



Preparation of Financial Statements

- Accounting Principles

2022. 3.

Dr. Yangin Yoon

Recap the last class

- Format of Accounting Records rule #1
 - Asset (Left)
 - Liability (Right)
 - Equity (Right)
- Income Statement
 - Expense (Left)
 - Cash / Asset (Left)
 - Cash / Asset (Right)
 - Revenue (Right)
- Balance sheet

Cash Accounting vs. Accrual Accounting

- ST Consulting borrowed \$10,000 with 5% annual interest rate from a Bank on Oct. 1st, 2021.
 - The borrowing period is one year.
 - The principal (\$10,000) and its interest (\$500) will be paid on Sep. 30th, 2022 by cash.

→ What is the interest expense during the year 2021?

Option #1) Zero

*Option #2) $\$500 * 3 / 12 = \125*

Option #3) \$500

Cash Accounting vs. Accrual Accounting

- ST Consulting rented a shop with \$10,000 of deposit and \$500 of monthly fee for two years from Dec. 1st, 2021 to Nov. 30th, 2023.
 - ST Consulting paid \$10,000 of cash as deposit on Dec. 1st, 2021.
 - And ST Consulting also paid \$1,500 of cash for its three-month rent fee in advance as cash on Dec. 1st, 2021.

→ Accounting Records on Dec. 1st, 2021?

Dec.1., 2021

Deposit	\$10,000	Cash	\$10,000
---------	----------	------	----------

Dec.1., 2021

Pre-paid Rent Fee	\$1,500	Cash	\$1,500
-------------------	---------	------	---------

→ Accounting Records on Dec. 31st, 2021?

Dec.31., 2021

Rent Expense	\$500	Pre-paid Rent Fee	\$500
--------------	-------	-------------------	-------

Accounting Official Terms

- Journal Entry (General Journal Entry)

- Left Item: Debit

- Right Item: Credit

- Example of Journal Entry

(Dr) Cash \$2,000

(Cr) Bank Loan \$2,000

Accounting Official Terms

- Adjusting Entries
 - Reflecting accrual accounting
 - Examples:

Dec.31., 2021

Interest Expense \$125

Unpaid Interest Expense \$125

Dec.31., 2021

Rent Expense

\$500

Pre-paid Rent Fee \$500

Accounting Official Terms

- Closing Entries
 - Moving revenue accounts and expense accounts into one equity account
 - After closing entries, there will be zero balance amounts in revenue and expense accounts
 - Example:

