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جامعة محمد بوضياف – المسيلة
كلية العلوم الاقتصادية والتجارية
وعلوم التسيير
قسم العلوم المالية والمحاسبة

ENGLISH FOR ACCOUNTING & TAXATION

Masters (2)

Course for Master students in Accounting and Taxation

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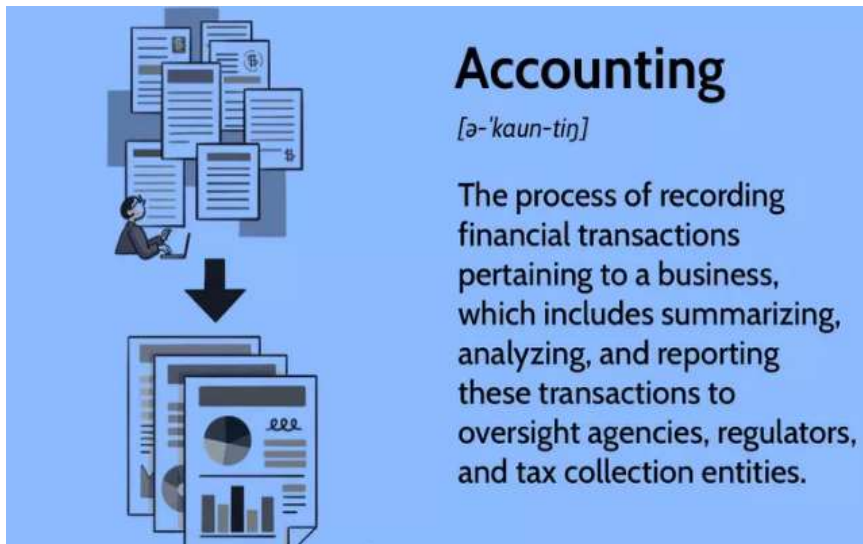
Chapter 1

FINANCIAL ACCOUNTING

➤ **Accounting**

Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities.

The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position, and cash flows.

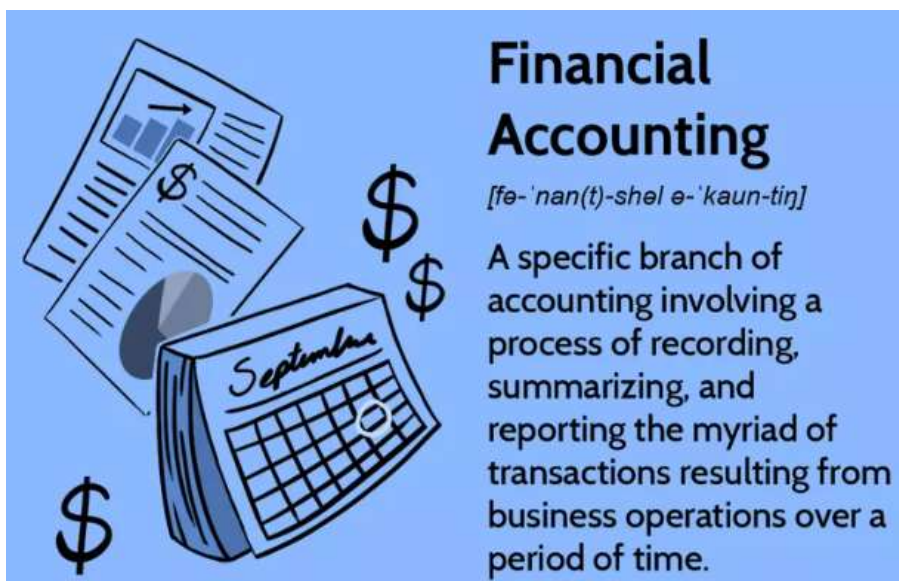


➤ **Financial accounting**

Financial accounting is a specific branch of accounting involving a process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time.

These transactions are summarized in the preparation of financial statements (including: the balance sheet, income statement, and cash flow statement) that record a company's operating performance over a specified period.

Nonprofits, corporations, and small businesses use financial accountants to prepare their books and records and generate their financial reports.



➤ **Financial statements**

• **Balance sheet**

Balance sheet reports a company's financial position as of a specific date. Balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder equity.

The balance sheet is used by management, lenders, and investors to assess the liquidity and solvency of a company.

