

Revenue Recognition

- Identify the contract with the customers
- Identify the separate performance obligations in the contract: At the inception of the contract, the entity should assess the goods or services that have been promised to the customer, and identify as a performance obligation:
 - a good or service (or bundle of goods or services) that is distinct.** This happens when: the customer can benefit from the good or services on its own or in conjunction with other readily available resources; AND the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Factors indicating that a promise to transfer goods or services to the customer is not separately identifiable include: 1) the entity does provide a significant service of integrating the goods or services with other goods or services promised in the contract; 2) the goods or services significantly modify or customise other goods or services promised in the contract; 3) the goods or services are highly interrelated or highly interdependent.
 - or a series of distinct goods or services that are transferred to the customer in the same pattern.**
- Determine the transition price
- Allocate the transaction price to the separate performance obligations: Where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices. If a standalone selling price is not directly observable, the entity will need to estimate it. Various methods may be used, including: Adjusted market assessment approach; Expected cost plus a margin approach; Residual approach (only permissible in limited circumstances).
- Recognize revenue when each performance obligation is satisfied: An entity recognizes revenue over time if at least one of the following criteria is met: as the entity performs over time (cleaning services, monthly payroll processing services, consulting ?); the entity's performance creates or enhances an asset that the customer controls as the asset is created over time (IT, construction ?); or the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. When an entity has determined that performance obligation is satisfied over time, it must select a revenue recognition method that captures the progress towards complete satisfaction of the performance obligation. This method may be output based (e.g. units delivered, surveys of performance completed to date,....); Input based (e.g. percentage of completion method based on costs incurred to date)

DEPRECIATION

- Straight-line (Cost-Res.)/ Life(years)=Depreciation of the year
- Based on activity

$$\frac{(Cost - Res.) \times Hours \text{ this year}}{total \text{ estimated hours}} = Depreciation \text{ of the year}$$

$$\frac{(Cost - Res.)}{total \text{ units producing}} = cost \text{ per unit} \rightarrow cost \text{ per unit} \times total \text{ units produced} \text{ year} X = Depreciation \text{ of year} X$$

3. SUM-OF-YEARS

$N \text{ years} \rightarrow [n(n+1)/2] \text{ ex. 10 years}$
 $1^{\text{st}} \text{ year} = (\text{Cost}-\text{res.}) \times \text{fraction} (10/55) = \text{dep. Of the year}$
 $2^{\text{nd}} \text{ year} = (\text{Cost}-\text{res.}) \times \text{fraction} (9/55) = \text{dep. Of the year}$

4. DDB

$$\text{Rate} = \frac{\text{dep. of the year (with S.L.)}}{\text{Cost} - \text{Res.}} \times 2$$

$$(Cost - Res) \times \text{Rate} = \text{dep. of the year}$$

BAD DEBT – ALLOWANCES

- Gross Acc. Rec. $_{\text{year} X}$ + Change Gross Acc. Rec. $_{\text{year} X+1}$ = End Gross Acc. Rec. $_{\text{year} X+1}$
- Change Gross Acc. Rec. $_{\text{year} X+1}$ =
 - (-) collected from credit + (+) Sales on credit
 - (-) bad debit written off
- Allowance for bad debt (year end)
- End Gross Acc. Rec \times % Acc. Rec. (in the different categories) \times (100 - %expected collected)
- Impact on I.S.
- (-) Losses in bad debts (written-offs)
- (-) Change in Allowance for bad debts this year

WITH PRICES INCREASING

- FIFO is best suited to the balance sheet because the ending inventory is closest to current values and thus gives a more realistic view of the assets of the firm. However, it overstates margins by using outdated COGS
- LIFO is best suited from a P&L account perspective because it better matches revenues and the current COGS, thus avoiding profit overstatement. However, it values assets at (absurdly?) low prices

