



# **Basic Accounting & Financial Terminology**

# Program Objectives (1 of 2)

- ✚ Understand basic accounting and financial terminology.
- ✚ Learn how double entry accounting works.
- ✚ Explore the world of accounting cycle, accounts, assets, equity, receivables, accounts payable, liabilities and ledgers.

# Program Objectives (2 of 2)

- Discover which accounting system works best for you.
- Explore how computerized accounting works and its benefits.
- Understand financial statements, income statements, statements of owner's equity, balance sheets and cash flows.

# Managerial Accounting

- ✚ Gather information that is relevant to the decision-making needs of management.



# Financial Accounting

- ↳ Concerned with reports for owners, creditors and government agencies.

# Accounting Cycle (2 of 3)

4. Assembling and analyzing adjustment data.
5. Preparing an optional end-of-period spreadsheet.
6. Journalizing and posting adjusting entries.

# What is Journal Entry?

- ↳ Transactions are recorded through **Journal entries** that show account names, amounts, and whether those accounts are recorded in **Debit** or **Credit sides** of accounts.

# Double-entry Accounting

- It means that transactions are always recorded using two sides, debit and credit.
- The sum of debit side amounts should equal to the sum of credit side amounts.



Important to  
Keep in  
Mind



# Important to Keep in Mind (2 of 2)

↳ Sales revenue would also have a credit balance because you received cash:

- (the debit side of the transaction) in exchange for a product or service (the where side of the transaction, in this case what you gave or sold).

# Tips to use Chart of Accounts

(2 of 3)

- ✚ As a general rule, an account should not be named after one product or service.
- ✚ If you use Computerized accounting system like QuickBooks, your job will be a lot easier because they have a whole set of Chart of Accounts.

# Assets

- ✚ Assets are either physical or intangible resources owned by the business entity.
- ✚ They are divided into **Current Assets** and **Fixed Assets** or property, plant and equipment.
- ✚ Assets are reported on **Balance Sheet**.



# Owner's Equity

## (accounting equation) (2 of 2)

✚ Accounting Equation shows the relationship between liabilities (resources that business owes) and Assets (resources that business own).

$$\text{Owner's equity} = \text{Assets} - \text{Liabilities}$$



# Uncollectible Receivables (1 of 2)

- ✚ Some customers will not pay their debts.
- ✚ That is some **Accounts Receivables** will not be **Uncollectible**.

