

Chapter 1 – Accounting in Business
MGMT 1A

- A. Debits and Credits
1. Double-Entry Bookkeeping

Debits

(on the Left)

Credits

(on the Right)

The Accounting Equation: $(A = L + OE)$ Assets = Liabilities + Owners' Equity
(equation has to stay in balance!)

Like buying a house:

Asset = The house

Liability = The mortgage

Owners' Equity = The down payment

As you pay down the mortgage (-1 liabilities) you increase owners' equity (+1)

As the home appreciates (gains in value) (+250 assets) you increase owners' equity (+250)

The equation always stays in balance

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- a. Assets = Resources owned or controlled by a company which have

Expected _____ Future _____ Benefit _____

i. How do you increase an asset? Debit _____

ii. How do you decrease an asset? Credit _____

iii. Normal Debit _____ balance

iv. Example Asset Accounts:

Cash _____

Accounts _____ Receivable _____

Prepaid _____ Expenses _____

Supplies _____

Equipment _____

Land _____

- b. Liabilities = Claims by creditors against the assets of the company. Obligation to provide products, services or assets to others in the future _____.

i. How do you increase a liability? Credit _____

ii. How do you decrease a liability? Debit _____

iii. Normal Credit _____ balance

iv. Example Liability Accounts:

Accounts _____ Payable _____ *(used for purchases of goods, inventory)*

Accrued _____ Expenses _____ *(used on a recurring basis – rent, salaries)*

Notes _____ Payable _____ *(borrowing money from a bank - mortgage)*

Deferred _____ Revenue _____

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c. Owner's Equity = Owner's claim on a company's assets. The owner's residual interest in the assets of a business, after deducting liabilities.

i. Capital Contributions (Up with a Credit; Down with a Debit)

ii. Drawings (also called Dividends) (Up with a Debit; Down with a Credit)

iii. Revenue (Up with a Credit; Down with a Debit)

iv. Expense (Up with a Debit; Down with a Credit)

d. Expanded Accounting Equation = DEALER:

Dividends + Expenses + Assets = Liabilities + Equity (Contributions) + Revenue

Normal Debit Balance

Normal Credit Balance

B. General Ledger = Collection of all accounts and their balances.

C. T-Account

<i>Debits on the Left</i>	<i>Credits on the Right</i>
<i>DEA</i>	<i>LER</i>

System of double entry bookkeeping was invented in the 14th century by a monk who spoke Latin. "Debere" is the Latin word for "Debit". This is why we abbreviate:

Debit = DR

Credit = CR

D. Users of Accounting Information

1. External Users:

a. Investors – the owners of a corporation. Use accounting information to decide whether to buy, hold, or sell stock/investments.

b. Regulators – Monitor compliance with laws and regulations.

c. Customers – Evaluate whether they want to do business with the Company

d. Suppliers – Judge the financial health of the Company before deciding to extend credit

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2. Internal Users:

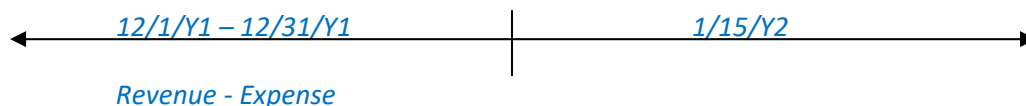
- a. Management – the individuals responsible for running the business. Use accounting information to make operational decisions.

E. 5 (4 + 1) Basic Financial Statements

1. Income Statement – Describes a company's revenues, expenses, and resulting net income or loss over a period of time *Period statement "For the year ended"*
2. Statement of Stockholders Equity – Explains changes in equity (common stock, retained earnings, dividends, etc.) over a **period** of time *"For the year ended"*
3. Balance Sheet – Describes a company's financial position at a point in time. ****SNAPSHOT **** *Point in time statement "As of [date]"*
4. Statement of Cash Flows – Identifies cash inflows (receipts) and outflows (payments) over a **period** of time. *"For the year ended"*
5. Notes to the Financial Statements *Narrative paragraphs, required by GAAP, describe Company's operations and business*

F. Accounting Principles

1. Revenue Recognition Principle = recognize revenue when it is earned
 - a. Goods or services are provided to customers
Magnolia magazine example
1/1 – pay \$20 ← unearned revenue (liability)
3/31 – magazine received – ¼ revenue earned
 - b. The amount expected to be received from customers is fixed/known
2. Matching Principle *← Prof. Woo's FAVORITE accounting principle ;)*
 - a. Match expenses to the period in which they generate related revenues



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3. Conservatism - if uncertain, recognize expenses and liabilities as soon as possible; but only recognize revenue and assets when collection is reasonably assured (covered more in 120B)

4. Measurement Principle

- a. Accounting information is based on actual cost (i.e., cash or near-cash basis)
- b. Possible subsequent adjustments to market value in certain areas (i.e., investment securities)
- c. Considered objective – information is supported by independent unbiased evidence.

G. GAAP – Generally Accepted Accounting Principles established

by the Financial Accounting Standards Board (FASB)

1. Securities and Exchange Commission (SEC) – oversees the proper application of GAAP by publicly traded companies (i.e., companies that raise money from the public by issuing stock)

- a. 1933 Act
 - i. Requires that investors receive financial and other significant information concerning securities being offered for public sale
 - ii. Prohibits misrepresentation, deceit and fraud in the sale of securities
- b. 1934 Act
 - i. Requires public companies to reporting periodic financial information on Forms 10Q, 10K *10Q = Quarterly (every 3 months); 10K = Annual (usually 1/1 - 12/31)*
 - ii. Requires public companies to notify investors of events that may be important on Form 8K.
- c. Sarbanes-Oxley Act (SOX) – Protects investors from the possibility of fraudulent corporate activities.

- i. Established the Public Company Accounting

Oversight Board (PCAOB) ← we call it

- ii. Requires company to document their system of internal controls and assess the effectiveness.
- iii. Management must certify that they have designed and implemented an effective system of internal controls
- iv. An independent auditor must also certify the effectiveness of the company's internal controls in an audit opinion.

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H. Career Paths

1. Audit (public accounting)
2. Tax (public accounting)
3. Bookkeeping
4. Investment Banking
 - a. <https://news.efinancialcareers.com/us-en/276390/whats-it-like-working-in-banking>
 - b. <https://www.mergersandinquisitions.com/investment-banking-analyst-life-worst-day/>
5. Resources:
 - a. Vault.com: <http://access.vault.com/career-insider-login.aspx?aid=275586>
UCLA Career Center Undergraduate Student Exclusive Access
Suggested reading:
 - Top 50 Accounting Firms
 - Vault Guide to Accounting Jobs
 - Vault Career Guide to Accounting
 - Top 50 Banking Employers
 - Vault Career Guide to Investment Banking
 - b. AICPA: <https://www.aicpa.org/career/careerpaths/publicaccounting.html>
 - c. Student Accounting Society: <https://bruinsas.org> (Join, get involved. Will connect you with professionals at the Firms)
 - i. Meet the Firms (Fall Quarter – Full Time recruiting – post graduation)
 - ii. Interviewing 101 (Winter Quarter – Internship/Leadership program recruiting)
 - Summer Internships
 - Leadership programs