

المحاضرة الاولى

# Financial Accounting: Tools for Business Decision Making

# Study Objectives

1. Describe the primary forms of business organization.
2. Identify the users and uses of accounting information.
3. Explain the three principal types of business activity.
4. Describe the content and purpose of each of the financial statements

5. Explain the meaning of assets, liabilities, and stockholders' equity, and state the basic accounting equation.

6. Describe the components that supplement the financial statements in an annual report.

# Users of Financial Information

## *Internal*

\*Managers who plan, organize and run a business

1. Marketing managers
2. Production supervisors
3. Finance directors
4. Company officers

# Users of Financial Information

## *External*

\*Investors

\*Creditors

\*Others

1.Regulatory agencies

2.Tax authorities

3.Customers

4.Labor Unions

5.Economic planners

# Types of Business Activity

Financing

Investing

Operating

# Financing Activities

\*Borrowing creates *liabilities*

Bank loans

Debt securities

Goods on credit or payables

\*Selling stock creates *stockholders' equity*

# Investing Activities

\*Obtaining resources or assets to operate the business

Land

Buildings

Vehicles

Computers

Furniture

Equipment



# Operating Activities

\*Primary activity of business

Selling goods

Providing services

Manufacturing

Cost of Sales

Advertising

Paying employees

Paying utilities

## المحاضرة الثانية

# Operating Activities

**\*Revenues** are the increases in assets resulting from the sale of a product or service

**\*Expenses** are the cost of assets consumed or services used in generating revenue.

If revenue  $>$  expense = **Net Income**

If revenue  $<$  expense = **Net Loss!**

# Content and Purpose of Financial Statements

Accountants communicate with users through four financial statements

Income Statement

Retained Earnings Statement

Balance Sheet

Statement of Cash Flows

# Income Statement

- \*Reports operating success or failure for a period.
- \*Summarizes revenues and expenses for period: *month, quarter, year.*
- \*If revenue > expense = ***Net Income.***

# Income Statement

SIERRA CORPORATION  
Income Statement  
For the Month Ended October 31, 2007

Revenues		
Service revenue		\$10,600
Expenses		
Salaries expense	\$5,200	
Supplies expense	1,500	
Rent expense	900	
Insurance expense	50	
Interest expense	50	
Depreciation expense	40	
Total expenses		<u>7,740</u>
Net income		<u><u>\$ 2,860</u></u>

# Retained Earnings Statement

\*Shows changes in retained earnings for period:

*month, quarter, year*

\*Beginning balance

\*Add ***Net Income from income statement.***

\*Deduct Dividends

Ending balance\*

# Retained Earnings Statement

SIERRA CORPORATION	
Retained Earnings Statement	
For the Month Ended October 31, 2007	
Retained earnings, October 1	\$ 0
Add: Net income	<u>2,860</u>
	2,860
Less: Dividends	<u>500</u>
Retained earnings, October 31	<u><u>\$2,360</u></u>

# Balance Sheet

- \* Reports **assets** and claims to assets.
- \* Claims of creditors, **liabilities**.
- \* Claims of owners, **stockholders' equity**.
- \* **Assets = Liabilities + Stockholders' Equity**
- \* Specific date – *one point in time!*



# Balance Sheet

## SIERRA CORPORATION

### Balance Sheet

October 31, 2007

#### Assets

Cash		\$15,200
Accounts receivable		200
Advertising supplies		1,000
Prepaid insurance		550
Office equipment, net		<u>4,960</u>
Total assets		<u>\$21,910</u>

#### Liabilities and Stockholders' Equity

##### Liabilities

Notes payable	\$ 5,000	
Accounts payable	2,500	
Interest payable	50	
Unearned revenue	800	
Salaries payable	<u>1,200</u>	
Total liabilities		\$ 9,550

##### Stockholders' equity

Common stock	10,000	
Retained earnings	<u>2,360</u>	
Total stockholders' equity		<u>12,360</u>
Total liabilities and stockholders' equity		<u>\$21,910</u>

## المحاضرة الثالثة

# Statement of Cash Flows

- \* Provides information about cash receipts and cash payments
- \* Summarizes for period: *month, quarter, year.*
- \* Cash effects of operating, investing, and financing activities.

