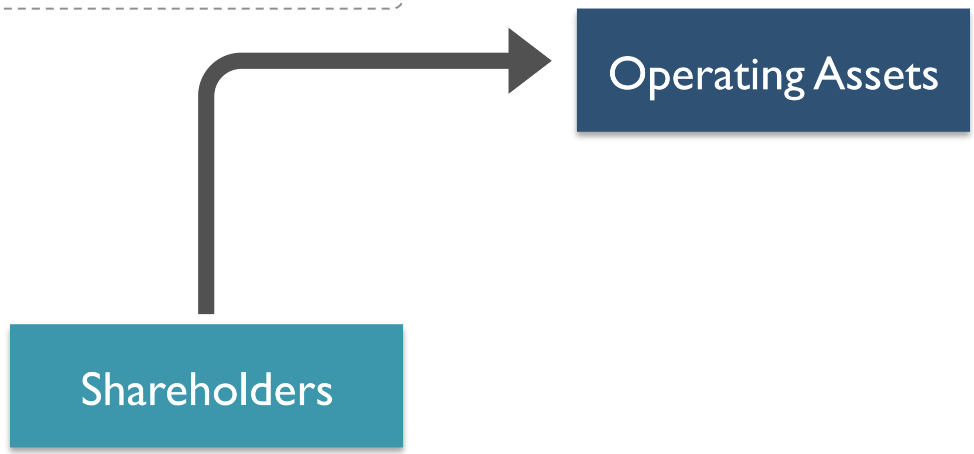
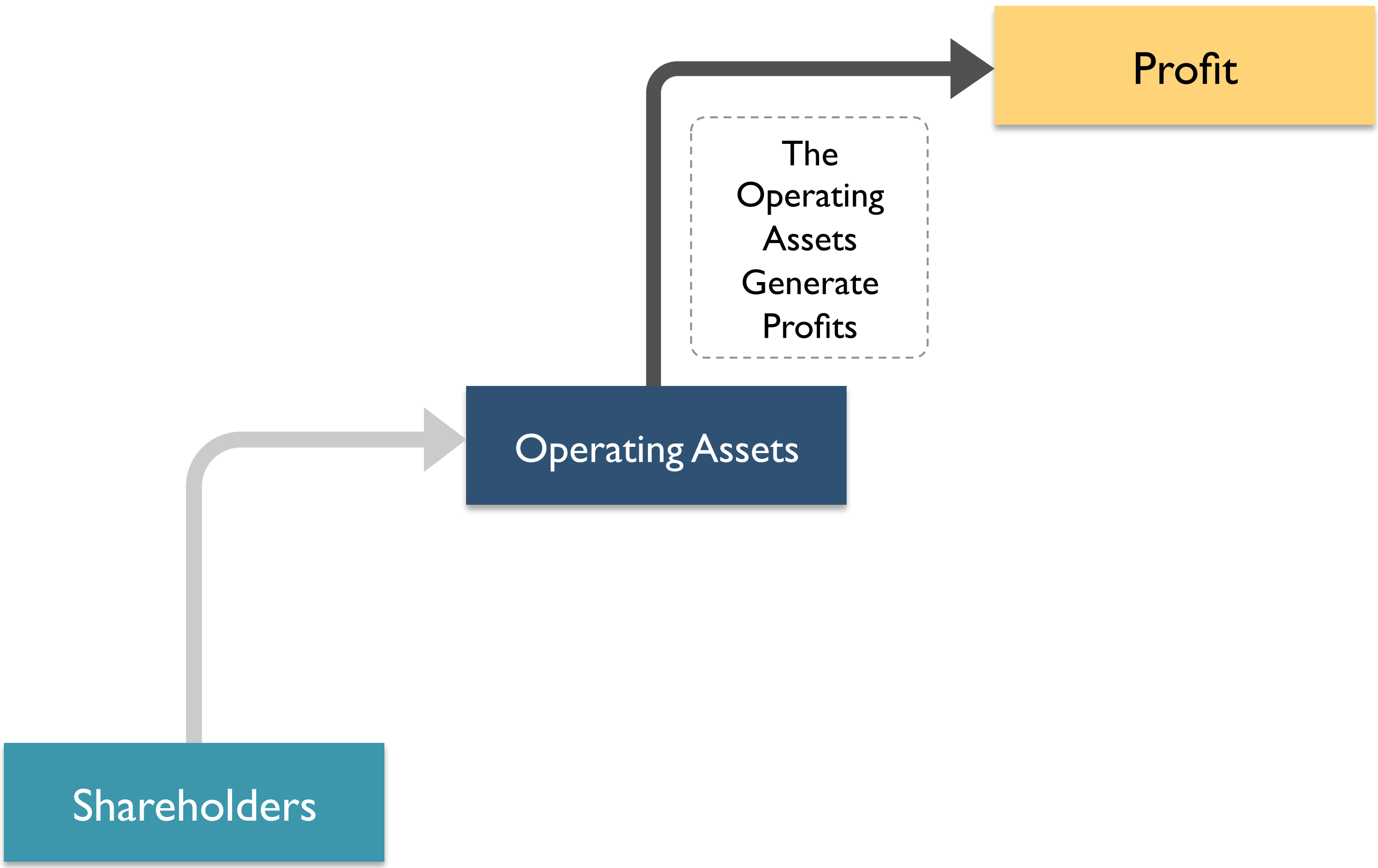
Introduction to Accounting

