Equity
- Retained Earnings (Revenues - Expenses - Withdrawals) = Accumulated profit held for future use
- Withdrawals = The money that is taken out of the business and distributed to its owners:
  - SP: Drawings
  - P: Partner Drawings
  - C: Dividends

Net Cash Inflow = Make more money than what is going out

Income Statement = Track revenues and expenses over a period of time

ACCOUNTING METHODS

CASH METHOD

Cash basis method usually only used if you have small business and rely only on cash

Cash Basis: (Not allowed in GAAP and IFRS)
- Method for recording transaction
- Transaction only recorded when cash changes hand
- Revenue Recognized = Cash received
- Expenses Recognized = Cash paid out

ACCRUAL METHOD

Accrual: (GAAP and IFRS accept)
- Revenue Recognized = Earned
- Expenses Recognized = Incurred

The matching principle = Revenue and all expenses incurred in order to generate revenue, need to be recognized in the same accounting period

Accrual method does not explicitly track cash flow so it needs to be calculated separately using the direct or indirect method.

REVENUE RECOGNITION PRINCIPLE (Literally accrual?)

Revenue is the income earned from:
- Sale of Goods = Sell things
- Provision of services = Sell services

Deferred Revenue = Payment made in advance for goods that are to be delivered in the future

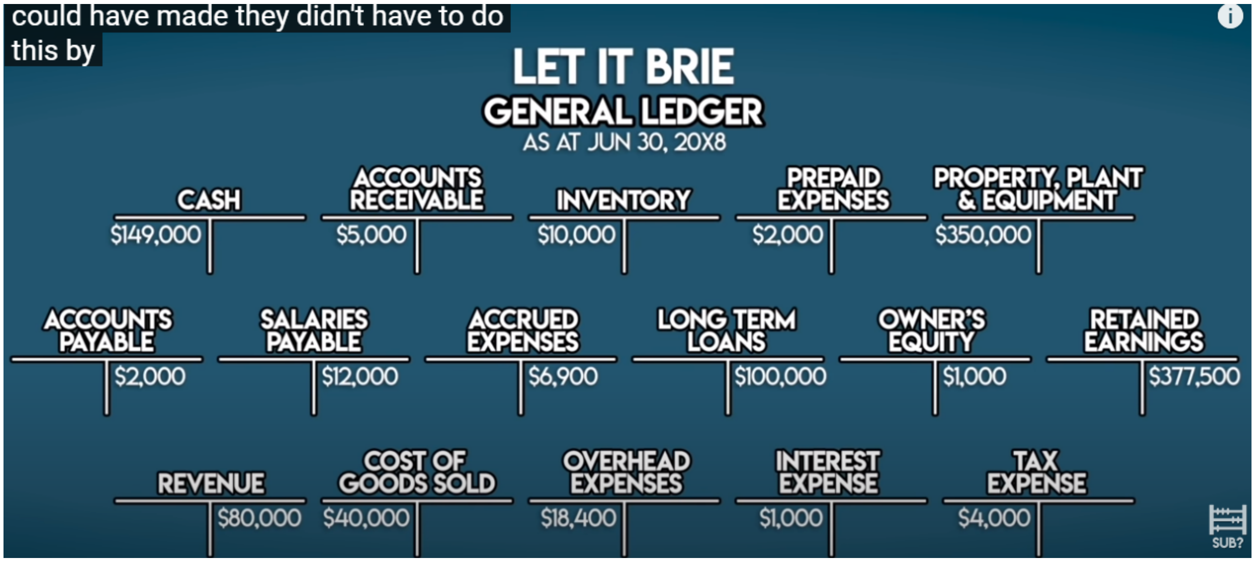
Accrued Revenue = Service provided in advance of the payment

INVENTORY & COST OF GOODS SOLD

2 types of business that hold inventory:

- Manufacturing Business = Make & Sell. Inventory is the **raw materials, work in progress and finished goods** held by a business that it intends to sell to earn revenue
- Merchandising Business = Buy & Resell. Inventory is the **goods** held by a business that it intends to sell to earn revenue

GENERAL LEDGER



General Ledger = A database that stores a complete record of all accounts & journal entries

Subledgers = Support general ledger by providing extra detail for certain accounts

TRIAL BALANCE

TRIAL BALANCE
FOR THE PERIOD ENDED 30 SEPTEMBER

ACCOUNTS	DEBIT	CREDIT
CASH	400	
SUPPLIES	25	
EQUIPMENT	30	
ACCOUNTS PAYABLE		50
LOANS PAYABLE		200
OWNER'S EQUITY		100
REVENUE		150
COST OF SALES	25	
LAUNDRY COSTS	20	
TOTAL	**500**	**500**

Trial balance (TB) = an accounting report showing the closing balances of all general ledger accounts at a point in time. Used for checking errors and assist in producing financial statements

Error in a balanced TB:

- Switching Debits & Credits
- Post on same journal twice
- Not posting at all
- Posting a journal into wrong account
- Getting number values wrong

ADJUSTING ENTRIES

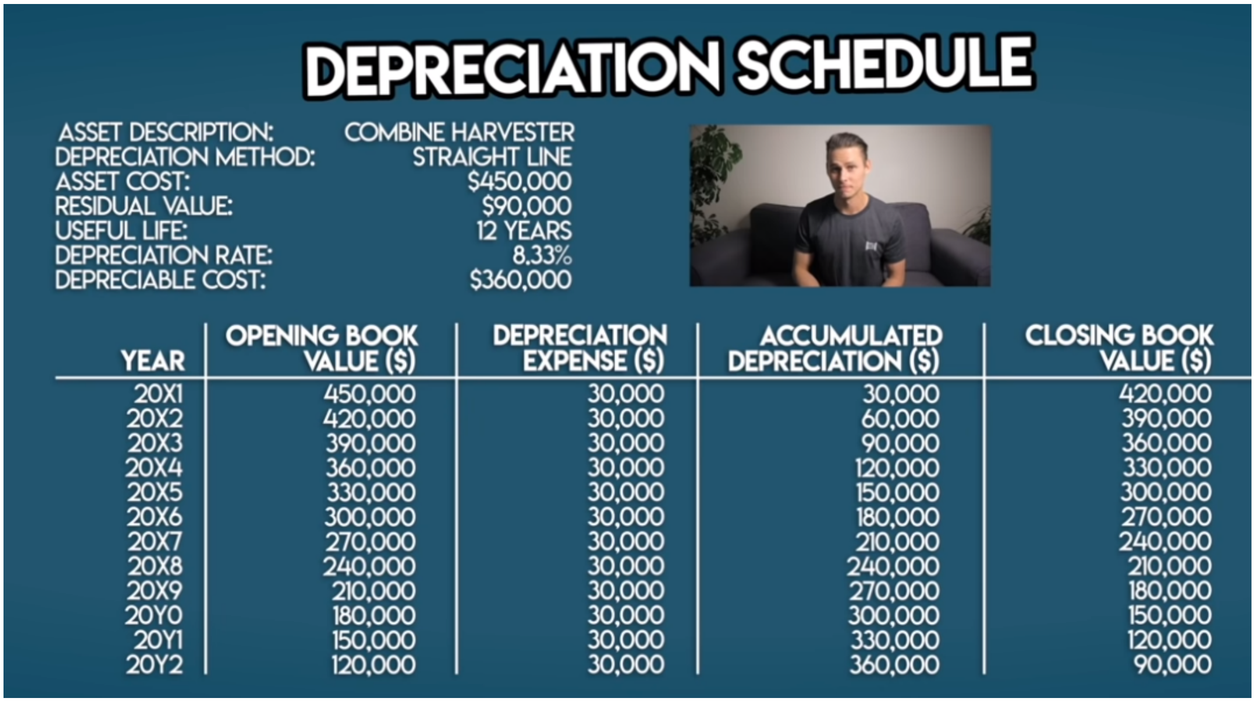
Adjusting Entries = the journal entries that we post at the end of each accounting period in order to bring out books into alignment with the accrual basis of accounting

Types of adjusting entries:

- Prepayments = Goods / Service has been paid in advanced
- Accruals = Good / Service are to be invoiced in the future

- Prepaid Expenses
- Accrued Expenses
- Deferred Revenue
- Accrued Revenue

DEPRECIATION



DEPRECIATION SCHEDULE

ASSET DESCRIPTION:	COMBINE HARVESTER
DEPRECIATION METHOD:	STRAIGHT LINE
ASSET COST:	$450,000
RESIDUAL VALUE:	$90,000
USEFUL LIFE:	12 YEARS
DEPRECIATION RATE:	8.33%
DEPRECIABLE COST:	$360,000

