

ACCT 101 – Fundamentals of Accounting 1

Chapter 1 – Introducing Accounting in Business

Overview: This chapter will mainly be a review for you, as you have covered most of the concepts in ACCT 100. You should spend your time reviewing the old concepts, and especially studying the new ones.

What's New in this Chapter?

- The corporate form of business ownership.
- Accounts that pertain to corporations, Common Stock, Retained Earnings, Dividends.
- Some accounting principles, or at least their names.
- Two Financial Statements - Statement of Retained Earnings and Statement of Cash Flows.

Accounting in Business: What you should already know:

- Accounting is the “language of business.”
- It is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about business activities in economic terms.
- Three major accounting activities are identifying, recording, and communicating.
- Users of accounting include external users and internal users. You should be able to provide examples of both.
- Opportunities in accounting are abundant but can generally be categorized into financial, managerial, taxation, and other accounting related jobs.
- Ethics in accounting have been in the spotlight lately.
- **GAAP** – Generally Accepted Accounting Principles are the rules that we will follow throughout the semester. FASB sets both broad and specific principles. SEC establishes reporting requirements for publicly held companies. The IASB identifies preferred accounting practices for international issues.
- The accounting equation - see separate section below.
- Transaction analysis

Accounting Principles that you should familiarize yourself with:

- The **cost principle** – Accounting information should be based on actual cost, which is measured on a cash or equal to cash basis.
- The **revenue recognition principle** – provides guidance on when a company should recognize or record revenue.
- The **Matching principle** – A company must record its expenses incurred to generate revenue in the same period.
- The **Full disclosure principle** – Details must be reported so that user's decisions can be informed.

Accounting Assumptions that you should familiarize yourself with:

- **Monetary unit assumption** – money is the common denominator in business and transactions should be expressed in monetary units.
- **Time period assumption** – the life of a company can be divided into time periods and useful reports should be generated for that time period.
- **Business entity assumption** – a business is accounted for separately and apart from other entities including it's owner. A business entity can take one of three legal forms - a sole proprietorship, a partnership, or a corporation.

SOX – Sarbanes Oxley Act

This legislation was designed to help curb abuses of public companies. Requires documentation and testing of internal controls. Failure to comply brings stiff penalties, including jail time. Mandated transparency, accountability, and truthfulness in reporting transactions.

Fundamental Accounting Equation

Assets	=	Liabilities	+	Equity
Things of Value		Debt		Owner's Claims
Resources owned by a Company		Creditors Claims on Assets		Net Assets
Yield future benefits		Payables		Residual Equity
		Owed to others		Assets - Liabilities
Common:				
Cash		Accounts Payable		Contributed Capital
Accounts Receivable		Wages Payable		Common Stock
Prepays		Notes Payable		Retained Earnings
Property and Equipment		Taxes Payable		Net Income - Dividends

Expanded Equation

Assets	=	Liabilities	=	Contributed Capital	+	Equity
				Common Stock		
						Retained Earnings
						Net Income - Dividends
						Revenues - Expenses

Practice, Practice Practice!

Financial Statements

The Summarizing Aspect of Accounting

Four Financial Statements - See Page 19 for example

- Income Statement – Summarizes revenues and expenses along with resulting net income or loss. Shows profitability over a period of time.
- Statement of Retained Earnings – Explains changes in R/E including net income less dividends over a period of time.
- Balance Sheet – Shows financial condition as of a specific date. Summarizes assets, liabilities, and equity accounts. Two common forms are account form and report form.
- Statement of Cash Flows – Reports cash flows from operating activities, investing activities, and financing activities

Ratios

Return on Assets = $\frac{\text{Net Income}}{\text{Average total Assets}}$ = Shows whether company's are using their assets productively and efficiently. Can be compared from year to year, or can be compared to industry competitors.