Financial Accounting for In-House Counsel

May 30, 2019

Agenda

1. What is Accounting?
2. Purposes of Accounting
3 Principal Accounting Methods
4. GAAP: Definition, Advantages, Reporting Requirements
5. Financial Statements Overview
6. Balance Sheet
7. Cash Flows
8. Income Statement
9. Retained Earnings
10. Key Analysis & Risk Areas
11. Appendix: Terms, Acronyms, Abbreviations and Concepts

Accounting Overview

Why Understanding Basic Concepts of Accounting and Finance is Important

Understanding some of the basic concepts of accounting and finance will enable in-house counsel to better advise their clients on legal considerations in a variety of contexts, such as disclosure obligations, mergers, acquisitions, joint ventures, capital markets transactions, and other business arrangements

- In general, in-house counsel should develop an understanding of the drivers of their companies' overall financial performance, such as the composition of revenue, key areas of cost and expenses, drivers of profitability, as well as sources and uses of cash.
- Consider how these metrics or financial performance indicators have changed over time. What are the trends? What do they suggest about the company's performance? Has the company grown revenue rapidly through acquisition? Does the company manage costs more or less effectively than its competitors? How is the company investing its resources to support future growth and operations?
- Much of this information can be obtained from a company's financial statements and from market and industry research reports

What is Accounting?

The recording of financial transactions plus retrieving, storing, sorting, summarizing, and presenting the information in various reports and analyses.

There are various types of accounting, which include:

- *Financial Accounting*
- *Managerial Accounting*
- *Government Accounting*
- *Tax Accounting*

Purpose of Accounting

Different types of accounting are used for various purposes.

Financial Accounting

- Purpose: to create financial statements in accordance with generally accepted accounting principles (GAAP or US GAAP)
- Basic Financial Accounting Equation:
  - Assets = Liabilities + Stockholders Equity

Management Accounting

- Purpose: to provide a company's management with the information it needs to keep the business financially healthy
  - Analyses and reports are created for internal use only
    - Budgets
    - Estimating selling prices for new products

Government Accounting

- Purpose: for government entities to create financial statements in accordance with standards set by the Governmental Accounting Standards Board (GASB)

Tax Accounting

- Purpose: to comply with government regulations pertaining to income tax reporting

Principal Accounting Methods

Cash Method (aka Cash Basis)

- Commonly used method of accounting in small business.
- Under the cash method, income is not counted until cash (or a check) is actually received, and expenses are not counted until they are actually paid.
- Look at it and forget it! Hardly ever seen in public companies.

Accrual Method (aka Accrual Basis)

- Under the accrual method, transactions are recorded when ordered goods are received, sold products are shipped, or when the services occur, regardless of when the money for them is actually received or paid. In other words, income is counted when the sale occurs, and expenses are counted when you receive the goods or services. You don't have to wait until you see the money, or actually pay money out of your checking account, to record a transaction.

Summary: These methods differ only in the timing of when sales and purchases are credited or debited to your accounts.

1. Which accounting method will result in financial statements that report a more complete picture of a corporation's financial position and a better measure of profitability during a recent accounting year?

GAAP: Definition, Advantages, Requirements

What is GAAP?

- GAAP: **G**enerally **A**ccepted **A**ccounting **P**rinciples
- A common set of accepted accounting principles, standards, and procedures that companies and their accountants must follow when they compile their financial statements
- Standards are set by policy boards, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB)
- Overall, GAAP regulates:
  - **Recognition** of assets, liabilities, revenue, and expenses
  - **Measurement** of each element included in the financial statements
  - **Presentation** requirements for the financial statements
  - **Disclosure** requirements that supplement and explain the financial statements

- **Big picture**: think **accrual accounting** with **full disclosures** of any important financial information

GAAP: Definition, Advantages, Requirements

What are the advantages of using GAAP?

- Creating consistency in the way the company calculates and reports financial information will lead to better decision making and more informed decisions
- GAAP is widely understood by lenders and investors
- Overall, consistent and high-quality GAAP standards contribute to the functioning of our markets

Is my company required to use GAAP?

