1. General Topics

1.1 Generally Accepted Accounting Principles (GAAP)

1.2 Rules of Double-Entry Accounting/ Transaction Analysis/ Accounting Equation

1.3 The Accounting Cycle

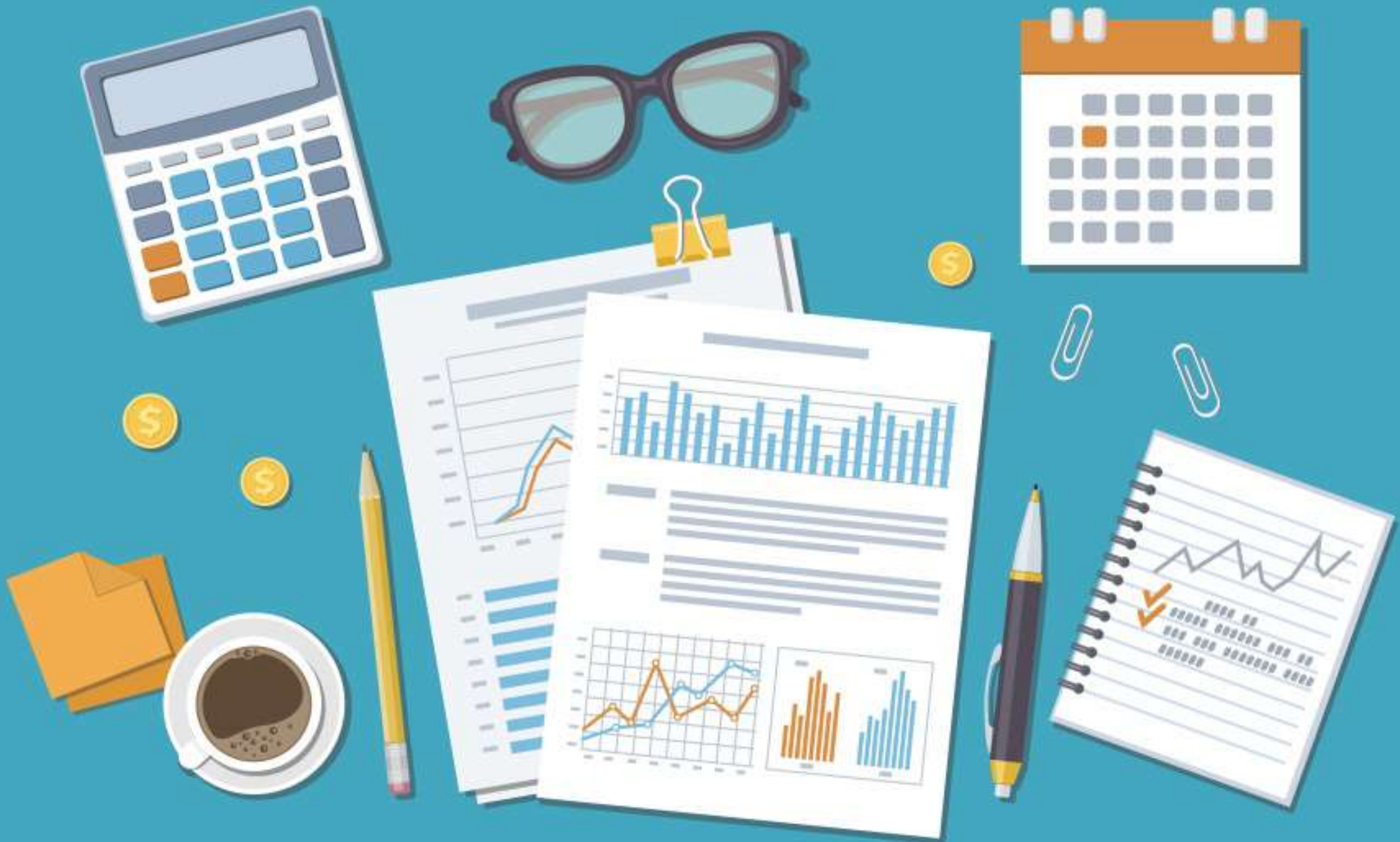
1.4 Business Ethics

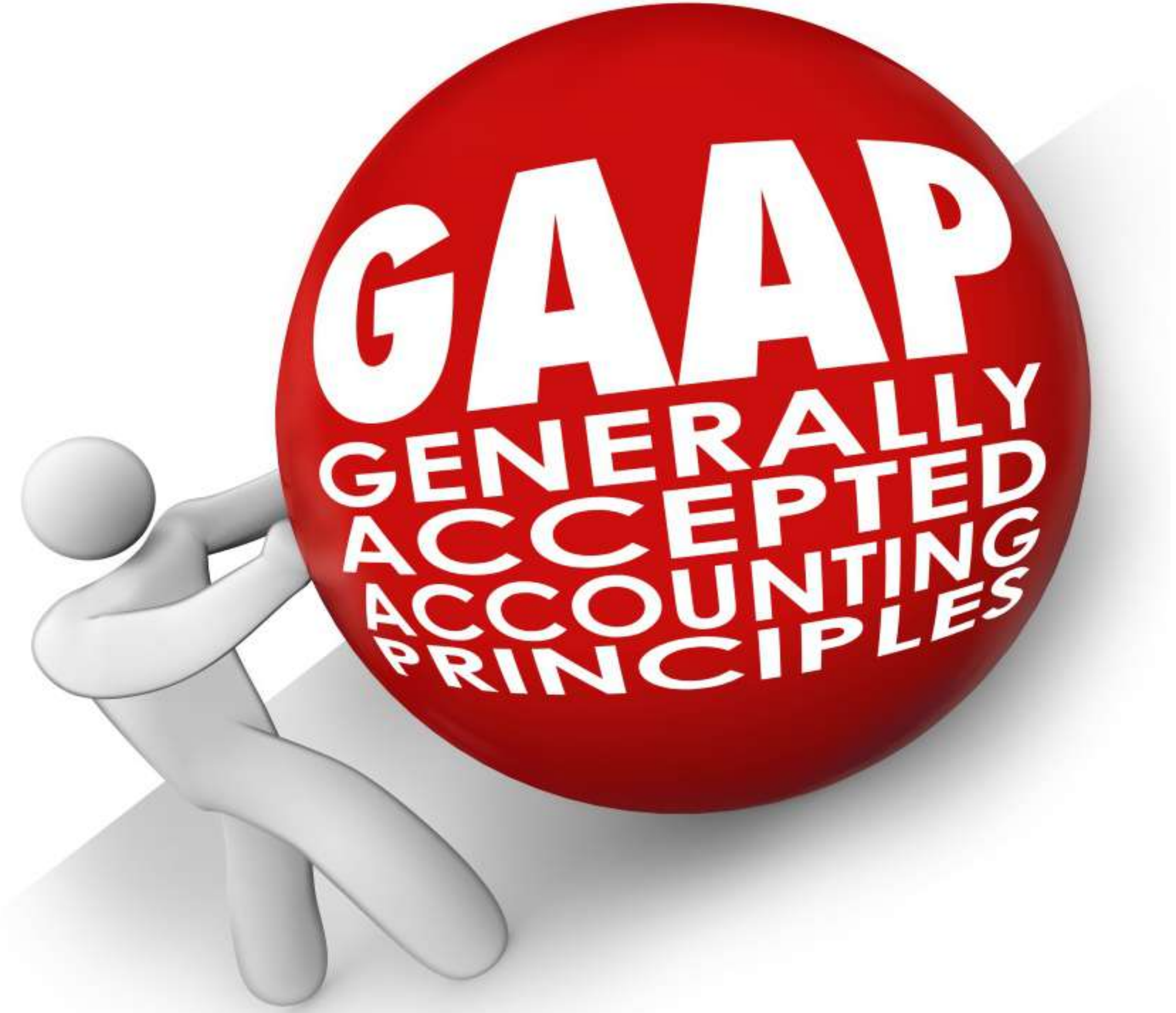
1.5 Purpose of, Presentation of, and Relationships Between Financial Statements

