



BACHELOR of ECONOMICS



**Thammasat University
Faculty of Economics
Bachelor of Economics (International Program)**

AC201 Fundamental Accounting

Semester 1/2013

Course Materials

Topic:

Chapter 1 Financial Statements and
Business Decisions

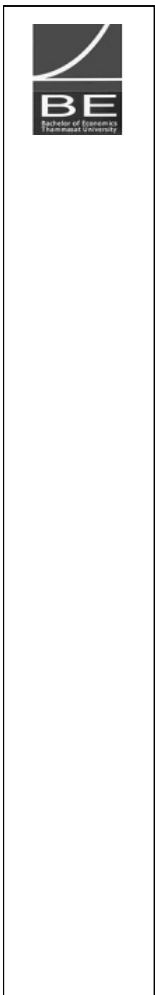
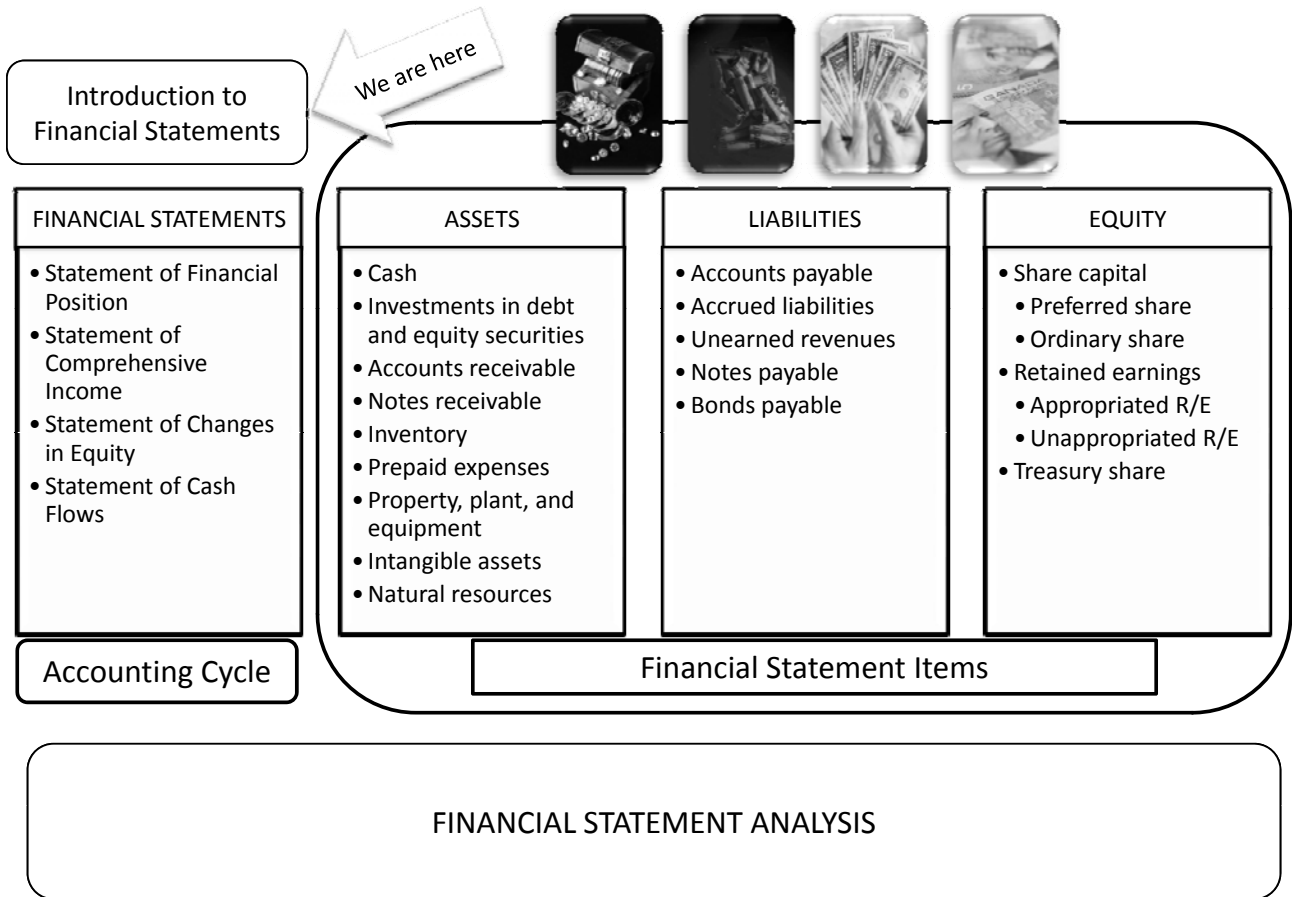
Session:

Sessions #1

Instructor:

Ajarn Santana Singhasaneh





AC201 Fundamental Accounting



BACHELOR
of **ECONOMICS**



CHAPTER 1:
FINANCIAL STATEMENTS
AND BUSINESS DECISIONS

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Department of Accounting
Thammasat Business School
Thammasat University