| COMBINING BALANCE SHEETS - FIRM X ACQUIRES 50% OR MORE OF Y | | | |
|---|----------------|----------------|--|
| | X | Y | COMBINED |
| CASH | A | B | A + B |
| INTERCOMPANY INVESTMENT | A | - | - |
| PPE | A | B | A + B + Total Markup of PPE |
| AR (AMOUNT X OWES TO Y) | - | B | - |
| OTHER ASSETS | A | B | A + B |
| GOODWILL | - | - | Cost of Acquisition - [% bought of Y * (C/S+SP+RE of Y)]***IF THERE IS NI |
| OR GOODWILL | - | - | Cost of Acquisition - [% bought of Y * (FV of assets of Y including marku |
| TOTAL ASSETS | ADD ALL | ADD ALL | ADD ALL |
| | | | |
| LIABILITIES | A | B | A + B |
| AP (AMOUNT X OWES TO Y) | A | - | - |
| COMMON STOCK | A | B | A |
| RETAINED EARNINGS | A | B | A |
| NON-CONTROLLING INTERESTS | - | - | (1-% BOUGHT OF Y) * (C/S+SP+RE+ NI of Y + markup of Y) |
| OR NON-CONTROLLING INTERESTS | - | - | (1-% BOUGHT OF Y) * (FV of assets Y including markup - FV of liabilities (|
| TOTAL LIAB AND EQUITY | ADD ALL | ADD ALL | ADD ALL |
| | | | |

COMBINING BALANCE SHEETS - FIRM X ACQUIRES LESS THAN 50% OF Y - EQUITY METHOD

| | X | Y | COMBINED |
|------------------------------|----------------|----------------|--------------------|
| CASH | A | B | A |
| INTERCOMPANY INVESTMENT | A | - | |
| PPE | A | B | A |
| AR (AMOUNT A OWES TO B) | - | B | - |
| OTHER ASSETS | A | B | A |
| TOTAL ASSETS | ADD ALL | ADD ALL | ADD ALL A'S |
| | | | |
| LIABILITIES | A | B | A |
| AP (AMOUNT A OWES TO B) | A | - | A |
| COMMON STOCK | A | B | A |
| RETAINED EARNINGS | A | B | A |
| TOTAL LIAB AND EQUITY | ADD ALL | ADD ALL | ADD ALL A'S |
| | | | |

| <u>Accounting for Stock Options</u> | | | |
|-------------------------------------|--|--|--|
| When Announced | | | |
| Debit: Cash | Shares issued * Avg Price When Announced | | |
| Credit: Common Stock | Shares issued * Par Value | | |
| Credit: Share Premium (a) | Shares issued * (Avg Price - Par Value) | | |

From Grant Date to Vesting Date — n years* — Book this entry every year from grant to vest date

| | |
|---|------------------------------------|
| Debit: Compensation Expense for Stock Options | Total Share Premium (a) / n years* |
| Credit: Share Premium | Total Share Premium (a) / n years* |

When shares are excercised ONLY with Common Stock

| | |
|----------------------|--|
| Debit: Cash | Excercise price @ grant date * # of shares excercised |
| Debit: Share Premium | Fair Value @ grant date (Black Scholes) * # of shares excercised |
| Credit: Common Stock | # of shares excercised * Par Value |
| Credit: Share Preium | Difference between total debits and total credits |

When shares are excercised ONLY with Treasury Stock

| | |
|------------------------|--|
| Debit: Cash | Excercise price @ grant date * # of shares excercised |
| Debit: Share Premium | Fair Value @ grant date (Black Scholes) * # of shares excercised |
| Credit: Treasury Stock | # of Treasury shares excercised * Cost of Treasury Shares |
| Credit: Share Preium | Difference between total debits and total credits |

When shares are excercised Partial Treasury Stock and Common Stock

| | |
|------------------------|--|
| Debit: Cash | Excercise price @ grant date * # of shares excercised |
| Debit: Share Premium | Fair Value @ grant date (Black Scholes) * # of shares excercised |
| Credit: Treasury Stock | # of Treasury shares excercised * Cost of Treasury Shares |
| Credit: Common Stock | # of common stock shares issued * Par Value |
| Credit: Share Preium | Difference between total debits and total credits |

Legal Capital Number of issued shares (including new shares issued) * Par Value

Share Premium Numer of shares issued * (Sell price-Par Value) - Or add all share premiums credits minus debits from acc

Total SHE Legal Capital + Share Premium - Ending Balance Treasury Stock (#of TS * cost of TS) + Retained Earnings

CS Outstanding Total C/S issued - Ending Balance TS ***These are shares issued and still in market (

Shares Outstanding Total C/S and Preferred Stock issued - Ending Balance TS

***Treasury stock is not subtracted from Legal Capital or Share Premium - When there is Treasury Stock you affect the Total SHE by

