


Financial Accounting & Management Reporting

“Professional Guidance”




VIA ...

Taher El Taher – CPA
tahir@accbest.com
 Mobile: +97339911210
 January 2021
 Bahrain

- Graduated in Khartoum Polytechnic 1979 and got my CPA US certification in year 2000.
- Worked for Al Essa Co. & Kingdom Holding in Riyadh, Saudi Arabia
- Worked as Consultant & Compliance Officer for the Arab Investment Company, Bahrain.
- In Year 2016, established own Business & Software Consultancy “AccBest” in Bahrain.

1



1

Building the Basic Financial Statements


- Statement of Profit or Loss (Income Statement)
- Statement of Financial Position (Balance Sheet)**
- Statement of Changes in Shareholders Equity
- Statement of Cash Flows

MCQs


Inventory

Shareholders' Equity

Liabilities



2



2

Financial Accounting & Reporting Training Programme - (1)							
Class	Day	Date	from	To	Topic Covered	Progress	
1	Thursday	28-Jan-21	8:30 PM	10:30 PM	The Double Entry System, The Chart Of Accounts	✓	
2	Friday	29-Jan-21	3:00 PM	5:00 PM	Accounting Cycle, Presentation of Basic Financial Statements	✓	
3	Saturday	30-Jan-21	8:30 PM	10:30 PM	Transactions, Accounting Entries & Trial Balance, GL	✓	
4	Thursday	4-Feb-21	8:30 PM	10:30 PM	The Adjusting Entries & The Matching Principle	✓	
5	Friday	5-Feb-21	3:00 PM	5:00 PM	Depreciations of Fixed Assets & Amortizations	✓	
6	Saturday	6-Feb-21	8:30 PM	10:30 PM	Adjusted TB, Profit or Loss - Preparation & Components	✓	
7	Thursday	11-Feb-21	8:30 PM	10:30 PM	Statement of Profit or Loss - Preparation & Components	✓	
8	Friday	12-Feb-21	3:00 PM	5:00 PM	Statement of Profit or Loss - Preparation & Components	✓	
9	Saturday	13-Feb-21	8:30 PM	10:30 PM	Statement of Financial Position - Preparation & Components	✓	
10	Thursday	18-Feb-21	8:30 PM	10:30 PM	Statement of Financial Position - Preparation & Components	✓	
11	Friday	19-Feb-21	3:00 PM	5:00 PM	Statement of Financial Position - Preparation & Components	✓	
12	Saturday	20-Feb-21	8:30 PM	10:30 PM	Statement of Cash Flows - Preparation & Components		
13	Thursday	25-Feb-21	8:30 PM	10:30 PM	Statement of Cash Flows - Preparation & Components		
14	Friday	26-Feb-21	3:00 PM	5:00 PM	Statement of Cash Flows - Preparation & Components		
15	Saturday	27-Feb-21	8:30 PM	10:30 PM	Statement of Cash Flows - Preparation & Components		
16	Thursday	4-Mar-21	8:30 PM	10:30 PM	Notes to the Financial Statements		
17	Friday	5-Mar-21	3:00 PM	5:00 PM	Financial Ratios - Practical Applications		
18	Saturday	6-Mar-21	8:30 PM	10:30 PM	Value Added Tax "VAT" - Basics & Accounting		
19	Thursday	11-Mar-21	8:30 PM	10:30 PM	Report to Your Boss! - Sample Management Report		
20	Friday	12-Mar-21	3:00 PM	5:00 PM	Course Summary, Closing & Distribution of Certificates		

3

Statement of Financial Position – Q & A

Q. 47
When customers make purchases with a credit card, the retailer,

- is responsible for maintaining customer accounts.
- is not involved in the collection process.
- absorbs any losses from uncollectible accounts.
- receives cash equal to the full price of the merchandise sold from the credit card company.

