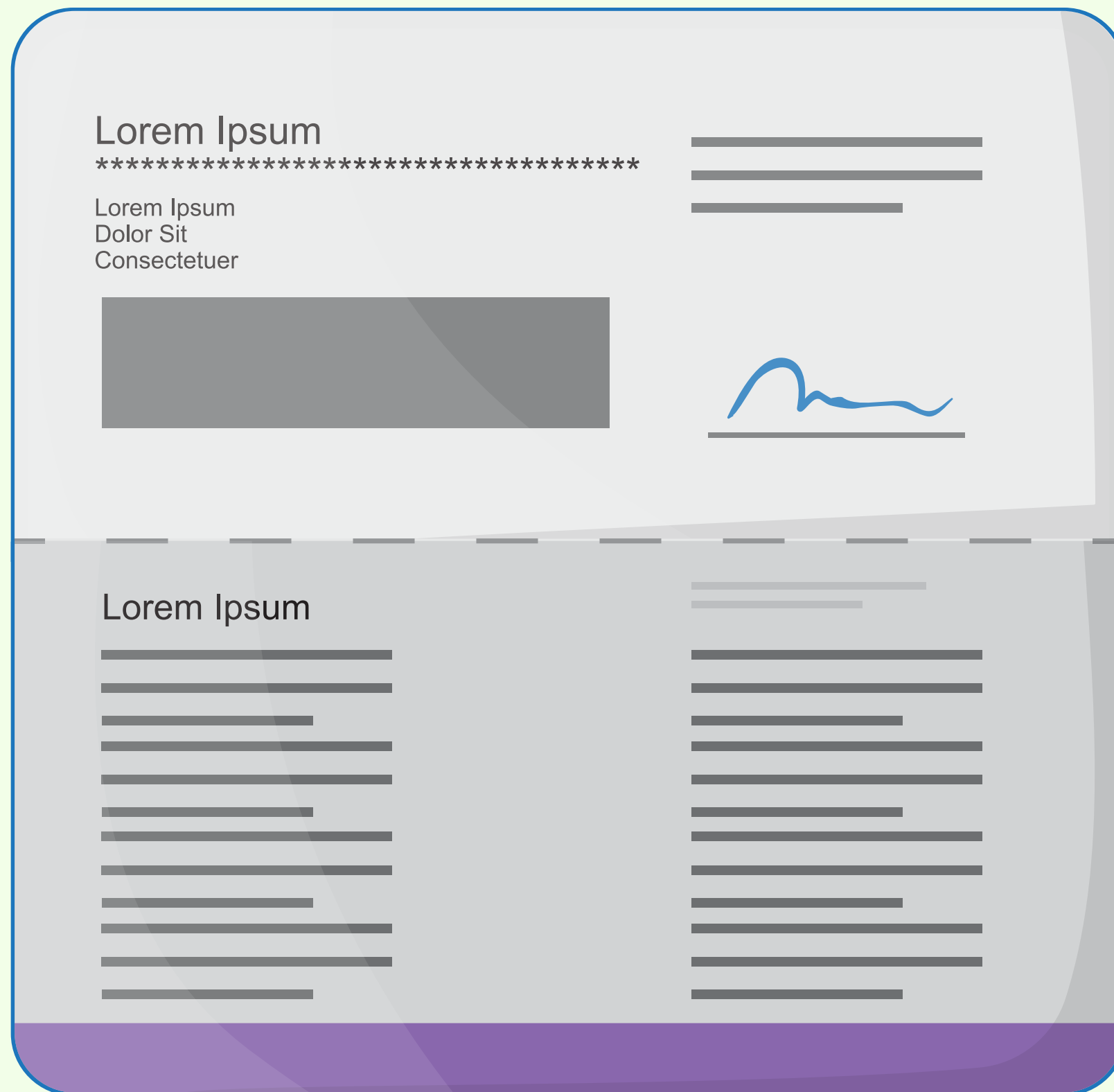
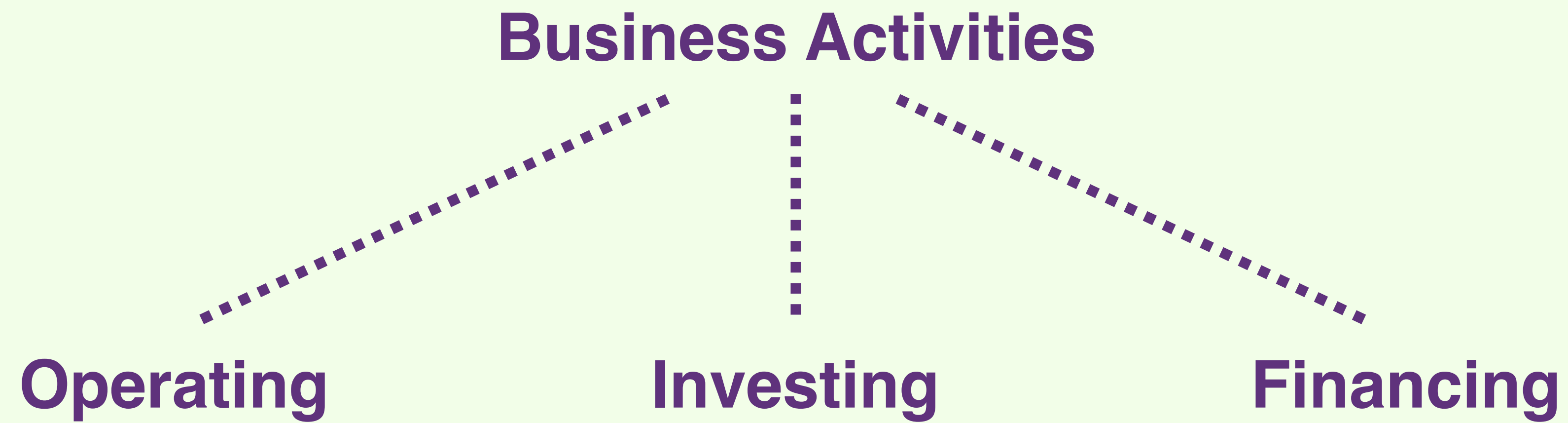