YEAR	OPENING BOOK VALUE ($)	DEPRECIATION EXPENSE ($)	ACCUMULATED DEPRECIATION ($)	CLOSING BOOK VALUE ($)
20X1	450,000	30,000	30,000	420,000
20X2	420,000	30,000	60,000	390,000
20X3	390,000	30,000	90,000	360,000
20X4	360,000	30,000	120,000	330,000
20X5	330,000	30,000	150,000	300,000
20X6	300,000	30,000	180,000	270,000
20X7	270,000	30,000	210,000	240,000
20X8	240,000	30,000	240,000	210,000
20X9	210,000	30,000	270,000	180,000
20Y0	180,000	30,000	300,000	150,000
20Y1	150,000	30,000	330,000	120,000
20Y2	120,000	30,000	360,000	90,000

Depreciation = Process of reducing the book value of a tangible fixed asset due to:
- Use
- Wear and Tear
- The passing time
- Obsolescence

Capitalization = The process of recording a cost as a fixed asset in the balance sheet rather than an expense in the income statement

Contra asset = a normal credit account which contrast or runs against the flow of normal assets

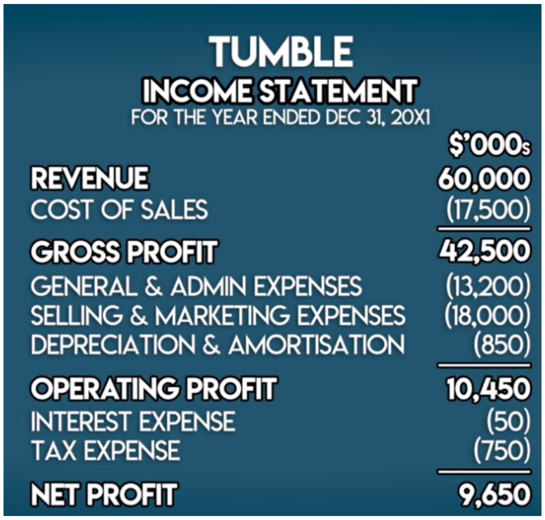
Straight Line Depreciation = Fixed cost depreciation method where the expense in spread out evenly over an asset's useful life. Steps:
- Write down what you know about an asset
- Build a depreciation schedule
- Calculate Depreciation Expense, Accumulated Depreciation, and Closing Book Value for each period

Opening Book Value = Carrying amount of your combine tangible asset at the start of the year which sits on your balance sheet
Depreciation Expense = Value that i write off as expense to income statement

Accumulated Depreciation = Accumulated total of all depreciation expense
Closing Book Value = Carrying amount of you combine tangible asset at the end of the year

INCOME STATEMENT

Income statement is a summary of a business revenues and expenses over a period of time



TUMBLE

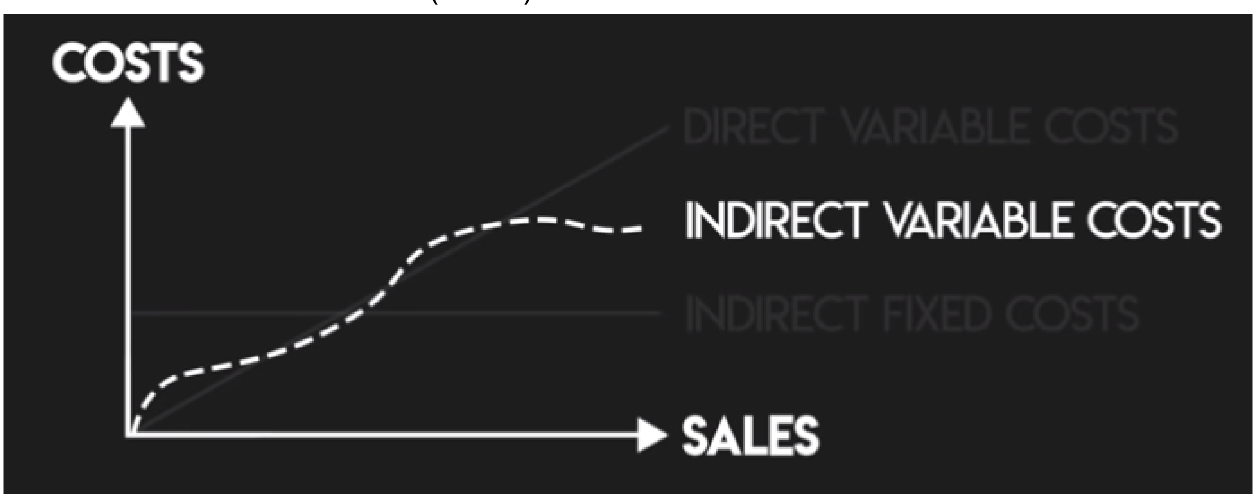
INCOME STATEMENT

FOR THE YEAR ENDED DEC 31, 20X1

	$'000s
REVENUE	**60,000**
COST OF SALES	(17,500)
GROSS PROFIT	**42,500**
GENERAL & ADMIN EXPENSES	(13,200)
SELLING & MARKETING EXPENSES	(18,000)
DEPRECIATION & AMORTISATION	(850)
OPERATING PROFIT	**10,450**
INTEREST EXPENSE	(50)
TAX EXPENSE	(750)
NET PROFIT	**9,650**

Revenue & Expenses:

- Selling product:
  - Product Sales
  - Cost of sales (Direct)
- Selling service
  - Services Rendered
  - Cost of services (Direct)



- Direct Cost= We can directly trace through to the products sold or services provided
- Indirect Cost= Cost of running a business which can't be traced back to the production of goods or the provision of services (Called **overhead expenses**):
- Indirect Fixed Cost:

    - Rent
    - Salaries
    - Insurance
    - Admin expenses
    - Legal cost
    - Accounting cost
    - Marketing cost
    - Depreciation
    - Amortisation
- Indirect Variable Cost:
    - Advertising
    - Commissions
    - Utilities
- Product sales - Cost of Goods Sold = Gross Profit / Loss
- Gross profit - Overhead Expense = Operating Profit / Loss (Earnings Before Interest & Tax <EBIT>)
- EBIT - Interest & Tax expense = Net Profit / Loss
- Income Statement (Comparative time) = We can compare last month to now.

Gross profit margin = (product sales - cost of goods sold) / product sales

BALANCE SHEET

Craig's Design and Landscaping Services

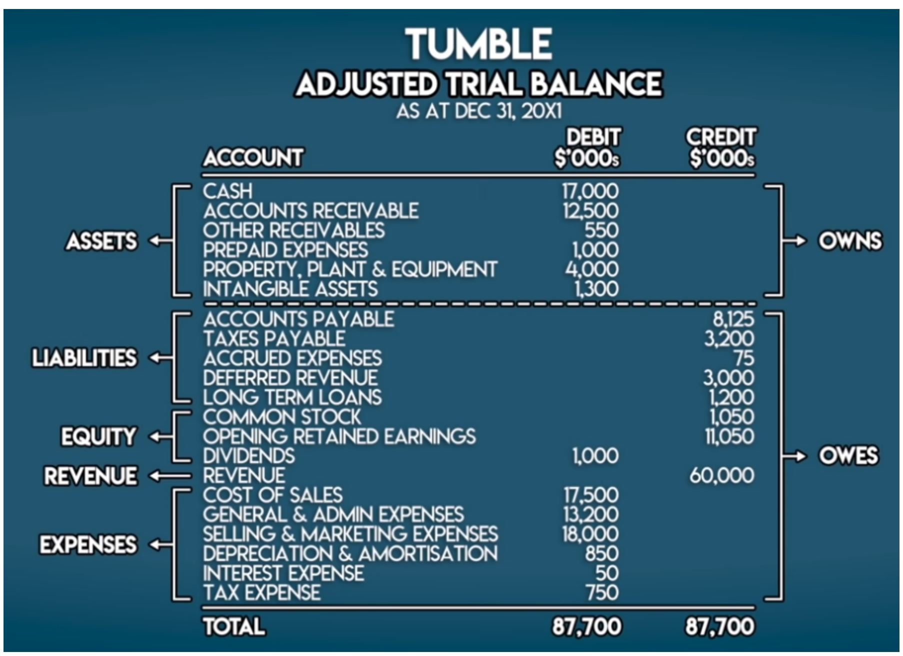
BALANCE SHEET

As of April 30, 2019

	TOTAL
ASSETS	
Current Assets	
Bank Accounts	
Checking	1,201.00
Savings	800.00
Total Bank Accounts	**$2,001.00**
Accounts Receivable	
Accounts Receivable (A/R)	5,281.52
Total Accounts Receivable	**$5,281.52**
Other Current Assets	
Inventory Asset	596.25
Undeposited Funds	2,062.52
Total Other Current Assets	**$2,658.77**
Total Current Assets	**$9,941.29**
Fixed Assets	
Truck	
Original Cost	13,495.00
Total Truck	**13,495.00**
Total Fixed Assets	**$13,495.00**
TOTAL ASSETS	**$23,436.29**