Understanding the Business



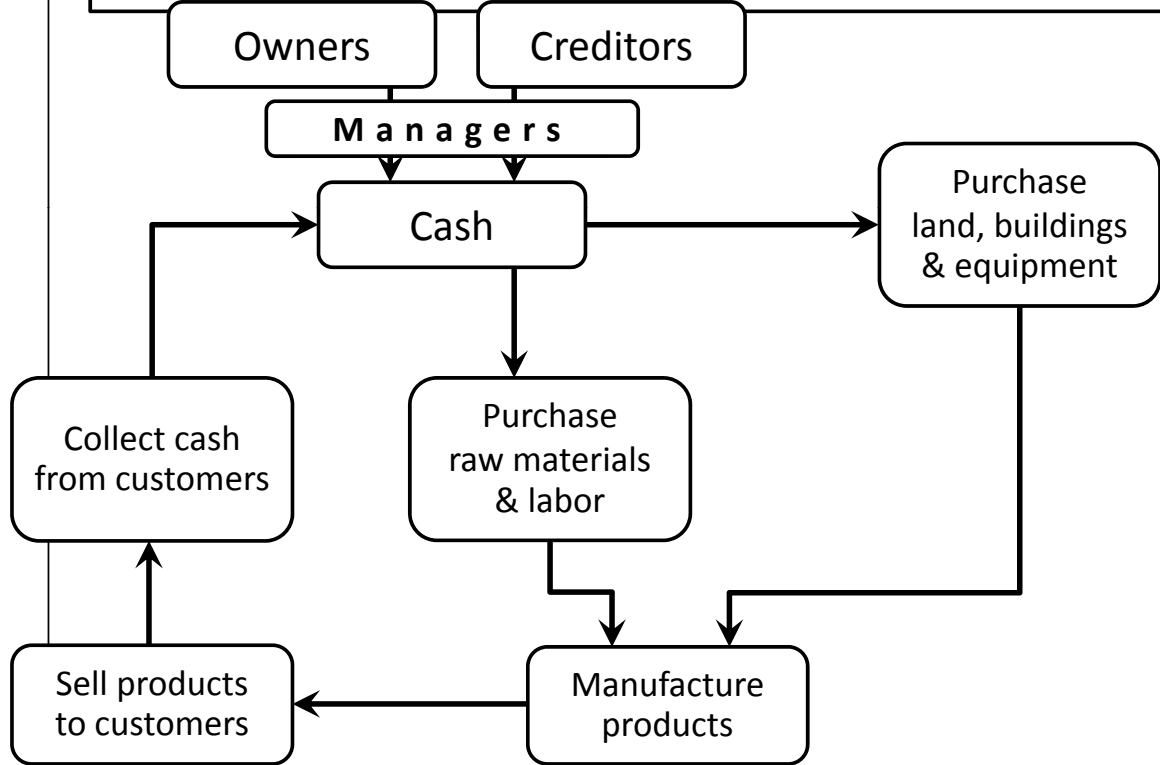
Understanding the Business

How does President Bakery run its business ?





Understanding the Business



The Accounting System

Accounting is the a system that collects and processes (analyzes, measures and records) financial information about the organization and reports that information to decision makers.



Collects and processes financial information

Reports information to decision makers



Managers (internal decision makers)



Investors and Creditors (external decision makers)



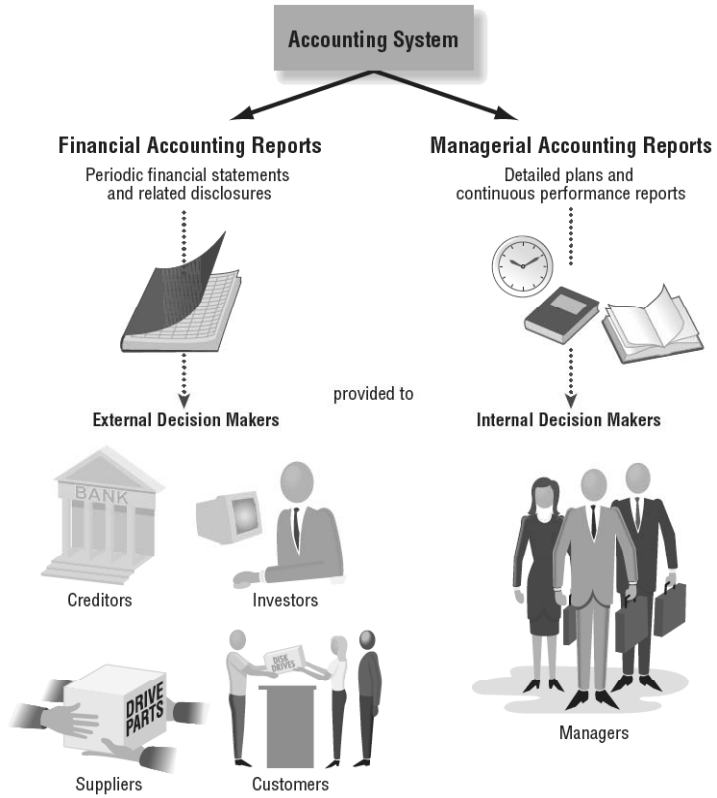
The Accounting System

Two parts of the accounting system:

- **Financial accounting**
 - Financial accounting generate reports and communicates them to **external decision makers** so that can evaluate how well the business has achieved its goal.
- **Management accounting**
 - Management accounting provides **internal decision makers** who are charged with achieving the goals of profitability and liquidity with information about financing , investing, and operating activities.



The Accounting System





Annual Report

- **Annual report is a document that summarizes the results of operations and financial status of a company for the past year and outlines plans for the future.**
 - Management Discussion & Analysis
 - Financial Statements
 - Report of Management
 - Report of Independent Auditors
 -



002 รายงานประจำปี 2555 บริษัท เพรดิเออรี่ เนมอร์ จำกัด (มหาชน)

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The Components of Financial Statements



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The Components of Financial Statements

- A complete set of financial statements should include:
 - Statement of **Financial Position** or Statement of Financial Position at the end of the period,
 - Statement of **Comprehensive Income** for the period,
 - Statement of **Changes in Equity** for the period
 - Statement of **Cash Flows** for the period, and
 - **Notes**, comprising a summary of accounting policies and other explanatory notes.

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The Four Basic Financial Statements

1. **BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)** – reports the amount of assets, liabilities, and stockholders' equity of an accounting entity at a point in time.
2. **INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME)** – reports the revenues less the expenses of the accounting period.
3. **STATEMENT OF RETAINED EARNINGS (STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY)** – reports the way that net income and distribution of dividends affected the financial position of the company during the accounting period.
4. **STATEMENT OF CASH FLOWS** – reports inflows and outflows of cash during the accounting period in the categories of operating, investing, and financing.

