Control

Companies are normally in groups.
Shareholders. Puts money into company. Company owes shareholders that amount of money.
Parent Holding. Company at the top, when we buy a company's shares, buying from this parent company.
Subsidaries. Own > 50% of shares. Parent owns ¿ 50% of subsidaries. Controlled by parent companies. Remaining 50% owned by outsiders, normally shown separately in balance sheet.
Group. Parent holding + subsidaries + outsiders. Group statements are called **consolidatedd financial statements**.
Consolidation. Summing up items owned by companies in the group.

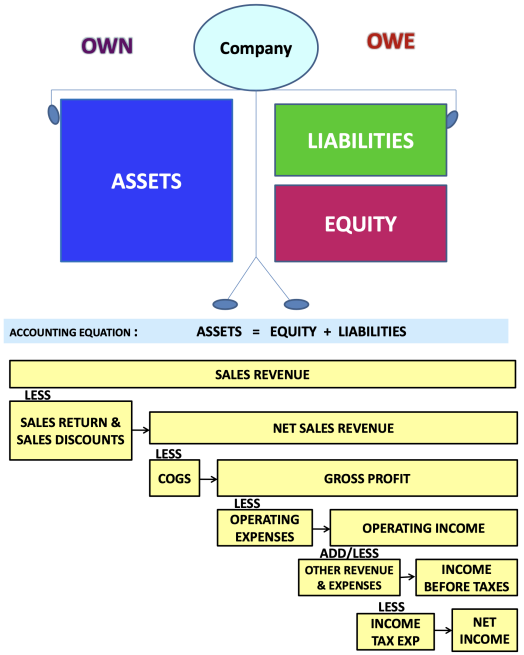
Associate Companies

Owns less than half of shares but big enough to influence decisions. Not consolidated. Have significant influence to change decisions.
Equity Method. Investment in associate based on percentage of shares owned.
Profit Reflection. Record percentage of loss/profits under **share of profits of associates**.

Balance Sheet

Market value. Incorporates expectation of future while nett worth based on initial value. Computed by multiplying cost of each share by number of shares.
Mixed measurement. Measured using values from different periods of time.
Book value. Equity on balance sheet.
Market-to-book ratio. Determine which is more expensive. Market value divided by book value.
Financial Position. Assets - everything we control/own. Liability - what we owe. Brackets represents negative numbers.
Changes in equity. Issues new shares means more assets. Give back money to shareholders means less assets. Business income and expense. Capital maintainence adjustment (changed because of how it was measured like foreign exchange).
Statement of comprehensive income. Sum of profits for the year and other comprehensive income.
Statement of changes in equity. If something is not shown,then it dint happen. Contribution and distribution to shareholders, includes everything else.
Statement of cash flow. Refers to actual cash by operating activities (money collected from business), investing activities (normally negative) and financing activities (money from borrowing/issuing shares). How is X compared to Y means to calculate Y/X.
Classified Balance Sheet. Current means ≤ **1**year. Non-current is greater than 1 year.
Non-current Assets. Assets that are likely to be converted to cash.
Non-current Liability. Liabilities that can be settled.
Property Plant and Equipment. Properties that group owns.

Balance Sheet



Ratios

Helps in comparison by overcoming differences in scale. Ratio computations are not standardised except for EPS(in dollars).
Profitability Ratio. Indicator of group performance in last year by measuring profits as percentage of some measure of company size.
Profit Margin. Extent that average sale price consists of mark-up/profit. Higher means more buffer to protect company from supply-demand shocks. $\frac{\text{Net profit}}{\text{Net sales}}$ Net sales is sales - discounts and returned goods. Revenue number on income statement is net of items. Net profits is profits - tax but before calculating non-controlling interests.
Return on total assets. $\frac{\text{Net profit}}{\text{Avg total assets}}$ Net profits for entire year. Total assets is total at point of time. Average total assets is for the year (sum of end of prev year) and end balance of current year.
Return on ordianry shareholder equity. Refers to how well a company is using money invested by its shareholders to make money. $\frac{\text{Net profit}}{\text{Avg total equit}}$
Share Capital. Amount collected when parent company originally issued shares.
Retained Earnings. Profits over the years minus amount company paid out as dividends.
Earnings per share(EPS). Profits per ordinary share. Required to calculate and report EPS. There are rules to describes how to calculate.
$\frac{\text{Profits of shareholders of parent} - \text{Preference dividends}}{\text{Weighted avg number of shares during the yr}}$
Weighted average calculated and reported by company based on information about the changes in shares during the year.

