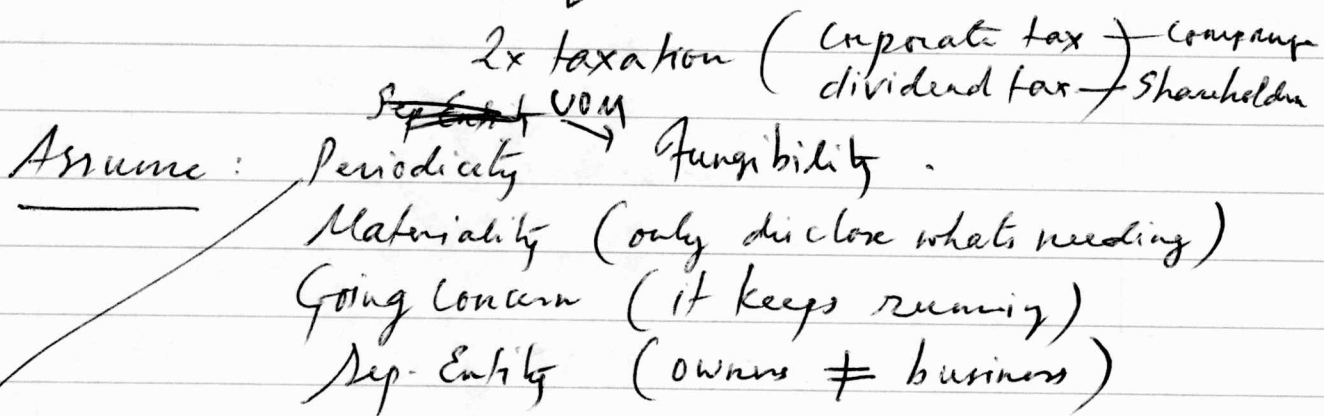
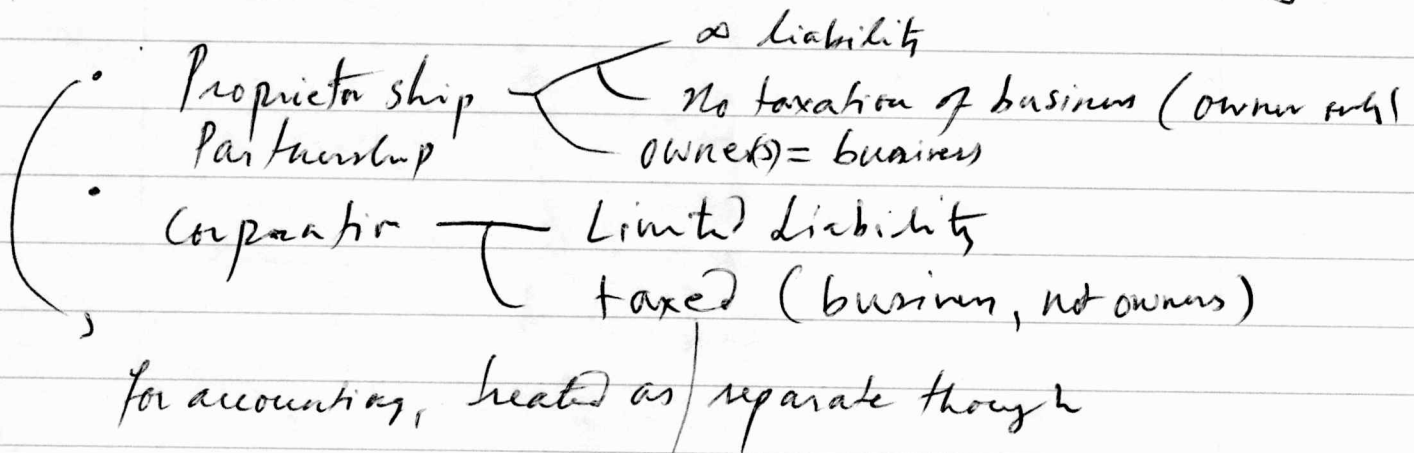
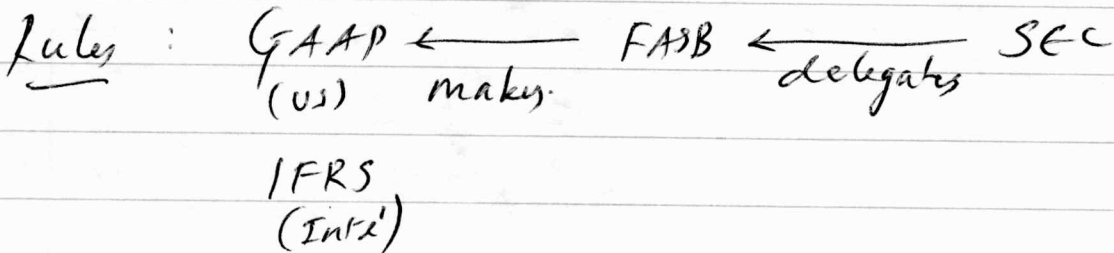


