

LECTURE

2 | Assets and Resources in Business

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain what assets in business are
2. Explain what resources in business are
3. State the accounting equation, and define its components.
4. Understand what Balance Sheet is
5. Analyze the effects of business transactions on the accounting equation

2-2

Assets in business

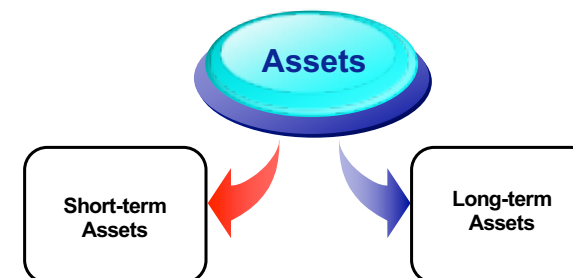
Learning Objective 1
Explain what assets in business are

Assets mean resources that are controlled by enterprises and may yield future economic benefits (VAS 01)

- Cash
- Accounts receivable
- Fixed assets
- ...

2-3

Assets in Business



2-4

Short-term Assets

Short-term assets records all assets that can be converted into cash, can be sold or used within 12 months or a normal operating cycle of enterprises at the time of the report, including: cash & cash equivalents, short-term financial investments, short-term receivables, inventories and other short-term assets. (Article 112 – Circular 200/2014/TT-BTC)

2-5

Short-term Assets

Cash & cash equivalents

- Cash: It is a general item to record the total current cash of enterprises at the time of reporting, including: cash on hand, cash in banks (deposits) and cash in transit.
- Cash equivalents: This item records the short-term investments with maturity less than 3 months from the date investment can be converted easily into a certain amount of cash and there is no risk in conversion into cash at the time of reporting.

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Short-term Assets

Short-term financial investments:

It is a general item records the total value of short-term investments, including: Securities held for trading purposes, investments held-to-maturity and other investments with the remaining term within 12 months from the time of reporting.

Short-term investment s recorded in this item excluding short-term investments presented in the item "cash equivalents" and item "receivables from short-term loans".

2-7

Short-term Assets

Short-term receivables: It is a general item recording the total value of short-term receivables with recovery term within 12 months or within a normal operating cycle at the time of the report, such as: receivables from customers, prepayments to suppliers, internal receivables, receivables according to the progress of construction contracts, receivables for loans and other short-time receivables.

Inventories: It is a general item recording the total current value of inventories for the production and trading of enterprises at the time of reporting, such as: raw materials, tools and supplies, work in progress, finished products, goods, ...

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Short-term Assets

Other short - term assets:

It is a general item recording the total value of other short-term assets with recovery or use term within 12 months at the time of reporting, such as short-term prepaid expenses, deductible VAT, taxes receivable, purchase and resale of government bonds and other short-term assets at the time of reporting.

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Long-term Assets

This item records the value of assets which are not recorded in the item of short-term assets. Long-term assets are assets with maturity of more than 12 months or a normal operating cycle of enterprises at the time of reporting, such as long-term receivables, fixed assets, investment properties, long-term financial investments and other long-term assets.

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Long-term Assets

Fixed assets:

If meet the following three criteria:

- It is certain to gain economic benefit in the future from the use of such asset;
- Having the utilization time of over 01 year.
- Primary price of assets must be determined reliably, and is valued at 30,000,000 (thirty million) VND or more

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Fixed Assets

- **Tangible fixed assets:** assets in physical forms which are possessed by an enterprise for operation, such as: Buildings and structures, Machinery and equipment, Transportation and transmission vehicles, Office equipment, ...
- **Financial lease fixed asset:** lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.
- **Intangible fixed assets:** assets which have no physical form but the value of which can be determined and which are held and used by the enterprises in their business, such as: Land use rights, Copyrights, Patents, Trademarks and brand name, ...

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Long-term Assets

Investment properties: includes land-use rights, a building or part of a building or both, infrastructure held by the owner to earn rentals or for profit gaining.

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Long-term Assets

Long-term financial investment:

It is a general indicator recording the total value of long - term financial investments at the time of reporting, such as: Investments in subsidiaries, Investments in associates and joint ventures, investments in other units, investments held to maturity with remaining maturity of more than 12 months or more than one operating cycle.

