

1. <b>Accounting is sometimes called</b>	the language of business
2. <b>What is the primary objective of accounting</b>	To provide information that is useful in making good decisions, and as a result of good decisions, societal prosperity and welfare is maximized.
3. <b>Types of Accounting Information</b>	<ol style="list-style-type: none"> <li>1. Financial Accounting</li> <li>2. Management Accounting</li> <li>3. Tax Accounting</li> </ol>
4. <b>Financial Accounting</b>	<ul style="list-style-type: none"> <li>+ Information describes the financial resources, obligations and activities of an economic entity.</li> <li>+ Assists external users such as investors and creditors in the decision making process.</li> <li>+ Is often called "general purpose" accounting information.</li> </ul>
5. <b>Management Accounting</b>	<ul style="list-style-type: none"> <li>+ Involves the development and interpretation of accounting information for management</li> <li>+ Information can be specifically tailored to management's needs in order to assist in the decision-making process.</li> <li>+ Reports are only provided to internal users.</li> </ul>
6. <b>Tax Accounting</b>	<ul style="list-style-type: none"> <li>+ Information must conform with income tax reporting requirements.</li> <li>+ Laws and regulations are often different from those underlying the preparation of financial accounting information.</li> <li>+ </li> </ul>
7. <b>The Accounting Process</b>	<p>The accounting process</p> <ul style="list-style-type: none"> <li>--- to Accounting Information</li> <li>--- (Reported Results of actions) decisions</li> <li>--- to Decision Makers</li> <li>--- Actions (decisions)</li> <li>--- Economic Activities</li> </ul>
8. <b>Accounting Systems</b>	<p>An accounting system consists of the personnel, procedures, technology and records used by an organization</p> <ol style="list-style-type: none"> <li>1. to develop accounting information</li> <li>2. to communicate this information to decision makers</li> </ol>
9. <b>Basic functions of an accounting system</b>	<p>Every accounting system performs the following basic functions</p> <ol style="list-style-type: none"> <li>1. Interpret and record the effects of business transactions</li> <li>2. Classify the effects of similar transactions to compute totals to be used in reports</li> <li>3. Summarize and communicate the information contained in the system to decision makers</li> </ol>
10. <b>5 components of Internal Control</b>	<ol style="list-style-type: none"> <li>1. Control Environment</li> <li>2. Risk Assessment</li> <li>3. Control Activities</li> <li>4. Information and Communication</li> <li>5. Monitoring</li> </ol>

11. <b>Internal Control 1: Control Environment</b>	<ul style="list-style-type: none"> <li>+ Set the tone for the organization</li> <li>+ Organization commitment to ethical values</li> <li>+ Independence of the board of directors</li> <li>+ Appropriate assignment of responsibility</li> <li>+ Development and retention of competent employees</li> <li>+ Accountability at all levels.</li> </ul>
12. <b>Internal Control 2: Risk Assessment</b>	<ul style="list-style-type: none"> <li>+ Identifying, analyzing, and managing risks that pose a threat to the achievement of organizational goals.</li> <li>+ Involves the identification of risks and the implementation of risk mitigation techniques.</li> </ul>
13. <b>Internal Control 3: Control Activities</b>	<ul style="list-style-type: none"> <li>+ Policies and procedures established by management to address risk.</li> <li>+ Examples include: <ul style="list-style-type: none"> <li>+ Approvals</li> <li>+ Reconciliations</li> <li>+ Reviews</li> <li>+ Separation of Duties</li> <li>+ Safeguarding assets</li> </ul> </li> </ul>
14. <b>Internal Control 4: Information and Communication</b>	<ul style="list-style-type: none"> <li>+ Developing information systems to capture and communication operational, financial, and compliance-related information.</li> <li>+ Capturing both internal and external information</li> <li>+Facilitates the flow of information: <ul style="list-style-type: none"> <li>+ Downstream (from management to employees)</li> <li>+ Upstream (from employees to management)</li> <li>+ Across the organization</li> </ul> </li> </ul>
15. <b>Internal Control 5: Monitoring</b>	<ul style="list-style-type: none"> <li>+ Evaluate the effectiveness of internal controls</li> <li>+ Accomplish through ongoing managment and supervisory activities</li> </ul>
16. <b>External Users of Accounting Information</b>	<ul style="list-style-type: none"> <li>Examples include: <ul style="list-style-type: none"> <li>+ Owners</li> <li>+ Creditors</li> <li>+ Potential investors</li> <li>+ Labor unions</li> <li>+ Governmental Agencies</li> <li>+ Suppliers</li> <li>+ Customers</li> <li>+ Trade Associations</li> <li>+ General Public</li> </ul> </li> </ul>

