YASIRU PRABODHA - CL/OTHMFL3/11/90

Advanced Accounting Portfolio

Acknowledgement

I, Yasiru Prabodha, would like to express my sincere gratitude to all those who have supported and guided me throughout the completion of this accounting portfolio.

Firstly, I would like to extend my heartfelt thanks to my lecturer, Mr. Anuruddha, for his invaluable guidance, support, and encouragement. His expertise and insights have been instrumental in shaping this portfolio and enhancing my understanding of accounting and economics.

I would also like to acknowledge the support of my family and friends, who have been a constant source of motivation and encouragement throughout my academic journey.

This portfolio, covering a range of topics from the differences between an accountant and an economist to the preparation of financial statements and the incorporation of period-end adjustments, is a culmination of the knowledge and skills I have acquired during my studies.

Thank you all for your support and contributions.
Sincerely,
Yasiru Prabodha,

Table of contents

Application Form

01

Application Form

Date	2024/06/27
First Name	Yasiru
Last Name	Prabodha

Describe the differences between an accountant and an economist.

An accountant ensures accuracy and regulatory compliance by concentrating on a company's financial records and transactions. They take care of things like financial reporting, auditing, bookkeeping, and tax preparation. Accountants handle particular financial information about a person or an organization on a micro level.

Conversely, an economist analyzes particular areas of the economy or the economy as a whole. To comprehend economic patterns, policies, and their effects, they examine data. Macroeconomic analysts deal with more general problems such as inflation, joblessness, and economic expansion. Creating models and forecasts to guide company strategy and policy decisions is a common task for them. (McAlister et al., 2016)

Explain the following accounting terms

- Income statement

An income statement, or profit and loss statement, summarizes a company's revenues, expenses, gains, and losses over a specific period. It shows how much money the company earned (revenue), what it spent (expenses), and the resulting profit or loss (net income) during that time. This financial report helps assess the company's profitability and financial performance. (Sbaraglia, 2019)

- Statement of financial position

A statement of financial position, commonly known as a balance sheet, provides a snapshot of a company's financial position at a specific moment in time. It lists the company's assets (what it owns), liabilities (what it owes), and equity (ownership interest) as of the reporting date. The balance sheet helps stakeholders assess the company's liquidity, solvency, and overall financial health by showing how assets are financed through liabilities and equity. (Cherkay, 2014)

- Cash flow

Cash flow refers to the movement of cash into and out of a business over a specified period, typically a quarter or a fiscal year. It categorizes cash inflows (from operations, investments, and financing activities) and outflows (for expenses, investments, and debt repayment), providing insights into a company's liquidity, operational efficiency, and financial health. (Vadilyev, 2016)

- Working capital

Working capital refers to the difference between a company's current assets (like cash, inventory, and accounts receivable) and its current liabilities (such as accounts payable and short-term debt). It indicates the amount of liquid resources available to cover short-term expenses and obligations. Positive working capital suggests financial health and the ability to meet short-term obligations, while negative working capital may indicate potential liquidity challenges. Efficient management of working capital is essential for sustaining operations and supporting business growth. (Reich, 1998)

- Profit for the year

Profit for the year, also known as net profit or net income, refers to the amount of money a company has earned after deducting all expenses from its total revenues during a specific accounting period, typically a fiscal year. It is a key indicator of a company's profitability and financial performance over the period in question. Profit for the year is calculated by subtracting all operating expenses, taxes, interest, and other costs from total revenue. It represents the residual amount of earnings available to shareholders after all expenses have been paid. This metric is crucial for assessing the efficiency of operations and the overall financial health of the company. (Tracy and Tracy, 2004)

- Equity

Equity, in the context of accounting and finance, represents the ownership interest in a company. It is calculated as the difference between a company's assets and liabilities on its balance sheet. Equity can be categorized into two main types

Shareholders' Equity: This includes the amount of money initially invested by shareholders (common stock) and any retained earnings (profits that have not been distributed as dividends).

Owner's Equity: For sole proprietorships or partnerships, owner's equity reflects the ownership interest of the proprietor(s) or partners in the business.

Equity serves as a measure of the company's net worth or book value and represents the claims of the owners on the company's assets after all liabilities are paid off. It is a crucial indicator of financial health and is often used by investors and analysts to assess the value and stability of a company. (Salti, Chaaban and Raad, 2010)

Explain the difference between macro and micro economics.

Macro economics focuses on the behavior and performance of an entire economy, examining factors like inflation, unemployment, economic growth, and overall national income. It looks at broad aggregates and trends affecting the economy as a whole.

Micro economics, on the other hand, studies the behavior and decisions of individual agents within the economy, such as households, firms, and industries. It focuses on specific markets, pricing mechanisms, consumer behavior, production decisions, and how these factors influence individual economic choices.

In essence, macro economics looks at the big picture of the economy's overall performance and policies, while micro economics delves into the interactions and decisions made by individual economic actors. (Hodgson, 2012)

Explain the following common economics concepts

- Opportunity Cost

Opportunity cost refers to the value of the next best alternative forgone when a decision is made. It represents the potential benefit or value that could have been obtained from choosing an alternative option instead of the one actually chosen. In essence, it's about what you give up in order to choose something else. Understanding opportunity cost helps in making more informed decisions by considering the trade-offs involved in allocating resources, whether it's time, money, or other resources. (Rezai, 2011)

- Inflation

Inflation refers to the sustained increase in the general price level of goods and services in an economy over a period of time. It means that as inflation rises, each unit of currency buys fewer goods and services. Inflation can be caused by factors such as increased demand relative to supply (demand-pull inflation), higher production costs (cost-push inflation), or monetary factors like excessive money supply growth. Central banks often aim to manage inflation within a target range to promote economic stability and growth. (Stockman, 1981)

- Business Cycle

The business cycle refers to the natural rise and fall of economic growth that occurs over time. It consists of four main phases: expansion (when the economy grows and employment rises), peak (the highest point of economic activity), contraction (when the economy slows down and unemployment increases), and trough (the lowest point of economic activity before recovery begins). These cycles are influenced by various economic factors such as consumer confidence, interest rates, and government policies. Understanding the business cycle helps businesses and policymakers make informed decisions to mitigate risks and capitalize on opportunities during different phases. (Hartley, 1997)

