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

Two types of accounting: Financial and Managerial

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

Business Forms (Pg 5 and 6)

- Proprietorship
    - Sole Proprietorship: One person, complete liabilities
    - Acorn Alley

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

Assumptions and Principles

- Entity Assumption
    - Personal Tax is separate from business
    - Franklin stand deli (Example)
- Continuity Assumptions
    - Does not include bankruptcy
    - Says a business is growing into the indefinite future
- Historical Cost Principle
    - Record purchases at purchase price
    - Scribbles
- Stable Monetary Unit Assumption
    - 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:

Assets = Liabilities + 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
    - Loss is always is '(-)'

S1-8

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

- Financial Statements:
    - 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= net income
            - R<E= (Net Loss)
    - 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
    - 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