Comm 217 Crash Course - Midterm intro notes

Financial Accounting (Concordia University)

Comm 217 Crash Course

Types of Accounts - 2

2.1 - Accounts

Accounts - building blocks of financial reporting Used to Store & Sort transactions, affecting a particular part of the company's Ledger.

ex: Cash account records every transactions that ↑ or ↓ the company's cash.

Broad Categories of accounts:
- assets
- Liabilities
- Shareholders' Equity
  - Revenues
  - Expenses
  - Dividends

2.2.1 - Assets

Assets - things that have a future economic benefit. EX:
- Accounts (Trade) Receivables - we will collect cash in the future
- Prepaid Rent - Usable rental space in future
- Equipment - Can be used to make products (or a service) in the future

Liabilities - when a business owes money. Obligations that are payable to another person or firm.

↳ settlement accomplished through transfer of money, goods, or services

- Deferred (Unearned) Revenue - When we receive money from customers in advance. Liability bc we owe them a service/product.

Shareholder's (Owner's) Equity

-▷ how much stake the owners/shareholders have in the business

-▷ can be viewed as a source (along w liabilities) of the company's assets

-▷ it is the owners residual claim after the liabilities have been paid; or the company's net worth

$1M (1,000 shares) ↑

formula for SE: Contributed capital + Retained earnings = SE

Contributed Capital (Share capital / common shares) - represents the amount that the company received when it issued (sold) shares.

-▷ the more shares our business sells to owners, the more their stake in the business increases (and the higher the SE)

-▷ shareholders can also contribute non-cash assets to the business; this also increases cont. capital & SE

Retained Earnings - the portion of the company's profits that have been kept in the business.

-▷ the more earnings our business keeps (retains) in our business, the more the owners stake in the business increases

★ memorize

Retained Earnings = Beginning Retained earnings + Net Income - Dividends

\$70 M = =0 + +\$100 M - \$30 M

Note: earnings = profit = income

Dividends - these are a portion of the company's profits that are paid back to the owners (shareholders)

-▷ NOT an expense

-▷ Reduce retained earnings (and SE)

Dividends ↑ RE ↓

Accrual Basis Accounting: we record journals entries based on when a transaction occurs, and not only when cash changes hand.

SE

Revenues We earn revenue by selling a product or providing a service, regardless of whether or not cash is received.

- each years revenues are independent of the previous year
- under the accrual basis of accounting, revenues are recorded at the time delivering the good/service even if cash not yet received.
- Revenues are a shareholders equity account
- EX: Ford sells a car in 2024 & payment is received in 2025, all revenue is recorded in 2024 only.

Expenses: costs incurred to run the business on a day-to-day basis

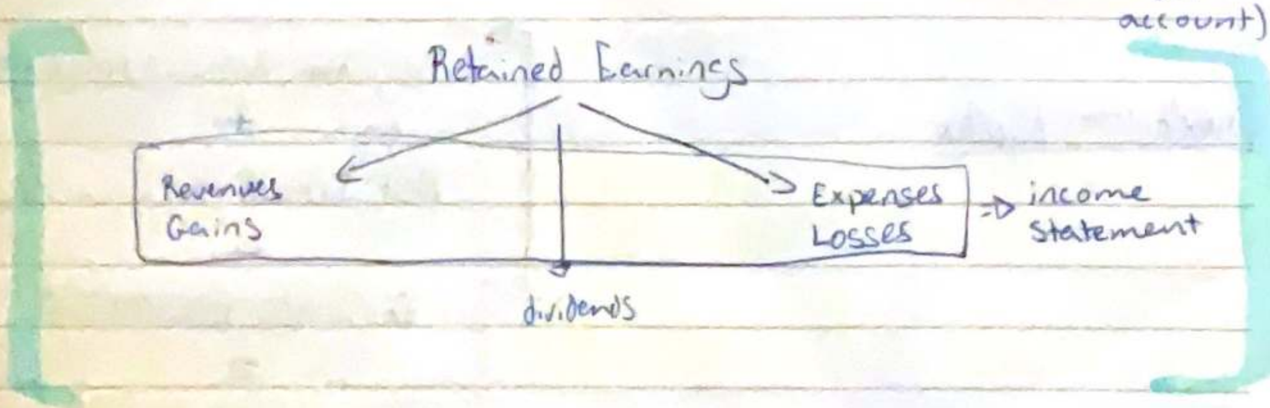
- these costs are not necessarily paid in cash to be recorded as expenses.
- an expense is the reduction in the value of an asset as it is used to generate revenue.
- usually when we use something, an expense is involved
- SE account