- Phillips Curve

The Phillips Curve is an economic concept that illustrates an inverse relationship between the rate of unemployment and the rate of inflation in an economy. It suggests that lower unemployment rates tend to be associated with higher inflation rates, and vice versa. This relationship implies a trade-off between inflation and unemployment, indicating that efforts to reduce unemployment could lead to higher inflation, while measures to control inflation might increase unemployment. The Phillips Curve is used to understand and predict the impact of economic policies on inflation and employment levels. (GORDON, 2011)

- Circular Flow Diagram

A circular flow diagram illustrates the continuous movement of money, goods, and services between two main sectors of the economy: households and businesses. In this model, households provide factors of production (labor, capital, land) to businesses in exchange for wages, rent, and profits. Businesses use these factors to produce goods and services, which they sell to households. The diagram also shows the flow of money: households spend income on goods and services, generating revenue for businesses, which in turn pay households for the resources they provide. This cyclical process highlights the interdependence of households and businesses in an economy. (Daraban, 2010)

- Price Elasticity of Demand

Price elasticity of demand measures how the quantity demanded of a good or service changes in response to a change in its price. It is calculated as the percentage change in quantity demanded divided by the percentage change in price. If demand is elastic, a small price change leads to a significant change in quantity demanded. If demand is inelastic, quantity demanded changes little with a price change. This concept helps businesses and policymakers understand consumer behavior and set pricing strategies.(de Rassenfosse, 2015)

- Income Elasticity of Demand

Price income elasticity of demand measures how the quantity demanded of a good changes in response to a change in consumer income. It is calculated by dividing the percentage change in quantity demanded by the percentage change in income. If the elasticity is positive, the good is considered a normal good, meaning demand increases as income rises. If the elasticity is negative, the good is an inferior good, meaning demand decreases as income rises. This metric helps businesses and economists understand how changes in income levels affect consumer purchasing behavior for different goods and services. (Ghoddusi and Roy, 2018)

Discuss the factors that influence supply and demand and associated concepts

Price income elasticity of demand measures how the quantity demanded of a good changes in response to a change in consumer income. It is calculated by dividing the percentage change in quantity demanded by the percentage change in income. If the elasticity is positive, the good is considered a normal good, meaning demand increases as income rises. If the elasticity is negative, the good is an inferior good, meaning demand decreases as income rises. This metric helps businesses and economists understand how changes in income levels affect consumer purchasing behavior for different goods and services. (Li and Yang, 2018)

Identify the types of markets that exist.

Perfect Competition: In this idealized market structure, many buyers and sellers trade identical products, with no single buyer or seller able to influence the market price. Examples are agricultural markets where many farmers sell homogeneous goods like wheat or corn.

Monopoly: A market dominated by a single seller of a unique product or service, giving them significant market power. Monopolies often set prices higher than in competitive markets. Examples include local utility companies with exclusive rights to provide services.

Oligopoly: A market dominated by a few large firms selling similar or differentiated products. These firms may collude to set prices or compete aggressively. Examples include the automotive and airline industries.

Monopolistic Competition: A market with many sellers offering differentiated products that are substitutes for each other. Firms have some control over pricing due to product differentiation. Examples include restaurants or clothing stores.

Perfectly Competitive Market: A theoretical market structure characterized by many small firms producing homogeneous products, where no single firm has market power to influence prices. This market structure ensures efficient outcomes and competitive prices for consumers

(Lundvall and Johnson, 1994)

Explain the factors that determine the structures of markets

Number of Firms: The number of firms operating in a market impacts competition. Markets can be classified as perfectly competitive (many small firms), oligopolistic (a few large firms), monopolistically competitive (many firms with differentiated products), or monopolistic (one dominant firm).

Barriers to Entry and Exit: Barriers such as high startup costs, economies of scale, legal restrictions, and brand loyalty can affect how easily new firms can enter the market or existing firms can exit. Higher barriers typically result in fewer firms and less competition.

Product Differentiation: The degree to which products in the market are similar or differentiated influences competition. Products can range from homogeneous (identical) in perfectly competitive markets to highly differentiated in monopolistic competition or oligopoly.

Information Availability: The transparency of information about prices, products, and market conditions affects consumer and producer behavior. More information can lead to more competitive markets, while less information can result in less competition and higher prices. (Elias, 1995)

Government Regulation: Regulatory policies and interventions, such as antitrust laws, price controls, and licensing requirements, shape market structures and behavior. Government actions can either promote competition or create monopolistic conditions.

Market Power: The extent to which firms can influence prices and output levels in the market depends on their market share, economies of scale, and ability to differentiate products. Higher market power tends to lead to less competitive outcomes.

Explain how competition affects market structures

Competition significantly shapes market structures by influencing how firms behave and how markets operate. In competitive markets, where numerous sellers offer similar products or services, prices tend to be lower as firms vie for customers. This benefits consumers through increased choice and affordability. Competition also encourages innovation and efficiency as firms strive to differentiate themselves and improve their offerings to attract customers.

On the other hand, in markets with less competition, such as monopolies or oligopolies (where a few large firms dominate), prices can be higher and innovation may be stifled. These firms have more control over pricing and may have less incentive to innovate or improve quality since there are fewer competitive pressures. Government policies often aim to promote competition through antitrust laws and regulations to ensure fair market practices and protect consumer interests. Overall, the level of competition in a market profoundly impacts pricing, innovation, consumer welfare, and economic efficiency. (Colciago and Rossi, 2011)

Describe the factors that lead to economic growth in markets.

Economic growth in markets is driven by several key factors that collectively contribute to increasing the overall output and productivity of an economy. These factors include technological innovation and advancements, which improve efficiency and create new opportunities for production and consumption. Investment in physical capital, such as infrastructure and machinery, enhances productive capacity and supports economic expansion. Human capital development through education and training enhances workforce skills and productivity levels.