SUBTRACTING it from the total SHE (Number of Treasure Stok Shares * Price/Cost of Treasury Stock)

Accounting When Paying Dividends With Shares

| | | |
|--|--|---------------------------------|
| Debit: Retained Earnings | | PERCENTAGE OF COMPLETION METHOD |
| Credit: Common Stock | | ex. 2015 to 20117 |
| Credit: Additional Paid in Capital (Premium) | | 2015 |

PERCENTAGE OF COMPLETION METHOD

ex. 2015 to 20117

2015

Cost to date (31/12/15)

A

Estimated cost to complete

B

Estimated total cost

A + B

% Complete

A / (A+B) = X%

Revenue recognized

total contract price x X% = C

Costs incurred

(A)

Profir recognized (2015)

C + (A)

2016

Cost to date (31/12/16)

A + D

Estimated cost to complete

E

Estimated total cost

A+D+E

% Complete

(A+D)/(A+D+E) = Y%

Revenue recognized 2016

(total contract price x Y%) - C = F

Costs incurred

(D)

Profir recognized (2015)

F + (D)

2017

total Revenue recognized

total contract price

Total Costs incurred

(A+D+E)

Total profit on contract

total contract price - (A+D+E)

(-) profit already recognized in 2015

(-) profit already recognized in 2016

profit recognized in 2017

SUM

2015

2016

2017

Construction costs incurred during year

A

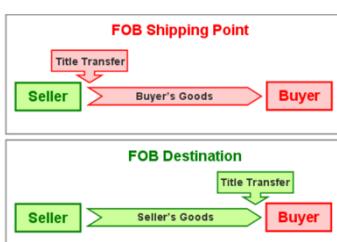
D

E

Estimated costs to complete at the year end

B

E



| FIFO/LIFO/WACC | | | |
|--------------------------|--------|--------|-------------------|
| Effects on Rising Prices | COGS | EI | Gross Margin (NI) |
| FIFO | Low | High | High |
| LIFO | High | Low | Low |
| WACC | Medium | Medium | Medium |

ACCOUNTING PRINCIPLES

Objective: TRUE & FAIR VALUE

Prudence: Accountant is prudent by nature. Will not recognize profit (or loss) before it has been earned w/ a high degree of certainty. 3 subprinciples:

(A) Conservatism: Profits should not be anticipated. They should only be taken into the accounts when they are earned or realized. Losses should be recognized as soon as the events giving rise to them take place.

(B) Accrual: You should recognize an event when it occurs & not when the cash transaction it induces has been completed.

(C) Matching: Expenses are recognized in the I.S. of a given period on the basis of their direct association w/ the revenue also recognized in the period.

Ex. Wine example.

- If an Asset \uparrow : $\downarrow A \uparrow L \uparrow E$
- If a Liability \uparrow : $\uparrow A \downarrow L \downarrow E$
- If Equity \uparrow : $\uparrow A, \downarrow L, \downarrow E$
- Remember Net income is Equity

USERS OF Financial Statements

→ Centred mainly on External Users, existing and potential investors, lenders and other creditors.

OBJECTIVES OF FINANCIAL STATEMENTS

- Help users in making economic decisions and enable them to evaluate:
 - Stability of the financial situation
 - Profitability of the company
 - Ability of the company to maintain resources, raise financing and repay current financing
 - Ability to generate cashflows & meet payments.

KIND OF INFORMATION

- Financial position
- Financial performance
- Evolution of specific items.

FINANCIAL STATEMENTS consist of

- Balance Sheet
- Income Statement
- Cash Flow
- Statement of owners' equity

FUNDAMENTAL ACCOUNTING EQUATION

$$\text{ASSETS} = \text{LIAB} + \text{OE}$$

$$\text{NCA} + \text{CA} = \text{NCL} + \text{CL}$$

Valuable resources owned by the firm = Funds provided by outside parties + Funds provided by the owners of the company.