Liquidity & Efficiency

Determine if company can meet current liabilities with cash/assets that can be converted to current assets.
Liquidity. How easily something can be turned into cash. Liquid company have enough cash to pay bills and meet obligations.
Current Assets − Current liabilities = Working Capital. Lower working capital means company can more efficiently manage operations.
Current Ratio. Measure liquidity by comparing current assets to current liabilities. Ideally suppose to be 1. Refers to how much money company has to pay current bills.
Prepaid Expenses. Everything company pays ahead of time. **This is an asset** - owed to company.
Unearned Revenue. Money received for something company hasn't done. This is a liability - owed by company.
Acid-test ratio. Money company has to pay bills now, but looks at most liquid asset company has. Measures company ability to pay short-term liabilities. $\frac{\text{Cash + short-term assets + curr receivables}}{\text{curr liabilities}}$
Accounts Receivable Turnover. How quickly customers are getting paid. Measures how many times company sold a good and how many days it takes for them to get paid by customer.
$\frac{\text{Net sales}}{\text{avg accs trade receivables, net}}$
Inventory Turnover. How quickly company sells its products. $\frac{\text{Cost of goods sold}}{\text{avg inventory}}$
Accounts Payable Turnover. How quickly company pay its bills. $\frac{\text{Cost of goods sold}}{\text{avg accs payable}}$
Days' Sales Uncollected. How long it takes for company to collect money from customers.
$\frac{\text{Accs receivable, net}}{\text{net sales}} \times 365$
Days' Sales Inventory. Number of days sales in inventory, measured in days. $\frac{\text{Ending inventory}}{\text{cost of goods sold}} \times 365$
Days' Purchase in Accs Payable. How long it takes company to pay bills after it buys something over. $\frac{\text{Accs payable}}{\text{cost of gds sold}} \times 365$
Total Asset Turnover. Compare annual sales to average total assets; how much money made based on the things you own. $\frac{\text{net sales}}{\text{avg total assets}}$.
return on assets = profit margin × total assets turnover

Solvency Ratio

Gauge whether company can stay afloat; enough money to pay bills.
Debt Ratio. Amount of debt company is in. $\frac{\text{total liabilities}}{\text{total assets}}$.
Equity Ratio. How much of company belong to shareholders and how much belong to other people the company owes money to. $\frac{\text{total equity}}{\text{total assets}}$
Debt-to-equity Ratio. $\frac{\text{debt-ratio}}{\text{equity-ratio}}$
Timees interest earned. Paying allowance to people we owe money to, how many times can I do this? $\frac{\text{profit b4 int exp + int exp}}{\text{int expense}}$.

Market Prospect Ratio

Look at different factors to compare different companies and decide which ones to buy shares from.
Price-earnings ratio. How much others willing to pay for company's stock based on how much money the company make. $\frac{\text{mkt price per ordinary share}}{\text{earning per share}}$. To determine if share is a good buy, compare **inverse** of PE to interest rate from investing in gov bonds ×3, if inverse higher means better.
Dividend-yield ratio. How much money company gives back to shareholders every year.
$\frac{\text{annual cash dividend per share}}{\text{mkt price per share}}$. Dividend paid during the year include last year's final dividend.

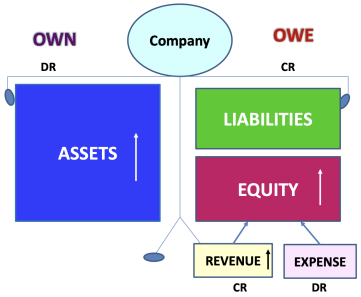
	To measure	Types of Ratio
1	Liquidity & Efficiency	Current ratio
		Acid Test (Quick) ratio
		A/R, Inventory and A/P turnover
		Total asset turnover & Fixed asset turnover
		Days' sales uncollected, Days' sales in Inventory
		Days' purchases in A/P
2	Solvency	Debt ratio & Debt-to-Equity ratio
		Time-Interest-Earned ratio
3	Profitability	Gross profit & Net profit margin
		Return on Assets & Return on Equity
		Earnings per share
4	Market Prospects	Price-Earning ratio
		Dividend yield

Account Equation

ΔCapital = Capital contributed + Income - Expenses - Withdrawals.
Accrual Accounting. When goods/services are exchanged, still recorded even though payment may not been done yet.
Income. Increase in equity is income, except for **contributions from owners**.
Expense. Decrease in equity except for **withdrawals by owners**.