- The U.S. Securities and Exchange Commission (SEC) requires publicly traded companies to follow GAAP
- Private companies may be required to use GAAP when seeking funding, going through M&A activity, or during certain banking processes

Financial Statements Overview

Introduction to Financial Statements

The financial statements are the documents that are provided to users to help them understand the financial position and performance of the reporting entity. A full set of financial statements includes:

- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Statement of Retained Earnings
- Notes to the Financial Statements

Components of Financial Statements

Statement of Financial Position (Balance Sheet)

- Summarizes the assets, liabilities and equity balances of the business at the end of the reporting period

Statement of Comprehensive Income (Income Statement)

- Summarizes the revenues earned and expenses incurred by the business throughout the whole of the reporting period

Statement of Cash Flows (Cash Flows)

- Summarizes the cash physically paid and received throughout the reporting period

Statement of Retained Earnings (Changes in Equity / Retained Earnings)

- Summarizes the movement in equity balances (share capital, share premium, revaluation reserve and retained earnings) from the beginning of the reporting period to the end

Notes to the Financial Statements

- These comprise the accounting policies disclosures and any other disclosures required to enable the shareholders to make informed decisions about the business

Components of Financial Statements - Example

Company ABC

CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	December 31, 2016	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,334	$ 20,522
Marketable securities	6,647	10,464
Inventories	11,461	16,047
Accounts receivable, net and other	8,339	13,164
Total current assets	45,781	60,197
Property and equipment, net	29,114	48,866
Goodwill	3,784	13,350
Other assets	4,723	8,897
Total assets	$ 83,402	$ 131,310
LIABILITIES AND STOCKHOLDERS' EQUITY		

Company ABC

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31, 2015	2016	2017
Net product sales	$ 79,268	$ 94,665	$ 118,573
Net service sales	27,738	41,322	59,293
Total net sales	107,006	135,987	177,866
Operating expenses:			
Cost of sales	71,651	88,265	111,934
Fulfillment	13,410	17,619	25,249
Marketing	5,254	7,233	10,069
Technology and content	12,540	16,085	22,620
General and administrative	1,747	2,432	3,674
Other operating expense, net	171	167	214
Total operating expenses	104,773	131,801	173,760
Operating income	2,233	4,186	4,106

Company ABC

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31, 2015	2016	2017
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 14,557	$ 15,890	$ 19,334
OPERATING ACTIVITIES:			
Net income	596	2,371	3,033
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs	6,281	8,116	11,478
Stock-based compensation	2,119	2,975	4,215
Other operating expense, net	155	160	202
Other expense (income), net	250	(20)	(292)
Deferred income taxes	81	(246)	(29)
Changes in operating assets and liabilities:			

Primary Users of Financial Statements

Managers require Financial Statements to manage the affairs of the company by assessing its financial performance and position and taking important business decisions

Shareholders use Financial Statements to assess the risk and return of their investment in the company and take investment decisions based on their analysis

Suppliers need Financial Statements to assess the credit worthiness of a business and ascertain whether to supply goods on credit. Suppliers need to know if they will be repaid. Terms of credit are set according to the assessment of their customers' financial health

Prospective Investors need Financial Statements to assess the viability of investing in a company. Investors may predict future dividends based on the profits disclosed in the Financial Statements. Furthermore, risks associated with the investment may be gauged from the Financial Statements. Therefore, Financial Statements provide a basis for the investment decisions of potential investors.

Financial Institutions (e.g. banks) use Financial Statements to decide whether to grant a loan or credit to a business. Financial institutions assess the financial health of a business to determine the probability of a bad loan. Any decision to lend must be supported by a sufficient asset base and liquidity

Balance Sheet

Statement of Financial Position (Balance Sheet)

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Total assets	$ 83,402	$ 131,310
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 25,309	$ 34,616
Accrued expenses and other	13,739	18,170
Unearned revenue	4,768	5,097
Total current liabilities	43,816	57,883
Long-term debt	7,694	24,743
Other long-term liabilities	12,607	20,975
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, $0.01 par value:		
Authorized shares — 5,000		
Issued shares — 500 and 507		
Outstanding shares — 477 and 484	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	17,186	21,389
Accumulated other comprehensive loss	(985)	(484)
Retained earnings	4,916	8,636
Total stockholders' equity	19,285	27,709
Total liabilities and stockholders' equity	$ 83,402	$ 131,310

See accompanying notes to consolidated financial statements.

