

Guideline	R23 Financial Reporting Mechanics
Sessions and readings	<ul style="list-style-type: none"> SS7 Financial Reporting and Analysis: An Introduction R22 Financial Statement Analysis: An Introduction <li style="background-color: yellow;">R23 Financial Reporting Mechanics R24 Financial Reporting Standards SS8 FRA: Income Statements, Balance Sheets and Cash Flow Sheets R25 Understanding Income Statements R26 Understanding Balance Sheet R27 Understanding Cash Flow Statement R28 Financial Analysis Techniques SS9 FRA: Inventories, Long-lived Assets, Income Taxes and Non-Current Liabilities R29 Inventories R30 Long-Lived Assets R31 Income Taxes R32 Non-Current (Long-Term Liabilities SS10 FRA: Financial Reporting Quality and Financial Statement Analysis R33 Financial Reporting Quality R34 Financial Statement Analysis: Applications
Topics	<ul style="list-style-type: none"> a. Describe how business activities are classified for financial reporting purposes. x b. Explain the relationship of financial statement elements and accounts, and classify accounts into the financial statement elements. c. Explain the accounting equation in its basic and expanded forms. d. Describe the process of recording business transactions using an accounting system based on the accounting equation. e. Describe the need for accruals and valuation adjustments in preparing financial statements. f. Describe the relationships among the income statement, balance sheet, statement of cash flows, and statement of owners' equity. g. Describe the flow of information in an accounting system h. Describe the use of the results of the accounting process in security analysis. x
b. Explain the relationship of financial statement elements and accounts, and classify accounts into the financial statement	<p>Financial statement elements are the major classification of assets, liabilities, owners' equity, revenue, and expenses. e.g. Inventory, Accounts payable</p> <p>Accounts: specific records within each element where various transactions are entered.</p> <ul style="list-style-type: none"> -chart of accounts: detailed list of the accounts -contra accounts: offset some part of the value of another account. E.g. accumulated depreciation <p>Examples of assets:</p>

elements.	<ul style="list-style-type: none"> - Cash and cash equivalents - Accounts receivable - Inventory - Financial assets - Prepaid expenses - Property, plant and equipment - Investment in affiliates - Deferred tax assets - Intangible assets 	<p>ASSETS</p> <ul style="list-style-type: none"> Cash and cash equivalents Marketable securities Finance receivables, net (Note 5) Other receivables, net Net investment in operating leases (Note 6) Inventories (Note 8) Equity in net assets of affiliated companies (Note 9) Net property (Note 10) Deferred income taxes (Note 21) Other assets Total assets
	<p><i>Example of liabilities:</i></p> <ul style="list-style-type: none"> - Accounts payable - Financial liabilities - Unearned revenue - Income taxes payable - Long-term debt - Deferred tax liabilities 	<p>LIABILITIES</p> <ul style="list-style-type: none"> Payables Other liabilities and deferred revenue (Note 11) Automotive debt (Note 13) Financial Services debt (Note 13) Deferred income taxes (Note 21) Total liabilities
	<p>Example of owners' equity</p> <ul style="list-style-type: none"> - Capital - Additional paid-in capital - Retained earnings - Other comprehensive income 	<p>EQUITY</p> <ul style="list-style-type: none"> Capital stock (Note 23) <ul style="list-style-type: none"> Common Stock, par value \$.01 per share (3,960 million shares issued of 6 billion authorized) Class B Stock, par value \$.01 per share (71 million shares issued of 530 million authorized) Capital in excess of par value of stock Retained earnings Accumulated other comprehensive income/(loss) (Note 17) Treasury stock Total equity attributable to Ford Motor Company Equity attributable to noncontrolling interests

