

CH. 1

External users: users not directly involved in running the organization

Internal Users: users directly involved in managing and operating an organization

Financial accounting: the area of accounting aimed at serving external users by providing them with the general-purpose financial statements.

Managerial Accounting: area of accounting that serves the decision-making needs of internal users

SEC: a government agency has a legal authority to set GAAP

FASB: private-sector group that sets both broad

General Accepted Accounting Principles (GAAP)

measurement principle (cost): accounting information is based on actual cost

Objectivity: information is supported by independent, unbiased evidence

Revenue Recognition Principle: provides guidance on when a company must recognized revenue

Expense recognition principle(matching): prescribes that a company record the expenses it is incurred to generate the revenue reported

Full-disclosure principle: prescribes that a company report the details behind financial statements that would impact users' decisions

Going-concern assumption: accounting information reflects a presumption the business will continue operating instead of being closed or sold

Monetary unit assumption: means that we can express transactions and events in monetary, or money, units.

Time period assumption: presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods

Business entity assumption: a business is accounted for separately from business entities, including its owners

Materiality constraint: prescribes that only information that would influence the decisions of a reasonable person need be disclosed

Cost-benefit constraint: prescribes that only information with benefits of disclosure greater than the costs of providing it need be disclosed.

3 major activities or organizations: financing(used to pay for resources), investing (refers to buying and selling of resources used in acquiring and selling products and services, and operating (activities necessary for carrying out the organizations plans).

*****ASSETS= LIABILITIES + EQUITY *****

Assets: resources a common owns or controls

Liabilities: creditors' claims on assets

Equity: owners claim on assets

*know how to do transaction analysis (pg. 16-17), income statement, statement of retained earnings, and balance sheet (pg. 21)

Return on Assets= Net Income/ Average Total Assets also called return on investments

Return: net income

Risk: uncertainty about the return we hope to make

CH. 2

Accounting Process: identifies business transactions and events, analyzes, and records their effects, and summarizes and prepares information useful in making decisions.

Account: a detailed record of increases and decreases in a specific asset, liability, or equity.

Ledger: a record containing all accounts used by a company and their balances.

Common Current Assets: cash, accounts receivable, supplies, prepaid asset, inventory, and intangible assets (copyrights, patents, etc.)

Common Plant Assets: automobiles, accumulated depreciation, office equipment, land, building.

Common Liabilities: Accounts payable, notes payable, unearned revenue, accrued liabilities (wages, taxes, and interest payable)

Equity Accounts: invested equity (common stock) & earned equity (retained earnings → dividends, revenue earned, expenses)

Dividends: account used in recording asset distributions to stockholders

T-Account: represents a ledger account and used to understand the effects of one or more transactions.

Debit: left side of T-account
increase... assets, expenses, & dividends
Decrease... liabilities, common stock, & revenues

Credit: right side of T-account
increase... liabilities, common stock, and revenues.
decrease... assets, expenses, & dividends

*know how to write a Journal Entry (Pg. 58) 1. date of transaction 2. Titles of accounts 3. Dollar amount

*know how write Trial Balance (pg. 67)

Debt Ratio= Total Liabilities/ Total Assets one way to assess the risk associated with a company's use of liabilities

CH. 3

Deferrals: cash paid/ received BEFORE expense /revenue incurred/ earned is recognized (prepaid expense & unearned revenue)

Accrual: cash paid/received AFTER expense/revenue incurred/earned is recognized. (accrued expense & accrued revenue)

Accrual basis accounting: uses the adjusting process to recognize revenues when earned and expenses when incurred.

Cash Basis accounting: recognizes revenues cash is received and records expenses when cash is paid.

Book Value= Asset Cost- Accumulated depreciation

Adjusting entry: entry made at the end of an accounting period to reflect a transaction or event that is not yet recorded.

Prepaid Insurance →	insurance expense (debit) & prepaid insurance (credit)
Supplies →	supplies expense (debit) & supplies (credit)
Depreciation →	Depreciation expense (debit) & accumulated depreciation (credit)
Rent →	Rent expense (debit) & prepaid rent (credit)
Season ticket →	unearned revenue (debit) & revenue earned (credit)
Salaries →	Salaries expense (debit) & Salaries payable (credit)
Future payment of salaries →	Salaries payable & salaries expense (debit) & cash (credit)
Services revenue →	accounts receivable (debit) & consulting revenue (credit)

**Know how to adjust entries*

Closing process: an important step at the end of an accounting period after financial statements have been completed **know how to close entry (1. Identify account for closing 2. Record and post the closing entries 3. Prepare post-closing trial balance)*

**Identical under U.S. GAAP and IFRS*

Step 1: Close credit balances in revenue accounts to income summary

Step 2: Close debit balances to expense accounts to income summary

Step 3: Close income summary to retained earnings

Step 4: Close retained earnings account to dividends

Accrued Interest= principal amount owed x annual interest rate x fraction of year since last payment

Temporary Accounts: accumulate data related to one accounting period, *closed at period-end*. (Includes revenues, expenses, dividends, and income summary)

Permanent (or real) Accounts: report on activities related to one or more future accounting periods, *not closed at period-end*. (Includes assets, liabilities, common stock, and retained earnings)

Income Summary: a temporary account (only used for the closing process) that contains a credit for the sum of all revenues and a debit for the sum of all expenses.

Classification Categories → **Current assets** (cash and other resources that are expected to be sold, collected or used within one year or the company's operating cycle, whichever longer), **long-term Investments** (assets expected to held for more than one year or operating cycle), **Plant assets** (tangible assets, both long-lived and used to produce or sell products and services), **Intangible assets**, **Current liabilities** (obligations due to be paid or settled within one year or operating cycle), **long-term liabilities** (obligations not due within a year or the operating cycle), and **equity**

*****Profit Margin= Net Income/ Net Sales ***** useful measure of a company's operating results, also called return on sales

*****Current Ratio= Current Assets/ Current Liabilities***** one measure of a company's ability to pay its short-term obligations