* Names of the financial statements according to Thai Financial Reporting Standards (TFRS) in parentheses

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The Four Basic Financial Statements

Statement of Financial Position	
Cash	\$4,895
Other assets	22,366
Total assets	\$27,261
Liabilities	\$16,156
Contributed Capital	2,000
Retained earnings	9,105
Total liabilities and equity	\$27,261

Statement of Cash Flows	
Cash flows from operating activities	\$1,069
Cash flows from investing activities	(1,625)
Cash flows from financing activities	400
Change in cash	(156)
Beginning cash balance	5,051
Ending cash balance	\$4,895

Statement of Income	
Revenues	\$37,436
Expenses	34,136
Net income	\$3,300

Statement of Retained Earnings	
Beginning retained earnings	\$6,805
Net income	3,300
Dividends	(1,000)
Ending retained earnings	\$9,105

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Statement of Financial Position (Balance Sheet)



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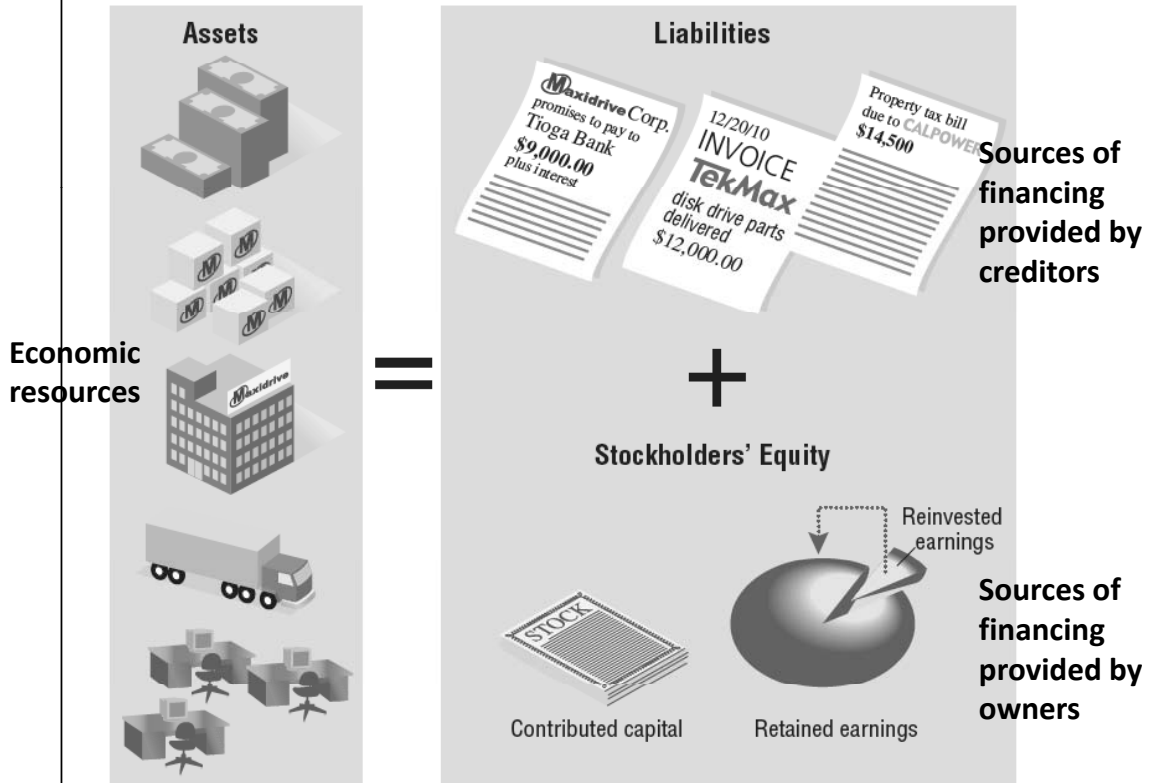
Statement of Financial Position

- The elements directly related to financial position (Balance Sheet or Statement of Financial Position) are:
 - **Assets**
 - An asset is a resource controlled by the enterprise as a result of past events and from which **future economic benefits** are expected to flow to the enterprise.
 - **Liabilities**
 - A liability is a present **obligation** of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.
 - **Equity**
 - Equity is the **residual interest** in the assets of the enterprise after deducting all its liabilities.

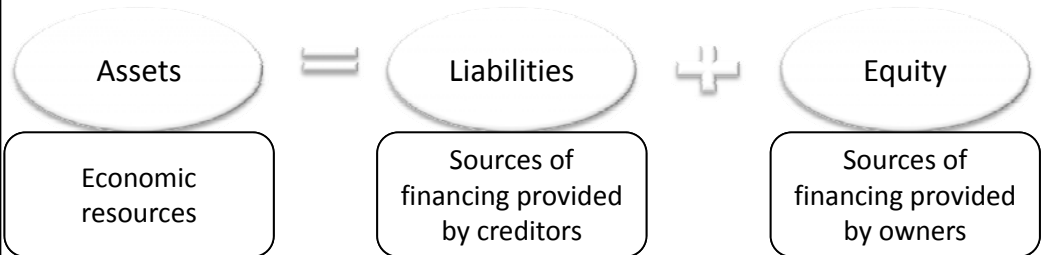
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The Accounting Equation



The Accounting Equation





Statement of Financial Position

Typical Account Titles

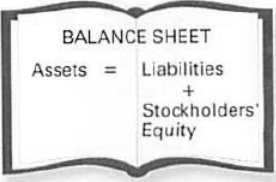
<p><u>Assets</u></p> <ul style="list-style-type: none"> Cash Short-Term Investment Accounts Receivable Notes Receivable Inventory (to be sold) Supplies Prepaid Expenses Long-Term Investments Equipment Buildings Land Intangibles 	<p><u>Liabilities</u></p> <ul style="list-style-type: none"> Accounts Payable Accrued Expenses Notes Payable Taxes Payable Unearned Revenue Bonds Payable
	<p><u>Stockholders' Equity</u></p> <ul style="list-style-type: none"> Contributed Capital Retained Earnings



Statement of Financial Position

Assets are arranged based on their liquidity level (Ease of conversion to cash)

Liabilities are presented based on the maturity or due dates.