Additionally, favorable government policies that promote competition, innovation, and market efficiency can stimulate economic growth. Access to financial capital, including credit and investment opportunities, facilitates business expansion and entrepreneurship. Finally, factors like stable political environment, institutional quality, and international trade openness contribute to creating a conducive environment for sustained economic growth by fostering investment, innovation, and productivity improvements. (Alfaro et al., 2004)

Reference

- Alfaro, L., Chanda, A., Kalemli-Ozcan, S. and Sayek, S. (2004). FDI and economic growth: the role of local financial markets. *Journal of International Economics*, 64(1), pp.89–112. doi:https://doi.org/10.1016/s0022-1996(03)00081-3.
- Cherkay, A. - (2014). Critical analysis and improvement of requirements IFRS to the list and order entry of articles statement of financial position. *Auditor*, 0(22), pp.51–60. doi:https://doi.org/10.12737/12829.
- Colciago, A. and Rossi, L. (2011). Endogenous Market Structures and Labour Market Dynamics. *SSRN Electronic Journal*, 22(1). doi:https://doi.org/10.2139/ssrn.1858757.
- Daraban, B. (2010). Introducing the Circular Flow Diagram to Business Students. *Journal of Education for Business*, [online] 85(5), pp.274–279. doi:https://doi.org/10.1080/08832320903449527.
- de Rassenfosse, G. (2015). On the Price Elasticity of Demand for Trademarks. *SSRN Electronic Journal*, 22(1). doi:https://doi.org/10.2139/ssrn.2628646.
- Elias, A.W. (1995). Governmental impacts and information availability. *Information Services & Use*, 15(1), pp.1–2. doi:https://doi.org/10.3233/isu-1995-15101.
- Ghoddusi, H. and Roy, M. (2018). Income Elasticity of Demand Versus Income Elasticity of Consumption. *SSRN Electronic Journal*, 22(1). doi:https://doi.org/10.2139/ssrn.3122844.
- GORDON, R.J. (2011). The History of the Phillips Curve: Consensus and Bifurcation. *Economica*, 78(309), pp.10–50. doi:https://doi.org/10.1111/j.1468-0335.2009.00815.x.
- Hartley, J. (1997). The limits of business cycle research: assessing the real business cycle model. *Oxford Review of Economic Policy*, 13(3), pp.34–54. doi:https://doi.org/10.1093/oxrep/13.3.34.
- Hodgson, G.M. (2012). The Mirage of Microfoundations. *Journal of Management Studies*, 49(8), pp.1389–1394. doi:https://doi.org/10.1111/j.1467-6486.2012.01079.x.
- Li, B. and Yang, W. (2018). Analysis of the Influence Factors of Grain Supply-Demand Gap in China. *Agricultural Sciences*, 09(07), pp.901–909. doi:https://doi.org/10.4236/as.2018.97062.
- Lundvall, B. and Johnson, B. (1994). The Learning Economy. *Journal of Industry Studies*, 1(2), pp.23–42. doi:https://doi.org/10.1080/13662719400000002.
- McAlister, L., Srinivasan, R., Jindal, N. and Cannella, A.A. (2016). Advertising Effectiveness: The Moderating Effect of Firm Strategy. *Journal of Marketing Research*, 53(2), pp.207–224. doi:https://doi.org/10.1509/jmr.13.0285.
- Reich, R.B. (1998). The new working capital. *Leader to Leader*, 1998(8), pp.17–22. doi:https://doi.org/10.1002/ltl.40619980808.

- Rezai, A. (2011). The Opportunity Cost of Climate Policy: A Question of Reference*. *The Scandinavian Journal of Economics*, 113(4), pp.885–903. doi:https://doi.org/10.1111/j.1467-9442.2011.01681.x.
- Salti, N., Chaaban, J. and Raad, F. (2010). Health equity in Lebanon: a microeconomic analysis. *International Journal for Equity in Health*, 9(1), p.11. doi:https://doi.org/10.1186/1475-9276-9-11.
- Sbaraglia, A.M. (2019). Does Income Statement Presentation Affect Earnings Management? *SSRN Electronic Journal*, 11(2). doi:https://doi.org/10.2139/ssrn.1471146.
- Stockman, A.C. (1981). Anticipated inflation and the capital stock in a cash in-advance economy. *Journal of Monetary Economics*, 8(3), pp.387–393. doi:https://doi.org/10.1016/0304-3932(81)90018-0.
- Tracy, J.A. and Tracy, T.C. (2004). *How to Manage Profit and Cash Flow*. John Wiley & Sons.
- Vadilyev, A. (2016). Cash Flow Environment and Saving-Cash Flow Sensitivity. *SSRN Electronic Journal*, 1(1). doi:https://doi.org/10.2139/ssrn.2727484.

Demonstrating Accounting Skills

02

Content

Double Entry Accounting Statements

Accounting is the systematic recording, reporting, and analysis of financial transactions of a business. It provides essential information for decision-making, regulatory compliance, and the assessment of financial health. Central to accounting is the double-entry system, a fundamental method ensuring accuracy and completeness in recording financial transactions. (Nasi and Steccolini, 2008)

DOUBLE ENTRY SYSTEM

The double-entry system is a method of bookkeeping where every transaction is recorded in at least two accounts. Each transaction has a debit and a credit entry of equal amounts, ensuring that the accounting equation **(Assets = Liabilities + Equity)** remains balanced.

Principles of Double Entry System

1. **Dual Aspect**: Every transaction affects at least two accounts—one account will be debited, and another account will be credited. The total debits must always equal the total credits.
2. **Accounting Equation**: The system maintains the fundamental accounting equation: Assets = Liabilities + Equity. This equation must always be in balance after every transaction.
3. **Types of Accounts**: Transactions are recorded in specific types of accounts:
    - **Asset Accounts**: Represent resources owned or controlled by the entity (e.g., cash, inventory).
    - **Liability Accounts**: Represent obligations or debts owed to external parties (e.g., accounts payable).
    - **Equity Accounts**: Represent the residual interest in assets after deducting liabilities (e.g., owner's equity).
4. Debit and Credit Rules:
    - **Assets**: Increased by debits, decreased by credits.
    - **Liabilities and Equity:** Increased by credits, decreased by debits.
    - The specific rules depend on the account type and the nature of the transaction.