	<p>Example of revenue and Expenses:</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>Revenue</p> <ul style="list-style-type: none"> - Sales - Gains - Investment income <p>Expenses</p> <ul style="list-style-type: none"> - Cost of goods sold - Selling, general and administrative expenses - Depreciation and amortization - Tax expense - Interest expense - Losses </td> <td style="width: 50%; vertical-align: top;"> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">Revenues</td> </tr> <tr> <td style="width: 50%;">Automotive</td> <td style="width: 50%;"></td> </tr> <tr> <td>Financial Services</td> <td></td> </tr> <tr> <td colspan="2" style="text-align: center;">Total revenues</td> </tr> <tr> <td colspan="2">Costs and expenses</td> </tr> <tr> <td>Automotive cost of sales</td> <td></td> </tr> <tr> <td colspan="2">Selling, administrative, and other expenses</td> </tr> <tr> <td>Financial Services interest expense</td> <td></td> </tr> <tr> <td colspan="2">Financial Services provision for credit and insurance losses</td> </tr> <tr> <td colspan="2" style="text-align: center;">Total costs and expenses</td> </tr> <tr> <td colspan="2">Automotive interest expense</td> </tr> <tr> <td colspan="2">Automotive interest income and other income/(loss), net (Note 18)</td> </tr> <tr> <td colspan="2">Financial Services other income/(loss), net (Note 18)</td> </tr> <tr> <td colspan="2">Equity in net income of affiliated companies</td> </tr> <tr> <td colspan="2">Income before income taxes</td> </tr> <tr> <td colspan="2">Provision for/(Benefit from) income taxes (Note 21)</td> </tr> <tr> <td colspan="2">Net income</td> </tr> <tr> <td colspan="2">Less: Income/(Loss) attributable to noncontrolling interests</td> </tr> <tr> <td colspan="2">Net income attributable to Ford Motor Company</td> </tr> </table> </td> </tr> </table>	<p>Revenue</p> <ul style="list-style-type: none"> - Sales - Gains - Investment income <p>Expenses</p> <ul style="list-style-type: none"> - Cost of goods sold - Selling, general and administrative expenses - Depreciation and amortization - Tax expense - Interest expense - Losses 	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">Revenues</td> </tr> <tr> <td style="width: 50%;">Automotive</td> <td style="width: 50%;"></td> </tr> <tr> <td>Financial Services</td> <td></td> </tr> <tr> <td colspan="2" style="text-align: center;">Total revenues</td> </tr> <tr> <td colspan="2">Costs and expenses</td> </tr> <tr> <td>Automotive cost of sales</td> <td></td> </tr> <tr> <td colspan="2">Selling, administrative, and other expenses</td> </tr> <tr> <td>Financial Services interest expense</td> <td></td> </tr> <tr> <td colspan="2">Financial Services provision for credit and insurance losses</td> </tr> <tr> <td colspan="2" style="text-align: center;">Total costs and expenses</td> </tr> <tr> <td colspan="2">Automotive interest expense</td> </tr> <tr> <td colspan="2">Automotive interest income and other income/(loss), net (Note 18)</td> </tr> <tr> <td colspan="2">Financial Services other income/(loss), net (Note 18)</td> </tr> <tr> <td colspan="2">Equity in net income of affiliated companies</td> </tr> <tr> <td colspan="2">Income before income taxes</td> </tr> <tr> <td colspan="2">Provision for/(Benefit from) income taxes (Note 21)</td> </tr> <tr> <td colspan="2">Net income</td> </tr> <tr> <td colspan="2">Less: Income/(Loss) attributable to noncontrolling interests</td> </tr> <tr> <td colspan="2">Net income attributable to Ford Motor Company</td> </tr> </table>	Revenues		Automotive		Financial Services		Total revenues		Costs and expenses		Automotive cost of sales		Selling, administrative, and other expenses		Financial Services interest expense		Financial Services provision for credit and insurance losses		Total costs and expenses		Automotive interest expense		Automotive interest income and other income/(loss), net (Note 18)		Financial Services other income/(loss), net (Note 18)		Equity in net income of affiliated companies		Income before income taxes		Provision for/(Benefit from) income taxes (Note 21)		Net income		Less: Income/(Loss) attributable to noncontrolling interests		Net income attributable to Ford Motor Company	
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<p>c. Explain the accounting equation in its basic and expanded forms</p>	<pre> graph LR A["Assets = Liabilities + Shareholders' equity"] --> B["Liabilities + Contributed capital + Ending retained earnings"] B --> C["Liabilities + Contributed capital + Beginning retained earnings + Net income - Dividend declared"] </pre>
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<p>d. Describe the process of recording business transactions</p>	<p>Double-entry accounting Example:</p> <ul style="list-style-type: none"> • Purchase equipment for \$10,000 cash
