

Real Estate Finance & Investment

Prepared by Dr. Emad Zaher
Assistant Professor of Accounting

REA 631

Lecture (2)
**Basic Financial Concepts &
Financial reports for service and
Merchandising Business**



Learning outcomes

- LO 1** Identify the basic Accounting Equation (Finance&Investment).
- LO 2** Identify the income statement (Profit & loss).
- LO 3** Explain the statement of changes in owner's Equity.
- LO 4** Describe the classified balance sheet(Statement of financial position).

BASIC ACCOUNTING EQUATION

**Investment
Resources**



Assets



100.000

=

**Finance
Obligations**



Liabilities



40.000

+

**Finance
Capital**



Owner's Equity



60.000

Accounting Equation (Balance sheet Equation)



Debit

Assets

100,000

=



liabilities

40,000

Credit

+



Owner's Equity (Capital)

60,000

Credit

Fixed Assets (Long- term)

Land (Debit)
Building (Debit)
Machines (Debit)
Equipment (Debit)
Furniture (Debit)
Trucks (Debit)

Current Assets (Short term)

Cash (Debit)
Accounts Receivable (Debit)
Notes Receivable (Debit)
Supplies (Debit)
Prepaid expense (Debit)

Short-term Liabilities

Account payable (Credit)
Notes payable (Credit)
Bank overdraft (Credit)
Expense payable (Credit)
Unearned Revenue (Credit)

Long-term Liabilities

Long term loans (Credit)
Bonds Payable (Credit)

By Dr.Emad Zaher

Owners capital (Credit)

Drawings (Debit)

revenues (Credit)

-

Expenses (Debit)



Net income



Revenues > Expenses = Profit (Credit)

Revenues < Expenses = Loss (Debit)

The Four Basic Financial Statements

Financial Statements are prepared directly from the Trial Balance.

Companies prepare four financial statements:



**Income Statement
(Profit & loss
statement)**

Period of time



**Changes in
owner's Equity
Statement**

Period of time



**Statement of
Financial Position
(Balance Sheet)**

Point in time



**Statement
of Cash Flows**

Period of time

Income Statement

- Reports **revenues** and **expenses** for a specific period of time
- Lists revenues first, followed by expenses
- Shows net income (or net loss)
- Does not include investment and withdrawal transactions between owner and business in measuring net income

Business Name.... Single-Step income statement for the year ended Dec. 31, 2022	
Revenues :	
Sales Revenue	x
Service Revenue	x
Fees Earned	x
Commission Revenue	x
Consulting revenue	x
Dividends Revenue	x
Rental revenue	x
Total Revenues	xx
Expenses:	
Salary expenses	(x)
Wages expenses	(x)
Rent expenses	(x)
Utility expense	(x)
Repair expense	
Insurance expense	(x)
Interest expense	(x)
Depreciation expense	(x)
Advertising expense	(x)
Supplies expense	(x)
Total expenses	(xx)
Net income	xx

**Revenues and expenses determine if a net income
or net loss occurs as follows:**

- a. Revenues $>$ Expenses: Net Income(**Profit**).**
- b. Revenues $<$ Expenses: Net Income (**loss**).**

Changes in Owner's Equity Statement

- Reports **changes** in owner's equity for a specific period of time
- Time period is the same as that covered by the income statement

Business Name.... Changes in Owner's equity statement For the year ended Dec 31.2024	
Beginning Capital	×
Add (+)	+
Additional Investment	×
Net income (Profit)from the income statement	×
Less (-)	
Drawings (Withdrawals)	(×)
Net income (Loss)from the income statement	
Ending Capital	××

Statement of Financial Position (**Balance sheet**)

- Reports **assets, liabilities, and owner's equity** at a specific date
- Lists assets at top, followed by liabilities and owner's equity
- Total assets **must equal** total owner's equity and liabilities
- Snapshot of company's financial condition at a specific moment in time (usually month-end or year-end)