EXAMPLE:

Let's consider a transaction from Apple Inc.'s financials for simplicity.

- **Transaction**: Yellowship Ltd. purchases $10,000 worth of inventory on credit. (Liberati et al., 2009)

Date	Account	Debit ($)	Credit ($)
2024-06-01	Inventory	10,000	
2024-06-01	Accounts Payable		10,000

LEDGER ACCOUNTS

A ledger account is a record that contains all the transactions related to a particular asset, liability, equity, revenue, or expense item. Each account in the ledger provides a chronological record of all relevant transactions and their impact on the account balance. Ledger accounts are part of the general ledger, which is the complete set of accounts a company uses to record its financial transactions. (Ledwidge, 2022)

Components of a Ledger Account

- **Account Name**: Each ledger account is labeled with the specific name of the account, such as "Cash," "Accounts Payable," "Sales Revenue," etc.
- **Date**: The date of each transaction is recorded to provide a chronological order of events.
- **Description**: A brief description of the transaction is written to explain its purpose or nature.
- **Debit and Credit Columns**: The debit side indicates increases in assets and expenses or decreases in liabilities and revenues, while the credit side indicates increases in liabilities and revenues or decreases in assets and expenses.
- **Balance**: The balance column shows the cumulative total for each account after each transaction. It helps in determining the current status of the account whether it has a debit or credit balance.

EXAMPLE:

- Let's take a simple example of a company named "Yellowship Ltd." for the month of June.
- Transactions for June:
  - June 1: The company started with $10,000 in the bank.
  - June 5: Purchased office supplies for $500 on credit.
  - June 10: Paid $200 for utilities.
  - June 15: Made sales worth $3,000, all received in cash.
  - June 20: Paid $300 for office supplies purchased on June 5.
  - June 25: Received $2,000 for services rendered.
  - June 30: Paid salaries amounting to $1,500.

1. Bank Account

Date	Description	Debit ($)	Credit ($)	Balance ($)
June 1	Opening Balance	10,000		10,000
June 10	Utilities		200	9,800
June 15	Sales	3,000		12,800
June 20	Office Supplies		300	12,500
June 25	Services Rendered	2,000		14,500
June 30	Salaries		1,500	13,000

2. Office Supplies Account

Date	Description	Debit ($)	Credit ($)	Balance ($)
June 5	Purchased on Credit	500		500
June 20	Paid		300	200

3. Utilities Account

Date	Description	Debit ($)	Credit ($)	Balance ($)
June 10	Paid	200		200

4. Sales Account

Date	Description	Debit ($)	Credit ($)	Balance ($)
June 15	Cash Sales		3,000	3,000

5. Services Rendered Account

Date	Description	Debit ($)	Credit ($)	Balance ($)
June 25	Received Payment		2,000	2,000

6. Salaries Account

Date	Description	Debit ($)	Credit ($)	Balance ($)
June 30	Paid	1,500		1,500

7. Accounts Payable Account

Date	Description	Debit ($)	Credit ($)	Balance ($)
June 5	Office Supplies		500	500
June 20	Payment	300		200

TRIAL BALANCE

A trial balance is a statement that lists all the ledger accounts of a business and their balances (either debit or credit) at a specific point in time, usually at the end of an accounting period (such as a month, quarter, or year). The primary purpose of preparing a trial balance is to ensure the mathematical accuracy of the accounting records. It helps in detecting errors in recording transactions, posting to ledger accounts, or preparing financial statements. (Baldessarini, 2010)

Steps in Preparing a Trial Balance

1. **Identify Ledger Accounts:** Compile a list of all ledger accounts used by the business. These accounts include assets, liabilities, equity, revenues, and expenses.
2. **Balance the Accounts:** For each transaction, ensure that the total debits equal the total credits. This principle is the core of double-entry bookkeeping.
3. **Prepare the Trial Balance:** Once all ledger accounts are updated with their balances (debit or credit), list each account and its balance on the trial balance sheet.

Format of a Trial Balance

- **Account Name:** Lists the names of all ledger accounts.
- **Debit and Credit Balances:** Shows the balance of each account, classified as either debit or credit.

EXAMPLE:

- Trial Balance as of June 30, Yellowship Ltd.

Account	Debit ($)	Credit ($)
Bank Account	13,000	
Office Supplies	200	
Utilities	200	
Sales		3,000
Services Rendered	2,000	
Salaries	1,500	
Accounts Payable	200	500
Total	16,100	3,500

Explanation:

- **Debit Balance:** Represents the total of all debit balances in the ledger accounts.
- **Credit Balance:** Represents the total of all credit balances in the ledger accounts.
- The trial balance shows that the total debits equal the total credits, indicating that the double-entry accounting system is in balance.

INCOME STATEMENT

An income statement, also known as a profit and loss statement, summarizes a company's revenues, expenses, and profits or losses over a specific period, typically a quarter or a year. It provides a clear view of a company's operational performance and helps stakeholders make informed decisions. (Sbaraglia, 2019)

Key Components of an Income Statement

1. **Revenue/Sales:** This is the total amount of money earned from selling goods or services. It is the top line of the income statement.
2. **Cost of Goods Sold (COGS):** These are the direct costs attributable to the production of the goods sold by a company. It includes the cost of materials and direct labor.
3. **Gross Profit:** This is calculated by subtracting the COGS from the total revenue. It represents the profit earned before deducting operating expenses.
    - **Gross Profit = Revenue – COGS**
4. **Operating Expenses:** These are the expenses incurred during regular business operations, such as salaries, rent, utilities, and depreciation.
5. **Operating Income:** This is calculated by subtracting operating expenses from gross profit. It represents the profit generated from core business activities.
    - **Operating Income = Gross Profit – Operating Expenses**
6. **Other Income and Expenses:** This includes any non-operating income or expenses, such as interest income, interest expense, and gains or losses from investments.
7. **Earnings Before Tax (EBT):** This is the income before accounting for taxes, calculated by adding other income and subtracting other expenses from operating income.
    - **EBT = Operating Income + Other Income – Other Expenses**
8. **Income Tax Expense:** The estimated amount of tax that the company will pay on its earnings.
9. **Net Income:** This is the bottom line of the income statement, representing the company's profit or loss after all expenses, including taxes, have been deducted from total revenue.
    - **Net Income = EBT – Income Tax Expense**

