

The recording process

Let's review

- Financial events called transactions occur.
- We analyze these transactions to determine their affect on the accounting equation. Remember, as we record each transaction, the accounting equation must remain "in balance".
- Periodically, we communicate information about the business by preparing financial statements. The income statement shows the results of operations for a period of time by reporting revenues and expenses; the statement of retained earnings shows changes in earned capital over a period of time, and the balance sheet shows financial position as of a point in time by reporting on assets (resources), liabilities (debts), and equity.

The accounting equation

Each transaction must keep the accounting equation in balance.

In other words, after each transaction:

Assets = Liabilities + Stockholders' Equity

OR

Assets = Liabilities + Common stock + Retained earnings