



Introduction to Accounting

Chapter One



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What is accounting?

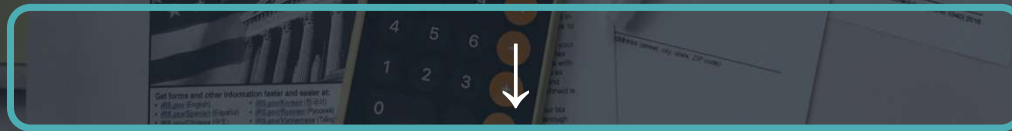


Chapter 1. Introduction

What is accounting?



Business need to know



Mar 04, 2019

Chapter 1. Introduction

Business need to know

Business need to know

- How much money it has
- How many products sold
- How it cost to purchase or produce
- How much is the debt
- How much is the income of the company
- Is the company growing economically



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Business need

What type of information?

- Financial information
- Is about money
- Quantitative in nature
- It is much of practical not theoretical

You learn accounting best by doing (practicing)



What is accounting?



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What is accounting?

Accounting is:

- Language of a Business
- Understand what is happening financially
- Means for communicating the numbers.



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What is accounting?

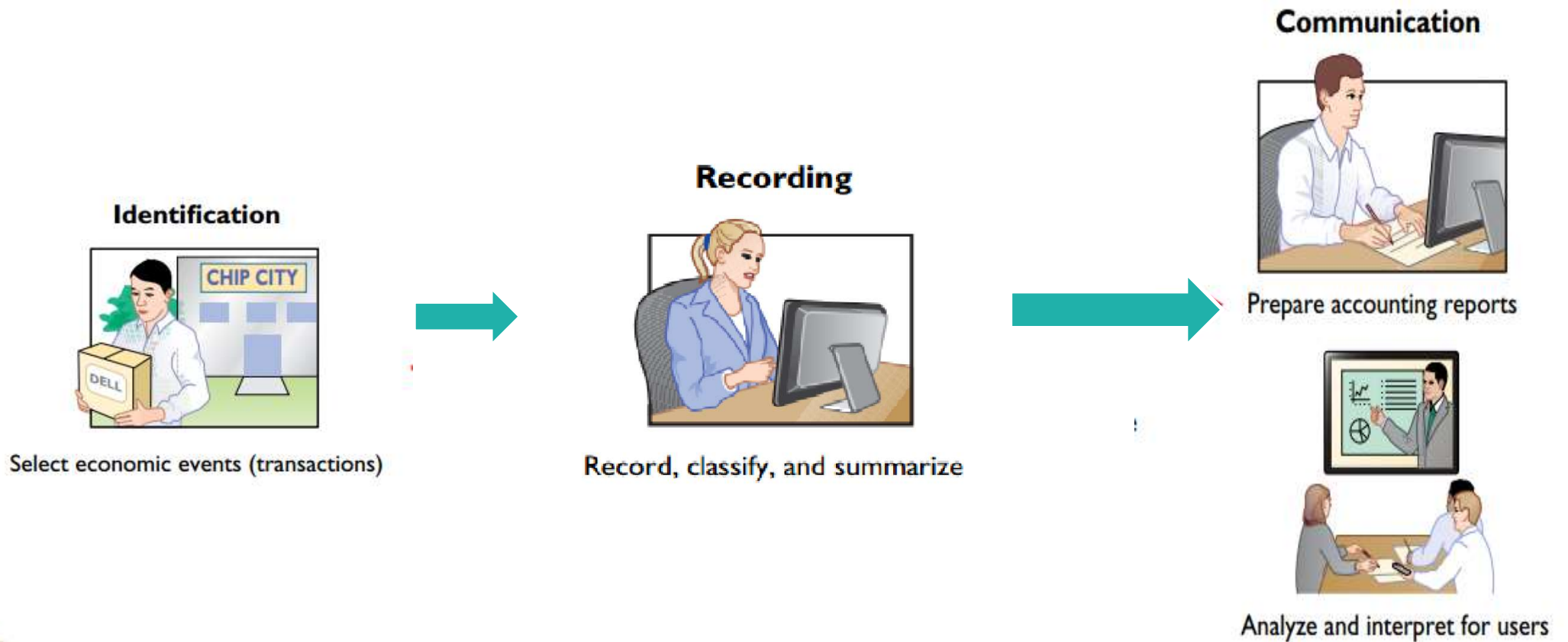
Accounting activities

- **Identifies,**
- **Records,**
- **Communicates the economic events.**



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Graphically



End Products



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End Products

What are the main **End Products** of Accounting



UPS
Consolidated Income Statement
for the Years Ended December 31
(in millions)

