Acounting Based Decision Making

cap. 9, 10, 11

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Chapter 9

- small bussiness = cash accounting
- Bussinesses = accrval accounting

GAAP uses Accrual.

recipe ol cash o da el cash

— The cash method =

- sales ar recorded when cash is recieved and
- expenses are recorded when cash is sent out.
- Sometimes is not accurate of describing one's financial situation
  — Pam pre pays her rent for three months and is recorded by cash out, if a creditor was to look at her finantial statements monthly it wouldn't reflect her financial status correctly.

recive el servicio o da el servicio.

— The accrval method =

- recorded by services provided or goods delivered not cash recieved. (accounts receivable)
- Expenses are recognize when it receives them regardless of when it pays for them. (accounts payable)
- it gives a more accurate understanding of economic reality by better representing the time lag betwen a service being performed and a service being paid for.

- Accrual entry

— Prepaid expenses

- you pay prior to recieving services
-

— Unearned Revenue

- when you recieve prepaid expenses of a customer you have not earned that money, hence after the time payed has expired you can use the money.
- account : liability balance known as " unearned

Chapter 10

— Other GAAP Concepts and assumptions

— Historical Cost:

- Assets are recorded (amount paid for them) [the real estate example]
- Anything other subjectid value ways of recording assets are more subjective
- Historical cost is different from current market value.

— Matereality

- material = refers to a transaction that is incorrect, causes viewers to make diferent decisions if they were recorded correctly
- inmaterial = refer to a transaction that was not recorded but that does not impact the company's financial statement.
- material impacts a lot, inmaterial impats less.

— Monetary unit assumptions:

- Dollars appreciate and depreciate, but adjusting the value in every transaction would not derive much benefit, it's assumed that money has a stable value.

— Entity Assumption:

- a bussiness and a bussiness owner are diferent, transaccions between the bussinesess bank account and your bank account are recorded, but to you it will seem as If you are just moving your own money.

— Matching principle

- Expenses must be matched to revenues they help generate
- Expenses must be recorded inthe same period revenue was produced.

Chapter 11

Depreciation of fixed assets

- Company buys an asset that last < 1 year, the cost of the asset is not an immediate expense. The cost is spread out over several years through depreciation.

——— Straight line depreciation

- The method: the cost is spread out evenly over the expected life of the asset.
  - Contra assets accounts are used to off set other accounts, they keep track of how much depresiation has gone.
  - the net debit balance and the credit balance in accumulated depreciation = net equipment balance "book value"

① Cost of asset ② depreciation against the asset

DR. Equipment 5000
CR cash 5000

Depresiation 1000
Acumulated Depreciation 1000

finish

Acumulated depreciation 5000
Equipment 5000

Net book value = original cost — accomulated depresiation

- then the equipment will be disposed

— Salvage Value or "residual value"

- Used when the asset is sold before depreciation renders it worthless.
- Salvage value is the expected value after the planned number of years of use.

$$\boxed{\text{original cost} - \text{salvage value} = \text{depreciable cost}}$$

— Gain or loss on sale

- you can sell the asset for more than it's current depreciation and you must record a gain, if you sell below the current depreciation cost you have to record a loss.

— Other depreciation methods.

- There are other approved methods of depreciation
  - Example:
    - Double declining balance method
      ~~rem~~ remaining net book value * percentage per year
    - the percentage used = 2* percentage of the one used in straight line depreciation
  - units of production method: how much an asset is used.

— Immaterial asset purchases

- Some assets are too insignificant to be recorded after some years, so those they generally are absorbed fully on the date of purchase.