Demonstrates a company's overall financial status as of one point in time, typically period end

Assets = Liabilities + Owner's Equity

Case studies described herein are for illustrative purposes only.

The Accounting Equation

Balance Sheet Classification

Asset: Something a company owns or controls which is used to derive economic benefit

- Current Asset: held less than one year (i.e. Accounts Receivable)
- Non-Current Asset: held more than one year (i.e. Building)

Liability: Something a company owes to someone else

- Current Liability: Held less than one year (i.e. Accounts Payable)
- Non-Current Liability: Held more than one year (i.e. Long term debt)

Owner's Equity: Something the company owes to its owners

- Share Capital: Owner's investment in the company
- Retained Earnings: Amount of profit or loss (net) remaining within the company after distribution to owners (dividends)

Balance Sheet Questions

Assets = Liabilities + Owner's Equity

2. The balance sheet heading will specify a
   a. Period of Time
   b. Point in Time

3. Which is increased when a company takes out a loan?
   a. Assets and Liabilities
   b. Liabilities and Owner's equity
   c. Shareholder's equity and Liabilities
   d. Assets and Owner's equity

Balance Sheet Questions

Company ABC

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Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, $0.01 par value:		
Authorized shares — 5,000		
Issued shares — 500 and 507		
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Retained earnings	4,916	8,636
Total stockholders' equity	19,285	27,709
Total liabilities and stockholders' equity	$ 83,402	$ 131,310

See accompanying notes to consolidated financial statements.

4. What major event occurred for Company ABC during 2017?
   a. Inventory write-off
   b. Acquisition of company
   c. Legal settlement

5. How is this event reflected on their balance sheet?
   a. Goodwill
   b. Long-term debt
   c. Property and equipment

Case studies described herein are for illustrative purposes only.

Benefits and Limitations of the Balance Sheet

Benefits

- Only financial statement at a point in time as opposed to over a period of time
- Demonstrates a company's liquidity/solvency
- Purchased intangible assets are demonstrated as an asset

Limitations

- Does not demonstrate current ability to generate cash or recent income from operations
- Assets are recorded at historical costs, not current market value
- Estimates are used where actuals are not available and are subject to error
- Non-monetary assets developed by company are not reflected such as brand/reputation, human capital, future demand/loyalty

Cash Flows

Statement of Cash Flows

Company ABC

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31, 2015	2016	2017
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 14,557	$ 15,890	$ 19,334
OPERATING ACTIVITIES:			
Net income	596	2,371	3,033
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs	6,281	8,116	11,478
Stock-based compensation	2,119	2,975	4,215
Other operating expense, net	155	160	202
Other expense (income), net	250	(20)	(292)
Deferred income taxes	81	(246)	(29)
Changes in operating assets and liabilities:			
Inventories	(2,187)	(1,426)	(3,583)
Accounts receivable, net and other	(1,755)	(3,367)	(4,786)
Accounts payable	4,294	5,030	7,175
Accrued expenses and other	913	1,724	283
Unearned revenue	1,292	1,955	738
Net cash provided by (used in) operating activities	12,039	17,272	18,434
INVESTING ACTIVITIES:			
Purchases of property and equipment, including internal-use software and website development	(5,387)	(7,804)	(11,955)
Proceeds from property and equipment incentives	798	1,067	1,897
Acquisitions, net of cash acquired, and other	(795)	(116)	(13,972)
Sales and maturities of marketable securities	3,025	4,733	9,988
Purchases of marketable securities	(4,091)	(7,756)	(13,777)
Net cash provided by (used in) investing activities	(6,450)	(9,876)	(27,819)
FINANCING ACTIVITIES:			
Proceeds from long-term debt and other	353	621	16,231
Repayments of long-term debt and other	(1,652)	(354)	(1,372)
Principal repayments of capital lease obligations	(2,462)	(3,860)	(4,799)
Principal repayments of finance lease obligations	(121)	(147)	(200)
Net cash provided by (used in) financing activities	(3,882)	(3,740)	9,860
Foreign currency effect on cash and cash equivalents	(374)	(212)	713
Net increase (decrease) in cash and cash equivalents	1,333	3,444	1,188
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 15,890	$ 19,334	$ 20,522
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest on long-term debt	$ 325	$ 290	$ 328
Cash paid for interest on capital and finance lease obligations	153	206	319
Cash paid for income taxes, net of refunds	273	412	957
Property and equipment acquired under capital leases	4,717	5,704	9,637
Property and equipment acquired under build-to-suit leases	544	1,209	3,541

See accompanying notes to consolidated financial statements.