17. **Objectives of External Financial Reporting**

1. Provide specific information about economic resources, claims to resources, and changes to resources and claims
2. Provide information useful in assessing the amount, timing and uncertainty of future cash flows
3. Provide general information useful in making investment and credit decisions'

18. **3 Primary Financial Statements**

1. Balance Sheet: shows where the company stands in financial terms on a specific date; also called the statement of financial position.
2. Income Statement: Shows the details of a company's profit related activities over a period of time.
3. Statement of cash flows: shows the details of a company's activities involving cash over a period of time.

19. **Characteristics of Externally Reported Information**

1. Financial Reporting - A Means
  - a. A means to an end; not an end in and of itself.
  - b. Improve the quality of decision making for outside users
  - c. Help to create a prosperous society.
2. Financial Reporting vs. Financial Statements
  - a. Financial statements are a subset of the broader concept of financial reporting.
  - b. Financial reporting also includes other communications to external parties including press releases, disclosures, and other open communications
3. Historical in Nature
  - a. Financial statements report events for an accounting period that has already occurred.
  - b. Focuses on the past more than the future.
4. Inexact and approximate measures
  - a. Accounting information is often based on estimates, judgment and assumptions about the past and the future.
  - b. Considered an inherent limitation of accounting information.
5. General Purpose Assumption
  - a. Information is not tailored for a specific user.
  - b. The same financial reporting package is available for multiple user groups.
6. Explanation
  - a. Value is enhanced by management explanations.
  - b. Qualitative information assists in interpreting the financial reports.

20. <b>Users of Internal Accounting information</b>	<p>Examples include</p> <ol style="list-style-type: none"> <li>1. Board of Directors</li> <li>2. Chief Executive Officer (CEO)</li> <li>3. Chief Financial Officer (CFO)</li> <li>4. Vice presidents</li> <li>5. Business unit managers</li> <li>6. Plant managers</li> <li>7. Store Managers</li> <li>8. Line Supervisors</li> </ol>
21. <b>The integrity of accounting information is enhanced in three primary ways:</b>	<ol style="list-style-type: none"> <li>1. Institutional features</li> <li>2. Professional accounting organizations</li> <li>3. Personal Competence, judgment and ethical behavior</li> </ol>
22. <b>Generally Accepted Accounting Principles (GAAP)</b>	<ol style="list-style-type: none"> <li>1. Provides the general framework for determining what information is included in the financial statements and how this information is prepared and presented.</li> <li>2. Originates from a combination of tradition, experience, and official decree.</li> <li>3. May change over time.</li> </ol>
23. <b>Securities and Exchange Commission (SEC)</b>	<ol style="list-style-type: none"> <li>1. Governmental agency with the legal power to establish accounting principles and financial reporting requirements for publicly owned corporations.</li> <li>2. Delegates standard setting responsibility to the FASB.</li> <li>3. Reviews the financial statements of publicly owned corporations.</li> <li>4. May initiate legal action against companies</li> </ol>
24. <b>Financial Accounting Standard Board (FASB)</b>	<ol style="list-style-type: none"> <li>1. Independent rule-making body.</li> <li>2. Recognized as the most authoritative source of GAAP</li> <li>3. Maintains the Accounting Standards Codification (ASC) which includes all standards and represents an official expression of GAAP.</li> </ol>
25. <b>International Accounting Standards board (IASB)</b>	<ol style="list-style-type: none"> <li>1. London based panel of elite professionals with expert knowledge of accounting methods used in the most vibrant capital markets.</li> <li>2. Issues International Financial Reporting Standards (IFRS).</li> <li>3. More than 100 countries, including those in the European Union, require companies to follow IASB standards.</li> <li>4. The SEC accepts financial statements prepared using IASB standards from foreign companies that are cross listed on a U.S. stock exchange.</li> <li>5. The AICPA, which maintains jurisdiction over private company reporting, accepts either FASB standards or IASB standards as authoritative sources of accounting principles.</li> </ol>

