

BACHELOR of ECONOMICS



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

AC201 Fundamental Accounting

Semester 1/2017

Course Package 02

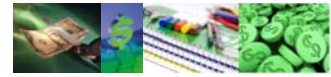
Topic:

Accounting Information and
Business Decisions

Instructor:


Assistant Professor
Dr. Orapan Yolrabil





What is Accounting?

ac·count·ing

/ə'koun(t)ɪŋ/ 


noun

noun: accounting

the action or process of keeping financial accounts.



ac·count

/ə'kaʊnt/ 

verb

gerund or present participle: accounting

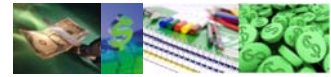
consider or regard in a specified way.

"her visit could not be accounted a success"

synonyms: consider, regard as, reckon, hold to be, think, look on as, view as, see as, judge, adjudge, count, deem, rate

"her visit could not be accounted a success"

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Basic Calculator

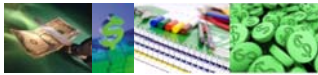
AC201-BBA-1-2017: Basic Calculator

The students are required to bring basic calculator to every class. The calculator should at least have the following characteristics:

1. A calculator with +, -, x, /, %, +/-
2. A calculator with at least 12 digits of calculations
3. A calculator with M Function (M+, M-, MR, MC) [MR and MC should be on different buttons.]
4. A calculator with a proper size (not too big and not too small) that can fit in your palm.
5. A calculator with no sound when pressing the buttons.
6. A calculator with a known brand.

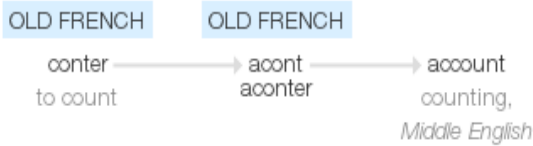


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What is Accounting?

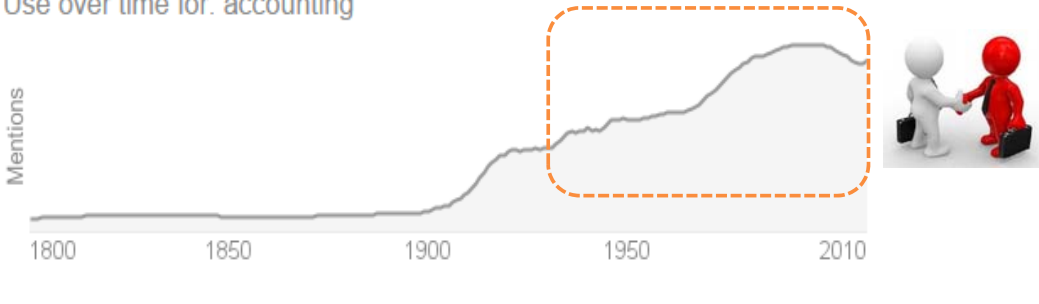
Origin



Middle English (in the sense 'counting,' 'to count'): from Old French *aconter* (noun), *aconter* (verb), based on *conter* 'to count.'

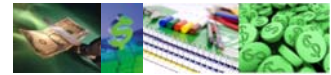
Translate accounting to

Use over time for: accounting



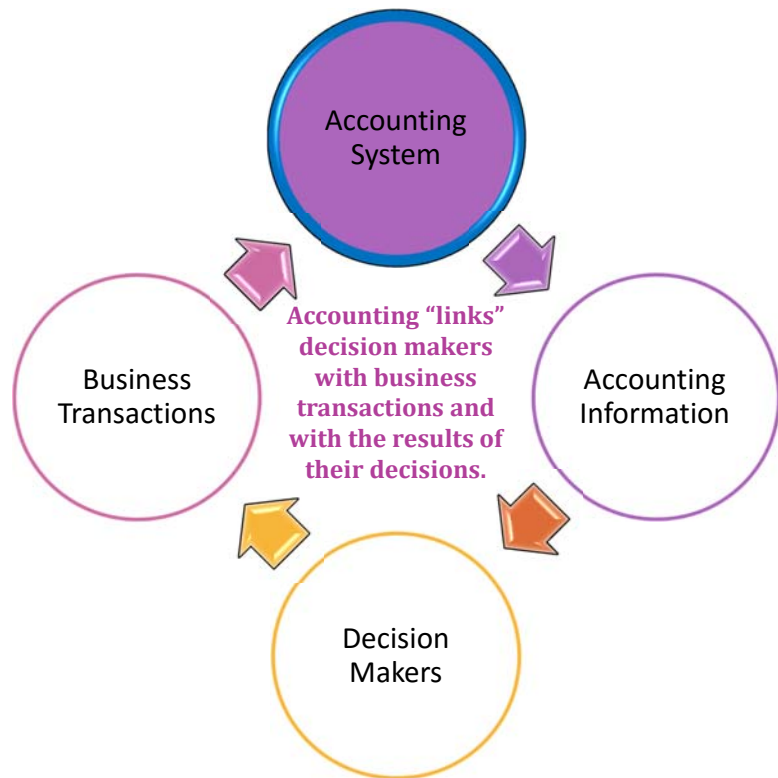
Financial Information and Decision Making





What is Accounting?

