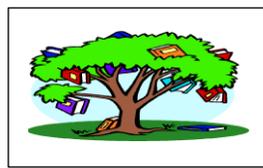


Toward Business Literacy: Accounting Outlines



Accounting Authority

History

Accounting and the double-entry system was founded by a Christian monk named Luca Pacioli in 1494. Goethe called it "one of the finest discoveries of the human intellect."

Principles

Every economic event has at least two aspects:

Debits

Effort/Sacrifice (Expense)

Useful things (Assets)

Credits

Reward/Benefit (Revenue)

Source of ownership (Equity and Debt)

Hierarchy of Generally Accepted Accounting Principles (GAAP)

Knowledge FASB statements and APB opinions

Interpretation FASB interpretations of principles

Application Technical Bulletins

Handlers of information

Assemble **Management** gathers, records, summarizes and classifies information on statements

Analyze **Analysts** use information to identify strengths and weaknesses

Evaluate **Investors and creditors** use the information to make decisions

Authorities

1. Securities and Exchange Commission
 - a. 1933 act requires full financial disclosure for initial stock offering
 - b. 1934 act requires faithful reporting and audits for traded securities to prevent fraud, misrepresentation and deceit
2. Financial Accounting Standards Board (FASB)
 - a. Seven full-time members produce standards for public corporations

Sarbanes-Oxley has now instituted the Public Company Accounting Oversight Board and provides penalties for fraud, CPA consulting restrictions, and management duties

3. FASAB produces standards for the Federal government
4. GASB produces standards for state and local government (and not-for profit)

Conventions

- Materiality: pennies don't matter to most, hundreds don't to a large company
- Cost-benefit: is work and expense of accounting worth it (Sarbanes-Oxley?)
- Comparable: all companies follow same set of principles
- Consistent: no changes in principles or applications from period to period
- Conservatism: choose accounting least likely to overstate assets and income
- Full disclosure: present all information relevant to user's understanding

Concepts

- Historical cost: carry asset on the books at what was paid or given for it
 - Exceptions are impaired assets and marketable investments
- Matching revenues and expenses in a time period
 - What is given up (expense) to produce what is received (revenue)

Accounting is:

1. Assembling: source documents such as invoices, checks, orders.
2. Recording: in journals (like a diary)
3. Organizing: in ledgers with individual accounts
4. Reporting: Income Statement, Retained Earnings, Balance Sheet, Cash Flows
5. Interpreting: analysts help investors and creditors with decisions

Accounting should strive to be:

- Reliable: faithful to represent reality and able to be verified
- Relevant: timely and with predictive (future) and feedback (past) value

From Intermediate Accounting by Keiso

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