26. <b>PCAOB - Public Company Oversight Board</b>	<ol style="list-style-type: none"> <li>1. Board created by the Sarbanes Oxley Act of 2002.</li> <li>2. Charged with oversight of the public accounting profession.</li> <li>3. Sets auditing standards for audits of publicly traded companies.</li> <li>4. Inspects the quality of audits.</li> <li>5. Conducts investigations and administers penalties.</li> </ol>
27. <b>Financial Statements Audits</b>	<ol style="list-style-type: none"> <li>1. An examination of a company's financial statements, designed to determine the fairness of the statements.</li> <li>2. Must be conducted by an independent certified public accountant (CPA)</li> <li>3. Financial statements are judged based on the standards of GAAP.</li> </ol>
28. <b>Key point:</b>	For the auditor to reach the conclusion that the financial statement are fair representation of a company's financial position, results of operations, and cash flows, the statements must comply in all important way with generally accepted accounting principles.
29. <b>Integrity: Legislation</b>	<ol style="list-style-type: none"> <li>1. Congress passed the Sarbanes-Oxley Act in 2002.</li> <li>2. Auditors are prohibited from providing certain nonaudit serves to their audit clients to preserve objectivity.</li> <li>3. Board director and audit committees are tasked with additional oversight responsibilities.</li> <li>4. Chief Executive Officers (CEO) and Chief Financial Officers must certify the fairness of the company's financial statements.</li> </ol>
30. <b>AICPA - American Institution of CPAs</b>	<ol style="list-style-type: none"> <li>1. Mission is to provide members with the most relevant knowledge</li> <li>2. Conducts research and works closely with the FASB in the establishment and interpretation of GAAP.</li> </ol>
31. <b>IMA - Institute of Management Accountants</b>	<ol style="list-style-type: none"> <li>1. Provides a forum for research, practice, development, education, knowledge sharing, and the advocacy of the highest ethical and best business practices in management accounting and finances.</li> <li>2. Offers professional development through conferences and seminars.</li> <li>3. Provides audit specialty services and industry specific auditing programs as well as quality assurance review and benchmarking services</li> </ol>
32. <b>AAA - American Accounting Association (AAA)</b>	<ol style="list-style-type: none"> <li>1. Mission is to further the discipline and profession of accounting through education, research and service.</li> <li>2. Made up primarily of accounting educators who focus on improving the quality of accounting education.</li> </ol>

33. **COSO - Committee of Sponsoring Organizations of the Treadway Commision (COSO)**

1. Private section organization dedicated to provding thought leadership through the development of comprehensive framework and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.
2. Best known for its work in developing the standards for evaluating internal control.
3. Competence, judgment and ethical behavior  
To illustrate the importance of competence, professional judgment and ethical behavior in the preparation of financial statements, consider the following complex issues that must be addressed by the accountant
  - + At what point should an enterprise account for transactions that continue over a long period of time, such as a long-term contract to construct an interstate highway?
  - + What constitutes adequate disclosure of information that would be expected by a reasonabley informed user of financial statements?
  - + At what point are the company's financial problems sufficient to question whether it will be able to remain in business for the foreseeable future, and when should that information be communicated to the user of its financials statements.
  - + When have efforts by management to improve (that is "window dress") its financial statements crossed a line that is inappropriate, making the financial statements actually misleading to investors and creditors.

34. **Integrity: CPA**

Certifications in given area signals a level of competence to financial users and decision makers.

1. Certified Public Accountant (CPA)
  - a. licensed by the state
  - b. Must have completed 150 semester hours of college work with a major in accounting.
  - c. Must pass the CPA exam
  - d. Must have adequate professional experience.
  - e. Must spend at least 40 hours of continuing education each year.
- 2.. Certified Management Accountant (CMA)
  - a. issued by the IMA
  - b. Signifies professioanl competence in the area of managerial accounting.
  - c. requirements are similar to those of CPA.
3. Certified Internal Auditor (CIA)
  - a. Issued by the IIA
  - b. Signifies professional competence in the area of internal auditing
  - c. Requirments are similar to those of the CPA.