1.6 Forms of Business

1.1 Generally Accepted Accounting Principles (GAAP)

ACCOUNTING




GAAP
GENERALLY
ACCEPTED
ACCOUNTING
PRINCIPLES

- **(GAAP) are a set of principles where they are a set of rules considered vital in the realm of Accounting**

- **GAAP were created by the Financial Accounting Standards Board (FASB)**


Balance Sheet
US-GAAP
ASSETS
CURRENT ASSETS
Cash
Accounts Receivable
Accounts

- **GAAP contain specific facts that must be adhered to, and they include:**

1. Transactions get recorded twice

2. Financial statements report on the business entity only

3. Debts are paid within one year, or one business cycle, whichever is longer


END OF
FINANCIAL
YEAR

- **GAAP contains Principles:**

- **Conservative Principle:**

- **Going-Concern Principle:**

- **Historical Cost Principle**:

- **Objectivity Principle:**

- **Stable Monetary Unit Principle:**

FINANCIAL MANAGEMENT

1.1.1 Generally Accepted Accounting Principles (GAAP): Summary

GAAP standards created by the Financial Accounting Standards Board (FASB)

REMEMBER- FASB:

- Governing body
- Not gov't. entity

GAAP: Stresses essential characteristics of accounting, which initiate regulations

- **the identification, measurement, and communication of financial information, about;**
- **economic business-oriented entities, to;**
- **interested parties.**

GAAP’s Primary Concern: Financial Statement Regulation

- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Statement of Owners’ or Stockholders’ Equity
- Note Disclosures

What is the purpose of information presented in notes to the financial statements?

- **To provide disclosure required by generally accepted accounting principles.**

Summary of Financial Reporting: Information to help users with capital allocation decisions

- Who are the Users of info?
  - Investors, creditors, and other users
    - Capital Allocation
      - The process of determining how and at what cost money is allocated among competing interests

GAAP Standard Setting: Summary

- WHO: Parties Involved in Standard Setting
- Four primary parties
- Securities and Exchange Commission (SEC)
- American Institute of Certified Public Accountants (AICPA)
- Financial Accounting Standards Board (FASB)
- Government Accounting Standards Board (GASB)

SEC (Profile)

- Accounting and reporting for public companies
- Enforcement Authority for the Government in this area
- Encouraged private standard-setting body
- SEC requires public companies to adhere to GAAP, and performs a lot of Oversight

Summary of Issues in Financial Reporting

- Standard Setting in a Political Environment
  - SEC, IRS other Agencies ALL have a vested interest
- Expectation Gap
  - What the public thinks accountants should do vs. what accountants think they can do.
  - Sarbanes-Oxley Act (2002)
    - (SOX): a system that auditors must test and evaluate

- **Ethics in the Environment of Financial Accounting**
  - **frequently encounter ethical dilemmas; doing right thing is not always easy or obvious**
  - **GAAP does not always provide an answer**

Summary OF (3 Components of) : GAAP Principles

1. Transactions get recorded twice
2. Financial statements report on the business entity only
3. Debts are paid within one year, or one business cycle, whichever is longer; Business Cycles do not always last one year

- **GAAP’s Primary Principles:**

Conservative Principle:

- **Resolving financial statement uncertainty in least favorable way**
- **Anticipates future losses, not gains**
- **Understates net assets/net income**
- **Allows companies to play it safe**

- **Going-Concern Principle: financial statements are to assume that businesses will last indefinitely;**
- **THIS IS DONE in order to fulfill:**
  - **Obligations**
  - **Commitments**
  - **Objectives**

Objectivity Principle: Business

Transactions are recorded using best objective evidence

- Organizational financial statements be based on solid evidence
- Prevent any accounting department of a business from documenting slanted information, based on bias

1.2 Rules of Double-Entry Accounting/Transaction Analysis Accounting Equation


BUDGETING

1.2.1 Rules for Double-Entry Accounting

1.2.2 Rules of Transaction Analysis

1.2.3 Rules of the Accounting Equation

1.2.1 Rules for Double-Entry Accounting

- **Double-Entry accounting is a principle requiring that transactions gets recorded twice.**

- **Therefore equal debits and credits are made in accounts for all transactions.**