Financial Reporting Mechanics

Business and Accounting Process

1. Business Activities
2. Accounts
3. Accounting Process





Business Activities

Operating

*part of **day-to-day** business functioning*

SHOP



Shoe Retailer Operating Activities

- ❖ Sales to customers
- ❖ Costs of providing goods
- ❖ Income Tax Expenses
- ❖ Hold inventory
- ❖ Incur short-term liabilities

Business Activities

Investing

*acquisition and disposal of **long-term assets***

vs Operating Activities
*concerned with **day-to-day**
operations*

Shoe Retailer Investing Activities

- ❖ Purchase or sale of assets



Business Activities

Investing

*acquisition and disposal of **long-term assets***



Shoe Retailer Investing Activities

- ❖ Purchase or sale of assets
- ❖ Purchase or sale of equity or debt *(of other firms)*



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Business Activities

Financing

*obtaining or repaying **capital***



Shoe Retailer Financing Activities

- ❖ Issue new stocks
- ❖ Issue bonds
- ❖ Stock repurchase
- ❖ Bond redemption
- ❖ Dividend payments



Creditors



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Business Activities

Operating

- ❖ Sales to customers
- ❖ Costs of providing goods
- ❖ Income Tax Expenses
- ❖ Hold inventory
- ❖ Incur short-term liabilities

Investing

- ❖ Purchase or sale of assets
- ❖ Purchase or sale of equity or debt *(of other firms)*

Financing

- ❖ Issue new stocks
- ❖ Issue bonds
- ❖ Stock repurchase
- ❖ Bond redemption
- ❖ Dividend payments

Financial Statement Elements

Assets

- ❖ Hold inventory
- ❖ Purchase or sale of assets
- ❖ Purchase or sale of equity or debt *(of other firms)*

Liabilities

- ❖ Incur short-term liabilities
- ❖ Issue bonds
- ❖ Bond redemption

Owners' Equity

- ❖ Issue new stocks
- ❖ Stock repurchase
- ❖ Dividend payments

Revenue

- ❖ Sales to customers

Expenses

- ❖ Costs of providing goods
- ❖ Income Tax Expenses



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Accounts

Assets

- Cash and cash equivalents
- Accounts receivable “trade receivables”
- Prepaid expenses
- Inventory
- Property, plant and equipment
- Intangible assets (patents, trademarks, and goodwill)
- Financial assets (equities and bonds)
- Deferred tax assets
- Loans (for banks)

