What is Accounting

The process of recording, classifying, summarizing, and interpreting of financial events and transactions to provide management and other interested parties the information they need to make good decisions.

Managerial Accounting

INTERNAL ONLY

Provides information to management to allow them to make the day-to-day decisions to run the operation and achieve the goals of the company. These include reports on the cost of production, marketing, forecasting…

Financial Accounting

INTERNAL & EXTERNAL

Provides information to those outside the corporation to allow them to make informed decisions. Do I invest in this company? Will the company be able to repay a loan? What does the company owe the IRS?

Who are the users of Accounting Information

Governments (IRS) & Regulators ❧ Owners ❧ Creditors ❧ Suppliers ❧ Analysts ❧Management

***Governments** require tax returns, quarterly reports and more, **Owners** like to see the income statement and cash flow to determine profitability, **Creditors** and **Suppliers** look at the balance sheet to make sure the company can repay their debt, **Analysts** use all statements to advise investors, and **Management** uses information to make decisions, forecast future sales, expenses and much more.*

Types of Specialization

Managerial Accountants ❧ Auditors ❧ Tax Accountants ❧ Governmental & Not-For-Profit

Financial Statements

Income Statement ❧ Balance Sheet ❧ Statement of Cash Flows

Income Statement

Revenues:
- Fees Earned
- Sales

-Expenses
- Rent
- Utilities
- Depreciation

=Net Income

Balance Sheet

Assets
- Cash
- Accounts receivable
- Inventory

=Liabilities
- Accounts payable
- Bonds Payable
- Mortgages Payable

+ Owner's Equity
- Common Stock
- Retained Earnings

Assets = Liab + OE

THE EQUATION MUST BALANCE

Statement of Cash Flows

Operating:

operating revenues and expenses

+ Investing:

how are we investing in our productive assets (Property, Plant, and Equipment)

+Financing:

how are we financing our business (Equity→Stock, Debt, Bonds, Mortgages, etc.)

=Increase(Decrease in Cash)

+Cash at beginning of year

=Cash at end of year

John Company
Income Statement
For the Year Ended Dec 31, 2012

Revenue:		
Fees Earned		20,000
Expenses:		
Rent Expense	1,500	
Wages Expense	2,500	
Utilities Expense	350	
Total Expenses		4,350
Net Income		15,650

John Company
Balance Sheet
Dec 31, 2012

Assets:	
Cash	18,100
Accounts receivable	6,250
Total Assets	24,350
Liabilities:	
Accounts payable	4,230
Owner's Equity:	
Common Stock	1,670
Retained Earnings (2800+15650)	18,450
Liabilities & Owner's equity	24,350

John Company
Statement of Cash Flows
Dec 31, 2012

Operating Activities		
Net Income	15,650	
Depreciation	5,700	
Gain on Investment	(2,000)	
↑↓ In Current Assets	(1,000)	
↑↓ In Current Liabilities	2,000	
Net Cash Flows from Operating activities		20,350
Investing Activities		
±Cash received/paid for Property, Plant, Equip	(15,750)	
Net Cash Used for Investing Activities		(15,750)
Financing Activities		
Cash received/Paid for Stocks, Bonds, Mortgage.	2,000	
Less cash paid for Dividends	(2750)	
Net Cash Used for Financing Activities		(750)
Increase(decrease) in cash		3,850
Cash at beginning of Year		14,300
Cash at end of Year		18,100

Analyzing Financial Performance using Ratios

Ratio Analysis: The assessment of a firm's financial condition using calculations and interpretations of financial ratios developed from the firm's financial statements.

Liquidity Ratios

Current Ratio

Current Assets / *Current Liabilities*	=	*Cash + A/R* / *A/P*	=	*18,100+6,250* / *4,230*	=	*5.7565*	=	*6:1*

Acid Test Ratio

Cash & Cash equivalents / *Current Liabilities*	=	*Cash & Cash equivalents are those accounts that can be converted to cash today. Only Cash, Accounts Receivable, and Marketable Securities*

This ratio tells us that John Co., is able to pay all of its current liabilities 6 times.
The average is 2:1 so this is great.

Leverage (Debt) Ratios

Debt to owners' equity ratio

Total Liabilities / *Owner's Equity*	=	*A/P* / *Owner's equity*	=	*4,230* / *24,350*	=	*.1737*	=	*.18*

This ratio shows us the John Co., had $0.18 in debt for every dollar in equity.

Profitability (Performance) Ratios

Return on sales=

Net Income / *Net sales*	=	*Net Income* / *Total Revenue*	=	*15,650* / *20,000*	=	*.7825*	=	*.78*

For every dollar of sales, the company keeps $0.78 before paying out dividends

Return on Equity=

Net Income / *Net Sales*	=	*Net Income* / *Total Revenue*	=	*15,650* / *20,000*	=	*.7825*	=	*.78*

For every $1 the owners put into John Co. they earn $.78.