

EMBA 5401
Financial Accounting
for Executives

Assoc. Prof. Dr. Adil ORAN
Dept. of BA, METU
Fall 2016

General Information

- EMBA 5401 Financial Acctg for Executives
- **Class Schedule:** 9+1 Classes (Dec 17,19, 21,24,26,28 and Jan. 4,7,9 + 11)
- Assoc. Prof. Dr. Adil ORAN
 - Communication:
 - Phone: (312)210-2041
 - e-mail: adiloran@metu.edu.tr
 - twitter.com/adiloran
 - GIMER-Entrepreneurship Research Center
 - www.gimer.metu.edu.tr
 - twitter.com/odtugimer

Textbook

- **NO OFFICIAL TEXT!!!**
- Recommended text: **Muğan and Akman, Principles of Financial Accounting, 5th edition, 2012**, McGraw Hill.
- Optional texts: Horngren, Harrison and Bamber, Accounting, Prentice Hall.
- Meigs, Williams, Haka and Bettner Accounting: the Basis for Business Decisions, McGraw Hill.

Course Objectives

- Provide some of the tools required to be a successful manager.
- Become familiar with accounting concepts and language.
- Learn and understand the basics of Financial Accounting.
- Learn how accounting information is created, as well as, try to understand why it is done in this form.

Course Description

- Introductory Accounting course
- Provide a **fundamental** understanding of accounting theory and practice
- The course will NOT make you an Accountant or Finance Professional (much more to do!)

In-Class Work

- Discussions (related to Assignments/ Material being covered)
- Participative Learning!
- In-Class activities (usually in groups).

Topics (Financial accounting)

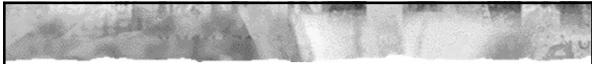
- **Accounting: Information for Decision Making**
- **Basic Financial Statements (B/S, I/S, CFS)**
- **The Accounting Cycle**
- **Merchandising Activities and Inventories**
 - **Exam (20%)**
- **Current Assets and Current Liabilities**
- **Long-Term Assets and Long-Term Liabilities**
- **Equity**
- **Cash Flow Statement**
- **Financial Statement Analysis**
 - **Exam (75%)**

Class Preparation

- **Prior to Class:**
 - Read relevant material
 - prepare any assignments given
- **Come to class ready to take part in discussions.**
- **Complete any assignments that have been given.**
- **Ask questions **whenever** you need to!**

Class Web Page

- <http://adiloran.com/>
- Syllabus, presentation materials, Assignments, etc. can be found there under the EMBA5401 link

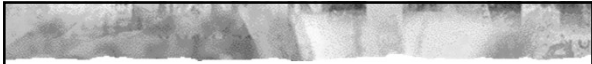


Again, Welcome

I hope you enjoy the course
ATJ

Lemons

- Asymmetric information
- Used car market
- Primary market equilibrium
- Secondary market equilibrium
- Market failure
- Role and characteristics of information



BA5401 Accounting

Basic Financial Statements
Accounting Equation
Journal Entries

Accounting...

is an information system that...

measures business activities,

processes information, and...

communicates financial information.

Purpose of Accounting

To provide **decisionmakers**
with
useful information.

Users of Accounting Information

External users
make decisions
about the entity.

Internal users
make decisions
for the entity.

Fields of Accounting

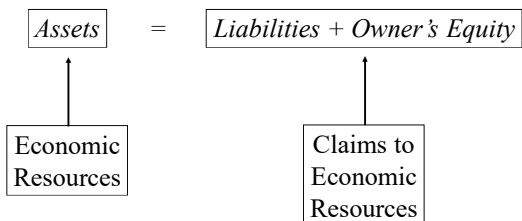
Financial Accounting

Management Accounting

Accounting concepts and principles

- Entity concept
- Objectivity principle
- Cost principle
- Full (or adequate) disclosure principle
- Stable monetary unit assumption
- etc.

The Accounting Equation



Assets

- What is an asset?
 - It is something a company owns which has future economic value.
 - cash
 - land
 - building
 - equipment
 - patents
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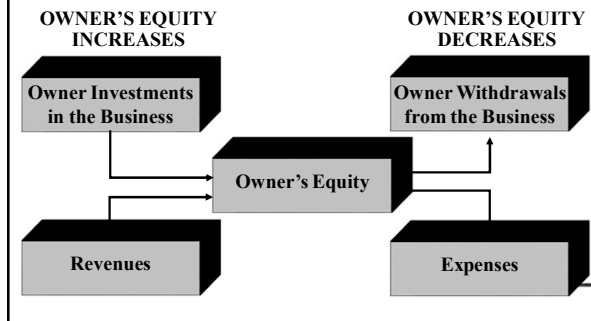
Liability

- What is a liability?
 - It is something a company owes.
 - Money – borrowing from others
 - service – legal retainers
 - product – magazines
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Owner's Equity

- What is owner's equity?
 - It is what's left of the assets after liabilities have been deducted.
 - the same as net assets
 - the owner's claim on the entity's assets
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Transactions that Affect Owner's Equity



Revenues

- What are revenues?
- They are amounts received or to be received from customers for sales of products or services.
 - sales
 - performance of services
 - rent
 - interest

Expenses

- What are expenses?
- They are amounts that have been paid or will be paid later for costs that have been incurred to earn revenue.
 - salaries and wages
 - utilities
 - supplies used
 - advertising

Double-Entry Accounting

- Double entry bookkeeping means to record the dual effects of each business transaction.
- $Assets = Liabilities + Owner's\ Equity$

The CARWASH

Accounting for Business Transactions

$$Assets = Liabilities + \begin{matrix} Owner's \\ Equity \end{matrix}$$

Financial Statements

- Financial statements have two parts:
 - 1 The first part includes the following:
 - name of the entity
 - title of the statement
 - date or period covered
 - 2 The second part is the body of the statement.

