

# EFR summary

Intermediate Accounting, FEB12007X  
2025-2026



Lectures 1 to 2

Weeks 1 to 2

**Deloitte.**

DeNederlandscheBank

EUROSYSTEEM

## Details

**Subject:** Intermediate Accounting IBEB 2025-2026

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# Intermediate accounting – IBEB – FA Lecture 1 – Intro & Recap lecture

## Introduction and basic concepts

Accounting is the language of business. There are three central steps in the accounting process:

1. **To account** for something = acknowledge existence and describe it (identify economic transactions / events).
2. **To count** = to measure, to quantify (classify and accumulate transactions / events).
3. **To be accountable** = to explain what one has done and to take responsibility for consequences (communicate / report)

Accounting has two key missions:

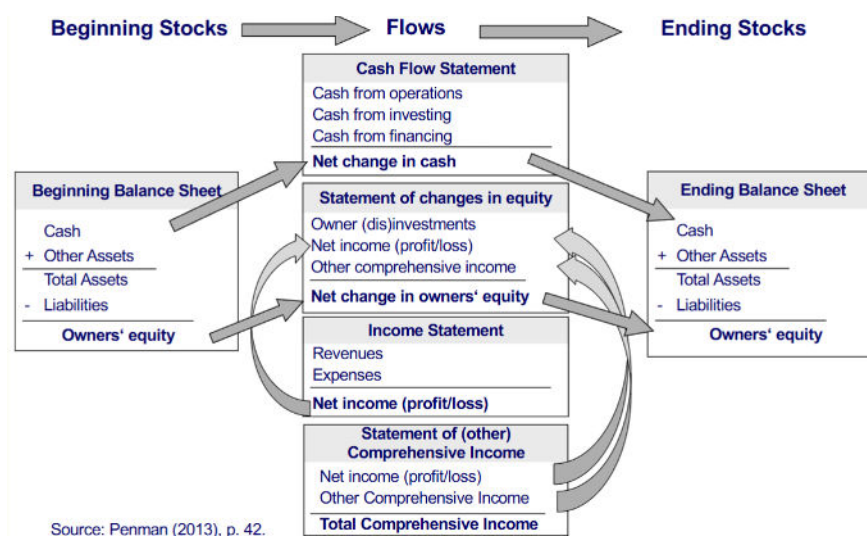
- **Facilitate value creation by** supporting decision-making (internal for daily operations and strategy; external for financing).
- **Facilitate stewardship** by measuring and reporting the amount of value created (holding management responsible).
- Helps solve the **"Information" and "Agency" problems** caused by the separation of ownership and control
  - o Such as adverse selection & Moral hazard

Two Types of Accounting

- **Management accounting:** Directed to internal use. Used for cost accounting, budgeting, and performance evaluation.
- **Financial accounting:** Directed to external use. Regulated externally (e.g., by auditors), relies on historical/aggregated data, and is periodic (quarterly, yearly).

## Types of financial statements

1. **Balance sheet:** snapshot of a firm's assets and liabilities at a given point in time
2. **Income statement:** statement on the firm's revenue and expenses over time
3. **Cash flow statement:** statement on how the cash account has changed between two dates
4. **Shareholders' equity statement**



## Accrual-based accounting

In the accrual basis of accounting, expenses follow revenues and are identified in the period when the economic activity occurs.

Accrual perspective:  $\text{Earnings} = \text{Cash flow} + \text{accruals}$

**Revenue Recognition Principle:** Recognize revenue when the firm has performed all (substantial) services and cash receipt is likely certain, not just when cash is received.

**Matching Principle:** Expenses are recognized when the corresponding revenue is generated (expenses follow revenues), not when cash flows out of the firm.