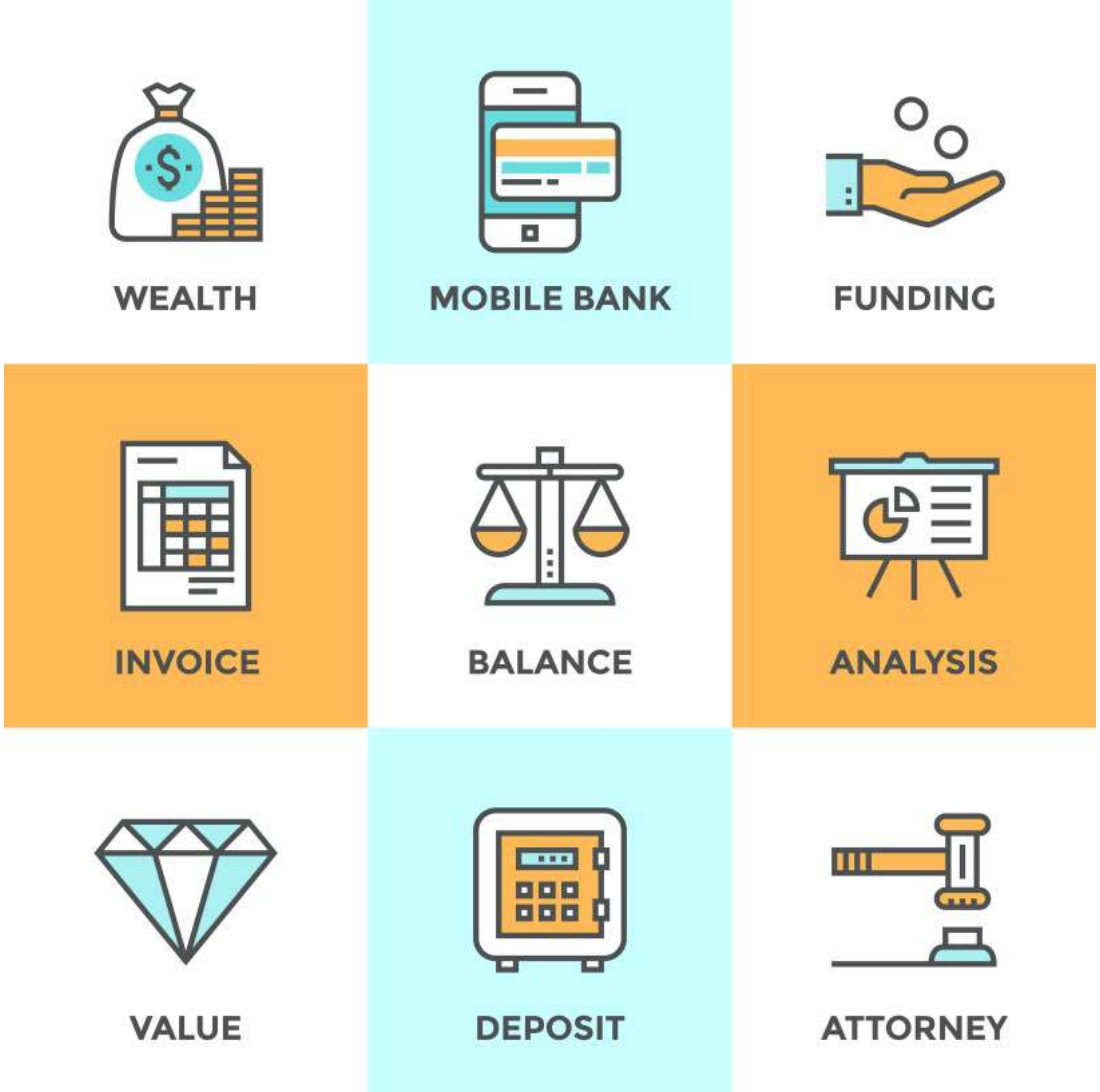

4219902 001 225
4219902 001 226
4219902 001 290
4219902 001 310
4219902 001 226
4219903 001 211
0702 5200900 001 213
0702 5200900 001 225
0702 7950701 022 226
0702 7950701 022 310
345 971,09
118 223,76
13 328,00
30 996,40
379 868,02
16 560,00
11 000,00
345 971,09
118 223,76
13 328,00
30 996,40
379 868,02
16 560,00
11 000,00

- This principle of accounting includes factors which need to be monitored, such as:

- **Where the money comes from, and;**

- **Where the money is going, and why**

- **Thus, the total debits will always equal the total credits in order for the accounting equation will always stay in balance.**


WEALTH
MOBILE BANK
FUNDING
INVOICE
BALANCE
ANALYSIS
VALUE
DEPOSIT
ATTORNEY

1.2.2 Rules of Transaction Analysis

- This concept is an examination of where transactions are identified, recorded, and summarized

- **The Transaction Analysis is conducted in order to prepare financial statements for the accounting data received, and maintained**

- **For any business, an analysis of transactions must display two things:**

- Clear and concise:

1. increases, and;
2. decreases within the statement

RULES OF DEBIT AND CREDIT

- **Any increases or decreases from business transactions should display where the assets, liabilities, and owner’s equity are balanced**


BALANCE SHEETS
1 year

1.2.3 Rules of the Accounting Equation


$Z = \frac{1}{\sqrt{2\pi}}$
$X_B = \frac{(D^N - B^N)}{1 + 2.35689}$
$\sqrt{i + 1 - \frac{X_B + R}{\ldots}}$

- **The Accounting Equation are balanced calculations, to include three components:**

- **Assets**


PAY

- **Liabilities**


EXPENSE

- **Owner’s Equity**

- **There are three (3) ways to demonstrate the accounting equation in real-time**

- **Traditional examples of the equation are as follows:**

- **Assets= Liabilities + Owner’s Equity, or;**

- **Owner’s Equity= Assets – Liabilities, or;**

- **Liabilities= Asset – Owner’s Equity**

1.3 The Accounting Cycle


Closing Balance
Opening Balance
Accounting Cycle
Financial Statements
Transctions for the period
End of period Adjustments

- **The accounting cycle is the process of recording and processing the accounting events of a business.**

