به نام خدا

زبان تخصصی(۱) حسابداری

English For Accounting Students

دکتر رامین رحیمی

دانشگاه فنی و حرفه ای استان گیلان

دانشکده صومعه سرا

Section one:

Balance sheet

The balance sheet, also known as the statement of financial position, presents the assets, liabilities and capital of a business entity at a specific date. Since the balance sheet is an expansion of the basic accounting equation, accounts are generally classified under the three basic headings:

١. Assets: resources the business owns

٢. Liabilities: claims against those resources

٣. Capital or stockholder's equity: the difference between assets and liabilities

In preparing a balance sheet, the general practice is to arrange the assets in the order of liquidity and the liabilities in order of expected payment. By placing the items in a current to long-term sequence, the emphasis is on current solvency. While a variety of captions exist, those listed below are generally accepted.

Assets

(١)Current assets. Current assets are those which are reasonably expected to be converted into cash or used during the normal operating cycle of the business, or within one year, whichever is

longer. They would include cash in banks and on hand, marketable securities used in current operations of the company and accounts receivable, inventory and short-term prepayments.

Note: negative accounts, known as contra assets, under the current asset classification might include allowance for doubtful accounts and notes receivable discounted.

(٢)investment. Long-term investments are usually held for ownership control, appreciation or regular income and include investments in stocks and bonds, advances to subsidiaries and affiliates, and land or other long-lived assets held for investment rather than for current use of the business. Although long-term investments are usually carried at cost, it is advisable to show parenthetically the current market quotations or other estimates of current value.

(٣)property, plant, and equipment. Investments in long-lived physical properties to be used in the production of goods and services are included in this category .this classification may be broken down into three groups:

(a) assets subject to depreciation. Buildings, equipment and machinery, furniture, etc.

(b) assets subject to depletion . mineral deposits, oil , timber and those assets which are extracted and used physically.

(c) Land .Land used for business purposes is considered to have a perpetually useful life and is carried at cost with no depreciation or depletion charges.

(٤)intangible assets. These are long-term assets that have no physical existences but are rights having value. Although most balance sheets list intangible assets in one total, a detailed balance sheer would generally separate them into two categories:

(a)limited legal and useful life-patents, copyrights

(b) no definite life- trademarks, goodwill

Intangible assets are recorded at cost. according to APB opinion no.١٧, all intangibles must be amortized; systematic charges should be made to periods benefited and the period of amortization should not exceed ٤٠ years.

Liabilities and stockholder's equity

(٥)current liabilities. Current liabilities are obligations whose liquidation is expected to require the use of existing current assets of the creation of other current liabilities. this classification includes accounts and notes payable, income taxes payable, cash dividends payable, etc.

(٦)deferred credits. These credits represent income received but not yet earned are included in the total of liabilities because they involve

a commitment to provide goods and services in the future their balances are properly carried forward until the company meets its responsibilities through performance or delivery of goods.

(٧)Long-term liabilities. These are obligations with a maturity longer than one year which are not to be liquidated from current assets. Included in this classification are bonds payable, long-term notes payable, mortgage payable, long-term services contracts, etc. installments due and advances earned in the current period should be shown under current liabilities while the balances are carried as long-term liabilities.

Note: A negative liability account (contra liability) such as discount on bonds payable can be handled in one of two ways(I)as a separate valuation account or (II) as a parenthetical notation reflecting the amount deducted to arrive at the net amount shown in the balance sheet.

(٨)owner's equity. The sole proprietorship is represented by a single capital account and is the cumulative result of the owner's investments and withdrawals as well as profits and losses. In the partnership, a capital account is established for each partner; it summarizes his investments, withdrawals and shares of profits and losses, measuring his individual equity in the business.

However, in the corporation`s equity account , a distinction is made between capital originating from the stockholder`s investment (paid-in capital) and capital originating from income (retained earning). For accounting purposes, paid-in capital consists of two components:

١. capital stock. That portion of the stockholder`s investment carried at par value or, in the case of a no-par issue, at the total purchase price or some value set by law. Ledger capital stock accounts should show class, par value authorized, issued and outstanding.

٢. additional paid-in capital. This includes both positive and negative elements. Additional paid-in capital from shares issued and sold at a price above par or stated value is credited to a separate account with a little descriptive of capital source (i.e., premium on common stock).when stock is sold at less than par ,a discount is reported and an account such as discount on capital stock is debit.