Assets		
Current assets		
Cash	XX	
Short-term investment	XX	
Account receivable	XX	
Notes receivable	XX	
Inventories	XX	
Prepaid expenses	XX	
Total current assets		XX
Property, plant, and equipment (Fixed Assets)		XX
Land	XX	
Building (-) Accumulated Depreciation	XX	
Equipment (-) Accumulated Depreciation	XX	
Machinery (-) Accumulated Depreciation	XX	
Furniture (-) Accumulated Depreciation	XX	
Total property, plant, and equipment		XX
Intangible assets	XX	
Goodwill	XX	
Copyright	XX	
Trademark	XX	
Total intangible assets		XX
Total assets	XX	
Liabilities & owner's equity		
Liabilities		XX
Current liabilities		XX
Notes payable	XX	
Account payable	XX	
Unearned revenue	XX	
Total current liabilities		XX
Long term liabilities		
Mortgage payable	XX	
Bank loan payable	XX	
Total long-term liabilities		XX
Total liabilities		XX
Owner's equity		
Capital From the changes in owner's equity statement		XX
Total liabilities & owner's equity		XX

Example (1)

Mohamed Emad has the following Activities during the year:

Service revenue \$52800- Rent expense \$4800 - wages expense \$33080 - advertising expense \$5400- utilities expense \$3600 - Mohamed withdrawals \$2800- Cash \$6200- Accounts receivable \$3000-supplies \$400- land 4000- Accounts payable \$1800 - Mohamed beginning capital \$8680

Required

1. Prepare the income statement.
2. Prepare the statement of owner's equity.
3. Prepare the balance sheet for Mohamed Emad proprietorship.

Mohamed Emad Single-Step income statement for the year ended Dec. 31, 2022	
Revenues :	
Service Revenue	52800
Expenses:	
Rent expenses	(4800)
Wages expenses	(33080)
Advertising expense	(5400)
Utility expense	(3600)
Total expenses	(46880)
Net income	5920

Mohamed Emad Owner's equity statement For the year ended Dec 31.2022	
Beginning Capital	8680
Add (+)	+
Additional Investment	0
Net income (Profit)	5920
Less (-)	
Drawings (Withdrawals)	(2800)
Ending Capital	11800

Mohamed Emad Balance Sheet At the year ended Dec 31.2022		
Assets		
Current assets:		
Cash	6200	
Accounts receivable	3000	
Supplies	400	
		9600
Fixed Assets		
Land	4000	4000
Total Assets		13600
Liabilities and owner's's equity		
Short term liabilities		
Accounts Payable		1800
Long term liabilities		
Loans (If found)		
Owner's equity		
Capital		11800
Total liabilities and Owner's equity		13600

Example(3)

Given the following trial balance:

Account title	Dr	Cr
Cash	100,000	
Accounts receivable	30,000	
Building	90,000	
Accumulated Depreciation -Building		20,000
Equipment	350,000	
Accumulated Depreciation -Equipment		50,000
Notes payable		60,000
Accounts Payable		90,000
Zaher ,Capital		280,000
Zaher , Withdrawals	30,000	
Service revenue		140,000
Salaries expense	20,000	
Insurance expense	8,000	
Advertising expense	9,000	
Rent expense	3,000	
Total	640,000	640,000

Instructions

1. Prepare the income statement.
2. Prepare the statement of owner's equity.
3. Prepare the statement of financial position.