Shared + Retained Earnings + $[N.\text{Income}]$

Treasury Stock is recorded here w/ a NEGATIVE sign = OWN SHARES

Before the distribution decision.
After the decision
N.I \downarrow and current liability \uparrow

IFRS BALANCE SHEET

| Non Current Assets | | EQUITY | |
|---------------------|-------------|----------------------|--------------|
| Land | 5000 | Capital | 500 |
| Building | 2000 | Retained Earnings | 7000 |
| Machinery | 500 | Net Income | 100 |
| <u>TOTAL NCA</u> | <u>7500</u> | <u>TOTAL EQUITY</u> | <u>7.600</u> |
| Current Assets | | NCL | |
| Inventory | 200 | L/T Loan | 1.000 |
| Acc. Receiv. 1000 | 1000 | <u>TOTAL NCL</u> | <u>1.000</u> |
| Cash | 50 | Acc. Payable | 150 |
| <u>TOTAL CA</u> | <u>1250</u> | <u>TOTAL CL</u> | <u>150</u> |
| <u>TOTAL ASSETS</u> | | <u>TOTAL LIAB+EQ</u> | <u>8750</u> |

From less liquid to more liquid.

FINANCIAL RATIOS

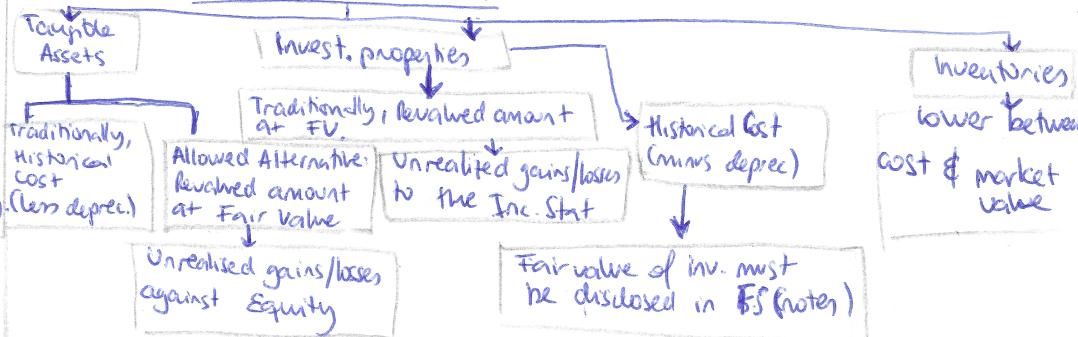
- Debt/Equity Ratio = $\frac{T.\text{Liabilities}}{S.\text{Equity}}$
- Capital Structure = $\frac{T.\text{Assets}}{T.\text{Assets} - S.\text{Equity}}$
- Current Ratio = $\frac{C.\text{Assets}}{C.\text{Liabilities}}$

or

L-Term Liabilities
S.Eq -

• Working Capital = C.A. - C.L.

VALUATION OF PROPERTY



IFRS vs US-GAAP

| | |
|--|---|
| • Principles based | • Rules based |
| • Standards tend to be broader. | • Precise Guidance |
| • Pros: less room to exploit gaps, ↑ responsiveness to emerging issues. | • Pros: less room for judgement, greater comparability |
| • Cons: ↑ risk of manipulation and reliance on good judgement, might ↓ com. pliancy. | • Cons: Opportunistic interpretation of GAs (where it says I can't do that) |

INCOME STATEMENT (by nature)

- Sales revenues
- COGS
- = Net Sales
- Outside services
- Personnel costs
- = EBITDA
- Depreciation & Amortization
- = Net operating income = EBIT
- +/- Financial income/expenses
- +/- Other gains/losses not related to operation
- = Income Before taxes
- Corporate taxes
- = Net Income = Net Profit

CASH FLOW (Direct Method)

- Cash received from customers (+)
- Payment to suppliers (-)
- " of rental (-)
- " of taxes (-)
- " of interest exp. (-)
- " of salaries (-)
- " of insurance (-)
- Dividends received (+)
- Other operating cash receipts (+)
- \equiv CFO

Acquisition of Fixed Assets A (-)

Collection from disposal of FA (+)
Loans granted by bank to others (-)

Repayment of loans from others (-)

Purchase of securities (+)

= CFI

Issuance of debt B (+)

" of shares (+)

Dividends paid (-)

Payment of debt (principal) (-)

Shares buy back (-)

= CFF

$\Rightarrow A+B+C = \text{Change in Cash at beginning of the year} =$

INCOME STATEMENT (by function)