EXAMPLE:

Let's create a simplified income statement for Stewardship Ltd. (Arya, 2020)

Apple Inc.	**Q1 2012 Income Statement**
Revenue	
Sales Revenue	$100,000,000
Total Revenue	$100,000,000

Cost of Goods Sold (COGS)	
Cost of Goods Sold	$60,000,000
Gross Profit	$40,000,000
Operating Expenses	
Research and Development	$10,000,000
Selling, General, and Administrative	$15,000,000
Total Operating Expenses	$25,000,000
Operating Income	$15,000,000
Other Income and Expenses	
Interest Income	$500,000
Interest Expense	$1,000,000
Earnings Before Tax (EBT)	$14,500,000
Income Tax Expense	$3,000,000
Net Income	$11,500,000

Explanation

- **Revenue**: Apple Inc. earned $100,000,000 from sales.
- **COGS**: The cost to produce these goods was $60,000,000.
- **Gross Profit**: Subtracting COGS from revenue gives a gross profit of $40,000,000.
- **Operating Expenses**: Apple spent $10,000,000 on R&D and $15,000,000 on SG&A, totaling $25,000,000 in operating expenses.
- **Operating Income**: Gross profit minus operating expenses results in an operating income of $15,000,000.
- **Other Income and Expenses**: Apple earned $500,000 in interest income but paid $1,000,000 in interest expense, resulting in a net other expense of $500,000.
- **EBT**: Operating income minus net other expenses gives an EBT of $14,500,000.
- **Income Tax Expense**: Apple's estimated tax expense is $3,000,000.
- **Net Income**: After deducting the tax expense from EBT, the net income is $11,500,000.

BALANCE SHEET

A balance sheet is a financial statement that provides a snapshot of a company's assets, liabilities, and shareholders' equity at a specific point in time, usually at the end of a quarter or fiscal year. It's structured in a way that the total assets must equal the total liabilities plus shareholders' equity, thus adhering to the fundamental accounting equation: (Ferranti, 2019)

- **Assets = Liabilities + Shareholders' Equity**

EXAMPLE:

Assets	Amount ($)	Liabilities & Equity	Amount ($)
Current Assets		**Current Liabilities**	
Cash	5,000	Accounts Payable	10,000
Accounts Payable	8,000		
Inventory	12,000	**Total Current Liabilities**	10,000
Total Current Assets	25,000		
Non-Current Assets		**Long-Term Liabilities**	
Property, Plant & Equipment	100,000	Long-Term Debt	50,000
Investments	20,000		
Total Non-Current Assets	120,000	**Total Long-Term Liabilities**	50,000
Total Assets	145,000	**Equity**	
		Owner's Equity	85,000
Total Liabilities & Equity	145,000	**Total Liabilities & Equity**	145,000

Explanation

Assets:

- **Current Assets** include cash, accounts receivable, and inventory. These are assets expected to be converted into cash or used up within one year.
  - **Cash**: Represents the amount of money Apple Inc. has on hand, which includes cash equivalents that are readily accessible.
  - **Accounts Receivable**: Money owed to Apple Inc. by customers who have purchased goods or services on credit.

- **Inventory**: Goods held for sale in the ordinary course of business, such as finished goods awaiting sale or raw materials.

- **Non-Current Assets** are long-term investments and property, plant, and equipment (PP&E) that are expected to be used for more than one year.
  - **Property, Plant & Equipment (PP&E):** Includes buildings, machinery, and equipment used in production or operations.
  - **Investments**: Stocks, bonds, or other investments made by Apple Inc. that are expected to generate a return over time.

Liabilities & Equity:

- **Current Liabilities** are obligations expected to be settled within one year, such as accounts payable.
  - **Accounts Payable:** Amounts owed by Apple Inc. to suppliers for goods or services purchased on credit.

- **Long-Term Liabilities** are obligations lasting more than one year, like long-term debt.
  - **Long-Term Debt**: Loans or bonds that Apple Inc. has borrowed and must repay over several years.

- **Equity** represents the owner's claim on the assets of the company after all liabilities have been paid off.
  - **Owner's Equity:** The residual interest in the assets of the company after deducting all liabilities. It includes retained earnings and capital contributed by shareholders.

Significance:

The balance sheet helps stakeholders understand the financial health of Apple Inc. by showing:

- **Liquidity**: How much cash and easily convertible assets Apple Inc. has to cover its short-term obligations.

- **Asset Composition**: Breakdown of current and non-current assets, indicating the investment in long-term growth and operational capabilities.

- **Debt and Equity:** The mix of debt and equity financing, reflecting the company's financial structure and its ability to meet long-term obligations.

CASH FLOW STATEMENT

Creating a cash flow statement involves categorizing cash inflows and outflows into operating, investing, and financing activities. Since our ledger example didn't explicitly track cash flows for each transaction, let's construct a simplified cash flow statement based on the information we have: (Aflatooni, 2009)

EXAMPLE:

Cash Flow Statement for XYZ Ltd. for the Month of June

Cash Flows from Operating Activities	Amount ($)
Cash Receipts from Sales	3,000
Cash Receipts from Services Rendered	2,000
Payments for Utilities	(200)
Payments for Salaries	(1,500)
Net Cash from Operating Activities	3,300

Cash Flows from Investing Activities	Amount ($)
Purchase of Office Supplies	(200)

Cash Flows from Financing Activities	Amount ($)
None	0

| Net Increase in Cash | 2,900 |

Explanation

- **Operating Activities:** Inflows include cash receipts from sales and services rendered. Outflows include payments for utilities and salaries.
- **Investing Activities:** Outflow represents the purchase of office supplies.
- **Financing Activities:** No financing activities were recorded in this period.
- **Net Increase in Cash:** Calculated as the sum of cash inflows minus outflows across all activities.