Demonstrates a company's overall financial health regarding use of cash during a period

Operating Activities + Investing Activities + Financing Activities = Change in Cash

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Cash Effect

An increase in an asset decreases cash, a decrease in an asset increases cash

An increase in a liability/owner's equity increases cash, a decrease in a liability/owner's equity decreases cash

Cash Flows Classification

Company ABC

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

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Cash Flows from Operating Activities:
Measures period change of a company's current core business activities (i.e. current assets and liabilities)

Cash Flows from Investing Activities:
Measures period change of company's long term assets (i.e. investments, PP&E)

Cash Flows from Financing Activities:
Measures period change of company's long term liabilities and owner's equity (i.e. debt, bonds/stock)

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Benefits and Limitations of the Cash Flows

Benefits

- Shows cash flow of a company and the quality of earnings
- Enables management to plan and control financial operations
- Cash accounting easy to understand
- Not impacted by accounting policies

Limitations

- Does not indicate profit/loss or overall financial position
- Can be misrepresentative with postponement of purchases/payments or excess debt
- Does not include non-cash items

Income Statement

The Income Statement

Revenue	x	
Cost of Sales	x	
Gross Profit		x
Selling Expenses	x	
General and Administrative Expenses	x	
Depreciation Expense	x	
Operating Profit		x
Interest Revenues and Expenses	x	
Gains and (Losses) on Sales	x	
Profit Before Tax		x
Income Tax & Interest	x	
Net Profit/(Loss)		x

Used as a basis for measuring the performance of an entity over the course of one accounting period (e.g. fiscal quarter, fiscal year) by reporting profits and losses for the period

Prepared using the accrual basis of accounting:

- Income is reported when ***earned***
- Expenses are reported when ***incurred***

Transactions with the owners of the entity (ex. Issuing dividends) are not reported on the Income Statement, they are reported on the Statement of Changes in Equity

Income Statement Measures of Profitability

Revenue Sales generated from various operating divisions	−	**Cost of Goods Sold (COGS)** All costs directly associated with sales (e.g. materials and labor)	=	**Gross Profit** Revenue less COGS
Gross Profit Revenue less COGS	−	**Operating Expenses** All indirect expenses related to revenue earned (e.g. selling, general and administrative expenses)	=	**Operating Profit** Gross profit less operating costs
Operating Profit Gross profit less operating costs	−	**Income Tax** Tax due on earnings	=	**Net Income** Change in Retained Earnings for the year

Measuring Financial Performance

Gross Profit:

- Revenues: report the total consideration an entity expects to receive in exchange for the goods or services provided
  - Examples: net sales, interest earned
- Expenses: report the total amount of costs that an entity had to pay in a transaction
  - Examples: cost of goods sold (COGS), cost of sales (COS)

Earnings Before Interest, and Taxes (EBIT):

- Measures the operating performance of an entity
- Does not consider the effects of financing expenditures and capital investments (Ex. property, plant, equipment)
- Frequently used in valuation ratios

Net Income:

- Gains and Losses: report the proceeds from a transaction less the net book value of the asset acquired or given up
  - Examples: gain on sale of asset
- Net income is often referred to as the “bottom line”
- Net income is the change in Retained Earnings for the year

Income Statement Questions

Net Income:

Interest income	50	100	202
Interest expense	(459)	(484)	(848)
Other income (expense), net	(256)	90	346
Total non-operating income (expense)	(665)	(294)	(300)
Income before income taxes	1,568	3,892	3,806
Provision for income taxes	(950)	(1,425)	(769)
Equity-method investment activity, net of tax	(22)	(96)	(4)
Net income	$ 596	$ 2,371	$ 3,033

