

Financial Accounting Notes - Unit One

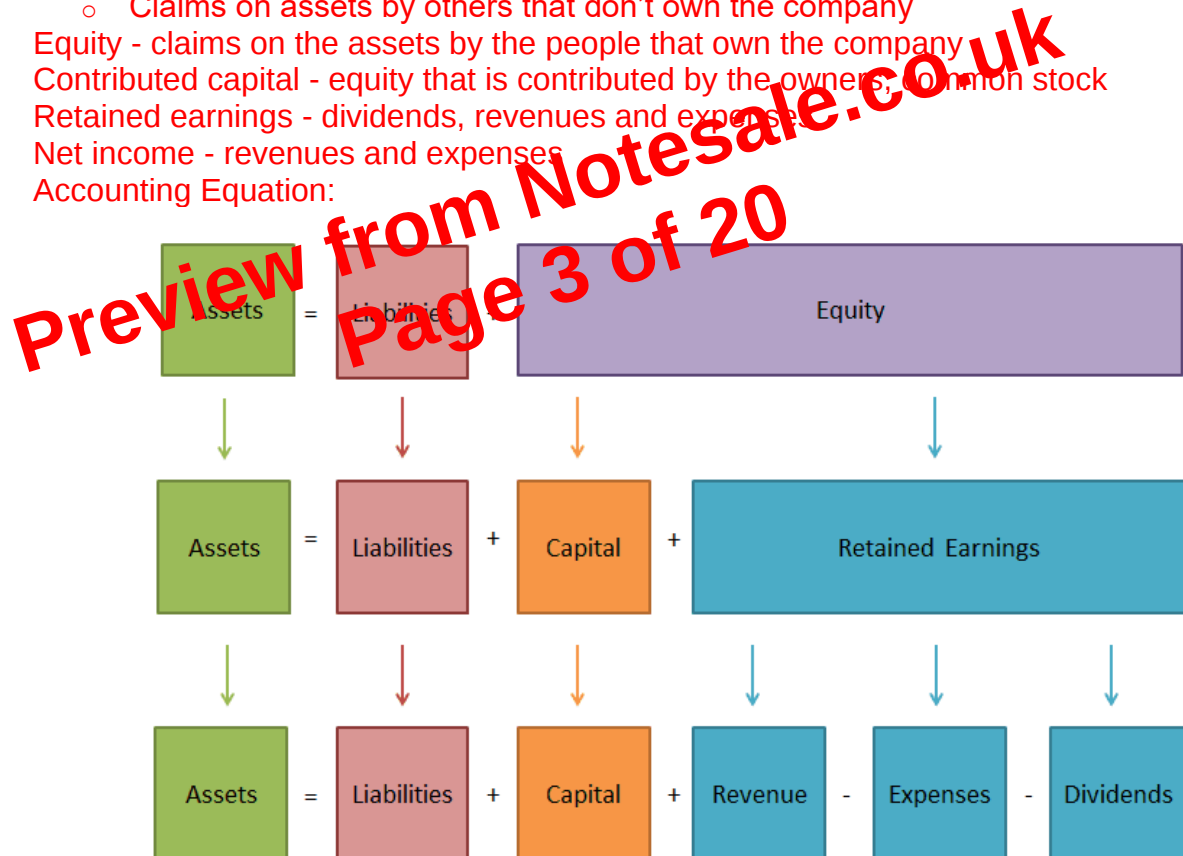
Chapter 1

1-9-19

- Accounting is a system of identifying information, recording the information and communicating the information.
- The steps:
 - Start off with a paper trail
 - example: receipt, invoice, checks, deliver documents.
 - Want to reduce all the paper stuff into debits and credits, deciphering it, putting it into a debit and credit format.
 - Record in the accounting system.
 - Manipulate the information.
 - SWAG - stands for “scientific wild ass guess”
 - Estimating what it’s going to be.
 - Communicate the information by balance sheets and financial statements.
- Who wants to know about this information?
 - External users like lenders, customers and auditors, shareholders
 - Trying to see the financial health of the company.
 - Internal users like managers, sales staff and controllers, people that decide and operate the company.
 - Keeping track of the sales
- What can you do in accounting?
 - Financial
 - Managerial
 - Taxation
 - accounting - related
- Dealing with ethics
 - First step: you’re going to recognize that you have an ethical problem
 - Second step: look at the consequences and choices.
 - Third step: make the ethical decision.
- For fraud to take place, 3 things must happen
 - The person must have the opportunity, must think that it’s okay to do and pressure.
 - Rationalization and pressure end up being related.
- Sarbanes -Oxley act helped curb financial abuses at companies that issue their stock to the public.
 - Paul Sarbanes & Michael Oxley created this
- Dodd - Frank Wall Street Reform
 - To promote accountability
 - End “too-big to fail” like banks and automotive companies.
 - Bail them out rather than make them go bankrupt.
 - “too-big to fail” is like government pay out, where did they get their money? The taxpayers, the government extorted the taxpayers.
- Supply & demand is the law.

1-14-19

- You have a \$1 and you buy water, it cost \$1 to buy that water but a could have bought candy. Decided to buy water, you gave up the opportunity to buy candy.
- Business organization
 - Proprietorship - single owner, sole owner, not business taxed
 - Partnership - two or more partners, no longer a sole owner, not business taxed
 - Corporation - three or more, when capital is needed, inviting public to buy shares in corporation, owners may hire people to be part of the day to day stuff, limited liability
 - LLCs provide higher liability protection than corporations
 - Assets are protected
- Accounting equation
 - Assets = liabilities = equity
