

Intro to Accounting Notes

- CHAPTER 1

- Accounting: the process of recording, summarizing, and analyzing financial transactions
 - Financial accounting: designed primarily for decision makers outside the company
 - Financial accounting provides **externals** information on an organization's performance
 - Managerial accounting: designed primarily for decision makers within the company
 - Managerial accounting provides **internals** with information to run an organization efficiently and effectively
- Disclosure: the act of providing financial information to external accounts
 - Costs: hire accounts and auditors (direct cost), competitors have more information, litigation
 - Benefits: lowers financing and operating costs
- Business activities:
 - Planning: establish goals and strategies to reach goals
 - Investing: acquire and dispose of assets needed to produce and sell company's products and services
 - CREDITOR FINANCING + OWNER FINANCING
 - Financing: taking out a loan or issuing stock
 - Methods companies use to generate capital
 - Operating: Production, promotion, and selling of a company's products and services
- Financing sources:
 - Equity: owner, contributed funds, retained income
 - Creditor: non-owner, debt, liability
- Operating activities: production, promotion, and selling of a company's products and services
- Creditors: lenders
- Credit financing: funds contributed by non owners
- Equity financing: funds contributed by its owners
- Accounting equation: $ASSETS = LIABILITIES + EQUITY$
- Revenue: $PRICE * QUANTITY$
- Income: $REVENUES - EXPENSES$
- Balance sheet: lists the company's investments and sources of financing using the accounting equation

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		Company Name		
		Balance Sheet		
		Date		
Assets			Liabilities and Equity	
	Cash			Total Liabilities
	Non-Cash		Equity	
	Total Assets			Contributed Capital
				Retained Earnings
				Total Equity
				Total Liabilities and Equity

Intro to Accounting Notes

- Point in time
- Assets, liabilities, equity
- Income statement: report the results of operations

			Company Name
			Income Statement
			For Year Ended Date
	Revenues		
-	Cost of Goods Sold		
=	Gross Profit		
-	Operating Expenses		
	Wage Expense		
	Rent Expense		
	Advertising Expense		
=	Operating Income		
-	Interest Expense		
=	Net Income		

- Period of time
- Revenue, expenses, net income, cost of goods sold
- Statement of stockholders' equity: details changing in owner financing

			Company Name	
			Statement of Stockholders' Equity	
			For Year Ended Date	
	Contributed Capital	Retained Earnings	Other Shareholders' Equity	Total Shareholders' Equity
Balance Year Before				
Stock Issuance	X			
Net Income		X		
Dividends		X		
Other Changes				
Balance Current Year				

- Period of time
- Stock issuance, net income, dividends
- Statement of cash flows: details the sources and uses of cash

			Company Name
			Statement of Cash Flows
			For Year Ended Date
	Operating Cash Flows		
	Investing Cash Flows		
	Financing Cash Flows		
=	Net Increase in Cash		
	Cash Year Before		
=	Cash Current Year		

Intro to Accounting Notes

- Period of time
- Operating, investing, financing
- Linkage:
 - Statement of Cash Flows links the beginning and ending cash in the Balance Sheet
 - Income Statement links the beginning and ending retained earnings in the Statement of Stockholders' Equity
 - Statement of Stockholders' Equity links the beginning and ending equity in the Balance Sheet
- Net income: increase in equity after subtracting expenses from revenues
- Gross income: REVENUE - COST OF GOODS SOLD
- Retained earnings: INCOME EARNED - DIVIDENDS
- Contributed capital: amount received from issuing stock to shareholders
- GAAP: set of standards and accepted practices that are designed to guide the preparation of the financial statements
- SEC: regulate the issuance and trading of securities
- AICPA: set accounting standards
- FASB: establish accounting standards (GAAP)
- PCAOB: approve auditing standards and monitor the quality of financial statements and audits (GAAS)
- Auditor: provide an opinion as to whether the statements present fairly and in all material respects a company's financial condition
- Return on equity: $\text{NET INCOME} / \text{AVERAGE STOCKHOLDERS' EQUITY}$
 - Greater risk: higher expected ROE
 - Less risk: lower expected ROE
- Solvency: the ability of a company to remain in business
 - Above 1: more non-owner financing
 - Below 1: more owner financing
- Debt-to-equity ratio: $\text{TOTAL LIABILITIES} / \text{STOCKHOLDERS' EQUITY}$
- Net working capital: $\text{CURRENT ASSETS} - \text{CURRENT LIABILITIES}$
- Current ratio: $\text{CURRENT ASSETS} / \text{CURRENT LIABILITIES}$
- Quick ratio: $(\text{CASH} + \text{ACCOUNTS RECEIVABLE} + \text{MARKETABLE SECURITIES}) / \text{CURRENT LIABILITIES}$

