

Accounting and the Business Environment

Chapter 1

Learning Objective 1

Define accounting vocabulary

Accounting: An Information System

1. • Measures business activity
2. • Processes data into reports
3. • Communicates results to decision makers

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Financial Statements

- ▶ End product of accounting process
- ▶ Report on business in monetary terms

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Learning Objective 2

Define the users of financial information

Decision Makers



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Financial vs. Managerial Accounting

Financial Accounting

- ▶ Provides information for external decision makers

Managerial Accounting

- ▶ Provides information for internal decision makers

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Learning Objective 3

Describe the accounting profession and the organizations that govern it

The Accounting Profession

- ▶ Lucrative career with many opportunities
- ▶ Certified Public Accountants (CPAs)
 - Pass qualifying exam
 - Meet education and/or experience requirements

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Governing Organizations

FASB

SEC

AICPA

IMA

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Ethics: A Conflict of Interest

- ▶ Investors & creditors want reliable financial information
- ▶ Companies want to attract investors

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Audits

- ▶ SEC requires companies to have financial statements examined by CPAs
- ▶ Recent accounting scandals hurt investor confidence

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Standards of Professional Conduct

AICPA

Code of Professional Conduct

Guides CPAS in their work

IMA

Standards of Ethical Conduct

Sets standards for private accountants

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Learning Objective 4

Identify the different types of business organizations

Types of Business Organizations

Proprietorships

Partnerships

Corporations

Limited Liability Companies

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Comparison of Business Forms

	Proprietorship	Partnership	Corporation	LLC
Owners	One	Two or more	Stockholders - usually many	Members
Life of Organization	Limited by owner's choice or death	Limited by owner's choice or death	Indefinite	Indefinite
Liability of owners for business debts	Owner is personally liable	Partners are personally liable	Stockholders not personally liable	Members are not personally liable

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Learning Objective 5

Delineate the distinguishing characteristics and organization of a proprietorship

Proprietorship Characteristics

- Separate Legal Entity
- No Continuous Life
- Unlimited Liability of Owner

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Proprietorship Characteristics (continued)

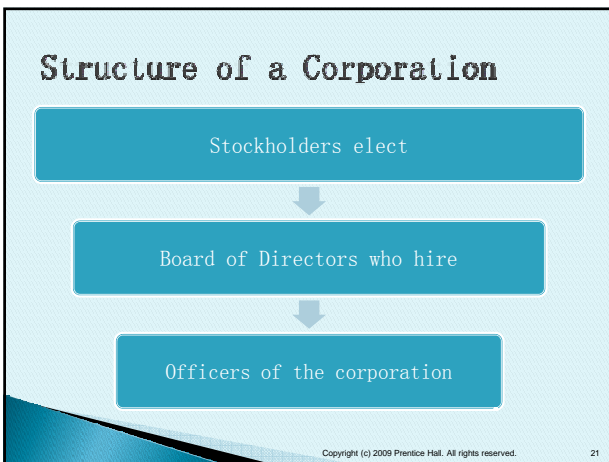
- Unification of Ownership and Management
- Business Taxation
- Government Regulation

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Organizing a Corporation

- ▶ Incorporators obtain charter from the state
- ▶ Charter authorizes corporation to:
 - Issue stock
 - Conduct business in accordance with state law and the corporation's bylaws
- ▶ Corporations begins to exist when stock is issued

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Learning Objective 6

Apply accounting concepts and principles

GAAP

- ▶ Generally Accepted Accounting Principles
- ▶ Goal:
 - To provide useful information to those making investment and lending decisions

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Accounting Principles

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    graph TD
      A[Entity Concept] --- B[Reliability]
      A --- C[Cost]
      D[Going Concern] --- E[Monetary Unit]
    
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Accounting Principles

Entity Concept

Reliability

Cost

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Accounting Principles (continued)