- **It begins when transactions occur**

- The Accounting Cycle also begins with the recording of the transactions


Date
Details
Debit
Credit
BALANCE
23/07/2015
Balance
0
0

- **The Accounting Cycle is continual throughout the Business Operating Cycle.**

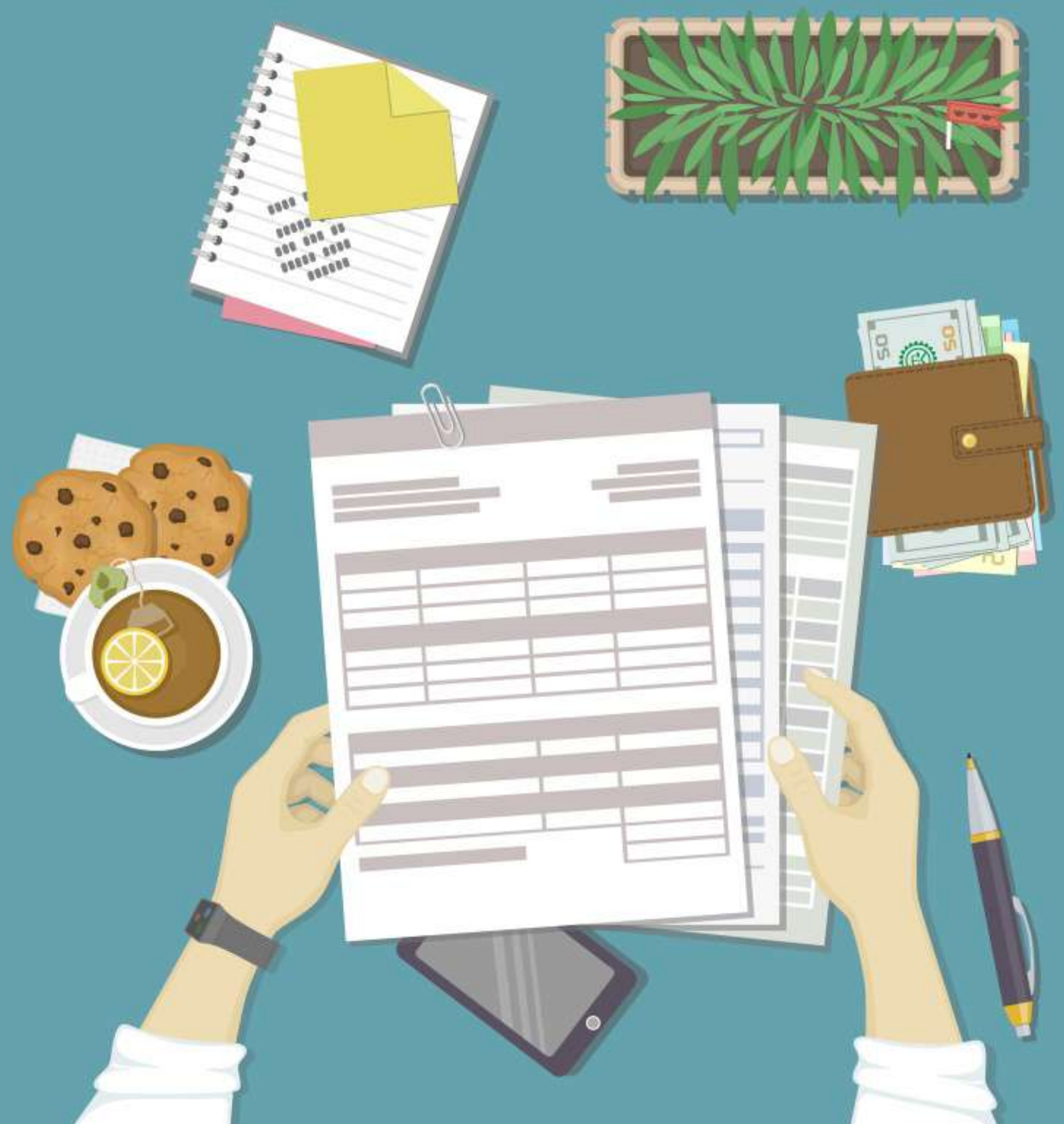
- **The natural period of time occurs before certain business activities tend to repeat**

- **Transactions are recorded using entries, based on receipts, in recognition of a sale.**