Intro to Accounting Notes

- CHAPTER 2

- Analyze
- Journalize: recording a transaction in a journal
- Posting: occurs after transactions are journalized
- 1. Asset: a resource that is expected to provide a company with future economic benefits
 - Cash
 - Marketable securities
 - Accounts receivable- NON-CASH: amounts due on credit
 - Other receivables
 - Inventory- NON-CASH: goods
 - Prepaid insurance
 - Security deposit
 - Fixtures and equipment- NON-CASH
 - Prepaid expenses: costs paid in advance
 - Accumulated depreciation

Current Assets	Non-Current Assets
Cash	Long-term financial investments
Marketable securities	Property, plant, and equipment
Accounts receivable	Intangible: patents, bonding, trade-marks
Inventory/Equipment	
Prepaid expenses	

- Measuring assets: historical cost, reliability, fair value, relevance
- Liquidity: the ease of converting a non-cash asset into cash
- 2. Liabilities: obligations for borrowed funds from lenders or bond investors, and obligations to pay suppliers, employees, tax authorities, and other parties
 - Accounts payable: amounts owed on credit
 - Accrued liabilities
 - Interest payable
 - Wages payable
 - Taxes payable
 - Unearned revenue

Intro to Accounting Notes

- Notes payable
- Short-term borrowings
- Deferred revenues
- Current maturities of long-term debt

Current Liabilities	Non-Current Liabilities
Accounts payable	Long-term debt
Accrued Liabilities	Other long-term liabilities
Short-term borrowing	
Deferred revenue	
Current maturities of long-term debt	

- **3.** Equity: capital that has been invested by the shareholders
 - Contributed capital
 - Purchase of stock/common stock
 - Additional paid-in capital:
 - Treasury stock
 - Earned capital: not paid out to shareholders
 - Retained earnings/Earned capital: $\text{BEGINNING RETAINED EARNINGS} + \text{NET INCOME} - \text{DIVIDENDS}$
 - Accumulated other comprehensive income
- **4.** Revenues and Income
 - Sales revenue
 - Interest revenue
- **5.** Expenses
 - Cost of goods sold
 - Wages expenses
 - Rent expense
 - Advertising expense
 - Depreciating expense
 - Insurance expense
 - Interest expense
 - Tax expense
- T-account

Intro to Accounting Notes

Debit

Credits

- Double-entry accounting system: each transaction must affect at least 2 accounts
- Normal Balance: the debit or credit side that increases the account
- Asset Accounts = Liability Accounts + Equity Accounts



- Net working capital: $\text{CURRENT ASSETS} - \text{CURRENT LIABILITIES}$
- Current ratio: $\text{CURRENT ASSETS} / \text{CURRENT LIABILITIES}$
- Quick ratio: $(\text{CASH} + \text{SHORT-TERM SERVICES} + \text{ACCOUNTS RECEIVABLE}) / \text{CURRENT LIABILITIES}$
- General journal: chronological record where events are captured in debt and credits
- General ledger: listing of all accounts and their balances
 - Debit Expenses every time
 - Only time Retained Earnings is in Journal is when paying dividends
- $A = L + E \mid R - E = \text{NET INCOME}$
 - Debit increases Assets
 - Credit increases Liabilities
 - Credit increases Equity
 - Credit increases Revenue
 - Debit increases Expenses
- EXAMPLES:
 - Issue Common Stock
 - Increase cash assets
 - Increase contributed capital
 - Paid Rent
 - Decrease cash assets
 - Decrease rent expense
 - Borrowed Money from Bank
 - Increase cash
 - Increase notes payable
 - Cash Received for Services

Intro to Accounting Notes

- Increase cash
- Increase sales revenue
- Services Rendered
 - Increase accounts receivable
 - Increase sales revenue
- Pay Wages
 - Decrease cash
 - Decrease wage expense
- Pay Cash Dividend
 - Decrease cash
 - Decrease retained earnings
- Purchased Land
 - Decrease cash
 - Increase non-cash
- Billed Clients
 - Increase accounts receivable
 - Increase sales revenue
- Invoice for advertising
 - Increase accounts payable
 - Decrease advertising expense
- Payed Cash to Purchase Equipment
 - Increase non-cash
 - Decrease cash
- Buy Inventory
 - Decrease cash
 - Increase non-cash
- Sell Inventory
 - Increase cash
 - Increase sales revenue
- Got Rid of Supplies from Selling
 - Decrease non-cash
 - Decrease cost of goods sold