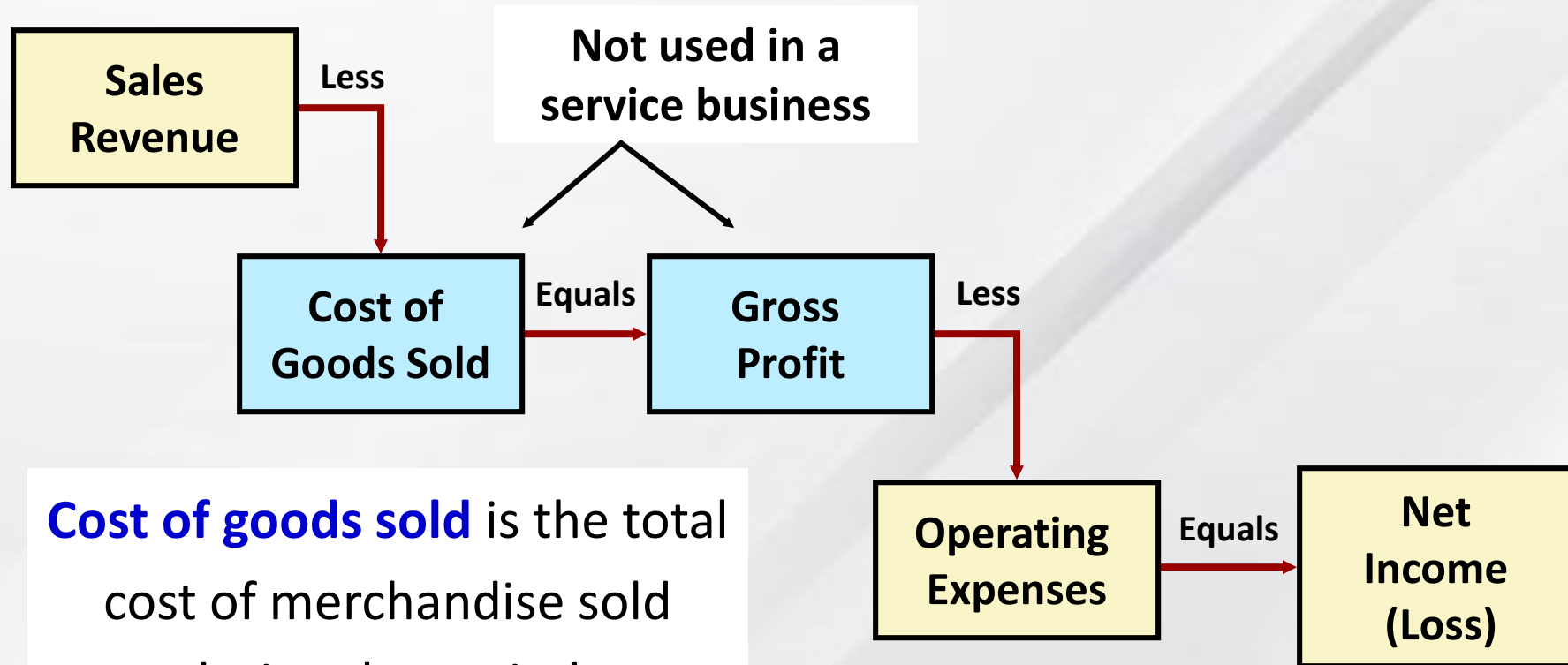
income statement for the year ended Dec. 31, 2022	
Revenues :	
Service Revenue	140000
Expenses:	
Salaries Expense	(20000)
Insurance expenses	(8000)
Advertising Expense	(9000)
Rent expense	(3000)
Total expenses	(40000)
Net income (Profit)	100,000

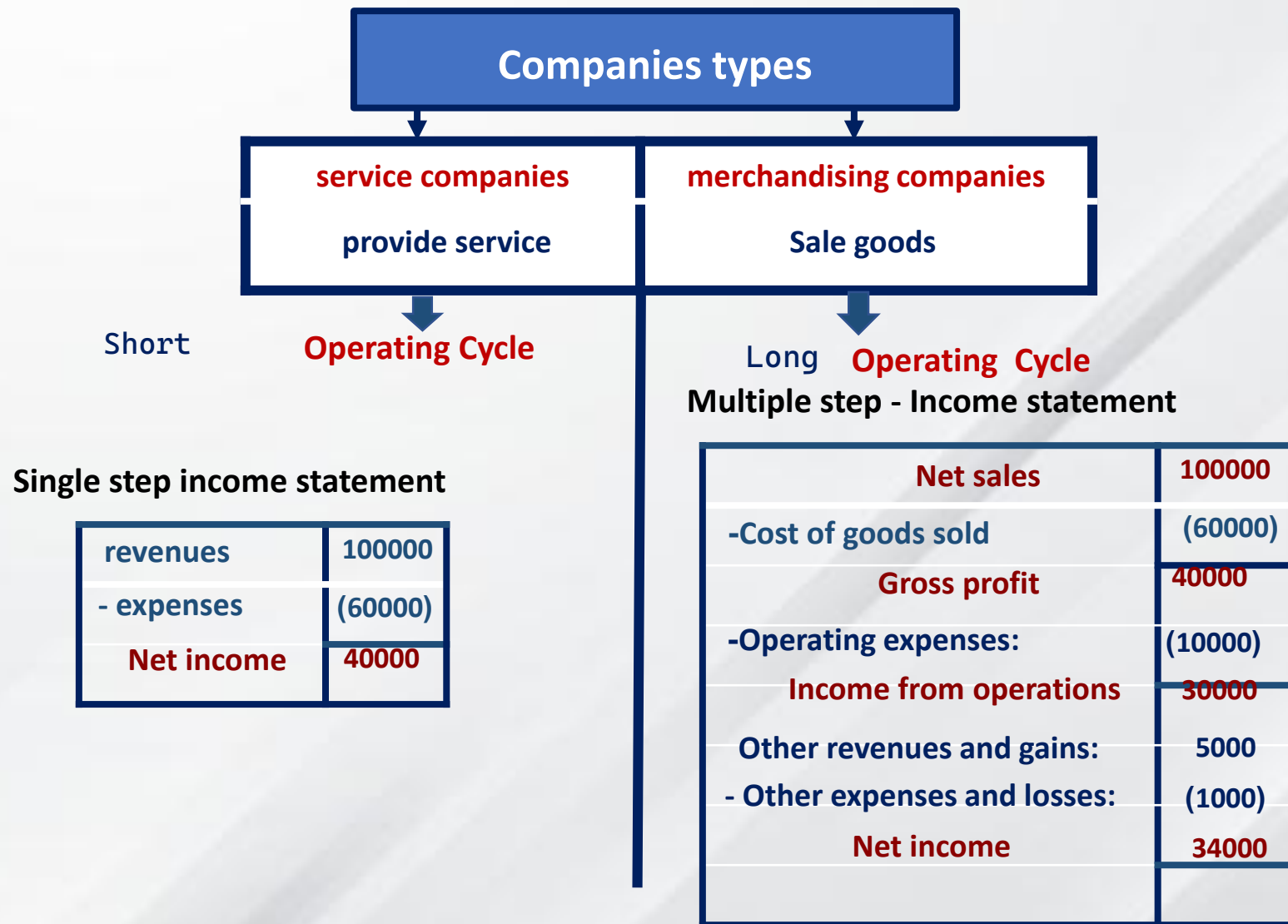
Owner's equity statement For the year ended Dec 31.2022	
Beginning Capital	280,000
Add (+)	+
Additional Investment	Zero
Net income (Profit)	100,000
Less (-)	
Drawings (Withdrawals)	(30,000)
Ending Capital	350,000