Accounting is the information system that measures business activities, processes that information into reports, and communicates the results to decision makers.



Basic Functions of an Accounting System

Business Transactions

Identifying

Recording

Communicating



Select transactions and events



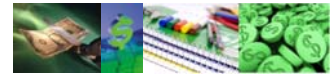
Input, measure, and classify



Prepare, analyze, and interpret

Accounting System

Accounting Information



Nature of Business Transactions

Transaction

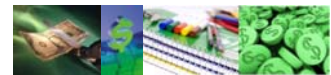
- (1) An exchange between a business and one or more external parties to a business
 - External events: exchanges of assets and liabilities between the business and one or more other parties.



- (2) A measurable internal event such as the use of assets in operations.
 - Internal events: not an exchange between the business and other parties, but have an effect on the accounting entity.



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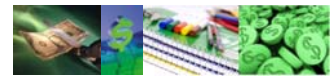


Activities in Organizations

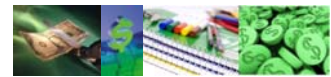
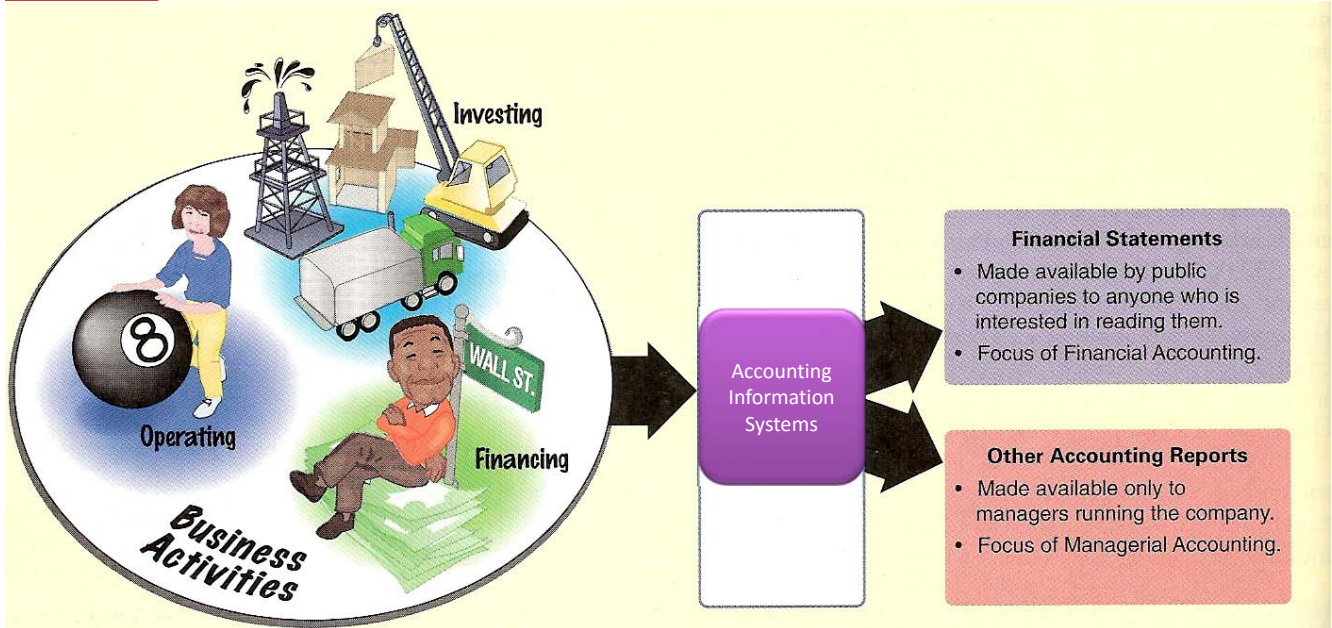
- All businesses pursue their goals by engaging in operating, investing, and financing activities.**
 - Operating activities** include selling goods and services to customers, employing managers and workers, buying and producing goods and services, and paying taxes.
 - Investing activities** involve 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.