35. **List 4 external users of accounting information**

- + Creditors
- + Regulators
- + Investors

36. State whether the following statement is true or false. "Accounting relies on inexact or appropriate measures because many accounts in financial statements are dependent on the judgement about future events and on an assessment of management intent	True
37. What are the two primary organizations in the United States that are responsible for setting standards related to the preparation of accounting information.	+ Financial Accounting Standards Board (FASB)  + The Securities and Exchange Commission (SEC)
38. Financial Statements	Statement of financial position (balance sheet), income statement, statement of cash flows
39. Public Accounting	The segment of the accounting professional that relates to providing audit, tax and consulting services to clients
40. Financial accounting	The area of accounting that refers to providing information to support external investment and credit decisions
41. Bookkeeping	The procedural aspect of accounting that involves keeping detailed records of business transactions, much of which is done today by computers.
42. Internal Control	Procedures and processes within an organization that ensures the integrity of accounting information.
43. Financial Reporting	A broad term that describes all information provided to external users including but not limited to financial statement
44. Management accounting	The area of accounting the refers to providing information to support internal management decisions
45. General Purpose information	The fact that the same information is provided to various external users, including investors and creditors
46. Integrity	An important quality of accounting information that allows investors, creditors, management and other users to rely on the information.
47. Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them, \$12,500 to help the company get started. They have promised to repay your \$12,500 plus 10% interest in one year. What is your return on investment	ROI - \$1,250
48. Accounting judgements are an input to	useful information
49. _____ is designed to primarily benefit investors and creditors.	Financial Accounting
50. The financial position of an entity is measured at a point in	time.
51. Financial Accounting is useful is deciding where to place scarce _____ resources.	investment

52. Which group is the primary use of management accounting information?	Management
53. Laws and regulations regarding taxation	<ul style="list-style-type: none"> <li>+ Are different than those underlying management accounting information</li> <li>+ are different than those underlying financial accounting information.</li> </ul>
54. True or False: All types of organizations need the same types of accounting information	False
55. A basic function of an accounting system is to _____ and _____ the effects of a business transaction	Interpret and record
56. Which groups are charged with developing and monitoring internal controls?	Management and board of directors
57. An organization's control environment is the _____ for all other element of internal control	foundation
58. An effective information system is designed to communicate information	<ol style="list-style-type: none"> <li>1. Upstream, as in employee to management</li> <li>2. Downstream, such as management to employee.</li> <li>3. across the organization</li> </ol>
59. Monitoring activities are accomplished through	<ul style="list-style-type: none"> <li>+ Periodic separate evaluations of internal controls</li> <li>+ Work of the internal audit unit</li> <li>+ Ongoing management and supervisory activities.</li> </ul>
60. The Sarbanes Oxley Act was precipitated by financial fraud at which companies	<ul style="list-style-type: none"> <li>+ Enron</li> <li>+ Worldcom</li> </ul>
61. Which of the following are basic functions performed by an accounting system.	<ul style="list-style-type: none"> <li>+ Record</li> <li>+ Classify</li> <li>+ Summarize</li> <li>+ Communicate</li> <li>+ Interpret</li> </ul> <p>(not Analyze)</p>
62. In a large business, which individuals are responsible for designing and improving the accounting system	<ul style="list-style-type: none"> <li>+ Internal Auditors</li> <li>+ Other Professionals</li> <li>+ Systems Analysts</li> </ul> <p>(not senior operations management not usual in the design phase)</p>
63. Identify the elements of Internal Control - Integrated Framework	<ul style="list-style-type: none"> <li>+ Monitoring Activities</li> <li>+ Control Activities</li> <li>+ risk assessment</li> <li>+ information and communication</li> <li>+ control environment</li> </ul>
64. Risk Assessment involves _____, _____, and _____ those risks that poses a threat to the achievement of the organization's objective.	Identifying, Analyzing and Managing