RECEIPT
TOTAL
$
INVOICE
PAID
TOTAL
THANK YOU

- After businesses post entries to accounts, a balance sheet is prepared

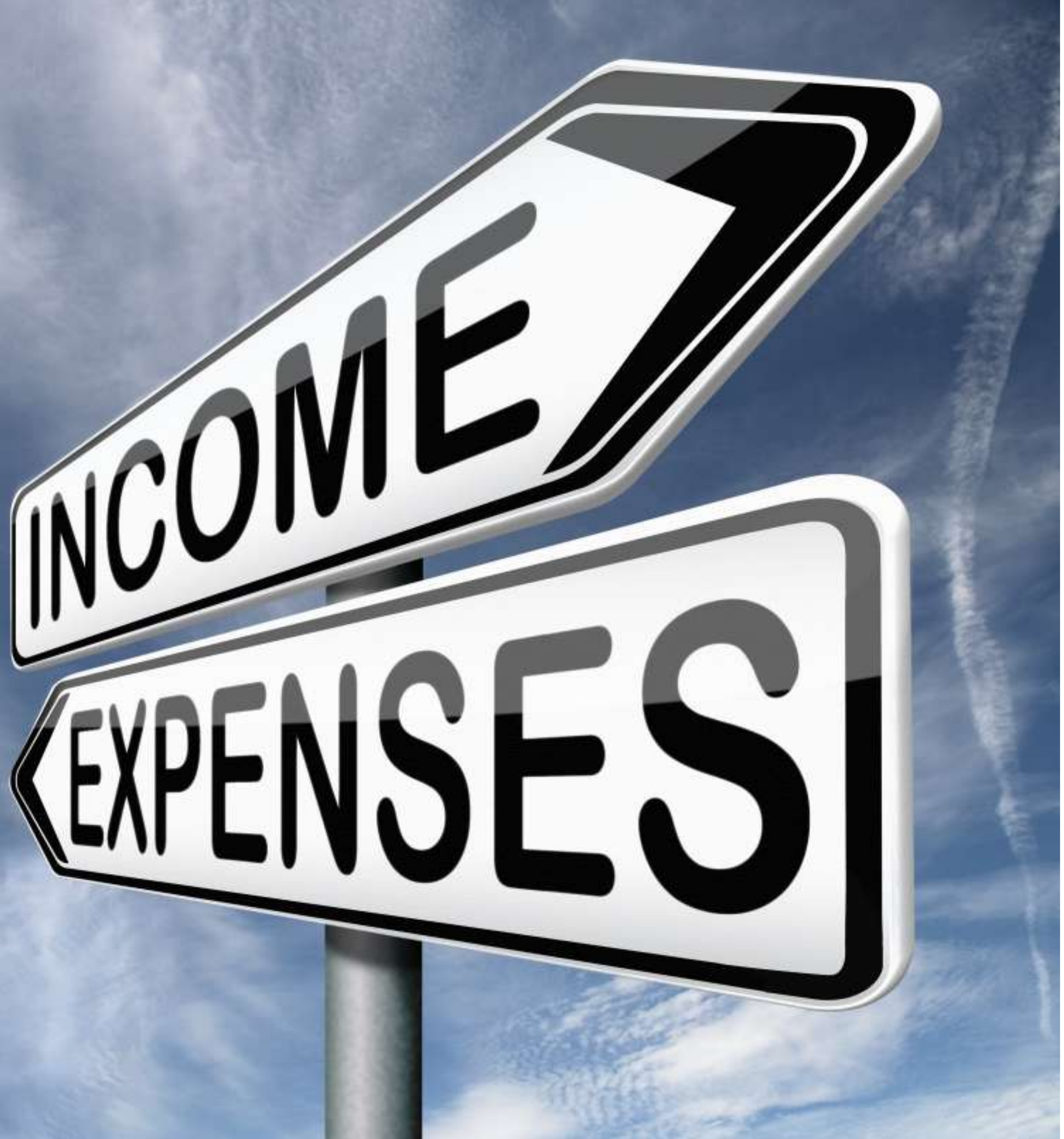
- **Hence, the Balance Sheet ensures the total debits equals the total credits in the financial records.**



- **Adjustments are often made, followed by creating financial statements.**

- **Financial Statements allow for the following:**

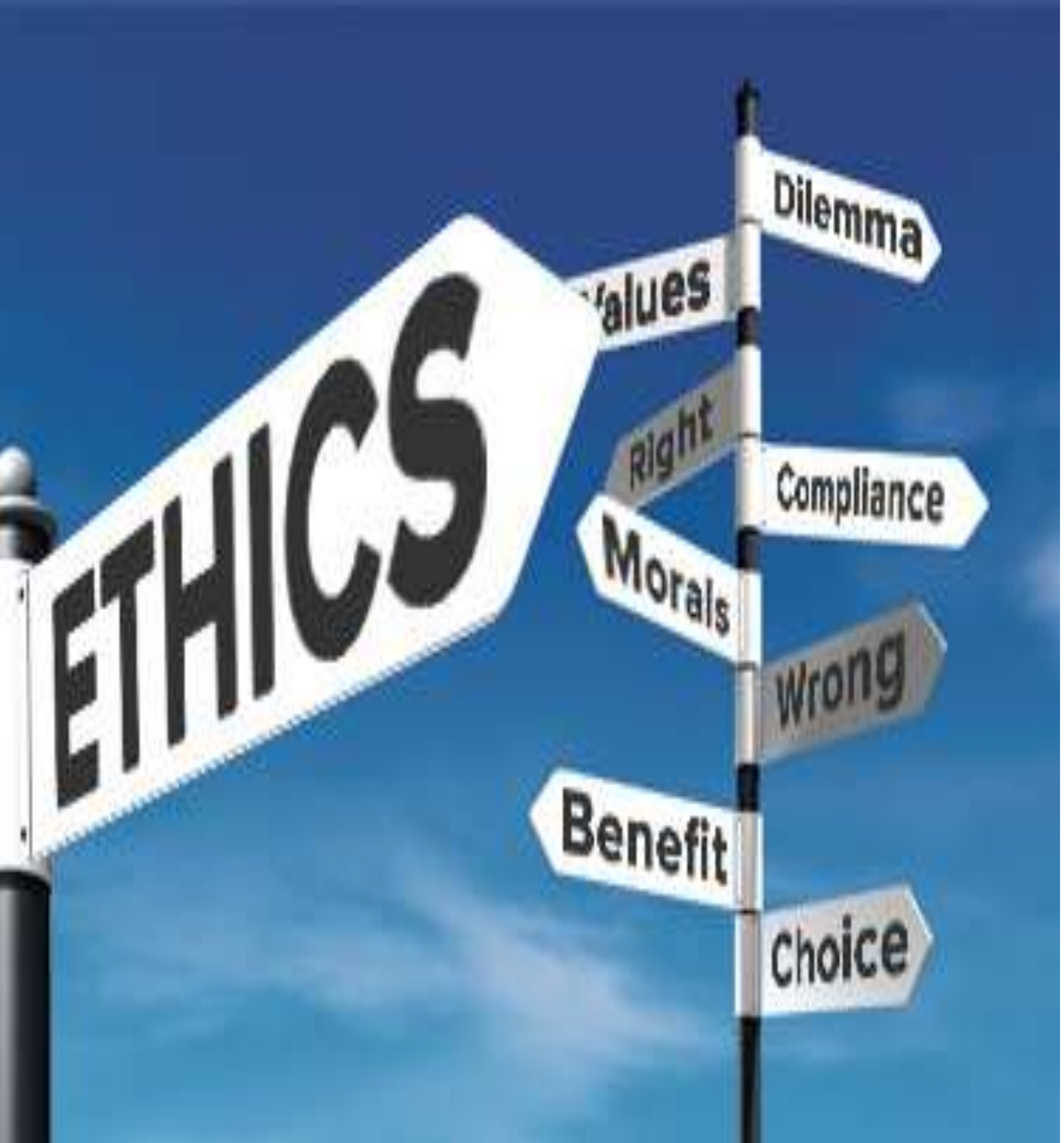
- Revenues and expenses are closed at the end of the accounting period.