6. The income statement heading will specify a
   a. Period of Time
   b. Point in Time

7. The company will earn net income if
   a. Revenues = expenses
   b. Revenues > expenses
   c. Revenues < expenses

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Income Statement Questions

Company ABC

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Equity-method investment activity, net of tax	(22)	(96)	(4)
Net income	$ 596	$ 2,371	$ 3,033
Basic earnings per share	$ 1.28	$ 5.01	$ 6.32
Diluted earnings per share	$ 1.25	$ 4.90	$ 6.15
Weighted-average shares used in computation of earnings per share:			
Basic	467	474	480
Diluted	477	484	493

See accompanying notes to consolidated financial statements.

8. Is it acceptable that some of the expenses reported on the income statement be estimates?

   a. Yes
   b. No

9. What is another name for the income statement?

   a. Balance sheet
   b. Owners' equity
   c. Profit & loss
   d. Cash flows

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Retained Earnings

Statement of Retained Earnings

Reconciles the beginning balance of the retained earnings account with the ending balance to show the change in earnings actually held by the entity

- Change in earnings held by the entity is equal to the net profit or loss retained by the business after distributions to the owners in the form of dividends

Dividend: Pro-rata distribution made to shareholders based on the shares of a particular class of stock (most common type is a "cash" dividend)

Retained Earnings Formula: Beginning Balance + Net Income - Dividends = Ending Balance

May be provided as a separate statement, or as part of the Income Statement or the Balance Sheet

Retained Earnings at 12/31/Y1 (Beginning Balance for Y2)	x
Net Income for the year ended 12/31/Y2	x
Dividends paid to shareholders	(x)
Retained Earnings at 12/31/Y2 (Ending Balance for Y2)	x

Beginning Balance

Ending Balance

Retained Earnings Question

10. A corporation's net income will cause an increase to which of the following (hint: check back to the RE equation)?

a. Accumulated Other Comprehensive Income
b. Common Stock
c. Retained Earnings

Key Analysis & Risks

Key Accounting Ratios

Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability.

Current ratio: (Current Assets / Current Liabilities)

- Compares current assets to current liabilities, to see if a business has enough cash to pay its immediate liabilities

Debt to Equity Ratio: (Total Liabilities / Shareholder Equity)

- Compares the proportion of debt to equity, to see if a business has taken on too much debt

Gross Profit Ratio: (Gross Profit / Net Sales)

- Calculates the proportion of earnings generated by the sale of goods or services, before administrative expenses are included. A decline in this percentage could signal pricing pressure on a company's core operations

Inventory Turnover: (Cost of goods sold / Average Inventory)

- Calculates the time it takes to sell off inventory. A low turnover figure indicates that a business has an excessive investment in inventory, and therefore is at risk of having obsolete inventory

Key Accounting Ratios (Continued)

Net Profit Margin Ratio: (Net Profit / Net Sales)

- The net profit margin is a number which indicates the efficiency of a company at its cost control. A higher net profit margin shows more efficiency of the company at converting its revenue into actual profit. This ratio is a good way of making comparisons between companies in the same industry, for such companies are often subject to similar business conditions

Return on Equity (ROE): (Net Income/Shareholder's Equity)

- The return on equity is the amount of net income returned as a percentage of shareholders equity. The return on equity estimates the profitability of a corporation by revealing the amount of profit generated by a company with the money invested by the shareholders. The return on equity ratio is also referred as “return on net worth” (RONW)

Key Accounting Ratios Questions

Debt to Equity Ratio: (Total Liabilities / Shareholder Equity)

- Compares the proportion of debt to equity, to see if a business has taken on too much debt

11. Based on the year over year debt to equity ratio, how comfortable is Company ABC with holding liabilities on their balance sheet? Do you think the debt to equity ratio is risky?