Liability

Obligations contracted by an organization.
Just like the Assets, liabilities can be current
and non-current



Equity

Amount of money or resources endowed to
an organization



Asset

The assets side of the
Balance Sheet is divided in
Current Assets (which
usually have a life cycle of
one accounting year) + Non-
Current or Long-Term Fixed
Assets (with a life cycle of
more than one accounting
year)



Balance sheet example

TEDDY FAB INC. BALANCE SHEET December 31, 2100	
ASSETS	LIABILITIES AND SHAREHOLDERS' EQUITY
Current assets	Current liabilities
Cash and cash equivalents \$ 100,000	Accounts payable \$ 30,000
Accounts receivable 20,000	Notes payable 10,000
Inventory 15,000	Accrued expenses 5,000
Prepaid expense 4,000	Deferred revenue 2,000
Investments 10,000	<u>Total current liabilities 47,000</u>
<u>Total current assets 149,000</u>	Long-term debt 200,000
Property and equipment	Total liabilities 247,000
Land 24,300	Shareholders' Equity
Buildings and improvements 250,000	Common stock 10,000
Equipment 50,000	Additional paid-in capital 20,000
Less accumulated depreciation (5,000)	Retained earnings 197,100
Other assets	Treasury stock (2,000)
Intangible assets 4,000	<u>Total liabilities and shareholders' equity \$ 472,100</u>
Less accumulated amortization (200)	
Total assets \$ 472,100	

- **Income statement**

Income statement (also known as a “*profit and loss statement*”) is one of the three major financial statements, along with the balance sheet and the cash flow statement, that report a company’s financial performance over a specific accounting period.

Usually issued on a monthly, a quarterly, or an annual basis, the income statement lists revenue, expenses, and net income of a company for a given period. Further, income statement is considered as useful to management.



Income Statement								
Revenue	118,086	131,345	142,341	150,772	165,849	182,434	200,678	218,739
Cost of Goods Sold (COGS)	48,004	49,123	52,654	56,710	69,657	78,447	88,298	98,432
Gross Profit	70,082	82,222	89,687	94,062	96,193	103,987	112,379	120,306
Expenses								
Marketing, Advertising & Promotor	22,658	23,872	23,002	25,245	28,194	31,014	34,115	37,186
General & Administrative	10,125	10,087	11,020	11,412	15,000	15,000	15,000	15,000
Depreciation & Amortization	18,150	17,205	16,544	16,080	7,504	9,003	10,203	11,162
Interest	2,500	1,500	1,500	1,500	3,000	3,000	1,000	1,000
Total Expenses	53,433	52,664	52,066	54,237	53,699	58,017	60,318	64,348
Earnings Before Tax	16,649	29,558	37,622	39,825	42,494	45,970	52,062	55,958
Taxes	4,858	8,483	10,908	11,598	11,898	12,872	14,577	15,668
Net Earnings	11,791	21,075	26,713	28,227	30,596	33,099	37,484	40,290

- **Cash flow statement**

Cash flow statement reports how a company used cash during a specific period.

Cash flow statement is an accounting document that tracks the incoming and outgoing cash and cash equivalents from a business.

Cash flow statement helps identify the availability of liquid funds with the organization in a particular accounting period.



Cash flow statement is broken into three sections:

- **Operations** – These are the costs of a company's core business activities.
- **Financing** – This is money the company receives from taking loans or issuing shares, as well as money paid in interest on loans and dividends to investors.
- **Investments** – This is money that comes from buying and selling the company's investments, such as securities or fixed assets.

Cash flow statement is used to better understand how cash is being spent and received.

CASH FLOW STATEMENT FOR FY 2017	
<i>Operating activities</i>	
Cash receipt (from customers)	\$ 80,000
Cash paid	(60,000)
<i>Investing activities</i>	
Cash receipt from sales	11,000
Equipment cost	(16,000)
<i>Financing activities</i>	
Loan payment	(30,000)
Net cash flow	(15,000)

➤ Classification of financial statements

The statements used in financial accounting cover the five main classifications of financial data, which are:

- **Revenues** – Included here is income from sales of products and services, plus other sources, including dividends and interest.
- **Expenses** – These are the costs of producing goods and services, from research and development to marketing to payroll.
- **Assets** – These consist of owned property, both tangible (buildings, computers) and intangible (patents, trademarks).
- **Liabilities** – These are all outstanding debts, such as loans or rent.
- **Equity** – If you paid off the company's debts and liquidated its assets, you would get its equity, which is what a company is worth.

Revenues and expenses are accounted for and reported on the income statement, resulting in the determination of net income at the bottom of the statement.

Assets, liabilities, and equity accounts are reported on the balance sheet, which utilizes financial accounting to report ownership of the company's future economic benefits.