- Net sales
- COGS
- = GROSS MARGIN/PROFIT
- Selling expenses
- G&A expenses
- +/- other operating income
- = OPERATING INCOME (EBIT)
- +/- Financial income/expense
- +/- Other gains/losses not related to operations
- = Income before tax
- Corporate taxes
- = Net income = Net profit

TOTAL CASH PAID TO SUPPLIERS DURING THE YEAR

- Cost of goods sold (2016) \$350
- Inventory Jan 1, 2016 \rightarrow \$400
- Inventory Dec 2016 \rightarrow \$75
- A/P Jan 2016 \rightarrow \$22
- A/P Dec 2016 \rightarrow \$35
- + Cost of Good sold 350
- + Δ in inventory $= (75-40)35$
- = Purchases 385
- Δ A/P $\rightarrow (35-22) = 13$

Cash paid during $= \boxed{372}$ the year.

EXAMPLE

COGS = 2.550

Inventory $\downarrow = 60$

A/Payable $\downarrow = 30$

Cash payment for merchandise?

\rightarrow COGS = 2550

- \downarrow Inventory $= (60) \bullet$

+ \downarrow A/Payable 30 \rightarrow you haven't paid yet so

= Cash payment total $\boxed{2520}$ cash Δ

CASH FLOW

(Indirect method)

Net income

Depreciation (+)

\downarrow A/R (+)

\uparrow A/R (-)

\downarrow Inventory (+)

\uparrow Inventory (-)

\downarrow A/Payable (-)

\uparrow A/Payable (+)

Gains from disposal (-)

Losses from disposal (+)

= CFO

TA

By Acquisition of FA (-)

Collection from disposal (+)

Purchase of securities (-)

= CFI

TB

Issuance of debt (+)

" of shares (+)

Dividends paid (-)

loan (principal) (-)

= CFF

TC

$A+B+C = \text{Change in CF}$

Change in CF + Cash last year =

= Cash at the end of year.

Cashflow

cash, end

| INCOME STATEMENT by nature | | | |
|--|------|--------------|------------|
| Concept | SIGN | CU | %/S |
| SALES | + | \$ 14 | 100% |
| COGS | - | \$ (2) | -14% |
| Net Sales | | \$ 12 | 86% |
| "EXPENSES" | | | |
| PERSONEL EXPENSE | - | \$ (3) | -21% |
| RENT | - | \$ (2) | -14% |
| Other Taxes / (Subsidy) | +/- | \$ (1) | -7% |
| Other expense | - | \$ - | 0% |
| Operating Income (EBITDA) | | \$ 6 | 43% |
| Depreciation | | \$ (1) | -7% |
| Operating Income (EBIT) | | \$ 5 | 36% |
| Financial income/expense | +/- | \$ (1) | -7% |
| Other gains or losses not related to operation | +/- | \$ - | 0% |
| NET PROFIT before taxes | | \$ 4 | 29% |
| Net Income Taxes | NEG | \$ - | 0% |
| NET PROFIT | | \$ 4 | 29% |

| INCOME STATEMENT by function | | | |
|--|------|--------------|------------|
| Concept | SIGN | CU | %/S |
| SALES | + | \$ 14 | 100% |
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| Financial income/expense | +/- | \$ (1) | -7% |
| NET INCOME before taxes | | \$ 4 | 29% |
| Net Income Taxes | NEG | \$ - | 0% |
| NET INCOME | | \$ 4 | 29% |

ADDITIONAL INFORMATION:

- WHEN IN DOUBT CHECK OTHERS YEARS.
- IF THEY MEAN ACCRUED DURING THE YEAR IT MAY MEAN PAID BEFORE AS PREPAID EXPENSE
- THINK OF EXTREMES (IF WE SOLD EVERYTHING BUT NEVER GOT PAID THEN ACCOUNTS PAYABLE WOULD HAVE GONE PROPORTIONALLY)
- ASSETS ACQUIRED IN ANOTHER TERM ("YEAR") ARE ALREADY PART OF YOUR BALANCE SHEET, SO YOU DON'T PAY THEM, PER SEI.
- WHEN YOU RECEIVE A MORTGAGE YOU MAY INCLUDE IT IN CASH IN AND CASH OUT, AS YOU RECEIVE THE MONEY BUT USUALLY INSTANTLY PAY IT.
- TRY TO BUILD EQUATIONS USING THE FUNDAMENTAL EQUATION.