FINANCIAL ACCOUNTING



pick any period and report



Balance Sheet : Financial Snapshot 0

$$\text{Assets} = \text{Liab} + \text{SE}$$

Resources. { Owners claim on assets
Debtors claims.

→ Assets are listed in dec. order of liquidity.
(cash, receivables, bldgs, patents)

→ How to value asset? — Hist. cost *
Sales revenue
Replacement cost
General price adjust. costs...

→ Assets are gen. valued @ Hist. cost for
Decision Relevance (∴ objectivity)

→ Current Assets → Can convert to cash in 1yr
Liab → Due in 1yr.

Stockholder's Equity : Residual Int. of Owners to Assets
(Liab. satisfied)
Common + Preferred

$$\text{SE} = \text{Capital Stock} + \text{RE}$$

(BRE + NI - Dividends)

$$\text{BSE} + \text{Cap. st} + \text{NI} - \text{Dividends} = \text{ESE}$$

Cash vs Accrual

Revenue: Value received for Goods & S

Expenses: Payment for " "

→ Cash Basis: Rev and Exp. recognized when cash rec'd
* → GAAP does not allow this!

→ Accrual Basis: Arrange
Price that shit
Deliver that shit
Hit me later, bro.] Revenue recog.
when earned.

What about Expenses?

