

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/>

In summary

- ▶ Balance Sheet
 - ▶ Assets, things that can be owned.
 - ▶ Current, things that turn into cash over the normal course of doing business.
 - ▶ Fixed, things that require an act of volition to turn into cash.
 - ▶ Other
 - ▶ Liabilities, things that are owed
 - ▶ Current, requires cash in the near future
 - ▶ Other
 - ▶ Owner equity, what is left over $OE \equiv \text{Assets} - \text{Liabilities}$
- ▶ Income statement, revenue and expenses
 - ▶ More expenses increase a positive number

Summary (Con't)

- ▶ Cash Flow Statement, More cash = increase
 - ▶ Operations
 - ▶ Same direction as net income
 - ▶ Investments
 - ▶ Increase if you sell an asset.
 - ▶ Finance
 - ▶ Increase if you borrow
 - ▶ Increase with new owners *investing*

Quiz!

<https://prezi.com/rukunfcbnemy/intro-accounting/>

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

Lets Try an Example

This is before Biketown came into existence.

<https://drive.google.com/file/d/0B3ilawp4z7olcVl5TXQ5dVI0WFU/view>

Back to the Pre-test

- ▶ Which of the following is *not* an asset?
 - ▶ Employees
 - ▶ Land
 - ▶ Machinery
 - ▶ Cash
 - ▶ Owner Equity
 - ▶ Accounts Receivable
- ▶ Which of the following is a liability?
 - ▶ Cash
 - ▶ Accounts Receivable
 - ▶ Owner Equity
 - ▶ Tax Owed
 - ▶ None of the above
- ▶ Which of the following is an expense?
 - ▶ Owner Equity
 - ▶ A Loan
 - ▶ Taxes
 - ▶ None of the above