Balance Sheet		
At the year ended Dec 31.2022		
Assets		
Fixed assets (Non-Current Assets) :		
Building	90,000	70,000
(-) Accumulated Depreciation	(20,000)	
Equipment	350,000	
(-) Accumulated Depreciation	(50,000)	
		300,000
Current Assets		
Cash		100,000
Accounts receivable		30,000
Total Assets		500,000
Liabilities and stockholder's equity		
Short term liabilities		
Accounts payable		90,000
Notes payable		60,000
Long term liabilities		
Loans (If found)		
Owner's equity		
Capital		350,000
Total liabilities and Owner's equity		500,000

Merchandising Operations

Income Measurement





Companies types

Merchandising companies

Sale goods

Operating Cycle

Multiple step income statement

1- Net sales = Sales - Sales returns and allowance - sales discount

2- gross profit = Net sales - cost of good sold

3- operation income = gross profit - operation expense

4- Net income = operation income + interest revenue and gains - interest expenses and loss

Net sales	100000
-Cost of goods sold	(60000)
Gross profit	40000
-Operating expenses:	(10000)
Income from operations	30000
Other revenues and gains:	5000
- Other expenses and losses:	(1000)
Net income	34000

Nonoperating Activities

Various revenues and expenses and gains and losses that are **unrelated** to company's **main line** of operations.

Other Revenues and Gains

Interest revenue from notes receivable and marketable securities.

Dividend revenue from investments in common stock.

Rent revenue from subleasing a portion of the store.

Gain from the sale of property, plant, and equipment.

Other Expenses and Losses

Interest expense on notes and loans payable.

Casualty losses from recurring causes, such as vandalism and accidents.

Loss from the sale or abandonment of property, plant, and equipment.

Loss from strikes by employees and suppliers.

Multiple -Step income statement for the year ended Dec. 31, 2022		
Sales	x	
- Sales returns & Allowances	(x)	
- Sales discount	(x)	
= Net sales		xx
Cost of goods sold		
Purchases	x	
- Purchases returns	(x)	(-)
- Purchases discount	(x)	
+ Freight- in	x	
= Net purchases		xx
(+) Beginning inventory		x
= Cost of goods available for sale		xx
(-) Ending inventory		(x)
Cost of goods sold		xx
Gross profit		xx
(-) Operating expenses		
Salaries expense		(x)
Advertising expense		(x)
Freight- out		(x)
Rent expense		(x)
Insurance expense		(x)
Total operating expenses		xx
Net operating income		xx
(-) Non operating expenses (Other Expenses & Losses)		
Interest expenses		(x)
Loss on sale of fixed Assets		(x)
Loss from employee strike		(x)
Loss from flood		(x)
Loss from fire		(x)
Loss from earthquakes		(x)
(+) Non operating revenues (Other Revenues & Gains)		
Dividends Revenue		x
Gain on sale of fixed assets		x
Net income		xx

Do IT

The multiple-step income statement for a merchandiser shows each of the following features except:

- a. gross profit.
- b. cost of goods sold.
- c. a sales revenue section.
- ➡ d. investing activities section.