Financial Statements

- balance sheet
- income statement
- statement of cash flows
- statement of owner's equity or retained earnings

Accounting for Business Transactions

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Journal and Ledger

- What is a journal?
 - It is a list in chronological order of all the transactions for a business.
- What is a Ledger?
 - A record of transactions affecting a particular account. Each Account has its own page.

EMBA5401 Accounting

The Accounting Cycle
Accrual Basis Accounting
Realization and Matching Principles
Adjusting Entries

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Accrual-basis vs. Cash-basis Accounting

<p><i>Accrual-basis:</i> Transactions are recorded when revenues are earned or expenses are incurred.</p>	<p><i>Cash-basis:</i> Transactions are recorded when cash is paid or cash is received.</p>
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Accrual Versus Cash Example

- In January 2010, Başak Life Insurance sells a three-year health insurance policy to a business client.
- The contract specifies that the client had to pay 150,000TL in advance.
- Yearly expenses amount to 20,000TL.
- What is the income or loss?

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Accrual Versus Cash Example

(000 omitted)	<i>Accrual-Basis Accounting</i>		
	2010	2011	2012
Revenues	50	50	50
Expenses	20	20	20
Net income (loss)	30	30	30

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Accrual Versus Cash Example

(000 omitted)	<i>Cash-Basis Accounting</i>		
	2010	2011	2012
Cash inflows	150	0	0
Cash outflows	20	20	20
Net income (loss)	130	(20)	(20)

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Realization (recognition) Principle

- When is revenue recognized?
- When it is deemed earned.
- Recognition of revenue and cash receipts do not necessarily occur at the same time.

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The Matching Principle

- What is the matching principle?
- It is the basis for recording expenses.
- Expenses are the costs of assets and the increase in liabilities incurred in the earning of revenues.
- Expenses are recognized when the benefit from the expense is received.

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Matching Expenses with Revenues Example

- Praktiker receives an order for a wood floor for 15,000TL on the last day of May.
- The wood was purchased from the manufacturer for 8,000TL in March of the same year.
- The floor is delivered and installed in June.
- When is income recognized?

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Matching Expenses with Revenues Example

Revenues	15,000
Cost of goods sold	<u>8,000</u>
Net income	7,000

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The Time Period (periodicity) Concept

- It requires that accounting information be reported at regular intervals.

Interacts with the revenue principle and the matching principle

Requires that income be measured accurately each period

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Adjusting Entries

- Assign revenue to the period earned.
- Assign expenses to the period incurred.
- Bring related asset and liability accounts into correct balance.



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Categories of Adjusting Entries

Prepaid expenses

Accrued revenues

Accrued expenses

Unearned revenues

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Prepaid Insurance Example

On January 2, 2011, Praktiker paid 24,000TL for a two-year health insurance policy.

Assets	=	Liabilities	+	Equity

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Prepaid Insurance Example

- What is the journal entry on December 31, 2011?

Assets	=	Liabilities	+	Equity

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Prepaid Insurance Example

- What was the determining factor in matching this expense?

Time



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Supplies Example

- Wood Enterprise started business the beginning of the month.
- 800TL worth of office supplies were purchased on November 15, 2011, for cash.



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Supplies Example



Assets	=	Liabilities	+	Equity

An inventory at month end indicated that 200TL in office supplies remained.
What is the supplies expense?

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Supplies Example

Assets	=	Liabilities	+	Equity

What needs to be done to reduce the balance of office supplies to 200TL

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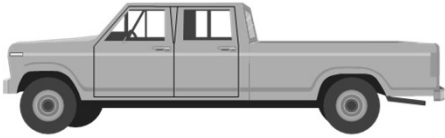
What was the determining factor in matching this expense?

Usage

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Depreciation Example

- On January 2, Wood Enterprise purchased a truck for 30,000TL cash.
- The truck is expected to last for 3 years.



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Depreciation Example

- The cost of the truck must be matched with the accounting periods in which it was used to earn income.
- What is the journal entry for the year ended December 31, 2011?

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Depreciation Example

Dec. 31, 2011

Assets		=	Liabilities		+	Equity	
Accum. Depr.	-10000					Depreciation Exp.	-10000

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Contra Accounts

A contra account has a companion account.

Accumulated depreciation is a contra account to plant assets.

A contra account's normal balance is opposite that of the companion account.

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Trial Balance

- Listing of all accounts and their balances in the following order:
 - Assets
 - Liabilities
 - Equity (including rev and exp)

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Permanent and Temporary Accounts

- What accounts never close?
 - Assets
 - Liabilities
 - Owner's equity
- Balances of permanent accounts carry over to the next period.
- Temporary Accounts (revenue, exp, drawing) are closed at the end of the period)

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