Revenue (gain)	\$5,000
----------------	---------

Salary Expense	\$2,000
----------------	---------

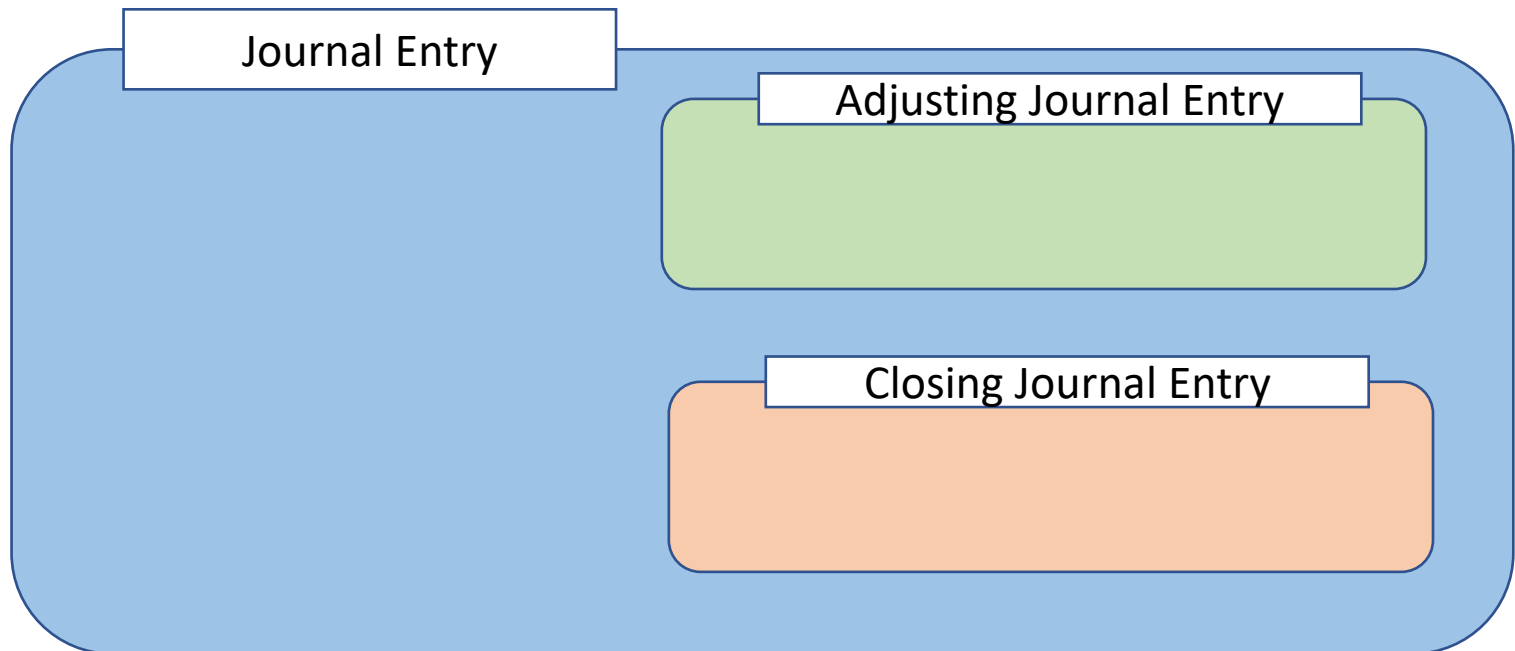
Earnings	\$3,000
----------	---------

Accounting Official Terms

- Trial Balance
 - Aggregated all journal entries
- Adjusted Trial Balance
 - Trial Balance + Adjusting Entries
 - Sometimes, people say trial balance, meaning “adjusted trial balance”, depending on the context

Accounting Official Terms

- Journal Entry



Any Questions?
(Recap)

Financial Statements

- Financial statements:

<https://dart.fss.or.kr/>

<https://www.google.com/>

- Annual report:
 - Korean companies
 - BMW
 - Microsoft
 - Netflix

Financial Statements

- Financial statements:

<https://dart.fss.or.kr/>

<https://www.google.com/>

- You can find the financial statements:
 - Do it yourself, pick one company, and find its financial statements
 - Financial Statements, Annual Report, or Audit Report

Financial Statements

- Financial Statements:
 - Statement of Financial Position
 - Statement of Comprehensive Income
 - Statement of Changes in Equity
 - Statement of Cash Flows
 - Notes

Financial Statements

- Financial Statements:
 - Statement of Financial Position

Part I: Illustrative presentation of financial statements		
XYZ Group – Statement of financial position as at 31 December 20X7 (in thousands of currency units)		
	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Investments in equity instruments	142,500	156,000
	<u>901,620</u>	<u>945,460</u>
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	<u>564,880</u>	<u>578,740</u>
Total assets	<u>1,466,500</u>	<u>1,524,200</u>
XYZ Group – Statement of financial position as at 31 December 20X7 (in thousands of currency units)		
	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	<u>903,700</u>	<u>782,900</u>
Non-controlling interests	70,050	48,600
Total equity	<u>973,750</u>	<u>831,500</u>

continued...

