

what happen to world business:

- blackberry come out
- super
- last day to use penny

RSM100

Accounting II

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Learning Objectives

1. Explain the accounting equation
2. Describe basic principles of financial accounting
3. Understand why companies 'cook the books'
4. Analysis of Apple's Financial Statements

review: what is an audit?

- make sure # is correct

- auditor are not related to company, if accounting do it, the result would have bias. 2

Difference btw public & private company?

Public: public traded

private is not

Accounting Equation: An Overview

Assets = Liabilities + Equity

OR

The value of what we own = the money
invested in the business
(other people's \$ + our \$)

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Cost Principle

- Assets or services should initially be recorded at their actual cost

why we have this principle?

- work for different ppl

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Clicker: Mike bought iPhones on December 22, the items were delivered December 30. They will pay for the items on January 15. when do we need record revenue?

A: December 30. cause that day is the date the item change hand. when the hand has changed, we should record revenue.

Revenue Recognition

- Revenue should be recorded when it has been earned

- But what does ' earned ' mean?
- How does this differ from the cash basis of accounting?

what does earned mean?

- when the sale is made

- revenue show up on income statement - when the ownership has changed (ie. when u stole my PC)

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why company not want to show high income?

- for taxes purpose

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Matching Principle

- expense should be matched with revenue – i.e. recognized in the same period that related revenue is recorded

reduce expense... increase income, that's they cook the book

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Clicker: a company with a December 31st year end has paid the following year's rent on December 31, 2012. When will the expense be recognized?

A: December 31, 2013.

record the expense when you benefit from it. 2013 is the benefit year.

prepare income statement: record sales and services
 cash flow: only consider cash

cash flow:
 from invest activities
 finance, operation activities

Causes for Differences Between Net income and Cash Flow

- o non-cash items related to accrual basis of accounting
 - o amortization (depreciation)
 - o Accrued interest
 - o Sales made where cash payment have not been received
 - o Payments made for prepaid that haven't been " incurred "

Activity:

why do ppl cook the books?

- attain the financing
- decrease share prices
- obtain higher loan
- lower the tax they have to pay (decrease revenue, increase expense)

how do ppl cook the books?

- included unnecessary cost
- manipulate inventory value
- use cash basis accounting
- move around the period of transaction (expense or revenue)

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Annual Report

- What is an annual report?
include financial statement, analysis.
- Readers/users questions

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How to Read a Corporate Annual Report

- Read management's discussion of changes in operations. Try to identify strengths or weaknesses.
- Review the firm's consolidated balance sheet. (Its assets, liabilities, and owners' equity.)
- Analyze the year. Look beyond the year. (Sales drops can spell trouble.)
- Review the statement cash flows.
- Review auditor's opinion.



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Apple Financial Results

- Apple Financial Results
- Financial Statements
 - Balance Sheet
 - Income Statement (Statement of Operations)
 - Cast Flow Statement (Statement of Cash Flows)



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Questions?

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