

## Revenue Recognition

1. Identify the contract with the customers
2. 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) 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.
  - B) or a series of distinct goods or services that are transferred to the customer in the same pattern.
3. Determine the transition price
4. 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).
5. Recognize revenue when each performance obligation is satisfied: An entity recognises 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

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

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

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

3. SUM-OF-YEARS

N years →  $[n(n+1)/2]$  ex. 10 years

1<sup>st</sup> year = (Cost-res.) x fraction (10/55) = dep. Of the year

2<sup>nd</sup> year = (Cost-res.) x fraction (9/55) = dep. Of the year

4. DDB

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

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

## BAD DEBT – ALLOWANCES

- Gross Acc. Rec. <sub>year X</sub> + Change Gross Acc. Rec. <sub>year x+1</sub> = End Gross Acc. Rec. <sub>year x+1</sub>
- Change Gross Acc. Rec. <sub>year x+1</sub> =
  - o (-) collected from credit + (+) Sales on credit
  - o (-) bad debit written off
- Allowance for bad debt (year end)
  - o End Gross Acc. Rec x % Acc. Rec. (in the different categories) x (100 - %expected collected)
- Impact on I.S.
  - o (-) Losses in bad debts (written-offs)
  - o (-) 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		
<b>TOTAL ASSETS</b>	<b>ADD ALL</b>	<b>ADD ALL</b>	<b>ADD ALL</b>		
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 Yr + markup of Y)		
OR NON-CONTROLLING INTERESTS	-	-	(1-% BOUGHT OF Y) * (FV of assets Y including markup - FV of liabilities		
<b>TOTAL LIAB AND EQUITY</b>	<b>ADD ALL</b>	<b>ADD ALL</b>	<b>ADD ALL</b>		
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		
<b>TOTAL ASSETS</b>	<b>ADD ALL</b>	<b>ADD ALL</b>	<b>ADD ALL A'S</b>		
LIABILITIES	A	B	A		
AP (AMOUNT A OWES TO B)	A	-	A		
COMMON STOCK	A	B	A		
RETAINED EARNINGS	A	B	A		
<b>TOTAL LIAB AND EQUITY</b>	<b>ADD ALL</b>	<b>ADD ALL</b>	<b>ADD ALL A'S</b>		

Accounting for Stock Options				
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 exercised ONLY with Common Stock				
Debit: Cash		Exercise price @ grant date * # of shares exercised		
Debit: Share Premium		Fair Value @ grant date (Black Scholes) * # of shares exercised		
Credit: Common Stock		# of shares exercised * Par Value		
Credit: Share Preium		Difference between total debits and total credits		
When shares are exercised ONLY with Treasury Stock				
Debit: Cash		Exercise price @ grant date * # of shares exercised		
Debit: Share Premium		Fair Value @ grant date (Black Scholes) * # of shares exercised		
Credit: Treasury Stock		# of Treasury shares exercised * Cost of Treasury Shares		
Credit: Share Preium		Difference between total debits and total credits		
When shares are exercised Partial Treasury Stock and Common Stock				
Debit: Cash		Exercise price @ grant date * # of shares exercised		
Debit: Share Premium		Fair Value @ grant date (Black Scholes) * # of shares exercised		
Credit: Treasury Stock		# of Treasury shares exercised * 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 account			
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

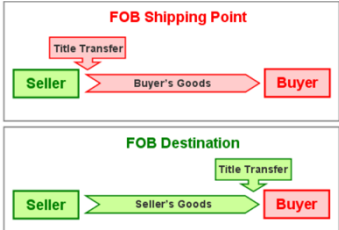
Debit: Retained Earnings			
Credit: Common Stock			
Credit: Additional Paid in Capital (Premium)			

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)				
Profit 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)				
Profit 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			

(Inventory beg period + Purchases ) = COGS (period) + Inventory end period

Goods available for sale

COGS (period) = Purchases + (Inventory beg period - Inventory end period)



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:

① **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.

② **Accrual:** You should recognise an event when it occurs & 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 w/ the revenue also recognized in the period.  
EX. wine example.

