

Forms of business (types, characteristics, advantages, disadvantages)

- Proprietorship
 - o Sole Proprietorship: One person, complete liabilities
 - o Acorn Alley
 - o Arctic Squirrel
- Partnership
 - o More than one owner
 - o All animal control
 - o G & J Floral
 - o Personal liability
- LLC- Limited Liability
 - o Can have one or many owners called members
- o Does have limited liability
- o Kent Stage
- o Off the wagon
- o Dr. Green Bee
- Corporation
 - o Issues stock, survives after partner dies
 - o Own legal identity
 - o Raise large sums of cash
 - o Formed under state law
 - o Standing rock jewelers
 - o Campus book and supply

Entity assumption Personal Tax is separate from business, Franklin stand deli (Example)

Historical cost principle Record purchases at purchase price, Scribbles, Stable Monetary Unit Assumption (No Hyperinflation)

Assets, liabilities, equity accounts)

Assets- Economic resources that are expected to produce benefit into the future

- House, store (business), Car, Cash
- Total assets= House + Business + Cash + Car

Liabilities- Debt that is payable to an outsider

- What we owe

- Debt

- Accounts payable and long term debt

Equity- "Insider claims of a business"

Stockholders equity, shareholders equity, capital, Owner's equity

- What we have invested in the business

Current versus long-term

Current:

Expected to be converted to cash within the next business cycle... 12 months, Cash, Short-term investments, Accounts and notes receivable, Inventory,

Prepaid expenses

Long-term

Will be longer than 1 yr, Property, plant and equipment, Land, building, computers, equipment, Intangibles, Long-term investments

Accounting equation

- Equity = Assets - Liabilities
- Retained Earnings= Revenues - expenses - dividends
- Net Income= Revenues - expenses, Loss is always is '(-)'

What impacts retained earnings and how to calculate retained earnings? How has stockholder' equity changed during the year, Begins with retained earnings balance, Flows from income statement, Reports ending retained earnings balance, portion of net income the company has kept

Account A record of all the changes in a particular asset, liability, or stockholders' equity during the period, Date of every transaction, Amount, Example: Cash

Trial balance

Accounts are listed in random order in a trial balance: False: Assets, Liability, Equity, Revenue, Expense

Trial balance is one of a company's major financial statements: False: Balance, Income, Statement of retained earnings, Cash Flow

Why do we use a trial balance: Total Debits = Total Credits

Journal: Journal: Chronological record of all transactions, Journal entry, Debit always start with a debit), Credit (indented), Date, Accounts and explanation, Is cash involved, Asset, Debit to increase, credit to decrease

Transaction An event that has a financial impact on a business and can be reliability measured. There is always two sides to ever transaction. Looking at the side of the business, Get/give Example: Ice cream truck, customer gives cash for milkshake, Woody's music gives lessons (time) for cash

Journal entries - how to write them, what is debited/credited or increased or decreased Debit-credit rules

- **Debits increase**
 - o Assets
 - o Expenses
 - o Dividends
- **Credits Increase:**
 - o Liabilities
 - o Common stock
 - o Retained earnings
 - o Revenues
- **Credits Decrease**
 - o Assets
 - o Expenses
 - o Dividends
- **Debits Decrease**
 - o Liabilities
 - o Common stock
 - o Retained earnings
 - o Revenue

Fraud Intentional misrepresentation of facts, Causes injury or other damage to another party, Large problem that increases each year, 75% percent of companies of fraud, 50% 6 or more of fraud in 1 year, Lost 2.4 million dollars 2007

Types of Fraud: Misappropriation of assets- most common-Employees steal assets from company, Cash, Inventory, False expense reporting

Fraudulent Financial Reporting- most costly, Managers make false entries so company appears more profitable, Deceive investors and creditors

Sarbanes-Oxley Act of 2002 Federal Law requiring public companies to have system of internal controls, Auditors examine controls and issues reports on reliability Provisions: Require internal control report by companies, Create public company accounting oversight board (PSAOB) Limit non-audit of auditing firms , Penalize violators

Bank reconciliations Two records of a business's cash, The cash account in the general ledger, Bank statement, Amounts are usually different, Time lags in recording transactions, Explains differences

BANK BALANCE- ALWAYS (timing)	BOOK BALANCE ALWAYS
Add deposit in transit	Add bank collections, interest rev, and EFT receipts
Subtract outstanding checks	Subtract service charges, NSF checks, EFT payment
Add or subject correction of bank errors	Add or subtract correction of book error
= Adjusted Balance	= Adjusted Balance

Journal entries for reconciling items on the bank statement – when are they needed and some examples Why does cash require specific internal controls?