Credit and Debits

Debit = Credit all the time. **Assets.** Increase on **debit** side. Follow equation at the top to see what is debit and credit, format the same.
Asset decrease on credit. When 2 assets are involved, if one increases on debit, then the other must decrease on credit. This is balancing total assets.
Liabilities and equity increase on credit. Since asset increase on debit, so the other 2 must increase on credit, to keep the equation balance. This is balancing the equation on both sides. **Liabilities includes Owner**
Liabilities and equity decrease on debit. When goes down on credit, liabilities and equity must decrease on debit.
Revenues, expense, withdrawals. These are changes in equity. Revenue increases equity so its credit. Expense and withdrawal decreases equity so it decrease on debit. Why is revenue credit?



Temporary accounts. Accounts that track changes during current period (changes only reflective of the

current year, just temporary storage), other accounts are **permanent accounts**.

Journal entries. Daily record of transactions. Always put debit first then credits, indent line with credits. Provide the date if known, and the narration unless stated otherwise.

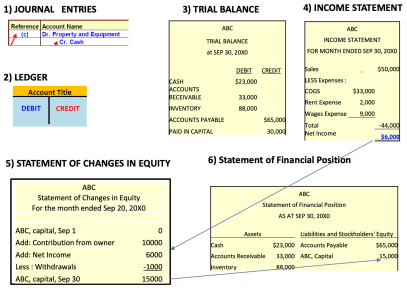
Date
Dr Account_X xxx
Cr Account_Y xxx
Narration: what is this transaction

For example,

31/12/2022
Dr Cash 1,000
Cr Borrowing 1,000
Borrowed $1,000

Possible to have multiple lines of debit and credit, as long as they add up.

Trial balance. Monthly list of debit and credit balances. Order of accounts should be assets, liabilities, permanent equity accounts, withdrawals, revenues, expenses.



Adjusting Entries

Idea: forgot to record something down, so have to rebalance at the end.

Prepayments by us. Payment for a service in advance, creating a prepaid expense asset. At the end of the period, some expense actually incurred, so need to reduce the prepaid expense asset to reduce it. We subscribe to something.

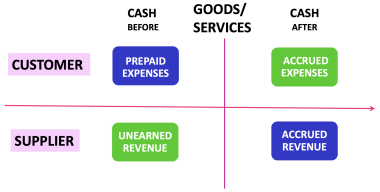
Prepayments to us. Customer pay us in advance, creating an obligation for us to pay them back (unearned revenue). After some time, some money is earned so need to reflect that. Subscription plan, pay before using/continuing.

Accrued revenues. At the end of the period, we earned some previously unrecorded income for which payment not yet received. So record a **receivable asset** for the outstanding amount. Think customer buy and use first, pay later.

Accrued expenses. Incurred previously unrecorded expenses which we haven't paid yet. At the end, record a **payable liability** for the outstanding amount.

Depreciation. Adjustment for age of a long-lived asset. Record estimated decline in value for the asset during the period, which is stored in **accumulated depreciation** account, which is a contra asset (negative adjustment on an asset value). Increase on credit and decrease on debit.

depreciation of yr $= \frac{\text{cost - salvage}}{\text{life of asset}}$ Depreciation rate is constant.

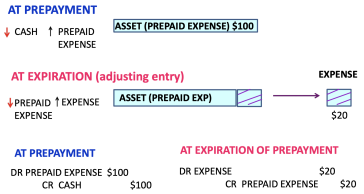


CASH BASIS
- Recognize Revenue when cash is received
- Recognise Expense when payment is made

ACCRUAL BASIS
- Recognize Revenue when service is performed
- Recognize Expense when it is incurred

6 column worksheet. Account title (col 1), unadjusted ttrial balance (col 2-3), adjustments (col 4-5), adjusted trial balance (col 6-7).

Adjusted Trial balance. Prepare the worksheet then can generate the other statements, income statement, statement of changes in equity and finally the balance sheet.



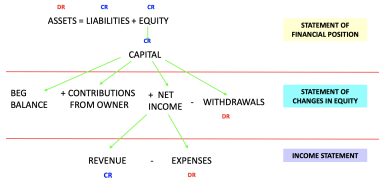
Closing entries

Preparation for the next year by re-setting all our temporary accounts (revenues, expenses, withdrawals) to 0. Balance in each of these accounts transferred to **Capital**. Capital (post-closing) = Capital (pre-closing) + Revenues - Expenses - Withdrawals.