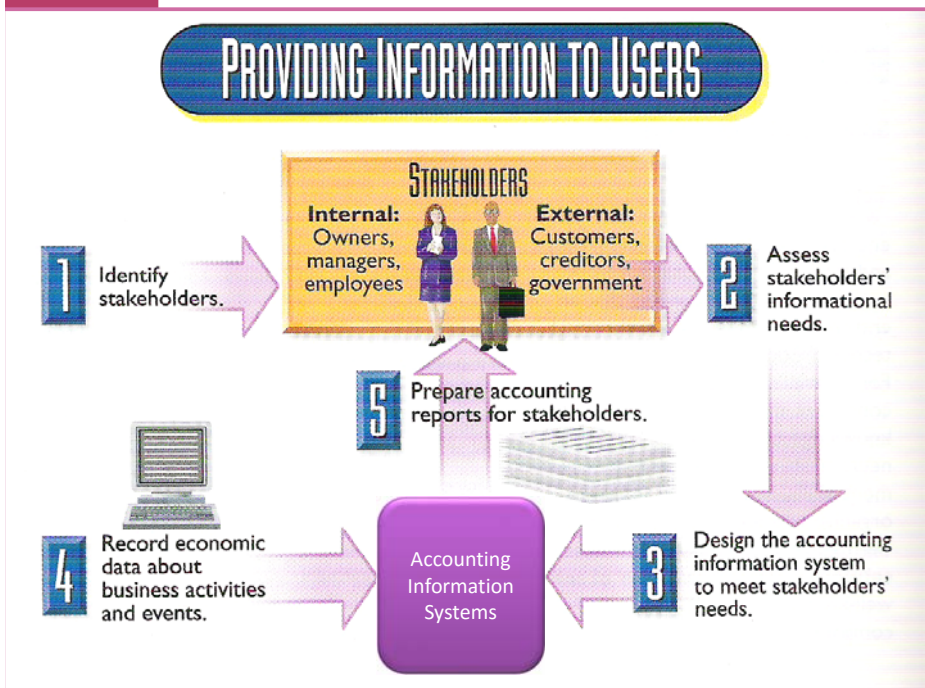
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Accounting for the Results of Business Activities

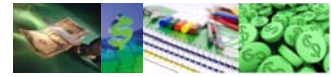


Accounting Information and Stakeholders



Accounting is the *language of business* because accounting is the means by which business information is communicated to stakeholders.

A **business stakeholder** is a person or entity having an interest in the economic performance of the business.



Accounting System and Decision Makers

Financial accounting

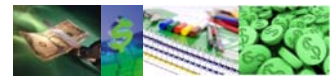
- Financial accounting generate reports and communicates them to **external decision makers** so that can evaluate how well the business has achieved its goal.

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.

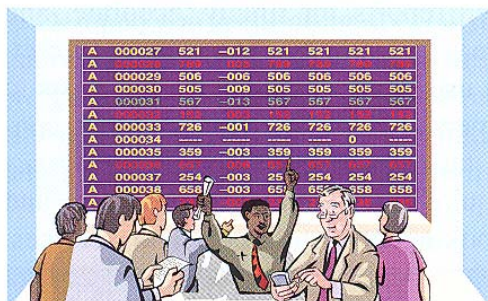


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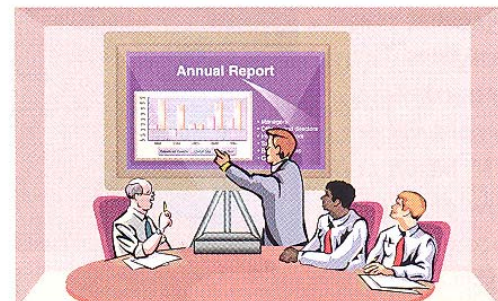
Internal VS. External Users

External users



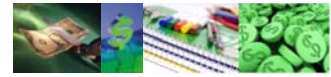
- Lenders
- Shareholders
- Governments
- Consumer groups
- External auditors
- Customers

Internal users



- Managers
- Officers and directors
- Internal auditors
- Sales staff
- Budget officers
- Controllers

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Characteristics of Management Accounting Information