Liabilities

- Accounts payable
- Unearned revenue
- Short term notes
- Long term debt
- Income taxes payable
- Deferred tax liabilities

Owners' Equity

- Capital
- Retained earnings
- Other comprehensive income

Revenue

- Sales
- Gains
- Investment income

Expenses

- Cost of goods sold
- Sales, general and admin expenses
- Depreciation and amortisation
- Tax expenses
- Interest expenses
- Losses



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Accounts

Assets

- Cash and cash equivalents
- Accounts receivable “trade receivables”
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- Financial assets (equities and bonds)
- Deferred tax assets
- Loans (for banks)

Liquid securities with maturities of 90 days or less

Sales made on credit

Unsold units of product on hand

Current Assets

expected to be consumed or converted into cash in the near future

Non-Current Assets

expected to benefit the company over an extended period of time



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Accounts

Liabilities

- **Accounts payable**
- **Unearned revenue**
- **Short term notes**
- **Long term debt**
- **Income taxes payable**
- **Deferred tax liabilities**

short term payments owed to other parties

e.g. subscriptions or membership fees that are paid upfront

debt which is to be repaid within the year

typically bonds issued

unpaid taxes that have been accrued in the past year

shall be discussed later



Business and Accounting Process

1. Business Activities 2. **Accounts** 3. Accounting Process

Accounts

Accounting Equation

Owners' Equity

- Capital
- Retained earnings
- Other comprehensive income



Assets

Assets

Net Income - Div

=

Liabilities

+

Contributed Capital

+

Beginning Retained Earnings
+ Revenue
- Expenses
- Dividend



Lenders



Dividend Payout

Shareholders

Liabilities

Contributed Capital

Beginning Retained Earnings

Net Income - Div

Owners' Equity



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Accounts

Owners' Equity

- Capital
- Retained earnings
- Other comprehensive income

par value of common stock + additional paid-in capital

cumulative net income that has not been distributed as dividends

accounts for the changes in equity resulting from foreign currency translation, pension liability adjustments, and unrealised gains and losses on investments

Expanded Accounting Equation

Assets

=

Liabilities

+

**Contributed
Capital**

+

**Beginning
Retained
Earnings**

+

Revenue

-

Expenses

-

Dividend



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Accounts

Revenue

- Sales
- Gains
- Investment income

from day-to-day activities

when asset valuations have increased

interest and dividend income



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Accounts

Expenses

- Cost of goods sold
- Sales, general and admin expenses
- Depreciation and amortisation
- Tax expenses
- Interest expenses
- Losses

assets are considered used up and has fallen in value

losses made when assets are sold



Business and Accounting Process

1. Business Activities 2. Accounts 3. Accounting Process

Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Contributed Capital} + \text{Beginning Retained Earnings} + \text{Revenue} - \text{Expenses} - \text{Dividend}$$

Assets

- Cash and cash equivalents
- Accounts receivable “trade receivables”
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- Financial assets (equities and bonds)
- Deferred tax assets
- Loans (for banks)

Assets

Liabilities

- ### Liabilities
- Accounts payable
 - Unearned revenue
 - Short term notes
 - Long term debt
 - Income taxes payable
 - Deferred tax liabilities

Revenue

- Sales
- Gains
- Investment income

Expenses

- Cost of goods sold
- Sales, general and admin expenses
- Depreciation and amortisation
- Tax expenses
- Interest expenses
- Losses

Owners' Equity

- Capital
- Retained earnings
- Other comprehensive income

Owners' Equity

Contributed Capital

Retained Earnings

Double Accounting

$$\text{Assets} = \text{Liabilities} + \text{Contributed Capital} + \text{Beginning Retained Earnings} + \text{Revenue} - \text{Expenses} - \text{Dividend}$$

Assets

- Cash and cash equivalents
- Accounts receivable “trade receivables”
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- Loans (for banks)

Assets

Cash

Liabilities

Contributed Capital

Retained Earnings

Expense

Owners' Equity

Buy office supplies for \$1000 using cash.