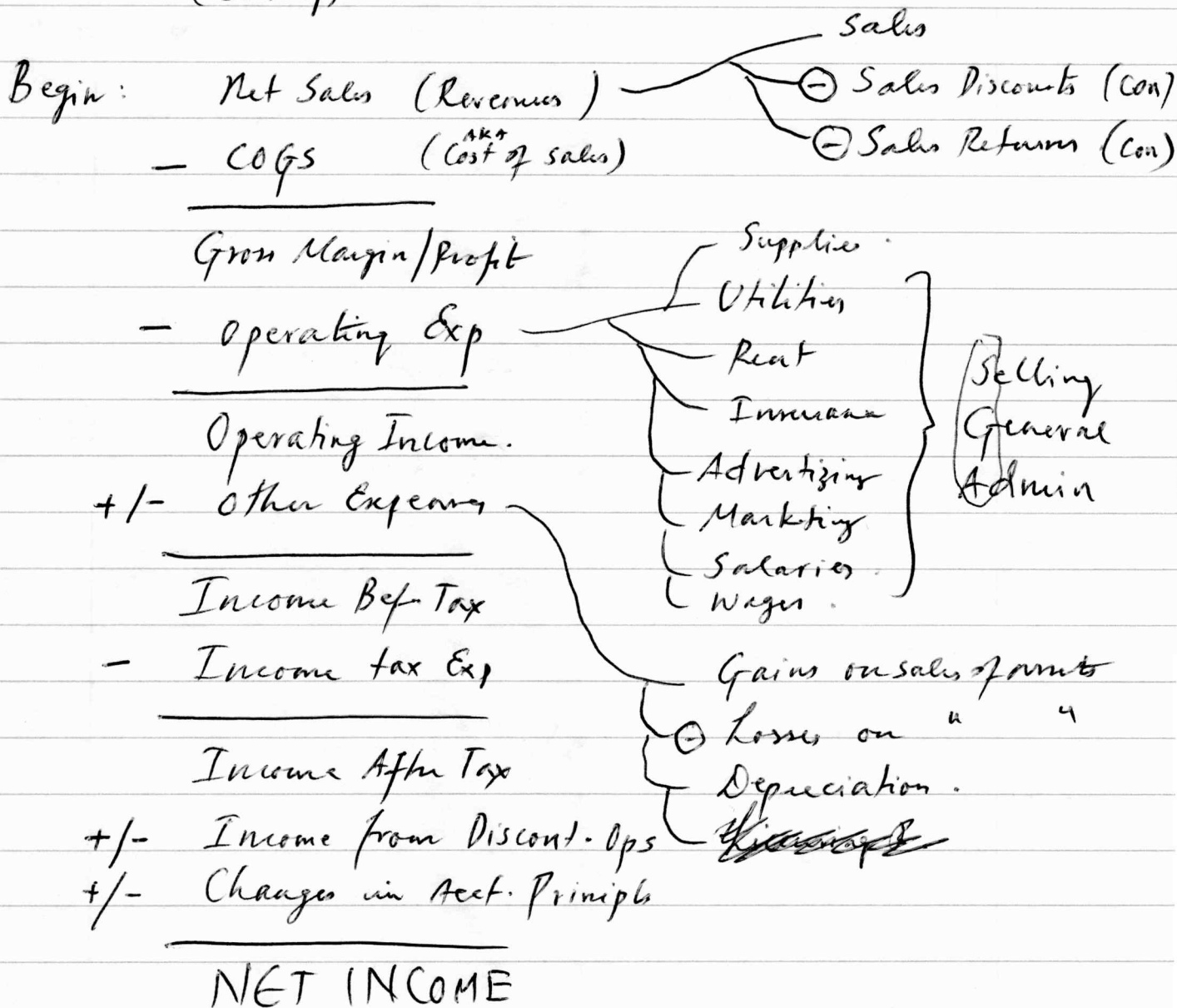
→ Matching Principle: ① Recognize Expenses only when ^{related} you can match with Revenue

② If you cannot do this, map to future periods that benefit from expense.

Eg. 2yr Insurance for \$10k. Spread \$5 1yr
\$5 next yr.

Income Statement : Results over period of time (BS is snapshot!)

② Net Income = Revenues - Expenses.
(profit)
(Earning)



Earnings per share :
$$\text{EPS}_{\text{Basic}} = \frac{\text{NI}}{\# \text{ of shares}}$$

Future stuff :
$$\text{EPS}_{\text{Diluted}} = \frac{\text{NI}}{\# \text{ of current} + \text{potential shares}}$$

Statement of Cash Flows : Show Δ Cash \$\$\$ $\downarrow$

• Indirect Method : Start with NI, (Easier) adjust beg - End

• Direct

Operating Cash F
$\pm$ Investing CF
$\pm$ Financial CF
Δ Cash

Sarbanes-Oxley
 $\rightarrow$ ~~Inter~~ Audit
 Internal Controls
 as well - not
 just

Audits : CPA's don't "certify" anything
 only offer "opinions"

When they say "presented fairly", conform to GAAP

{ Unqualified/Clean HOOK
 { Modified - going concern - EHHH.
 { Adverse - not GAAP... company is delisted.

"Financial Position" $\longrightarrow$ BS

"Results of ops" $\longrightarrow$ IS

"Cash flow" $\longrightarrow$ SOCF

BS: Cash : Do Bank Reconciliation:



Company

Bank

- + Bank Collections
- + Interest
- NSF checks
- Serv. charges
- EFT payments

- + Depos in transit
- + Cash on hand
- Outstanding Checks

BS: Accts. Recv (A/R) : Basic problem in bad debts

→ Matching Principle: Recognise Bad Debt Expense in same period

How to Estimate? (1) % of Sales (HISTORY)

2% of Credit sales ...

better

(2) % of Receivables.