Financial Statement Preparation with Illustrative Example

Preparing financial statements is a critical process in accounting that involves collecting, recording, and summarizing financial data to communicate the financial performance and position of a company. It includes creating key documents such as the income statement, balance sheet, and statement of cash flows, which provide stakeholders with essential information to evaluate profitability, liquidity, and overall financial health. (Matveeva, 2021)

1. COLLECTING FINANCIAL DATA

Collecting financial data involves gathering all relevant documents that provide information about the company's financial activities. This includes:

- **Transactions:** Records of all financial transactions such as sales, purchases, payments, and receipts.
- **Invoices and Receipts:** Documents supporting transactions, showing what was bought or sold, when, and for how much.
- **Bank Statements:** Summaries of transactions processed through the company's bank accounts.
- **Payroll Records:** Information on employee wages, taxes withheld, and benefits.
- **Other Financial Documents:** Contracts, leases, depreciation schedules, etc.

2. RECORDING TRANSACTIONS

Recording transactions involves using the double-entry accounting system, where every transaction impacts at least two accounts with equal debits and credits. This ensures that the accounting equation **(Assets = Liabilities + Equity)** remains balanced. For example:

- **Revenue Recognition:** When a sale is made, revenue is recognized, and accounts like Accounts Receivable (for credit sales) or Cash (for cash sales) are affected.
- **Expense Recognition:** When expenses are incurred, accounts like Accounts Payable (for credit purchases) or Cash (for cash payments) are affected.

3. ADJUSTING ENTRIES

At the end of the accounting period, adjusting entries are necessary to ensure that revenues and expenses are recognized in the correct period. Common types of adjusting entries include:

- **Accruals:** Recognizing revenues or expenses that have been earned or incurred but not yet recorded. For example, recognizing accrued interest income or accrued salaries expense.
- **Deferrals:** Adjusting prepaid expenses (expenses paid in advance) or unearned revenues (revenues received in advance). For example, recognizing prepaid insurance expense or unearned revenue from customer deposits.

4. PREPARING TRIAL BALANCE

A trial balance is prepared to verify that the total debits equal the total credits after adjusting entries have been made. It lists all accounts with their debit or credit balances to ensure accuracy before proceeding to financial statements.

5. PREPARING FINANCIAL STATEMENTS

Once the trial balance is correct, financial statements are prepared:

- **Income Statement:** Summarizes revenues and expenses for a specific period (e.g., month, quarter, year) to determine net income or loss. It shows whether the company is profitable or not.
- **Balance Sheet:** Provides a snapshot of the company's financial position at a specific date. It lists assets (what the company owns), liabilities (what the company owes), and equity (the difference between assets and liabilities).
- **Statement of Cash Flows:** Shows how cash flows in and out of the company during a specific period, categorized into operating activities (e.g., cash from sales), investing activities (e.g., cash from buying or selling assets), and financing activities (e.g., cash from issuing stock or taking loans).

6. NOTES TO THE FINANCIAL STATEMENTS

Notes provide additional information to help users of the financial statements understand the company's financial position and performance better. They include explanations of accounting policies, details about contingent liabilities, significant events after the balance sheet date, and other relevant disclosures.

7. REVIEW AND FINALIZATION

Financial statements are reviewed for accuracy and compliance with accounting standards (e.g., GAAP or IFRS). Management or auditors may review and approve the financial statements before finalizing them for publication.

8. PUBLICATION AND DISTRIBUTION

Once finalized, financial statements are distributed to stakeholders such as shareholders, creditors, regulatory authorities, and potential investors. They are typically published in annual reports, filed with regulatory agencies, or made available on the company's website.

By following these steps diligently and ensuring adherence to accounting principles and standards, companies can produce reliable and informative financial statements that help stakeholders assess their financial health and make informed decisions. (Et. al., 2021)

EXAMPLE OF A PREPARED FINANCIAL STATEMENT

Innovative Products, Inc. Income Statement For Year Ending December 31, 2012		
Sales		$50,00,000
Cost of Goods Sold		
Materials	8,00,000	
Labor	11,00,000	
Overhead	6,00,000	25,00,000
Gross Margin		**$25,00,000**
Operating Expenses		
Selling Expenses	9,00,000	
Administrative Expenses	6,00,000	
Depreciation and Amortization	5,00,000	2000000
Operating Income		**$5,00,000**
Other Income & Expenses		
Interest Revenue	50000	
Interest Expense	-1,00,000	
Extraordinary items	2,00,000	1,50,000
Income Before Tax		$6,50,000
Income Tax (at 35%)		$2,27,500
Net Income		***$4,22,500***

(Mushtaq, 2020)

Including Period-End Modifications in Financial Reports

Period end adjustments are crucial for ensuring that financial statements accurately reflect the financial position and performance of a company at the end of an accounting period. These adjustments are necessary because some transactions or events occur over time or affect multiple periods, requiring recognition in the period when they actually occur, not just when cash changes hands. (International Monetary Fund, 2013)

Here are a few practical examples along with their adjustment entries:

Accrued Revenues

Scenario: A company provides services to a client in December but does not issue an invoice until January.

Adjustment: Recognize revenue earned in December.
- Transaction Amount: $5,000 (service provided in December)

Adjustment Entry:
- Accounts Receivable : $5,000
- Service Revenue $5,000

Accrued Expenses

Scenario: An entity receives a utility bill for December but will pay it in January.

Adjustment: Recognize the expense in December.
- Transaction Amount: $1,200 (utility expense for December)

Adjustment Entry:
- Utility Expense $1,200
- Accounts Payable $1,200

Prepaid Expenses

Scenario: A company pays insurance premiums for six months in advance at the beginning of the year.

