

Financial accounting concepts

Business



**ASSIGN
BUSTER**

SCHOOL Financial Accounting Concepts This paper enumerates 12 publicly traded companies in the United States and provides a brief of the asset, liability and shareholders' equity components of two of the listed companies.

Publicly-Traded Companies

Some of the notable publicly traded companies in the United States include the following (" Morning Star: Stocks, Mutual Funds, Investing and Personal Finance," 2005):

Wal-Mart Stores

ABN AMRO

Home Depot, Inc.

Nike

J. P. Morgan Chase & Co.

Sysco

Citigroup

Oracle

Microsoft

Intel

Sun Microsystems

Colgate-Palmolive

For the purpose of this paper, the balance sheet components of Wal-Mart Stores and Home Depot, Inc. will be described.

Wal-Mart Stores

As at end-2004, the balance sheet of Wal-Mart (WMT) is composed of the following (" MSN Money-Financial Statements: Investing," 2005):

Assets

The assets of WMT are classified into current and non-current assets. These <https://assignbuster.com/financial-accounting-concepts/>

terms are derived from the liquidity of the assets or how easily the assets are convertible to cash.

Current assets are composed of cash and equivalents such as marketable securities which are easily convertible to cash. The assets also include account receivables which are the unpaid bills owed to the company. In addition, there is also the inventory which in the case of WMT may represent the product stocks.

On the other hand, the non-current assets of WMT include fixed assets like property, plant and equipment acquired by the company for intended operations. In this section, the corresponding accumulated depreciation or depletion is deducted from the property, plant and equipment to account for the wear-and-tear of these fixed assets. The intangible assets lumped in one account is also listed under the non-current assets. This account may represent the patents, trademarks, reputation, skilled management or well-trained labor force of the company. It should be noted that some accountants are averse to record this type of assets unless they can be promptly valued (Brealey, Myers & Marcus, 1995).

Liability

The liability section of the balance sheet, along with the shareholders' equity, shows the financial resources utilized for the procurement of assets (Brealey, Myers & Marcus, 1995). Similar to assets, liabilities are also classified into current and non-current liabilities, obligations which are due in the short-term and long-term, respectively.

Current liabilities of WMT include accounts payable, short-term debt and other current liabilities. These account for the money owed to suppliers and other creditors which are due in the near term.

Non-current liability accounts of WMT in the balance sheet include long-term debt and other non-current liabilities, which represent the WMT's loans from banks and investors which are not immediately due. Furthermore, deferred income tax is accounted for in the balance sheet. As the name suggests, this is the outstanding income tax due which will have to be paid to the government. This section also includes the account for minority interest which is the liability of the company to investors with non-controlling stake or interest over the company.

Shareholders' Equity

On WMT's balance sheet as at end-2004 shown in MSN Money, only the common stock equity that represents the sale of company shares to investors is listed under the shareholders' equity section. Normally, the retained earnings of the company are also listed under shareholders' equity. Retained earnings are earnings that has been held by the company and invested on behalf of the shareholders (Brealey, Myers & Marcus, 1995).

Home Depot, Inc.

The balance sheet components of Home Depot (HD) do not substantially depart from those of WMT due to the similarity of their general operations and industry classification. As at end-2004, the balance sheet of HD is comprised of accounts which are as follows:

Assets

The assets of HD are composed of current and non-current assets. Its current assets are composed of cash, which may be on hand or kept in the banks, and marketable securities or investments of HD in highly-liquid stocks and other forms of securities. HD also has receivables, which are unpaid bills owed to the company, and inventories. In general, inventories may be

classified as raw materials (and other components bought from suppliers), work-in-process and finished products (Brealey, Myers & Marcus, 1995).

Non-current assets are composed of property, plant and equipment intended to be used for HD's operations. For these assets, the accumulated depreciation is considered to account for their depletion. HD also accounted for the intangible assets. This is usually done by established companies to indicate the value of patents, trademarks, reputation and other intangibles.

Liabilities

The liabilities of HD are classified into current and non-current liabilities. Its current liabilities include accounts payable or amount owed by the company to its suppliers, short term debt and other current liabilities. These are the accounts which HD has to settle with its suppliers and or creditors in the short-term, usually within the year.

Non-current liabilities are financial obligations due to banks and other creditors in the long-term. For HD, these liabilities include long-term debt, deferred income taxes and other non-current liabilities.

Shareholders' Equity

Shareholders' equity shown is comprised only of common stock equity which represents the company shares sold to investors, making them shareholders of the company. As mentioned, shareholders' equity in the balance sheet usually includes the retained earnings of the company which are the earnings that has been held by the company and invested in undertakings deemed beneficial for the well-being of the company and its shareholders (Brealey, Myers & Marcus, 1995).

A Glimpse at the Balance Sheet (as at end-2004)

Company

<https://assignbuster.com/financial-accounting-concepts/>

Total Assets

Total Liabilities

Total Shareholders' Equity

Wal-Mart Stores

\$120, 223, 000, 000

\$70, 827, 000

\$49, 396, 000, 000

Home Depot, Inc.

38, 907, 000, 000

14, 749, 000, 000

24, 158, 000, 000

References

Brealey, R. A., Myers, S. C., & Marcus, A. J. (1995). *Fundamentals of Corporate Finance*. Mc-Graw Hill Inc.

Morning Star: *Stocks, Mutual Funds, Investing and Personal Finance* (2005).

Retrieved August 17, 2005, from <http://www.morningstar.com>

MSN Money-Financial Statements: *Investing*. (2005). Retrieved August 17, 2005, from <http://moneycentral.msn.com>