Q. 48
An aging of a company's accounts receivable indicates that 6,000 are estimated to be uncollectible.
If Allowance for Doubtful Accounts has a 2,000, debit balance, the adjustment to record bad debts for the period will require a

- debit to doubtful receivables expense for 8,000.
- debit to allowance for doubtful accounts for 8,000.
- debit to doubtful receivables expense for 4,000.
- credit to allowance for doubtful accounts for 4,000.

Answer (b) is correct

Answer (a) is correct

4

Statement of Financial Position – Q & A

Q. 49

Using the percentage-of-receivables method for recording bad debt expense, estimated uncollectible accounts are 45,000.

If the balance of the Allowance for Doubtful Accounts is 6,000 credit before adjustment, what is the amount of bad debt (doubtful debts) expense for that period?

- a) 45,000
- b) 39,000
- c) 51,000
- d) 6,000

Answer (b) is correct

Q. 50

Non-trade receivables should be reported separately from trade receivables. Why is this statement either true or false?

- a) It is true because trade receivables are current assets and non-trade receivables are long term.
- b) It is false because all current receivables must be grouped together in one account.
- c) It is true because non-trade receivables do not result from business operations (sales, revenue) and should not be included with accounts receivable.
- d) It is false because management can decide how to report receivables.

Answer (c) is correct

5

Statement of Financial Position – Q & A

Q. 51

The best definition of assets is the ...

- a) cash owned by the company.
- b) collections of resources belonging to the company and the claims on these resources.
- c) owners' investment in the business.
- d) resources belonging to a company that have future benefit to the company.

Answer (d) is correct

Q. 52

Financial securities which can be changed into cash to their book value price within 3 months are categorized as:

- A) Short-term Investments
- B) Inventories
- C) Long-term Investments
- D) Cash Equivalents.

Answer (d) is correct

6

Statement of Financial Position – Q & A

Q. 53

Inventories, cash and cash equivalents, and accounts receivable fall under which category in the Statement of Financial Position?

- A) Earnings on Income Statement
- B) Payments on Income Statement
- C) Assets on the Balance Sheet
- D) Liabilities on the Balance Sheet

Answer (c) is correct

Q. 54

Financial securities which can be changed into cash to their book value price within 3 months are categorized as:

- A) Short-term Investments
- B) Inventories
- C) Long-term Investments
- D) Cash Equivalents.

Answer (d) is correct

7

Statement of Financial Position – Q & A

Q. 55

HSA reported the following financial information as of December 31, 2019:

Sales revenue 1,120,000,	Common stock 240,000
Buildings 320,000,	Operating expenses 1,000,000
Cash 280,000,	Inventory 40,000,
Dividends 80,000	Accounts payable 160,000
Accounts receivable 120,000,	Retained earnings, 1/1/2019, 600,000

Rodger's assets on December 31, 2019 are?

- A. 1,880,000.
- B. 1,360,000.
- C. 640,000.
- D. 760,000.

Buildings 320,000,
Cash 280,000,
Inventory 40,000,
Accounts receivable 120,000,

Answer D. is correct.

8

Statement of Financial Position

Current Assets

Inventory

▪ What is Inventory?

- Inventory is a current asset account presented on the Statement of Financial Position.
- Inventory consists of all raw materials, work-in-progress, and finished goods that a company has accumulated.
- It is often deemed the most **illiquid** of all current assets and, thus, it is excluded from the numerator in the quick ratio calculation.
- Inventory arises when goods are purchases or produced
 - When goods are purchased e.g. for 50,000:

Dr. Inventory	50,000
Cr. AP / Bank / Cash	50,000

Statement of Financial Position

الأصول المتداولة:

المخزون السلعي / مخزون البضاعة

- ما هو المخزون السلعي / مخزون البضاعة؟
- المخزون السلعي هو حساب يقع ضمن الأصول المتداولة في قائمة المركز المالي.
- يتكون المخزون من جميع المواد الخام والأعمال تحت التصنيع والسلع الجاهزة (المنتجة) التي تحتفظ بها الشركة.
- غالبًا ما يُعتبر المخزون العنصر الأقل سيولة من بين جميع الأصول المتداولة، وبالتالي، يتم استبعاده من البسط عند احتساب نسبة السداد السريع quick ratio.
- ينشأ المخزون عندما يتم شراء البضائع أو إنتاجها، مثال: عند شراء بضائع مقابل 50,000:

من ح المخزون	50,000
إلى ح الموردين / البنك / النقد	50,000

Statement of Financial Position

Current Assets

Inventory

- **How do we Determine the balance of Inventory?**
- The ending balance of inventory for a period depends on the volume of sales a company makes in each period.
- The formula for this is as follows:
 - **Ending Inventory = Beginning Balance + Purchases – Cost of Goods Sold**
- Higher sales (and thus higher cost of goods sold) leads to draining the inventory account.
- The conceptual explanation for this is that raw materials, work-in-progress, and finished goods (current assets) are turned into revenue.
- Inventory values can be calculated by multiplying the number of items on hand with the unit price of the items.
- **Inventory is valued using the lower of the market price or cost to the company.**

11

Statement of Financial Position

الأصول المتداولة:

المخزون السلعي / مخزون البضاعة

- كيف نحدد رصيد المخزون في نهاية الفترة المالية؟
- يعتمد الرصيد النهائي للمخزون لفترة ما على حجم المبيعات التي حققتها الشركة خلال الفترة.
- المعادلة المعروفة لذلك هي:
 - **المخزون الختامي = رصيد الافتتاحي + المشتريات خلال الفترة - تكلفة البضائع المباعة**
- يؤدي ارتفاع المبيعات (وبالتالي ارتفاع تكلفة البضائع المباعة) إلى استنزاف حساب المخزون.
- التفسير المفاهيمي لذلك هو أن المواد الخام والأعمال تحت التصنيع السلع المنتجة (التامة الصنع) (الأصول المتداولة) تحولت إلى إيرادات.
- يتم تقييم المخزون وفق مبدأ سعر السوق أو التكلفة أيهما أقل.

12

Statement of Financial Position

Current Assets

Inventory

▪ Inventory and COGS

- Ending inventory is also determined by the accounting method for Cost of Goods Sold.
- There are four main methods of inventory calculation: namely:
 - FIFO ("First in, First out"), LIFO ("Last in, First out"), Weighted-Average, and the Specific Identification method.
- These all have certain criteria to be applied and some methods may be prohibited in certain countries, under certain accounting standards.
- In an inflationary period, LIFO will generate higher Cost of Goods Sold than the FIFO method. As such, using the LIFO method would generate a lower inventory balance than the FIFO method.

Statement of Financial Position

Current Assets

Inventory

- المخزون وتكلفة البضاعة المباعة:
- يتم تحديد رصيد المخزون الختامي أيضاً بطريقة احتساب تكلفة البضائع المباعة.
- هناك أربع طرق رئيسية لحساب المخزون وهي:
 - FIFO ("الوارد أولاً يصرف أولاً")، LIFO ("الوارد أخيراً ، يصرف أولاً")، المتوسط المرجح، وطريقة التعريف المحددة.
- كل هذه الطرق لديها سياسات ومعايير معينة لتطبيقها، وقد يتم حظر بعض هذه الطرق في بعض البلدان، بموجب معايير محاسبية معينة.
- في بيئة تضخمية، سينتج عن LIFO تكلفة أعلى للبضائع المباعة مقارنة بطريقة FIFO.
- على هذا النحو، فإن استخدام طريقة LIFO سينتج عنها رصيد مخزون أقل مقارنة بطريقة FIFO.