- Close revenue to an intermediate account, **income summary**. Debit every revenue account by amount in its balance to make it 0, and take sum of all debits as credit to income summary.
- Close expense account to income summary. Credit expense account by amount in its balance to make it 0, then sum all credits as debit to income summary. Net profit/loss depending on whether revenue/expenses is higher.
- Close income summary to Capital. If it has credit, debit amount then credit Capital.
- Close withdrawals directly to Capital. Credit withdrawals and debit Capital.

Types of Journal entries. Journal entries for transactions with external entities, corrections and adjustments and for closing process.

Accounting Cycle. Event occurs. Journal entries for explicit transactions. Posting from journal entries to ledger. Prep unadjusted trial balance. Journal entries for corrections and adjustments. Prepare adjusted trial balance. Prepare financial statements. Journal entries for closing. Prepare post-closing trial balance



Sales & cost of goods sold

Sales of goods for a merchandising compny is recorded as 2 transactions:

- Earned revenue be delivering goods to customer so sales revenue go up and cash/accounts (trade) receivable goes up.
- Goods (usually valued at their cost to us) leave us and go to the customer, so Inventory goes down, and an expense called **Cost of Goods Sold (COGS)**

BEGINNING INVENTORY
+ NET PURCHASES *
COST OF GOODS AVAILABLE FOR SALE
- COST OF GOODS SOLD
ENDING INVENTORY

***Net Purchases - net of Purchase discount, Purchase return and allowances**
but include Freight-In, Insurance and Taxes

TRANSACTIONS	DR	CR
PURCHASE OF MERCHANDISE	**INVENTORY**	AP / CASH
FREIGHT IN	**INVENTORY**	AP / CASH
PURCHASES DISCOUNTS	AP / CASH	**INVENTORY**
PURCHASES RETURNS & ALLOWANCES	AP / CASH	**INVENTORY**
SALES OF MERCHANDISE	COGS	**INVENTORY**
SALES RETURN	**INVENTORY**	COGS
INVENTORY SHRINKAGE	COGS	**INVENTORY**

Net purchases for a period includes all purchases done in that period. Record as 2 separate entries, each to reflect different things.

Units available for sale. Units acquired at cost - units sold at retail.

Shrinkage

During year-end stock take, find that inventory is less than that according to the books. Because of damaged/lost goods that company dint previously account for. Recorded as debit adjustment to cost of goods sold and inventory is reduced by the corresponding amount.

Lower of Cost/NRV

Inventory measured by taking minimum of cost and net realisable value.

Cost. Cost to acquire the inventory and make it available for sale + Freight-in + Insurance + Taxes.

Net realisable value. Value that we can sell inventory, net of any additional reasonable costs needed to sell it less additional selling cost. If net realisable value falls below cost, required to write down the inventory to its net realizable value. Value at which we sell the inventory less additional selling cost.

Cost

Cost of acquiring inventory includes

- purchase price, NET of discounts/allowances
- shipping costs if brone by buyer
- taxes on the purchase transaction as long as these are not recoverable later. GST does not fall under this category.

Cost flow assumptions

Specific identification. For inventory items that are not interchangable (unique), required to track and to use the actual original cost of each individual item to record the cost of goods sold when we sell it. Use the buying cost of the good as the selling price instead.

Interchangable goods. Required to make standard assumptions about the order in which the goods are sold.

- FIFO - assume that goods are sold in order of age, with oldest item in stock being sold first.
- Weighted average cost - cost of goods sold is based on the average cost per unit of the goods in stock at the time of sale. $\frac{\text{cost of gds in stock}}{\text{units in stock}}$ numerator and denominator is calculated for after pruchase.

Gross Profit. Sales (based on the selling price) - cost of goods sold.

Lower of cost

Check each item for whether the cost is higher than NRV and write it down if required; don't compare the entire cost of all inventory to the entire NRV of all inventory and then write down all inventory. For items in the same product line, do the test and write-down for the entire product line as a group, if its difficult to evaluate them separately.

Problem solving template. Recorded - stock take = shrinkage. Debit ajdustment = shrinkage + impair charges. Impair charges = Stock take - NRV. Price of inventory = NRV + cost of selling everything.

Petty Cash

Store money in bank and withdraw small amount periodically.