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using an accounting system based on the accounting equation.	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 40px;">Equipment</td> <td style="text-align: right;">\$10,000</td> </tr> <tr> <td style="padding-left: 80px;">Cash</td> <td style="text-align: right;">\$10,000</td> </tr> <tr> <td colspan="2"> <ul style="list-style-type: none"> • Buy inventory for \$8,000 cash and sell it for \$10,000 cash </td> </tr> <tr> <td style="padding-left: 40px;">Inventory</td> <td style="text-align: right;">\$8,000</td> </tr> <tr> <td style="padding-left: 80px;">Cash</td> <td style="text-align: right;">\$8,000</td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td style="padding-left: 40px;">Cash</td> <td style="text-align: right;">\$10,000</td> </tr> <tr> <td style="padding-left: 80px;">Sales</td> <td style="text-align: right;">\$10,000</td> </tr> <tr> <td style="padding-left: 40px;">COGS</td> <td style="text-align: right;">\$8,000</td> </tr> <tr> <td style="padding-left: 80px;">Inventory</td> <td style="text-align: right;">\$8,000</td> </tr> </table>	Equipment	\$10,000	Cash	\$10,000	<ul style="list-style-type: none"> • Buy inventory for \$8,000 cash and sell it for \$10,000 cash 		Inventory	\$8,000	Cash	\$8,000			Cash	\$10,000	Sales	\$10,000	COGS	\$8,000	Inventory	\$8,000
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e. Describe the need for accruals and valuation adjustments in preparing financial statements	<p>Accrual accounting: revenue is recorded when the firm earns it and expenses are recorded as the firm incurs them, regardless of whether cash has actually been paid.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>A</th> <th>L</th> <th>SE</th> <th>R</th> <th>E</th> </tr> </thead> <tbody> <tr> <td>Unearned revenue: liability (Cash received in advance)</td> <td>↑</td> <td>↑</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Accrued revenue: revenue</td> <td>↑</td> <td></td> <td>↑</td> <td>↑</td> <td></td> </tr> <tr> <td>Prepaid expenses: asset (Cash paid in advance)</td> <td>↑ ↓</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Accrued expenses: expense</td> <td></td> <td>↑</td> <td>↓</td> <td></td> <td>↑</td> </tr> </tbody> </table>		A	L	SE	R	E	Unearned revenue: liability (Cash received in advance)	↑	↑				Accrued revenue: revenue	↑		↑	↑		Prepaid expenses: asset (Cash paid in advance)	↑ ↓					Accrued expenses: expense		↑	↓		↑
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Describe the relationships among the income statement, balance sheet, statement of cash flows, and statement of owners' equity	<p>Figure 1: Income Statement for 20X8</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>Sales</td><td style="text-align: right;">\$100,000</td></tr> <tr><td>Expenses</td><td></td></tr> <tr><td> Cost of goods sold</td><td style="text-align: right;">40,000</td></tr> <tr><td> Wages</td><td style="text-align: right;">5,000</td></tr> <tr><td> Depreciation</td><td style="text-align: right;">7,000</td></tr> <tr><td> Interest</td><td style="text-align: right;">500</td></tr> <tr><td>Total expenses</td><td style="text-align: right;">\$52,500</td></tr> <tr><td>Income from continuing operations</td><td style="text-align: right;">47,500</td></tr> <tr><td>Gain from sale of land</td><td style="text-align: right;">10,000</td></tr> <tr><td>Pretax income</td><td style="text-align: right;">\$57,500</td></tr> <tr><td>Provision for taxes</td><td style="text-align: right;">20,000</td></tr> <tr><td>Net income</td><td style="text-align: right;">\$37,500</td></tr> <tr><td>Common dividends declared</td><td style="text-align: right;">8,500</td></tr> </table>	Sales	\$100,000	Expenses		Cost of goods sold	40,000	Wages	5,000	Depreciation	7,000	Interest	500	Total expenses	\$52,500	Income from continuing operations	47,500	Gain from sale of land	10,000	Pretax income	\$57,500	Provision for taxes	20,000	Net income	\$37,500	Common dividends declared	8,500	<p>Figure 2: Balance Sheet for 20X7 and 20X8</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">20X8</th> <th style="text-align: right;">20X7</th> </tr> </thead> <tbody> <tr><td>Assets</td><td></td><td></td></tr> <tr><td>Current assets</td><td></td><td></td></tr> <tr><td> Cash</td><td style="text-align: right;">\$33,000</td><td style="text-align: right;">\$9,000</td></tr> <tr><td> Accounts receivable</td><td style="text-align: right;">10,000</td><td style="text-align: right;">9,000</td></tr> <tr><td> Inventory</td><td style="text-align: right;">5,000</td><td style="text-align: right;">7,000</td></tr> <tr><td>Noncurrent assets</td><td></td><td></td></tr> <tr><td> Land</td><td style="text-align: right;">\$35,000</td><td style="text-align: right;">\$40,000</td></tr> <tr><td> Gross plant and equipment</td><td style="text-align: right;">85,000</td><td style="text-align: right;">60,000</td></tr> <tr><td> less: Accumulated depreciation</td><td style="text-align: right;">(16,000)</td><td style="text-align: right;">(9,000)</td></tr> <tr><td>Net plant and equipment</td><td style="text-align: right;">\$69,000</td><td style="text-align: right;">\$51,000</td></tr> <tr><td> Goodwill</td><td style="text-align: right;">10,000</td><td style="text-align: right;">10,000</td></tr> <tr><td>Total assets</td><td style="text-align: right;">\$162,000</td><td style="text-align: right;">\$126,000</td></tr> <tr><td>Liabilities and Equity</td><td></td><td></td></tr> <tr><td>Current liabilities</td><td></td><td></td></tr> <tr><td> Accounts payable</td><td style="text-align: right;">\$9,000</td><td style="text-align: right;">\$5,000</td></tr> <tr><td> Wages payable</td><td style="text-align: right;">4,500</td><td style="text-align: right;">8,000</td></tr> <tr><td> Interest payable</td><td style="text-align: right;">3,500</td><td style="text-align: right;">3,000</td></tr> <tr><td> Taxes payable</td><td style="text-align: right;">5,000</td><td style="text-align: right;">4,000</td></tr> <tr><td> Dividends payable</td><td style="text-align: right;">6,000</td><td style="text-align: right;">1,000</td></tr> <tr><td>Noncurrent liabilities</td><td></td><td></td></tr> <tr><td> Bonds</td><td style="text-align: right;">\$15,000</td><td style="text-align: right;">\$10,000</td></tr> <tr><td> Deferred taxes</td><td style="text-align: right;">20,000</td><td style="text-align: right;">15,000</td></tr> <tr><td>Stockholders' equity</td><td></td><td></td></tr> <tr><td> Common stock</td><td style="text-align: right;">\$40,000</td><td style="text-align: right;">\$50,000</td></tr> <tr><td> Retained earnings</td><td style="text-align: right;">59,000</td><td style="text-align: right;">30,000</td></tr> <tr><td>Total liabilities & stockholders' equity</td><td style="text-align: right;">\$162,000</td><td style="text-align: right;">\$126,000</td></tr> </tbody> </table>		20X8	20X7	Assets			Current assets			Cash	\$33,000	\$9,000	Accounts receivable	10,000	9,000	Inventory	5,000	7,000	Noncurrent assets			Land	\$35,000	\$40,000	Gross plant and equipment	85,000	60,000	less: Accumulated depreciation	(16,000)	(9,000)	Net plant and equipment	\$69,000	\$51,000	Goodwill	10,000	10,000	Total assets	\$162,000	\$126,000	Liabilities and Equity			Current liabilities			Accounts payable	\$9,000	\$5,000	Wages payable	4,500	8,000	Interest payable	3,500	3,000	Taxes payable	5,000	4,000	Dividends payable	6,000	1,000	Noncurrent liabilities			Bonds	\$15,000	\$10,000	Deferred taxes	20,000	15,000	Stockholders' equity			Common stock	\$40,000	\$50,000	Retained earnings	59,000	30,000	Total liabilities & stockholders' equity	\$162,000	\$126,000	<p>Figure 3: Cash Flow Statement for 20X8</p> <table border="1" style="width: 100%; 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Total liabilities & stockholders' equity	\$162,000	\$126,000																																																																																																																																								
Cash collections	\$99,000																																																																																																																																									
Cash inputs	(34,000)																																																																																																																																									
Cash expenses	(8,500)																																																																																																																																									
Cash interest	0																																																																																																																																									
Cash taxes	(14,000)																																																																																																																																									
Cash flow from operations	\$42,500																																																																																																																																									
Cash from sale of land	\$15,000																																																																																																																																									
Purchase of plant and equipment	(25,000)																																																																																																																																									
Cash flow from investments	(\$10,000)																																																																																																																																									
Sale of bonds	\$5,000																																																																																																																																									
Repurchase of stock	(10,000)																																																																																																																																									
Cash dividends	(3,500)																																																																																																																																									
Cash flow from financing	(\$8,500)																																																																																																																																									
Total cash flow	\$24,000																																																																																																																																									