	2016	**2017**
Total Liabilities	$64,417	$103,601
Shareholders Equity	$19,285	$27,709
Debt to Equity Ratio	**3.34**	**3.74**

Key Accounting Ratios Questions

Net Profit Margin Ratio: (Net Profit / Net Sales)

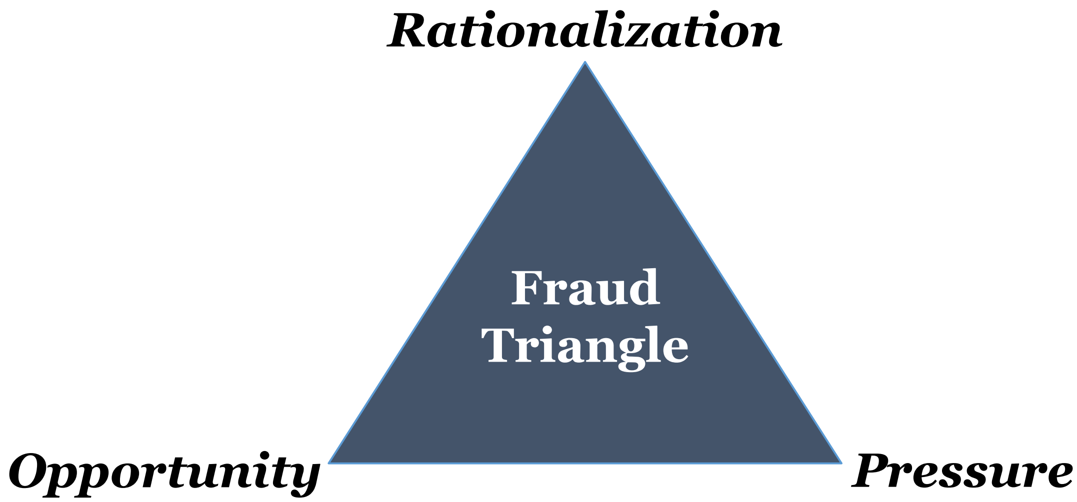
- The net profit margin is a number which indicates the efficiency of a company at its cost control. A higher net profit margin shows more efficiency of the company at converting its revenue into actual profit. This ratio is a good way of making comparisons between companies in the same industry, for such companies are often subject to similar business conditions

12. Calculate Company XYZ's 2016 profit margin based on the data below:

(in millions)	Revenue	Net Income
Company XYZ 2016	$ 9,298	$ 7,266

Company ABC's net profit margin ratio in 2016 was 1.7%. Based on the ratios, which company is more successful? What other financial data would you research to help with your determination?

Key Risks



General Red Flags

- Inadequate internal controls
- Ineffective or non-existent Ethics or Compliance Program
- Poor “tone at the top”
- Failure to enforce the fraud policy

Financial Statement Red Flags

- Management override of controls
- Consistently meeting budget/forecast – especially if market conditions are not stable
- Ledger/sub ledger variances
- Large, late or unsupported manual journal entries
- Analytical procedures inconsistent with expectations or business environment (“too good to be true”)

Financial Statement Manipulation

- Falsification of records
- Improper or incorrect journal entries
- Management of ratios
- Unusual or questionable transactions, amounts, timing, etc.
- Unknown accounts
- Intercompany transactions
- Improper or lack of disclosures

Key Risk Areas by Industry

Intangibles & Intellectual Property

- Software/IT
- Pharma

Revenue Recognition

- Insurance
- Construction

Inventory & Assets

- Retail
- Industrial Products

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Business / Accounting Risk Example

AM is the audit manager of Energy PLC, a company operating in the energy exploration and production sector. As part of the risk assessment procedures during the planning for audit of Energy PLC, AM identified the following significant matters while examining the minutes of a meeting of the Company's Board of Directors held at the start of the year.