	TOTAL
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable (A/P)	1,602.67
Total Accounts Payable	**$1,602.67**
Credit Cards	
Mastercard	123.72
Total Credit Cards	**$123.72**
Other Current Liabilities	
Arizona Dept. of Revenue Payable	0.00
Board of Equalization Payable	370.94
Loan Payable	4,000.00
Total Other Current Liabilities	**$4,370.94**
Total Current Liabilities	**$6,097.33**
Long-Term Liabilities	
Notes Payable	25,000.00
Total Long-Term Liabilities	**$25,000.00**
Total Liabilities	**$31,097.33**
Equity	
Opening Balance Equity	-9,337.50
Retained Earnings	91.25
Net Income	1,585.21
Total Equity	**$ -7,661.04**
TOTAL LIABILITIES AND EQUITY	**$23,436.29**

Balance Sheet = Snapshot of business assets, liabilities, and equity at a single point in time.



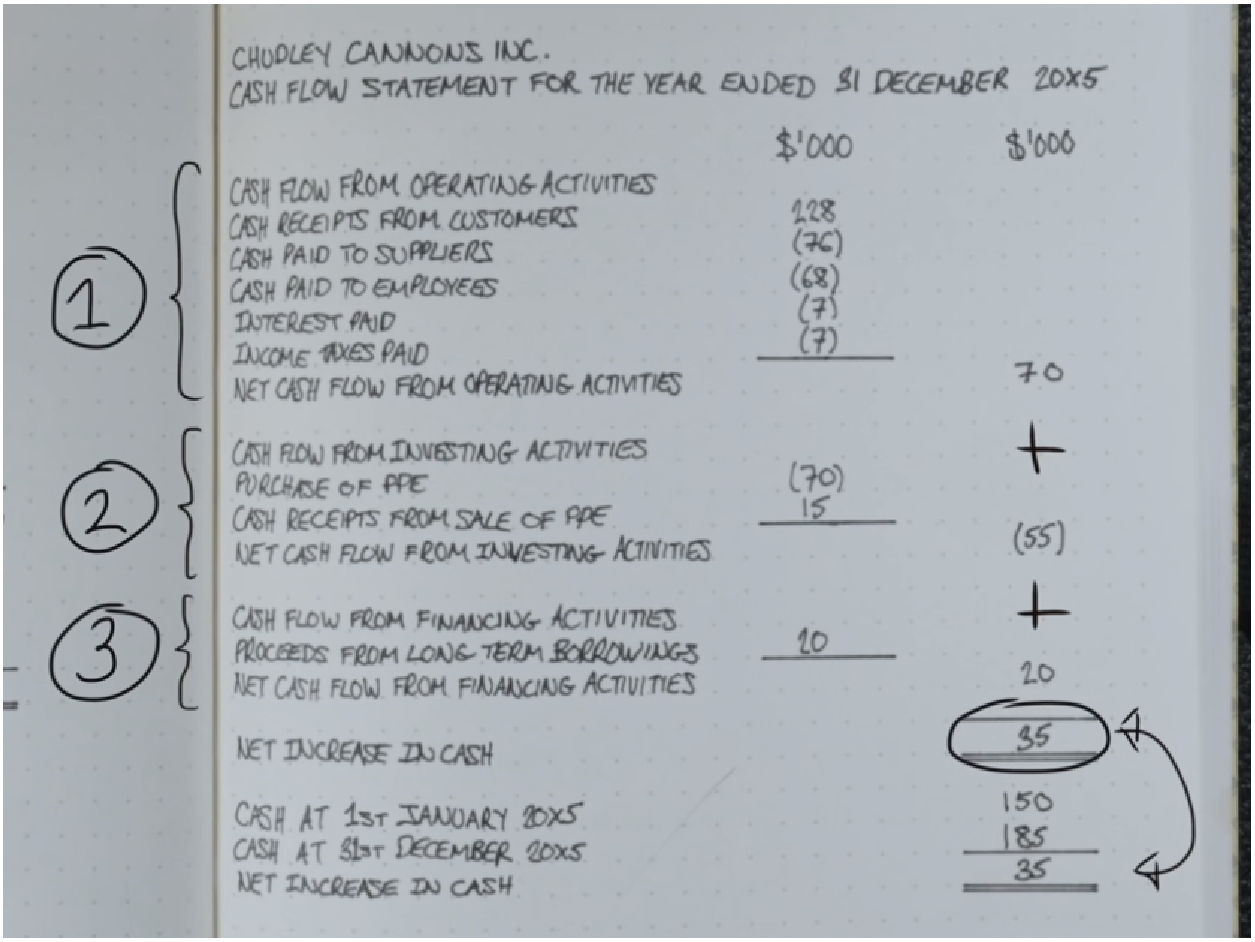
TUMBLE

ADJUSTED TRIAL BALANCE

AS AT DEC 31, 20X1

	ACCOUNT	DEBIT $'000s	CREDIT $'000s	
ASSETS	CASH	17,000		OWNS
	ACCOUNTS RECEIVABLE	12,500		
	OTHER RECEIVABLES	550		
	PREPAID EXPENSES	1,000		
	PROPERTY, PLANT & EQUIPMENT	4,000		
	INTANGIBLE ASSETS	1,300		
LIABILITIES	ACCOUNTS PAYABLE		8,125	OWES
	TAXES PAYABLE		3,200	
	ACCRUED EXPENSES		75	
	DEFERRED REVENUE		3,000	
	LONG TERM LOANS		1,200	
EQUITY	COMMON STOCK		1,050	
	OPENING RETAINED EARNINGS		11,050	
	DIVIDENDS	1,000		
REVENUE	REVENUE		60,000	
EXPENSES	COST OF SALES	17,500		
	GENERAL & ADMIN EXPENSES	13,200		
	SELLING & MARKETING EXPENSES	18,000		
	DEPRECIATION & AMORTISATION	850		
	INTEREST EXPENSE	50		
	TAX EXPENSE	750		
	TOTAL	**87,700**	**87,700**	

CASH FLOW STATEMENT



CHUDLEY CANNONS INC.
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20X5

		$'000	$'000
1	CASH FLOW FROM OPERATING ACTIVITIES		
	CASH RECEIPTS FROM CUSTOMERS	228	
	CASH PAID TO SUPPLIERS	(76)	
	CASH PAID TO EMPLOYEES	(68)	
	INTEREST PAID	(7)	
	INCOME TAXES PAID	(7)	
	NET CASH FLOW FROM OPERATING ACTIVITIES		70
2	CASH FLOW FROM INVESTING ACTIVITIES		+
	PURCHASE OF PPE	(70)	
	CASH RECEIPTS FROM SALE OF PPE	15	
	NET CASH FLOW FROM INVESTING ACTIVITIES		(55)
3	CASH FLOW FROM FINANCING ACTIVITIES		+
	PROCEEDS FROM LONG TERM BORROWINGS	10	
	NET CASH FLOW FROM FINANCING ACTIVITIES		20
	NET INCREASE IN CASH		35
	CASH AT 1ST JANUARY 20X5		150
	CASH AT 31ST DECEMBER 20X5		185
	NET INCREASE IN CASH		35

Cash Flow = Amount of cash that has flowed in or out of a business over a period of time

Cash flow cover a period of time. For example Cash at 1st January and 31st December is compared to make **Net Increase / Decrease**

Section:

- Cash Flow from financing activities:
  - Changes to share capital
  - Borrowings from a bank or third parties
  - Long term borrowings
- Cash Flow from Investing activities:
  - Purchase of non-current assets or investments

- Cash Flow from operating activities: Revenue generating activities
  - Direct Method: The cashflow is laid out just like cash basis income statement