**Accrual accounting** is used because it provides a better measurement of short-term performance by fixing timing problems. Evaluating based on cash flows can be misleading because cash inflows and outflows often occur in different periods ("the wrong year") than the actual economic substance (value creation or consumption).  
Types of Accruals and Deferrals:

## Deferrals

- **Prepaid Expenses:** expenses that have been paid by the company before they are consumed (e.g., prepaid insurance). These are assets
  - Asset (Cash) decreases, Asset (Prepaid Account) increases, with time prepaid account and expenses decreases
- **Unearned Revenues:** cash that has been received before the company's obligations in the transaction have been fulfilled (e.g., payment in advance for a year-long gym membership). These are liabilities.
  - Asset (Cash) increases, Liability (Unearned Revenue) increases, with time unearned revenue decreases and revenue increases

## Accruals

- **Accrued Revenues:** a product or service has been successfully delivered, but payment has not yet been received. These are assets
  - Asset (Receivable) increases, Equity (Revenue) increases, with time account receivable decrease and cash increases
- **Accrued Expenses:** resources that have been used but not yet paid for. These are liabilities
  - Liability (Payable) increases, Equity (Expense) decreases, with time account payable and cash decreases

## Debit and credit

Conventional accounting is done with T-accounts, where the left side is called debit and the right side is called credit.

- **Debit (Dr):** The left side of an account.
- **Credit (Cr):** The right side of an account.

Every transaction must have at least one debit and one credit, and total debits must equal total credits in the general ledger.

## Super T-account

Assets		Liabilities & Shareholders' Equity			
Assets		Liabilities		Contributed Capital	
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
+	-	-	+	-	+
		Retained Earnings			
		Dr.	Cr.		
		-	+		
		Expenses & Dividends		Revenues	
		Dr.	Cr.	Dr.	Cr.
		+	-	-	+

**Examples:**

– *Share issuing (ordinary shares, USD 15K in cash):*

**Debit** Cash 15,000 USD

**Credit** Share Capital – Ordinary 15,000 USD

– *Buying Computer Equipment (USD 7K in cash):*

**Debit** Computer Equipment 7,000 USD

**Credit** Cash 7,000 USD

# Intermediate Accounting – IBEB – FA Lecture 2, week 2 Cash Flow Statement

## Cash flow statement

The basis for the statement of cash flows is:

- **Cash:** includes cash in hand and checking accounts
- **Cash equivalents:** short-term, highly liquid investments that are both:
  - Readily convertible to known amounts of cash.
  - So near their maturity that they present an insignificant risk of changes in value (e.g., due to changes in interest rates). Generally, investments with original maturities of three months or less qualify under this definition.

## Purpose of cash flow statement

The Balance Sheet provides a static view, and the Income Statement provides a dynamic view of business activity, but neither shows **how cash has evolved over time**

- Provide information about a company's cash receipts and cash payments during a period
- Provide cash-basis information about the company's operating, investing, and financing activities

It mainly provides information to:

- Assess a company's ability to generate future cash flows.
- Assess a company's ability to pay dividends and meet contractual obligations (survival).
- Assess the reasons for the difference between net income and net cash flow from operating activities (understanding the reliability of Net Income).
- Assess the cash and non-cash investing and financing transactions during the period.

**Note on Cash vs. Accrual:** A business can be highly profitable on the income statement (accrual) but still faces a dangerous cash situation if customers pay late and suppliers must be paid early.

## Types of cash flow

The **cash flow statement** is divided into three basic firm activities:

$$\text{Change in cash} = \text{Cash from operations} + \text{Cash from investments} + \text{Cash from financing}$$

**Operating activities** (involve income statement items):

- Derived from the main business activities
- Cash receipts from sales or cash payments to suppliers and employees
- Returns from loan (interest) and equity securities (dividends)

**Investing activities** (Involves changes in investments and non-current asset items):

- Buying and selling of fixed assets (PPE)
- Purchase or sale of debt/equity securities from other entities

**Financing activities** (Involves changes in equity and non-current liability items):

- Share capital and dividends
- Long-term loans and bond issues

Some items can be ambiguous. The course convention applies the following rules consistently:

Convention in our course:	Interest paid	Interest received	Dividends paid	Dividends received	Taxes paid
	OPE	OPE	FIN	OPE	OPE

## Preparation of the cash flow statement

Three sources of information are needed: **Balance sheet, Income statement, and Selected transactions**. The following steps are taken:

1. Determine change in cash.
2. Determine net cash flow from operating activities.

- Determine net cash flows from investing and financing activities.

## Indirect method

### Example

Tax Consultants Inc. started on January 2, 2019, when it issued 60,000 shares of \$1 par value common stock for \$60,000 cash:

- The company rented its office space, furniture, and equipment.
- The company performed tax consulting services throughout the first year.