Adjustment: Recognize the portion of the prepaid insurance that has expired as an expense.
- Transaction Amount: $6,000 (annual insurance premium)

Adjustment Entry:
- Insurance Expense $1,000
- Prepaid Insurance $1,000

Depreciation

Scenario: A company purchases equipment for $50,000 with an estimated useful life of 5 years, using straight-line depreciation.

Adjustment: Recognize depreciation expense for the period.
- Transaction Amount: $10,000 per year ($50,000 / 5 years)

Adjustment Entry:
- Depreciation Expense $10,000
- Accumulated Depreciation $10,000

Unearned Revenues

Scenario: A customer pays $12,000 in advance for services to be provided evenly over the next 12 months.

Adjustment: Recognize the revenue earned in the current period.
- Transaction Amount: $1,000 per month ($12,000 / 12 months)

Adjustment Entry:
- Unearned Revenue $1,000
- Service Revenue $1,000

These adjustments ensure that financial statements provide a true and fair view of a company's financial position and performance by matching revenues and expenses to the appropriate accounting periods. Each adjustment entry reflects the recognition of revenue or expense that has been incurred but not yet recorded, or the recognition of an asset's depreciation or prepaid item's consumption over time. (Fama and Jensen, 1983)

Reference

- Aflatooni, A. (2009). Cash from Operations and Accruals in Three Vs. Five Categories Cash Flow Statement. SSRN Electronic Journal, 11(2). doi:https://doi.org/10.2139/ssrn.1476854.
- Arya, A. (2020). Stewardship Value of Income: The Role of Income Statement Classification. SSRN Electronic Journal, 11(2). doi:https://doi.org/10.2139/ssrn.490762.
- Baldessarini, R.J. (2010). Commentary: The Bipolar Affective Disorder: Lithium/Anticonvulsant Evaluation (BALANCE) Study. Bipolar Disorders, 12(7), pp.669–672. doi:https://doi.org/10.1111/j.1399-5618.2010.00860.x.
- Et. al., R.S.H. (2021). The Influence of Training on Financial Statement Preparation on Entrepreneurship Performance. Turkish Journal of Computer and Mathematics Education (TURCOMAT), 12(4), pp.754–763. doi:https://doi.org/10.17762/turcomat.v12i4.560.
- Fama, E.F. and Jensen, M.C. (1983). Agency Problems and Residual Claims. The Journal of Law and Economics, 26(2), pp.327–349.
- Ferranti, K. (2019). Digging deep into derivatives: balance sheet management – making strategic decision-making better. Balance Sheet, 11(3), pp.20–22. doi:https://doi.org/10.1108/09657960310491154.
- International Monetary Fund (2013). France: Financial Sector Assessment Programâ€”Technical Note on Housing Prices and Financial Stability: Financial Sector Assessment Programâ€”Technical Note on Housing Prices and Financial Stability. IMF Staff Country Reports, 13(184), p.1. doi:https://doi.org/10.5089/9781484380543.002.
- Ledwidge, F. (2022). The Ledger: Accounting for Failure in Afghanistan. Asian affairs, 53(3), pp.791–795. doi:https://doi.org/10.1080/03068374.2022.2066884.
- Liberati, A., Altman, D.G., Tetzlaff, J., Mulrow, C., Gøtzsche, P.C., Ioannidis, J.P.A., Clarke, M., Devereaux, P.J., Kleijnen, J. and Moher, D. (2009). The PRISMA Statement for Reporting Systematic Reviews and Meta-Analyses of Studies That Evaluate Health Care Interventions: Explanation and Elaboration. PLoS Medicine, [online] 6(7), p.e1000100. doi:https://doi.org/10.1371/journal.pmed.1000100.
- Matveeva, N.S. (2021). Legislative Regulation Financial Statement Preparation by Micro Entities: International Experience. Financial Journal, 13(5), pp.125–138. doi:https://doi.org/10.31107/2075-1990-2021-5-125-138.
- Mushtaq, R. (2020). Financial Statement Analysis of a Company | Scientips. [online] scientips. Available at: https://scientips.com/financial-statement-analysis-of-a-company/ [Accessed 1 Jul. 2024].
- Nasi, G. and Steccolini, I. (2008). Implementation of accounting reforms. Public Management Review, 10(2), pp.175–196. doi:https://doi.org/10.1080/14719030801928573.
- Sbaraglia, A.M. (2019). Does Income Statement Presentation Affect Earnings Management? SSRN Electronic Journal, 11(2). doi:https://doi.org/10.2139/ssrn.1471146.

Presentation

03

UNDERSTANDING

ECONOMIC POLICIES AND IMPACTS

BY Yasiru Prabodha
ID CL/OTHMFL3/11/90

Table of Content

Measures of Money

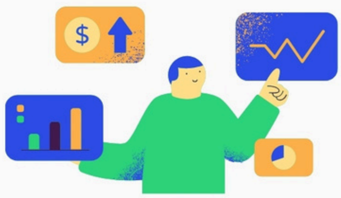
The money supply, commonly known as the "money stock," encompasses diverse financial assets used for exchanging goods, storing value, and measuring economic value. These assets are grouped into distinct levels or categories known as monetary aggregates.

M0 (BASE MONEY)

This is the most liquid form of money, consisting of physical currency (coins and notes) circulating in the economy and the reserves that commercial banks hold in their accounts at the central bank (also known as vault cash).

M1 (NARROW MONEY)

Includes M0 plus demand deposits (checking accounts) and other liquid assets that can be converted into cash easily and immediately.



02

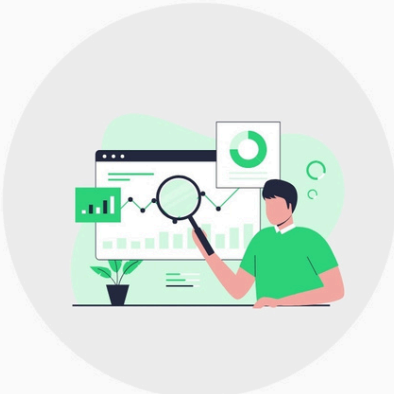
M2 (BROAD MONEY)

This includes M1 plus savings deposits, time deposits (such as certificates of deposit), and money market mutual funds. M2 represents a broader measure of money that includes less liquid forms of savings.