Do IT

Indicate whether the following statements are **true** or **false**.

1. The primary source of revenue for a merchandising company results from performing services for customers.
2. The operating cycle of a service company is usually shorter than that of a merchandising company.
3. Sales revenue less cost of goods sold equals gross profit.
4. Ending inventory plus the cost of goods purchased equals cost of goods available for sale.

Solution: 1. 2. 3. 4.

Multiple step income statement

EX(1)

1- Net sales = Sales - Sales returns and allowance - sales discount
 $= 480000 - 12000 - 8000 = 460000$

2- gross profit = Net sales - cost of good sold
 $= 460000 - 316000 = 144000 \text{ LE}$

3- operation income = gross profit - operation expense
 $= 144000 - 114000 = 30000 \text{ LE}$

4- Net income = operation income + interest revenue and gains
 $30000 + 3000 + 600$
 $- \text{interest expenses and loss}$
 $1800 + 200$
31600

Sales revenue \$480.000 , sales returns and allowances \$ 12.000 , Sales discounts 8.000 , Salaries and wages expense 64.000 , Utilities expense 17.000 , Advertising expense 16.000 , Depreciation expense 8.000 , Freight – out 7.000 , Insurance expense 2.000 , Interest revenue 3.000 , Gain on disposal of plant assets 600 , Interest expenses 1800 , loss from vandalism 200 , Cost of goods sold 316.000

Salaries and wages expense	64.000
Utilities expense	17.000
Advertising expense	16.000
Depreciation expense	8.000
Freight – out	7.000
Insurance expense	2.000
Total operating expenses	114000

DO IT

Enas company gathered the following data for the year ended December 31, 2022: cost of goods sold 690.000 - Net sales 1250.000- Administrative expenses 234.000- interest expense 58.000- dividend revenue 38.000 - loss from employee strike 233.000- selling expenses 45.000.

Required

- 1- Prepare a **single-step income statement** for the year ended December 31, 2022.
- 2- Prepare a **multiple-step income statement** for the year ended December 31, 2022.

Single - step income statement

Revenues;		
Net sales	1250000	
Dividend revenue	38000	
Total revenues		1288000
Expenses :		
Cost of goods sold	690000	
Administrative expenses	234000	(-)
Loss from employee strike	233000	
Interest expense	58000	
Selling expenses	45000	
Total expenses		1260000
Net income		28000

Multiple step income statement

Net sales		1250000
Less : Cost of goods sold		(690000)
Gross profit		560000
Less: Operating expenses:		
Administrative expenses	234000	(-)
Selling expenses	45000	
Total operating expenses		279000
Net operating profit		281000
Less: Non-Operating expenses		
Loss from employee strike		(233000)
Interest expense		(58000)
Add: Non-Operating revenues		
Dividend revenue		38000
Net profit		28000

DO IT

Purchase	100.000
Purchase returns	3000
Purchase discount	7000
Freight in	4000

Merchandise inventory

Beginning of the period	25.000
Ending of the period	30.000

Required

Using periodic systems:

- 1) **Compute net purchases.**
- 2) **Compute cost of goods available for sale.**
- 3) **Compute cost of goods sold.**

$$1) \text{ Net purchases} = \text{Purchases} - \text{Purchases returns and allowance} - \text{Purchase discount} + \text{Freight in}$$

$$\begin{aligned} \text{Net purchases} &= 100.000 - 3.000 - 7.000 + 4.000 \\ &= 94.000 \end{aligned}$$

$$2) \text{ Cost of goods available for sales} = \text{Beginning inventory} + \text{Net purchases}$$

$$\begin{aligned} &= 25.000 + 94.000 \\ &= 119.000 \end{aligned}$$

$$3) \text{ Cost of goods sold} = \text{Cost of goods available for sales} - \text{Ending inventory}$$

$$\begin{aligned} &= 119.000 - 30.000 \\ &= 89.000 \end{aligned}$$

Multiple Choice Questions

1. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

What is the company’s net income for the year ending December 31, 2014?

