Financial Accounting
Chapter 1
Introduction to Accounting and Business

1. What is Accounting? Why study it? Do you use accounting?
   1.1 Accounting is a service that provides information (accounting is an information system)
   1.1 Useful in decision making.
   1.2 Information is primarily financial in nature.
   1.3 Business/Individuals need this information to achieve goals.

1.2 Accounting involves identifying, measuring, recording (classifying and summarizing) business transactions and most importantly, communicating this information to interested parties.
   2.1 Who are interested parties? (the stakeholders)

1.3 Financial Accounting vs. Managerial Accounting

2. Accounting opportunities as a profession --
   2.1 Public Accounting
   2.2 Private Accounting
   2.3 Governmental Accounting and Not for Profit

3. Development of Accounting Literature
   3.1 Accounting is not an exact science.

   3.2 Accounting Information is guided by Generally Accepted Accounting Principles (GAAP)
   2.1 Helps make information understandable
   1.1 Relevant
   1.2 Reliable
   1.3 Comparable
   1.4 Consistent
   2.2 Rules are not etched in stone. They do change.

3.3 Groups instrumental in the development of Accounting Literature
   3.1 AICPA
   3.2 Financial Accounting Standards Board (FASB)
   3.3 Governmental Accounting Standards Board (GASB)
   3.4 Securities Exchange Commission (SEC)
3.4 Certain foundational principles, concepts, and assumptions underlying GAAP
4.1 Cost principle--assets recorded at cost

4.2 Monetary Unit assumption--transactions are recorded in dollars.

4.3 Objectivity principle--financial statement data should be based on evidence not imagination.

4.4 Business entity principle--transactions can be identified with particular economic entities--and should be kept separate from other entities.

4.5 Going concern principle--assumption that business will continue to operate.

4. Define Ethics
4.1 Does society need ethical standards?

4.2 Do business people need ethical standards?

4.3 Where does an individual’s ethical standards come from?
   3.1 Where do YOU derive your ethical standards?

4.4 Principles for sound ethical behavior.

5. Types of Business Organizations
5.1 Proprietorship--unincorporated entity owned by one person
5.2 Partnership--two or more people voluntarily associated
5.3 Limited liability companies
5.4 Corporation--separate legal entity created under State Law

6. Understanding Financial Position
6.1 Refers to what resources an entity has and where it got them.

6.2 Assets are resources owned which will benefit future operations Ex. Cash, Accounts receivable, building, etc.

6.3 Liabilities are debts. Resources or assets supplied by creditors. Ex. Accounts payable, loan payable.
6.4 Owners Equity represents resources the owners have invested in the business.
   4.1 It is a "residual" claim
   4.2 Sometimes called "Net Assets"
   4.3 Increased by --
      3.1 Investments by owners
      3.2 Revenues from business operations
         (2)1 Revenue recognition principle—generally revenue is recognized when it is earned.
   4.4 Decreased by --
      4.1 Withdrawals by owners (drawings)
      4.2 Expenses incurred by business

7. Balance Sheet Equation -- (Basic accounting equation)
   7.1 Assets = Liabilities + Owner's Equity

   7.2 Assets - Liabilities = Owner’s Equity shows that O.E. is a residual claim

   7.3 This equation MUST ALWAYS BE IN BALANCE!!

8. Measuring Business Transactions
   8.1 Business transaction—generally an exchange of goods and services between parties.
   8.2 Remember separate entity concept
   8.3 Remember money measure
   8.4 MUST ALWAYS KEEP EQUATION IN BALANCE!!!!
      4.1 Each transaction must have a dual effect

9. Communication of Information Through Financial Statements
   9.1 * Income Statement—show Revenues and Expenses
   9.2 * Statement of Owner's Equity—shows changes in owners equity
   9.3 Ō Balance Sheet—shows assets, liabilities, and owners equity
   9.4 * Statement of Cash Flows—shows changes in cash (where did we get it and how did we use it).

* For a period of time
Ō As of a specific date
All of them for a particular entity