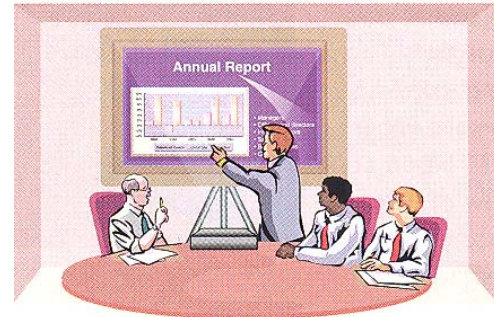
Oriented Toward Future

Measures of Efficiency and Effectiveness

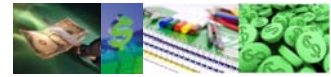
Timeliness

Users' Preferences

Internal users

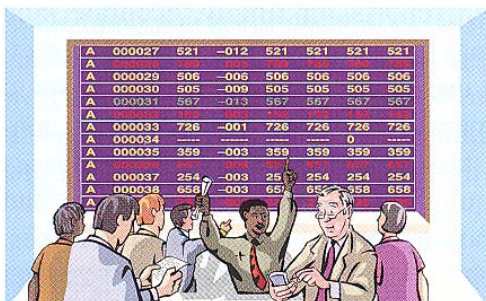


- Managers
- Officers and directors
- Internal auditors
- Sales staff
- Budget officers
- Controllers



Characteristics of Financial Accounting Information

External users



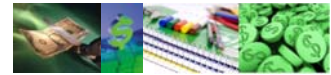
- Lenders
- Shareholders
- Governments
- Consumer groups
- External auditors
- Customers

Based on General-Purpose Assumption

Historical in Nature

Results from Inexact and Approximate Measures

Usefulness Enhanced via Explanation

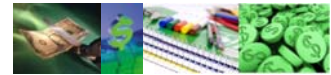


External Users

Financial Statements



Photo by: / crédit photo : Véronique Joffre



Objectives of Financial Statements

Financial Statements

Statement of Financial Position

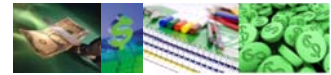
Statement of Comprehensive Income

Statement of Changes in Equity

Statement of Cash Flows

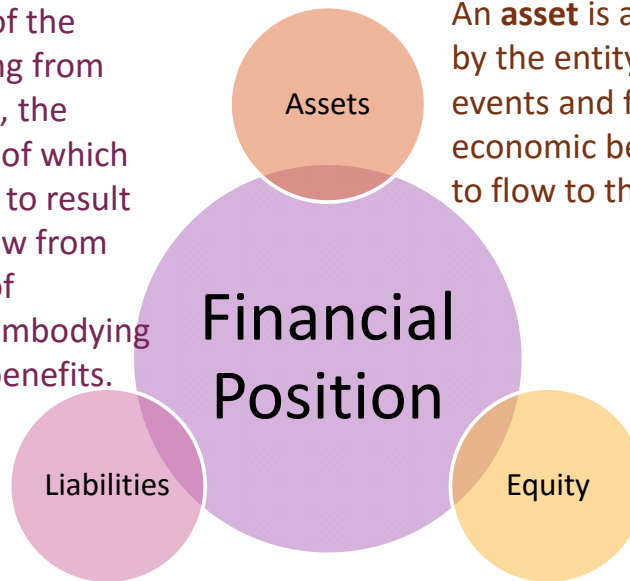
Objective of Financial Statements:

The objective of general purpose financial statements is **to provide information about the financial position, financial performance, and cash flows of an entity** that is useful to a wide range of users in making economic decisions.



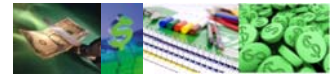
Statement of Financial Position

A **liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.



An **asset** is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

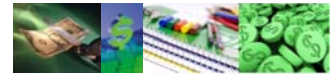
Equity is the residual interest in the assets of the entity after deducting all its liabilities.



Accounting Equation

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$





Statement of Comprehensive Income

$$\text{Revenue} - \text{Expenses} = \text{Profit or loss}$$

Financial Performance

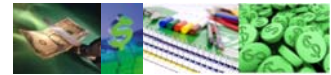
- Revenue
- Expenses



Revenue 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.

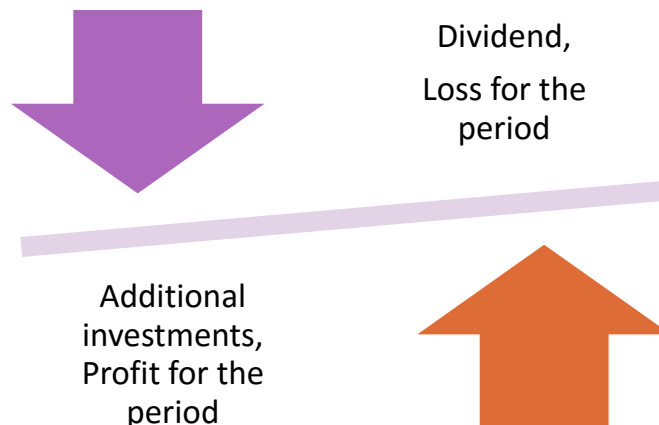
Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

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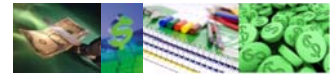


Statement of Changes in Equity

Statement of Changes in Equity depicts the changes in the equity account balances during the accounting period.