| (CU) 000s | ASSETS | | | | | | | | = | LIABILITIES | | | SHAREHOLDER'S EQUITY | | | | |
|-------------------|----------------|---------------------|--------------------------|------------------------------|--------------------|------|-------------------|-------------------|---|------------------|------------------------------------|---------------|------------------------|-------------------|-------------------|------------|--|
| | Current Assets | | | | Non-Current Assets | | | | | Accounts Payable | Long Term Debt (note and mortgage) | Taxes Payable | Capital (Common Stock) | Retained Earnings | Dividends Payable | Net Income | |
| | Cash | Accounts Receivable | Inventory: Raw Materials | Inventory: Finished Products | Prepaid Rent | Land | Prepaid Insurance | Equity Securities | | \$70 | \$460 | \$0 | \$700 | \$230 | | \$310 | |
| December 31, 20X1 | \$300 | \$190 | \$130 | \$400 | | | | | | \$750 | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| EOY | \$1,009 | \$690 | \$240 | \$90 | \$0 | \$0 | \$0 | \$0 | | \$750 | | | | | | | |
| | | | | | | | | | | | | | | | | | |

| CASH FLOW STATEMENT (DIRECT METHOD) | |
|---|-----------------|
| CASH, BEGINNING OF YEAR \$ 39 | |
| Cash Flows from Operating Activities | |
| Collections | \$ 2,122 |
| Payments to Suppliers | \$ (1,189) |
| Payments to Employees | \$ (129) |
| Payments to Rent | \$ (129) |
| Insurance Payments or Prepaid expenses | \$ - |
| Interest Payments | \$ (75) |
| Payment of taxes | \$ (52) |
| Net Cash from Operating Activities | \$ 548 |
| Cash Flows from Investing Activities | |
| Increase in Marketable Securities | |
| Sale of Fixed Assets | \$ 6 |
| Purchase of LAND | |
| Net Cash Used for Investing Activities | \$ 6 |
| Cash Flows from Financing Activities | |
| Payment of Mortgage Principal | \$ (40) |
| Dividend Payment | \$ (120) |
| payment of notes payable | \$ (160) |
| Issues of notes payable | \$ 60 |
| Common Stock Issued | |
| Net Cash from Financing Activities | \$ (260) |
| NET INCREASE/(DECREASE) IN CASH | \$ 294 |
| CASH, END OF YEAR | \$ 333 |

chedule of non cash investing and financing transactions

Issue of mortgage for land and building \$ 200

| CASH FLOW STATEMENT (INDIRECT METHOD) | |
|---|-----------------|
| CASH, BEGINNING OF YEAR \$ 39 | |
| Cash Flows from Operating Activities | |
| Net Income before taxes | \$ 239 |
| Add Expenses Not Requiring Cash: | |
| Depreciation | \$ 120 |
| Amortization of Goodwill | |
| Gain on sale of fixed assets | \$ 8 |
| Potential Cash Flow | \$ 367 |
| Other Adjustments: | |
| CHANGES in Accounts Receivable BOP - EOP | \$ 40 |
| CHANGES in Inventory BOP - EOP | \$ 80 |
| CHANGES in Prepaid Expenses BOP - EOP | \$ 1 |
| CHANGES Accounts Payable BOP - EOP | \$ 44 |
| CHANGES in TAX PAYABLE EOP - BOP | \$ 16 |
| Net Cash from Operating Activities | \$ 548 |
| Cash Flows from Investing Activities | |
| Increase in Marketable Securities | \$ - |
| Sale of Fixed Assets | \$ 6 |
| Purchase of LAND | \$ - |
| Net Cash Used for Investing Activities | \$ 6 |
| Cash Flows from Financing Activities | |
| Payment of Mortgage Principal | \$ (40) |
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Schedule of non cash investing and financing transactions