Cash ↓ \$1000

Retained Earnings ↓ \$1000

Liabilities

- Accounts payable
- Unearned revenue
- Short term notes
- Long term debt
- Income taxes payable
- Deferred tax liabilities

Owners' Equity

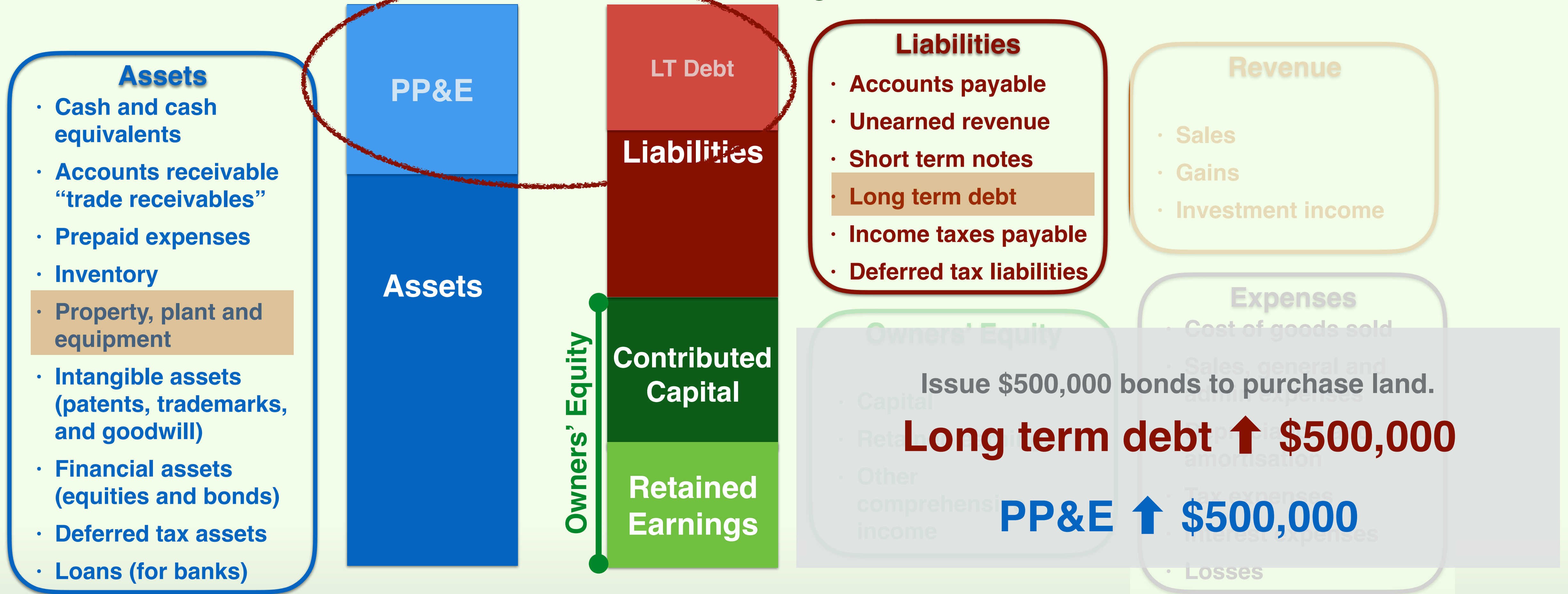
- Capital
- Retained earnings
- Other comprehensive income

Expenses

- Cost of goods sold
- Sales, general and admin expenses
- Depreciation and amortisation
- Tax expenses
- Interest expenses
- Losses

Double Accounting

$$\text{Assets} = \text{Liabilities} + \text{Contributed Capital} + \text{Beginning Retained Earnings} + \text{Revenue} - \text{Expenses} - \text{Dividend}$$



Business and Accounting Process

1. Business Activities
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Double Accounting

$$\text{Assets} = \text{Liabilities} + \text{Contributed Capital} + \text{Beginning Retained Earnings} + \text{Retained Earnings} + \text{Revenue} - \text{Expenses} - \text{Dividend}$$

Assets

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- Loans (for banks)

Assets

Inventory

Cash

Liabilities

Contributed Capital

Retained Earnings

Owners' Equity

Buy inventory for \$100,000 using cash.
Cash ↓ \$100,000 Inventory ↑ \$100,000

Sell the inventory for \$150,000 cash.
Inventory ↓ \$100,000 Cash ↑ \$150,000

COGS ↑ \$100,000 Revenue ↑ \$150,000

Owners' Equity

- Capital
- Retained earnings
- Other comprehensive income

Expenses

- Cost of goods sold
- Sales, general and admin expenses
- Depreciation and amortisation
- Tax expenses
- Interest expenses
- Losses