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)
• (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

<table>
<thead>
<tr>
<th>Current Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Accounts Receivable</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
</tr>
</tbody>
</table>
• 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
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.
• 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.
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

Increase:
- Asset
- Income
- Capital
- Debit

Decrease:
- Expense
- Liability
- Capital
- Credit
• Any increases or decreases from business transactions should display where the assets, liabilities, and owner’s equity are balanced.
1.2.3 Rules of the Accounting Equation
The Accounting Equation are balanced calculations, to include three components:
• Assets
• Liabilities
• 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
• 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.
<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Debit</th>
<th>Credit</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>23/07/2015</td>
<td>Balance</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
• 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.
• 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
1.4 Business Ethics
• 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.
Companies must act

How to comply

New Compliance Rules

Regulations take effect

Law Changes

How rules affect you

Deadline Set for New Business Rules
• Several primary internal controls for Accounting:
• Sarbanes-Oxley Act (SOX): a system that auditors must test and evaluate
• Code of ethics:
• Law:
• Full disclosure:
• Conflicts of interest:
1.5 Purpose of, Presentation of, and Relationships Between Financial Statements
<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.256.000.00</td>
<td></td>
<td>34.250.000.00</td>
</tr>
<tr>
<td></td>
<td>841.500.00</td>
<td></td>
<td>502.100.00</td>
</tr>
<tr>
<td></td>
<td>502.100.00</td>
<td></td>
<td>158.200.00</td>
</tr>
</tbody>
</table>
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
$ \text{Loss} \quad \begin{array}{c}
1,020.03 \\
-3,554.00 \\
-9,632.55 \\
\hline
-9,632.55
\end{array}
• Financial Statements are useful for making economic decisions
• Income statement:
• Statement of owner’s equity:
ACCOUNTING

- Budget
- Expenditure
- Ledger
- Payable
- Credit
- Revenue
- Assets
- Review
1.5.2 Presentation of Financial Statements
• 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__________*

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
<th>Liabilities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td><strong>Current Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>______</td>
<td>Account Payable</td>
<td>______</td>
</tr>
<tr>
<td></td>
<td>______</td>
<td></td>
<td>______</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
<td>Long Term Liabilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>______</td>
<td></td>
<td>______</td>
</tr>
<tr>
<td><strong>Intangible Assets</strong></td>
<td></td>
<td>Share holders equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>______</td>
<td></td>
<td>______</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td>Secured Loans’s</td>
<td>______</td>
</tr>
<tr>
<td></td>
<td>______</td>
<td></td>
<td>______</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>TOTAL ASSETS</strong></th>
<th><strong>TOTAL LIABILITIES</strong></th>
</tr>
</thead>
</table>
• 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.
...
Next, to make a subcalculation, 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.
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
• Costs of goods sold
• Net Income
FINANCIAL SECURITY

NEXT EXIT
1.6 Forms of Business
ACCOUNTING SERVICES
• 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:
• Partnership:
• Corporation:
• Corporation management is very regulated and structured
• Regulations and structure are good for handling up to thousands of individual stockholders.