# Statement of Cash Flows

- \*How was cash used during the period?
- \*What was the change in the cash balance during the period?
- \*A company cannot survive without cash!
- \*Where did the cash come from?

# Statement of Cash Flows..

SIERRA CORPORATION		
Statement of Cash Flows		
For the Month Ended October 31, 2007		
Cash flows from <b>operating</b> activities		
Cash receipts from operating activities	\$11,200	
Cash payments for operating activities	<u>(5,500)</u>	
Net cash provided by operating activities		\$ 5,700
Cash flows from <b>investing</b> activities		
Purchased office equipment	<u>(5,000)</u>	
Net cash used by investing activities		(5,000)
Cash flows from <b>financing</b> activities		
Issuance of common stock	10,000	
Issued note payable	5,000	
Payment of dividend	<u>(500)</u>	
Net cash provided by financing activities		<u>14,500</u>
Net increase in cash		15,200
Cash at beginning of period		<u>0</u>
Cash at end of period		<u><u>\$15,200</u></u>

# ASSETS

Resources owned by the business

Cash

Accounts receivable

Inventories

Furniture and fixtures

Equipment

Supplies

# Liabilities

## Obligations or debts of business

Notes payable

Accounts payable

Interest payable

Salaries payable

Unearned revenue

# Stockholders' Equity

- \*Ownership claims on assets

- Paid-in capital

- \*Common stock

- Retained earnings

# Basic Accounting Equation

Liabilities + Stockholders' Equity = Assets

Using the accounting equation, answer the following question.

(Liabilities = \$35,000, Assets = \$75,000, Stockholders' Equity = 40000 )

$$\$75,000 = \$35,000 + \$40,000$$



# Supplements to the Financial Statements in an Annual Report

Management Discussion and Analysis

Notes to Financial Statements

Auditor's report

# Accumulated Depreciation...

Shows the total amount of depreciation that the company has expensed thus far in the asset's life.

\*Assets That A Company Depreciates...

Should be shown at cost less accumulated depreciation

**Property, plant, and equipment**

Land and land improvements	\$ 6,794	
Buildings and leasehold improvements	55,900	
Machinery and equipment	204,651	
Construction in process	<u>5,614</u>	\$272,959
Less: Accumulated depreciation		<u>131,995</u>
		\$140,964

## المحاضرة الرابعة

# Purchase Discounts

\*Credit terms may allow buyer to claim a cash discount if payment is made within a certain specified time

\*Purchaser saves money and seller converts account receivable to cash faster

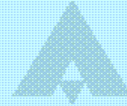
# Purchase Discounts

\*Credit terms may be written “2/10, net 30” which means 2% cash discount if paid within 10 days of invoice date, otherwise pay the full amount within 30 days

Guess what “1/10, EOM” means?

1% cash discount if paid within 10 days, otherwise pay by the end of the month

INVOICE NO. 731



# PW AUDIO SUPPLY, INC.

27 CIRCLE DRIVE  
HARDING, MICHIGAN 48281

S  
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Firm Name Sauk Stereo

Attention of James Hoover, Purchasing Agent

Address 125 Main Street

Chelsea Illinois 60915

City State Zip

Date 5/4/05	Salesperson Malone	Terms 2/10, n/30	Freight Paid by Buyer		
Catalog No.	Description	Quantity	Price	Amount	
X572Y9820	Printed Circuit Board-prototype	1	2,300	\$2,300	
A2547Z45	Production Model Circuits	5	300	1,500	
<b>IMPORTANT: ALL RETURNS MUST BE MADE WITHIN 10 DAYS</b>			<b>TOTAL</b>	<b>\$3,800</b>	

# Purchase Discounts

Original Invoice	\$3,800
Return on May 8	-300
<hr/>	
Amount due before discount	\$3,500
2% discount	-70
<hr/>	
Net due	\$3,430

# Sales Discounts

\*Credit terms may allow buyer to claim a cash discount for prompt payment

\*Sales Discount is a contra-revenue account of sales. Normal debit balance.

## Credit terms 2/10,n/30- Seller's Books

May 14	Cash	3,430	
	Sales Discounts	70	
	Accounts Receivable		3,500
	(To record collection within 2/10, n/30 discount period from Sauk Stereo)		



المحاضرة الخامسة

# ACCRUAL ACCOUNTING CONCEPTS

# Types of Adjusting Entries

## -Prepayments:

\***Prepaid expenses:** Expenses paid in cash and recorded as assets before they are used or consumed.