- If an Asset ①: ↓ A or ↑ L or ↑ E
- If a Liability ②: ↑ A or ↓ L or ↓ E
- If Equity ③: ↑ A, ↓ L or ↓ E
- Remember Net Income is Equity

**USERS** OF Financial Statements  
→ Centered 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 - Statement owners' equity  
- Income Statement  
- Cash Flow

# FUNDAMENTAL ACCOUNTING EQUATION

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

$$\underbrace{\text{NCA} + \text{CA}}_{\text{Valuable resources owned by the firm}} = \underbrace{\text{NCL} + \text{CL}}_{\text{Funds provided by outside parties}} + \underbrace{\text{Shared} + \text{Retained} + \text{N. Income}}_{\text{Funds provided by the owners of the company}}$$

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

Before the distribution decision.  
• After the decision N.I ① and current Liab ②

## IFRS BALANCE SHEET

Non Current Assets	
Land	5000
Building	2000
Machinery	500
<b>TOTAL NCA</b>	<b>7500</b>
Current Assets	
Inventory	200
Acc. Receiv.	1000
Cash	250
<b>TOTAL CA</b>	<b>1250</b>
<b>TOTAL ASSETS</b>	<b>8750</b>

From less liquid to more liquid.

VS

## US-GAAP

Current Assets	
Cash	50
<del>Bank</del>	<del>150</del>
A/R	1000
Inventory	200
<b>TCA</b>	<b>1250</b>
NCA	
Machinery	500
Building	2000
Land	3000
<b>T.NCA</b>	<b>7500</b>
<b>TOTAL ASSETS</b>	<b>8750</b>

From more liquid to less liquid

## BALANCE SHEET

C.L.	
A/P	150
<b>TOTAL C.L.</b>	<b>150</b>
N.C.L	
L/T loan	1000
<b>TOTAL NCL</b>	<b>1000</b>
EQUITY	
Capital	500
R.E.	7000
<b>N.I</b>	<b>100</b>
<b>TOTAL L+E</b>	<b>7600</b>
	<b>8750</b>

From shorter maturity to longer maturity.

## FINANCIAL RATIOS

Debt/Equity Ratio =  $\frac{\text{T. Liabilities}}{\text{Shareholder's Eq.}}$

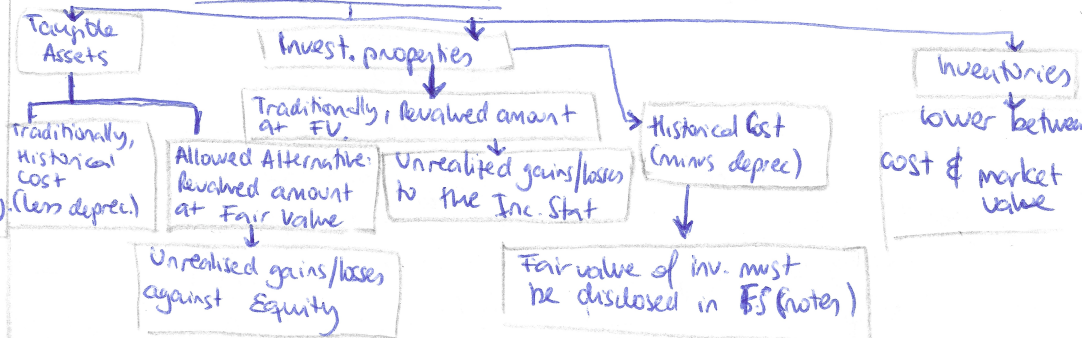
Capital Structure =  $\frac{\text{T. Assets}}{\text{S. Equity}}$

Current Ratio =  $\frac{\text{C. Assets}}{\text{C. Liabilities}}$

or  $\frac{\text{L-Term Liabilities}}{\text{S. Eq.}}$

Working Capital =  $\text{C.A.} - \text{C.L.}$

## VALUATION OF PROPERTY



## IFRS (VS) US-GAAP

- Principles based vs Rules based
- Standards tend to be broader vs Precise Guidance
- Pro's: less room to exploit gaps, ↑ responsiveness to emerging issues vs Pro's: less room for judgement, greater comparability
- Con's: ↑ risk of manipulation and reliance on good judgement might ↓ comparability vs Con's: opportunistic interpretation of GAPS (where it says I can't do that)



## INCOME STATEMENT

(by nature)

- Sales revenues
- COGS
- = Net Sales
- Outside services
- ~~expenses~~ Personnel costs
- Other operating expenses
- = 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

## INCOME STATEMENT

(by function)

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

## TOTAL CASH PAID TO SUPPLIERS DURING THE YEAR

- Cost of good sold (2016) \$350
- Inventory Jan 1, 2016 → \$40
- Inventory Dec 2016 → \$75
- A/P Jan 2016 → \$22
- A/P Dec 2016 → \$35
- + Cost of Good sold 350
- +  $\uparrow$  in inventory =  $(75 - 40)$  35
- = Purchases 385
- $\uparrow$  A/P →  $(35 - 22) = 13$
- Cash paid during the year = 372

## EXAMPLE

COGS = 2.550

Inventory  $\downarrow$  = 60

A/Payable  $\downarrow$  = 30

Cash payment for merchandise?