BODDINGTON LIMITED	
Balance Sheet	
At December 31, 2010	
(in thousands of dollars)	
Assets	
Cash	\$ 4,895
Accounts receivable	5,714
Inventories	8,517
Plant and equipment	7,154
Land	981
Total assets	\$27,261
Liabilities	
Accounts payable	\$ 7,156
Notes payable	9,000
Total liabilities	16,156
Stockholders' Equity	
Contributed capital	2,000
Retained earnings	9,105
Total stockholders' equity	11,105
Total liabilities and stockholders' equity	\$27,261



Classified Statement of Financial Position

- An entity must normally present **a Classified Statement of Financial Position**, separating current and noncurrent assets and liabilities.
 - Only if a presentation based on liquidity provides information that is reliable and more relevant may the current/noncurrent split be omitted.
 - In either case, if an asset (liability) category commingles amounts that will be received (settled) after 12 months with assets (liabilities) that will be received (settled) within 12 months, note disclosure is required that separates the longer-term amounts from the 12-month amounts.
 - **Current assets** are cash; cash equivalent; assets held for collection, sale, or consumption within the enterprise's normal operating cycle; or assets held for trading within the next 12 months.
 - All other assets are noncurrent.
 - **Current liabilities** are those to be settled within the enterprise's normal operating cycle or due within 12 months, or those held for trading, or those for which the entity does not have an unconditional right to defer payment beyond 12 months.
 - Other liabilities are noncurrent.

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Statement of Financial Position reports the amount of assets, liabilities, and shareholders' equity of an accounting entity at a point in time.

STATEMENT OF FINANCIAL POSITION

PRESIDENT BAKERY PUBLIC COMPANY LIMITED

As at 31 December 2012

(Unit: Baht)

Heading:

1. Company Name
2. Statement Title
3. Specific Date
4. Unit of measure

Assets: Probable future economic benefits owned by the entity as a result of past transactions.

Current assets: Assets that will be used or turned into cash within one year or one operating cycle, whichever is longer.

SEPARATE FINANCIAL STATEMENTS

	NOTE	2012	2011
Assets			
Current assets			
Cash and cash equivalents	7	896,227,520	596,264,070
Trade and other receivables	8, 10	708,078,728	709,111,568
Inventories	9	155,191,245	150,712,606
Other current assets		11,466,343	10,875,880
Total current assets		1,770,963,836	1,466,964,124

Additional details

STATEMENT OF FINANCIAL POSITION (CONTINUED)

PRESIDENT BAKERY PUBLIC COMPANY LIMITED
As at 31 December 2012

(Unit: Baht)

SEPARATE FINANCIAL STATEMENTS			
	NOTE	2012	2011
Non-current assets			
Investment in joint venture	11	5,850,000	5,850,000
Other long-term investment	12	30,000,000	15,000,000
Property, plant and equipment	13	2,933,345,741	2,786,147,285
Advance payments for purchase of assets		8,243,011	29,022,722
Intangible assets	14	411,390	805,771
Leasehold rights	15	1,668,975	1,996,354
Other non-current assets		6,246,343	6,356,402
Total non-current assets		2,985,765,460	2,845,178,534
Total assets		4,756,729,296	4,312,142,658

Non-current assets:
All assets other than current assets are non-current assets

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STATEMENT OF FINANCIAL POSITION (CONTINUED)

PRESIDENT BAKERY PUBLIC COMPANY LIMITED
As at 31 December 2012

(Unit: Baht)

SEPARATE FINANCIAL STATEMENTS			
	NOTE	2012	2011
Liabilities and shareholders' equity			
Current liabilities			
Bank overdrafts	16	-	78
Trade and other payables	10, 17	596,824,659	608,881,454
Current portion of liabilities under finance lease agreements	10, 18	83,799,367	68,260,107
Corporate income tax payable		46,392,155	67,060,015
Accrued expenses		165,817,611	152,668,527
Other current liabilities		27,249,757	20,386,721
Total current liabilities		920,083,549	917,256,902

Liabilities: Probable debts or obligations of the entity that result from past transactions, which will be paid with assets or services.

Current liabilities: Short-term obligations that will be paid in cash (or other assets) within one year or one operating cycle, whichever is longer.

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STATEMENT OF FINANCIAL POSITION (CONTINUED)

PRESIDENT BAKERY PUBLIC COMPANY LIMITED
As at 31 December 2012

(Unit: Baht)

SEPARATE FINANCIAL STATEMENTS

	NOTE	2012	2011
Non-current liabilities			
Liabilities under finance lease agreements			
- net of current portion	10, 18	91,770,177	83,586,175
Long-term loans from directors	10, 19	91,387,815	79,646,619
Long-term loans from employees	19	53,383,844	43,583,378
Provision for long-term employee benefits	20	48,155,428	33,976,079
Other non-current liabilities		1,269,869	876,201
Total non-current liabilities		285,967,133	241,668,452
Total liabilities		1,206,050,682	1,158,925,354

Non-current liabilities:
All liabilities other than current liabilities are non-current liabilities

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STATEMENT OF FINANCIAL POSITION (CONTINUED)

PRESIDENT BAKERY PUBLIC COMPANY LIMITED
As at 31 December 2012

(Unit: Baht)

SEPARATE FINANCIAL STATEMENTS

	NOTE	2012	2011
Shareholders' equity			
Share capital	21		
Registered			
450,000,000 ordinary shares of Baht 1 each (2011: 45,000,000 ordinary shares of Baht 10 each)		450,000,000	450,000,000
Issued and fully paid-up			
450,000,000 ordinary shares of Baht 1 each (2011: 45,000,000 ordinary shares of Baht 10 each)		450,000,000	450,000,000
Share premium		674,379,513	674,379,513
Retained earnings			
Appropriated - statutory reserve	22	45,000,000	45,000,000
Unappropriated		2,381,299,101	1,983,837,791
Total shareholders' equity		3,550,678,614	3,153,217,304
Total liabilities and shareholders' equity		4,756,729,296	4,312,142,658

Shareholders' equity:
The amount of financing provided by owners of the business and earnings.

Contributed capital:
The investment of cash and other assets in the business by the owners.

Retained earnings:
Cumulative earnings of a company that are not distributed to the owners and are reinvested in the business.