	<u>2010</u>	<u>2009</u>
Revenue	\$ 49,545	\$ 45,297
Expenses		
Compensation and benefits	(26,324)	(25,640)
Other expenses	(17,344)	(15,846)
Interest expense	(354)	(445)
Income taxes	(2,035)	(1,214)
Net income	<u>\$ 3,488</u>	<u>\$ 2,152</u>



Balance Sheet
As of January 1, 20×6

Assets

Current assets

Cash	\$50,000
Inventory	75,000

Long-term assets

Furniture, displays, and equipment	150,000
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Total Assets

\$275,000

Liabilities and Owner's equity

Current liabilities

Loan payable (due this year)	\$25,000
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Long-term liabilities

Loan payable (due in 5 years)	100,000
-------------------------------	---------

Owner's equity

150,000

Total Liabilities and Owner's equity

\$275,000



The College Shop

Statement of Owner's Equity As of December 31, 20X6

Owner's equity, January 1, 20X6	\$150,000
+ Net income	<u>30,000</u>
Owner's equity, December 31, 20X6	<u><u>\$180,000</u></u>



Cash Flow Statement

For the Year Ended December 31, 2016

Cash Flow from Operations

Cash receipts from customers	86,772
Cash paid for inventory	(7,400)
Cash paid for wages	(53,000)
Net Cash Flow from Operations	26,372

Cash Flow from Investing

Cash receipts from sale of property and equipment	13,500
Cash paid for purchase of equipment	(17,500)
Net Cash Flow from Investing	(4,000)

Cash Flow from Financing

Cash paid for loan repayment	(5,000)
Net Cash Flow from Investing	(5,000)

Net Increase in Cash	17,372
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Users



Chapter 1. Introduction

Users

Accounting Users

- Internal
- External Users



Chapter 1. Introduction

Accounting Users

1. Internal users

Managers who plan, organize, and run the business

Marketing managers,

Production supervisors,

Finance directors, and

Company officers.



Chapter 1. Introduction

Accounting Users



Finance

Is cash sufficient to pay dividends to **Microsoft** stockholders?



Marketing

What price should **Apple** charge for an iPod to maximize the company's net income?



Human Resources

Can **General Motors** afford to give its employees pay raises this year?



Snack chips Beverages

Management

Which **PepsiCo** product line is the most profitable? Should any product lines be eliminated?



Chapter 1. Introduction

Accounting Users

This type of Accounting which **provides internal reports to help users make decisions about their companies** is called:

Managerial Accounting



Chapter 1. Introduction

Accounting Users

2. External users

Are individuals and organizations outside a company who want financial information about the company.



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Accounting Users

Examples of external users

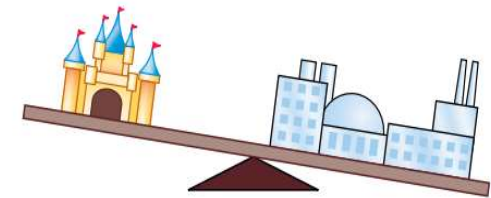
- Creditors
- Investors
- Tax authorities
- Customers
- Labor unions
- etc.



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Accounting Users

Questions Asked by External users



Investors

How does **Disney** compare in size and profitability with **Time Warner**?



Creditors

Will **Pepsi** pay its debts on time



Investors

Is **Coca Cola** earning satisfactory income?

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Accounting Users

This type of accounting which provides economic and financial information for investors, creditors, and other external users is known as,

Financial Accounting.



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Why Accounting



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Accounting Users

1. Stable Industry

- Businesses always need Accounting

2. To be Financially literate

- Knowing the language of Business

3. Enable you to know:

- Where to invest
- How to invest

4. It is the first step to start a business





Time to exercise



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Time to exercise



Say True/False

1. The three steps in the accounting process are **identification, recording, and communication.**

Answer:

True



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Time to exercise



2. Bookkeeping encompasses all steps in the accounting process.

Answer:

False, Bookkeeping involves only the recording step.