The Business Cycle

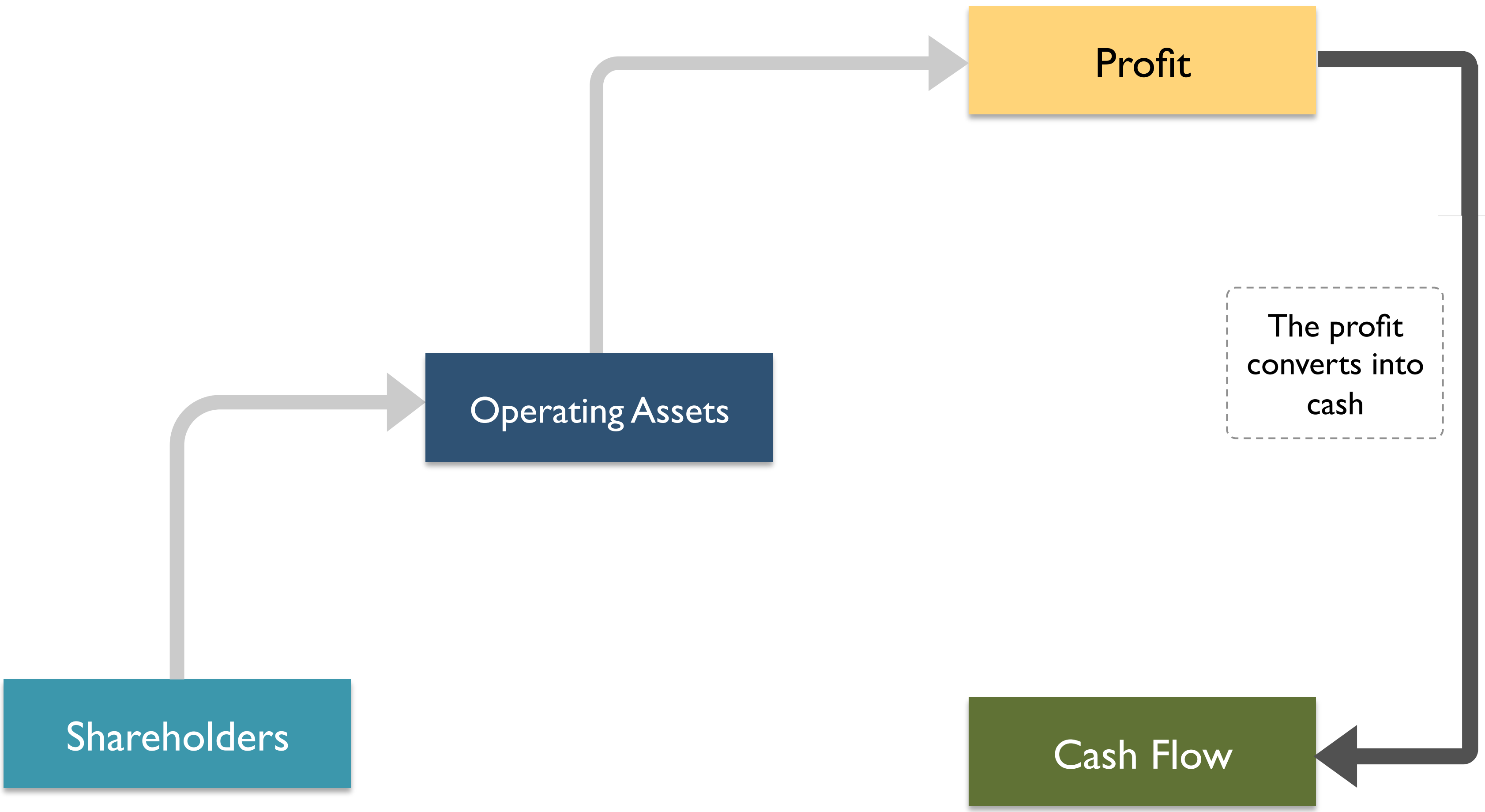
Shareholders invest in a business. It uses the funds to buy resources to operate