(awaiting $)

→ Receivable / payable

(purchased on account)

On Account: this means payment will occur later



Common Account Names

Assets

no interest
↑ usually few months

Cash	Short-term investment	accounts/trades receivables	* Note = Loan (note does not necessarily deal w bank - HAS interest)
Notes Receivables	inventory ↳ for sale	supplies ↳ Not for sale	
prepayments ↳ for rent & insurance	long-term investments	equipment	
building	land	intangible assets ↳ cannot touch (patent)	

Liabilities

accounts/trades payable	interest payable	Bonds payable
accrued liablities	unearned revenue	
Salaries/wages payable	Notes payable	

Shareholders' Equity

contributed capital * →	preferred shares
↳ common shares	Retained earnings

Beginning Retained Earnings

profit!! +

Net Income (Revenues - Expenses)

−

Dividends declared

=

Ending Retained earnings

The Accounting Equation

- Describes how assets are purchased (financed)
  - can be purchased using debt (liabilities) or purchased by owners (equity)
- Describes who has rights to the company's assets
  - Assets can be divided between creditor (liabilities) and owners (equity)
    (vendor)

Assets = Liabilities + SE (shareholders' equity)

Types of Accounts - IMPORTANT!!!

- Natural Debit: account that is **increased** with a **debit** and decreased with a credit.
- Natural Credit: account that is **increased** with a **credit** and decreased with a debit.

Debits = LEFT SIDE!! Credits = RIGHT SIDE!!

(DEALER)

Dividends, Expenses, Assets } ↑ with debits (natural Debits)

Liabilities, Equity, Revenue } ↑ with credits (natural credits)

Assets = Liabilities + SE

Assets	
+ debit	− credit

Liabilities	
− debit	+ credit

SE	
− debit	+ credit

expenses	
+ debit	− credit

dividends declared	
+ debit	− credit

Revenues	
− debit	+ credit

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What is a Journal Entry?

- → A journal entry is used to record a business transaction in the accounting records of a business
- → Debits written first & to the LEFT
- → Credits written after & to the RIGHT
- → must be at least one of each account entered; double-entry accounting system
- → total of debits MUST = total of credits
- → Dr = debit — Cr = credits A = assets L = liability

SE = Shareholders equity R = revenue E = expense

Examples

① on March 15, ABC INC sells $5000 of merch to a customer in exchange for cash

Dr. Cash (+A) 5000
Cr. Revenue (Sales) (+R +SE) 5000

* 3 types of Revenue
- sales revenue
- rent revenue
- interest revenue

Checklist for when i'm stuck (always lol)

1) Did Cash change hands? +A, −A

2) Did we use something?

+E → −SE

Expense → paid cash (−A)
Expense → payable (+L) (later on)

3) Did we earn something?

+R +SE

Revenue → cash (+A)
Revenue → Receivable (+A) → Acc. Receiv. / → Notes Recv / → interest Recv
Revenue → Unearned Revenue

default ↓ Acc. Receiv.

Company Name
Name of Statement
For the year ended December 31, 2022
(in CAD) (in thousands of dollers)

$ Net Sales (total sales less discount)
\- COGS (cost of goods sold)
= Gross Profit
\- Operating Expenses (direct costs related to product)
= Income from operations
± Indirect revenues & expenses
= Income before Taxes
\- Tax expense
= $ Net Income

$ EPS (earnings per share) $\frac{\text{Net income}}{100,000}$

Net profit Margin = Net earnings / Net Sales
Gross profit Margin % = Gross profit / Net Sales

Receivable turnover ratio = Net credit sales / Avg net acc. receivables