Petty Cash Fund. Fixed amount that is held to meet daily small cash spending needs. Withdraw amount from the bank (cash at bank) and hold it in a petty cash box under the control of designated petty cashier. Credit (reduce) cash at bank and debit (increase) petty cash.

Cash over and short. Correction for mistakes, if lower than expected, withdraw more, otherwise withdraw less.

Changing fund amount. Change amount of withdrawed amount to match the new target in 2 journal entries. 1st to replenish to old balance, 2nd to increase/decrease the fund after.

Bank Reconcilation

Unadjusted balance per bank statement
Add : Deposits in Transit
Less: Outstanding Cheques
Add/Less : Errors
Adjusted bank balance

Unadjusted balance per books
Add : EFT from customers & Interest Revenue
Less: Uncollectible items (eg NSF cheques)
Less: Bank Deductions (eg bank service fees)
Add/Less : Errors
Adjusted book balance

* EFT stands for Electronic Funds Transfer

Journal entries

1. **Journal Entries** for EFT from customers
   Dr Cash
   Cr Accounts Receivable

2. **Journal Entries** for NSF cheque
   Dr Accounts Receivable
   Cr Cash

3. **Journal Entries** for bank service fee
   Dr Miscellaneous Expense
   Cr Cash

Cash at bank. Amount of money company think they have at the bank.

BEGINNING BALANCE	BEGINNING BALANCE
ACTUAL FARE	ACTUAL WRITE-OFF
PRE-TOP UP BALANCE	UNADJUSTED (EXISTING) BALANCE
TOP UP	EXPECTED CREDIT LOSS
TARGET ENDING BALANCE	DESIRED ALLOWANCE BALANCE

The amount of expected credit loss is not the same as Loss allowance ending balance. Reasons for discrepancies:

- **Deposits in transit.** Deposit haven't arrived at the bank, ADD to bank balance.
- **Outstanding cheques.** Cheques haven't been deposited, SUBTRACT from bank balance.
- **Non-sufficient funds cheques.** Bounced cheques are recorded on our side but not on the bank side, SUBTRACT from cash at bank.
- **Bank charges.** Fees at the bank not reflected in our cash at bank, SUBTRACT from cash at bank
- **Interest received.** Bank account earned interest, ADD amount to cash at bank
- **Collections on behalf.** Bank perform some things on our behalf and just deduct from our bank account, ADD amount to cash at bank

Allowance method

Customers dont pay for subscription based stuff. Estimate the loss when we send the goods and customers dint pay.

TYPES OF ENTRIES	DR	CR
Under Allowance method		
Adjustment for Estimated Expected Loss	Expected Credit Loss	Loss Allowance
Write-off Uncollectible Accounts	Loss Allowance	Accounts Receivables
Recovery of Accounts Receivable written-off	Accounts Receivables Cash	Loss Allowance Accounts Receivables

Loss Allowance

Bad Debt written off	80	Beginning Balance (BB)	100
		Bad Debt recovered	0
		Unadjusted Balance	20
		Expected Credit Loss	90
		Ending Balance (EB) (eg 2% of AR Ending Balance)	110

Steps to compute EXPECTED CREDIT LOSS
1. EB = % of AR Ending Balance
2. Unadjusted Balance = BB – Bad Debt written-off + Bad Debt Recovered
3. Expected Credit Loss = EB - Unadjusted Balance

It is possible to get negative ECL (reversal of expense). It is not possible to get a debit ending balance in the Loss Allowance account. Since ending balance is a percentage of accounts receivable which cannot be negative, loss allowance will never be negative. But if company underestimate the allowance, the unadjusted loss allowance balance will be abnormal.

Notes and Warranty

Promissory Note. Borrower promise to pay a fixed sum of money after a fixed period (in days/months) from the date which the note is signed.
Maturity Date. Due date of the note.
Interest. Interest on paying up the note. Interest rate based on the amount borrowed.
Calculation. Rate per year, depends on the period - if in months, put as fraction base 12. otherwise use 360 base.
Counting months. If due date is in n months then the resulting date would be current date + n.
Counting days. Start counting after the issue date, essentially the due day would be current date + $n+1$ days

TYPES OF LIABILITIES	OBLIGATION @ B/S DATE	CERTAINTY
KNOWN LIABILIITES	PRESENT	CERTAIN
ESTIMATED LIABILITIES (PROVISIONS)	PRESENT	LESS CERTAIN
CONTINGENT LIABILITIES	POTENTIAL	LESS CERTAIN OR UNLIKELY