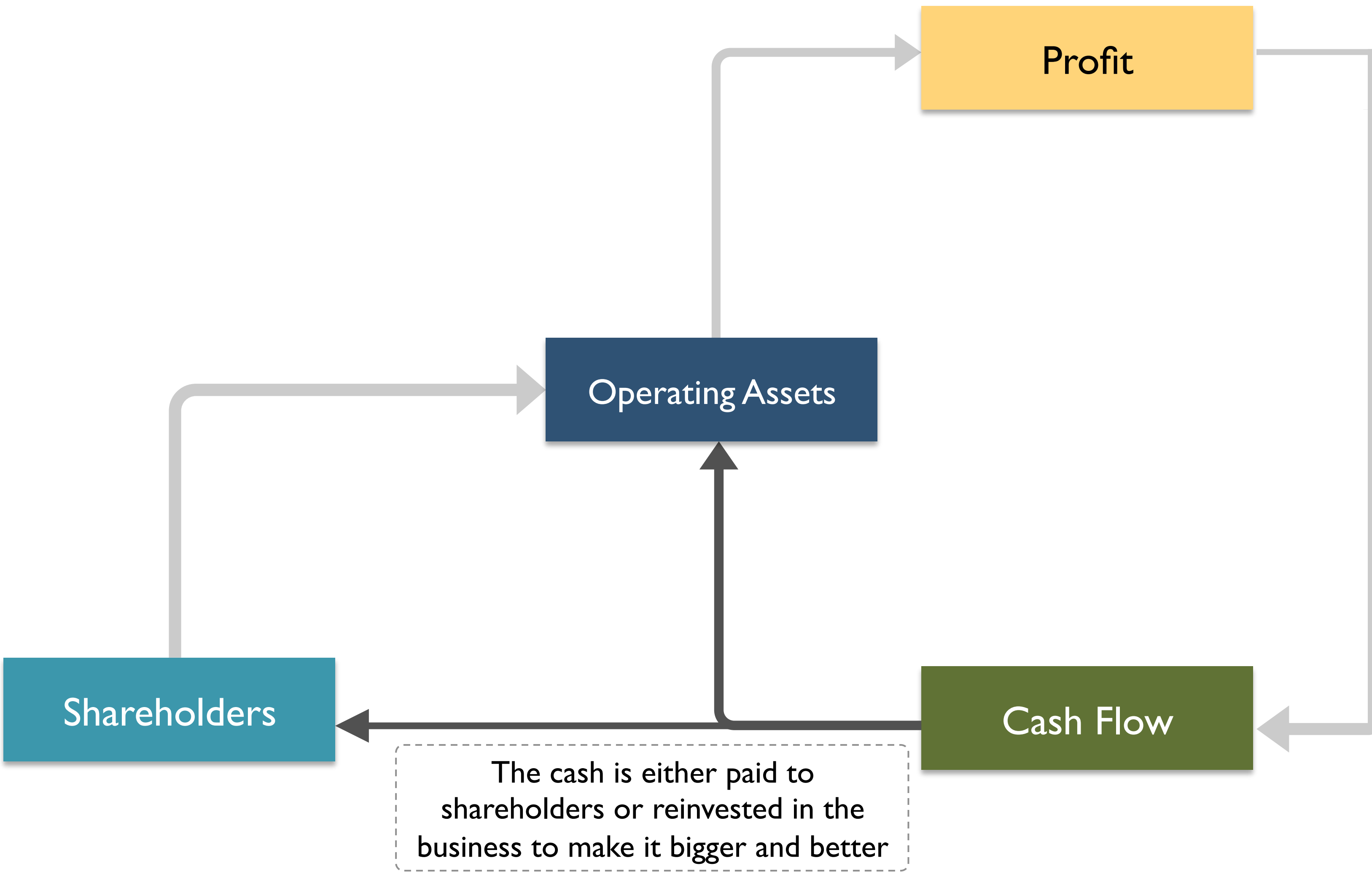
The Business Cycle



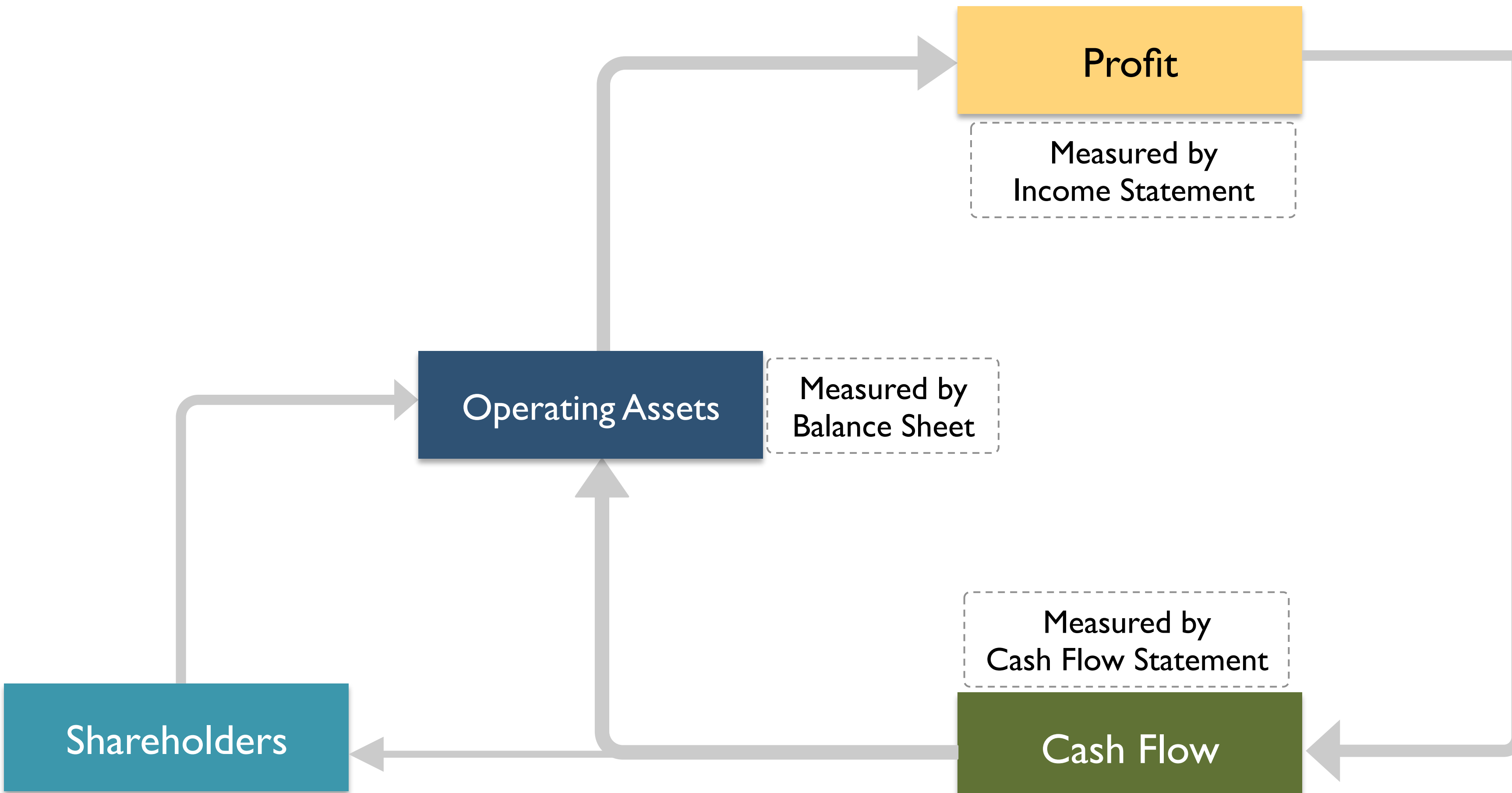
The Business Cycle



The Business Cycle



The Business Cycle and Accounting



The Three Key Financial Statements

Income Statement	Balance Sheet	Cash Flow Statement
▪ For the Period Statement	▪ At the Period-end Statement	▪ For the Period Statement
▪ Sales ▪ Expenses ▪ Profits	▪ Assets ▪ Liabilities ▪ Shareholders Equity	▪ Cash In ▪ Cash Out

The Three Key Financial Statements

The Income Statement links to the Balance Sheet via Retained earnings

The Cash Flow Statement links to the Balance Sheet via Cash!

The Income Statement

Sales	x
Cost of Goods Sold (CoGS)	(x)
Gross Profit	x
Sales, General and Admin Expenses (SG&A)	(x)