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Long-term Assets

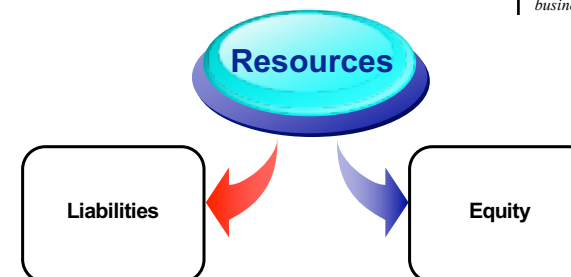
Other long-term assets:

It is a general item recording the total value of other long-term assets with maturity of more than 12 months at the time of reporting, such as long-term prepaid expenses, deferred income tax assets and long-term assets which are not presented in other items at the time of reporting.

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Resources in business

**Learning
Objective 2**
Explain what
resources in
business are



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Liabilities

Liabilities determine the current obligations of an enterprise when it receives an asset, participates in a commitment or is bound to legal obligations (VAS 01)

- Accounts payable to suppliers
- Payables to employees
- Borrowings, bonds and financial lease liabilities
- ...

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Equity

It is a general item recording the working capital owned by shareholders, members, such as investment capital of owners, funds deducted from post-tax profits and undistributed post-tax profits, differences upon asset revaluation, exchange rate differences ...

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The Basic Accounting Equation

Basic Accounting Equation

- ◆ Provides the **underlying framework** for recording and summarizing economic events.
- ◆ Assets **must** equal the sum of liabilities and equity.

Learning Objective 3
State the accounting equation, and define its components.

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

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Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Assets

- ◆ Resources a business owns.
- ◆ Provide future services or benefits.
- ◆ Cash, Inventory, Equipment, etc.

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Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Liabilities

- ◆ Claims against assets (debts and obligations).
- ◆ Creditors (party to whom money is owed).
- ◆ Accounts Payable, Notes Payable, Salaries and Wages Payable, etc.

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Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

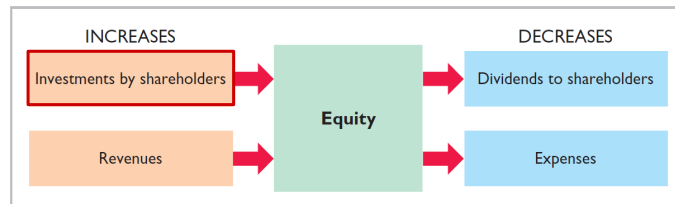
Equity

- ◆ Ownership claim on total assets.
- ◆ Referred to as residual equity.
- ◆ **Share Capital—Ordinary** and **Retained Earnings**.

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Equity

Illustration 1-7
Increases and
decreases in equity

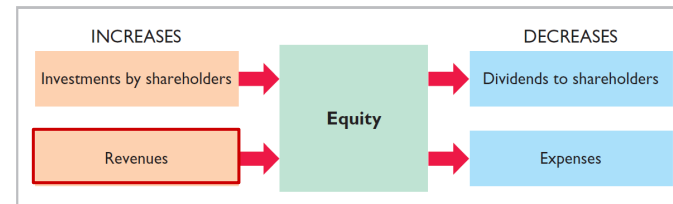


Investments by shareholders represent the total amount paid in by shareholders for the ordinary shares they purchase.

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Stockholders' Equity

Illustration 1-7
Increases and
decreases in equity



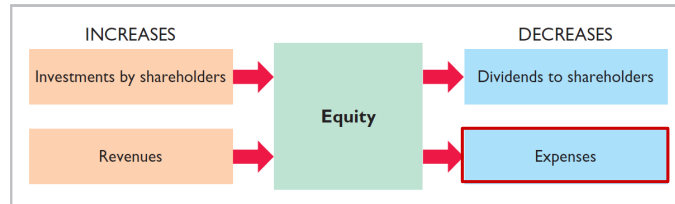
Revenues result from business activities entered into for the purpose of earning income.

Common sources of revenue are: sales, fees, services, commissions, interest, dividends, royalties, and rent.

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Stockholders' Equity

Illustration 1-7
Increases and
decreases in equity



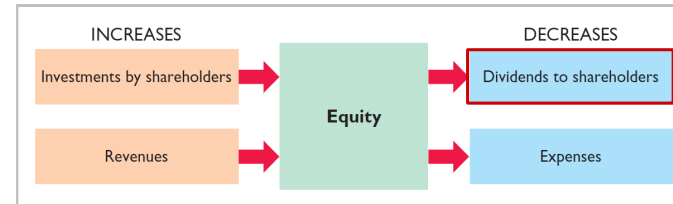
Expenses are the cost of assets consumed or services used in the process of earning revenue.