TAX CONSULTANTS INC. INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2019		TAX CONSULTANTS INC. COMPARATIVE STATEMENTS OF FINANCIAL POSITION		
Revenues	\$125,000	<b>Assets</b>	Dec. 31, 2019	Jan. 1, 2019
Operating expenses	85,000	Accounts receivable	\$36,000	\$-0-
Income before income taxes	40,000	Cash	49,000	-0-
Income tax expense	6,000	Total	\$85,000	\$-0-
Net income	\$ 34,000	<b>Equity and Liabilities</b>		
		Ordinary shares (\$1 par)	\$60,000	\$-0-
		Retained earnings	20,000	-0-
		Accounts payable	5,000	-0-
		Total	\$85,000	\$-0-

**Additional information:**  
Examination of selected data indicates that a dividend of \$14,000 was declared and paid during the year.

TAX CONSULTANTS INC. COMPARATIVE STATEMENTS OF FINANCIAL POSITION			
<b>Assets</b>	Dec. 31, 2019	Jan. 1, 2019	Change Increase/Decrease
Accounts receivable	\$36,000	\$-0-	\$36,000 Increase
Cash	49,000	-0-	49,000 Increase
Total	\$85,000	\$-0-	
<b>Equity and Liabilities</b>			
Ordinary shares (\$1 par)	\$60,000	\$-0-	\$60,000 Increase
Retained earnings	20,000	-0-	20,000 Increase
Accounts payable	5,000	-0-	5,000 Increase
Total	\$85,000	\$-0-	

### Step 1: Determine change in cash.

- We can see from the balance sheet, Change in cash = Increase of \$49,000

### Step 2: Determine net cash flow from operating activities.

Net income (NI)  $\neq$  cash flow from operating activities (CFO) because of accrual accounting

- We must eliminate the effects of income statement transactions that do not result in an increase or decrease in cash

There are two ways of calculating potential cash flow from operating activities:

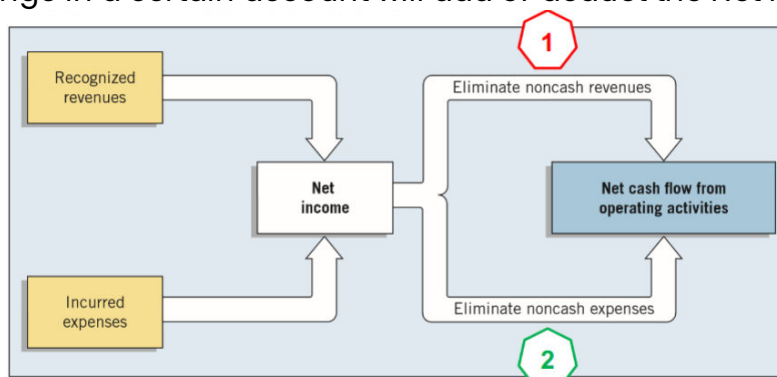
1. **Direct:**

$$\text{CFO} = \text{Cash revenues} - \text{Cash expenses}$$

2. **Indirect** (the one in this example):

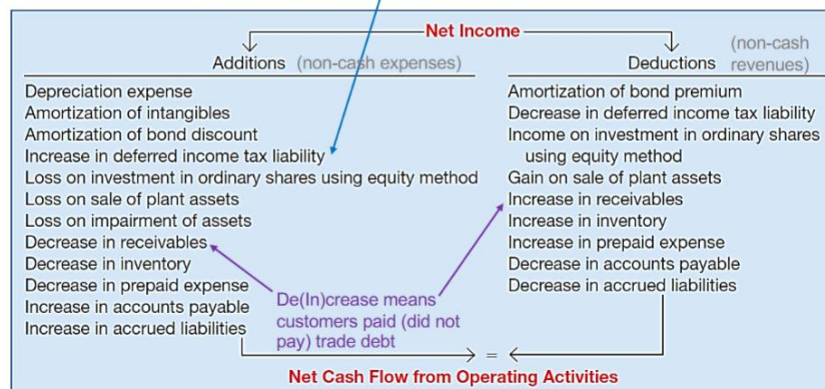
$$\text{CFO} = \text{Net income} + \text{non-cash expenses} - \text{non-cash revenues}$$

The following 2 diagrams shows how the logic of the indirect method works and also whether a change in a certain account will add or deduct the Net income



1. ...**deduct** non-cash revenues from NI
2. ...**add back** non-cash expenses to NI

E.g., **Deferred tax liability** reflects future taxable amounts that are already expensed today (decreases NI, but no cash flow)



Back to our example:

- Start with Net Income (\$34,000)
- Deduct increase in Accounts Receivable (\$36,000)
- Add increase in Accounts Payable (\$5,000).

