

ACG2021 Principles of Financial Accounting

Chapter 1 Vocabulary Words

Accounting (p.4) – Information and measurement system that identifies, records, and communicates relevant information about a company's business activities.

Accounting Equation (p.15) – Equality involving a company's assets, liabilities, and equity; also called balance sheet equation.

Assets (p.15) – Resources a business owns or controls that are expected to provide current and future benefits to the business; recorded on the debit (left) side of the balance sheet.

Audit (p.13) – Analysis and report of an organization's accounting system, its records, and its reports using various tests.

Auditors (p.13) – Individuals hired to review financial reports and information systems. Internal Auditors and External Auditors.

Internal Auditors (p.13) – Individuals employed by a company to assess and evaluate its system of internal controls, including the resulting reports.

External Auditors (p.13) – Individuals independent of a company hired to assess and evaluate the "fairness" of financial statements (or to perform other contracted financial services).

Balance Sheet (p.20) – Financial statement that lists types and dollar amounts of assets, liabilities, and equity at a specific date. It is a "shap-shot" of a company's financial status.

Bookkeeping (p.4) – (also called Recordkeeping) Part of accounting that involves recording transactions and events, either manually or electronically.

Business Entity Assumption (p.12) – Principle that requires a business to be accounted for separately from its owner(s) and from any other entity.

Common Stock (p.13) – Corporation's basic ownership share.

Conceptual Framework (p.10) – Concepts that determine the preparation and presentation of financial statements for external viewers.

Contributed Capital (p.15) – Total amount of cash and other assets received from stockholders in exchange for stock.

Corporation (p.12) – Business that is a separate and independent legal entity under state or federal laws with owners called shareholders or stockholders.

Cost-Benefit Constraint (p.13) – The notion that the benefit of a disclosure exceeds the cost of that disclosure.

Cost Principle (p.11) – Accounting principle that describes financial statement information to be based on actual costs incurred in business transactions.

Dividends (p.15) – A corporation's distribution of assets to its owners; usually cash or stock.

Dodd-Frank Wall Street Reform and Consumer Protection Act (p.14) – attempt by Congress to (1) promote accountability and transparency in the financial system, (2) put an end to the notion of “too big to fail,” (3) protect the taxpayer by ending bailouts, and (4) protect consumers from abusive financial services. Passed July 21st, 2010.

Equity (p.15) – Owner's claim on the assets of a business; equals the residual interest in an entity's assets after deducting liabilities (net assets).

Ethics (p.7) – Codes of conduct by which actions are judged as right or wrong, fair or unfair, honest or dishonest.

Events (p.16) – Happenings that both affect and organization's financial position and can be reliably measured, such as changes in the market value of certain assets and liabilities or natural disasters like floods that destroy assets and create losses.

Expanded Accounting Equation for Non-Corporation (p.15) – $Assets = Liabilities + [Owner\ Capital - Owner\ Withdrawals + Revenues - Expenses]$

Expanded Accounting Equation for Corporation (p.15) – $Assets = Liabilities + [Contributed\ Capital + Retained\ Earnings + Revenues - Expenses]$

Expense Recognition Principle (p.11) – Expenses are to be recorded in the same period as the revenues that were earned as a result of the expense.

Expense (p.15) – Outflows or consumption of assets as part of operations of a business to generate sales, such as rent, wages, and advertising.

External Transactions (p.16) – Exchanges of economic value between one entity and another entity.

External Users (p.5) – Persons using accounting information who are not directly involved in running the organization.

Financial Accounting (p.5) – Area of accounting aimed mainly at serving external users.

Financial Accounting Standards Board (FASB) (p.9) – Independent group of full-time members responsible for setting accounting rules.

Full-Disclosure Principle (p.11) – Principle that prescribes financial statements (including notes) to report all relevant information about and entity's operations and financial condition.

Generally Accepted Accounting Principles (GAAP) (p.9) – Rules that specify acceptable accounting practices.

Going-Concern Assumption (p.12) – Principle that prescribes financial statements to reflect the assumption that the business will continue operating, including actual costs rather than liquidation values.

Income (p.15) – Amounts earned after subtracting all expenses necessary for and matches with sales for a period.

Income Statement (p.20) – Financial statement that subtracts expenses from revenues to yield a net income or loss over a specified period of time; also includes any gains or losses.

Internal Transactions (p.16) – Activities within an organization that can affect the accounting equation.

Internal Users (p.6) – Persons using accounting information who are directly involved in managing the organization.

International Accounting Standards Board (IASB) (p.9) – Group that identifies preferred accounting practices and encourages global acceptance; issues International Financial Reporting Standards (IFRS).

International Financial Reporting Standards (IFRS) (p.9) – Set of international accounting standards explaining how types of transactions and events are reported in financial statements; issued by the IASB.