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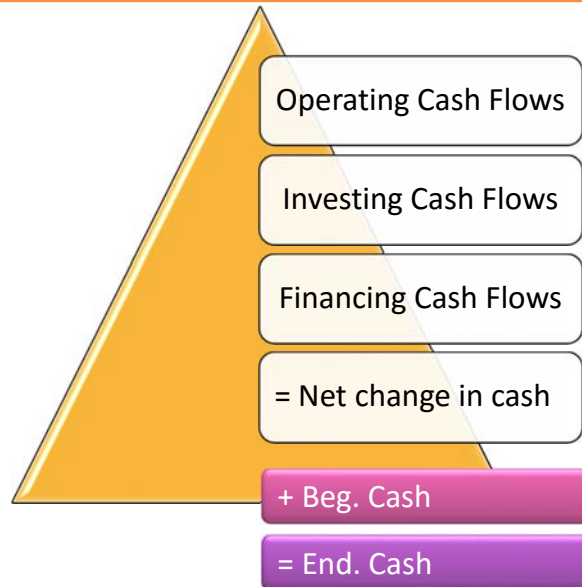


Statement of Cash Flows

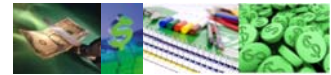


Cash flows are inflows and outflows of cash.

Statement of Cash flows reports the changes in the cash balance during the accounting period.



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Objectives of Financial Statements

Financial Statements

Statement of Financial Position

Statement of Comprehensive Income

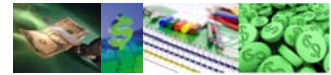
Statement of Changes in Equity

Statement of Cash Flows

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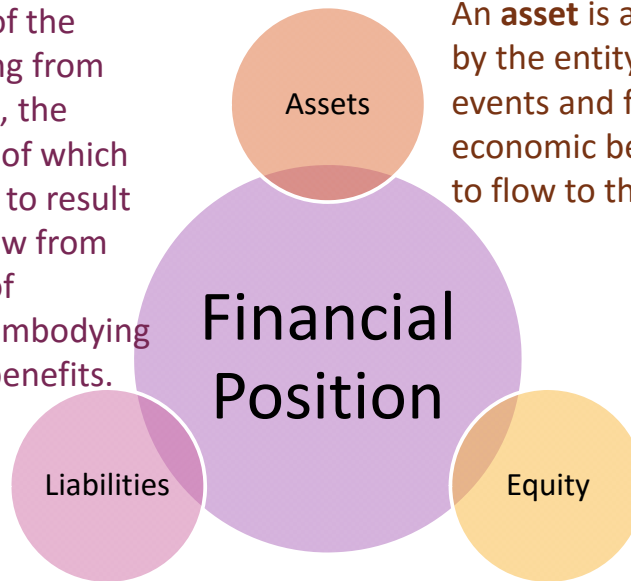
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Statement of Financial Position

A **liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

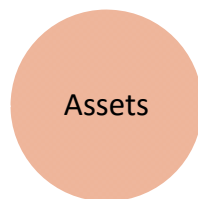
An **asset** is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.



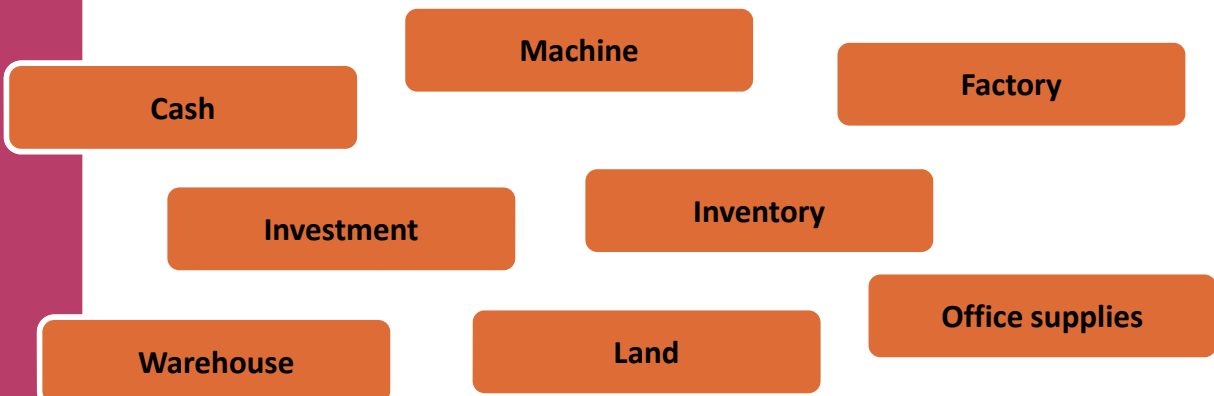
Equity is the residual interest in the assets of the entity after deducting all its liabilities.