Known current liabilities. Accounts payable, notes payable, accrued expenses, sales tax payable, unearned sales revenue.
Provisions. Product Warranty

Warranty Provision

2 methods:

- Estimate required ending balance based on percentage of sales. Warranty expense is the balancing Figure
- Estimate amount of warranty expense as a percentage of sales

TYPES OF ENTRIES	DR	CR
WARRANTY PROVISION		
Adjustment for Estimated Warranty Expense	Warranty Expense	Warranty Provision
Actual Claim	Warranty Provision	Inventory / Cash

EZ LINK	WARRANTY PROVISION
BEGINNING BALANCE	BEGINNING BALANCE
ACTUAL FARE	ACTUAL CLAIM
PRE-TOP UP BALANCE	UNADJUSTED BALANCE
TOP UP	WARRANTY EXPENSE
TARGET ENDING BALANCE	REQUIRED ENDING BALANCE

Method 2 : Estimate amount of Warranty Expense directly

MONTH	1	2	3	STEP
BEG BALANCE (PRIOR PERIOD ENDING BAL)	0	100	130	
ACTUAL FARE	0	(80)	(140)	
WARRANTY EXP (ESTIMATED)	100	110	110	1
ENDING BALANCE	100	130	100	

Only 1 step – estimate amount of warranty expense directly

Ending Balance of Warranty provision cannot be negative. Since we will not estimate a negative Warranty Provision and the top-up is done at the end of the period.
Warranty Expense is not the same amount as Ending Balance of Warranty Provision as long as there is an existing/unadjusted (pre-top up) balance.
Actual claim will not be recorded as Warranty expense. Warranty expense is recorded when we estimate amount of Warrant expense at the end of every accounting period. Actual claim will be debited to Warranty Provision which is a liability.

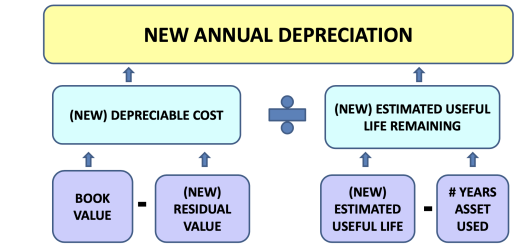
PPE

Non-current asset, longer than 1 year. Cost of plant assets includes expenditures to acquire the asset and to make it ready for its intended use. Excludes annual recurring and dont increase capacity/useful life.
Cost approach. record at cost minus accumulated depreciation. Represented by PPE at cost and accumulated depreciation on PPE. Net book value = at cost - accumulated depreciation.
Revaluation approach. Periodically revalued to current market value. Accumulated depreciation calculated as usual.
Acquisition cost. Costs necessary to acquire, bring to location and install. If need to cleanup after, future costs are estimated and recorded here. Related reliability is non-current provision. 2 journal entries, 1 to include necessary stuff, 1 for everything else.
Capital expenditure. Improvement to asset which provide additional functionality/extend life. Increase in asset at cost amount.
Revenue expenditure. Maintainance work to ensure the machine is in proper working condition. Treated as expenses and added to cost of asset.
Allocating acquisition cost. Cost of bundle should be split up between different items in proportion to what each of them would cost if purchased as a standalone item.

Depreciation

STRAIGHT -LINE

$$\frac{\text{Cost} - \text{Residual Value}}{\#\text{ Years in useful life}}$$

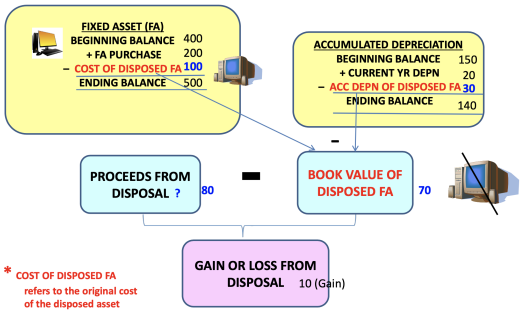


* Book Value is also known as Net Book Value & Carrying Amount

Disposals

Record as a single transaction

1. Credit to PPE asset at cost to make it 0
2. Debit accumulated depreciation on PPE asset to make it 0, part of carrying amount of PPE asset which isn't ours anymore
3. Debit amount of proceeds from sale to cash/receiveble/some other asset/liability
4. Gain/loss on disposal. Gain given by proceeds from sale of PPE - carrying amount of PPE at sale date



Cooperations

Share capital. Value of investment made in the company by share investors when they are issued (sold) by the company.
Retained earnings. Value of accumulated net profits earned by company so far in its life, less accumulated amounts of dividends.