Why is payment by check an important internal control (as opposed to paying by cash)?

Journalizing Bank Reconciliation Items: All items on book side require journal entries Item is added on book side (debit cash) Item is subtracted (Credit cash)

Internal Control over Cash Receipts Cash is easy to steal, All transactions ultimately affect cash, Cash receipts should be deposited quickly, Companies can receive cash, Over the counter, Through the mail

Controls over payments by check: Payment by check or EFT is internal control, Provides record of payment, Check is signed, EFT must be approved by authorized official, Should be supported by evidence

Internal Control for Purchasing, Segregate the following duties, Purchasing, Receiving, Approving and paying

Petty Cash Small fund to make minor purchases, One employee is responsible for accounting, Custodian, Set amount of cash, Voucher prepared for each payment, Sum of fund plus paid voucher should equal set amount, Imprest system

Accrual accounting – what it is, when to recognize expenses and revenues, Revenue isn't recognize until earned, Unearned service Revenue (**Liability**)

Example Ticket Master- earn the revenue at the concert (not when sell the ticket)

Cash-basis accounting: Individuals, Only record things when cash exchanges hands, Business's are not allowed to use, Just tracking cash

Adjusting entries and adjusting entry process

Category of adjustment	Type of Account	
	DEBIT	CREDIT
Deferrals: prepaid expense	Expense	Asset
Deferrals: Unearned revenue	Liability	Revenue
Accruals: Accrued expense	Expense	Liability
Accruals: Accrued Revenue	Asset	Revenue
Depreciation	Expense	Contra-asset

Income Statement: Revenues and Expenses, Reports net Income

Income Statement	
Revenues	\$\$\$\$
Less: Expenses	\$\$\$\$
Net Income	\$\$\$\$

Statement of Retained Earnings: Shows changes in retained earnings

Statement of Retained Earnings	
Retained Earnings, Beginning Balance	\$\$\$\$
Plus: Net income	\$\$\$\$
Less: Dividends	\$\$\$\$
Retained earnings, ending balance	\$\$\$\$

Balance Sheet: Reports assets, liabilities, and stockholders' equity

Balance Sheet			
Current Assets	\$\$\$\$	Liabilities	\$\$\$\$
Plant Assets	\$\$\$\$	Common Stock	\$\$\$\$
Other Assets	\$\$\$\$	Retained Earnings	\$\$\$\$
Total Assets	\$\$\$\$	Total Liabilities and Stockholder equity	\$\$\$\$

Deferrals Business has paid/received cash in advance and now has to recognize that it has used or earned part of that item, Prepaid expenses- recorded as an asset when purchased- expensed when expired or used, Prepaid Rent

Accruals, Opposite of deferrals, Business has not yet paid for an expense that it has incurred or it has not been paid for revenue it has earned, Accrued Expenses- record expense before paying cash; Liability, Salary, Interest

Depreciation Process of spreading cost of a physical asset over its useful life; Equipment, Building, Automobiles

Order in which the financial statements are generally prepared (and that process) How to close the books at the end of the year (journal entries; closing entries) prepares the accounts for next period, Sets revenues, expenses, and dividends to zero

Closed Entries (RED)

Closed revenues

- o Debit each revenue account
- o Credit retained earnings
- Closed Expenses

- o Debit Retained Earnings
- o Credit each expense account
- Closed Dividends
- o Debit retained earnings
- o Credit dividends

Permanent accounts versus temporary accounts

Temporary

- Closed
- Revenues, expenses and Dividends

Permanent:

- Not closed
- Assets, Liabilities, and equity

Order of accounts on the balance sheet (in order of liquidity) Current or long term, Cash (most liquid), Accounts receivable, Inventory, Plant assets (Not liquid)