    - Indirect Method

CASH FLOW STATEMENT DIRECT METHOD (CASH BASIS)

All always have opening and closing balance (B/F <Brought Forward> and C/F <Carried Forward> on the side where it should be

Cash flow from operating activities:
- Cash Receipt from Customer (Account Receivable): Sales | Cash Receipt
- Cash Paid to Employees (Salaries Payable): Cash Paid | Salaries Expense
- Interest Paid (Interest Payable): Cash Paid | Interest Expense
- Income Taxes Paid (Income Taxes Payable): Cash Paid | Income Taxes Expense
- Cash paid to suppliers
    - Accounts Payable: Cash Paid | Inventory Purchase
    - Inventory: Inventory Purchase | Cost of Goods Sold

Cash flow from investing activites
- Purchase & Cash Receipt of PPE (PPE): PPE Purchased | Depreciation / Sale of PPE

Cash flow from financing activites
- Long term borrowings: Simply B/F and C/F minus
- Net cash inflow: Simply we borrow more = Cash inflow

CASH FLOW STATEMENT INDIRECT METHOD (CASH BASIS)

CHUDLEY CANNONS INC.
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DEC 20X5

	CASH FLOW FROM OPERATING ACTIVITIES	$'000
①	NET PROFIT/(LOSS)	70
②	ADD BACK NON-CASH EXPENSES	
	DEPRECIATION	23
	AMORTISATION	
	(GAIN)/LOSS ON SALE OF NCA'S	
③	ADJUST FOR MOVEMENT IN WORKING CAPITAL	
	(INCREASE)/DECREASE IN INVENTORY	(26)
	(INCREASE)/DECREASE IN RECEIVABLES	(22)
	INCREASE/(DECREASE) IN PAYABLES	25
	NET CASH FLOW FROM OPERATING ACTIVITIES	70

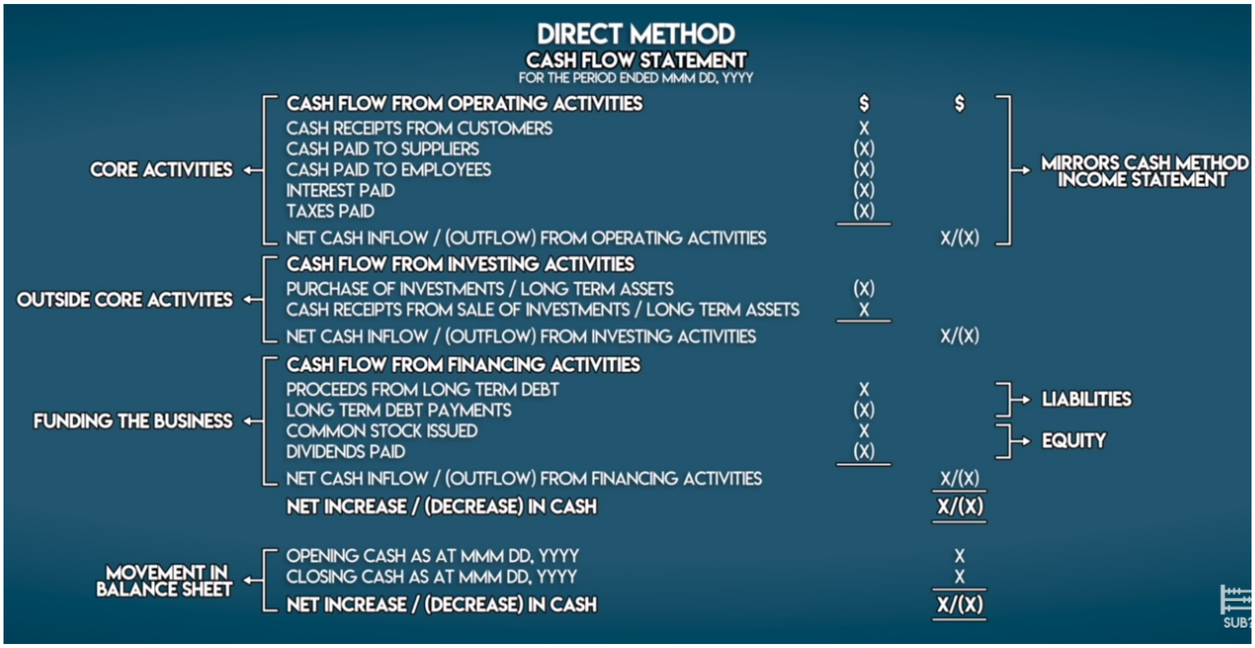
Indirect method is easier to prepare but less useful to investors.

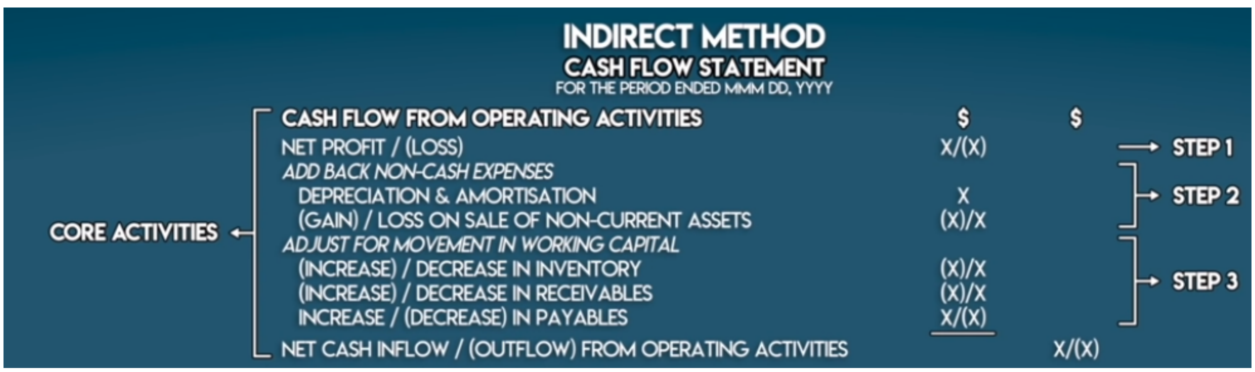
Step:

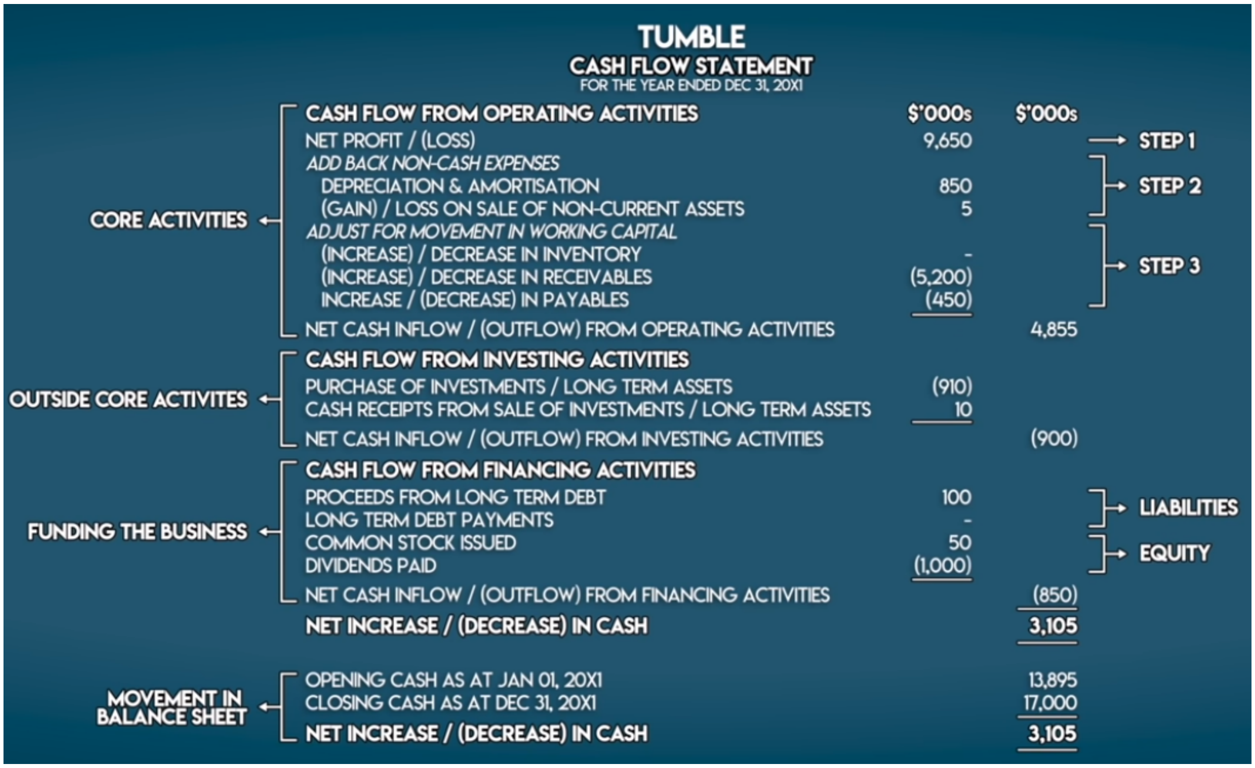
- Net Profit / (Loss) = Adjust net profit and adjusting it for non-cash transactions
- Add back non cash expense:
  - Depreciation
  - Amortisation
  - (Gain) / Loss On Sale of NCA'S
- Adjust for movement in working capital
  - (Increase) / Decrease in inventory
  - (Increase) / Decrease in receivables
  - Increase / (Decrease) in payables