Statement of Financial Position

HAS Company Statement of Financial Position (as of January 31, 2018)	
Assets	
Non-current assets	
Motor Vehicles (net)	18,000
Software Licenses (net)	10,000
Total non-current assets	28,000
Current assets	
Bank Account	69,688
Accounts Receivable (AR)	50,000
Inventory	50,000
Prepaid expenses	4,500
Total Current assets	174,188
Total Assets	202,188
Shareholders' Equity	
Share Capital	60,000
Retained Earnings	8,188
Total Shareholders' Equity	68,188
Liabilities	
Non-current liabilities	
Long Term loan	50,000
Total non-current liabilities	50,000
Current liabilities	
Accounts Payable	80,000
Accrued Expenses	4,000
Total Current liabilities	84,000
Total Liabilities	134,000
Total Liabilities & Shareholders' Equity	202,188

15

Statement of Financial Position

Shareholders' (Owners') Equity:

▪ Composition:

- **Share Capital:** what owners invested as share capital – issued and paid-up: **common/preferred**
- **Additional Paid-In Capital "APIC":** additional paid capital, or owners' contribution in excess of the par or stated value of the shares issued.
- **Retained Earnings:** business profits that have not been distributed as dividends.
- **Reserves: Statutory, General** etc: Statutory Reserve is required by Governments, e.g. 50% of Retained Earning. General is decided by the Company management.
- **Accumulated Other Comprehensive Income "OCI":** items of profit or loss those are not reported through the Statement of Profit or Loss (Income Statement), instead they are reported directly to the shareholders' equity.
- **Treasury Stock:** amount of company own stock repurchased from the market and reported as contra-equity account. Treasury Stock reduces the shareholders' equity value.

16

Statement of Financial Position

حقوق الشركاء / المساهمين (الملاك):

مكونات حقوق الشركاء / المساهمين:

- **رأس المال:** ما يستثمره الملاك / المساهمون في صورة رأس مال مطروح ومدفوع: **عادية/ممتازة**
- **رأس المال الإضافي المدفوع "APIC":** رأس المال الإضافي المدفوع، أو مساهمة المالكين التي تزيد عن القيمة الاسمية أو القيمة المعلنة للأسهم المطروحة.
- **الأرباح المحتجزة (المحتفظ بها):** أرباح الأعمال التي لم يتم توزيعها كأرباح للملاك / المساهمين.
- **الاحتياطات: قانونية، عامة، إلخ:** احتياطي قانوني من مطلوب قبل الحكومات، على سبيل المثال 50٪ من الأرباح المحتجزة. احتياطي عام يتم تجنبه نتيجة قرار داخلي من قبل إدارة الشركة
- **الدخل الشامل الآخر المتراكم "OCI":** عبارة عن بنود الربح أو الخسارة التي لم يتم بيانها من خلال قائمة الربح أو الخسارة (بيان الدخل) ، بدلاً من ذلك يتم بيانها مباشرة في حقوق المساهمين.
- **أسهم الخزينة:** قيمة أسهم مملوكة للشركة يتم شراؤها من السوق من قبل نفس الشركة. يتم بيانها كحساب مقابل في حقوق الملكية. بالطبع فإن أسهم الخزينة تقلل من قيمة حقوق المساهمين.

Statement of Financial Position

▪ Shareholders' (Owners') Equity:

▪ Statement of Comprehensive Income

- A statement of comprehensive income contains two main things:
 1. **Net Income for the period** – represents the result obtained by preparing a Statement of Profit or Loss - Income Statement, and
 2. **Other Comprehensive Income (OCI)** – (consists of all the other items that are excluded from the income statement).
 as follows:

1. Net Profit (Loss)	150,000
2. Other Comprehensive Income:	
Other Comprehensive Income - Unrealized Gain from Investments	<u>50,000</u>
Comprehensive Income	<u>200,000</u>

Statement of Financial Position

حقوق المساهمين (الملاك):

مكونات حقوق المساهمين - قائمة الدخل الشامل الآخر

- يحتوي بيان الدخل الشامل على بندين رئيسيين:
 - (1) صافي الدخل للفترة، ويمثل نتائج نشاط الشركة من قائمة الربح أو الخسارة، و
 - (2) الدخل الشامل الآخر، ويتكون من جميع البنود الأخرى المستبعدة من بيان قائمة الربح أو الخسارة.
- بالشكل الآتي:

150,000	(1) صافي الأرباح (الخسائر) للفترة
50,000	(2) الدخل الشامل الآخر:
_____	الدخل الشامل الآخر - إيرادات استثمارية غير محققة
<u>200,000</u>	الدخل الشامل:

Statement of Financial Position

▪ Shareholders' (Owners') Equity:

▪ Other Comprehensive Income (OCI)

• What's included in Other Comprehensive Income?