Going concern

Monetary Unit

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Learning Objective 7

Define and use the accounting equation

The Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

Economic Resources

Claims to Economic Resources

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Assets

- ▶ Economic resources that have a future benefit

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Claims to Assets

- ▶ **Liabilities**
 - Debts payable to outsiders
- ▶ **Owners' equity**
 - Owners' claims to the assets of the business
 - In a proprietorship owner's equity

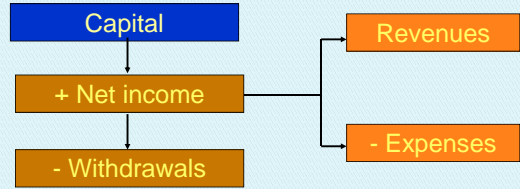
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The Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

The Accounting Equation



Revenues

- ▶ Amounts earned by delivering goods or services to customers

Expenses

- ▶ Outflows of assets or increasing liabilities in the course of delivering goods or services to customers

Exercise 1-16

	Assets	Liabilities	Owner's equity
Nice Cuts	?	\$25,000	\$43,000
Love Dry Cleaners	85,000	?	54,000
Hudson Gift and Cards	102,000	49,000	?

Exercise 1-16 (continued)

	Assets	Liabilities	Owner's equity
Nice Cuts	\$68,000	\$25,000	\$43,000
Love Dry Cleaners	85,000	31,000	54,000
Hudson Gift and Cards	102,000	49,000	53,000

Learning Objective 8

Depict accounting for business transactions

Transaction

- ▶ An event that affects the financial position of a particular entity
- ▶ Can be recorded reliably
- ▶ Every transaction impacts at least two items
- ▶ The accounting equation balances before and after each transaction

Problem 1-33A

Date	Assets				Liabilities	Owner's Equity
	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	2,500	1,500	0	13,000	4,000	13,000

Assets = \$?

Liabilities & Equity = \$?

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Problem 1-33A (continued)

Date	Assets				Liabilities	Owner's Equity
	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	2,500	1,500	-	13,000	4,000	13,000
a)	10,000					10,000
Bal	12,500	1,500	-	13,000	4,000	23,000

Assets = \$?

Liabilities & Equity = \$?

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Problem 1-33A (continued)

Date	Assets				Liabilities	Owner's Equity
	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	12,500	1,500	-	13,000	4,000	23,000
(b)	1,100					1,100
Bal	13,600	1,500	-	13,000	4,000	24,100

Assets = \$?

Liabilities & Equity = \$?

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Problem 1-33A (continued)

Date	Assets				Liabilities	Owner's Equity
	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	13,600	1,500	-	13,000	4,000	24,100
(c)	(4,000)				(4,000)	
Bal	9,600	1,500	-	13,000	0	24,100

Assets = \$?

Liabilities & Equity = \$?

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Problem 1-33A (continued)

Date	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	9,600	1,500	-	13,000		24,100
(d)			700		700	
Bal	9,600	1,500	700	13,000	700	24,100

Assets = \$?

Liabilities & Equity = \$?

Problem 1-33A (continued)

Date	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	9,600	1,500	700	13,000	700	24,100
(e)	600	(600)				
Bal	10,200	900	700	13,000	700	24,100

Assets = \$?

Liabilities & Equity = \$?

Problem 1-33A (continued)

Date	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	10,200	900	700	13,000	700	24,100
(f)	1,700					1,700
Bal	11,900	900	700	13,000	700	25,800

Assets = \$?

Liabilities & Equity = \$?

Problem 1-33A (continued)

Date	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	11,900	900	700	13,000	700	25,800
(g)			4,300			4,300
Bal	11,900	5,200	700	13,000	700	30,100

Assets = \$?

Liabilities & Equity = \$?

Problem 1-33A (continued)

Date	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	11,900	5,200	700	13,000	700	30,100
(h)	(1,000)					(1,000)
	(300)					(300)
Bal	10,600	5,200	700	13,000	700	28,800

Assets = \$?

Liabilities & Equity = \$?