HOW TO MAKE CASH FLOW STATEMENT

How do we get to net increase / decrease in cash







3 Main operation:

- Cash Flow from Operating Activites
- Cash Flow from Investing Activites
- Cash Flow from Financing Activites

Working Capital = Current Assets - Current Liabilities

CLOSING ENTRIES

Closing entries are posted after we are done making financial statements

Closing entries = Journal entries posted at the end of an accounting period to reset temporary accounts to zero. The balances are transferred to a permanent account called retained earnings

DEALER -> RED ALE
RED = Temporary Account
ALE = Permanent Account

Permanent Account = Closing balance at the end of an accounting period is always carried forward into the next year

Temporary Account = Closing balance at the end of an accounting period always needs to be reset to ZERO

Long Way: LITERALLY SHORT WAY???

- Clear revenue to income summary
- Clear expenses to income summary
- Clear income summary to retained earnings
- Clear dividends to retained earnings

Short Way:

- Clear all temporary accounts to retained earnings

The post closing trial balance for this year becomes next year opening trial balance.

Brandy

Financial accounting

Process of identifying, recording, summarizing, analyzing someone's financial transaction and reporting them in a form called financial statements.

Journal entry

Record of financial transaction.
Eg.

J/E NUMBER: 1051

DATE	ACCOUNT	DEBIT	CREDIT
MAR 31, XXXX	CASH	$40.000	
	SUBSCRIPTION REVENUE		$40.000
	SUBSCRIPTION PROMO		

Core principle of financial accounting

Stuff we own such as assets is equal to the stuff we owe such as, liability and equity.
Assets **=** liability + equity.

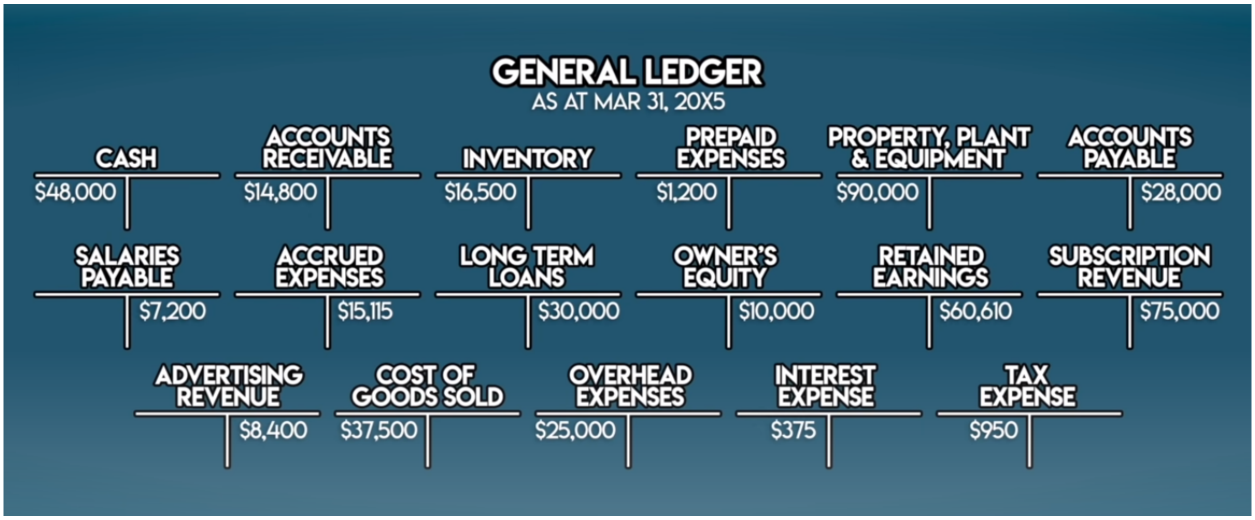
Note :
Assets **are** resources that will benefit us in the future such as cash and inventory.
Liability **is** stuff we owe from third parties lender.
Equity **is** what represents our claim on the business net.

Double entry accounting

Credit represents the sources that economic benefit flows from.
Debit represents the destinations that it flows to.

General ledger

The place where we store all our financial data such as journal entry.
Eg.



Account

The place where we record, sort and store all financial transactions that affect a related group of items.

Parts of equity

Dividends :
Revenue
Expenses
Withdrawals

Trial balance

An accounting report showing the closing balances of all general ledger accounts you have. Generally used to make your financial statements

Adjusting entries

Journal entries posted at the end of an accounting period to bring a business's books in line with the accrual method of accounting.

Accrual method : revenue is recognized as its earned expenses are recorded as they are incurred.

In cash accounting, we recognize revenue as we receive cash and record out expenses as we pay them out.

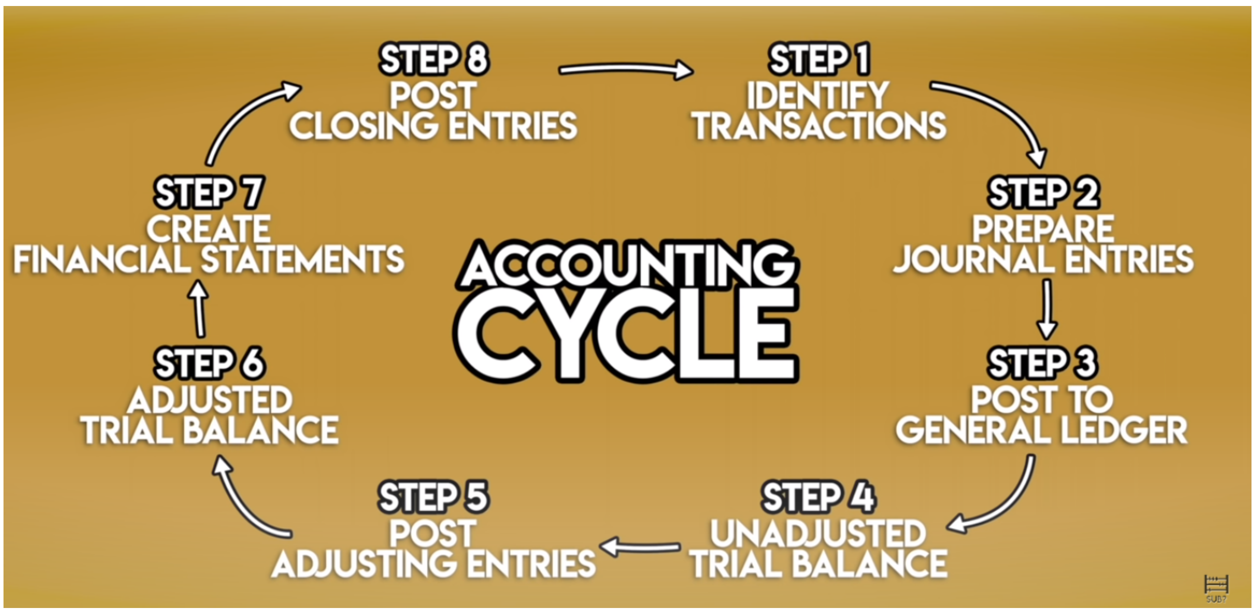
Financial statements

Accounting reports that summarize a business's activities over a period of time.

3 main financial statements:
Balance sheet :
Income statement :
Cash Flow statement :

Closing entry

A journal entry that transfers balances from temporary accounts to permanent accounts in the balance sheet.