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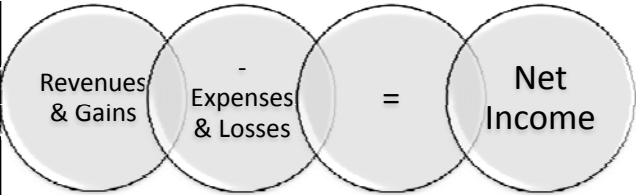


Statement of Income (Income Statement)



Statement of Income

Revenues - Expenses = Net Income



Performance is the ability of an enterprise to earn a profit on the resources that have been invested in it.

Information about the amounts and variability of profits helps in forecasting future cash flows from the enterprise's existing resources and in forecasting potential additional cash flows from additional resources that might be invested in the enterprise.



Statement of Income

Income

- **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** arises in the course of the ordinary activities of an enterprise and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.
 - **Gains** represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an enterprise.

Expense

- **Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.**
 - **Expenses** that arise in the course of the ordinary activities of the enterprise include, for example, cost of sales, wages and depreciation.
 - **Losses** represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the enterprise.

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Statement of Income

Typical Account Titles

Revenues

Sales Revenue
 Fee Revenue
 Interest Revenue
 Rent Revenue

Expenses

Cost of Goods Sold
 Wages Expense
 Rent Expense
 Interest Expense
 Depreciation Expense
 Advertising Expense
 Insurance Expense
 Repair Expense
 Income Tax Expense

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Statement of Income



BODDINGTON LIMITED	
Income Statement	
For the Year Ended December 31, 2010	
(in thousands of dollars)	
Revenues	
Sales revenue	\$37,436
Total revenues	<u>37,436</u>
Expenses	
Cost of goods sold expense	26,980
Selling, general, and administrative expense	3,624
Research and development expense	1,982
Interest expense	450
Total expenses	<u>33,036</u>
Pretax income	4,400
Income tax expense	<u>1,100</u>
Net income	<u>\$ 3,300</u>



Statement of Retained Earnings

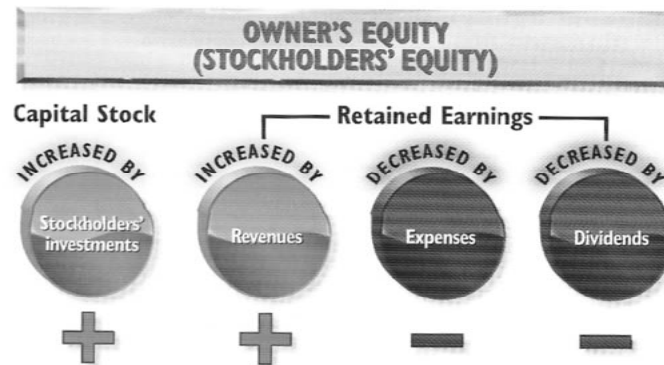




Statement of Retained Earnings

Beginning Retained Earnings
 Plus: Net Income
 Less: Dividends

 Ending Retained Earnings



Statement of Retained Earnings

BODDINGTON LIMITED
Statement of Retained Earnings
For the Year Ended December 31, 2010
 (in thousands of dollars)

Retained earnings, January 1, 2010	\$ 6,805
Net income for 2010	3,300
Dividends for 2010	(1,000)
Retained earnings, December 31, 2010	<u>\$ 9,105</u>

