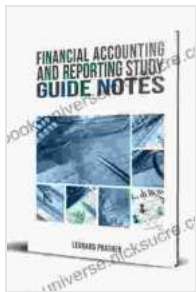


# Financial Accounting and Reporting: Comprehensive Study Guide Notes

Financial accounting and reporting play a vital role in the business world, providing a transparent and standardized means of communicating financial information to various stakeholders. This study guide provides comprehensive notes that delve into the core concepts, principles, and practices of financial accounting and reporting, equipping you with the knowledge and skills necessary to understand, analyze, and interpret financial statements.



## Financial Accounting and Reporting Study Guide Notes

by Nurys Harrigan-Pedersen

★★★★★ 5 out of 5

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Screen Reader : Supported  
Enhanced typesetting : Enabled  
Print length : 249 pages



## Key Concepts and Principles

### 1. Accounting Entity and Going Concern

The accounting entity is the specific organization or entity for which financial statements are prepared, while the going concern principle assumes that the entity will continue to operate in the foreseeable future.

# ACCOUNTANCY

## Accounting Principle Part 1



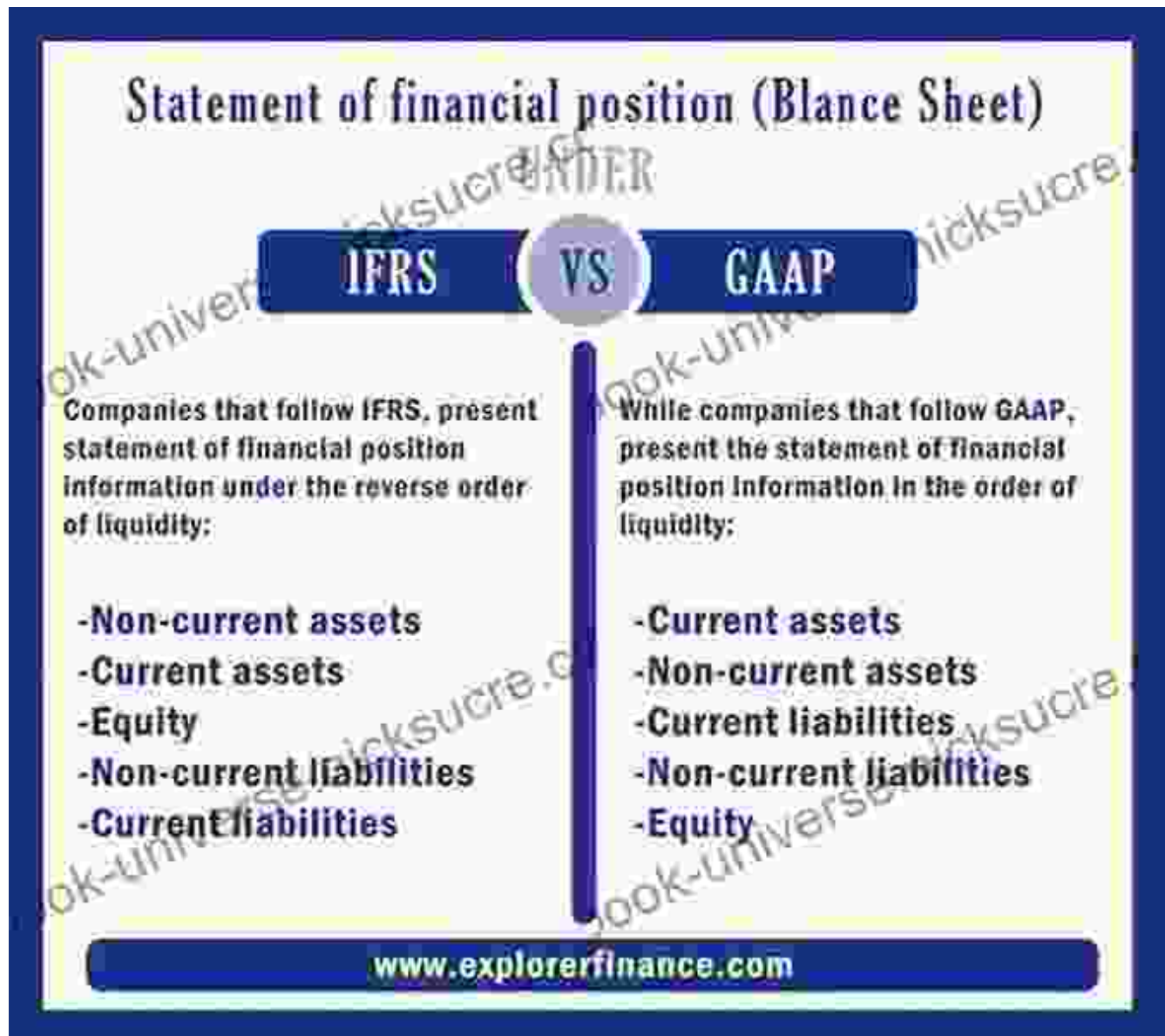
### 2. Accounting Equation and Financial Statements