Matter	***Business Risks***	***Accounting Risks***
The CFO apprised the Board of the initiation of legal proceedings against Energy PLC regarding damage caused to a customer's pipelines as a result of the supply of low quality gas by the Company.	The litigation may result in a significant outflow of economic resources in the future. Significant management time will also need to be expended over the course of the litigation.	Liabilities of Energy PLC might be understated as a result of non recognition of the provision in respect of the litigation. Alternatively, the disclosure regarding contingencies may not adequately disclose the effects of the pending litigation.
The Board accepted the proposal of the Finance Director to sell off a low performing subsidiary of the Company after two year. The Finance Director remarked that the current market price of the subsidiary's shares is too low.	The full worth of the subsidiary may not be realized by Energy PLC through the sale transaction.	Financial results of the subsidiary might be manipulated to influence the market value of its shares prior to the sale transaction. Related party transactions with the subsidiary may be misrepresented in order to improve the market perception of financial performance of the subsidiary.
CFO informed the Board about the progress towards the finalization of the gas sales agreement in respect of a gas field which commenced production in the preceding year. CFO explained the basis of the provisional price being charged to the customer at the moment and that any price differential arising on the determination of the final price will be subsequently settled with the customer upon the finalization the gas sales agreement.	The finalization of the gas sales agreement may result in a significant cash outflow in the form of a price differential adjustment if the final price determined is lower than the price currently charged to the customer.	Sales revenue is currently being recognized on an estimate basis in respect of the mentioned gas field. The estimate may be biased and not based on realistic assumptions regarding the sales price. The effect of provisional pricing and any future revisions in price may not be adequately disclosed in the financial statement.

Case studies described herein are for illustrative purposes only.

Appendix: Basic accounting terms, acronyms, abbreviations and concepts to remember

Basic accounting terms, acronyms, abbreviations and concepts to remember

1. Accounts receivable (AR)
Accounts receivable (AR) definition: The amount of money owed by customers or clients to a business after goods or services have been delivered and/or used.

2. Accounting (ACCG)
Accounting (ACCG) definition: A systematic way of recording and reporting financial transactions for a business or organization.

3. Accounts payable (AP)
Accounts payable (AP) definition: The amount of money a company owes creditors (suppliers, etc.) in return for goods and/or services they have delivered.

4. Assets (fixed and current) (FA, CA)
Assets (fixed and current) definition: Current assets (CA) are those that will be converted to cash within one year. Typically, this could be cash, inventory or accounts receivable. Fixed assets (FA) are long-term and will likely provide benefits to a company for more than one year, such as a real estate, land or major machinery.

5. Asset classes
Asset class definition: An asset class is a group of securities that behaves similarly in the marketplace. The three main asset classes are equities or stocks, fixed income or bonds, and cash equivalents or money market instruments.

6. Balance sheet (BS)
Balance sheet (BS) definition: A financial report that summarizes a company's assets (what it owns), liabilities (what it owes) and owner or shareholder equity ;at a given time.

7. Capital (CAP)
Capital (CAP) definition: A financial asset or the value of a financial asset, such as cash or goods. Working capital is calculated by taking your current assets subtracted from current liabilities—basically the money or assets an organization can put to work.

Basic accounting terms, acronyms, abbreviations and concepts to remember

8. Cash flow (CF)
Cash flow (CF) definition: The revenue or expense expected to be generated through business activities (sales, manufacturing, etc.) over a period of time.

9. Certified public accountant (CPA)
Certified public accountant (CPA) definition: A designation given to an accountant who has passed a standardized CPA exam and met government-mandated work experience and educational requirements to become a CPA.

10. Cost of goods sold (COGS)
Cost of goods sold (COGS) definition: The direct expenses related to producing the goods sold by a business. The formula for calculating this will depend on what is being produced, but as an example this may include the cost of the raw materials (parts) and the amount of employee labor used in production.

11. Credit (CR)
Credit (CR) definition: An accounting entry that may either decrease assets or increase liabilities and equity on the company's balance sheet, depending on the transaction. When using the double-entry accounting method there will be two recorded entries for every transaction: A credit and a debit.

12. Debit (DR)
Debit (DR) definition: An accounting entry where there is either an increase in assets or a decrease in liabilities on a company's balance sheet.

13. Diversification
Diversification definition: The process of allocating or spreading capital investments into varied assets to avoid over-exposure to risk.

14. Enrolled agent (EA)
Enrolled agent (EA) definition: A tax professional who represents taxpayers in matters where they are dealing with the Internal Revenue Service (IRS).

Basic accounting terms, acronyms, abbreviations and concepts to remember

15. Expenses (fixed, variable, accrued, operation) (FE, VE, AE, OE)
Expenses (FE, VE, AE, OE) definition: The fixed, variable, accrued or day-to-day costs that a business may incur through its operations.

