

# ACCT 2101 Mid-term Revision

## Lecture 1

### External users of information:

- Existing/potential shareholders/creditors
- Suppliers/customers/employees/competitors
- Analysts, the media
- Government agencies, labor unions

### Why do external users need firm-specific information?

- Decision making
- Accountability

### Accrual accounting:

- Records income and expenses at the time they occur, not necessarily when cash is received or paid
- Profit = Income – Expenses

### Cash accounting:

- Records income and expenses at the time cash is received or paid
- Cash profit = cash inflows – cash outflows

### Financial Position:

- Balance sheet
- $Assets = Liabilities + Owner's Equity$
- $A = L + E + (Income - Expenses) - Dividends$

### Two-stage Process

	Assets	Liabilities
Definition	<p>An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (Framework)</p> <ol style="list-style-type: none"> <li>i. A resource controlled by an entity</li> <li>ii. Future economic benefits</li> <li>iii. The event giving rise to <i>control</i> has occurred</li> </ol>	<p>A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (Framework)</p> <ol style="list-style-type: none"> <li>i. Present obligation</li> <li>ii. Outflows of economic benefits</li> <li>iii. The event giving rise to the obligation has occurred</li> </ol>
Recognition	<p>An item is recognized (i.e. recorded) in the accounting books as an asset if:</p> <ol style="list-style-type: none"> <li>i. It is probable that any future economic benefit</li> </ol>	<p>An item is recognized (i.e. recorded) in the accounting books as a liability if</p> <ol style="list-style-type: none"> <li>i. It is probable that any future economic benefit</li> </ol>

	associated with the item will flow <i>to</i> the entity ii. The item has a cost or value that can be measured with reliability	associated with the item will flow <i>from</i> the entity ii. The item has a cost or value that can be measured with reliability
Examples	<ul style="list-style-type: none"> <li>• Cash</li> <li>• Accounts receivable</li> <li>• Other receivables</li> <li>• Inventories</li> <li>• Property, Plant and Equipment</li> <li>• Intangibles</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts payable</li> <li>• Other payables</li> <li>• Interest Bearing Liabilities</li> <li>• Tax liabilities</li> </ul>

### **Equity**

#### **Definition:**

- Residual interest in assets less liabilities, including:
  - Funds contributed by shareholders (share capital)
  - Retained profits

#### **Income Statement:**

- *Profit (loss) = Income – Expenses*
- Reports *accrual* profit or loss for a particular time period
- = Profit & Loss Statement  
= Statement of *Financial Performance*
- Profit is then reflected in the balance sheet through *Retained Profits* in the Equity section