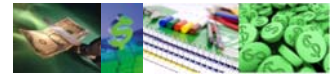


Assets



An **asset** is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.





Liabilities

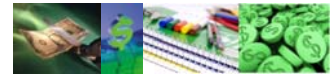


Liabilities

A **liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Accounts payable

Bank loan



Equity

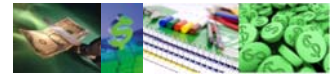


Equity

Equity is the residual interest in the assets of the entity after deducting all its liabilities.

Share capital

Retained earnings

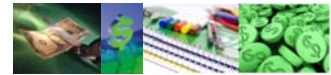


Statement of Financial Position

Statement of Financial Position reports the **financial position** (Assets, Liabilities, and Equity) of an entity **at a point in time**.

Company A
Statement of Financial Position
As at January 1, 20X1
(Unit: Baht)

$$A = L + E$$



Classification of Assets, Liabilities, and Equity

Company A
Statement of Financial Position
As at January 1, 20X1
(Unit: Baht)

$$A = L + E$$

Current
Assets

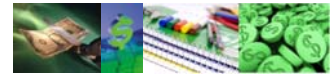
Current
Liabilities

Share
Capital

Noncurrent
Assets

Noncurrent
Liabilities

Retained
Earnings



Statement of Financial Position - Example

Company A	
Statement of Financial Position	
As at January 1, 20X1	
(Unit: Baht)	
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #01:

On Jan. 1, 20X1, the company issued the share capital to the owners for cash for ₪ 15,000,000.

Company A	
Statement of Financial Position	
As at January 1, 20X1	
(Unit: Baht)	
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #02:

On Jan. 1, 20X1, the company borrowed 5-year bank loan for ₱5,000,000. The annual interest rate is stated at 5% and is payable once a year on each Dec. 31.

Company A Statement of Financial Position As at January 1, 20X1 (Unit: Baht)	
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #03:

On Jan. 1, 20X1, the company acquired truck, machine, factory, and land for cash at the amount of ₱500,000, 750,000, 2,000,000, and 4,250,000, respectively.

Company A Statement of Financial Position As at January 1, 20X1 (Unit: Baht)	
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #04:

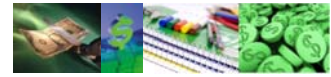
On Jan. 1, 20X1, the company acquired the inventory on credit for ₪850,000. The amount will be paid within 30 days credit term.

Company A Statement of Financial Position As at January 1, 20X1 (Unit: Baht)	
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #05:

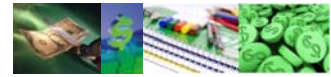
On Jan. 1, 20X1, the company invested in equity securities for ₪800,000. The investment horizon is short-term.

Company A Statement of Financial Position As at January 1, 20X1 (Unit: Baht)	
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity



Statement of Financial Position - Solution

Company A			
Statement of Financial Position			
As at January 1, 20X1			
(Unit: Baht)			
Assets		Liabilities and shareholders' equity	
Current assets		Current liabilities	
Cash	11,700,000	Accounts payable	850,000
Short-term investment	800,000	Total current liabilities	850,000
Inventory	<u>850,000</u>	Noncurrent liabilities	
Total current assets	<u>13,350,000</u>	Long-term bank loan	5,000,000
Noncurrent assets		Total noncurrent liabilities	5,000,000
Truck	500,000	Total liabilities	5,850,000
Machine	750,000	Shareholders' equity	
Factory	2,000,000	Share capital	15,000,000
Land	<u>4,250,000</u>	Retained earnings	0
Total noncurrent assets	<u>7,500,000</u>	Total shareholders' equity	15,000,000
Total assets	20,850,000	Total liabilities and shareholders' equity	20,850,000



Objectives of Financial Statements

Financial Statements

Statement of Financial Position

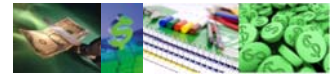
Statement of Comprehensive Income

Statement of Changes in Equity

Statement of Cash Flows

Objective of Financial Statements:

The objective of general purpose financial statements is **to provide information about the financial position, financial performance, and cash flows of an entity** that is useful to a wide range of users in making economic decisions.



Statement of Comprehensive Income

Financial Performance

- Revenue
- Expenses

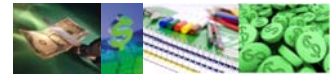


Revenue – Expenses = Profit or loss

Revenue 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.

