Conceptual Framework for Financial Accounting and Reporting

Objectives

Provide information:

1. Provide economic information to users to make informed decisions. Ch 2

2. (a) Reflect prospective cash payments to investors and creditors. Ch 2
   (b) Reflect prospective cash inflows to the company. Ch 2
   (c) Reflect the company's resources and claims to its recourses. Ch 2

Qualitative Characteristics

Understandability : the quality of accounting info that makes it comprehensible to those willing to spend the necessary time.

Primary 1. Relevance (Ch 2) The capacity of info. to make a difference in a decision.
- a. Predictive value
- b. Confirming value
- c. Timely

2. Faithful Representaion (Ch 2)
- a. Complete
- b. Neutral
- c. Free from error

Secondary 1.Comparability (Ch 2) In accounting info., the quality that allows a user to analyze two or more companies + look for similarities + differences

2.Consistency (Ch 2) the quality that allows a user to compare two or more accounting periods for a single company.

Elements

1. Assets (Ch 1) something that you own which will create future economic benefit.
2. Liabilities (Ch 1) something that you owe
3. Equity (Ch 1) ownership
4. Revenues (Ch 1, 4) Inflows of assets or settlements of liabilities from delivering or producing goods, rendering services.
5. Expenses (Ch 1) Outflows of assets or incurrences of liabilities
6. Gains (Ch 2)
7. Losses (Ch 2)

Recognition and Measurement Concepts

Assumptions

1. Economic entity concept (Ch1) Accounting records for owners + business kept separate.
2. Going concern (Ch 1) The assumption that an entity is not in the process of liquidation + that it will continue indefinitely
3. Monetary unit (Ch 1) The yardstick used to measure amounts in financial statements; the dollar in the U.S.
4. Time period (Ch 1) An artificial segment on the calendar used as the basis for preparing financial statements.

Principles

1. Cost principle (historical cost) (Ch 1,3,4) Assets are recorded at the cost to acquire them.
2. Revenue recognition (Ch 4) Revenues are recognized in the income statement when they're realized, realizable, earned.
3. Matching principle (Ch 4) The association of revenue of a period with all of the costs necessary to generate that revenue.
4. Full disclosure (Ch 2)

Constraints

1. Cost-benefit
2. Materiality (Ch 2) The magnitude of an accounting omission or misstatement that will affect the judgment of someone relying on the info.
3. Industry practice
4. Conservatism (Ch 2) using the least optimistic estimate when two estimates of amounts are about equal.

CF

XYZ Company

Income Statement

For the year ended 12/31/13

(blank line)

Revenues

− Expenses

Net Income (net loss)

Accounts on the Income Statement are temporary

XYZ Company

Statement of Retained Earnings

For the year ended 12/31/13

(blank line)

Beginning Retained Earnings (previous)

± Net Income (Net loss)

− Dividends

Ending Retained Earnings

undistributed profit

The Dividend account is temproray

XYZ Company

Statement of Cash Flows

For the year ended 12/31/13

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Cash flow from

± Operating activities (Rev. + Exp)

± " " " Investing activities (PP+E, Investm.) Purch Equip sell land

± " " " Financing activities (Company's stock) + stockholders

Change in Cash

\+ Beginning Cash Balance

Ending Cash Balance

A/R Sales Rev. * Won't be on st.

Cash A/R * Will be on st.

XYZ Company

Balance Sheet

As of December 31, 2013

(blank line)

Cash

\+ Other Assets

Total Assets

Liabilities

\+ Contributed Capital

or

Ending

\+ Retained Earnings

Total Liabilities + owners equity

The Accounting Equation:
Assets=Liabilities+Owners' Equity

Accounts on the Balance Sheet are permanent

Financial Statement Relationships

Assets = Liabilities + Stockholders' Equity
Therefore: Assets - Liabilities = Stockholders' Equity

P/N E1-7	Case 1		Case 2		Case 3		Case 4	
Total Assets (ending)	40,000				75,000		50,000	
-Total Liabilities (ending)	9,000		(15,000)		(25,000)		(10,000)	
Total Stockholders' Equity, (ending)	31,000							
Capital Stock, (ending)		10,000		5,000		20,000		15,000
Retained Earnings (beginning)	15,000		8,000		10,000		20,000	
+Net Income	8,000		7,000				9,000	
-Dividends	(2,000)		(1,000)		(3,000)			
Retained Earnings (ending)		21,000		14,000				
Total Stockholders' Equity (ending)		31,000						

P/N E1-6	Assets	Liabilities	Owner's Equity	O/E change
12/31/2010	25,000	12,000	13,000	
12/31/2011	79,000	67,000	12,000	- 1000
12/31/2012	184,000	137,000	47,000	35,000

	2011		2012	
O/E 1/1		13,000		12,000
+Stock issued	0		0	
+Net Income	Loss <1000>		45,000	
-Dividends	0		(10,000)	
Change in O/E		<1000>		35,000
O/E 12/31		12,000		47,000