Accounting Based Decision Making July/23/2019

Sumary

Chapter One: The accounting Equation

- Fundamental concepts, the accounting ecuation will be true, at all times, and with out exceptions.

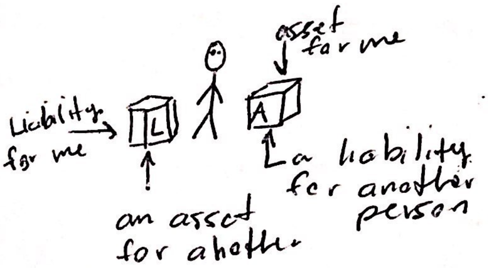
Assets = Liabilities + Owner's equity

- Assets = everything owned by the company
- Liabilities = current debt the company is pending.
- Shareholders equity = interest after all debts have been paid.
  or owners

Assets		Liabities		Equity
$300,000	=	$230,000	+	$70,000

- Equity is whats left over after paying debt, owners' interest in company asets after paying back all debt.

■ My asset is your liability



Chapter two: The balance sheet

- three sections, are the accounting equation

- Balance sheet is a companies financial situation or a given point in time.

ASSETS
- cash and cash equivalents: Balance and savings acount, investments < 3 months
- Inventory: goods in stock, for sale
- Accounts receivable: Amount due for services already delivered.
- Property plant, and equipment: Assets that cannot be converted readily in to cash

LIABILITY
- Accounts Payable: amounts due for services that have been received
- Notes payable: contractual obligations due to lenders (bank loans)

OWNER EQUITY
- common stock = amounts invested by the owners of the company
- Retained earnings = sum (net income) over life of business that has not been distributed to owners in the form of a dividend.

- current assets = assets expected to be converted in to cash within 12 months or less. (accounts receivable, cash, Inventory)

- long term asset = not a current asset, such as property, plant requipment is a long-term asset account.

- Current liabilities = will need to be payed within 12 months or less (accounts payable); notes payable are paid off over a period of time are split up so they show up as current liabilities, the remainder how ever is a long-term liability

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- Multiple - Period Balance sheets: they are to show the companies' status over time.

Chapter three: The income Statement

- income statement: shows a company's financial performance over a period of time (usually a year). Balance sheet is a photo and the income statement is more like a video. sometimes refered as P&L, (Profit and loss)

1 section = revenue
2 section = expenses

Gross Profit and Cost of goods Sold:
Gross Profit: sum of revenue - cost of goods sold

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Operating Income vs. Net income

- Operating expenses = cost of operation of a business, employees, rent ensurance. typically incured

- Non-operating expenses = not typically incurred, not related to operations, a lawsuit for example.

- Separating these two allows the calculation of operating income, this is a better indicator than net income, this method is sometimes used in "creative accounting".

- Operating income = Gross profit - operating expenses

- Net income = operating income - non operating expenses

Chapter four: The statement of retained Earnings

- Statement of retained earnings = details a companies' retained earnings over a period of time, retained earnings being undistributed profits.

- The statement of retained earnings is much like a bridge between the income statement and the balance sheet

income statement → retained earnings ⇛ balance sheet

- final step in preparing the income statement is calculating net income.

- Net income is used to calculate the end of the year retained earnings

- Dividends are not an expense, they don't show up in an Income statement they appear on the statement of retained earnings

- Retained earnings is not the same as cash:
  retained earnings = sum (company undistributed profit) over the existance of the company.
  - Many times the earnings ar re invested in to the company.