The accounting equation (Assets = Liabilities + Owner's Equity) forms the foundation of financial accounting. Three primary financial statements—the balance sheet, income statement, and statement of cash flows—provide a comprehensive overview of the entity's financial position and performance.



### 3. GAAP and IFRS

Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) are frameworks that establish rules and guidelines for preparing financial statements, ensuring consistency and comparability.



### Balance Sheet

#### 1. Assets

Assets are resources owned or controlled by the entity, classified as current (short-term) or non-current (long-term).

## **2. Liabilities**

Liabilities are obligations owed by the entity, also classified as current or non-current.

## **3. Owner's Equity**

Owner's equity represents the residual interest in the entity after subtracting liabilities from assets.

**Example Corporation**  
**Balance Sheet**  
**December 31, 2020**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 2,200
Short-term investments	10,000
Accounts receivable - net	39,500
Other receivables	1,000
Inventory	31,000
Supplies	3,800
Prepaid expenses	1,500
<b>Total current assets</b>	<b><u>89,000</u></b>

**Investments**

35,000

**Property, plant & equipment - net**

Land	5,500
Land improvements	8,500
Buildings	180,000
Equipment	201,000
Less: accumulated depreciation	(55,000)
<b>Property, plant &amp; equipment - net</b>	<b><u>337,000</u></b>

**Intangible assets**

Goodwill	105,000
Other intangible assets	200,000
<b>Total intangible assets</b>	<b><u>305,000</u></b>

**Other assets**

3,000

**Total assets**

**\$ 770,000**

**LIABILITIES**

**Current liabilities**

Short-term loans payable	\$ 5,000
Current portion of long-term debt	15,000
Accounts payable	20,900
Accrued compensation and benefits	8,500
Income taxes payable	6,100
Other accrued liabilities	4,000
Deferred revenues	1,500
<b>Total current liabilities</b>	<b><u>61,000</u></b>

**Long-term liabilities**

Notes payable	20,000
Bonds payable	375,000
Deferred income taxes	25,000
<b>Total long-term liabilities</b>	<b><u>420,000</u></b>

**Total liabilities**

**481,000**

**Commitments and contingencies**

**STOCKHOLDERS' EQUITY**

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	8,000
Less: Treasury stock	(50,000)
<b>Total stockholders' equity</b>	<b><u>289,000</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>\$ 770,000</u></b>

*The accompanying notes are an integral part of this statement.*

Balance Sheet

## Income Statement

### 1. Revenue

Revenue is the primary source of income for an entity, generated from the sale of goods or services.

## 2. Expenses

Expenses are costs incurred in generating revenue, classified as operating or non-operating.

## 3. Net Income (Loss)

Net income is the difference between revenue and expenses, indicating the overall profitability of the entity.