- CFO = \$3,000

Net income		\$ 34,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in accounts receivable	\$(36,000)	
Increase in accounts payable	<u>5,000</u>	<u>(31,000)</u>
<b>Net cash provided by operating activities</b>		<b><u><u>\$ 3,000</u></u></b>

**Step 3: Determine net cash flows from investing and financing activities.**

- CFI = \$0 (no long-term assets).
- CFF = Issuance of stock (\$60,000) - Dividends paid (\$14,000) = \$46,000.
- Total Change in Cash = \$3,000 + \$0 + \$46,000 = \$49,000

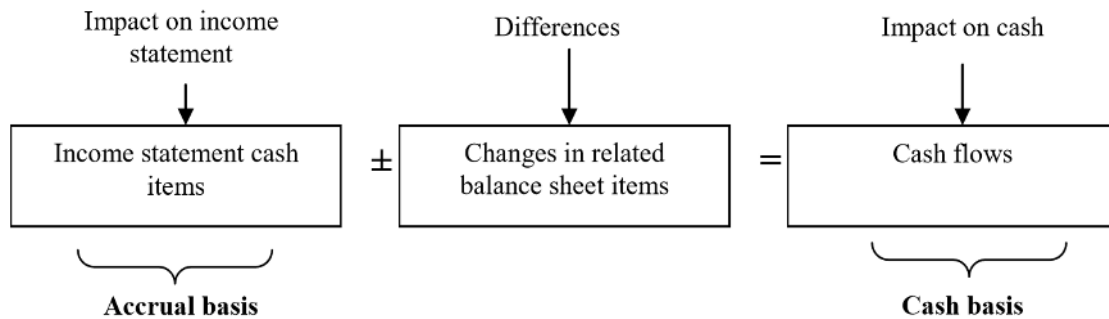
Cash flows from operating activities		
Net income		\$ 34,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in accounts receivable	\$(36,000)	
Increase in accounts payable	<u>5,000</u>	<u>(31,000)</u>
Net cash provided by operating activities		3,000
Cash flows from financing activities		
Issuance of ordinary shares	60,000	
Payment of cash dividends	<u>(14,000)</u>	
Net cash provided by financing activities		<u>46,000</u>
Net increase in cash		49,000
Cash, January 1, 2019		-0-
Cash, December 31, 2019		<u><u>\$ 49,000</u></u>

## Direct method

Calculates CFO by directly adjusting each income statement line item to its cash basis.

$$\text{CFO} = \text{Cash revenues} - \text{Cash expenses}$$

It can be illustrated through the following equation:



Income statement items	Related current assets	Related current liabilities
Sales	Accounts receivable	Advances received from customers Revenues recorded in advance (unearned revenues)
Financial revenues	Interests receivable Accrued interests receivable	Unearned interests
Cost of merchandise sold	Inventory Advances paid to suppliers	Accounts payable
Rent expense	Prepaid rent (Expenses recorded in advance)	Rent payable Accrued rent payable
Compensation and social expenses	Prepaid compensation and social expenses (Expenses recorded in advance)	Compensation and social expenses payable Accrued salaries and social expenses payable
Other operating expenses	Prepaid other operating expenses (Expenses recorded in advance)	Other expenses payable Accrued other expenses payable
Taxes including income taxes	Prepaid taxes – prepaid income taxes (Expenses recorded in advance)	(Income) Taxes payable Accrued (income) taxes payable
Financial expenses	Prepaid interests	Interests payable Accrued interests payable

# References

Lehmann, N. (2026). FA Intro & Recap Lecture [PowerPoint slides]. Retrieved from: [Recap FA - slides.pdf: Intermediate Accounting \(IBEB\)](#)

Lehmann, N. (2026). FA Lecture 2 [PowerPoint slides]. Retrieved from: [FA Topic 1 \(Cash flow\).pdf: Intermediate Accounting \(IBEB\)](#)