

Financial Accounting

Part A: Financial Statements

Types of Accounting

- Financial
 - Financial Statements:
 - Balance Sheet
 - Income Statement
 - Government and regulatory reporting
- Management
 - Decision support

The Accounting Equation

Assets – Liabilities = Owner's Equity

This is, essentially, the balance sheet.

The *Other* Accounting Equation or The Business Equation

$$\text{Profit } (\pi) = \text{Revenue} - \text{Expenses}$$

This is, essentially, the Income Statement

Balance Sheet

	Assets			-	Liabilities	=	Owners' Equity
	(Cash at Bank	+	Inventory)	-	Bank Loan	=	Owners' Equity
	0		0	-	0	=	0
i	<u>+200</u>						<u>+200</u>
	200		0	-	0	=	200
ii	<u>+1,000</u>				<u>+1,000</u>		
	1,200		0	-	1,000	=	200
iii	<u>-500</u>		<u>+500</u>				
	700		500	-	1,000	=	200

- i) To start up the company the owner puts \$200 in the company bank account.
- ii) The **company** borrows \$1,000 from the bank.
- iii) The **company** purchases \$500 worth of items to stock the selves.

Income Statement

	Profit	=	Revenue	-	Expenses
i	0	=	0	-	0
ii	0	=	0	-	0
iii	0	=	0	-	0
iv	\$50	=	300	-	250

- i) To start up the company the owner puts \$200 in the company bank account.
- ii) The **company** borrows \$1,000 from the bank.
- iii) The **company** purchases \$500 worth of items to stock the selves.
- iv) Sell half of the inventory purchased in step iii for \$300

All Together now...

Consider BitCo:

- “IT Made Easy”
- Alice and Bob
- Corporation owned by A and B
- IT products and services to the SMB* market in Hamilton

*Small and Medium sized Business

BitCo Scenario

1. A and B each invest \$1,000 in BitCo as startup funding.
2. Buy 4 hard drives @ \$100 each to resell.
3. Sell one hard drive for \$140 in cash.
4. Sell one hard drive for \$150 to Sue on account.
5. Sue pays her invoice for \$150
6. Purchase 10 external hard drive cases for \$100, to be invoiced at the end of the month.

BitCo Scenario (continued)

7. Pay for HD cases.
8. Sell one external HD for \$100, cash
9. BitCo pays \$5 rent to A for the use of her garage.
10. Buy a \$2 screw driver to make assembly easier.
11. Buy a \$2,000 assembly robot.

Chart of Accounts

- Will likely be set for you
 - by accountant
 - by CRA: GIFI

Accounts Payable and Receivable

- Businesses seldom pay 'cash'
- Typical **terms**: 30, 60, or 90 days
- Accounts Payable
 - Money you know you will have to pay
- Accounts Receivable
 - Money you know you will receive

What's Next?

Think about the screw driver and the robot.

How long will we benefit from them?

Should be have a way to **account** for their long term value?

Does the relative cost make a difference?