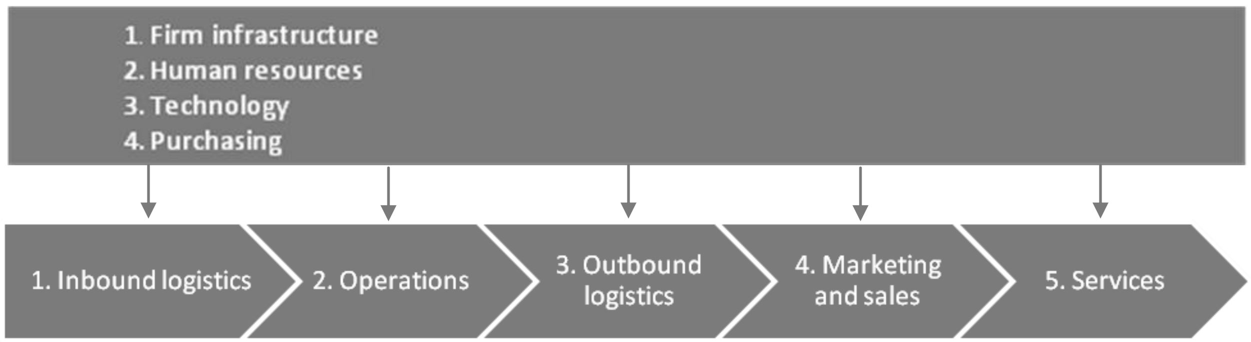
4. **Purchasing activities** procure raw materials, supplies, machinery and the buildings used to carry out the primary activities

Support Activities



Primary Activities

Figure 1. The value chain.

<u>**The Financial Statements**</u>

Financial statements are records that provide an indication of an individual's, organization's, or business' financial status. The financial statements include the income statement, owner's equity statement, balance sheet, cash flow statement, and notes to financial statements.

<u>**Generally Accepted Accounting Principles**</u>

Generally accepted accounting principles (GAAP) are a common set of guidelines (standards) used by accountants in reporting economic events.

<u>**Accounting Assumptions**</u>

1. **Monetary unit assumption** states that only transaction data that can be expressed in terms of money should be included in the accounting. An important corollary is the added assumption that the unit of measure remains relatively constant over time.
2. **Economic entity assumption** states that the activities of the entity be kept separate and distinct from the activities of the owner and of all other economic entities.
3. **Time period assumption** states that the economic life of a business can be divided into artificial time periods.
4. **Going concern assumption** assumes that the enterprise will continue in operation long enough to carry out its existing objectives.
5. **Accrual basis** of accounting states that revenues are recognized on the income statement when they are earned (rather than when the cash is received) and expenses are matched with revenues on the income statement when they are incurred, rather than at the time when expenses are paid.

<u>**Income Statement**</u>

The basic equation for computing the resulting net income or net loss is:

Net income (NI) = Revenues (R) – Expenses (E)

Revenues and expenses determine if a net income or net loss occurs as follows:

a. Revenues > Expenses, then Net Income
b. Revenues < Expenses, then Net Loss
c. Revenues = Expenses, then Breakeven