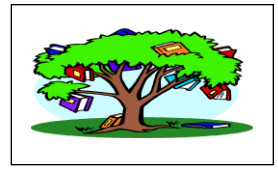
Toward Business Literacy: Accounting Outlines



Financial Accounting Basics

Business in America has many forms, some are:

- Sole Proprietorships (one owner with liability if things go wrong)
- Partnerships (two or more owners, sharing profits and responsibility)
- Limited Liability Partnership (LLP) with general and limited partners
- Corporations are set up by charter in a state with by-laws and personhood:

Shareholders	elect	**Board**	appoints	**Management**
Own shares		*Sets policy*		*Carries out policy*
Votes on directors		*Appoints executives*		*Day to day business*
Receives dividends		*Declares dividends*		*Report results*

Audit Committee: made up of outside directors who oversee accounting audits
Controller: This is the management office responsible for accounting

The Accounting Equation: Assets = Liabilities + Owners Equity

Debits and Credits: The account types handle increases/decreases like this:

Type	Definition	Debit	Credit
Permanent Accounts (Balance Sheet)			
Assets =	Resources in place used to generate income	Increase	Decrease
Liabilities	Claims on assets owed to outsiders	Decrease	Increase
+ Equity	Claims on assets by owners	Decrease	Increase
Temporary Accounts (Income Statement and Dividends)			
Revenues	Income from ongoing business		Increase
Expenses	Outflows necessary to generate income	Increase	
Dividends	Payment to owners (investors)	Increase	Decrease

Accruals and Deferrals
Cash basis: income is when cash is received and expenses when cash is paid.

GAAP: Revenue recognized when earned. Expenses recognized when incurred.

- **Deferral**: cash is received or paid early and the revenue/expense is earned or incurred later
- **Accrual**: revenue earned or expense is incurred now and cash is received or paid later

From Intermediate Accounting by Keiso
Last modified 7/26/2013