**Assets:**

We list the asset items in the order of their “liquidity,” or the length of time it takes to convert them to cash.

1. **Current assets:** Takes little time to convert these assets into cash.
2. *cash.* Assets are always stated in terms of dollar.
3. *accounts receivable*: money that is owed the firm, but that has not yet been received
4. *inventories:* which show the dollar amount that has invested in raw materials, work in process, and finished goods available for sale.
5. **Fixed assets:** Fixed assetsare relatively permanent and take time to convert into cash. E.g. business, such as land, buildings, factory machinery, office equipment, and automobiles. Each year, a portion of the usefulness of these assets expires, and a portion of their total cost should be recognized as a depreciation expense. The term *depreciation* denotes the accounting process for this gradual conversion of fixed assets into expenses.

**Liabilities and Stockholders’ equity:**

The liabilities of a company indicate where the company obtained the funds to acquire its assets and to operate the business.

Stockholders’ equity is that portion of the assets of a company which is provided by the investors (owners).

Therefore, stockholders’ equity is the liability of a company to its owners.

**Liabilities types:**

1. **Current liabilities** are those debts which must be paid in the near future (normally, within one year). E.g. include accounts payable within a year, expenses (wages, salaries, interest, rent, taxes, etc., owed, but not yet due for payment), and advance payments and deposits from customers.
2. **Fixed Liabilities:** Also called *long-term liabilities*, such as bonds, mortgages, and long-term notes, that are due and payable more than one year in the future

**Depreciation:**

During depreciation there is no exchange of cash, here simply value of cash gets decreased so the **depreciation does not come in cash flow statements.** But it comes in net profit as we include every kind of that that acts as expense.

**Cashflow Statement:**

It is a statement that shows the flow of cash (*cash on hand and demand deposits with banks*) and cash equivalents (*short term investment in market for short period, highly liquid or easily convertible into cash in a period less than 3 months*) during a period. If inflow or outflow of cash is happening then it will happen in three basis.

1. **Operating activities:**

Those activities which are related to business operation.

The business which is established to certain tasks, and the transactions related to this task is operating activities.

E.g. We are running business of shoes. The money spend on manufacturing of shoes and the income from selling shoes will be operating expenses and income respectively.

In furniture store: we buy raw material from one place and sells to others, but **not** if he buys machine (**investment activities**), others like activities from purchasing of raw material **to** selling of product, all activities falls under operating activities. The things must be done to obtain the revenue.

**Inflow: (customer paying)**

Cash generated by selling of **goods or services**.

Cash received by account payable or **debtors**.

Cash receipt from commission. E.g. if I sold the furniture to others and I get commission then this will be inflow.

**Outflow: (company paying)**

Purchase of good and services like raw materials wood to build furniture, machines to process, etc.

Cash payment to creditors and bill payable.

Cash payment of wages, salaries and other payment to employees.

1. **Investment activities:**

Transaction related to fixed asset (takes long time to change into cash like land, building machine, machinery).

e.g. I bought building or sold.

**Inflow**:

Cash receipt from sales of fixed asset.

*Cash receipts from sales of shares, bond, etc. for long terms which will generate cash for future investment.*

*Cash receipt from loan or advance as we may have given for the purpose of future investment.*

1. **Financing activities:**

Financing activities include transactions involving *debt*, **equity**, and dividends.

* Borrowing and repaying short-term *loans*
* Borrowing and repaying long-term loans and other long-term liabilities
* Issuing or reacquiring its own **shares** of common and preferred stock
* Paying cash dividends on its capital stock

**Examples of Financing Activities**

When a company borrows money for the short-term or long-term, and when a corporation issues bonds or shares of its common or preferred stock and receives cash, the proceeds will be reported as *positive amounts* in the *cash flows from financing activities* section of the SCF. A positive amount informs the reader that cash was received and thereby increased the company's cash and cash equivalents.

**Retained Earnings**

Generally, retained earnings is the cumulative amount of earnings since a corporation was formed minus the cumulative amount of [dividends](https://www.accountingcoach.com/blog/what-is-a-dividend) it has declared since it was formed. In other words, retained earnings is the corporation's past earnings that have not been distributed to the corporation's [stockholders](https://www.accountingcoach.com/blog/what-is-a-stockholder).

If a corporation's retained earnings becomes a negative amount (perhaps from years of losses), the balance sheet will use the term deficit or accumulated deficit instead of retained earnings.

**Bond:**

Let’s say the company has to buy 5 million dollar company to increase the asset and instead of borrowing from one individual like banks, the company borrows from 5000 individual i.e. issue these certificates or bonds which have a face value of 1000 dollars at an interest rate of 10% annually of these coupon.

The bond has some maturity date i.e. not only he/she will pay the interest back but the entire face value or principal at the fixed date.

So, if you want to lend 1000 dollars to the company so that they could expand, then here you would essentially buy one of these bonds for 1000 dollars.

E.g. How the payment works. Bond has maturity date of 2 years and the coupons tend to get paid semi annually i.e. at 6, 12, 18 and 24 months. So, if you hold this one bond (this certificate), the company is going to pay you 100 dollar a year (10% rate annually). Since, coupons get paid semi-annually so you will get $50 in every 6 months and original amount loan at 2 years at 24 months.

**Certificates of deposit:**

Certificates of deposit are a secure form of time deposit, where money must stay in the bank for a certain length of time to earn a promised return. A CD, also called a “share certificate” at credit unions, almost always earns more interest than a regular **savings account**. Banks and credit unions pay extra for the right to hold a lump sum for a period of months or years, known as the CD’s “term.”

So, the only risk to you is the penalty you’d have to pay if you withdrew the money before the CD term was up

**“THE LONGER THE TERM, THE HIGHER THE INTEREST RATE.”**

**Net profit:**

The income source (from everywhere)-expenses (which may be direct, indirect, everything which is spent).

**Cost of goods sold:**

Cost of goods sold (COGS) refers to the direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good. It **excludes** indirect expenses, such as **distribution costs and sales force costs.**

**From book:🡪** The largest expense for a typical manufacturing firm is the

expense it incurs in making a product (such as labor, materials, and overhead), called

the **cost of revenue** (or cost of goods sold).

**Gross profit:**

Gross profit will appear on a company's income statement and can be calculated by subtracting the cost of goods sold ([COGS](https://www.investopedia.com/terms/c/cogs.asp)) from revenue (sales). These figures can be found on a company's income statement.

**Gross Margin:**

Gross margin is the difference between revenue and cost of goods sold divided by revenue. Gross margin is expressed as a percentage. Generally, it is calculated as the selling price of an item, less the cost of goods sold (e.g. production or acquisition costs, not including indirect fixed costs like office expenses, rent, or administrative costs). Gross Margin is often used interchangeably with Gross Profit, but the terms are different.

When speaking about a monetary amount, it is technically correct to use the term Gross Profit; when referring to a percentage or ratio, it is correct to use Gross Margin. In other words, Gross Margin is a percentage value, while Gross Profit is a monetary value.

Liquidity ratio:

Current Ratio:

Indicates whether it can return the loan in the short time.

Quick Ratio:

Return in very short period.

Show if it has most liquid so that on emergency it can return the loan.