- Other comprehensive income is shown on a company's balance sheet.
- It is similar to Retained Earnings which is impacted by net income.
- However; OCI includes those items that are *excluded* from net income.

○ Common items included in the OCI account include:

- Unrealized gains or losses on investments available for sale.
- Unrealized gains or losses on debt securities.
- Unrealized gains or losses on derivatives held as cash flow hedges.
- gains or losses on foreign currency translation adjustments.
- Pension plan gains or losses, or Employee Benefits using the "Actuarial System"

Statement of Financial Position

حقوق المساهمين (الملاك):

مكونات حقوق المساهمين - قائمة الدخل الشامل الآخر

- ماذا يتضمن الدخل الشامل الآخر؟
 - يتم عرض الدخل الشامل الآخر في الميزانية العمومية للشركة.
 - إنه مشابه للأرباح المحتجزة التي تتأثر بصافي الدخل.
 - لكن، يتضمن الدخل الشامل الآخر البنود المستبعدة من صافي الدخل، مثل:
 - أرباح أو خسائر غير محققة من استثمارات متاحة للبيع.
 - مكاسب أو خسائر غير محققة من الاستثمار في سندات الدين.
 - مكاسب أو خسائر غير محققة من المشتقات المحتفظ بها كتحوطات للتدفقات النقدية.
 - المكاسب أو الخسائر الناتجة عن تعديلات تحويل العملات الأجنبية.
 - مكاسب أو خسائر خطة التقاعد، / مستحقات الموظفين باستخدام نظام الأكتواري

Statement of Financial Position

▪ Shareholders' (Owners') Equity:

▪ Other Comprehensive Income (OCI)

• Importance of Other Comprehensive Income

- OCI helps when evaluating company's earnings and overall profitability.
- While the income statement remains a primary indicator of the company's profitability from its operations, OCI improves the reliability and transparency of company's profitability & financial reporting.
- For example, an analyst can obtain insight regarding the management of the company's investments. The reported investments' unrealized gains/losses may forecast the company's actual, realized gains or losses on its investments.
- Also, if a company runs overseas operations, OCI can enhance the understanding of the results of the company's foreign operations and assess the impact of foreign exchange fluctuations on the company's profitability.
- There's no need to report OCI if company has no OCI item(s) for the reported period.
- Accumulated Other Comprehensive Income (AOCI) is reported in a separate line in B/S.

Statement of Financial Position

حقوق المساهمين (الملاك):

مكونات حقوق المساهمين – الدخل الشامل الآخر

■ ما هي أهمية الدخل الشامل الآخر؟

- تساعد قائمة الدخل الشامل الآخر في تقييم أرباح الشركة التشغيلية وغير التشغيلية (الأخرى).
- بينما يظل بيان الدخل مؤشراً أساسياً لربحية الشركة من عملياتها التشغيلية، تعمل قائمة الدخل الشامل الآخر على تحسين موثوقية وشفافية ربحية الشركة وإعداد التقارير المالية ذات الصلة.
- على سبيل المثال، يمكن للمحلل المالي إلقاء نظرة ثاقبة بشأن إدارة استثمارات الشركة، فقد يمكن التنبؤ بالمكاسب / الخسائر غير المحققة للاستثمارات المسجلة بالمكاسب أو الخسائر الفعلية أو المحققة للشركة على استثماراتها مستقبلاً.
- أيضاً، إذا كانت الشركة تدير عمليات في الخارج، فيمكن تعزيز فهم نتائج العمليات الخارجية للشركة وتقييم تأثير تقلبات أسعار الصرف على ربحية الشركة.
- بالطبع ليست هناك حاجة لعرض بيان قائمة الدخل الشامل الآخر إذا لم يكن لدى الشركة عنصر / عناصر ذات صلة للفترة المالية تحت الإعداد.
- يتم بيان الدخل الشامل المتراكم الآخر في سطر منفصل ضمن حقوق الشركاء.