Common expenses are: salaries expense, rent expense, utilities expense, property tax expense, etc.

2-25

Stockholders' Equity

Illustration 1-7
Increases and
decreases in equity



Dividends are the distribution of cash or other assets to shareholders.

Dividends reduce retained earnings. However, dividends are **not expenses**.

2-26

> DO IT!

Classify the following items as issuance of stock, dividends, revenues, or expenses. Then indicate whether each item increases or decreases stockholders' equity.

	<u>Classification</u>	<u>Effect on Equity</u>
1. Rent Expense		
2. Service Revenue		
3. Dividends		
4. Salaries and Wages Expense		

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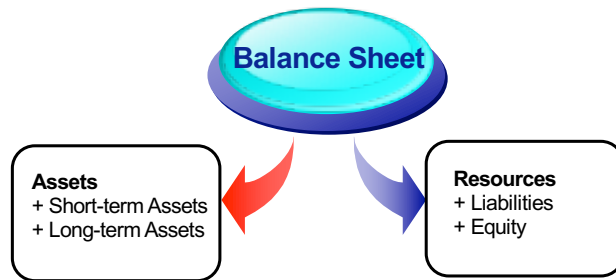
Balance Sheet

*Learning
Objective 4*
Understand
what Balance
Sheet is

The Balance sheet is a combined financial statements, recording generally all value of the current assets and sources that set up assets of enterprises at a certain time. Figures on the balance sheet show the full value of current assets of enterprises according to the structure of assets and of capital setting up such assets. Based on the Balance Sheet, the financial situation of enterprises may be considered, assessed generally.

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Balance Sheet



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Balance Sheet

1. Cash on hand	15.000	13. Investment in joint ventures and associates	150.000
2. Short-term borrowings	60.000	14. Payables to employees	45.000
3. Tools and supplies	15.000	15. Other receivables	15.000
4. Tangible fixed assets	375.000	16. Raw materials	60.000
5. Finished goods	60.000	17. Financial lease assets	150.000
6. Cash in banks	135.000	18. Intangible fixed assets	150.000
7. Trade receivables	45.000	19. Depreciation of fixed assets	75.000
8. Trading securities	30.000	20. Investment properties	75.000
9. Undistributed profit after tax	150.000	21. Trade payables	75.000
10. Bonus and welfare fund	30.000	22. Taxes and other payables to State Budget	30.000
11. Other equity funds	75.000	23. Long-term borrowings	240.000
12. Investment and development fund	45.000	24. Contributed capital	450.000

Prepare a Balance sheet based on information above

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The Basic Accounting Equation

Transactions are a business's economic events recorded by accountants.

- ◆ May be **external** or **internal**.
- ◆ Not all activities represent transactions.
- ◆ Each transaction has a dual effect on the accounting equation.

Learning Objective 5
Analyze the effects of business transactions on the accounting equation.

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Transaction Analysis

Illustration: Are the following events recorded in the accounting records?

Event	Purchase computer	Discuss product design with potential customer	Pay rent
Criterion	Is the financial position (assets, liabilities, or stockholder's equity) of the company changed?		
Record/Don't Record	?	?	?

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Transaction Analysis

Assets

=

Liabilities

+

Equity

Share Capital—Ordinary

+

Retained Earnings

Revenues

−

Expenses

−

Dividends

2-33

Transaction Analysis

TRANSACTION 1. INVESTMENT BY STOCKHOLDERS Ray and Barbara Neal decide to start a smartphone app development company that they incorporate as Softbyte SA. On September 1, 2017, they invest **€15,000 cash** in the business in exchange for **€15,000 of ordinary shares**. The ordinary shares indicates the ownership interest that the Neals have in Softbyte SA. This transaction results in an equal increase in both assets and equity.

Trans- action	Assets				=	Liabilities		+	Equity				
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable	Share Capital		Retained Earnings				
									Rev.	−	Exp.	−	Div.

2-34

TRANSACTION 2. PURCHASE OF EQUIPMENT FOR CASH Softbyte SA purchases computer equipment for **€7,000 cash**.

Trans- action	Assets				=	Liabilities		+	Equity				
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable	Share Capital		Retained Earnings				
									Rev.	−	Exp.	−	Div.

