

Chapter 13 Summary

Know the three types of accounting:

Managerial

Tax

Financial

The accounting equation:

Assets = liabilities + OE

Costs and expenses

Costs are the value given to obtain something you want

Expenses are a decrease in OE caused by consuming your product or service

5 common financial statements

Income statement

Statement of retained earnings

Statement of owners equity

Balance sheet

Cash flow statement

What goes on the income statement:

Revenues less expenses plus gains less losses: net income

Net income equation:

Revenues - expenses = net income

2 Difficulties that arise:

Liquidity:

A measure of how quickly a company can raise money through internal sources by converting assets to cash

Current ratio:

The value of current assets divided by current liabilities.

Cash flows: what six items must be reported?

Operating activities

Investing activities

Financing activities

Net effect of foreign exchange rates

Net change in balance during the period

Noncash investing and financing activities

Uses of financial accounting V. Managerial

Financial: reporting to outsiders, taxes record keeping, control of receivables, analysis of business operations

Uses of managerial accounting: cost volume profit analysis. Planning staffing directing controlling. Internal reporting

Cost volume profit analysis: CVP : looks at the fixed and variable costs of a business to arrive at a number of unit sales to maximize profits

Variable V Fixed costs

Variable - costs that change with each unit produced

Fixed: remain constant regardless of quantity of output (rent)

Economies of scale: the idea that it is cheaper to make many of an item than few.

Break even point: the point at which total costs equal gross revenue

Variance analysis: process of determining the effect of price and quantity changes on revenues and expenses

Managerial Accounting: internal reporting