\***Unearned Revenues:** Cash received and recorded as liabilities before revenue is earned.

## -Accruals:

\***Accrued revenues:** Revenues earned but not yet received in cash or recorded.

\***Accrued expenses:** Expenses incurred but not yet paid in cash or recorded.

# Accrual Accounting Concepts

- \* Explain the revenue recognition principle and the matching principle.
- \* Differentiate between the cash basis and the accrual basis of accounting.
- \* Explain why adjusting entries are needed and identify the major types of adjusting entries.
- \* Prepare adjusting entries for prepayments

Prepare adjusting entries for accruals.

\*Describe the nature and purpose of the adjusted trial balance.

\*Explain the purpose of closing entries.

\*Describe the required steps in the accounting cycle.

# Revenue Recognition Principle...

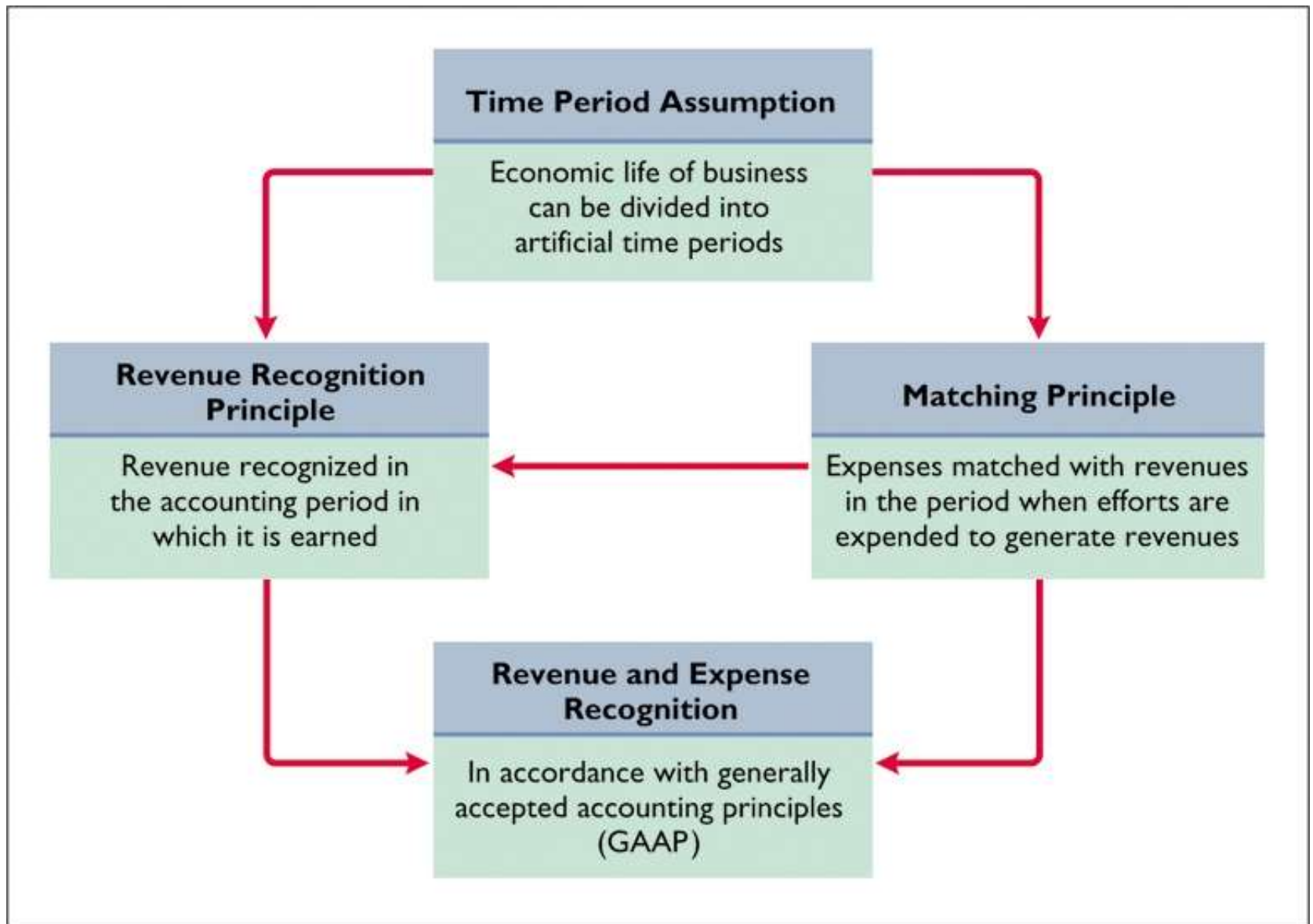
\*Dictates that revenue be recognized in the accounting period in which it is earned.

