

Accounting I



2ND CLASS GOALS AND MAIN CONCEPTS OF FINANCIAL ACCOUNTING FINANCIAL STATEMENTS



Enterprise value



Set of elements (assets and liabilities) subject to management and assigned to a particular purpose.

Composition:
nature of the elements: Assets, Liabilities and Shareholder's Equity

Value:
Value of the Assets minus value of the Liabilities



Patrimony



When looking at the patrimony we should consider:

(a) Composition = nature of elements
Constitutive (Assets and Liabilities)

(b) Value (Assets – Liabilities)



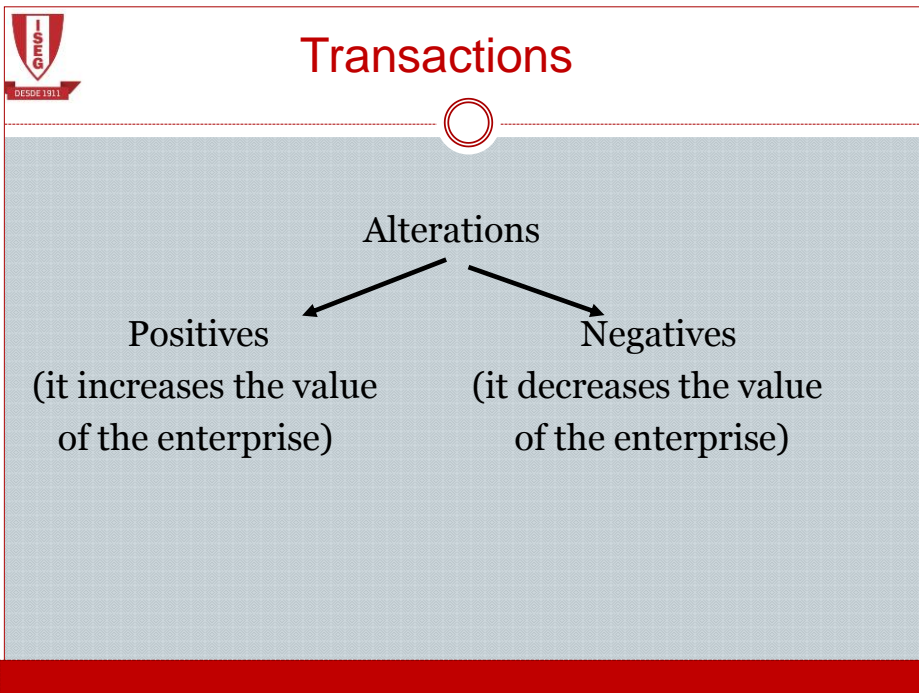
Transactions



All the events that changes the value and/or composition of the enterprise value.


Permutations ⇒ It changes the composition of the elements of the firm, but not the value of the enterprise

Alterations ⇒ It changes the composition of the elements of the firm, and also the value of the enterprise




The diagram is titled "Patrimony – fact sheet" in red text at the top center. Below the title is a red circle. The main content is on a light blue background with a grid pattern. At the top of this section is the logo of the institution, which includes a shield with the letters "I" and "G" and the text "DESDE 1911". Below the logo is the title "Patrimony – fact sheet". A bulleted list follows:

- It is a fact sheet any occurrence involving changes in the firm composition and/or value
- Qualitative or permutation fact sheets ⇒ variation in the composition of the patrimony, but not in its value.
- Quantitative or modifying fact sheets ⇒ variation in the composition and value of the patrimony.




Financial Statements

The objective of financial reports is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions



Financial Statements


1. Statement of financial position (***balance sheet***) at the end of the period
2. ***Statement*** of comprehensive ***income*** for the period (or an income statement and a statement of comprehensive income)
3. ***Statement*** of ***changes*** in ***equity*** for the period
4. ***Statement*** of ***cash flows*** for the period
5. **Notes**



Financial Statements

- **Recognition of the elements of the financial statements:**
 - **Asset** is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.
 - **Liability** is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.


