Financial Accounting

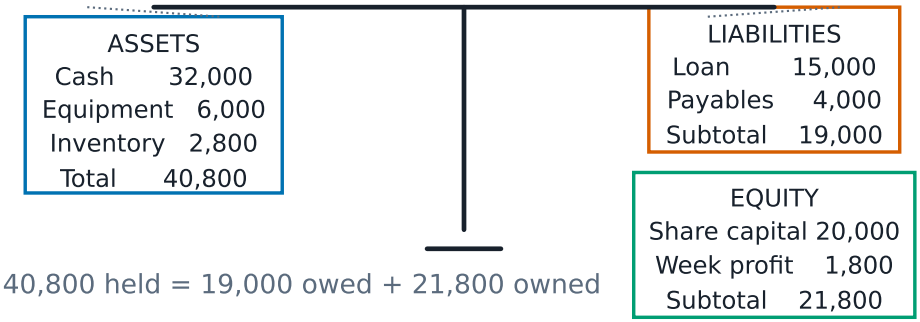
Curated undergraduate study track (not accredited, no external exam). Original explanations and practice only, following the reviewed course handout.

The language of trust

- Course 1 built the vocabulary of business; this course builds the statements a stranger can trust.
- Every number machine-verified: the balance sheet ties because the arithmetic has no other choice.

The accounting equation and elements: a level scale

Assets = Liabilities + Equity, one week in



40,800 held = 19,000 owed + 21,800 owned: one company, two lists.

From five transactions to a tying balance sheet

1. **Post** Cash 32,000 + equipment 6,000 + inventory 2,800 = 40,800 of assets.
2. **Claims** Loan 15,000 + payables 4,000 = 19,000; capital 20,000 + profit 1,800 = 21,800.
3. **Tie** 19,000 + 21,800 = 40,800 - the equation leaves no freedom.

Double entry and ledgers: debits left, credits right

The week posted: debits left, credits right

Cash	
20,000	6,000
15,000	
3,000	
38,000	**6,000**

Equipment	
6,000	
6,000	**0**

Inventory	
4,000	1,200
4,000	**1,200**

Cost of sales	
1,200	
1,200	**0**

Loan	
	15,000
0	**15,000**

Payables	
	4,000
0	**4,000**

Share capital	
	20,000
0	**20,000**

Revenue	
	3,000
0	**3,000**

Trial balance: Dr 32,000 + 6,000 + 2,800 + 1,200 = 42,000
= Cr 15,000 + 4,000 + 20,000 + 3,000 = 42,000

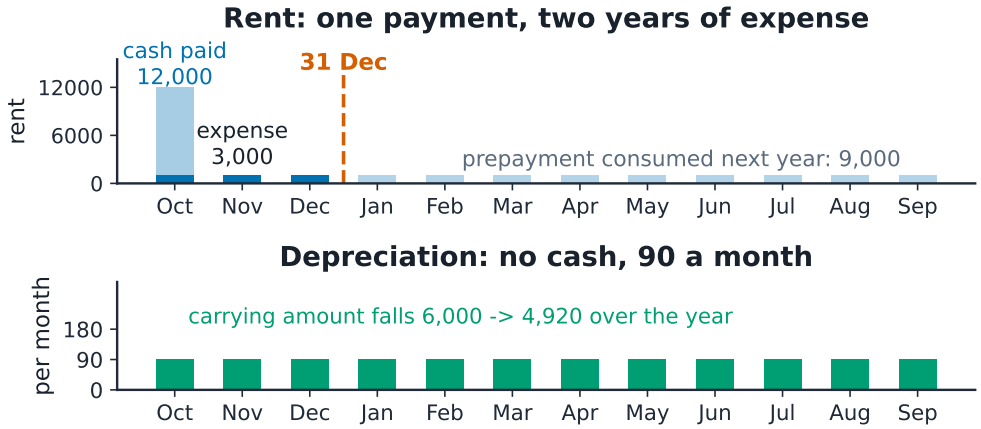
The week posted to six T-accounts; the **trial balance** ties at 42,000.

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Trial balance: the errors it catches - and the ones it cannot

1. **Transposition** 3,100 posted as 1,300: difference 1,800 = 9 x 200 - go hunt swapped digits.
2. **One-sided** A purchase never posted: the difference equals the missing pair.
3. **Invisible** Wages 52,000 posted twice: still ties, profit understated - caught only by reconciliation.

Accruals and adjustments: two timetables



Rent: cash in October, **expense** spread; **depreciation**: expense, no cash.