Operating Profit (EBITDA)	x
Depreciation & Amortization	(x)
Operating Profit (EBIT)	x
Interest Cost	(x)
Profit Before Tax (PBT)	x
Tax	(x)
Profit After Tax (PAT)	x

Cost of Making / buying your product

The Income Statement

Sales	x	
Cost of Goods Sold (CoGS)	(x)	Cost of Making / buying your product
Gross Profit	x	
Sales, General and Admin Expenses (SG&A)	(x)	Cost of Supporting the business
Operating Profit (EBITDA)	x	
Depreciation & Amortization	(x)	
Operating Profit (EBIT)	x	
Interest Cost	(x)	
Profit Before Tax (PBT)	x	
Tax	(x)	
Profit After Tax (PAT)	x	

The Income Statement

Sales	x		
Cost of Goods Sold (CoGS)	(x)	→	Cost of Making / Buying Your Product
Gross Profit	x		
Sales, General and Admin Expenses (SG&A)	(x)	→	Cost of Supporting the Business
Operating Profit (EBITDA)	x		
Depreciation & Amortization	(x)	→	Transfer of CapEx for Use of Assets
Operating Profit (EBIT)	x		
Interest Cost	(x)		
Profit Before Tax (PBT)	x		
Tax	(x)		
Profit After Tax (PAT)	x		

The Income Statement

Sales	x		
Cost of Goods Sold (CoGS)	(x)	→	Cost of Making / Buying Your Product
Gross Profit	x		
Sales, General and Admin Expenses (SG&A)	(x)	→	Cost of Supporting the Business
Operating Profit (EBITDA)	x		
Depreciation & Amortization	(x)	→	Transfer of CapEx for Use of Assets
Operating Profit (EBIT)	x		
Interest Cost	(x)	→	Cost of Financing the Business
Profit Before Tax (PBT)	x		
Tax	(x)		
Profit After Tax (PAT)	x		