See Conceptual Framework



Financial Statements


- **Definition of the elements of financial statements:**
 - **Related with performance**
 - **Income** is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants
=> *Revenue and gains*
 - **Expenses** are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
=> *Expenses and losses*

See Conceptual Framework

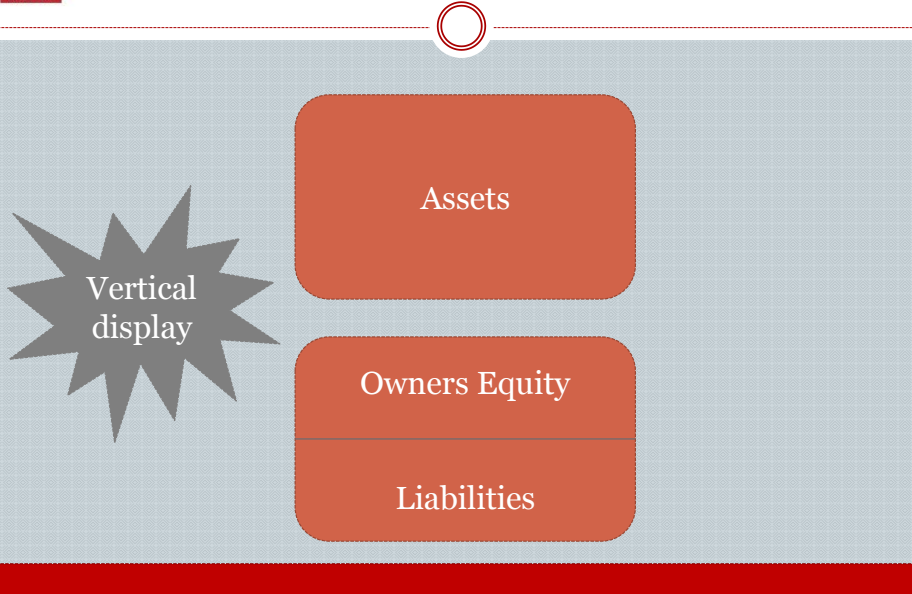


Balance sheet

- The balance sheet (also called the statement of financial position) shows the financial status of a company at a particular instant in time
- The left side lists the resources of the firm (investment)
- The right side lists the claims against those resources (funding)



Balance Sheet




Vertical display

Assets

Owners Equity

Liabilities




Balance sheet

Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity}$$

Assets > Liabilities \Rightarrow Owners equity > 0
 Assets < Liabilities \Rightarrow Owners equity < 0
 Assets = Liabilities \Rightarrow Owners equity = 0



Balance sheet

Equation of accounting

$$\text{Assets} = \text{Liabilities} \pm \text{Owners equity}$$

$$\text{Assets} - \text{Liabilities} = \pm \text{Owners Equity}$$

Determinant Determinant Resultant



Expanded Balance Sheet Equation

(1) **Assets = Liabilities + Stockholders' Equity**

(2) **Assets = Liabilities + Paid-in Capital + Retained Earnings**

(3) **Assets = Liabilities + Paid-in Capital + Revenues - Expenses**



Classified Balance Sheet

- A **classified balance sheet** further groups asset, liability, and owners' equity accounts into subcategories
- Assets are classified into two groups:
 - **Noncurrent** (or long-term) assets
 - **Current assets**
- Liabilities are classified into
 - **Noncurrent** (or long-term) liabilities
 - **Current liabilities**




Classified Balance Sheet

- **Current assets** are cash and other assets that a company expects to convert to cash, sell, or consume during the next 12 months (or within the normal operating cycle if longer)
- Current assets are listed in the order in which they are likely to be converted to cash during the coming year
- In Portugal, with SNC: Assets presented in order of liquidity (less liquid to more liquid).




Classification of assets

- Fixed tangible assets
- Intangible assets
- Investment Properties
- Financial investments
- Inventories
- Biological Assets
- Accounts receivable
- Bank deposits
- Cash



Liabilities

- **Current liabilities** are those that come due within the next year (or within the operating cycle if longer)
- **Non-current liabilities** are those that come due not earlier than 12 months after the balance sheet reporting.



Classification of Liabilities

- Provisions
- Loans obtained
- Deferred taxes
- Accounts payable

In Portugal, with SNC: Liabilities are presented in order of decreasing maturity (from the largest maturity to the smallest).



Owners Equity



- Represents the position of the owners of the firm
- The values are ordered according to the historical formation

Related topic:

- *Difference between book value and market value.*