

ACCTG 300

Important Links

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Questions

- What is the importance of knowing the difference between IFRS and ASPE?
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Main Ideas

- Uses and users of accounting.
- Main forms of business organizations.
- Main forms of business activity.
- Purpose of each financial statement.

Definitions

- What is Accounting? ; Identifies and records the economic events of an organization that communicates this information. (Called Accounting Information);
- Internal Users ; Users that make financial decisions/influence Accounting Information. Ex: Managers, human resources, marketing, etc.;
- External Users ; Users that use the information given from accounting information. Ex: Investors, creditors, customers, authorities, etc.;
- Proprietorship business ; A type of business organization that is: owned by one person, simple to set up, owner controls business, limited life, unlimited liability, income tax paid by owner.;
- Partnership business ; A type of business organization that is similar to a proprietorship but ownership is formalized in written agreement. (Still has limited life, unlimited liability for partners, income tax is paid by each partner.);
- Corporation business ; A type of business organization that: separates owners by shareholders, indefinite life, shareholders are liability for only their shares, corporation pays income tax, may be private or public.;
- Financing Activities ; Obtaining/repaying funds to finance operations of business. Usually long-term liabilities/shareholders' equity are related to financing activities.;
- Investing Activities ; Obtaining resources or assets needed to operate the business for long term. Ex: Investment, property, equipment, etc.;
- Operating Activities ; Day-to-day expense, usually current assets and current liabilities (cash, account receivable and accounts payable);
- Accounts Receivable ; Money owed by customers which have not yet been paid for yet.;
- Accounts Payable ; Sum of money owed to a seller for purchasing a product/service which have not yet been paid for yet.;
- Long Term Investment vs Current Investment Duration; Long term investment is > 1 year, current investment is < 1 year.;
- Financial Statements ; Shows how cash was used for a specific period of time. Order of preparation: Income Statement, Statement of Retained Earnings (Statement of Changes in Equity), and Balance Sheet (Statement of Financial Position).;
- Income Statement ; Net Income (loss) ; $\text{Net Income (loss)} = \text{Revenues} - \text{Expenses}$. Over a period of time.;
- Statement of Retained Earnings (ASPE) / Statement of Changes in Equity (IFRS Companies) ; $\text{Retained earnings for a period} = \text{Cumulative profit} - \text{dividends paid to shareholders.}$;
- Balance Sheet ; $\text{Assets at a given time} = \text{liabilities} + \text{shareholders' equity}$
- Statement of Cash Flows ; Details of all cash inflows and outflows of all business activities.
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Notes

- Different types of users:

Type of User	Internal or External User
Chief Financial Officer	Internal
Creditors	External
Production Manager	Internal
Customers	External
Investors	External
Marketing Manager	Internal

- Different types of business organizations:

Characteristic	Proprietorship	Partnership	Corporation
Owners	Proprietor: one	Partners: two or more	Shareholders: one or more
Owner's liability	Unlimited	Unlimited	Limited
Separate legal entity	No	No	Yes
Taxation of profits	Paid by the owner	Paid by the partners	Paid by the corporation
Life of organization	Limited	Limited	Unlimited


- Different types of business activities:



Financing Activities

Inflows: Issuing shares, taking out a loan


Outflows: Paying dividends, repurchasing shares, repaying loans



Investing Activities

Inflows: Proceeds from selling long-lived assets, proceeds from selling shares of other companies

Outflows: Buying long-lived assets, buying shares of other companies



Operating Activities

Inflows: Revenues, collection of receivables, sale of services or goods

Outflows: Expenses, payment of payables, purchase of inventory and supplies

- Examples for business activities:

Business Activity	Classification of Business Activity	Cash Inflow/Outflow	Account Classification
Amount paid to an employee for work performed	Operating	Outflow	Expense
Amount is earned and received from providing a service	Operating	Inflow	Revenue
Common shares are issued	Financing	Inflow	Share Capital
Vehicle is purchased	Investing	Outflow	Asset
Sale is made to a customer who will pay next month	Operating	No Change	Asset
Supplies are purchased with cash	Operating	Outflow	Asset or Expense
Bank loan is taken from the bank	Financing	Inflow	Liability
Amount is paid for utilities used	Operating	Outflow	Expense

- Example of Statement of Income

Sierra Corporation			
Statement of Income			
Month Ended October 31, 2021			
Revenues			
Service revenue			\$20,600
Expenses			
Salaries expense	\$6,000		
Supplies expense	1,500		
Rent expense	900		
Depreciation expense	83		
Insurance expense	50		
Interest expense	25		8,558
			<u> </u>
Income before income tax			12,042
Income tax expense			<u>1,800</u>
Net income			<u><u>\$10,242</u></u>

- Example of Statement of Changes in Equity

Sierra Corporation			
Statement of Changes in Equity			
Month Ended October 31, 2021			
	<u>Common Shares</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance, October 1	\$ 0	\$ 0	\$ 0
Net income		10,242	10,242
Dividends declared		(500)	(500)
Issued common shares	<u>10,000</u>		<u>10,000</u>
Balance, October 31	<u><u>\$10,000</u></u>	<u><u>\$ 9,742</u></u>	<u><u>\$19,742</u></u>

- Statement of Changes in Equity (IFRS) vs Statement of Retained Earnings (ASPE)

Changes in common shares

Common shares,
beginning of period

+

Common shares
issued (sold)

−

Common shares
repurchased

=

Common shares,
end of period

Changes in retained earnings

Revenues

−

Expenses

=

Retained earnings,
beginning of period

+

Net Income
(or − Loss)

−

Dividends Declared

=

Retained earnings,
end of period

- Balance Sheet / Statement of Financial Position

Sierra Corporation		
Statement of Financial Position		
October 31, 2021		
	<u>Assets</u>	
Cash		\$11,400
Accounts receivable		11,200
Supplies		1,000
Prepaid insurance		550
Equipment		<u>4,917</u>
Total assets		<u><u>\$29,067</u></u>
	<u>Liabilities and Shareholders' Equity</u>	
Liabilities		
Accounts payable		\$ 1,500
Salaries payable		2,000
Interest payable		25
Deferred revenue		800
Bank loan payable		<u>5,000</u>
Total liabilities		<u>9,325</u>
Shareholders' equity		
Common shares		10,000
Retained earnings		<u>9,742</u>
Total shareholders' equity		<u>19,742</u>
Total liabilities and shareholders' equity		<u><u>\$29,067</u></u>