...continued		
XYZ Group – Statement of financial position as at 31 December 20X7 (in thousands of currency units)		
	31 Dec 20X7	31 Dec 20X6
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
Total non-current liabilities	<u>177,650</u>	<u>238,280</u>
Current liabilities		
Trade and other payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
Total current liabilities	<u>315,100</u>	<u>454,420</u>
Total liabilities	<u>492,750</u>	<u>692,700</u>
Total equity and liabilities	<u>1,466,500</u>	<u>1,524,200</u>

Financial Statements

- Financial Statements:
 - Statement of Comprehensive Income

Examples of statement of profit or loss and other comprehensive income when IAS 39 *Financial Instruments: Recognition and Measurement* is applied
 XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
 (illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
 (in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates ^(a)	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	—	(30,500)
PROFIT FOR THE YEAR	121,250	65,500

continued...

...continued

Examples of statement of profit or loss and other comprehensive income when IAS 39 *Financial Instruments: Recognition and Measurement* is applied
 XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
 (illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
 (in thousands of currency units)

	20X7	20X6
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates ^(b)	400	(700)
Income tax relating to items that will not be reclassified ^(d)	(166)	(1,000)
	<u>500</u>	<u>3,000</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations ^(d)	5,334	10,667
Available-for-sale financial assets ^(d)	(24,000)	26,667
Cash flow hedges ^(d)	(667)	(4,000)
Income tax relating to items that may be reclassified ^(c)	4,833	(8,334)
	<u>(14,500)</u>	<u>25,000</u>
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>107,250</u>	<u>93,500</u>

continued...

Financial Statements

- Rules:
 - Natural law
 - Man-made rules (laws?)
- Accounting rules (GAAP, Generally Accepted Accounting Principles)
 - IFRS, K-IFRS, K-GAAP, etc.
 - Let's find some:

<https://www.google.com/>

(http://www.kasb.or.kr/fe/accstd/NR_list.do?sortCd=K-IFRS&divCd=01)

(<https://www.ifrs.org/issued-standards/list-of-standards/>)

Financial Statements

- Interconnection among financial statements
 - Income Statement and Statement of Financial Position
 - Statement of Financial Position and Statement of Changes in Equity

Any Questions?



Accounting for Merchandising Firms

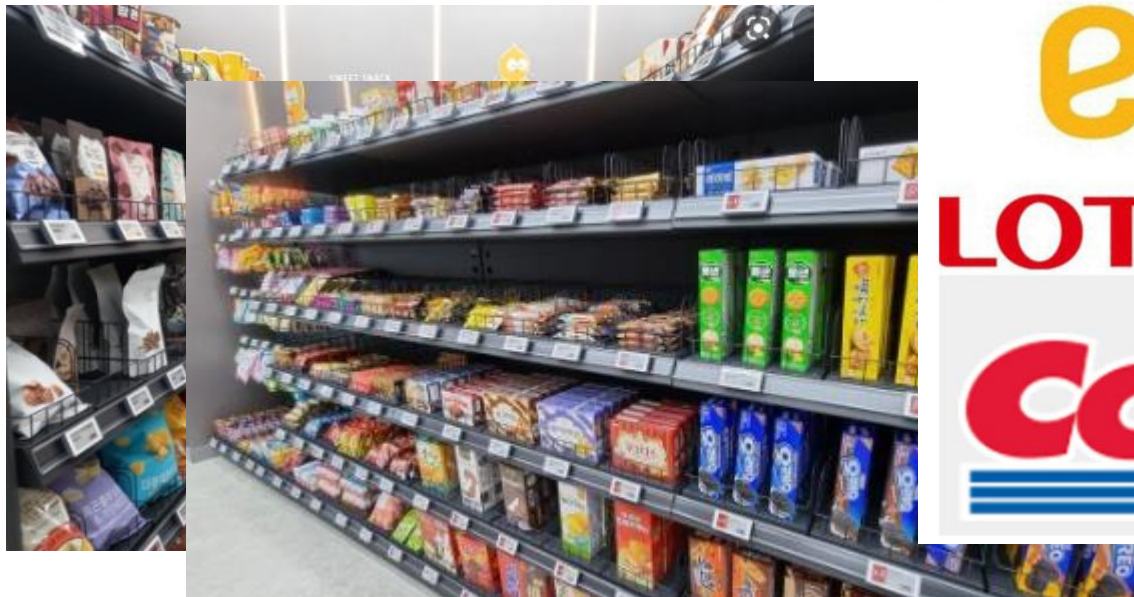
- Accounting Principles

2022. 3.