Cash Dividend

Declaration date. Records dividend as a direct debit to retained earnings/temporary account called Dividend. Record amount due as a payable

Date of record. Shareholds who own the shares on this date will get dividend. Cut-off date to decide who gets. No entry on this day.
Payment date. Date which dividend is paid

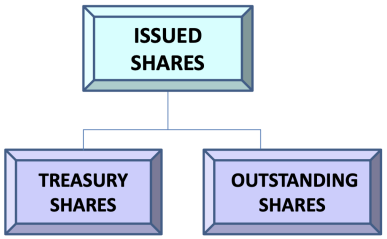
OCI and other reserves

OCI are movements in equity that are not recorded in income statements since its just a remeasurement. Recorded separately from net profit. Net profit + OCI = Comprehensive income. OCI accumulated in a permanent equit account called reserve, records accumulated OCI of a particular type.
Procedure. Close accumulated depreciation to property at cost account. Restate property at cost at its carrying amount and make accumulated depreciation 0. Record revaluation gain. Directly credit permanent equity account that tracks it. Put net profit, OCI and comprehensive income into the statement of comprehensive income.

Shares

RIGHTS TO	COMMON SHARES	PREFERRED SHARES
DIVIDEND	NO PRIORITY	HAS PRIORITY
CUMMULATIVE DIVIDEND	NO	USUALLY
CLAIM OF ASSET AT LIQUIDATION	NO PRIORITY	HAS PRIORTIY
RIGHT TO VOTE	YES	USUALLY NO

OUTSTANDING SHARES



REVALUATION SURPLUS

EXAMPLE
PROPERTY COST $100,000
ACCUMULATED DEPRECTIATION $30,000
FAIR VALUE $110,000

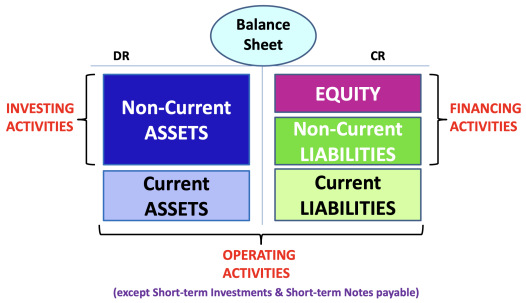
1) Close accumulated depreciation to cost
DR Accumulated Depreciation 30,000
CR Property 30,000
(Cost of property = 100,000 – 30,000 = 70,000)

2) Record revaluation gain
DR Property 40,000
CR Revaluation surplus 40,000
(Cost of property = 70,000 + 40,000 = 110,000)

* Revaluation surplus is an Other Comprehensive Income (OCI)

Preference shares. Shares that usually dont have boting rights. Usually pay a fixed dividend calculated using a standard rate based on a fixed value per share. Not compulsory - have the option to fully/partially pay them. Higher rank than ordinary; if preference not paid, ordinary not paid. Convertible to ordinary shares. Company can buy them back at fixed price.
Cumulative. Unpaid preference shares get carried forward until its paid
Treasury shares. Companies buy back shares and not cancel them. Recorded as a negative adjustment to equity inside equity section with a normal debit balance. Recorded at cost.
Outstanding shares. Shares that are ordinary but not treasury shares.
Bonus shares. Free shares given to existing shareholders. Company market value dont change, just divided into a larger number of shares.

Statement of cash flow



Cash from operating activities

INCOME STATEMENT		CASH FLOW STATEMENT
REVENUE	+ AR BB – AR EB =	RECEIPTS FROM CUSTOMERS
(EXPENSES)	+ AP BB - AP EB =	(PAYMENTS TO SUPPLIERS)
NET INCOME		NET CASH FROM OPERATIONS

ACCOUNTS RECEIVABLE
BB
+ REVENUE
– RECEIPTS
EB

ACCOUNTS PAYABLE
BB
+ EXPENSE
– PAYMENTS
EB

* BB – BEGINNING BALANCE
* EB - ENDING BALANCE
* AR – ACCOUNTS RECEIVABLE
* AP - ACCOUNTS PAYABLE

Golden rule. Increase non-cash assets leads to decrease in cash. Increase in liabilities leads to increase in cash.
Indirect method. Combine and group income statement numbers and the changes in non-cash current assets/liabilities. Profit before interest and tax + non-cash expense item amts - non-cash income item amts -/+ gain/lose on PPE disposal - change in operating current assets + change in operating current liabilities. Tax paid, interest received/paid, dividend received/paid must always be reported using the direct method.

