

## **Exam:**

- One sheet of paper front and back

## **Accounting**

Bookkeeping is mechanical part of accounting.

Accounting is an information system

- Measure
- Process
- Communicate

### **Users**

- Individuals
  - o Bank statement- keeping track of finances
  - o Explore how a company is doing
- Creditors and investors
  - o Where they will buy stock
  - o Loans
- Nonprofit organizations
  - o Budget resources
- Regulatory Bodies
  - o Kent- income taxes
  - o IRS

Two types of accounting: Financial and Managerial

- Financial accounting: how we are keeping score
  - o US GAAP- Generally accepted accounting principles
    - Rule book for accounting
    - FASB- Financially Accounting standers board
  - o IFRS- International financial reporting standards
  - o Black and white
  - o Relevance and faithful
    - Comparability
    - Verifiable
    - Timeliness
    - Understandability
  - o Cost- all information has a cost
  - o Financial reporting standards
- Managerial Accounting
  - o Managers in the company
  - o What they need to give feedback
  - o Not as many rules

Business Forms (Pg 5 and 6)

- 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

#### Assumptions and Principles

- Entity Assumption
  - o Personal Tax is separate from business
  - o Franklin stand deli (Example)
- Continuity Assumptions
  - o Does not include bankruptcy
  - o Says a business is growing into the indefinite future
- Historical Cost Principle
  - o Record purchases at purchase price
  - o Scribbles
- Stable Monetary Unit Assumption
  - o No Hyperinflation

The business records of a sole prop should include the prop personal finances. True or False?

- False. Standpoint of business not person

Historical Cost is a verifiable measure that is relatively free from bias. True or False?

- True

Vacation home in Hawaii and Factory in Detroit what is the assets of the business?

- The factory in Detroit

The Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

- Assets – Liabilities = Net worth

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

S1-8

- |                                |                                        |
|--------------------------------|----------------------------------------|
| a) Accounts payable: Liability | h) Long-term Debt: Liability           |
| b) Common sock: Equity         | i) Merchandise Inventory: Asset        |
| c) Supplies: Asset             | j) Note Payable (Loans): Liability     |
| d) Retained Earnings: Equity   | k) Accrued Expenses Payable: Liability |
| e) Land: Assets                | l) Equipment: Asset                    |
| f) Prepaid expense: Asset      |                                        |
| g) Accounts Receivable: Asset  |                                        |

- Financial Statements:

- o Income statement (statement of operations)
  - Net income **pg 852**
  - How well did the company perform?
  - Reports revenues and expenses
  - Net income and net cost
  - Revenue- expenses
    - $R > E = \text{net income}$
    - $R < E = (\text{Net Loss})$
- o Statement of retained earnings
  - How has stockholder' equity changed during the year **pg 854**
  - Begins with retained earnings balance
    - Flows from income statement
  - Reports ending retained earnings balance
  - Portion of net income the company has kept
- o Balance Sheet- **pg 853**
  - What is the company's financial position at the end of the year
  - Reports assets, liabilities, and stockholders' equity
    - These accounts only on balance sheet
  - Shows that assets= liabilities + equity