Statement of Retained Earnings
 Beginning RE
 + Net Income
 - Dividends

 Ending RE



Statement of Cash Flows



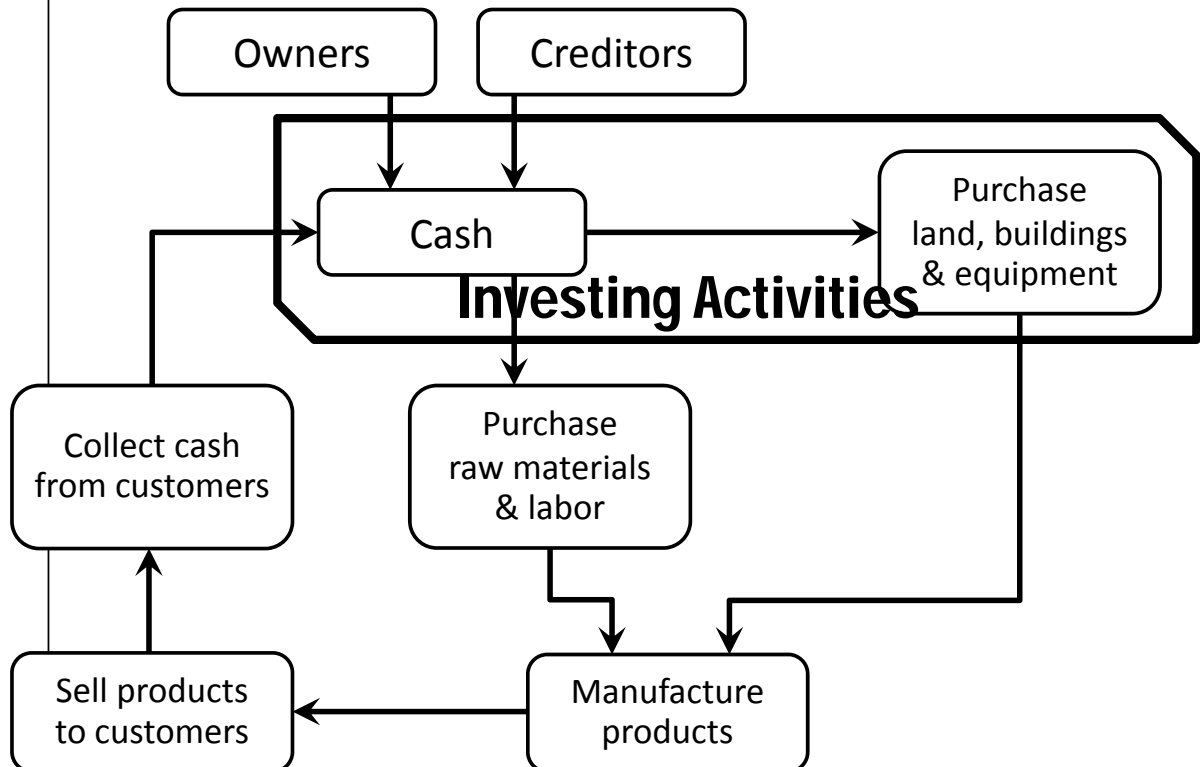
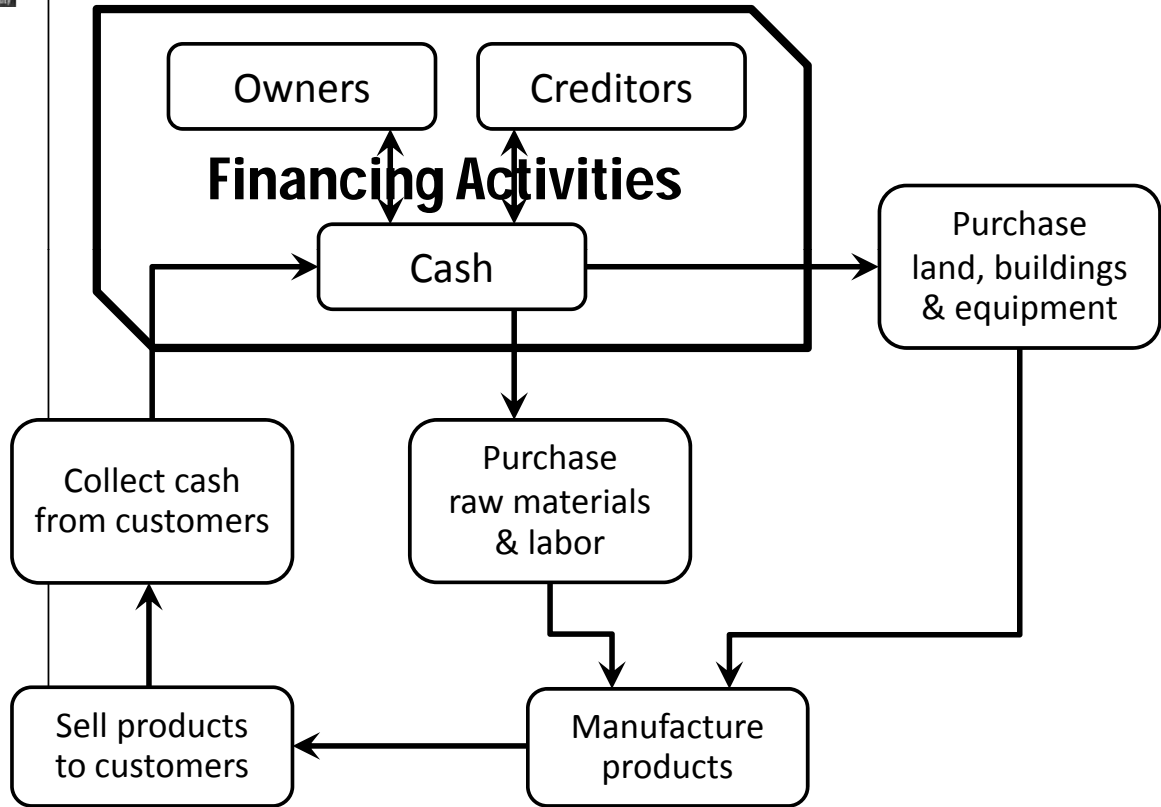
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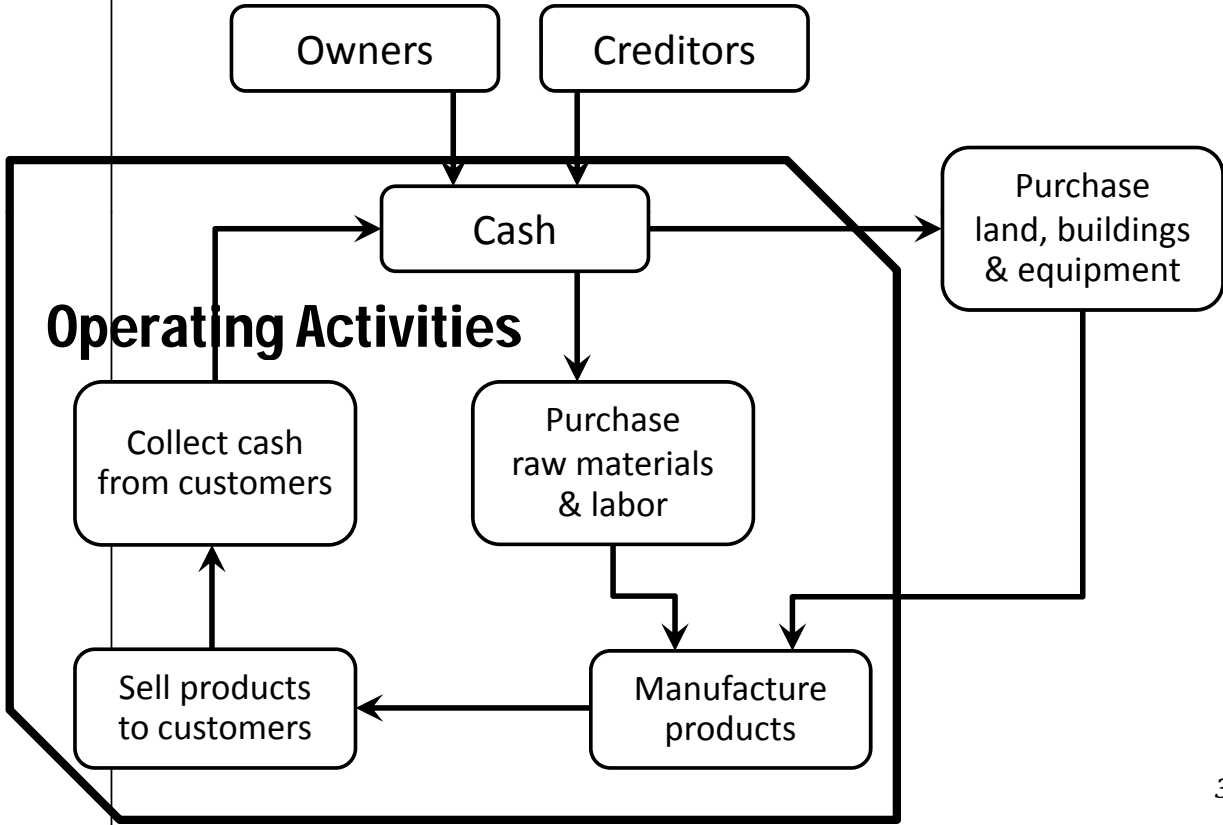


