

Al-Mustaqbal university college

ACCOUNTING IN ACTION 1

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Study Objectives

1. Explain what accounting is.
2. Identify the users and uses of accounting.
3. Understand why ethics is a fundamental business concept.
4. Explain generally accepted accounting principles and the cost principle.
5. Explain the monetary unit assumption and the economic entity assumption.
6. State the accounting equation, and define assets, liabilities, and owner's equity.
7. Analyze the effects of business transactions on the accounting equation.
8. Understand the four financial statements and how they are prepared.

Accounting in Action

What is Accounting?

- Three activities
- Who uses accounting data

The Building Blocks of Accounting

- Ethics in financial reporting
- Generally accepted accounting principles
- Assumptions

The Basic Accounting Equation

- Assets
- Liabilities
- Owner's equity

Using the Basic Accounting Equation

- Transaction analysis
- Summary of transactions

Financial Statements

- Income statement
- Owner's equity statement
- Balance sheet
- Statement of cash flows

What is Accounting?

The purpose of accounting is to:

- (1) **identify, record, and communicate** the economic events of an
- (2) organization to
- (3) interested users.

What is Accounting?

Three Activities

Illustration 1-1
Accounting process

Identification



Select economic events (transactions)

Recording



Record, classify, and summarize

Communication



Prepare accounting reports



Analyze and interpret for users

The accounting process **includes** the bookkeeping function.

Who Uses Accounting Data?

Internal Users

Human Resources

Finance

Marketing

Management

There are two broad groups of users of financial information: internal users and external users.

IRS

Investors

Labor Unions

Creditors

Customers

SEC

External Users

Who Uses Accounting Data?

Common Questions Asked

User

- | | | |
|---|---|-----------------|
| 1. Can we afford to give our employees a pay raise? | ➔ | Human Resources |
| 2. Did the company earn a satisfactory income? | ➔ | Investors |
| 3. Do we need to borrow in the near future? | ➔ | Management |
| 4. Is cash sufficient to pay dividends to the stockholders? | ➔ | Finance |
| 5. What price for our product will maximize net income? | ➔ | Marketing |
| 6. Will the company be able to pay its short-term debts? | ➔ | Creditors |

Who Uses Accounting Data?

Discussion Question

Q1. "Accounting is ingrained in our society and it is vital to our economic system." Do you agree? Explain.

See notes page for discussion