Property, Plant & Equipment, and Intangible Assets

– Q & A

Q. 56

As of January 1, 2017, HSA had a balance in its retained earnings account of 100,000.

During the year HSA had revenues of 80,000 and expenses of 45,000.

In addition, the business paid cash dividends of 20,000.

What is the balance in Retained Earnings on December 31, 2017 for HSA?

- A. 100,000
- B. 115,000
- C. 135,000
- D. 155,000

Sales	80,000
Less expenses	(45,000)
Net Profit	35,000

RE at beginning of year	100,000
Less Dividends paid	(20,000)
Balance RE	80,000
Add net profit for this year	35,000
RE at year end	115,000

Answer B. is correct.

Property, Plant & Equipment, and Intangible Assets

– Q & A

Q. 57

On the Statement of Financial Position (balance sheet), accruals (accrued expenses), notes payable, and accounts payable are listed under which category?

- A) Current Liabilities
- B) Accumulated Liabilities
- C) Noncurrent Liabilities
- D) Accrued Liabilities

Answer (A) is correct

Q. 58

A firm buys products but does not pay to suppliers instantly. This is recorded as:

- A) Account Receivable
- B) Account Payable
- C) Accumulated Liabilities
- D) Current Liabilities

Answer (B) is correct

25

Property, Plant & Equipment, and Intangible Assets

– Q & A

Q. 59

Dividends are reported on the

- A. income statement.
- B. retained earnings account.
- C. balance sheet.
- D. income statement and balance sheet.

Answer (B) is correct

Dividends are deducted (taken from) the retained earnings of the Company.

Dividends are not an expense on the income statement, they are rather a reward to the shareholders distributed when there are sufficient retained earnings and cash to pay.

Q. 60

HSA started the year with total assets of 210,000 and total liabilities of 120,000. During the year the business recorded 330,000 in revenues, 165,000 in expenses, and dividends of 60,000.

The **net income** reported by HSA for the year was:

- A. 120,000.
- B. 150,000.
- C. 195,000.
- D. 165,000.

Answer (D) is correct

26

Property, Plant & Equipment, and Intangible Assets

– Q & A

Q. 61

The shares on which there is no any pre-fixed rate of dividend is decided, but the rate of dividend is fluctuating every year according to the availability of profits, such share are called:

- (A) Equity Shares / Common Shares
- (B) Non-cumulative preference share
- (C) Non-convertible preference share
- (D) Non-guaranteed preference share

Answer (A) is correct

Q. 62

To whom dividend is given at a fixed rate in a company?

- (A) To equity shareholders
- (B) To preference shareholders
- (C) To debenture holders
- (D) To promoters

Answer (B) is correct

27

Statement of Financial Position

HAS Company Statement of Financial Position (as of January 31, 2018)

Assets		Shareholders' Equity	
Non-current assets		Share Capital	60,000
Motor Vehicles (net)	18,000	Retained Earnings	8,188
Software Licenses (net)	10,000	Total Shareholders' Equity	68,188
Total non-current assets	28,000	Liabilities	
Current assets		Non-current liabilities	
Bank Account	69,688	Long Term loan	50,000
Accounts Receivable (AR)	50,000	Total non-current liabilities	50,000
Inventory	50,000	Current liabilities	
Prepaid expenses	4,500	Accounts Payable	80,000
Total Current assets	174,188	Accrued Expenses	4,000
Total Assets	202,188	Total Current liabilities	84,000
		Total Liabilities	134,000
		Total Liabilities & Shareholders' Equity	202,188

28

Thank You!

AccBest
Business & Management Consultancy
شركة استشارات الأعمال والإدارة

29