Balance sheets

If we have a business, that business owes us the owner money, this is called equity. Stuff like taxes are called liabilities and are also stuff that our business owes. This conclude to the equation of :

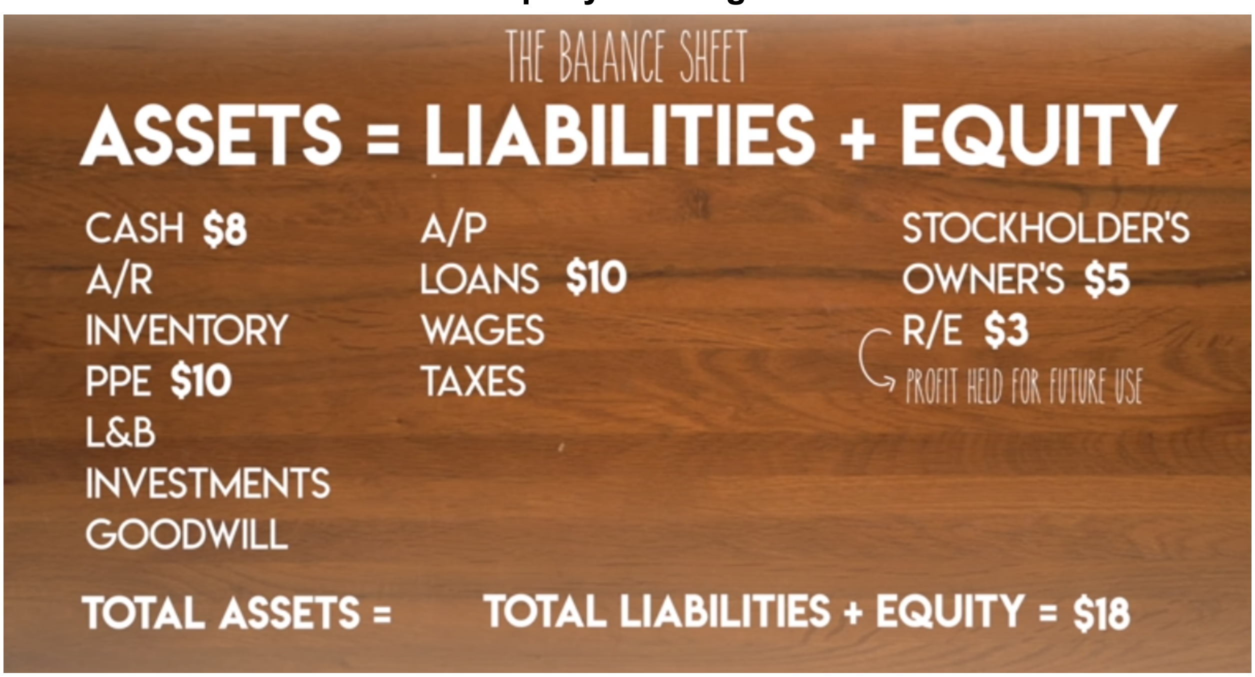
STUFF THE BUSINESS OWN = TO STUFF THE BUSINESS OWE.

Example :

My company sells popcorn for profit so first I invested 5 dollars in the company, now the company has 5 dollars of assets in the form of money. But then, I buy 5 dollars worth of corn. Now I dont have 5 dollars worth of assets in the form of money but in the form of inventory. Right now the equation STUFF THE

BUSINESS OWN = TO STUFF THE BUSINESS OWE is still true. After spending 5 dollars on corn, I decided to ask my friend to lend me 10 dollars. Now I have 15 dollars worth of assets with 10 dollars in the form of money and 5 dollars in the form of inventory but I still owe my friend 10 dollars in cash which add up the stuff the business owes in liabilities in the form of a loan. So our total assets are 15$ and our total liabilities and equity are 15$. Right now the equation STUFF THE BUSINESS OWN = TO STUFF THE BUSINESS OWE is still true. Then I use the 10 dollars of assets the business owns to buy a pot. I then use the 5 dollars worth of corn to make the popcorn and then sell the popcorn at a 60% markup price. So now my inventory is all gone but I get 8 dollars worth of cash and 10 dollars worth of equipment in assets. This means the business got 3 dollars worth of profit and our assets are now 18 dollars. And now the equation of STUFF THE BUSINESS OWN = TO STUFF THE BUSINESS OWE is wrong right? No, because our profit counts as retained earning which means profit held for future use and retained earning is a part of equity which means the equation of STUFF THE BUSINESS OWN = TO STUFF THE BUSINESS OWE is still correct.

The balance sheets for our company as of right now is like this :



DEBITS AND CREDITS
Fixed misconception :
Debits and credits are neither good nor bad.
Debits and credits are not the same as adding or subtracting.

Debits and credits are the words used to reflect the double sided nature of all financial transactions. In the world of finance, money doesn't just magically appear and disappear. For money to go to one account it has to come out from another account. Accountants consider every transaction to involve a flow of "Economic benefit" from a SOURCE to a DESTINATION. Economic Benefit is the potential for an asset to contribute either directly or indirectly to the flow of an entity's cash.
Credits represent the source and debits represent the destination.
Destination that the economic benefit can flow to includes assets, expenses, and dividends.
Sources that economic benefit can flow from includes owner' equity, liabilities, and revenue.
So basically assets are represented by debits while liabilities are represented by credits while equity is a tricky one.

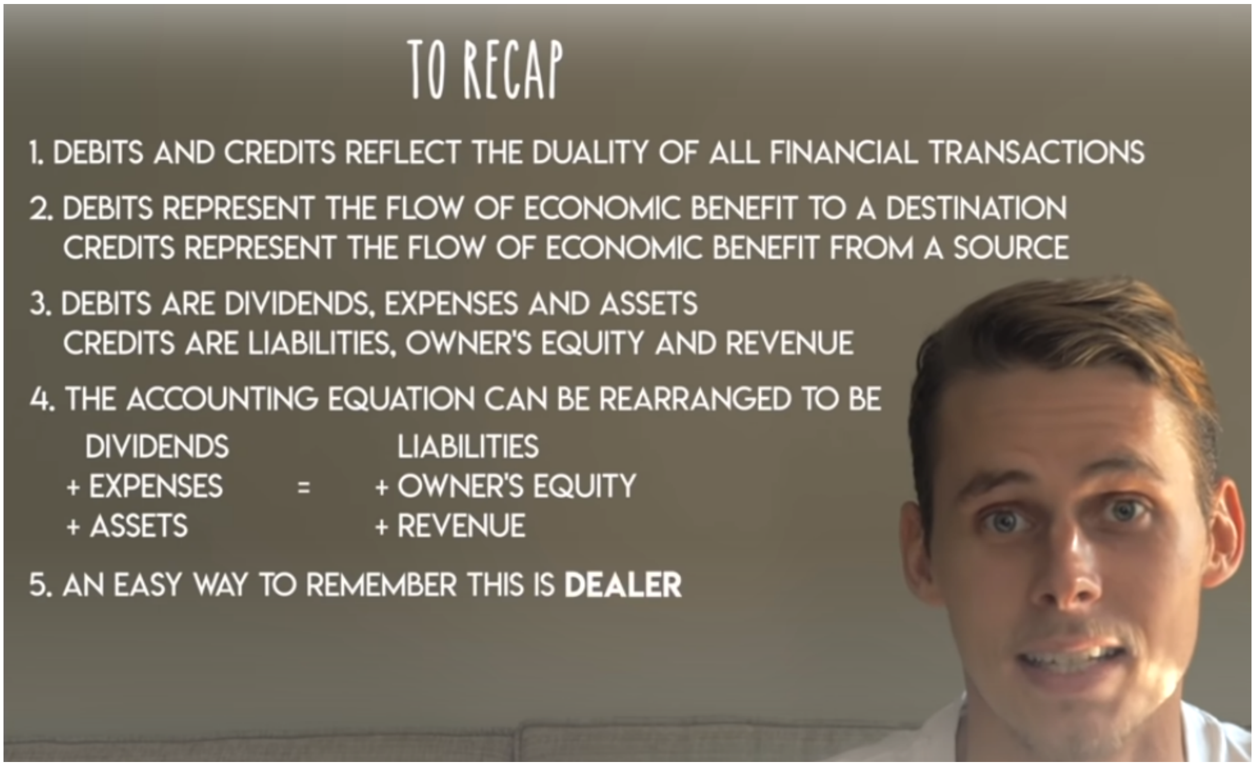
Assets = liabilities + equity.