\*Is considered earned

- when the service has been provided or
- when the goods are delivered.

# Matching Principle...

Requires that **expenses** be recorded in the same period in which the **revenues** they helped produce are recorded.



# Prepayments

**PREPAID EXPENSES** - Costs that expire either with the passage of time or through use.

**UNEARNED REVENUES**- money has been received before the goods or services are provided.



المحاضرة السادسة

# Reporting and Analyzing Inventory

- \* Describe the steps in determining inventory quantities. •
- \* Explain the basis of accounting for inventories and apply the inventory cost flow methods under a periodic inventory system. •
- \* Explain the financial statement and tax effects of each of the inventory cost flow assumptions. •
- \* Explain the lower of cost or market basis of accounting for inventories. •
- \* Compute and interpret the inventory turnover ratio. •
- \* Describe the LIFO reserve and explain its importance for comparing results of different companies. •

# Inventory-Merchandiser

- \* Consists of many different items
- \* Owned by the company
- \* In a form ready for sale to customers
- \* One inventory classification: **Merchandise Inventory**

\*Finished goods inventory

\*Work in process

\*Raw materials

# Finished Goods Inventory

**Manufactured items that are complete and ready for sale.**

## Work in Process

**Manufactured inventory that has been placed into production but is not yet complete.**

# Raw Materials

The basic goods that will be used in production, but have not been placed in production.

## Determine Inventory Quantities

\*Determine inventory quantities by counting, weighting or measuring each type of inventory.

\*Determine ownership of goods, including goods in transit, consigned goods.

# Goods in Transit

**These are goods on board a truck, train, ship, or plane at the end of the period.**

# Consigned Goods

**Goods of others you hold. You do not pay for the goods until they sell.**

**The company does not take ownership.**

# Inventory Costing - Periodic

1. Determine quantity of units of inventory
2. Apply unit costs to the quantities
3. Determine total cost of inventory
4. Determine cost of goods sold

\*Process can be complicated if units are purchased at different times and at different prices!



# The theoretical framework of financial accounting

The intellectual framework of accounting  
Accounting is based on a set of assumptions,  
principles, and terminology. The following is  
discussed in some detail:

First: Basic Accounting Assumptions:

The hypothesis is defined as the prediction of  
possible solutions to solve a problem by  
experiment or observation.

Accounting assumptions are as follows:

1. assumption of the accounting unit (moral personality)
2. assumption the continuation of the establishment
- 3 - assumption of monetary measurement
- 4 - assumption the accounting period

1\assumption the accounting unit "corporate personality": -

According to this assumption, the accountant monitors events and transactions related only to the establishment and excludes all transactions and events related to the owner or owners of the establishment or other establishments.

2 / assumption of continuity: - It means that the life of the establishment is continuous or indefinite. Industrial and commercial establishments are in place and the possibility of liquidation is exceptional.

3/ assumption of monetary measurement: - According to this assumption, accounting is concerned only with transactions that can be measured by money, which is the standard method of measurement

4 / assumption the accounting period: -

We have already stated that the entity is continuing and that the liquidation potential is exceptional. As the owners of the entity are interested in knowing the outcome of the business of profit or loss, it is necessary to divide the life of the establishment into periodic periods of twelve months, And therefore they are allowed to make economic decisions according to this informatio available.

## Second: Basic Accounting Principles:

The accounting principles are defined as general law or guidelines for solving accounting problems or taking certain accounting procedures. The most important accounting principles are in three sections as follows:

## Section 1: Scientific Principles Related to Profit:

1 / Principle of revenue realization: Revenue is paid by the customers of the entity in exchange for their purchase of goods or services. Revenue is recognized as soon as sales are made, whether the sale is paid in cash or for a period. The principle of revenue recognition is a proper measure of revenue recognition. This principle is based on continuity. At the end of the month of the fiscal year, and therefore the collection is made in the following year. Without the establishment going on, this sale and the same can not be done for the purchase.