✓ $\text{Bad Debt Expense} = [\text{New allowance for BD}] - [\text{previous allow}]$

Fractionation of Ending Balance of A/R

$< 30\% : \$62,000 \times 1\% = \620

$31-60 : \$15,000 \times 3\% = \450

⋮

$\text{BDE} = (\Sigma_{\text{new}} - \text{Prev})$

Σ_{new}

BS: Notes Receiv : $\text{Principal} \times IR \times \text{time (yr)} = \text{Int}$

$\text{Mat. Value} = \text{Principal} + \text{Int.}$

$\Rightarrow$ You don't want to deal w/ Receivables.

Sell A/R to someone $\rightarrow$ "Factoring A/R"

Sell NR to someone $\rightarrow$ "Discounting NR"

Go to Bank, factor or discount WITH RECOURSE

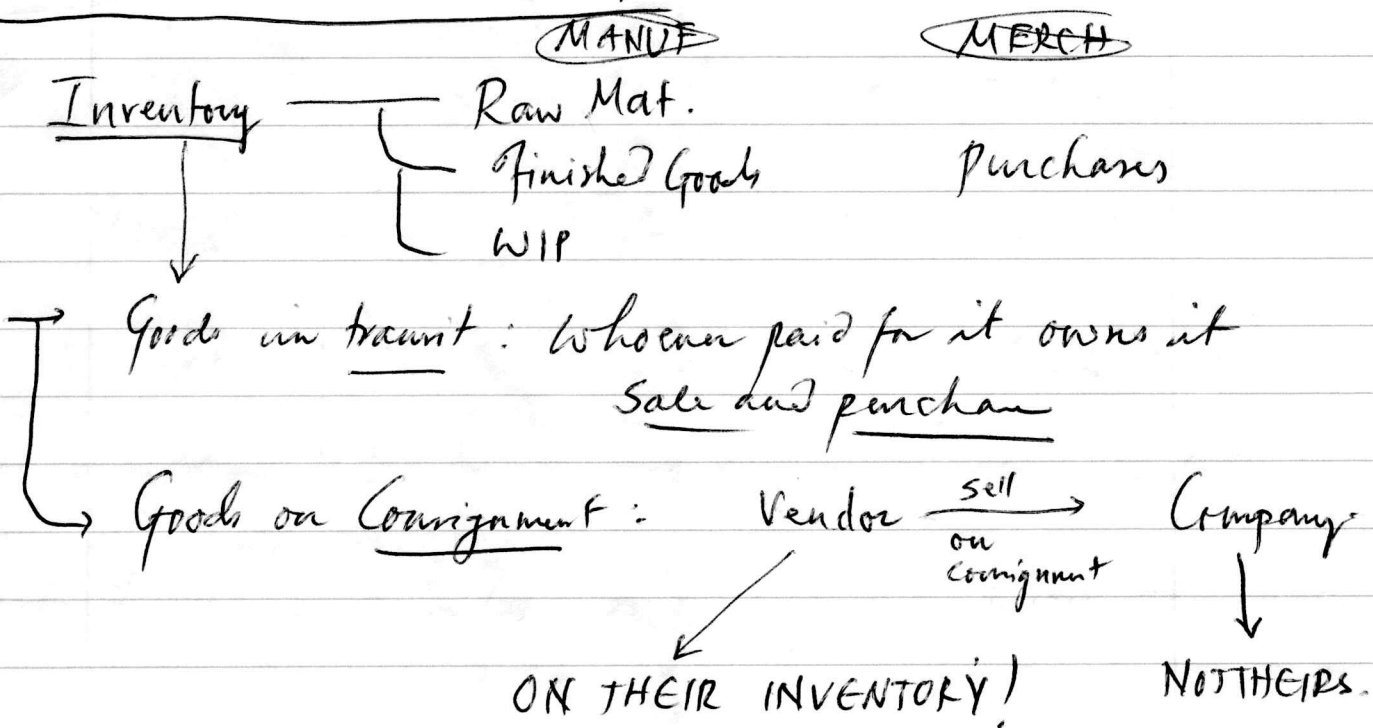
$\swarrow$
if Company B / Client defaults go after Company A
(ie when Company A $\xrightarrow[\text{NR}]{\text{sell}}$ Company B

$\swarrow$ This is "Contingent Liability"
A/R

and is NOT Reported!