Equity = owner's equity - dividends + retained earnings.

Retained earning = revenue - expenses.

Assets = liabilities + owner's equity - dividends + retained earnings.

Dividends + expenses + assets = liabilities + owner's equity + revenue



An invoice

is a record of a transaction that splits out and identifies sales tax.
An invoice is sent to the buyer to request payment for the seller's goods and services so the seller is not to wait for the payment for a long time. From the accounting point of view an invoice is also important as the trigger the the accounting entries and the books of both the seller and the buyer. An invoice is used to track account payable and accounts receivable.

Assets

Assets are probable future economic benefits obtained or controlled by a particular entity as the result of past transactions or events. Assets have different categories such as current, non-current, tangible, or intangible. Useful economic life is the term used to estimate how long an asset will remain useful to us business owners**(ONLY ESTIMATION)**. We accountants prioritize substance over form, for example we rented a building for 60 years and the building's useful economic life is 65 years. Even though we don't legally own the building, we can still say that the building is one of our assets because we will be using most of the building's useful economic life.

Balance sheet (asset section)

A balance sheet is a snapshot of a business's assets, liabilities, and equity at a single point of time**(usually in a month or year)**. In the asset section of a balance sheet we list out all of the different types of assets that a business owns or controls.

Assets are often arranged in order of liquidity **which means by how fast we can turn an asset into cash.** Following that vein of thought, assets can be separated by two distinct categories, current assets and non-current assets.

==

Current assets are assets that can be liquefied quickly**(typically in a year)**. The three types of current asset that show up most are cash, accounts receivable, and inventory.

Inventories are the goods that we intend to sell to make profit. When your business sells inventory the buyer owes you money and this is called account receivable. Cash is cash.

==

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Non-current assets are assets that cannot be easily liquified. There are 3 types of non-current assets.

Long term investment is an investment that we plan to hold on for more than a year.

Tangible assets or fixed assets are the assets that you can physically touch. Most common types of tangible assets are ppe which stands for property, plant, and equipment.

Intangible assets include things like intellectual property, patents, royalty rights, trademarks, and copyright.

Side Note = Capitalizing an asset means we record an asset in the balance sheet as opposed to expensing it in the income statement.

==

Liabilities

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. We do liabilities to buy assets and fund our business to make profit.

Liabilities can be divided into three categories.

Current Liabilities: Short term liabilities that need to be settled in 1 year or lower.

Example :

-Accounts payable

Buying something on credit which means receiving the items firsthand before paying for the items. Usually businesses give their customers credit terms so they will buy from their business again and again.

-Salaries payable

Having employees, the business owner of course needs to pay them salaries.

-Taxes payable

Money we pay to the government.

-Interest payable

Compensation(can be cash or anything that has value) for the money we get from our loans.

-Accruals

Expenses that have been incurred but not recognized in the book.

-Unearned revenue

When somebody gives you money in advance but you still haven't provided the goods or services.

-Short term loan

A loan you get with a due date time of one year or under.

Non-current Liabilities: Long term liabilities that are unlikely to be settled in a year.

Example:
-Long term loan
A loan that you get for more than a year which usually comes with an interest.
-Bonds
Money raised directly from the public.

Contingent liabilities : Potential obligation that may arise depending on the outcome of an uncertain future event

Balance sheet (liabilities section)

A balance sheet is a snapshot of a business's assets, liabilities, and equity at a single point of time**(usually in a month or year)**. In the liabilities section of a balance sheet we list out all of the different types of liabilities. These different types of liabilities are usually ordered depending on their due date from the shortest to the longest.

Equity

Equity has 2 definitions.

First definition:

Equity is the residual value of an entity's asset after deducting all its liabilities.
Asset = liabilities + equity
Equity = liabilities - asset.
Us accountants have another way of saying equity = liabilities - asset which is equity = net assets.
Residual value means what is left over after you take an entity's assets and deduct them with their liabilities. Or as we know equity represents the net assets of a business.

Second definition:

Equity represents the net funds invested into a business by its owners.
There are 2 ways that funds can be invested into a business to finance its operation, which is liabilities, money you get from third party lenders and equity, using the net funds invested by its owners. So now we know that equity

represents the net assets of a business and also represents the net funds invested into the business by its owners. So the owners of a business own or have a claim on all the business net assets.

Three essential parts of equity:

When we want to start a business we will all have the same problems which are how to structure our business, whether we want to do it solo as a sole proprietor, go 50/50 and make a partnership, or create your own corporation, a separate legal entity that is owned by its shareholders

Capital contributions : capital relates to the funds given to support the business and contributions is the money that the owner invests in the business out of their own pocket. We can call these differently depending on our business structure.

If your business structure is as a sole proprietor then we call the money invested out of your own pocket as owner's equity.

If you are a part of a partnership then you call it a partner contribution.

If you created a corporation then it is called shareholders equity.

Retained earnings : accumulated profit held for future use which come straight from your income statement. An income statement is a financial report that is used to track your revenues and expenses. Retained earnings stay the same no matter what your business structure is.

Withdrawals : As we know the formula for retained earning is, retained earning = revenue - expenses. But the formula can also be, retained earning = revenue - withdrawals from the business owners. We call withdrawals differently depending on our business structure.

If your business structure is as a sole proprietor then it is called drawing.

If you are a part of a partnership then it is called partner drawings.

If you created a corporation then it is called a dividend.

Cash basis of accounting

You only recognize expenses and revenue as you exchange hands. For example,

Scenario 1: if you have a bakery and you sold a cake today then you record your expenses and your revenue that day.

Scenario 2: same as scenario 1 but the customer will give you the money after 7 days. In this scenario you record your expenses that day but your revenue after 7 days, the day you receive the money from the customer.

This method is really simple so you don't need to hire an accountant which makes this method cheap to maintain. This method seems great but this method is only viable for small businesses that only relies on cash as big businesses are much more complex. This method is also not accepted by GAAP and IFRS.

Accrual basis of accounting

With this method we record expenses as we pay them and record revenue when you receive the cash. In the accrual basis of accounting we apply the matching principle which simply states "Revenue, and all expenses incurred in order to generate that revenue, need to be recognized in the same accounting period". This method is accepted by GAAP and IFRS.

Pros: business profitability can be accurately measured for a specific time period.
Cons: more complex than the cash basis of accounting.

Revenue recognition principle

In this principle, revenue is recognized when it is earned not when it is received.

Deferred revenue is the payment you get in advance before you provide the goods or services. We record revenue when we already provide the goods or services

Accrued revenue is the payment you get after you have already provided the goods or services in advance. We record revenue when we provide the goods or services.

Inventory and cost of goods sold

There are 2 main types of businesses that hold inventory which are manufacturing businesses and merchandising businesses.

Manufacturing businesses make and sell items to gain profit.
Inventory to them is the raw materials, work in progress, and finished goods held by a business that it intends to sell to earn revenue.

Merchandising businesses buy and resell items to gain profit.
Inventory to them is the goods held by the business that it intends to sell to earn revenue.

General ledger

Where we store all databases of all accounts and journal entries.

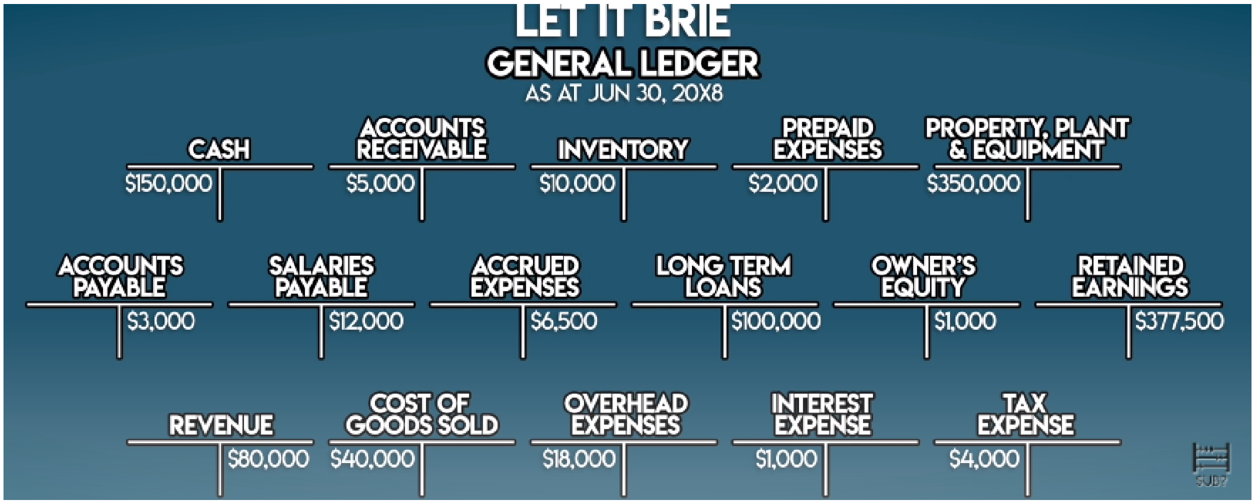
Ledger

A database that you regularly record transactions in.