Problem 1-33A (continued)

Date	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	10,600	5,200	700	13,000	700	28,800
(i)	100		(100)			
Bal	10,700	5,200	600	13,000	700	28,800

Assets = \$?

Liabilities & Equity = \$?

Problem 1-33A (continued)

Date	Cash	Accounts receivable	Supplies	Land	Accounts payable	Marilyn Mansion, Capital
Bal	10,700	5,200	600	13,000	700	28,800
(j)	(2,200)					(2,200)
Bal	8,500	5,200	600	13,000	700	26,600

Assets = \$?

Liabilities & Equity = \$?

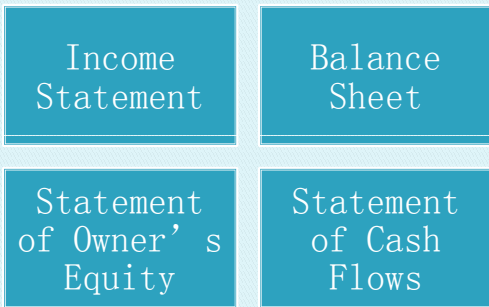
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Learning Objective 9

Explain and prepare financial statements

Financial Statements

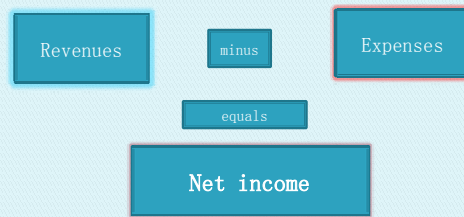


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Income Statement

- Reports on profitability of business



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Statement of Owner's Equity

- Summary of changes in owner's capital during a specific period

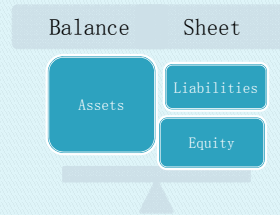
Beginning Capital
Plus: Net income (or minus net loss)
Less: Withdrawals
Equals: Ending Capital

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Balance Sheet

- Reports the entity's assets, liabilities, and owner's equity as of a specific date



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Statement of Cash Flows

- ▶ Reports cash receipts and cash payments during a period

Goth Inc. Income Statement Month ended September 30, 2011	
Revenue:	
Service revenue	\$5,400
Expenses:	
Rent expense	\$1,000
Advertising expense	300
Total expenses	1,300
Net income	\$4,100

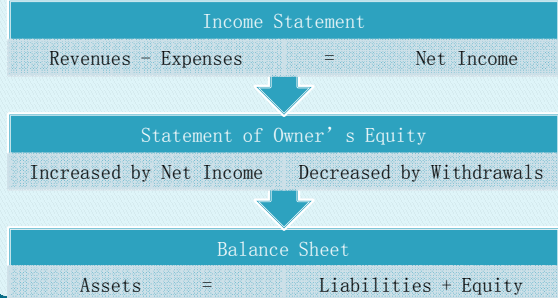
Goth Inc. Statement of Owner's Equity Month ended September 30, 2011	
Marilyn Mansion, Capital, September 1, 2011	\$13,000
Add: Investments by owner	11,700
Net income	4,100
	\$28,800
Less: Withdrawals	(2,200)
Marilyn Mansion, Capital, September 30, 2011	\$26,600

Goth Inc. Balance Sheet September 30, 2011			
Assets		Liabilities	
Cash	\$8,500	Accounts payable	\$700
Accounts receivable	5,200		
Supplies	600	Owner's Equity	
Land	13,000	Marilyn Mansion, Capital	26,600
Total assets	27,300	Total liabilities & owner's equity	27,300

Learning Objective 10

Use financial statements to evaluate business performance

Relationship Among Financial Statements



Financial Statements

<p>Income Statement</p> <p>Demonstrates profitability</p>	<p>Statement of Owner's Equity</p> <p>Shows changes in Capital</p>	<p>Balance Sheet</p> <p>Displays financial position</p>
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End of Chapter 1