Cost of Sales

BS: Inventories and COGS



$$\text{COGS (MERCH)} : B_{INV} + \text{NET PURCH} - E_{INV}$$

(Purchases + Shipping - Returns - Allowances - Discounts)

Perpetual Inv: Record update on $\forall$ sale

Periodic INV: " " every year or so.

Jewelry Amazon
Exp. shirt large # of cheap shirt.

Inventory Costing & Flows

What's the cost of purchases in Inventory?

Things change, yo!

(1) Sp. Identification → We fucking know ex. car.
→ Hard, tho...

(2) FIFO → Start w/ oldest inv
→ For Bal. Sheet! (∵ end INV repeats)
→ Better measure of Ending INV

(3) LIFO → Start w/ newest inv
→ For Income St.!
→ Better for CGS (∵ most up to date)

(4) Weighted Avg : LIFO + FIFO

LIFO Conformity Rule : Prices mostly rise

FIFO 2
 2.17
 2.43
 3.12
 4.8

LIFO 5.6

Finance World : "Lower COGS by using FIFO"
⇒ High Net Inc. before tax!

Tax World : "Increase COGS by using LIFO"
⇒ Low net Inc. to tax!

★ Use LIFO in both worlds. ★

You only do it in these two circumstances! IF at all.

Lower of Cost @ Market

① can replace @
price < cost.

When future value of INV is in doubt (damage, theft, Obsolescence)
Why? Companies like to
Inflate Assets, Profit (costs)

BS: Prepaid Invest and Exp

Long-Term Investment

OWN {

- > 50%? Consolidated (Smushed) Financial Statements
- 20 - 50%? Equity method.
- < 20%? Eg. own 40% of company?
Mark to Market. Profit of \$100k!
Report as income!
No dividends!

Marketable Sec (Short term)

{ Stocks reported @ Market Price
Bonds reported @ Cost.

called
"Mark to
Market"

deviate from
cost principle!
why?
OBJECTIVE

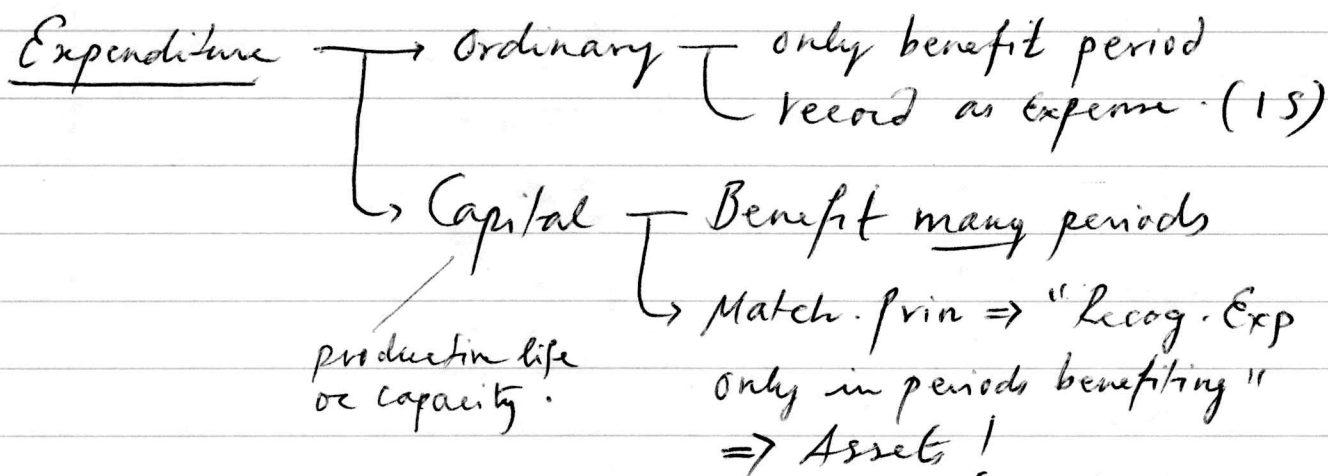
BS: Non-Curr: Prop., Plant, Equip

- Depreciation, • Depletion, • Amortiz.
- Impairment.