Capital arising from transactions other than the sale of, stock, such as donations of property or sale of treasury stock at amounts greater than cost , is also considered additional paid-in capital.

Forms of the balance sheet

Account form. This form presents the assets by sections on the left side and the liabilities and equity balanced against it on the right side .depending on the type of reader, an appropriate degree of condensation will be applied.

While management demands detailed and complete information, usually supplied by supplementary schedules, stockholders are more interested in condensed the financial statements. Therefore, related items are frequently combined(e.g., finished goods, work in process and raw materials may be combined and listed as inventory).

Statement analysis

It should be clear from the foregoing discussion that the balance sheet provides a basis for analyzing and interpreting the business entity's operations-for a given period and over time.

a primary area of concern to financial statement users is a firm solvency(its ability to meet its financial obligations when due).this is measured by(١)working capital-the excess of current assets over current liabilities , and (٢) the current ratio-the relationship between current assets and current liabilities which, to be acceptable, should be at least ٢to١.

Section Two:

The income statement

Introduction

The business entity's income statement, like the balance sheet and statement of changes in financial position, is an end result of the accounting procedures. It may be defined as a summary of the revenues, expenses and net income of a business entity for a specific period of time, and is sometimes called the earnings statement, operating statement or statement of profit and loss.

Accounting principles and policies

In preparing a firm's the financial statement, the accountants must consider the accounting policies established by its management. Such policies can significantly affect the amount of net income, and must be disclosed, according to APB opinion no.٢٢, as an integral part of all audited financial reports.

Policies of special interest to the analyst, such as inventory, depreciation, pensions and other specified, maters, fall into this category, as do unusual applications of GAAP, industry peculiarities which conflict with GAAP and those which fifer from existing acceptable alternative.

another requirement, established by APB opinion no.٥١,is that the published income statement must disclose net earnings or loss per share.

Format of the income statement

The income statement may be presented in a multiple - step or single-step format. Unlike the balance sheet, which is a position statement at a fixed point in time, the income statement reports activities over a period of time. That is, it summarizes net income for the current fiscal period.

Multiple-step statement.

The multiple-step income statement presents figures significant in the determination of net income. its various classifications define the on-going operations of the business entity, providing a perspective as to its flow of revenues and expenses. The usual multiple-step classifications are:

(١)revenue from sales. **In this section, usually called gross sales, revenue (income) earned from normal operations is summarized. it is offset by the contra income account's , sales returns and allowances and sales discounts.**

(٢) cost of goods sold. This section includes the cost of goods applicable to the revenue obtained for the period. Its presentation is slightly different for a mercantile than a manufacturing company since the

former does not have inventories of raw materials, goods in process, direct labor or manufacturing overhead. It has only furnished goods, called merchandise inventory.

Once the manufacturing schedule is completed, its bottom line (cost of goods manufactured) is incorporated in the cost of goods sold section of the income statement.

(٣)gross profit on sales. This figure is the difference between net sales and cost of goods sold. It is frequently divided by net sales to determine the average percentage of margin for the fiscal period. The same ratio is developed for cost of goods sold and it can easily be been that they are complementary.

(٤)operating expenses. These are often classified according to the major functions of the business(i. e. selling, general and administrative). Terminology may differ as appropriate; however,

taxes on income, extraordinary items and prior period adjustments must be segregated at the bottom of the statement.

Selling expenses typically include sales salaries , commissions, related payroll costs, advertising, store display costs, store supplies used, etc.

general and administrative expenses include officer and office salaries and related payroll taxes, telephone and communication costs, heat , light and power costs, postage and office supplies, legal and accounting costs, etc.

(٥)other income and expenses include all other miscellaneous recurring items. Other income includes, interest, dividends, rents and royalties; other expenses includes interest and miscellaneous expenses.

(٦) income taxes. Total income taxes due is presented as a single figure on the income statement and is applied against the subtotal, net income before income taxes. Income from normal operations is taxed at normal rates. Extraordinary items are often taxed at lower capital gains rates. The applicable tax for each extraordinary item should be deducted and the net amount shown on the income statement.

Note: property, payroll and taxes are properly allocated to the various business functions as normal operating expenses.

(٧)net income. The excess of revenues over expenses. in the multiple-step format, separate captions are generally shown for income before taxes, income before extraordinary items, and net income.