2/ Cost principle in the measurement of maintenance: Expenditure is the amount paid by the establishment in order to obtain the factors of production necessary to achieve the objective for which the establishment was established. Accordingly, the expenditure items are directly related to the revenue items. For example, the cost of obtaining the commodity must be calculated accurately and comprehensively to include any Direct disbursement, and the cost-of-support historical cost principle is applied in the measurement of maintenanc.

3/ Principle of coverage or interviewing expenses with income: - To determine the net profit of an enterprise, all expenditure items are to be included in the income. Expenditures should include all expenditures for the financial period, whether or not they have been paid or paid at the same level for all revenues, whether or not such revenues have been received by applying the accrual basis rather than the cash basis.



## General scientific principles:

1 / Stability principle: This principle is evaluated by mutual procedures and accounting policy in the first year.

2/ The conservatism principle: This principle is based on taking all expected costs, losses or burdens into account when extracting the result of the business from profit or loss and determining the financial position and not taking the expected profits into account unless such profits are actually realized.

3 / The principle of comprehensive disclosure:  
The principle is that the financial statements should include all the necessary data to provide a true and clear picture of the outcome of the business and its financial position in a certain period.

# Accounting basis

These are the bases that govern the measurement and recording of revenues and expenses related to the establishment and are as follows:

1 / accrual basis of accounting: According to this basis, all income earned or incurred during the accounting period is recorded regardless of whether the income is earned in cash or not. All expenses incurred in order to obtain these revenues are recorded regardless of whether they are paid in cash or not.

Cash basis: This basis means that the income for the accounting period is the income collected during this period and that the expenses for the accounting period are the expenses that are paid during this period in cash. Therefore, income and expenses are recognized during the accounting period only when they are already paid or paid in cash .

The concept of the accounting cycle:

It is a set of procedures or steps that are followed or followed by the accountant to complete or complete the accounting process. It is worth mentioning that these steps are interrelated in an integrated manner so that each step depends on the previous step and at the same time serve as a prelude to the next step.

