

# Introduction to Accounting

# Goals

- ▶ Enough background so non-accountants have some idea of what accountants do.
- ▶ A shared language of terms for when we work together.
- ▶ Appreciation that we all have our parts
  - ▶ Engineers tend to stick with cost estimation
  - ▶ Economists tend to stick with revenue estimation
  - ▶ Accounting types often do the rest with a focus on tax
- ▶ Set you up for cash flow forecasts later in the course.
  - ▶ Frequent job activity
  - ▶ Also needed for business loans and business plans

Enough knowledge to read the basic documents but not enough to create them.

# Warnings

- ▶ Will feel like drinking from firehouse if you have no background but same pace as intro accounting.
- ▶ Shortcuts/simplifications to get set up for cash flow forecasts.
  - ▶ Barrier between income statement and balance sheet. Revenue and expenses not immediately reflected.
  - ▶ Forget about contra accounts.
  - ▶ Simplification of the connection between balance sheet and cash flow statement.
    - ▶ All asset purchases, even inventory, are cash from investments.
    - ▶ All borrowing and lending, even accounts receivable/payable, are cash from finance.

# Focus on Financial Accounting

- ▶ Financial accounting focuses on the preparation of documents for public consumption.
  - ▶ Balance sheet (Assets, Liabilities and Owner Equity)
  - ▶ Income statement (Revenue and Expenses)
  - ▶ Cash Flow statement (Inflows and Outflows of Cash)
- ▶ There are other accounting areas
  - ▶ Audit (Makes sure people follow the rules and are not misstating things.)
  - ▶ Cost or Managerial (Cost benefit, volume studies, accounting approach to much of this class.)
  - ▶ Forensic (Get an attorney)
  - ▶ Fund and Governmental (Where money is separated and has strings)
  - ▶ Tax (Often Different Rules)

## What is in the three documents?

This is mostly a discussion of nouns. We will add verbs and get *transactions* later.

<https://prezi.com/agobxmlocjgj/accountingnoquiz/>

## Connections between the documents

- ▶ Think about the cash flow statement as the consequences of balance sheet and net income changes.
- ▶ Things that change net income changes cash from operations
- ▶ Asset purchases and sales change cash from investments.
- ▶ Borrowing, lending and owner equity changes are reflected in cash from finance.

# How to Drill and Kill the transactions

- ▶ Resources

- ▶ Wiki page  
<http://ec314-pdx-edu.wikidot.com/q1:accounting>
  - ▶ There are a small number of transactions I ask about. Thirteen are listed but there are really only eight.
  - ▶ Bottom of the page has a link to past examples  
(<https://drive.google.com/drive/u/0/folders/0B3ilawp4z7o1e1ZTWE51NHJIV0E>)
  - ▶ And videos of my explaining things (<https://www.youtube.com/playlist?p=PL9B50CBC168EDAF7>)
- ▶ Learn the transactions first. Flash cards work well.
- ▶ Then practice on categorizing actual transactions into the 8 that you know. Use the videos and past examples for this

## Flashcards

One side has a transaction like “Buy an asset”

The reverse has something like this.

Rev	Assets ↑↓	Operations
Expense	Liabilities	Investments ↓
	OE	Finance



## Example Take Out a Loan

Rev	Assets ↑	Operations
Expense	Liabilities ↑	Investments
	OE	Finance ↑

## Example Revenue increase

Rev ↑	Assets	Operations ↑
Expense	Liabilities	Investments
	OE	Finance