- a. \$12,000
- b. \$28,000
- c. \$42,000
- d. \$133,000

income statement for the year ended Dec. 31, 2014	
Revenues :	
Service Revenue	133000
Expenses:	
Advertising Expense	(21000)
Depreciation expenses	(12000)
Insurance Expense	(3000)
Rent expense	(17000)
Salaries & wages expense	(32000)
Supplies expense	(6000)
Total Expenses	(91000)
Net income (Profit)	42000

The correct Answer is

C

2. Misra Company compiled the following financial information as of December 31, 2023:

Revenues	\$340,000
Owner's Capital (1/1/23)	140,000
Equipment	80,000
Expenses	250,000
Cash	90,000
Owner's Drawings	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	70,000

Misra's owner's equity on December 31, 2023 is

- a. \$90,000.
- b. \$140,000.
- c. \$210,000.
- d. \$250,000.

income statement for the year ended Dec. 31, 2023	
Revenues :	340,000
Less (-)	(-)
Expenses	250000
Net income (Profit)	90,000

Owner's equity statement For the year ended Dec 31.2023	
Beginning Owner's Capital	140,000
Add (+)	+
Additional Investment	Zero
Net income (Profit)	90,000
Less (-)	
Drawings (Withdrawals)	(20,000)
Ending Owner's Capital	210,000

The correct Answer is

C

3.The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

Total current assets =
Accounts receivable
11,000+ Cash 15,000+
Prepaid insurance
6000+ Supplies 4000
= \$36000

The correct Answer is
B

What are total current assets at December 31, 2014?

- a. \$26,000
- b. \$36,000
- c. \$32,000
- d. \$42,000

5 .The income statement for the year 2023 of Nour Emad Co. contains the following information:

Revenues	\$70,000
Expenses:	
Salaries and Wages Expense	\$45,000
Rent Expense	12,000
Advertising Expense	10,000
Supplies Expense	6,000
Utilities Expense	2,500
Insurance Expense	<u>2,000</u>
Total expenses	<u>77,500</u>
Net income (loss)	<u>\$ (7,500)</u>

At **January 1**, 2023, **Nour** reported owner's equity of \$50,000. Owner drawings for the year totalled \$10,000. **At December 31, 2023, the company will report owner's equity of**

- a. \$17,500.
- b. \$32,500.
- c. \$40,000.
- d. \$42,500.

Owner's equity statement For the year ended Dec 31.2023	
Beginning Owner's Capital	50,000
Add (+)	+
Additional Investment	Zero
Net income (loss)	(7500)
Less (-)	
Drawings (Withdrawals)	(10,000)
Ending Owner's Capital	32,500

The correct Answer is
b

7. Misra Company compiled the following financial information as of December 31, 2014:

Revenues	\$340,000
Owner's Capital (1/1/14)	140,000
Equipment	80,000
Expenses	250,000
Cash	90,000
Owner's Drawings	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	70,000

Misra's **assets on December 31, 2014 are**

- a. \$180,000.
- b. \$250,000.
- c. \$360,000.
- d. \$490,000.

$$\begin{aligned}
 &\text{Total Assets=} \\
 &\text{Equipment } 80,000 + \\
 &\text{Cash } 90,000 + \text{Supplies} \\
 &\text{10,000} + \text{Accounts} \\
 &\text{receivable } 70,000 \\
 &= \$250,000
 \end{aligned}$$

The correct Answer is
b

8. As of December 31, 2014, Callexico Company has assets of \$42,000 and owner's equity of \$20,000. What are the liabilities for Callexico Company as of December 31, 2014?

- a. \$22,000.
- b. \$20,000.
- c. \$42,000.
- d. \$62,000.

The correct Answer is a

9. Net income results when

- a. Assets > Liabilities.
- b. Revenues = Expenses.
- c. Revenues > Expenses.
- d. Revenues < Expenses.

The correct Answer is C

10. Owner's capital at the end of the period is equal to

- a. owner's capital at the beginning of the period plus net income minus liabilities.
- b. owner's capital at the beginning of the period plus net income minus drawings.
- c. net income.
- d. assets plus liabilities.

The correct Answer is b



Thank You