Exxon Mobil Corporation	
Condensed Consolidated Statement of Income	
(in millions of dollars)	
	Three months ending Sept 30, 2011
Revenues and other income	
Sales and other operating revenue	74,187
Income from equity affiliates	1,960
Other income	458
Total revenues and other income	<u>76,605</u>
Costs and other deductions	
Crude oil and product purchases	41,776
Production and manufacturing expenses	9,097
Selling, general and administrative expenses	2,492
Depreciation and depletion	4,654
Exploration expenses, including dry holes	292
Non-service pension and postretirement benefit expense	307
Interest expense	200
Other taxes and duties	8,303
Total costs and other deductions	<u>67,525</u>
Income before income taxes	9,080
Income taxes	2,634
Net income including noncontrolling interests	<u>6,446</u>
Net income attributable to noncontrolling interests	206
Net income attributable to Exxon Mobil	<u>6,240</u>

Investopedia

## Statement of Cash Flows

## **1. Operating Activities**

Cash inflows and outflows related to the entity's primary business operations.

## **2. Investing Activities**

Cash flows from acquiring or disposing of long-term assets or investments.

## **3. Financing Activities**

Cash flows from issuing or repaying debt or equity.

<b>EMERSON CORPORATION</b>		
<b>Statement of Cash Flows (Indirect Approach)</b>		
<b>For the Year Ending December 31, 20X5</b>		
<b>Cash flows from operating activities:</b>		
Net income		\$ 1,000,000
Add (deduct) noncash effects on operating income		
Depreciation expense	\$ 180,000	
Gain on sale of land	(150,000)	
Increase in accounts receivable	(250,000)	
Decrease in inventory	40,000	
Increase in accounts payable	70,000	
Decrease in wages payable	<u>(30,000)</u>	<u>(200,000)</u>
Net cash provided by operating activities		\$ 800,000
<b>Cash flows from investing activities:</b>		
Sale of land	\$ 750,000	
Purchase of equipment	<u>(150,000)</u>	
Net cash provided by investing activities		600,000
<b>Cash flows from financing activities:</b>		
Proceeds from issuing stock	\$ 80,000	
Dividends on common	(50,000)	
Repayment of long-term loans	<u>(900,000)</u>	
Net cash provided by financing activities		<u>(870,000)</u>
<b>Net increase in cash</b>		<b>\$530,000</b>
<b>Cash balance at January 1, 20X5</b>		<b><u>170,000</u></b>
<b>Cash balance at December 31, 20X5</b>		<b>\$ 700,000</b>
<b>Noncash investing/financing activities:</b>		
Issued preferred stock for building		<u>\$ 300,000</u>
<b>Supplemental information:</b>		
Cash paid for interest		\$ 100,000
Cash paid for income taxes		300,000

Statement of Cash Flows

## Financial Analysis

### 1. Liquidity Ratios

Measure an entity's ability to meet short-term obligations.