Subledger

Supports the general ledger in providing extra details

The collection of all accounts and journal entries.



Trial Balance(TB)

An accounting report showing the closing balances of all general ledger accounts at a point in time

The debits and credits total amount should always be balanced.
Possible errors in a balance TB :

- Switching debits and credits
- Posting the same journal twice
- Not posting at all
- Posting a journal to the wrong account
- Getting the number value wrong

To make a trial balance we can use this method where debit is represented as a positive number and credit is represented by a negative number.

Working Trial Balance

JOURNAL ENTRIES ⇨

ACCOUNTS	1	2	3	4	5	6	TOTAL
CASH	100	200	(30)		150	(20)	400
SUPPLIES				50	(25)		25
EQUIPMENT			30				30
ACCOUNTS PAYABLE				(50)			(50)
LOANS PAYABLE		(200)					(200)
OWNER'S EQUITY	(100)						(100)
REVENUE					(150)		(150)
COST OF SALES					25		25
LAUNDRY COSTS						20	20
TOTAL	-	-	-	-	-	-	-

Adjusting entries

Just a name we accountants give to the journal entries that we post at the end of each accounting period.

4 types of adjusting entries:
-Prepaid expenses
-Deferred revenue
-Accrued expenses
-Accrued revenue

Depreciation

The process of reducing the book value of a tangible fixed asset due to:
-Use
-Wear and tear
-Passing of time
-Obsolescence

Capitalization : the process of recording a cost as a fixed asset in the balance sheet rather than an expense in the income statement.

Straight line method of depreciation **:** a fixed cost depreciation method where the expense is spread out evenly over an asset's useful economic life.

Income statement

A summary of a business expenses and revenues over a period of time
Revenue includes product sold or services sold.

Expenses include direct and indirect expenses.

Direct expenses are the cost of goods sold or the cost of service sold. Direct expenses are also proportional with how much goods we sold (Direct variable cost).

Indirect expenses or also called overhead expenses include things like rent, salaries, insurance, admin, legal, accounting, marketing, depreciation, and amortization. Indirect expenses are almost never proportional with the goods we sold (Indirect fixed cost). In the case that it is slightly proportional then it would be called as (Indirect variable cost) which include things such as advertising, commission, and utilities.

Types of profits :

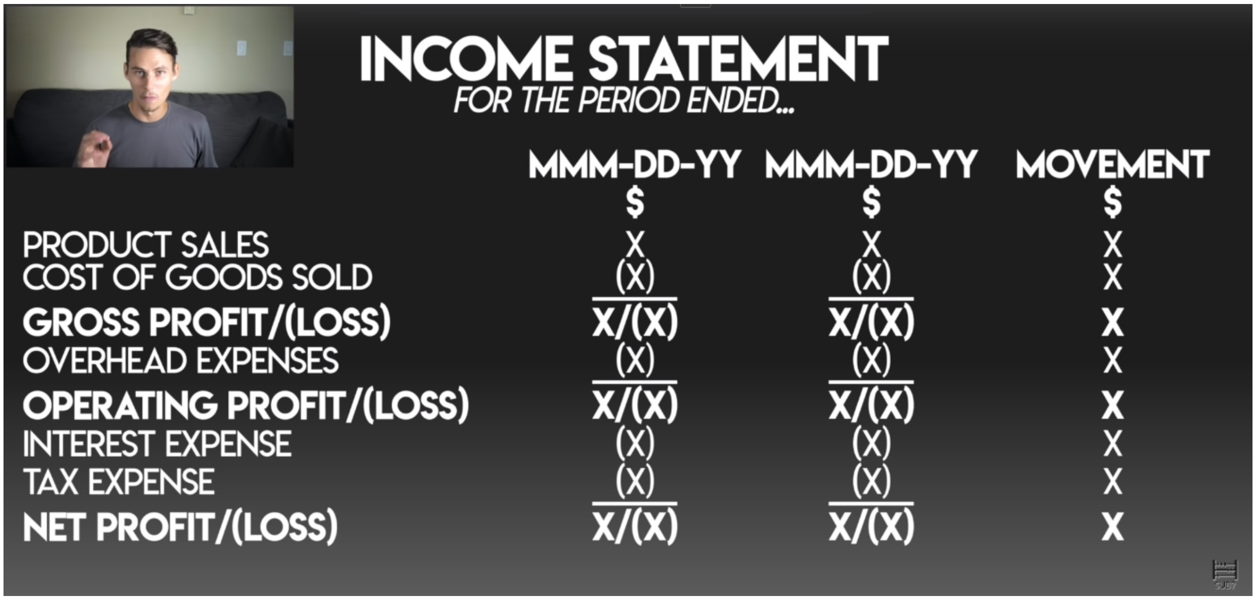
- **Gross profit = a useful tool to track the efficiency of our production. Eg. (Indirect / overhead expenses)**

- **Operating profit = the measure of our net income from our operation (We get this by deducting our indirect and direct expenses). Eg.**

Comparative income statement is where we compare 2 income statements which are different in period (Could be 1 month difference or 1 year).

Gross profit margin = product sales - cost of goods sold / product sales

WE DO THIS TO GET OUR NET PROFITTTTT YEASHHSHSHSH.



Difference of trial balance and balance sheet

We make trial balance for internal businesses while we make balance sheets for external businesses like trying to find an investor for our businesses.

We make trial balance oftenly while the balance sheet is to be made at a certain point of time.

Cash flow statement

Cash flows relate to the amount of money flowing in and out of a business.
We use a cash flow statement to summarize the movement of the balance sheet over a period of time and we do this by summarizing all the cash inflow and outflows into 3 categories which are :

- **Cash flow from operating activities** = the principal revenue generating activities of a business.
- **Cash flow from investing activities** = the buying or selling of investments or long-term assets.
- **Cash flow from financial activities** = Fund of a business from third party lenders or the owners.

Direct method :

Cash flow from operating activities mirror the layout of an income statement prepared under the cash basis.

Includes :

- **Cash flow from operating activities** = the principal revenue generating activities of a business.
- **Cash flow from investing activities**

- **Cash flow from financial activities**

Indirect method :

The **Cash flow from investing activities** and **Cash flow from financial activities** part of this method are the same with the direct method. The only thing different is the **Cash flow from operating activities.**

Three steps (Indirect) of calculating the Cash flow from operating activities :

1. First, we need to find the **net profit/loss** of your business that you get from your income statement.
2. Second, we need to add back all the **non-cash expenses** of your business.
   Depreciation
   Amortisation
   Gain/loss on sale of NCA'S
3. Third, we need to adjust for movement in **working capital**.
   Working capital is simply current assets - current liabilities.
   Increased/decreased inventory
   Increased/decreased receivables
   Increased/decreased payables
   Increase in inventory is presented by deduction and vice versa.
   Increase in receivables is presented by deduction and vice versa.
   Increase in payables is presented by addition and vice versa.

Cash flow in non-current asset tend to not be included in the **Cash flow from operating activities** because they are calculated in the **Cash flow from investing activities** and **Cash flow from financial activities** part of the cash flow statement.

Closing entries

Journal entries posted at the end of an accounting period to reset **temporary accounts** to zero. The balances are transferred to a **permanent account** called retained earnings.

Permanent account : the closing balance at the end of an accounting period is always carried forward into the next one.

Temporary account : the closing balance at the end of an accounting period that always needs to be reset to zero.

Long way of making a closing entry :

1. Clear revenue to income summary.
2. Clear expense to income summary.
3. Clear income summary to retained earnings.
4. Clear dividends to retained earnings.

Short way of making a closing entry :

1. **Clear all temporary accounts to retained earnings.**