Issue of mortgage for land and building \$ 200

| GUIDE CASH FLOW DIRECT CASH FLOW | | GUIDE CASH FLOW "INDIRECT" CASH FLOW | |
|--|----------|--|---------------------|
| Action | Effect | Action/ Wording | Effect |
| Cash received from customers | + Cash | NET INCOME | + Cash |
| Payments to operations | - Cash | DEPRECIATION | + Cash |
| Payments to suppliers | - Cash | | POTENTIAL CASH FLOW |
| Payments to taxes | - Cash | | |
| Payments to interest expense | - Cash | | |
| Payments to insurance | - Cash | | |
| Dividends received | + Cash | | |
| Other operating cash receipts | + Cash | | |
| CFO | \$\$\$\$ | CFO | \$\$\$\$ |
| | | | |
| Acquisition of fixed assets | - Cash | Acquisition of fixed assets | - Cash |
| Collection of disposed fixed assets | + Cash | Collection of disposed fixed assets | + Cash |
| Loans given to others | - Cash | Loans given to others | - Cash |
| Repayment of loans from others | + Cash | Repayment of loans from others | + Cash |
| Purchase of securities | - Cash | Purchase of securities | - Cash |
| CFI | \$\$\$\$ | CFI | \$\$\$\$ |
| | | | |
| Issuance of debt (Receive cash) | + Cash | Issuance of debt (Receive cash) | + Cash |
| Issuance of shares (Receive cash) | + Cash | Issuance of shares (Receive cash) | + Cash |
| Dividends Paid | - Cash | Dividends Paid | - Cash |
| Payment of debt owed to someone else | - Cash | Payment of debt owed to someone else | - Cash |
| Shares Buy Back | - Cash | Shares Buy Back | - Cash |
| CFF | \$\$\$\$ | CFF | \$\$\$\$ |
| | | | |
| CFO + CFI + CFF + Change in Net Cash | | CFO + CFI + CFF + Change in Net Cash | |
| BOP CASH + Change in Cash = Final Cash | | BOP CASH + Change in Cash = Final Cash | |

BONUS CASH FLOW PRINCIPLES:

COLLECTIONS = SALES + CHANGE IN ACCOUNTS REC

PAYMENTS TO SUPPLIERS = COGS + CHANGE IN INV + CHANGE IN AC PAY

PAYMENTS TO EXPENSES = OP EXP – DECREASE IN PREPAID EXPENSES – DEPRECIATION EXPENSE

CASH PAYMENTS TO TAX = INCOME TAXES + CHANGE IN TAXES PAYABLES

ACCOUNTING PRINCIPLES:
Objective: True & Fair Value
Prudence: Accountant is prudent by nature
 Will not recognize profit (loss) before it has been Earned(Delivered) with a high degree of certainty

FUNDAMENTAL ACCOUNTING ACCOUNTING EQUATION
 $\text{ASSETS} = \text{Liabilities} + \text{Owners Equity}$

Treasury stock is recorded in Net Income with a negative sign = own shares

ACCOUNTING SUB PRINCIPLES:
1. CONSERVATISM: Profits should not be anticipated. They should only be taken into the accounts when the are earned or realized. Losses should be recognized as soon as the events give rise to them take place
2. ACCRUAL: You should recognize an event when it occurs and not when the cash transaction it induces has been completed
3. MATCHING: Expenses are recognized in the I.S. of a given period on the basis of their direct association with the revenue, also recognized in the period.

$\text{ASSETS} = \text{NCA} + \text{CA}$
VALUABLE RESOURCES OWNED BY FIRM

$\text{LIABILITIES} = \text{NCL} + \text{CL}$
Funds provided by outside parties

O. EQUITY =
COMMON STOCK + RETAINED EARNINGS + NET INCOME

- If an ASSET \uparrow : Then An Asset will then \downarrow or a Liability \uparrow , or Equity \uparrow .
- If a Liability \uparrow : Then an Asset \uparrow , or Liability \downarrow or Equity \downarrow
- If a Equity \uparrow : Then an Asset \uparrow , or Liability \downarrow or equity \downarrow *(Net Income is Equity)

USERS OF FINANCIAL STATEMENTS>

- Centered mainly on external users, existing and potential investors, lenders and other auditors.
- HW / Fill it out

OBJECTIVE OF FINANCIAL STATEMENTS

- Help users make economic decisions and enable them to evaluate
 - Stability of Financial Situation
 - Profitability of Company
 - Ability of the company to maintain resources, raise financing and repay current financing
 - Ability to generate cashflows and meet payments.