- Asset - resources a company owns that have a value
- Liability - things that are owed by a company, a claim by creditors against a business
 - Claims on assets by others that don't own the company
- Equity - claims on the assets by the people that own the company
- Contributed capital - equity that is contributed by the owners, common stock
- Retained earnings - dividends, revenues and expenses
- Net income - revenues and expenses
- Accounting Equation:



1-16-19

- Income statements- revenues - expenses.
- Statement of retained earnings - measure the change in retained earnings
 - Retained earnings- what's left of net income
- Balance sheet - accounting equation --> assets = liability equities.

- Take source documents, running it through the accounting equation, recording the journal entry, and posting it to ledger
- PR - postal reference - posting reference

1-28-19

- Summarize into a trial balance
- Balance of all debits and credits
 - When adding the columns down, it should equal - if not, there's a problem
 - Summary of ending balanced in general ledger accounts created from the journal entries
- For a statement, must have THE COMPANY NAME
 - Tell them what it is, name of the report
 - Date for what the report is for
- Search for mistakes
 - Make sure you add and subtract correctly
 - Make sure the ledger is right. - transposition or slider
 - Did I mistake a credit for a debit and vice versa?
 - Re foot the ledger
 - Make sure journals are posted correctly
 - Make sure journal entry has equal debits and credits
- We need trial balances for financial statements
 - Income statement - takes revenues off trial balance. Use each account once and only once. Revenue, expenses = net income
 - Statement of retained earnings - net income and equity that has changed over time.
 - Balance sheet - where we show all the assets, liabilities and equity accounts, common stock
 - (Cash flows)
- Equation: Beginning balance +/- activity = ending balance
 - Particularly in the retained earnings
- Income statement
 - revenues, expenses = net income
 - Revenues - expenses = net income
- Statement of retained earnings
 - You put the net income at the beginning and add retained earnings and subtract the dividends
 - You get a new retained earnings number
- For the balance sheet
 - Assets, liabilities, contributed capital
 - Put new retained earnings in equity
 - Looks like the accounting equation.
 - Assets = liabilities + equity.
- Dollar signs are not on ledgers and journals
- First and last in the column as are going to have signs

Chapter 3

- Accounting equation - chapter 1
- Debits and credits - chapter 2