→ COGS = 2550

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

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

= Cash payment total 2520 cash  $\uparrow$

## 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 (+)
- = CFO

## 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 A

- Acquisition of F.A (-)
- Collection from disposal (+)
- Purchase of securities (-)

= CFI B

- Issuance of debt (+)
- " of shares (+)
- Dividends paid (-)
- Loan (principal) (-)

= CFF C

A+B+C = change in CF  
change in CF + Cash last year =  
= Cash at the end of year.

- Acquisition of Fixed Assets (-) A
- Collection from disposal of F.A (+)
- Loans granted by banks ~~others~~ (-)
- Repayment of loans from others (+)
- Purchase of securities (-)
- = CFI B
- Issuance of debt (+)
- " of shares (+)
- Dividends paid (-)
- Payment of debt (principal) (-)
- Shares buy back (-)
- = CFF C

⇒ A+B+C = Change in Cash flow  
+ Cash at beginning of the year = Cash end



# INCOME STATEMENT by nature

Concept	SIGN	CU	% /S
SALES	+	\$ 14	100%
COGS	-	\$ (2)	-14%
<b>Net Sales</b>		<b>\$ 12</b>	<b>86%</b>

<b>"EXPENSES"</b>			
PERSONEL EXPENSE	-	\$ (3)	-21%
RENT	-	\$ (2)	-14%
Other Taxes/ (Subsidy)	+/-	\$ (1)	-7%
Other expense	-	\$ -	0%
<b>Operating Income (EBITDA)</b>		<b>\$ 6</b>	<b>43%</b>

Depreciation		\$ (1)	-7%
<b>Operating Income (EBIT)</b>		<b>\$ 5</b>	<b>36%</b>

Financial income/expense	+/-	\$ (1)	-7%
Other gains or losses not related to operation	+/-	\$ -	0%

<b>NET PROFIT before taxes</b>		<b>\$ 4</b>	<b>29%</b>
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Net Income Taxes	NEG	\$ -	0%
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<b>NET PROFIT</b>		<b>\$ 4</b>	<b>29%</b>
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# INCOME STATEMENT by function

Concept	SIGN	CU	% /S
SALES	+	\$ 14	100%
COGS	-	\$ (2)	-14%
<b>GROSS PROFIT</b>		<b>\$ 12</b>	<b>86%</b>

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Net Income Taxes	NEG	\$ -	0%
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<b>NET INCOME</b>		<b>\$ 4</b>	<b>29%</b>
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## 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 AQUIRED IN ANOTHER TERM ("YEAR") ARE ALREADY PART OF YOUR BALANCE SHEET, SO YOU DON'T PAY THEM, PER SEI.
- WHEN YOU RECEIVE A MORTGATGE 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.

ASSETS										LIABILITIES				SHAREHOLDER'S EQUITY			
(CU) 000s	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	Equipment								
December 31, 20X1	\$300	\$190	\$130	\$400					\$750		\$70	\$460	\$0	\$700	\$230		\$310
EOY	\$1,009	\$690	\$240	\$90	\$0	\$0	\$0	\$0	\$750		\$190	\$460	\$0	\$700	\$354	\$0	\$1,000

## CASH FLOW STATEMENT (DIRECT METHOD)

CASH, BEGINNING OF YEAR	\$ 39
<b>Cash Flows from Operating Activities</b>	
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)
<b>Net Cash from Operating Activities</b>	<b>\$ 548</b>
<b>Cash Flows from Investing Activities</b>	
Increase in Marketable Securities	
Sale of Fixed Assets	\$ 6
Purchase of LAND	
<b>Net Cash Used for Investing Activities</b>	<b>\$ 6</b>
<b>Cash Flows from Financing Activities</b>	
Payment of Mortgage Principal	\$ (40)
Divident Payment	\$ (120)
payment of notes payable	\$ (160)
Issues of notes payable	\$ 60
Common Stock Issued	
<b>Net Cash from Financing Activities</b>	<b>\$ (260)</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>\$ 294</b>
<b>CASH, END OF YEAR</b>	<b>\$ 333</b>