KIND OF INFORMATION

- A. Financial Position
- B. Financial Performance
- C. Evolution of specific items

| IFRS BALANCE SHEET | | Year 2 | Year 1 | Year 2 | Year 1 |
|--|-----------|-----------|--------|---------------------------------------|---------------|
| <i>Non Current Assets</i> | | | | <i>EQUITY</i> | |
| Land | 1 | 1 | | Capital | 3 |
| Building | 2 | 2 | | Retained Earnings | 3 |
| Machinery | 3 | 1 | | Net income | 1 |
| Accumulated Depreciation | -1 | 0 | | <i>Total Equity</i> | 6 |
| Bonds, goodwill, stocks, trademarks, patents | 1 | 0 | | | |
| <i>Total Non Current Assets</i> | 6 | 4 | | | |
| <i>Non current Liabilities</i> | | | | | |
| <i>Current Assets</i> | | | | Long Term Loan | 0 |
| Inventory | 2 | 2 | | | |
| Acc. Receivable | 3 | 1 | | | |
| Cash | 1 | 1 | | | |
| Prepaid Expenses | 2 | 3 | | | |
| <i>Total Current Assets</i> | 8 | 7 | | | |
| <i>Total current Liabilities</i> | | | | | |
| Total Assets | 14 | 11 | | Total Liabilities | 14 |
| USS GAAP | | | | | |
| <i>Current Assets</i> | | | | <i>Year 2</i> | <i>Year 1</i> |
| Cash | 1 | 1 | | | |
| Acc. Receivable | 3 | 1 | | | |
| Inventory | 2 | 2 | | | |
| Prepaid Expenses | 2 | 3 | | | |
| <i>Total Current Assets</i> | 8 | 7 | | | |
| <i>Total current Liabilities</i> | | | | | |
| <i>Non Current Assets</i> | | | | | |
| Land | 1 | 1 | | <i>Non current Liabilities</i> | |
| Building | 2 | 2 | | Long Term Loan | 0 |
| Machinery | 3 | 1 | | | |
| Accumulated Bonds, goodwill, | -1 | 0 | | <i>Total Non current Liabilities</i> | 0 |
| | 1 | 0 | | | |
| <i>Total Non Current Assets</i> | 6 | 4 | | <i>EQUITY</i> | |
| | | | | Capital | 3 |
| | | | | Retained Earnings | 3 |
| | | | | Net income | 1 |
| | | | | <i>Total Equity</i> | 6 |
| Total Assets | 14 | 11 | | Total Liabilities & Equity | 14 |

FINANCIAL STATEMENTS CONSIST OF

- BALANCE SHEET
- INCOME STATEMENT
- CASH FLOW
- STATEMENT OF OWNERS EQUITY

USEFUL EQUATIONS

$$\begin{aligned} \text{RE (Y2)} &= \text{RE (Y1)} + \text{NI (Y2)} - \text{DIV (Y2)} \\ \text{INCOME} - \text{REV} - \text{TAXES} &= \text{NET INCOME} \\ \text{STOCK (Y2)} &= \text{STOCK (Y1)} + \text{NEW CONT (Y2)} \\ \text{ASSETS} - \text{LIABILITIES} &= \text{S. EQUITY} \end{aligned}$$

USEFUL RATIOS

$$\text{CURRENT RATIO} = \text{C. ASSETS/C. LIABILITIES}$$

LIABILITIES

$$\text{WORKING CAPITAL} = \text{CURR ASSETS} - \text{CURR LIABILITIES}$$

IFRS

- Principles based
- Standards tend to broader
- Pros: Less room to exploit gaps and Higher responsiveness to emerging issues
- Cons: Higher risk of manipulation and reliance on good judgement might lower comparability.

US GAAP

- Rules Based
- Precise Guidance
- Pros: Less room for judgement and greater comparability
- Cons: Opportunistic interpretation of GAPS (Where it says I can do that)

USEFUL RATIOS

$$\text{D/E} = \text{T. LIABILITIES} / \text{S. EQUITY}$$

OR T. LIABILITIES CAN BE LONG TERM

$$\text{CAPITAL STRUCTURE} = \text{T. ASSETS} / \text{S. EQUITY}$$

$$\text{CURRENT RATIO} = \text{C. ASSETS/C. LIABILITIES}$$

$$\text{WORKING CAPITAL} = \text{CURR ASSETS} - \text{CURR LIABILITIES}$$