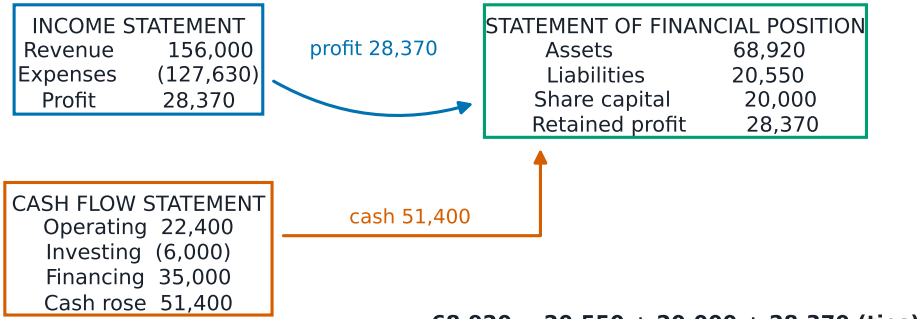
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The year-end set that builds the profit

1. **Profit** 156,000 - 62,400 - 52,000 - 3,000 - 8,000 - 1,080 - 250 - 900 = 28,370.
2. **Carrying** Equipment 6,000 - 1,080 = 4,920 on the balance sheet.
3. **Trap** Wages stated as 52,000 with 400 unpaid: the **accrual** adjusts cash, not the **expense** - double-counting costs exactly 400.

Financial statements: one profit, one cash

One profit, one cash: the statements close against each other



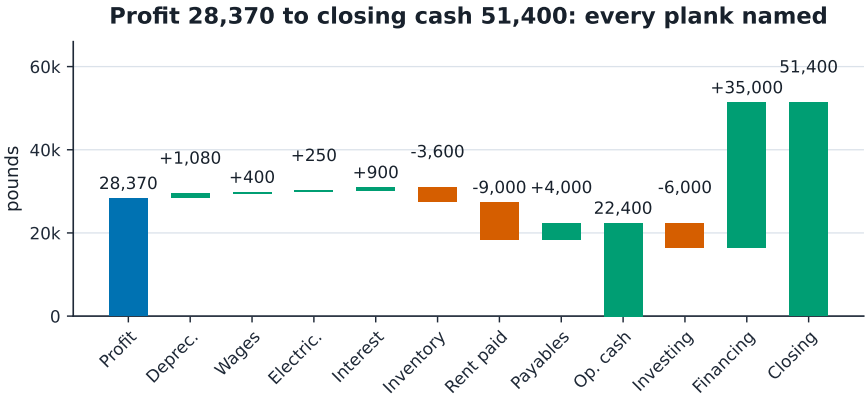
68,920 = 20,550 + 20,000 + 28,370 (ties)

Profit flows to equity; closing cash lands on the balance sheet.

The balance sheet that closes to the penny

1. **Liabilities** Loan 15,000 + payables 4,000 + wages 400 + electricity 250 + interest 900 = 20,550.
2. **Equity** Capital 20,000 + retained 28,370 = 48,370.
3. **Tie** 20,550 + 48,370 = 68,920 - machine-verified.

Cash flow statements: the bridge from profit



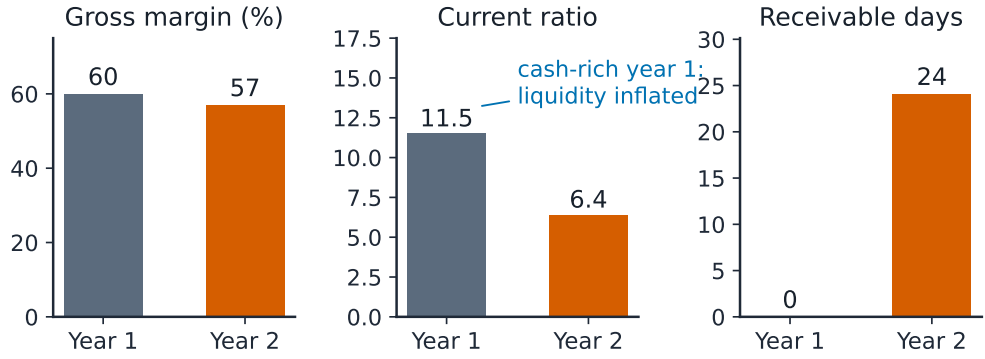
Profit 28,370 bridges to closing cash 51,400, every plank named.

The bridge, plank by plank

1. **Operating** 28,370 + 1,080 + 1,550 - 3,600 - 9,000 + 4,000 = 22,400.
2. **Then** Investing -6,000 (the oven); financing +35,000 (shares and loan).
3. **Close** 22,400 - 6,000 + 35,000 = 51,400 = the balance sheet cash line.

Ratios and their limits: windows that frame

Every ratio is a window - and windows frame what they show



Margin 60% to 57%, **current ratio** 11.5 to 6.4: year 1 is distorted.

The year-2 read, computed honestly

1. **Margins** Gross (182,000 - 78,300)/182,000 = 57.0%; operating 30,100/182,000 = 16.5%.
2. **Working** Receivable days 12,000/182,000 x 365 = 24.1 - on the 24-day term; inventory 20.5.
3. **Funding Gearing** 10,000/68,470 = 14.6%; ROE still distorted by the founders small stake.

Check yourself

- Equation: assets 40,800, liabilities 19,000 - equity? (21,800.)
- Diagnostic: a **trial balance** differs by 1,800 - first move? (Divide by 9.)
- Bridge: profit 28,370 to operating 22,400 - the biggest plank? (Prepaid rent 9,000.)