Activities in Organizations

- All businesses pursue their goals by engaging in operating, investing, and financing activities.
 - **Operating activities** include selling goods and services to customers, employing managers and workers, buying and producing goods and services, and paying taxes.
 - **Investing activities** involve spending the capital a company receives in productive ways that will help it achieve its objectives. These activities include buying land, building, equipment, and other resources that are needed to operate the business and selling them when they are no longer needed.
 - **Financing activities** involve obtaining adequate funds, or capital, to begin operations and to continue operating. These activities include obtaining capital from creditors and from owners.

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Statement of Cash Flows

BODDINGTON LIMITED
Statement of Cash Flows
For the Year Ended December 31, 2010
(in thousands of dollars)

Cash flows from operating activities	
Cash collected from customers	\$ 33,563
Cash paid to suppliers and employees	(30,854)
Cash paid for interest	(450)
Cash paid for taxes	(1,190)
Net cash flow from operating activities	<u>1,069</u>
Cash flows from investing activities	
Cash paid to purchase manufacturing equipment	(1,625)
Net cash flow from investing activities	<u>(1,625)</u>
Cash flows from financing activities	
Cash received from bank loan	1,400
Cash paid for dividends	(1,000)
Net cash flow from financing activities	<u>400</u>
Net decrease in cash during the year	(156)
Cash at beginning of year	<u>5,051</u>
Cash at end of year	<u>\$ 4,895</u>





Relationships Among the Statements



Relationships Among the Statements

1. Net income from the income statement results in an increase in ending retained earnings on the statement of retained earnings.

Income Statement			Statement of Retained Earnings	
Revenues	\$ 37,436		Beginning retained earnings	\$ 6,805
Expenses	34,136		Net income	3,300
Net income	<u>\$ 3,300</u>	→	Dividends	(1,000)
			Ending retained earnings	<u>\$ 9,105</u>



Relationships Among the Statements

2. Ending retained earnings from the statement of retained earnings is one of the two components of stockholders' equity on the balance sheet.

Balance Sheet		Statement of Retained Earnings	
Cash	\$ 4,895	Beginning retained earnings	\$ 6,805
Other assets	22,366	Net income	3,300
Total assets	\$ 27,261	Dividends	(1,000)
Liabilities	\$ 16,156	Ending retained earnings	\$ 9,105
Contributed Capital	2,000		
Retained earnings	9,105		
Total liabilities and equity	\$ 27,261		



Relationships Among the Statements

3. The change in cash on the statement of cash flows is added to the beginning-of-year balance in cash to arrive at end-of-year cash on the balance sheet.

Balance Sheet		Statement of Cash Flows	
Cash	\$ 4,895	Cash flows from operating activities	\$ 1,069
Other assets	22,366	Cash flows from investing activities	(1,625)
Total assets	\$ 27,261	Cash flows from financing activities	400
Liabilities	\$ 16,156	Change in cash	\$ (156)
Contributed Capital	2,000	Beginning cash balance	5,051
Retained earnings	9,105	Ending cash balance	\$ 4,895
Total liabilities and equity	\$ 27,261		



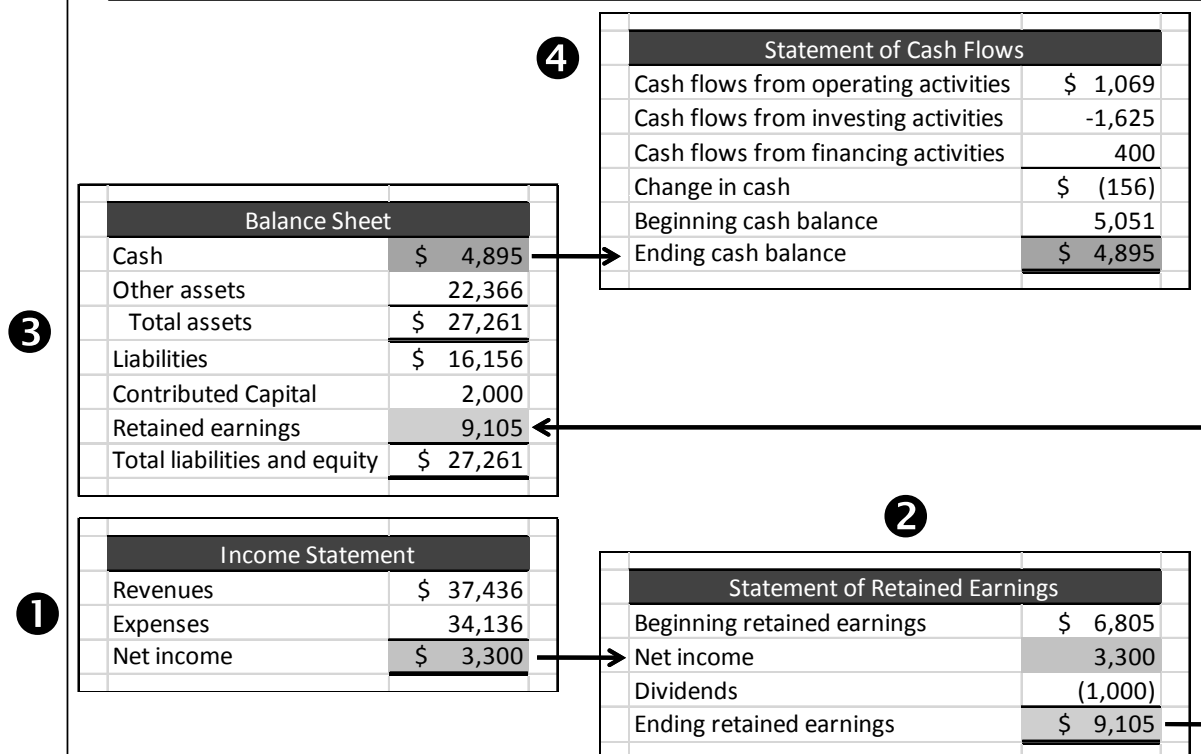
Relationships Among the Statements

Financial Statements will be prepared in this order:

- 1) Statement of income
- 2) Statement of Retained Earnings/ Statement of Changes in Owners' Equities
- 3) Statement of Financial Position
- 4) Statement of Cash Flows



Relationships Among the Statements





Notes to Financial Statements



All financial statements should be accompanied by **NOTES** which provide the reader with **supplemental information** about the financial condition and results of operations of the company.



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NOTES TO FINANCIAL STATEMENT

PRESIDENT BAKERY PUBLIC COMPANY LIMITED

For the year ended 31 December 2012

1. GENERAL INFORMATION

President Bakery Public Company Limited ("the Company") is a public company incorporated and domiciled in Thailand. The major shareholder of the Company is President Rice Products Public Company Limited, which is a public company incorporated in Thailand. The Company is principally engaged in the manufacture and sales of bakery products and its registered address is at 121/84-85, 29th Floor, RS Tower, Ratchadapisek Road, Dindaeng, Bangkok.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting standards enunciated under the Accounting Professions Act B.E. 2547 and their presentation has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 28 September 2011, issued under the Accounting Act B.E. 2543.

The financial statements in Thai language are the official statutory financial statements of the Company. The financial statements in English language have been translated from the Thai language financial statements.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

3. NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Federation of Accounting Professions issued the following new/revised accounting standards that are effective for fiscal years beginning on or after 1 January 2013.

Accounting standards:

TAS 12	Income Taxes
TAS 20 (revised 2009)	Accounting for Government Grants and Disclosure of Government Assistance


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Management Uses of Financial Statements



Marketing managers and credit managers use customers' financial statements to decide whether to extend credit.



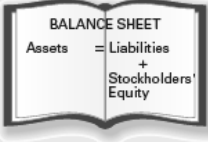
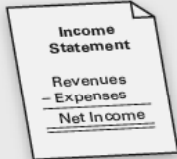
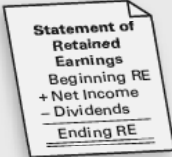
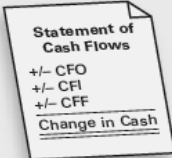
Purchasing managers use suppliers' financial statements to decide whether suppliers have the resources to meet the demand for products.



Employees' union and human resource managers use the company's financial statements as a basis for contract negotiations over pay rates.



Summary of the Financial Statements

Financial Statement	Purpose	Structure	Examples of Content
Balance Sheet (Statement of Financial Position)	Reports the financial position (economic resources and sources of financing) of an accounting entity <i>at a point in time</i> .		Cash, accounts receivable, plant and equipment, notes payable, contributed capital
Income Statement (Statement of Income, Statement of Earnings, Statement of Operations)	Reports the accountant's primary measure of economic performance <i>during the accounting period</i> .		Sales revenue, cost of goods sold, selling expense, interest expense
Statement of Retained Earnings	Reports the way that net income and the distribution of dividends have affected the financial position of the company <i>during the accounting period</i> .		Net income is taken from the income statement; Dividends are distributions to stockholders
Statement of Cash Flows (Cash Flow Statement)	Reports inflows (receipts) and outflows (payments) of cash <i>during the accounting period</i> in the categories operating, investing, and financing.		Cash collected from customers, cash paid to suppliers, cash paid to purchase equipment, cash borrowed from banks



International Perspective International Financial Reporting Standards

Since 2002, there has been substantial movement toward the adoption of **International Financial Reporting Standards (IFRS)** issued by the International Accounting Standards Board (IASB).

Examples of jurisdictions requiring the use of **IFRS** either currently or by 2012 include:

- European Union
- Australia and New Zealand
- Hong Kong, India, Malaysia, and South Korea
- Israel and Turkey
- Brazil and Chile
- Canada and Mexico



In the United States, the Securities and Exchange Commission now allows foreign companies whose stock is traded in the U.S. to use IFRS and is considering requiring the use of IFRS for U.S. domestic companies by 2014.



Management Responsibility and the Demand for Auditing

To ensure the accuracy of the company's financial information, management:

- Maintains a system of controls.
- Hires outside independent auditors.
- Forms a committee of the board of directors to review these two safeguards.





Independent Auditors

- Auditors express an opinion as to the fairness of the financial statements.
- Independent auditors have responsibilities that extend to the general public.
- The International Auditing and Assurance Standards Board (IAASB) issues detailed auditing standards that auditors must follow.

Overall, I believe these financial statements are fairly stated.



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Independent Auditors

An audit involves . . .

- Examining the financial reports to ensure compliance with financial reporting standards.
- Examining the underlying transactions incorporated into the financial statements.
- Expressing an opinion as to the fairness of presentation of financial information.



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REPORT OF INDEPENDENT AUDITOR & FINANCIAL REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PRESIDENT BAKERY PUBLIC COMPANY LIMITED

I have audited the accompanying statements of financial position, in which the equity method is applied, of President Bakery Public Company Limited as at 31 December 2012, and the related statements of comprehensive income, changes in shareholders' equity and cash flows, in which the equity method is applied, for the year then ended, and a summary of significant accounting policies and other explanatory information, and have also audited the separate financial statements of President Bakery Public Company Limited for the same period.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

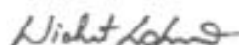
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of President Bakery Public Company Limited as at 31 December 2012, and its financial performance and cash flows for the year then ended, in accordance with Thai Financial Reporting Standards.



Wichart Lokatekrawee

Certified Public Accountant (Thailand) No. 4451

Ernst & Young Office Limited
Bangkok: 19 February 2013

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End of Chapter 1