INCOME
EXPENSES

- **Net income transferred into earnings, as the business prepares to ensure debits and credits match**


Financial Statements
Cash Flow
Balance Sheet
Income
Equity

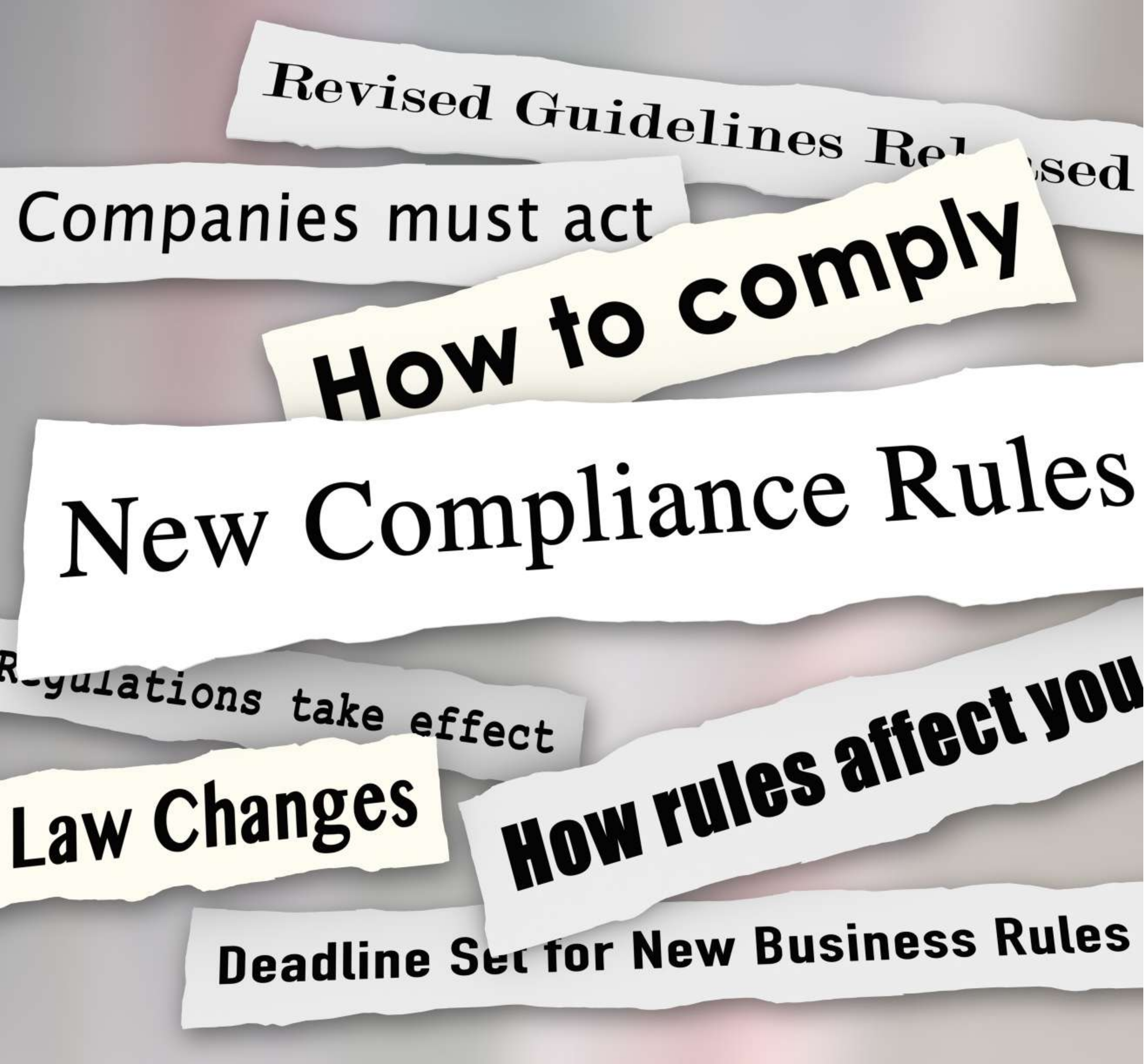
1.4 Business Ethics


ETHICS
Values
Dilemma
Right
Compliance
Morals
Wrong
Benefit
Choice

- Ethics are internalized standards considered to be the legality of any action performed

- **Ethics also initiate Internal Controls**

- **Internal Controls are not only allow for monitoring, but also allow for an increase in profit.**


Revised Guidelines
Companies must act
How to comply
New Compliance Rules
Regulations take effect
Law Changes
How rules affect you
Deadline Set for New Business Rules