(٨) extraordinary items. Those events and transactions which are material in amount and which are significantly different from the regular activities of the business(APB opinion no.٩).extraordinary or nonrecurring earnings, when included in the income statement, are shown below (separately from) regular earnings.

Single-step statement

A simple, condensed statement devoid of all classification except the general groupings (٥)revenues, and (٢)cost and expenses has been developed for stockholder's reports and other special uses. Section labeling is at a minimum .the single-step format does not recognize intermediate stages such as gross profit from operations or income

before extraordinary items. All income including rents, interest, dividends, etc, is included in the first section.

All costs and expenses are shown in the next , including federal and state taxes on income. this form tends to be compact and relatively uncluttered at the sacrifice of information. generally the costs expenses are classified on the object basis rather than the functional bases.

When the object basis is used, the nature of each cost and expenses rather than whether it serves manufacturing, selling general and administrative, or some other function is the controlling factor. Example of his classification are such broad caption as materials, supplies and services purchased, salaries and wages, and depreciation. The functional basis, on the other hand, expands the income statement to that it includes major classifications such as cost of goods sold, sales revenues and operating expenses as major headings, with applicable sub functions in each category.

It should be noted that the required separation of ordinary and extraordinary items resulting from application of APB opinion no.٩ also applies to the condensed single-step form.

Income statement concepts

Extraordinary item. There have existed over the years differences with respect to the income statement regarding the proper presentation of extraordinary items as well as adjustments and corrections from prior periods. Two procedures are now considered acceptable alternative treatments:

(١)current operating performance concept. Extraordinary items are omitted from the income statement and are closed directly to the statement of retained earnings.

(٢) all-inclusive concept. Extraordinary items are shown separately on the income statement after net income from regular operations but before net income. this procedure is required by the SEC and recommended by the AICPA in opinions nos.٩ and ٣٠.

Other material gains and losses. APB opinions nos.٩ and ٣٠ not only defined clearly what could be considered extraordinary, items but also clarified treatment of material gains and losses not of an

extraordinary nature. Items such as write-downs and write-offs of inventories and receivable(which do not fulfill the dual criteria of being both infrequent in occurrence and unusual in nature)fall into this latter category and are relegated to operating expenses sections

or to a separate section called other income and expenses, both of which appear before the income before extraordinary items figure.

Prior period adjustments.APB opinion no. ٩ **also includes a provision for prior period adjustments, defined as those rare, material, nonrecurring adjustments which:**

(a) are directly related to the business operations of particular prior periods,

(b) are not attributable to business events subsequent to the date of the financial statements for the prior period,

(c) are determined by persons other than internal management, and

(d) were not determinable during the prior period under consideration.

item which meet all four requirements are not included in the calculation of net income but are reported instead (net of tax) in the statement of retained earnings. Settlement of income tax claims or litigation are examples of prior period adjustments.

Combined income and retained earnings statement

Some companies combine these two statements in an effort to present a complete picture of both the elements of net income and the changes in retained earnings. All that required is to continue beyond net income(or net loss) by adding the beginning balance of retained earnings and deducting dividends declared and any other charges against retained earnings.

Section Three:

Classified balance sheet: current assets

The balance sheet is classified into major groups of assets and liabilities in order to facilitate analysis of the entity's financial health. For example, a company's liquidity (its short-term ability to meet current debts with current assets) can be evaluated by looking at the current ratio, which is current assets dividend by current liabilities.

another useful ratio which can be derived is total liabilities to capital; the greater the ratio, the more debt there is in the business, and hence the more risk. Surely, an owner would rather have less of liabilities and more of his or her own capital in a business.

A classified balance sheet generally breaks down assets into five categories: current assets long-term investments; property, plant, and equipment (fixed assets); intangible assets; and deferred charges.

Current assets are those assets which are expected to be converted into cash or used up within one year or the normal operating cycle of the business, whichever is greater. The operating cycle is the time period between the purchase of inventory to transfer of inventory through sales, listed as accounts receivable, and receipt of cash . in effect , the firm is going from paying cash to receiving cash. In most cases, the current assets classification is based upon a life of one year or less.

Examples of current assets are cash, accounts receivable, inventory, and prepaid expenses. Prepaid expenses refer to expenditures made which will expire within one year from the balance sheet date; they represent a prepayment for an expenses which has not yet been incurred. For instance , if there was the entry prepaid insurance of٠٠٠،$$$ as of December ٩٠٠،٠٣xx on a policy which had eight month to run, the account would be listed under current assets.