# Watch Out!



# Watch Out!

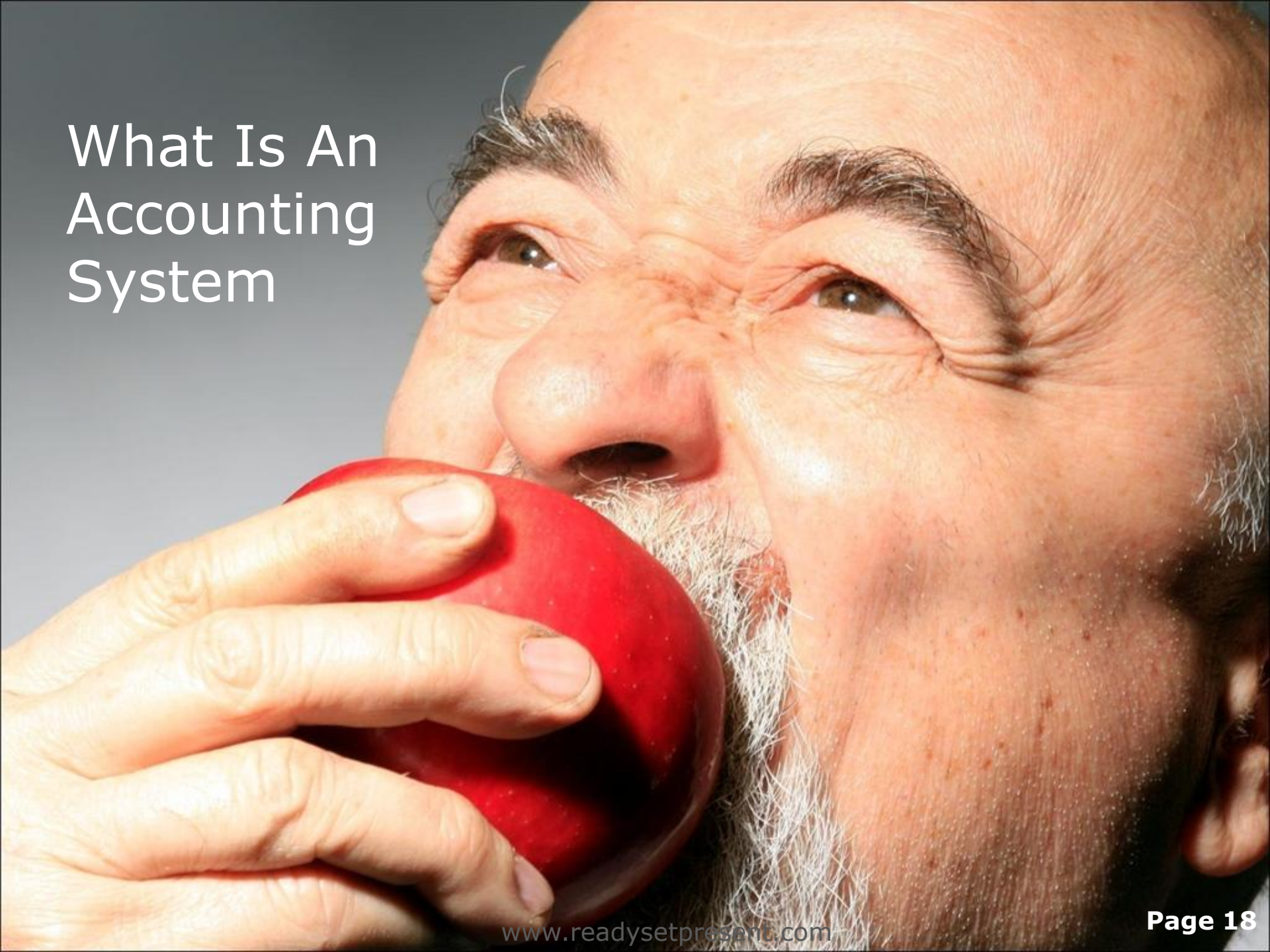
- ✚ A company that in financial trouble will still try to purchase goods and services on account.
- ✚ You must be careful on granting credit to such companies, because trade creditors have low priority for cash payment in case the company declares bankruptcy.

# Accounts Payable

- ✚ Accounts payable usually take place when your business purchase goods or services for use in a company's operations or for purchasing merchandise for resale.



# What Is An Accounting System





# What is an Accounting System? (2 of 2)

- ✚ If you understand a manual accounting system you are able to recognize the relationships between accounting data and accounting reports.
- ✚ Moreover, **Computerized systems** are based on the same principles as **Manual**.

# What System is Best for Your Business? (1 of 2)

- ✚ When amount of data that needs to be collected and stored is relatively small, then you can get away with recording transactions in an all-purpose (two-column) journal.

# Computerized Accounting Benefits



# Computerized Accounting Benefits

↘ Computerized accounting systems have two very important advantages over **Manual systems**.

- They simplify record-keeping process, by recording transactions in electronic forms and, and posting them at the same time to **general** and **subsidiary ledger** accounts.
- They are in general more accurate than manual systems.

# Merchandising Business Cycles (2 of 2)

- ↳ When the merchandise is sold, the revenue is reported as sales, and its cost is recorded as an expense called **the cost of merchandise sold**.



# Financial Statements (1 of 2)

- ✚ Financial statements are prepared after all transactions have been recorded.
- ✚ They provided a reader with information of a financial position of a company.

# Income Statement (1 of 2)

- Income statement reports revenue and expenses for a specific period of time (month or a year).
- If the expenses exceed revenue, a company will report net loss.

# Statement of Owner's Equity

- Prepared after income statement, but before balance sheet.
- In statement of owner's equity you report the changes in the owner's equity.
- Net profit or net loss for the period must be reported on the statement of owner's equity.

# Balance Sheet



# Balance Sheet (2 of 3)

- The **Assets** section of the balance sheet presents assets in the order they will be converted into cash or used in operations.
- Cash will be first, followed by receivables and supplies.



# Statement of Cash Flows (1 of 3)

- ↪ This financial statement reports a firm's major cash inflows and outflows for a period.

# Statement of Cash Flows (3 of 3)

✚ By knowing this information,  
you can understand a firm's  
profit potential.