- Fixed expenses (FE): payments like rent that will happen in a regularly scheduled cadence.
- Variable expenses (VE): expenses, like labor costs, that may change in a given time period.
- Accrued expense (AE): an incurred expense that hasn’t been paid yet.
- Operation expenses (OE): business expenditures not directly associated with the production of goods or services—for example, advertising costs, property taxes or insurance expenditures.

16. Equity and owner's equity (OE)
Equity and owner's equity (OE) definition: In the most general sense, equity is assets minus liabilities. An owner’s equity is typically explained in terms of the percentage of stock a person has ownership interest in the company. The owners of the stock are known as shareholders.

17. Insolvency
Insolvency definition: A state where an individual or organization can no longer meet financial obligations with lender(s) when their debts come due.

18. Generally accepted accounting principles (GAAP)
Generally accepted accounting principles (GAAP) definition: A set of rules and guidelines developed by the accounting industry for companies to follow when reporting financial data. Following these rules is especially critical for all publicly traded companies.

19. General ledger (GL)
General ledger (GL) definition: A complete record of the financial transactions over the life of a company.

20. Trial balance
Trial balance definition: A business document in which all ledgers are compiled into debit and credit columns in order to ensure a company’s bookkeeping system is mathematically correct.

Basic accounting terms, acronyms, abbreviations and concepts to remember

21. Liabilities (current and long-term) (CL, LTL)
Liabilities (current and long-term) definition: A company's debts or financial obligations incurred during business operations. Current liabilities (CL) are those debts that are payable within a year, such as a debt to suppliers. Long-term liabilities (LTL) are typically payable over a period of time greater than one year. An example of a long-term liability would be a multi-year mortgage for office space.

22. Limited liability company (LLC)
Limited liability company (LLC) definition: An LLC is a corporate structure where members cannot be held accountable for the company's debts or liabilities. This can shield business owners from losing their entire life savings if, for example, someone were to sue the company.

23. Net income (NI)
Net income (NI) definition: A company's total earnings, also called net profit. Net income is calculated by subtracting total expenses from total revenues.

24. Present value (PV)
Present value (PV) definition: The current value of a future sum of money based on a specific rate of return. Present value helps us understand how receiving $100 now is worth more than receiving $100 a year from now, as money in hand now has the ability to be invested at a higher rate of return. See an example of the time value of money here.

25. Profit and loss statement (P&L)
Profit and loss statement (P&L) definition: A financial statement that is used to summarize a company's performance and financial position by reviewing revenues, costs and expenses during a specific period of time, such as quarterly or annually.

Basic accounting terms, acronyms, abbreviations and concepts to remember

26. Return on investment (ROI)
Return on investment (ROI) definition: A measure used to evaluate the financial performance relative to the amount of money that was invested. The ROI is calculated by dividing the net profit by the cost of the investment. The result is often expressed as a percentage. See an example here.

27. Individual retirement account (IRA, Roth IRA)
Individual retirement account (IRA) definition: IRAs are savings vehicles for retirement. A traditional IRA allows individuals to direct pre-tax dollars toward investments that can grow tax-deferred, meaning no capital gains or dividend income is taxed until it is withdrawn, and, in most cases, it's tax deductible. Roth IRAs are not tax-deductible; however, eligible distributions are tax-free, so as the money grows, it is not subject to taxes upon with-drawls.

28. 401K & Roth 401K
401k & Roth 401k definition: A 401K is a savings vehicle that allows an employee to defer some of their compensation into an investment-based retirement account. The deferred money is usually not subject to tax until it is withdrawn; however, an employee with a Roth 401K can make contributions after taxes. Additionally, some employers chose to match the contributions made by their employees up to a certain percentage.

29. Subchapter S corporation (S-CORP)
Subchapter S corporation (S-CORP) definition: A form of corporation (that meets specific IRS requirements) and has the benefit of being taxed as a partnership versus being subject to the "double taxation" of dividends with public companies.

30. Bonds and coupons (B&C)
Bonds and coupons (B&C) definition: A bond is a form of debt investment and is considered a fixed income security. An investor, whether an individual, company, municipality or government, loans money to an entity with the promise of receiving their money back plus interest. The "coupon" is the annual interest rate paid on a bond.

Thank you

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