M3 (BROADEST MONEY)

This includes M2 plus large time deposits, institutional money market funds, and other larger liquid assets. M3 is the broadest measure of money supply.

These monetary aggregates help policymakers gauge the overall availability and circulation of money in the economy, which can influence economic growth, inflation, interest rates, and other macroeconomic variables.



03

Monetary and Fiscal Policies

MONETARY POLICY

CONTROLLER

Controlled by central banks or monetary authority.

GOALS

Manage inflation, stabilize currency, achieve full employment.

TOOLS

- **Open Market Operations:** Buying and selling government securities to influence money supply.
- **Reserve Requirements:** Setting the minimum reserves each bank must hold to ensure stability.
- **Discount Rate:** Interest rate charged to commercial banks for borrowing funds from the central bank.

04

TYPES OF MONETARY POLICY

EXPANSIONARY MONETARY POLICY

This policy aims to stimulate the economy by increasing the money supply and lowering interest rates. The main goals are to boost economic growth, reduce unemployment, and prevent or mitigate recessions. It is typically implemented during economic downturns. Tools used include:

- **Lowering Interest Rates:** Reducing the cost of borrowing to encourage businesses and consumers to take loans and spend more.
- **Open Market Operations (OMO):** Buying government securities from the market to increase the money supply.
- **Reducing Reserve Requirements:** Lowering the amount of funds banks must hold in reserve, allowing them to lend more.
- **Quantitative Easing (QE):** Purchasing financial assets from banks to increase their liquidity and encourage lending and investment.

CONTRACTIONARY MONETARY POLICY

Contractionary monetary policy aims to slow down the economy to control inflation. It decreases the money supply and increases interest rates, typically implemented during periods of economic overheating with excessive spending and investment. Tools include:

- **Raising Interest Rates:** Increasing the cost of borrowing to reduce consumer spending and business investment.
- **Open Market Operations (OMO):** Selling government securities to decrease the money supply.
- **Increasing Reserve Requirements:** Raising the amount of funds banks must hold in reserve, reducing their capacity to lend.
- **Reversing Quantitative Easing:** Selling the financial assets acquired during QE to reduce the money supply.

05

Fiscal Policy

EXECUTE

Executed by national governments through budgetary tools.

GOALS

Influence economic activity, redistribute income, fund public services

TOOLS

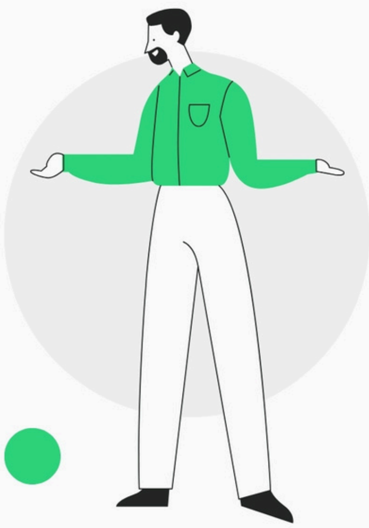
- **Taxation:** Adjusting tax rates and tax incentives to influence consumer and business behavior.
- **Government Spending:** Direct spending on infrastructure, education, defense, etc., to stimulate or cool down the economy.
- **Budget Deficits/Surpluses:** Managing the balance between government revenue and expenditure.

06

Government Use of Interest Rates

Control of Inflation

- Central banks raise interest rates to reduce borrowing and spending, cooling down an overheated economy.
- Lower interest rates to stimulate borrowing and spending in a sluggish economy.



Encouragement of Investment

- Lower interest rates reduce the cost of borrowing, encouraging businesses and consumers to invest and spend.
- Higher rates can attract foreign investment, strengthening the currency.

07

Economic Impacts of Inflation

INCOME REDISTRIBUTION

Inflation can benefit debtors (who repay loans with cheaper money) and hurt creditors (who receive less valuable repayments)

EROSION OF PURCHASING POWER

Higher prices reduce the real value of money, meaning consumers can buy less with the same amount of money.

UNCERTAINTY

High and unpredictable inflation can lead to uncertainty, reducing investment and economic growth.

MENU COSTS

Businesses incur costs from constantly changing prices to keep up with inflation.

08

Types of inflation

DEMAND-PULL INFLATION

Demand-pull inflation occurs when the overall demand for goods and services in an economy exceeds the available supply. This imbalance drives up prices as consumers compete for the limited goods and services. Key causes include:

- **Increased consumer spending:** Often due to rising incomes or lower taxes.
- **Government spending:** Increased government expenditures can boost demand.
- **Investment surge:** Higher levels of business investment.
- **Monetary policy:** Expansionary monetary policies that increase money supply and lower interest rates, encouraging spending and investment.

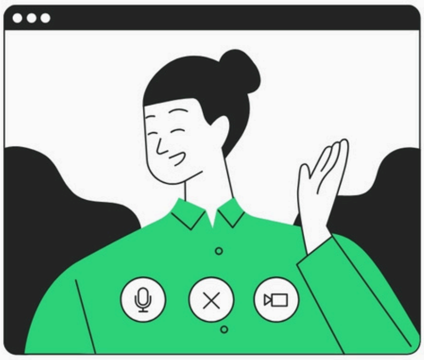
COST-PUSH INFLATION

Cost-push inflation happens when the costs of production increase, leading to a decrease in the aggregate supply of goods and services. This type of inflation is often driven by:

- **Rising labor costs:** Higher wages and benefits increase production costs.
- **Increased prices of raw materials:** For example, oil price hikes.
- **Supply chain disruptions:** Natural disasters, geopolitical tensions, or other disruptions that raise production costs.
- **Regulatory changes**: New taxes or regulations that increase business costs.

09

Thank You !



BY Yasiru Prabodha
ID cl/othmfl3/11/90

Thank you!

Thank you for taking the time to read this assignment .

YASIRU PRABODHA - CL/OTHMFL3/11/90