profitable

- **Several primary internal controls for Accounting:**

- **Sarbanes-Oxley Act (SOX): a system that auditors must test and evaluate**


assessment
AUDIT
finance
$
procedure
quality
evaluation
result
operations

- **Code of ethics:**

- **Law:**

- **Full disclosure:**

- **Conflicts of interest:**


ACCUMULATED
EARNINGS AND PROFITS

1.5 Purpose of, Presentation of, and Relationships Between Financial Statements


1.256.000,00
34.250.000,00
841.500,00
502.100,00
158.200,00
25.081.000,00

1.5.1 Purpose of Financial Statements

1.5.2 Presentation of Financial Statements

1.5.3 Relationships Between Financial Statements

1.5.1 Purpose of Financial Statements

- **The objective of financial statements:**

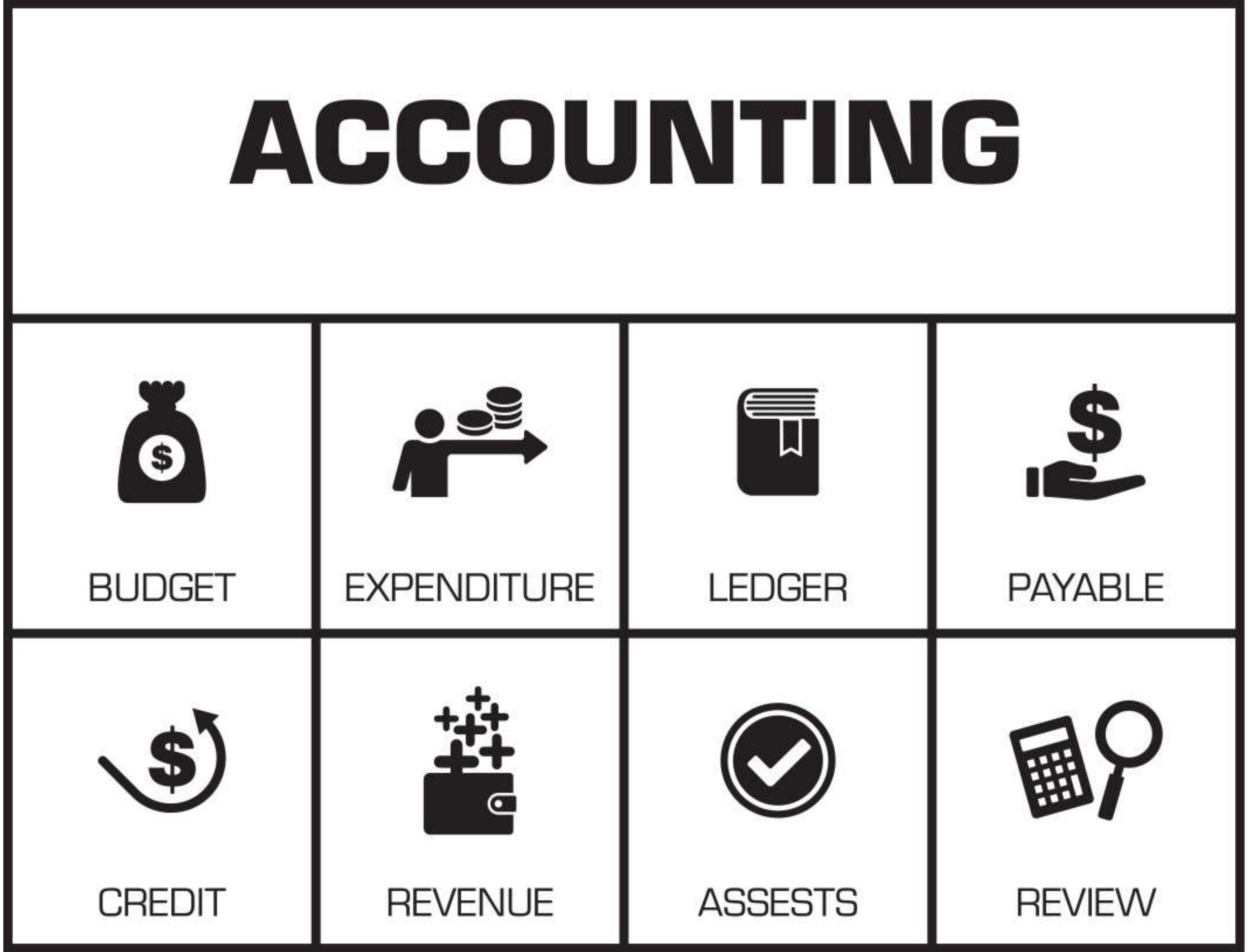
- **Financial Statements also exhibit changes in financial position of an business**


1,020.03
-3,554.00
-9,632.55
$Loss

- **Financial Statements are useful for making economic decisions**

- **Income statement:**

- **Statement of owner’s equity:**


ACCOUNTING
BUDGET
EXPENDITURE
LEDGER
PAYABLE
CREDIT
REVENUE
ASSESTS
REVIEW

1.5.2 Presentation of Financial Statements

NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (-)		CODE*	FEE (-)	DEPOSIT/CREDIT (+)		$ BALANCE	
			$			$	$			

*USE THESE CODES WHEN RECORDING YOUR NON-CHECK TRANSACTIONS

D-DEPOSIT DC-DEBIT CARD ATM-TELLER MACHINE AP-AUTOMATIC PAYMENT TT-TELEPHONE TRANSFER T-TAX DEDUCTIBLE O-OTHER

- **Financial Statements may be best demonstrated and displayed by:**

- **The specific rules used to govern the creation of the statements themselves.**

- **These rules include:**

- **All financial statements have a three-line heading**

COMPANY NAME HERE

Balance Sheet

For the Period Ended ________

Assets	Amount	Liabilities	Amount
Current Assets		Current Liabiliites	
Cash		**Account Payable**	
________		________	
________		________	
________		________	
Fixed Assets		**Long Term Liablities**	
________		________	
________		________	
________		________	
Intangible Assets		**Share holders equity**	
________		________	
________		________	
________		________	
Other Assets		**Secured Loans's**	
________		________	
________		________	
TOTAL ASSETS		**TOTAL LIABILITIES**	

- **The first line is the business name.**

- **The second is the name of the report.**

- **The third is the date, or period of time**

- Financial statements start all computations by placing numbers in the column farthest to the right

119 July 27 1792 John Merrow [illegible]

may	8 [illegible] two sythe	
	8 for a [illegible]	
	20 for live shaplins and a [illegible]	3 15
	and a [illegible] of pails	7 2 6
June	10 for three yards and half of [illegible]	2 5 9
	for a [illegible] of [illegible]	1 4
		15 12 0
october 1793	14 than reckoned with John Merrow and Ballance due to me in old am[illegible]	4 4 6
december	for [illegible] bushel of [illegible]	5 4 7
may	1 for seven pounds of shugar [illegible]	6 15 0
	for 2 [illegible] of [illegible]	4 6 5
	16 for [illegible]	2 17 6
	17 for [illegible]	2 15 5
		2 0

20-4
19-

July [illegible] Timothy [illegible]

June 1794	23 [illegible]	
	for cloth [illegible]	
July	5 for 1 [illegible]	
	19 for a gallon of [illegible]	
	25 for 2 quarts [illegible]	
September	for 2 quarts [illegible]	