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

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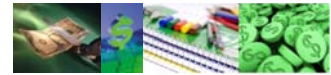
Statement of Comprehensive Income

Statement of Comprehensive Income reports the **financial performance** (profit or loss) of an entity **for a period of time**.

Company A
 Statement of Comprehensive Income
 For the Year Ended December 31, 20X1
 (Unit: Baht)

Revenue - Expense = Profit or loss

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Revenue



Revenue 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.

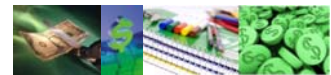
Sales revenue

Service revenue

Rent revenue

Dividend revenue

Interest revenue



Expense



EXPENSE

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Cost of goods sold

Wages expense

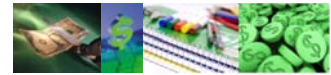
Interest expense

Depreciation expense

Rent expense

Income tax expense

Utilities expense



Company A
Statement of Comprehensive Income
For the Year Ended December 31, 20X1
(Unit: Baht)

Sales revenue	
<u>Less: Cost of goods sold</u>	_____
Gross profit = Sales revenue - Cost of goods sold	
Wages expense	
Depreciation expense	
Rent expense	
Utilities expense	_____
Profit before interest expense and income tax expense	
<u>Less: Interest expense</u>	_____
Profit before income tax expense	
<u>Less: Income tax expense</u>	_____
Profit for the year	

Transaction #06:

On Feb. 12, 20X1, the company made sale of products on credit for ₱1,500,000.

Company A
Statement of Comprehensive Income
For the Year Ended December 31, 20X1
(Unit: Baht)

Sales revenue	
<u>Less: Cost of goods sold</u>	_____
Gross profit	
Wages expense	
Depreciation expense	
Rent expense	
Utilities expense	_____
Profit before interest expense and income tax expense	
<u>Less: Interest expense</u>	_____
Profit before income tax expense	
<u>Less: Income tax expense</u>	_____
Profit for the year	



Company A
Statement of Financial Position
As at December 31, 20X1
(Unit: Baht)

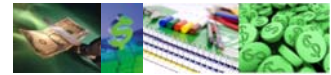
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Accounts receivable	Income tax payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #07:

The cost of products sold on Feb. 12, 20X1 amounted to ₱700,000.

Company A
Statement of Comprehensive Income
For the Year Ended December 31, 20X1
(Unit: Baht)

Sales revenue	
<u>Less: Cost of goods sold</u>	_____
Gross profit	
Wages expense	
Depreciation expense	
Rent expense	
Utilities expense	_____
Profit before interest expense and income tax expense	
<u>Less: Interest expense</u>	_____
Profit before income tax expense	
<u>Less: Income tax expense</u>	_____
Profit for the year	



Company A
Statement of Financial Position
As at December 31, 20X1
(Unit: Baht)

Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Accounts receivable	Income tax payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #08:

During the year 20X1, the company paid cash for the following expenses:
Wages expense ฿50,000, Rent expense ฿12,000, and Utilities expense ฿7,500.

Company A
Statement of Comprehensive Income
For the Year Ended December 31, 20X1
(Unit: Baht)

Sales revenue	_____
<u>Less: Cost of goods sold</u>	_____
Gross profit	_____
Wages expense	
Depreciation expense	
Rent expense	
Utilities expense	_____
Profit before interest expense and income tax expense	_____
<u>Less: Interest expense</u>	_____
Profit before income tax expense	_____
<u>Less: Income tax expense</u>	_____
Profit for the year	_____



Company A
Statement of Financial Position
As at December 31, 20X1
(Unit: Baht)

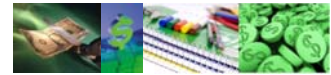
Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Accounts receivable	Income tax payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity

Transaction #09:

On Jan. 1, 20X1, the company borrowed 5-year bank loan for ₪5,000,000. The annual interest rate is stated at 5% and is payable once a year on each Dec. 31.

