

GAAP

ü The **cost principle** states that assets are recorded at their historical cost.

ü **Going Concern** – Assumes organization will continue into foreseeable future.

ü **Monetary Unit** – only transaction data that can be expressed in terms of money is included in the accounting records.

ü **Economic Entity** – includes any organization or unit in society.



Accounting Equation



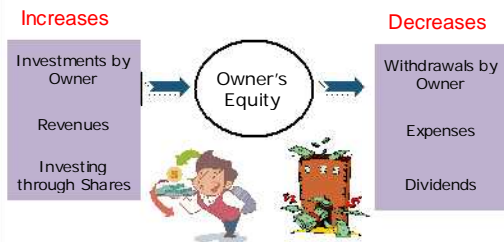
ü An **asset** is an item owned by a business that has a future economic value

ü A **liability** is an obligation by a business that has a future economic value

ü **Owner's equity** is the share of the assets that belongs to the owners



INCREASES AND DECREASES IN OWNER'S EQUITY



FINANCIAL STATEMENTS

1. Income Statement

- Revenues
- Expenses

2. Balance Sheet

- Assets
- Liabilities
- Owner's Equity

3. Statement of OE / Statement of RE

- Change in owner's equity

4. Statement of Cash Flows

- Cash inflows (money coming in)
- Cash outflows (money going out)



USING INFO IN FINANCIAL STATEMENTS

The feature story – The Second Cup Limited

1. As a potential investor in The Second Cup Ltd., what info would the B/S and I/S provide you to make your decision?

2. Would you want to look at audited F/S? Explain.

3. Will the F/S show the market value of the company?