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Time to exercise



3. Accountants prepare, but do not interpret, financial reports.

Answer:

False, Accountants **analyze** and **interpret** information in reports as part of the communication step.



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Time to exercise



4. The two most common types of external users are investors and company officers.

Answer:

False, The two most common types of external users are **investors** and **creditors**.



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Time to exercise



5. Managerial accounting activities focus on reports for internal users.

Answer:

True,



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Recap

Lets Recap....

- Accounting Activities
- Accounting Users
- Types of Accounting
- Uses of Accounting



A photograph of a grey calculator, a black pen, and a red notebook on a dark grey background. The calculator is the central focus, with its keypad and display visible. The pen is positioned diagonally across the notebook. The text 'Putting Accounting into Practice' is overlaid in white serif font.

Putting Accounting into Practice



Chapter 1. Introduction

Accounting Equation

Basic Accounting Equation

$$\text{Asset} = \text{Liability} + \text{Equity}$$

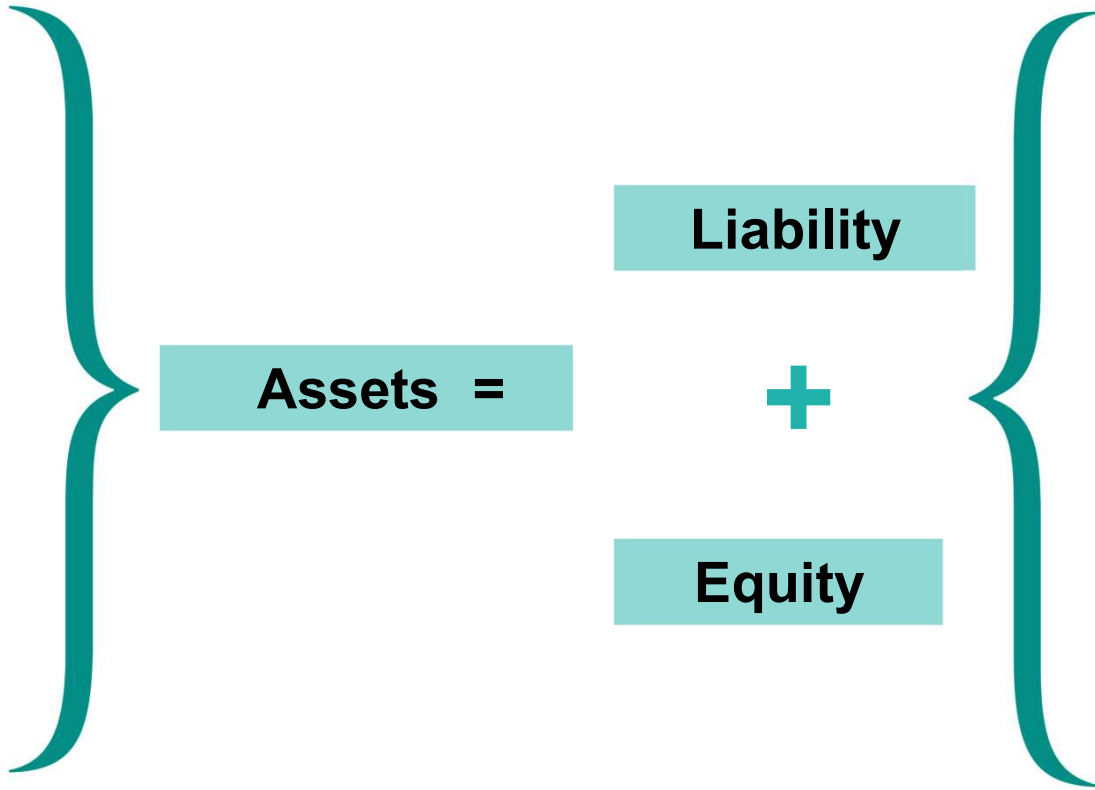
Stuffs the business = stuffs the business
owns **owes.**





Assets





$$\text{Asset} = \text{Liability} + \text{Equity}$$

Asset

Liability

Equity