65. <b>Examples of control activities are</b>	<ul style="list-style-type: none"> <li>+ reconciliation</li> <li>+ segregation of duties</li> <li>+ approvals</li> </ul>
	not <ul style="list-style-type: none"> <li>+ internal audits</li> <li>+ assignment of appropriate levels of responsibility</li> </ul>
66. <b>In a cost effective accounting information system, the value of the information produced should _____ the cost of producing it.</b>	exceed
67. <b>Monitoring Activities are accomplished through</b>	<ul style="list-style-type: none"> <li>+ Periodic separate evaluations of internal control</li> <li>+ Work of the internal audit unit</li> <li>+ Ongoing managing and supervisory activity.</li> </ul>
68. <b>You loan Stuart and Stuart, \$500,000 on 7-1-x7 at an interest rate of 4%, What do you expect to receive in cash on 6-31-x8</b>	\$520,000
69. <b>The most general objective of external financial reporting is to provide information that is useful in making _____ and _____ decisions</b>	investment and credit
70. <b>Identify the characteristics of external reported information</b>	<ul style="list-style-type: none"> <li>+ Usefulness enhanced via explanation</li> <li>+ Inexact and appropriate measures</li> </ul>
71. <b>Reported Financial information is accompanied by</b>	+ Notes to the financial statements
72. <b>A management accounting information system is useful in</b>	<ul style="list-style-type: none"> <li>+ Providing a signal as to employee performance.</li> <li>+ Evaluating and rewarding decision making performance.</li> </ul>
73. <b>Which of the following are characteristics of management accounting information</b>	<ul style="list-style-type: none"> <li>+ Needs to be provided to those with decision making authority</li> <li>+ Needs to be timely.</li> </ul>
	not <ul style="list-style-type: none"> <li>+ Measures compliance</li> <li>+ Oriented toward</li> </ul>
74. <b>The IASB issues which of the following:</b>	The International Financial Reporting Standards
75. <b>A basic function of an accounting system is to _____ and _____ the effects of business transaction.</b>	interpret and record
76. <b>Which of the following characteristics describes the Financial Accounting Standards Board (FASB)?</b>	<ul style="list-style-type: none"> <li>+ It compiles its standards in Accounting Standards Codification</li> <li>+ It is primarily responsible for promulgating GAAP.</li> </ul>
77. <b>The PCAOB was created by which congressional act</b>	Sarbanes-Oxley Act

78. <b>The fairness of financial statements is judged according with</b>	generally accepted accounting principles
79. <b>Which organization is responsible for preparing and grading the CPA exam?</b>	AICPA
80. <b>IMA</b>	sponsors the Certified Management Accounting exam and program
81. <b>IIA</b>	Issued the standards for the professional practice of Internal Auditing
82. <b>AAA</b>	primarily focuses on improving accounting education
83. <b>COSO</b>	Primarily focuses on enterprise risk management, internal control, and fraud deterrence.
84. <b>The CPA is a designation granted by</b>	the individual states
85. <b>Based on the AICPA's code of professional conduct, a member in public practice should be independent in</b>	fact and appearance
86. <b>Which of the following is a characteristic of accounting with integrity</b>	complete
87. <b>GAAP includes</b>	+ broad principles of presentation + broad principles of measurements
88. <b>The income statement is an activity statement that shows details and results of a company's _____ activities over time.</b>	profit-related
89. <b>The AICPA's code of professional conduct indicates that CPAs have a responsibility to the</b>	public
90. <b>Accounting is the _____ of business.</b>	language
91. <b>Accounting effects the public's well-being in many ways because accounting information is used in the _____ of _____ throughout society</b>	allocation of economic resources
92. <b>Individual who move from public accounting firms into corporations, often have which type of jobs:</b>	chief financial officer, controller, treasurer
93. <b>Which of the following is not a user of internal accounting information</b>	investors
94. <b>At any point in time, a management accountant typically works for</b>	1 organization
95. <b>Which of the following organizations is considered the auditor of the government?</b>	GAO
96. <b>Which corporate officers typically report to an organization's Chief Financial Officer</b>	+ Treasurer + Controller
97. <b>Which characteristics define a profession?</b>	+ A complex and evolving body of knowledge +Serving the public interest + Professional Judgement
98. <b>Primary external using of accounting information include</b>	Creditors
99. <b>Whereas bookkeeping is largely clerical in nature, professional accountants are more involved in the _____ and _____ of accounting information.</b>	interpretation and use
100. <b>A position as an accounting faculty member generally involves which of the following:</b>	research, teaching, consulting
101. <b>Which entry level job is going to provide the best stepping stone experience</b>	Public accounting
102. <b>Identify 1 of the 3 corporate officers who is required to personally sign the 10-K form that a public company is required to file with the SEC</b>	Chief Accounting Officer
103. <b>Which of the following items are accounting measurements?</b>	profits, costs, sales volumes

104. **True or false: Accounting information is only relevant to businesses?**

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False