Dr. Yangin Yoon

Accounting for Merchandising Firms

- Merchandising Firms:
 - Buying goods and selling goods



Accounting for Merchandising Firms

- When they buy goods:

Inventory	\$5,000	Cash	\$5,000
-----------	---------	------	---------

- When they sell all the goods:

Cash	\$8,000	Revenue	\$8,000
------	---------	---------	---------

Cost of goods	\$5,000	Inventory	\$5,000
---------------	---------	-----------	---------

→ What if they sell just half of the goods?

What if they bought goods multiple times?

Accounting for Merchandising Firms

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?
- 20X1. 2. 26. the shop sold 600 liters. How much is the cost of goods?

Inventory Cost Assumptions

- First-in, first out (FIFO)
 - First costs into inventory are the first costs assigned to cost of goods sold
 - Ending inventory is based on the latest costs incurred
- Last-in, first-out (LIFO)
 - Costing is the opposite of FIFO
 - Last costs into inventory go immediately to cost of goods sold
 - Ending inventory is based on the oldest costs
- Weighted-Average Cost
 - Based on the average cost of inventory during the period

First-in, first out (FIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?
 $100 * 20$
 $+ 250 * 15 = 2000 + 3750 = 5,750$
- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?
 $50 * 15$
 $+ 500 * 18$
 $+ 50 * 16 = 750 + 9000 + 800 = 10050$

First-in, first out (FIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	5,750	Inventory	5,750

- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	10,050	Inventory	10,050

Last-in, first-out (LIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?
 $50 * 20$
 $+ 300 * 15 = 1000 + 4500 = 5,500$
*or $350 * 16 = 5,600$*
- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?
 $200 * 18$
 $+ 400 * 16 = 3600 + 6400 = 10,000$
*or $50 * 16 + 500 * 18$
 $+ 50 * 15 = 10,550$*

Last-in, first-out (LIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	5,500	Inventory	5,500

- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	10,000	Inventory	10,000

Weighted-Average Cost

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?
$$[(100 * 20 + 300 * 15) / 400] * 250 = 16.25 * 250 = 5,687.5$$
- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?
$$[16.25 * (100+300-350) + 500 * 18 + 400 * 16] / (50+500+400) * 600$$
$$= 16212.5 / 950 * 600 = 10239.47$$

Weighted-Average Cost

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	5,687.5	Inventory	5,687.5

- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	10,239.47	Inventory	10,239.47

Cost of goods vs. Inventory Balance

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	30	9,000
20X2. 2. 20.	500	70	35,000
Total			46,000

- 20X1. 2. 25. the shop sold 200 liters. How much is the cost of goods?
- The unit price is increasing rapidly.
- How much is the cost of goods?
4,000 or 14,000 or other?
- How much is the inventory balance at the end of February?
42,000 or 32,000 or other?

Inventory Cost Assumptions

- Accounting Rules:
 - Man-made rules
- Accounting rules (GAAP, Generally Accepted Accounting Principles)
 - IFRS, K-IFRS, K-GAAP, etc.
 - Let's find some (Is LIFO method allowed in IFRS?):

<https://www.google.com/>

(http://www.kasb.or.kr/fe/accstd/NR_list.do?sortCd=K-IFRS&divCd=01)

(<https://www.ifrs.org/issued-standards/list-of-standards/>)

Accounting for Merchandising Firms

- Now, you can make [journal entries for a merchandising company](#).
- You can prepare the financial statements for a merchandising company.
 - Statement of Financial Position
 - Statement of Comprehensive Income
 - Statement of Changes in Equity
 - Statement of Cash Flows
 - Notes

Any Questions?