9-1-66
2-9-79
9-1-98
9-1-63
9-91-66
9-11-63

9-2
9-11 1
01-4
6 01 09
3-0 02
9-6 17
6-5 61

162

Doctor John Swift Debtor

1792	to one grindstone [illegible]	4 5 0
	[illegible] for two thousand of [illegible]	9 2
	for thirty gallon of Rum at [illegible] a gallon	18 7 0
	for the [illegible]	2 6
	for one hundred & fifty feet of boards	
	[illegible]	
	for 3 pints Rum & half hundred nails	4 9
	for six quarts of Rum and mallasys	1 11 6
	for [illegible] pails	1 7 6
	for six quarts of rum and seven pounds of shugar	1 4 0
		1 8 0
	21 for six quarts of Rum and 1 pound of shugar	1 4 0
	for 6 quarts Rum 7 pounds shugar [illegible]	1 8 0
	14 for seven pounds of shugar	2 17
		1 6 0
	than reckoned with Doctor John Swift and Ballance all accounts and [illegible] me in old tenor	
	for a [illegible]	
	26 for six quarts of Rum	9 18 9
	and seven pounds of shugar	0 6 0
	for six quarts Rum	1 4 0
	for six quarts of Rum	1 6 0
	for six quarts of rum 2 quarts mallases	1 4 6
	for six quarts of rum 2 quarts mallases	1 11 6
	for 2 quarts of mallases	1 11 6
	[illegible] 2 days work of a plow	
	14 for 2 quarts of mallases	
	for a sythe and [illegible] 5-6	0 8 0
		2 6 0
	Doctor Swift Credit for timber	
1793	for timber	15 3 0
	then reckoned with Doctor Swift and Ballance all accounts	14 9 0
		2 0
		8 0

- **Next, to make a sub-calculation, move one column to the left;**

- **Draw a single line under the last number in a calculation;**

- **Put a double underline under final numbers**

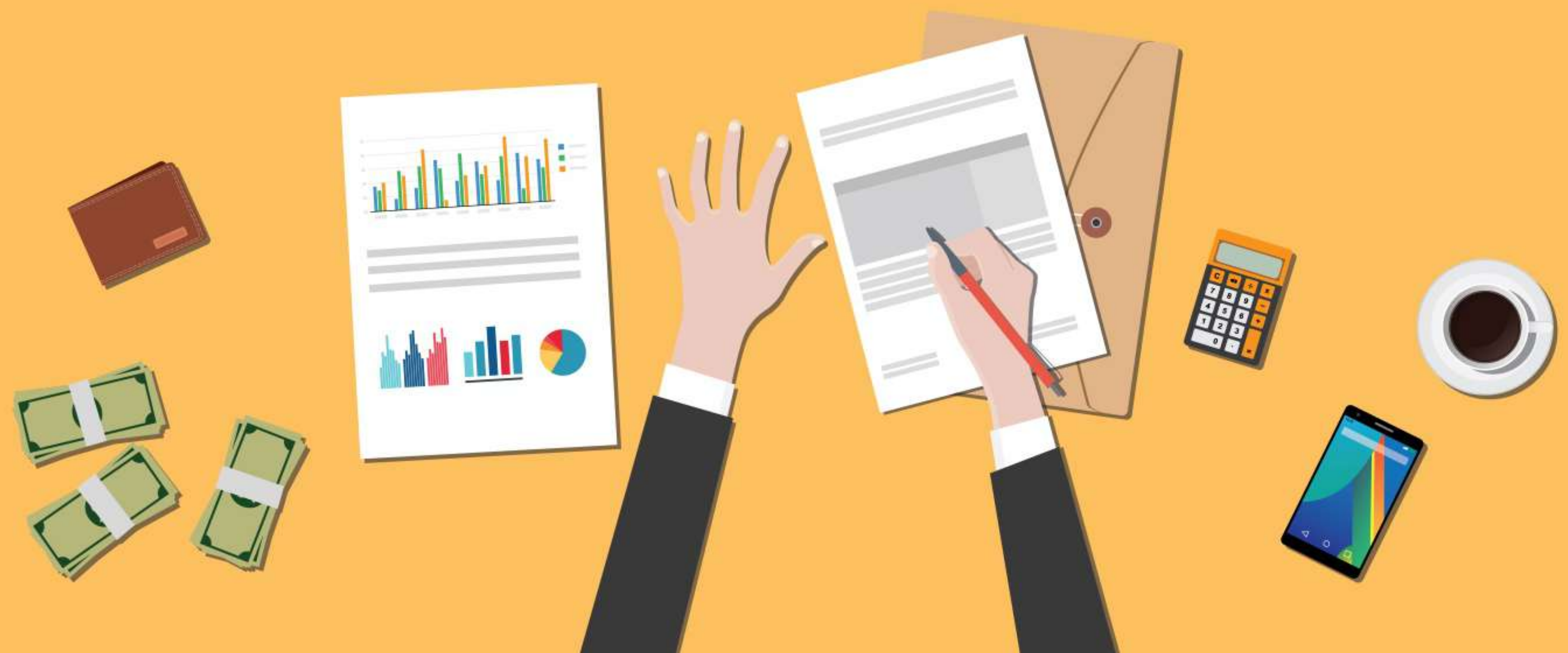
- **Accountants place the results of a business calculation in one of three different places on the statement**

- **Accountants should use the method that allows for the clearest communication.**


MRC
M–
M+
9
%
6
X
÷
+
=
Actual
2011-12
$'000
Budget
estimate
2012-13
$,000
Future
estimate
2013-14
$'000
$2,870
$2,890
$8,465
$1,360
$12,715
$2,845
$7,425
$1,188
$11,458
$6,215
$5,305
$3,560
$1,176
$16,256
$27,714

1.5.3 Relationships Between Financial Statements

Activity Based Costing



- Financial statements, as there are various types, possess many common components

- **Regardless of the industry, these components are ever-present and observable in accounting.**

- **Financial Statements for businesses show:**

- **Inventory**

- **Accounts, such as Income and Expenses**


BILLS
DUE!

- **Costs of goods sold**

- **Net Income**


FINANCIAL SECURITY
NEXT EXIT

1.6 Forms of Business


enter
return
ACCOUNTING
SERVICES
alt

- **Similar to the concept of existing types of financial statements, businesses themselves vary, as well.**

- **Business variations are categorized based primarily on ownership.**

- **Sole Proprietor:**


Small
Business

- **Partnership:**

- **Corporation:**


IBM

- Corporation management is very regulated and structured

- **Regulations and structure are good for handling up to thousands of individual stockholders.**


BUDGET
2017