## **2. Solvency Ratios**

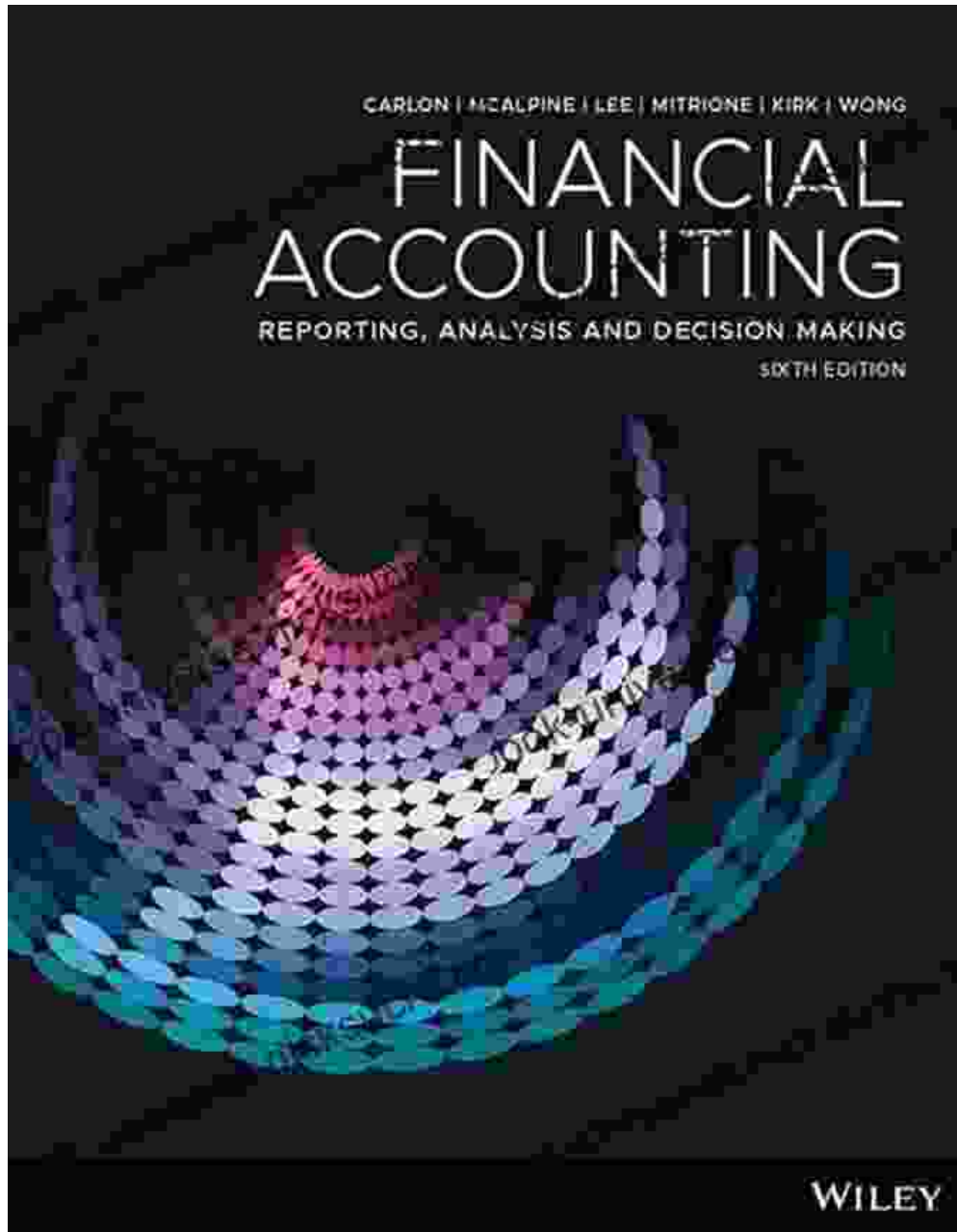
Assess an entity's long-term financial health and ability to repay debt.

## **3. Profitability Ratios**

Evaluate an entity's profitability and efficiency.

## **4. Market Value Ratios**

Compare an entity's market value to its financial performance.