Intro to Accounting Notes

- CHAPTER 3

- Accounting cycle: a sequence of activities to accumulate and report financial statements
 - Analyze, record, adjust, report, and close
- Fiscal year: annual accounting period
- Adjustments:
 - Deferred (unearned) revenues: allocate earned portion of unearned revenue to reflect revenues earned in the period
 - Deferred (prepaid) expenses: allocate used or expired assets to expenses to reflect expenses incurred in the period
 - Accrued revenues: record revenues to reflect revenues earned in the period that are not yet received in cash or recorded
 - Accrued expenses: record expenses to reflect expenses incurred in the period that are not yet paid in cash or recorded
- Deferrals: with an amount previously recorded in a balance sheet account
 - Decreases balance sheet amount
 - Increases income statement
- Accruals: Deals with an amount not previously recorded in any account
 - Increases both a balance sheet and an income statement
- Depreciation: allocating the costs of equipment, vehicles, and buildings to the periods benefiting from their use
- Straight-line depreciation: dividing asset cost by its estimated useful life
- Book value: accumulated depreciation subtracted from the asset amount
- EXPENSE IS ALWAYS DEBITED
- Unearned revenue to revenue
 - Unearned Revenue
 - Sales Revenue
- Allocating assets to expense
 - Insurance Expense
 - Prepaid Insurance
 - Depreciation Expense
 - Accumulated Depreciation
- Accrued revenues
 - Other Receivables
 - Interest Income
- Accrued Expenses
 - Wages Expense

Intro to Accounting Notes

- Wages Payable

- Unearned Revenues:
 - Debit liability
 - Credit Revenue
- Prepaid Expenses:
 - Debit expense
 - Credit asset
- Accrued Revenues:
 - Debit asset
 - Credit revenue
- Accrued Expenses:
 - Debit expense
 - Credit liability
- Income Statement
 - Sales Revenue
 - Cost of goods sold
 - **Gross profit**
 - Expenses
 - **Operating Income**
 - Interest Income
 - Interest Expense
 - **Income before tax**
 - Tax Expense
 - **Net Income**
- Shareholders' Equity Statement
 - Balance Before
 - Net Income
 - Common Stock
 - Dividends
 - Balance After
- Statement of Cash Flows
 - Cash flow from operating
 - Cash flow from investing
 - Cash flow from financing
 - Net Change in cash
 - Cash balance before

Intro to Accounting Notes

- Cash balance after
- Closing process:
 - Close revenue accounts: debit each revenue account for an amount equal to its balance, and credit retained earnings for the total of revenues
 - Close expense accounts: credit each expense account for an amount equal to its balance, and debit retained earnings for the total of expenses
- Adjusting entries almost never affect cash
- Trial balance: a list of all general ledger accounts with their respective balances
- Closing process occurs at the end of the accounting period

Intro to Accounting Notes

- CHAPTER 4

- Statement of cash flows: how a company generated cash and how it used cash
- Liquidity: ability to pay near-term liabilities and take advantage of investment opportunities
- Solvency: ability to pay long-term liabilities
- Cash equivalents: highly liquid investments that are easily convertible into a known cash amount, close enough to maturity
- Operating activities: Company's primary day-to-day business activities
 - Sales made or services rendered
 - Interest or dividends received
 - Payments to employers or suppliers
 - Purchase inventories
 - Payment of interest or tax
 - Rent
 - Depreciation
 - Charity
 - Accounts receivable
 - Net Income
- Investing activities: Invest in PP&E or securities, lend/collect money
 - Sell or purchase equipment
 - Patents, securities, land
 - Lend money
 - Capital expenditures
- Financing activities: Receive/return cash to shareholders, borrow from creditors, repay principal to creditors
 - Pay a dividend
 - Stock, bond
 - Loan, payback loan principal
- ASSET: ADD A DECREASE, SUBTRACT AN INCREASE
- LIABILITIES: ADD AN INCREASE, SUBTRACT A DECREASE
- Cash flow: $\text{NET INCOME} - \text{CHANGE IN ACCOUNTS RECEIVABLE} + \text{CHANGE IN UNEARNED REVENUE}$
- Cash from operations: $\text{NET INCOME} \pm \text{ADJUSTMENTS}$
- Operating cash flow to current liabilities: $\frac{\text{OPERATING CASH FLOW}}{\text{AVERAGE CURRENT LIABILITIES}}$

Intro to Accounting Notes

- Operating cash flow to capital expenditures: OPERATING CASH FLOW / ANNUAL CAPITAL EXPENDITURES
- Free cash flow: OPERATING CASH FLOW - NET CAPITAL EXPENDITURES
- Direct Method:

Company Name
Statement of Cash Flows
For the Year Ended 12/31/XX

Cash Flows from Operating Activities:

Cash Received	Add
Cash Paid	Subtract
Net Cash Provided by Operating Activities:	SUM of above

Cash Flows from Investing Activities:

Cash Paid for PP&E	Subtract
Cash Proceeds for Sales of PP&E	Add
Net Cash Used or Provided by Investing Activities:	SUM of above

Cash Flows from Financing Activities:

Cash Received from Issuance of Common Stock	Add
Cash Paid for Dividends	Subtract
	SUM of above

Net Change in Cash	SUM of SUMs for each section of activities
Cash Balance, beg of period	from B/S
Cash Balance, end of period	SUM the net change and beginning cash balance and check answer with amount on the B/S