

Intro to Accounting

Why are we studying accounting? Like it's been said, it is like trying to play sports without keeping score. Accounting is usually called the language of business. We need to convey the financial data to our bosses, stockholders and employees and this data is compiled by accountants.

Let's start with the basic accounting equation! $\text{Assets} = \text{Liabilities} + \text{Equity}$.

It can be rearranged algebraically to: $\text{Assets} - \text{Liabilities} = \text{Equity}$. In other words, Assets (what we own) minus Liabilities (what we owe) = Equity (what we are worth).

**** Video Alert!****

Here is a great video on the Accounting Equation:

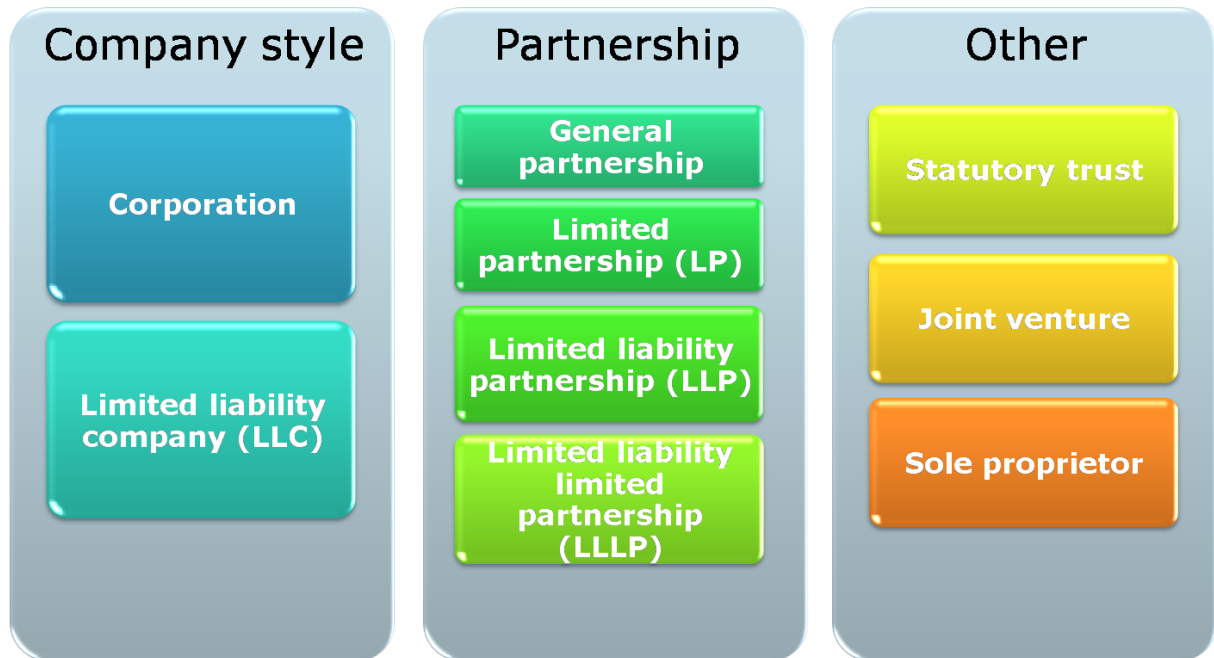
http://www.youtube.com/watch?v=yoN_feo9uHo&list=FLRdNV_L3nGyG8QdcTYFwKHw&index=7&feature=plpp_video

Understanding when to debit and when to credit is one of the most important things we learn in beginning accounting. Although it seems difficult or awkward at first, it will become second nature. If not, just keep a "cheat sheet" handy. :)

The following are different types of business entities. Every new company must decide which one to choose from:

- Proprietorship
- Partnership
- Corporation
- LLP/LLC
- Not-for-profit (NPO)

There are advantages and disadvantages to each of these and the decision will become obvious for each new situation. Read about the characteristics of each one.



Another good concept is the cost principle. In Accounting, we record or post the items that we acquire at the cost that we paid for them at that time. It is a dependable method, yet also has a few disadvantages as we will see! Onto to financial statements, where we learn that there are three very important statements:

- The Balance Sheet
- The Income Statement
- Statement of Cash Flows

There are other statements, but these are the most common.

In the accounting cycle, you do the following:

- Record a transaction
- Adjust Accounts
- Prepare financial statements
- Close out temporary accounts

You may read about various accounting systems that handle many of these steps, but we need to understand how it all works!

We record transactions to an account, which is the key term to know. A transaction occurs when there is an “event”, like buying office supplies! There are hundreds of examples of “events”, but hopefully you get the idea. Once an event takes place, a transaction should be recorded. The other steps follow!

Debits and Credits

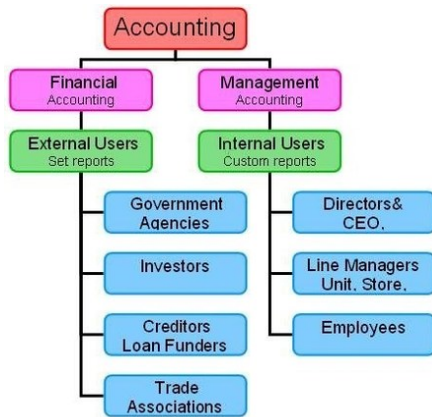
This is another VERY important concept to spend time on! Each time a transaction is recorded; there is a debit and a credit. We post them in T-Accounts. Debits go to the left and credits to the right. The impact that debiting and crediting has on an account depends on what type of account it is. There is quite a bit to learn and discuss about this!

**** Video Alert!****

Here's a great video on debits and credits!

http://www.youtube.com/watch?v=fDxfLdpoq8s&list=FLRdNV_L3nGyG8QdcTYFwKHw&index=42&feature=plpp_video

Did you know that there are two branches of Accounting? Well there is! There is financial accounting and cost accounting/managerial accounting. Financial Accounting is the branch of accounting that deals with all users. Managerial Accounting is used internally to analyze costs, budgets and any other project planning that the company wishes to do. Each branch has certifications that are available to show that you are an expert in this field. In Financial Accounting, it is the CPA designation. In Managerial Accounting, it is the CMA designation. Check out their specific web sites for more information on requirements and specifics.



Important Reminders/Tips

This is a good time to check out the Internal Revenue Service website! It is www.irs.gov

Enjoy your week!

Debra Touhey, MSA, CFE

References

Horngren, C.T., Harrison, W.T. Jr. & Oliver, S. M. (2012). *Accounting* (9th edition). New Jersey: Prentice Hall.

Walther. (2012). *Principle of Accounting I* (1st ed.). San Diego, CA: Bridgepoint Education.