2-35

TRANSACTION 3. PURCHASE OF SUPPLIES ON CREDIT Softbyte SA purchases for **€1,600** headsets and other accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

Trans- action	Assets				=	Liabilities		+	Equity				
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable	Share Capital		Retained Earnings				
									Rev.	−	Exp.	−	Div.

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Principles of Accounting

TRANSACTION 4. SERVICES PERFORMED FOR CASH Softbyte SA receives **€1,200 cash** from customers for app development services it has performed.

Transaction	Assets					=	Liabilities +		Equity		
	Cash	+	Accounts Receivable	+	Supplies + Equipment	=	Accounts Payable	+	Share Capital	+	Retained Earnings
											Rev. - Exp. - Div.

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TRANSACTION 5. PURCHASE OF ADVERTISING ON CREDIT Softbyte SA receives a **bill for €250** from the *Programming News* for advertising on its website but postpones payment until a later date.

Transaction	Assets				=	Liabilities +		Equity					
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Share Capital	+	Retained Earnings
													Rev. - Exp. - Div.

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TRANSACTION 6. SERVICES PROVIDED FOR CASH AND CREDIT. Softbyte provides **€3,500 of services**. The company receives **cash of €1,500** from customers, and it bills the balance of **€2,000 on account**.

Transaction	Assets				=	Liabilities +		Equity							
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Share Capital	+	Retained Earnings		
													Rev.	-	Exp.

2-39

TRANSACTION 7. PAYMENT OF EXPENSES Softbyte SA pays the following expenses in cash for September: office rent **€600**, salaries and wages of employees **€900**, and utilities **€200**.

Transaction	Assets				=	Liabilities +		Equity					
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Share Capital	+	Retained Earnings
													Rev. - Exp. - Div.

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Principles of Accounting

TRANSACTION 8. PAYMENT OF ACCOUNTS PAYABLE Softbyte SA pays its **€250 *Programming News*** bill in cash. The company previously (in Transaction 5) recorded the bill as an increase in Accounts Payable.

Transaction	Assets				=	Liabilities +		Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings	Rev.	- Exp.	- Div.

2-41

TRANSACTION 9. RECEIPT OF CASH ON ACCOUNT Softbyte SA receives **€600 in cash** from customers who had been billed for services (in Transaction 6).

Transaction	Assets				=	Liabilities +		Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings	Rev.	- Exp.	- Div.

2-42

TRANSACTION 10. DIVIDENDS The corporation pays a dividend of **€1,300 in cash** to Ray and Barbara Neal, the shareholders of Softbyte SA.

Transaction	Assets				=	Liabilities +		Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Share Capital	+ Retained Earnings	Rev.	- Exp.	- Div.

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Summary of Transactions

- Each transaction must be analyzed in terms of its effect on:
 - The three components of the basic accounting equation.
 - Specific types (kinds) of items within each component.
- The two sides of the equation must always be equal.
- The Share Capital—Ordinary and Retained Earnings columns indicate the causes of each change in the shareholders' claim on assets.

2-44

> DO IT!

Transactions made by Virmari & Co. SA, a public accounting firm, for the month of August are shown below. Prepare a tabular analysis which shows the effects of these transactions on the expanded accounting equation, similar to that shown in Illustration 1-10.

1. The company issued ordinary shares for €25,000 cash.
2. The company purchased €7,000 of office equipment on credit.
3. The company received €8,000 cash in exchange for services performed.
4. The company paid €850 for this month's rent.
5. The company paid a dividend of €1,000 in cash to shareholders.

2-45

> DO IT!

Analyze the effects of transactions on company X accounts

- 1) Withdrew 10M VND from banks to get cash on hand.
- 2) Some fixed assets were purchased at 50M VND which was paid by cash in bank
- 3) Took some fixed assets which cost 100M VND to invest in company X (investment in joint ventures)
- 4) Borrowed 20M VND from banks to refund supplier A
- 5) Increased owner's equity 30M VND by transferring from investment and development fund
- 6) Borrowed 100M VND from banks to return shareholders' investments
- 7) Purchased supplies on credit, 20M VND
- 8) Received 100M VND cash in banks from government to increase owner's equity
- 9) Paid 10M VND on accounts payable by cash on hand
- 10) Paid 20M VND for welfare activities by cash on hand

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