## **Auditing**

### **1. Internal Audit**

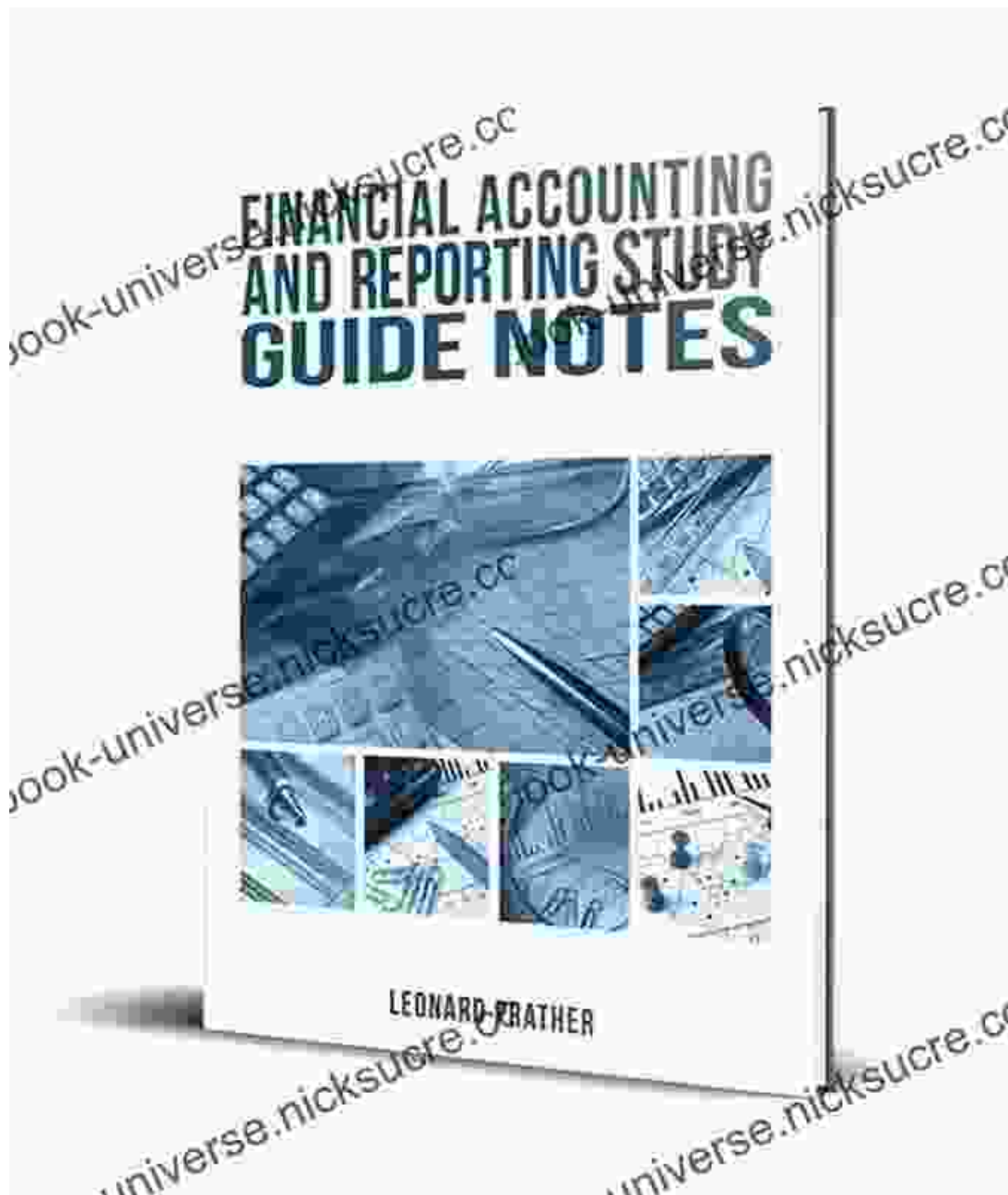
An independent review of an entity's accounting system and internal controls.

### **2. External Audit**

An independent examination of an entity's financial statements by a certified public accountant.

### 3. Audit Reports

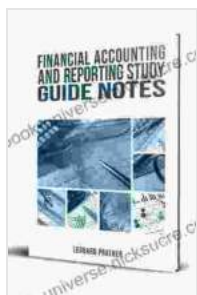
Opinions issued by auditors expressing their findings and s.



Financial accounting and reporting are essential for providing transparent and reliable financial information to various stakeholders. By mastering the concepts, principles, and practices outlined in these study guide notes, you can gain a comprehensive understanding of financial statements, perform financial analysis, and contribute to the decision-making process in business and finance.

## Additional Study Resources

- Additional Study Resources for Financial Accounting and Reporting
- Online Courses and Certifications in Financial Accounting
- Professional Organizations for Accountants



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