

Forms of Business

1. Sole Prop	2. Partnership	3. Corporation
Tax advantages	Tax advantages	Higher taxes
Easily formed	Skill of owners	Complex to organize
Owner control	Shared control	Easy transfer control
Personal liability	Personal liability	Limited liability
Limited life	Limited life	Easier to raise money

Statement of Earnings = Income Statement

How well a business performs. Profit and loss.

Net Income = Revenue

Rev = asset (cash) a company gets for a good or service. Recorded at delivery to customer.

- Expenses

Exp = cost of assets used or liabilities created during operations.

Statement of Cash Flows

Changes in cash over time. In/outflows & related to:

Operating	Investing	Financing
Running the business	Buy/sell LTA to run ops	Get capital to run business
Acc Rec (income)	Buy/sell P, P & E	Issuing CS, Bonds, Bank invests
Acc Pay (services, wages)	Lending \$ (loans)	Pay out Divs, Retire (pay back) Debt

SCF informs investors & creditors and assess company's:

- Ability to produce future net cash inflows
- Ability to meet obligations and pay dividends
- Need for external financing
- Reasons for diffs btn NI & cash receipts
- SFP eval of effects of cash & noncash I & F transactions.

Cash vs Accrual Accounting

Cash Basis

= Rev recorded when cash **received**

= Exp recorded when cash **paid**

Accrual Basis

= Rev recog when **earned**

= Exp recog when **incurred**

Accrual Basis Accounting

Periodicity, Revenue Recognition Principle, Matching Concept

- Done at end of accounting period, more meaningful comparisons btn companies & across time, predictive of future income

- Impacts 1(+) income statement account and 1 SFP account (not Cash Flow statement)

ACCRUED REVENUE = earned Rev, no cash received. Adj needed: record Rev & in A (AR). If not done: understated A (AR), Rev, NI, Profit

ACCRUED EXPENSE = incurred Exp, no cash is paid. Adj needed: record Exp & in L (AP). If not done: understated L (AP), Exp, overstated NI, SE, Profit

UNEARNED REVENUE = receive cash (in A), service not done (de L). Adj needed: record Rev & de L (unearned Rev). If not done: overstated L, understated Rev, NI, SE, Profit

PREPAID EXPENSE = cash is paid (de A, cash), service not received (in A, prepaid exp). Adj needed: record Exp & de A (prepaid Exp). If not done: overstated A, NI, SE, Profit, understated Exp.

Revenue Recognition can occur when the Rev and Exp is reliably measurable and the following has been transferred: managerial control, risks, economic benefits

Nature of Inventory

MERCHANDISER = purchase inv ready to sell

MANUFACTURER = Raw M -> WIP -> Fin Goods

Inventory = Asset, Expense = COGS

PERPETUAL INV SYSTEM = cont updated, records Rev & Cost at same time, more expensive, better for decision-making

PERIODIC INV SYSTEM = balance prod at end of accounting period w/ physical count, est using gross profit method, cheaper

Analyzing Inv: 2 main KPI = GP Ratio & Inv Turnover Ratio



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Statement of Financial Position

Balances what co has with what it owes at specific point in time

Assets = Liabilities + Shareholder's Equity

Resources owned or controlled by company Obligations incurred & need to be settled. Creditor's claim Owners' residual interest in the company

CURRENT **CURRENT** Common Shares

Cash, supplies Salaries Retained Earnings

Accounts Receivable Accounts Payable - Revenue

Prepaid rent/ins Unearned Revenue - Expense

NON CURRENT **NON CURRENT** - Dividends

LTI (P, P & E) Loans

Intangible (e.g. patent) Notes, Bonds Payable

Statement of Changes in Equity

How much income was kept and how much was given to owners over a period of time

Retained Earnings (end) = RE (start) + Net Income - Dividends

Definitions

Account = records of in's & de's in each element of SFP

Net Income = Income from Ops - (Non-op Rev + Exp) - Income tax

Cost in Year = Inv(s) + Exp(net)

COGS = Inv(s) + Exp(net) - Inv(end)

Gross Profit (Margin) = Net Sales (Revenue) - Cost of Goods Sold

Income from Ops = Gross Margin - Op Exps

Cross Sectional Analysis = compares one corporation to another & to industry averages

Time series (Trend) Analysis = compares a corporation across time

Horizontal Analysis = SFP items are expressed as % of base yr (shows trends in time)

Vertical Analysis = SFP items are expressed as % of largest amount on SFP

Changes in SFP Accounts

Classification	Cash Effect	SFP Affected	Example
Operating	Inflow (+)	de CA	Collect AR
		in CL	Unearned rev
		in RE	Cash sale
	Outflow (-)	in CA	Buy inv
		de CL	Pay AP
		de RE	Pay int
Investing	Inflow (+)	de LTA	Sell equip
		in LTA	Buy equip
Financing	Inflow (+)	in LTL	Issue debt
		in SE	Issue CS
		Outflow (-)	de LTL
NC I & F	Inflow (+)	de SE	Pay Div
		NC A	Deprec Exp
	Outflow (-)	NC Rev	

Cash Flows Impact SFP

in CASH = in L + in SE + de NCA
de CASH = de L + de SE + in NCA

