Accounting I

11TH CLASS
FINANCING ACTIVITIES
OBTAINED FINANCING
EQUITY

Financing Activities

Firms can be financed through:

- Debt → Liability (financing)
- Equity Instruments → Equity

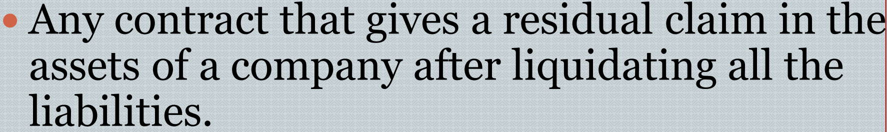
Debt

a) Obligation that comes from a contract to:

- (i) pay money or other financial instrument to another entity; or
- (ii) trade financial assets or liabilities with another entity in terms that are unfavorable to the entity; or

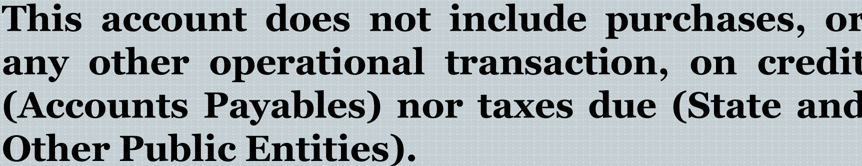
b) Contract that can be liquidated with equity instruments (e.g. stocks) from the company and that has the characteristics of financing liabilities.

Equity Instrument



- Any contract that gives a residual claim in the assets of a company after liquidating all the liabilities.

Loans obtained



This account does not include purchases, or any other operational transaction, on credit (Accounts Payables) nor taxes due (State and Other Public Entities).

The origin of the loan can come from:

- Banks and other financial institutions;
- Financial market (bonds);
- Shareholders;
- Participated companies – associate companies, joint ventures;
- Others.

CAPITAL

- Increases of capital should only be recognized when and only when the owners have contributed with the assets to realize their part in the company. The assets should be measured at fair value
- Capital issued but not realized should not be recognized in the balance sheet. Only after realized, can capital be recognized in the balance sheet.
- All the expeditures supported to increase capital should be directly deducted to equity.

CAPITAL

When capital is divided in stocks it's important to distinguish 3 different concepts for each stock:

- **Nominal value:** amount written in the stock (Capital/n. of stocks).
- **Book value:** equity value of the stock
  Equity/ n. of stocks
- **Market Value**: value for which each stock can be sold/purchased. This value can be found in the capital market for publicly traded companies.