1. Compute changes for all accounts in the Statements of Financial Position (SFP)
2. OPERATING ACTIVITIES
   - Cash collected from customers
   - Cash paid to suppliers of merchandise
   - Cash paid for operating expenses eg rent
   - Cash paid for interest expense
   - Cash received from interest/dividend revenue
   - Cash paid for tax expense

   - Check Additional Information
   - Refer to Income Statement
   - Refer to the changes computed for the Current Assets & Current Liabilities accounts
3. INVESTING ACTIVITIES
   - Purchase or sale of PPE
   - Purchase or sale of ST or LT Investments
   - Short-term (ST) or Long-term (LT) Lendings

   - Check Additional Information
   - Refer to the changes computed for the Non-current Assets accounts
4. FINANCING ACTIVITIES
   - Issuance of Shares
   - Payment of Dividends
   - Purchase or sale of Treasury Shares
   - Short-term or Long-term Borrowings

   - Check Additional Information
   - Refer to the changes computed for the Equity & Non-current Liabilities accounts

The list above is not exhaustive.

Cash collected from customers. Net sales - increase in trade receivables + increase in unearned revenue - expected credit loss
Cash paid to suppliers of merchandise. COGS less increase in inventory add increase in trade payable.
Income tax paid. Income tax expense less increase in deferred tax asset add increase in income tax payable and income tax liabilities.

FSA Stretch

Raw materials. Materials used to manufacture the product
Work in progress. Items that are in process of being manufactured
Finished goods. Completed products that are ready for sale
Conversion costs. Costs that are accumulated in WIP and finished goods are not just the materials cost but other production costs collectively.
Procedure. Raw materials goes up (debit) when we purchase and go down (credit) when we use. Upon using, transfer amount to WIP. WIP goes up by amt of raw materials used in production as well as conversion costs. WIP go down when product item is completed and related costs are transferred. Amount transferred is Cost of Goods Manufactured (COGM). Finished goods go up by COGM and goes by COGS.

Return on equity.

$$\frac{\text{Profit attributable to parent ordinary shares}}{\text{AVERAGE (Total equity – NCI share of equity – Preference share capital)}} = \frac{\text{Net profit – NCI share of profit – Preference dividend}}{\text{Equity attributable to parent ordinary shares}}$$

* Ordinary Shares is also known as Common Shares

Net interest margin ratio.

$$\frac{\text{Interest income - interest expense}}{\text{avg total assets}}$$

Capital adequacy ratios.

Common equity tier 1 capital adequacy ratio (CET1 ratio)

$$\frac{\text{CET1 ratio}}{\text{risk-weighted assets}}$$

Tier 1 capital adequacy ratio (CAR 1)

$$\frac{\text{Tier 1 capital}}{\text{risk-weighted assets}}$$

Total capital adequacy ratio (Total CAR)

$$\frac{\text{CAR1} + \text{CAR2}}{\text{risk-weighted assets}}$$

Evaluates the protection that the depositors have against the bank running out of funds and unable to return their deposits. CET1 consist of ordinary shares and accumulated reservers. CAR1 contains slightly less protective and instruments like preference shares. CAR2 contains CAR1 and low-ranking subordinate debt.
Credit risk. Risk that borrower wont repay what they owe us
Market risk. Risk that an investment will suffer a decline in its market value **Operational risk.** Risk that an asset used in operations will be subject to some operational crisis
Loan losses. Loans on which payment is overdue by more than 90 days.
NPL ratio. Non-performing loans divided by gross loans.
Financial instruments. Includes loans (assets), borrowing (liability), investment in shares/equity or other companies (assets), financial contracts (derivative), which are either asset/liability depending on market value, +ve is asset.
Fair value (profit and loss). Assets recorded at their balance-sheet date market value and changes in this value is recorded as changes in income statement.
Fair value (OCI). Item recorded at fair value but changes in fair value are recorded as OCI rather than in income statement. Accumulated in ¿= 1 separate reserves.
Amortised cost. Loans that held to maturity and never sold, company record them at cost less repayments and plus accrued interest. Financial liabilities are mostly this.