Figure 4: Statement of Owners' Equity for 20X8

	<i>Contributed Capital</i>	<i>Retained Earnings</i>	<i>Total</i>
Balance, 12/31/20X7	\$50,000	\$30,000	\$80,000
Repurchase of stock	(\$10,000)		(\$10,000)
Net income		\$37,500	\$37,500
Distributions		(\$8,500)	(\$8,500)
Balance, 12/31/20X8	\$40,000	\$59,000	\$99,000

g. Describe the flow of information in an accounting system




MOON SERVICES INC.
General Journal
For the month of November 2015

Date	Account titles and explanation	Debit	Credit
2015			
Nov. 01	Cash Capital stock Issued shares of common stock at \$20 per share	400,000	400,000
Nov. 03	Office rent expense Cash Paid office rent for the month of November	500	500
Nov. 06	Office supplies Cash Purchased office supplies	250	250
Nov. 12	Office equipment Accounts payable Purchased equipment for office use	4,500	4,500
Nov. 16	Vehicles Cash Notes payable Purchased company vehicle; paid \$10,000 in cash and issued a \$15,000 note payable for the balance.	25,000	10,000 15,000
Nov. 21	Accounts receivable Service revenue Billed clients on account	24,000	24,000
Nov. 25	Dividends Dividends payable Dividends declared to be distributed in December.	3,000	3,000
Nov. 28	Utilities expense Cash November utilities paid in cash	180	180
Nov. 29	Cash Accounts receivable Collected cash from clients billed on 21 November	20,000	20,000
Nov. 30	Salary expense Cash Paid salary expense for November	7,500	7,500

Journal Entries

General journal

Paul's Guitar Shop, Inc. Unadjusted Trial Balance December 31, 2015		
Account	Debit	Credit
Cash	\$ 32,800	
Accounts Receivable	300	
Inventory	39,800	
Leasehold Improvements	100,000	
Accounts Payable		\$ 49,000
Long-term Liabilities		99,500
Common Stock		10,000
Dividends	1,000	
Revenues		27,800
Cost of Goods Sold	10,200	
Rent Expense	500	
Supplies Expense	500	
Utilities Expense	200	
Wages Expense	500	
Interest Expense	500	
Totals	\$ 186,300	\$ (186,300)

 Trial balance