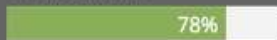
John Smith

- TUTORIAL PROGRESS -



- RECENT ACTIVITY -

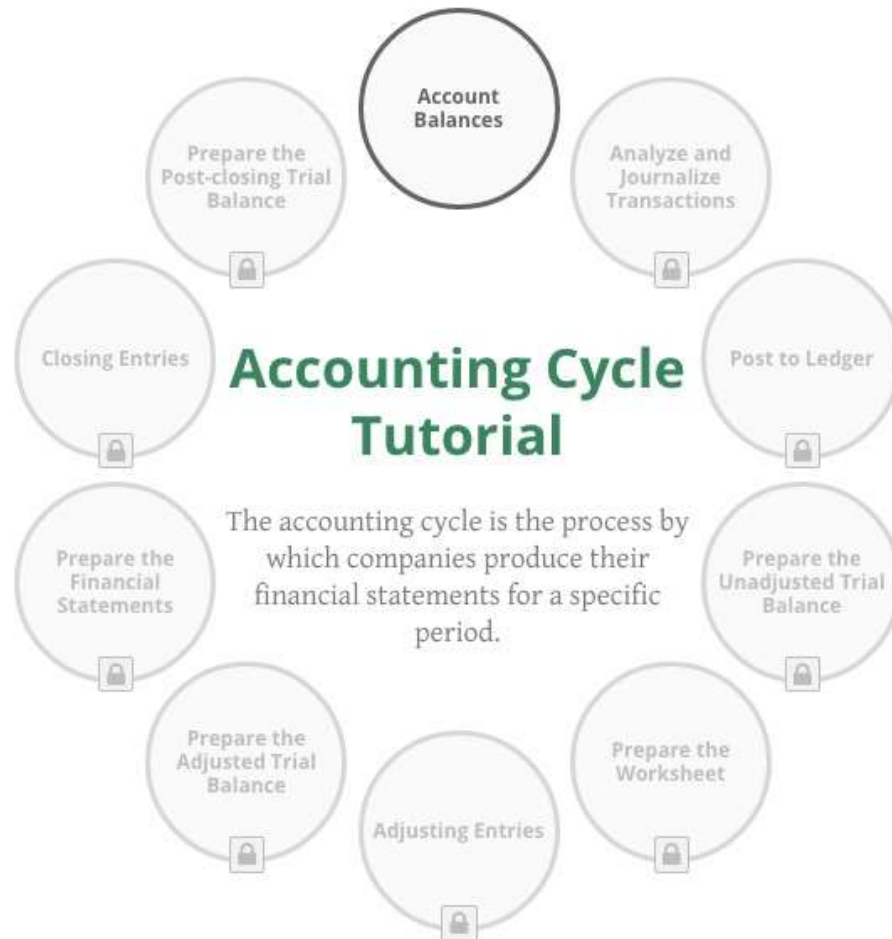
Account Balances



Transactions and Journaling



Demo: Clear Session/Results

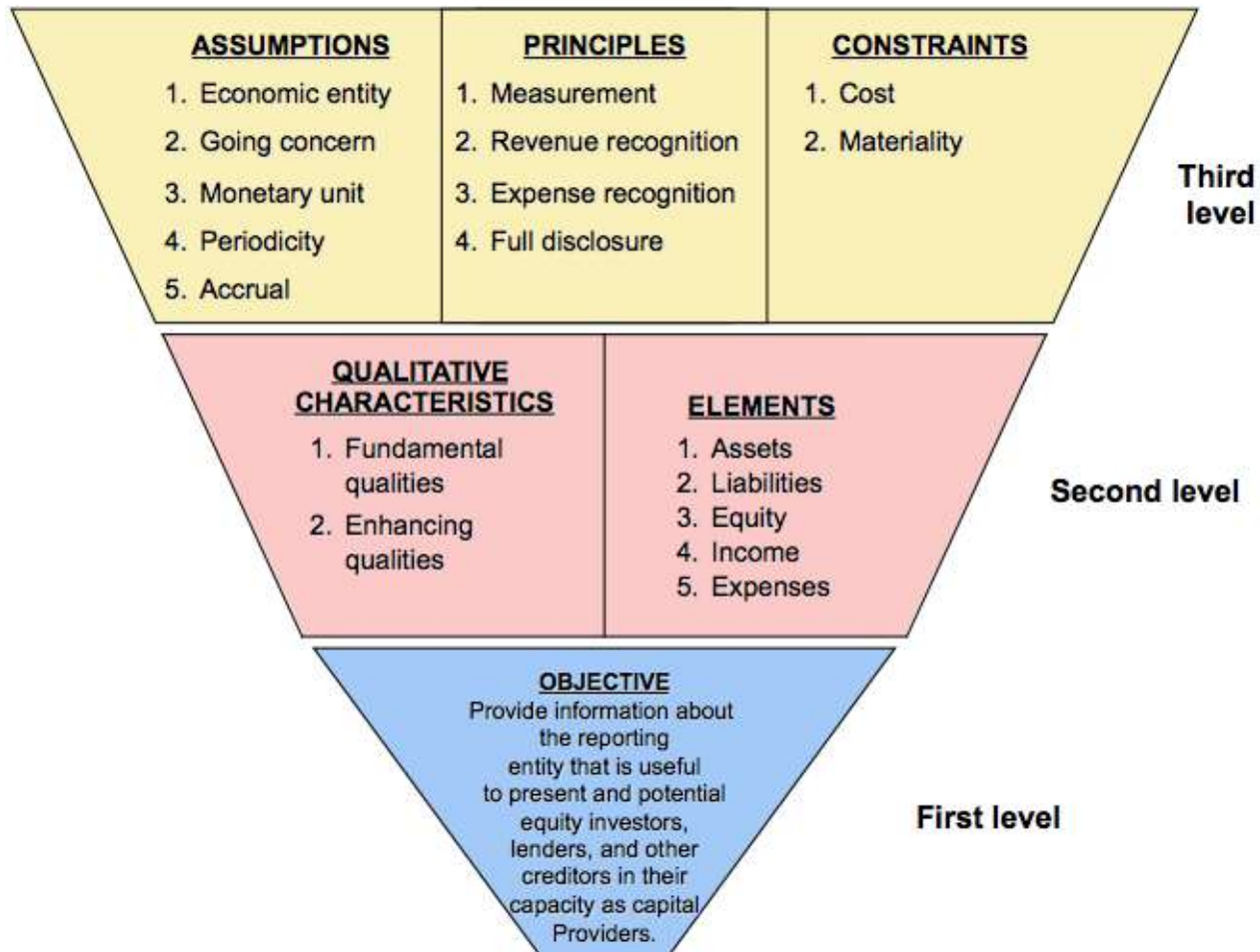


The following is a breakdown of this form and we recognize these steps in some detail:

First: Analysis and identification of financial transactions from the documents:

Financial transactions means any events or transactions carried out by the enterprise and can be expressed in a financial or monetary form.