## schedule of non cash investing and financing transactions

Issue of mortgage for land and building	\$ 200
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## CASH FLOW STATEMENT (INDIRECT METHOD)

CASH, BEGINNING OF YEAR	\$ 39
<b>Cash Flows from Operating Activities</b>	
Net Income before taxes	\$ 239
Add Expenses Not Requiring Cash:	
Depreciation	\$ 120
Amortization of Goodwill	
Gain on sale of fixed assets	\$ 8
<b>Potential Cash Flow</b>	<b>\$ 367</b>
<b>Other Adjustments:</b>	
CHANGES in Accounts Receivable BOP - EOP	\$ 40
CHANGES in Inventory BOP - EOP	\$ 80
CHANGES in Prepaid Expenses BOP - EOP	\$ 1
CHANGES Accounts Payable EOP - BOP	\$ 44
CHANGES in TAX PAYABLE EOP - BOP	\$ 16
<b>Net Cash from Operating Activities</b>	<b>\$ 548</b>
<b>Cash Flows from Investing Activities</b>	
Increase in Marketable Securities	\$ -
Sale of Fixed Assets	\$ 6
Purchase of LAND	\$ -
<b>Net Cash Used for Investing Activities</b>	<b>\$ 6</b>
<b>Cash Flows from Financing Activities</b>	
Payment of Mortgage Principal	\$ (40)
Divident Payment	\$ (120)
payment of notes payable	\$ (160)
Issues of notes payable	\$ 60
Common Stock Issued	\$ -
<b>Net Cash from Financing Activities</b>	<b>\$ (260)</b>
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<b>CASH, END OF YEAR</b>	<b>\$ 333</b>

## Schedule of non cash investing and financing transactions

Issue of mortgage for land and building	\$ 200
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## GUIDE CASH FLOW DIRECT

Action	Effect
<b>Cash received from customers</b>	<b>+ Cash</b>
Payments to operations	- Cash
Payments to suppliers	- Cash
Payments to taxes	- Cash
Payments to interest expense	- Cash
Payments to insurance	- Cash
<b>Dividends received</b>	<b>+ Cash</b>
<b>Other operating cash receipts</b>	<b>+ Cash</b>
<b>CFO</b>	<b>\$\$\$\$</b>
Acquisition of fixed assets	- Cash
<b>Collection of disposed fixed assets</b>	<b>+ Cash</b>
Loans given to others	- Cash
<b>Repayment of loans from others</b>	<b>+ Cash</b>
Purchase of securities	- Cash
<b>CFI</b>	<b>\$\$\$\$</b>
<b>Issuance of debt (Receive cash)</b>	<b>+ Cash</b>
<b>Issuance of shares (Receive cash)</b>	<b>+ Cash</b>
Dividends Paid	- Cash
Payment of debt owed to someone else	- Cash
Shares Buy Back	- Cash
<b>CFF</b>	<b>\$\$\$\$</b>

CFO + CFI + CFF + Change in Net Cash

BOP CASH + Change in Cash = Final Cash

## GUIDE CASH FLOW "INDIRECT" CASH FLOW

Action/ Wording	Effect
<b>NET INCOME</b>	<b>+ Cash</b>
<b>DEPRECIATION</b>	<b>+ Cash</b>
<b>POTENTIAL CASH FLOW</b>	
Decrease in Ac Rec	<b>+ Cash</b>
Increase in Ac Rec	- Cash
Decrease in Inventory	<b>+ Cash</b>
Increase in Inventory	- Cash
Decrease in Ac Pay	<b>+ Cash</b>
Increase in Ac Pay	- Cash
Gains from disposal	- Cash
Loss from disposal	<b>+ Cash</b>
<b>CFO</b>	<b>\$\$\$\$</b>
Acquisition of fixed assets	- Cash
<b>Collection of disposed fixed assets</b>	<b>+ Cash</b>
Loans given to others	- Cash
<b>Repayment of loans from others</b>	<b>+ Cash</b>
Purchase of securities	- Cash
<b>CFI</b>	<b>\$\$\$\$</b>
<b>Issuance of debt (Receive cash)</b>	<b>+ Cash</b>
<b>Issuance of shares (Receive cash)</b>	<b>+ Cash</b>
Dividends Paid	- Cash
Payment of debt owed to someone else	- Cash
Shares Buy Back	- Cash
<b>CFF</b>	<b>\$\$\$\$</b>