→ When building something, interest becomes part of cost ⇒ ASSET ("Capitalized Interest")

ONLY when depreciation applied ⇒ Expense.

→ "Capitalize" = "Treat as Assets"



Depreciation : for Useful life estim
of assets Salvage life estim. (residual, scrap) moreout?
more dep!

Methods : Total AMT of Dep remains same!
* Distribution diff.

① Straight-line =
$$\frac{\text{Cost} - \text{Salvage}}{\text{good useful life}}$$

③ Acc. Dep. → Matching principle
→ More maintenance later in time.

② ~~Units of output~~
Units of output

$$\text{Equipment}_{\text{NET}} = \text{Equipment} - \text{Acc. Dep./Amort.}$$

(BOOK VALUE)

Disposal : { Gain on Sale $\rightarrow$ Proceeds $>$ Book Value .
 Loss on Sale $\rightarrow$ Proceeds $<$ Book Value .
 on (1-5.)

if Natural Resources, use Unit of output Dep.
 "Depletion Expense"

* For "Useful Life", use Matching Principle

Intangible Assets (Patents) are amort

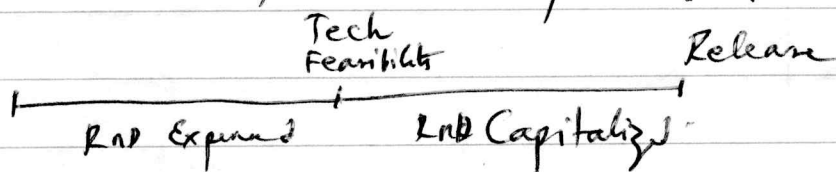
Definite life

Indef. life (There are IMPAIRED)

Goodwill when company buys a BU (Business Unit)
 (purchase price $>$ Fair Market Value)

R&D : Expensed immediately (RULE!)
 $\therefore$ uncertainty.

EXCEPT Software Development! ♥



Carrying Val (Now)



Face Value (Future, Maturity)

→ Record @ Present Value

→ Deferred Taxes : Timing diff. between
tax columns on Company IS and
tax cols on IRS

BONDS : Raise money.
When Bond Matures, pay Face Value.

Company		Market		OFFER
Stated I.R.	<	Market IR	⇒	Discount
Stated IR	>	Market IR	⇒	Premium.

Face Value : what to pay when bonds mature.

$$\text{Bonds Payable} \left(\begin{array}{l} + \text{ Premium} \\ - \text{ Discount} \end{array} \right) = \text{Bonds Payable (net)}$$

Face Value. ← $\xrightarrow[\text{over time.}]{\text{turns into}}$ Carrying value.

→ Can be converted to Stock (Convertibility)

→ Can be callable → Company can call in bonds before maturity date.

Cash paid > Carrying val → Loss on Retirement

Cash Paid < " " → Gain

Bonds

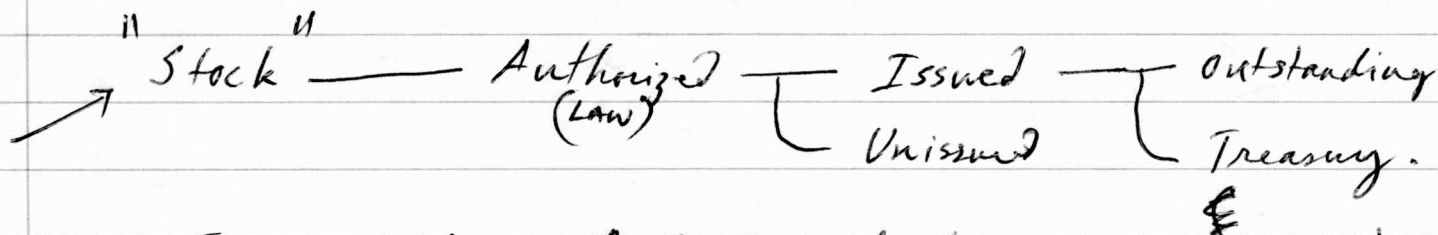
Must Repay
Must pay Interest
Interest deductible
No dilution of ownership

Stock

No repay stock
Dividends optional.
" NOPE
Dilution.