# The conceptual framework of accounting





The conceptual framework of accounting :  
is a set of accounting objectives and  
fundamentals, developed by the International  
Accounting Standards Board (IASB) to ensure  
uniformity in interpretation across various  
accounting methodologies.

# Objectives of financial reporting

1. Is useful to those making investment and credit decision .
2. Is helpful in assessing future cash flow .
3. Identifies the economic resources(assets) , the claims to those resources ( liabilities) , and the changes in those resources .

# Qualitative characteristics of accounting information

A) Fundamental qualitative:

1. relevance
2. faithful representation

B) Enhancing qualitative :

1. Comparability .
2. Verifiability
3. Timeliness
4. understandability

# Elements of financial statement

- 1.Assets
- 2.Liability
- 3.Equity
- 4.Income
- 5.expenses

# مصطلحات محاسبة انكليزية

الكلمة باللغة الإنجليزية	الكلمة باللغة العربية
Absorption Costing System	نظام التكاليف الكلية أو الإجمالية
Accelerated depreciation (of an asset)	الهلاك المتسارع - المتناقص / المعجل ( للأصل الملموس)
Account Balance	رصيد الحساب
Accountant	المحاسب
Accountants	المحاسبون
Accounting	محاسبة
Accounting Assumptions (Postulates)	الفروض أو الافتراضات المحاسبية
Accounting Concepts	المفاهيم المحاسبية - المبادئ المحاسبية
Accounting Constraints	القيود المحاسبية - المحددات المحاسبية
Accounting Cycle	الدورة المحاسبية
Accounting Elements	العناصر المحاسبية
Accounting Equation	المعادلة المحاسبية
Accounting Information	المعلومات المحاسبية
Accounting Objectives	الأهداف المحاسبية
Accounting Period (Periodicity)	الفترة المحاسبية - الفترة المالية
Accounting Policies	السياسات المحاسبية
Accounting Principles	المبادئ المحاسبية
Accounting Principles Board (APB)	مجلس مبادئ المحاسبة الأمريكي
Accounting Procedures	الإجراءات المحاسبية
Accounting Research Bulletins	نشرات البحوث المحاسبية

Sum of the years	مجموع سنوات العمر الانتاجي	loan	قرض	Depreciation expense	مصروف الاندثار
Double declining balance	مضاعف النسبة الثابتة	Services	خدمات	Conservatism	الحيلة والحذر
reconciliation	تسوية	Balance	رصيد	Allowances for doubtful account	مخصص ديون مشكوك في تحصيلها
deduct	يطرح	Receipts	استلام	Bad debts	ديون معدومه
posting	ترحيل	payment	مدفوعات	Reliability	الموثوقية
gains	مكاسب	Fifo	مايرد اولاً يصرف اولاً	relevance	الملائمة
cheque	شيك	lifo	مايرد اخراً يصرف اولاً	Rerceived	يستلم
customers	زبائن	periodic	جرد دوري	salaries	رواتب
rejected	مرفوضه	due	تستحق	basic	اساس

المصطلح المحاسبي باللغة الإنجليزية	المصطلح المحاسبي باللغة العربية
Accounting	المحاسبة
Financial Accounting	المحاسبة المالية
Income Statement	قائمة الدخل
Financial Position Statement	قائمة المركز المالي
Balance Sheet	العمومية الميزانية
Assets	الأصول
Liabilities	الخصوم
Owner's Equity	حقوق الملكية
Generally Accepted Accounting Principles (GAAP)	المبادئ المحاسبية المتعارف عليها
Debit Account	الحساب المدين
Credit Account	الحساب الدائن
Journal	دفتر اليومية

Activate Windows  
Go to Settings to activate Windows.