Company A
Statement of Comprehensive Income
For the Year Ended December 31, 20X1
(Unit: Baht)

Sales revenue	_____
<u>Less:</u> Cost of goods sold	_____
Gross profit	_____
Wages expense	
Depreciation expense	
Rent expense	
Utilities expense	_____
Profit before interest expense and income tax expense	_____
<u>Less:</u> Interest expense	_____
Profit before income tax expense	_____
<u>Less:</u> Income tax expense	_____
Profit for the year	_____



Company A
Statement of Financial Position
As at December 31, 20X1
(Unit: Baht)

Assets		Liabilities and shareholders' equity	
Current assets		Current liabilities	
Cash		Accounts payable	
Accounts receivable		Income tax payable	_____
Short-term investment		Total current liabilities	_____
Inventory	_____	Noncurrent liabilities	
Total current assets	_____	Long-term bank loan	_____
Noncurrent assets		Total noncurrent liabilities	_____
Truck		Total liabilities	_____
Machine		Shareholders' equity	
Factory		Share capital	
Land	_____	Retained earnings	_____
Total noncurrent assets	_____	Total shareholders' equity	_____
Total assets		Total liabilities and shareholders' equity	_____



Interest Expense

Bank loan

Principal	฿5,000,000	Interest rate	5%	Payment date	Dec. 31
Interest expense calculation:					
Interest expense per year	= Principal ฿5,000,000 x 5% per year				
	= ฿250,000				

Transaction #10:

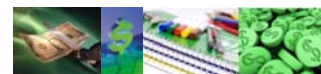
On Dec. 31, 20X1, the company charged depreciation expense on truck, machine, and factory for the year 20X1.

Company A
Statement of Comprehensive Income
For the Year Ended December 31, 20X1
(Unit: Baht)

Sales revenue	
<u>Less:</u> Cost of goods sold	_____
Gross profit	
Wages expense	
Depreciation expense	
Rent expense	
Utilities expense	_____
Profit before interest expense and income tax expense	
<u>Less:</u> Interest expense	_____
Profit before income tax expense	
<u>Less:</u> Income tax expense	_____
Profit for the year	

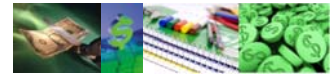


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Company A
Statement of Financial Position
As at December 31, 20X1
(Unit: Baht)

Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Accounts receivable	Income tax payable
Short-term investment	Total current liabilities
Inventory	_____
Total current assets	Noncurrent liabilities
_____	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
_____	_____
Total assets	Total liabilities and shareholders' equity
_____	_____

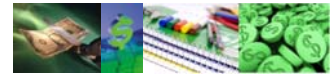


Depreciation Expense					
Truck:					
Cost	฿500,000	Residual Value	฿50,000	Useful life	5 years
Depreciation expense calculation:					
Depreciation expense per year = (Cost ฿500,000 - Residual value ฿50,000) / 5 years					
= ฿90,000					
Machine:					
Cost	฿750,000	Residual Value	฿150,000	Useful life	5 years
Depreciation expense calculation:					
Depreciation expense per year = (Cost ฿750,000 - Residual value ฿150,000) / 5 years					
= ฿120,000					
Factory:					
Cost	฿2,000,000	Residual Value	฿500,000	Useful life	20 years
Depreciation expense calculation:					
Depreciation expense per year = (Cost ฿2,000,000 - Residual value ฿500,000) / 20 years					
= ฿75,000					

Transaction 11:

On Dec. 31, 20X1, the company recorded the income tax expense at a rate of 20% of profit before income tax expense. The amount is paid in cash at the end of May of next year.

Company A Statement of Comprehensive Income For the Year Ended December 31, 20X1 (Unit: Baht)	
Sales revenue	
<u>Less: Cost of goods sold</u>	_____
Gross profit	
Wages expense	
Depreciation expense	
Rent expense	
Utilities expense	_____
Profit before interest expense and income tax expense	
<u>Less: Interest expense</u>	_____
Profit before income tax expense	
<u>Less: Income tax expense</u>	_____
Profit for the year	



Company A
Statement of Financial Position
As at December 31, 20X1
(Unit: Baht)

Assets	Liabilities and shareholders' equity
Current assets	Current liabilities
Cash	Accounts payable
Accounts receivable	Income tax payable
Short-term investment	Total current liabilities
Inventory	Noncurrent liabilities
Total current assets	Long-term bank loan
Noncurrent assets	Total noncurrent liabilities
Truck	Total liabilities
Machine	Shareholders' equity
Factory	Share capital
Land	Retained earnings
Total noncurrent assets	Total shareholders' equity
Total assets	Total liabilities and shareholders' equity



Statement of Comprehensive Income- Solution

Company A
Statement of Comprehensive Income
For the Year Ended December 31, 20X1
(Unit: Baht)

Sales revenue	1,500,000
<u>Less: Cost of goods sold</u>	<u>(700,000)</u>
Gross profit	800,000
Wages expense	(50,000)
Depreciation expense	(285,000)
Rent expense	(12,000)
Utilities expense	(7,500)
Profit before interest expense and income tax expense	445,500
<u>Less: Interest expense</u>	<u>(250,000)</u>
Profit before income tax expense	195,500
<u>Less: Income tax expense</u>	<u>(39,100)</u>
Profit for the year	156,400