CFO + CFI + CFF + Change in Net 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

**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.

- If an ASSET ↑: Then An Asset will then ↓ or a Liability ↑, or Equity ↑.
- If a Liability ↑: Then an Asset ↑, or Liability ↓ or Equity ↓
- If a Equity ↑: Then an Asset ↑, or Liability ↓ or equity ↓ \*(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**

- Financial Position
- Financial Performance
- Evolution of specific items

**FINANCIAL STATEMENTS CONSIST OF**

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

**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 cant do that)

**FUNDAMENTAL ACCOUNTING ACCOUNTING EQUATION**  
**ASSETS = Liabilities + Owners Equity****ASSETS = NCA + CA**  
**VALUABLE RESOURCES OWNED BY FIRM****LIABILITIES = NCL + CL**  
**Funds provided by outside parties**

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

**O. EQUITY =**  
**COMMON STOCK +**  
**RETAINED EARNINGS**  
**+ NET INCOME****IFRS BALANCE SHEET**

	Year 2	Year 1		Year 2	Year 1
<b>Non Current Assets</b>			<b>EQUITY</b>		
Land	1	1	Capital	3	3
Building	2	2	Retained Earnings	3	2
Machinery	3	1	Net income	1	1
Accumulated Depreciation	-1	0	<b>Total Equity</b>	7	6
Bonds, goodwill, stocks, trademarks, patents	1	0			
<b>Total Non Current Assets</b>	6	4	<b>Non current Liabilities</b>		
<b>Current Assets</b>			Long Term Loan	0	0
Inventory	2	2	<b>Total Non current</b>	0	0
Acc. Receivable	3	1			
Cash	1	1	Accounts payable	3	1
Prepaid Expenses	2	3	Other accounts payables (Interest)	1	1
<b>Total Current Assets</b>	8	7	Current Loan	3	3
			Taxes Payable	0	0
			<b>Total current Liabilities</b>	7	5
<b>Total Assets</b>	14	11	<b>Total Liabilities</b>	14	11

**USS GAAP**

	Year 2	Year 1		Year 2	Year 1
<b>Current Assets</b>			<b>Liabilities</b>		
Cash	1	1	Accounts payable	3	1
Acc. Receivable	3	1	Other accounts payables (Interest)	1	1
Inventory	2	2	Current Loan	3	3
Prepaid Expenses	2	3	Taxes Payable	0	0
<b>Total Current Assets</b>	8	7	<b>Total current Liabilities</b>	7	5
<b>Non Current Assets</b>			<b>Non current Liabilities</b>		
Land	1	1	Long Term Loan	0	0
Building	2	2	<b>Total Non current Liabilities</b>	0	0
Machinery	3	1	<b>EQUITY</b>		
Accumulated Depreciation	-1	0	Capital	3	3
Bonds, goodwill,	1	0	Retained Earnings	3	2
<b>Total Non Current Assets</b>	6	4	Net income	1	1
			<b>Total Equity</b>	7	6
<b>Total Assets</b>	14	11	<b>Total Liabilities &amp; Equity</b>	14	11

**USEFUL EQUATIONS**

RE (Y2) = RE (Y1) + NI (Y2) – DIV (Y2)  
INCOME – REV – TAXES = NET INCOME  
STOCK (Y2) = STOCK (Y1) + NEW CONT (Y2)  
ASSETS – LIABILITIES = S. EQUITY

**USEFUL RATIOS****CURRENT RATIO = C. ASSETS/C.****LIABILITIES****WORKING CAPITAL = CURR ASSETS – CURR LIABILITIES****USEFUL RATIOS****D/E = T. LIABILITIES / S. EQUITY****OR T. LIABILITE CAN BE LONG TERM****CAPITAL STRUCTURE = T. ASSETS/ S. EQUITY****CURRENT RATIO = C. ASSETS/C.****LIABILITIES****WORKING CAPITAL = CURR ASSETS – CURR LIABILITIES**