Shareholder's Equity & Ratio

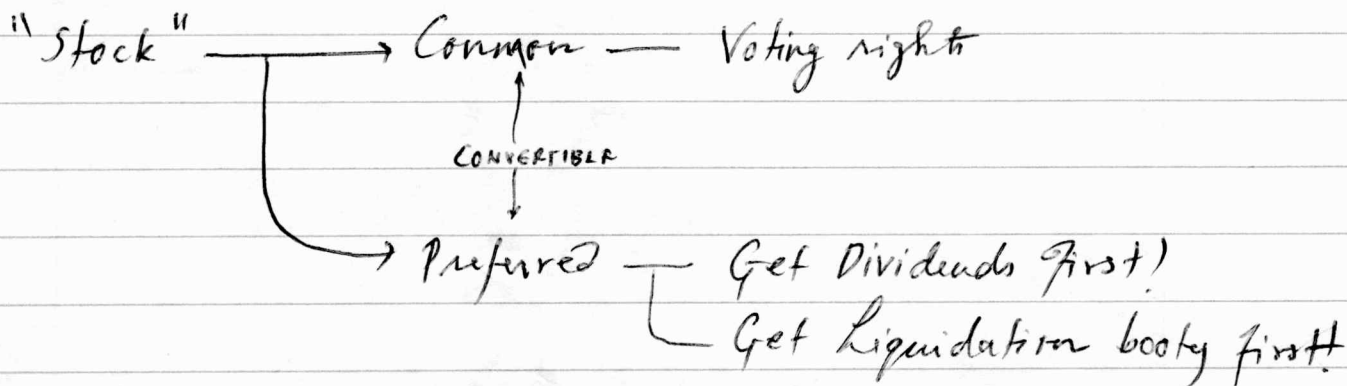
$$SE = \text{Capital Stock} + R. \text{Earnings}.$$



→ Treasury: Bought back from shareholders. → Increase EPS!

→ Outstanding: This is used everywhere

↳ EPS
↳ Dividends paid only to this!



→ "Par Value" → Nominal value
→ Cannot sell below
→ Can offer above ("Premium")

→ Paid-In Capital : $(\text{Par value}) \times (\# \text{ of stocks}) + \text{Premium} \times (\# \text{ of stocks})$

* So really, $SE = \text{Paid-In Cap} + R.E.s.$

Dividends

→ Date →
→ Date of Declaration (Becomes liability now)
→ Date of Record (Who gets dividends: people owning on this date)
→ Date of Payment

→ Preferred Stock people get sp. treatment (kinda)

① Current Dividend Pref.

Eg: "Company has 1000, 8%, \$50 preferred stock
⇒ To pay pref = \$4000

If Dividend announced, THEY DON'T GET MORE THAN THIS
\$3000 in DIV? Pref. gets it all

\$30,000 in DIV? Pref gets \$4000, Common gets \$26,000

\$300,000 in DIV? - " - " " "
\$296,000

② Cumulative Div Pref

"Waaah... I missed out!"

Dividends paid + Dividends we couldn't pay you
(arrears)

Year 1
eg: Div \$3000, Pref gets \$3000, \$1000 in arrears

Year 2
Div \$12,000, Pref gets \$4000 (+)

← Gets max
\$4000

Stock Dividends: Not cash, Stock as DIV

Why?

NOT THIS!
you have 20,
you still do...

↑ # of holders

holders complain they're hoarding RE,
So move from RE → Paid-In-Cap.

No effect on anything (assets, price,
dilution)

Stock Split → Inc Shares, Dec. Par value:

OR Dec Shares, Inc. Par Value.

$$\cancel{SE} = \cancel{RE} + \cancel{\text{Comm Stock}} + \cancel{\text{Paid}}$$