The Income Statement

Sales	x		
Cost of Goods Sold (CoGS)	(x)	→	Cost of Making / Buying Your Product
Gross Profit	x		
Sales, General and Admin Expenses (SG&A)	(x)	→	Cost of Supporting the Business
Operating Profit (EBITDA)	x		
Depreciation & Amortization	(x)	→	Transfer of CapEx for Use of Assets
Operating Profit (EBIT)	x		
Interest Cost	(x)	→	Cost of Financing the Business
Profit Before Tax (PBT)	x		
Tax	(x)	→	Paying the Government
Profit After Tax (PAT)	x		

Balance Sheet

Assets	=	Liabilities	+	Equity
▪ Long Term Assets		▪ Long Term Liabilities		▪ Shareholders' Fund
▪ Current Assets		▪ Current Liabilities		

Balance Sheet

Assets	=	Liabilities	+	Equity

Assets

- Long Term Assets
  - ✓ Property (PP&E)
  - ✓ Plant (PP&E)
  - ✓ Equipment (PP&E)
  - ✓ Investments
- Current Assets
  - ✓ Inventories
  - ✓ Receivables
  - ✓ Cash

Liabilities

- Long Term Liabilities
- Current Liabilities

Equity

- Shareholders' Fund

Balance Sheet

Assets	=	Liabilities	+	Equity

Assets

- Long Term Assets
  - ✓ Property (PP&E)
  - ✓ Plant (PP&E)
  - ✓ Equipment (PP&E)
  - ✓ Investments
- Current Assets
  - ✓ Inventories
  - ✓ Receivables
  - ✓ Cash

=

Liabilities

- Long Term Liabilities
  - ✓ Long Term Debt
  - ✓ Provisions
  - ✓ Employee Benefits
- Current Liabilities
  - ✓ Creditors
  - ✓ Short Term Loans
  - ✓ Taxes Payable

+

Equity

- Shareholders' Fund

Balance Sheet

Assets

- **Long Term Assets**
  - ✓ Property (PP&E)
  - ✓ Plant (PP&E)
  - ✓ Equipment (PP&E)
  - ✓ Investments
- **Current Assets**
  - ✓ Inventories
  - ✓ Receivables
  - ✓ Cash

=

Liabilities

- **Long Term Liabilities**
  - ✓ Long Term Debt
  - ✓ Provisions
  - ✓ Employee Benefits
- **Current Liabilities**
  - ✓ Creditors
  - ✓ Short Term Loans
  - ✓ Taxes Payable

+

Equity

- **Shareholders' Fund**
  - ✓ Common Stock
  - ✓ Securities Premium
  - ✓ Retained Earnings

Cash Flow Statement

Cash In - Cash Out = Cash Flow For The Period

Cash Flow Statement

Cash In − Cash Out = Cash Flow For The Period

- Sales
- Share Issue
- New Loans

Cash Flow Statement

Cash In − **Cash Out** = **Cash Flow For The Period**

- Sales
- Share Issue
- New Loans

- Expenses
- Assets Purchase *(CapEx)*
- Tax Payments
- Repayment of Capital

Cash Flow Statement

Cash In	-	Cash Out	=	Cash Flow For The Period

Cash In

- Sales
- Share Issue
- New Loans

Cash Out

- Expenses
- Assets Purchase *(CapEx)*
- Tax Payments
- Repayment of Capital

Cash Flow For The Period

- Beginning cash

+/-

- Cash flow for the period

=

- Ending cash

Cash Flow Statement

Cash In	-	Cash Out	=	Cash Flow For The Period

- Cash flows are often organized into three types:
  - ✓ Operating cash flows
  - ✓ Investing cash flows
  - ✓ Financing cash flows

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