

Introduction to Accounting/Accounting Equation

Why are we studying accounting? If we don't it is like "like trying to play football without keeping score" (Edmonds, Olds, McNair & Tsay, p.2). 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.

**** Video Alert****

Here is a humorous video about what accountants do:

<http://www.youtube.com/watch?v=pZ-VsmCt9Zc&feature=related>

Although comical in nature, it really tells you the types of topics that we handle. There are so many stereotypes and you'll see that not all accountants fit those!

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). You may need to adjust the formula in various ways to solve certain problems that you are given. It becomes routine after a while!

Recording events are necessary in accounting. An event can be any transaction that requires us to make an entry to our books. As we learn about recording transactions, we will learn the steps in the accounting cycle, debits and credits and financial statements.

**** Video Alert****

The following video link is a great way to learn about the Accounting Equation!

http://www.youtube.com/watch?v=yoN_feo9uHo&feature=related

Understanding the Accounting Cycle

In the accounting cycle, you do the following:

- Record a transaction – an event occurs, like a purchase. Record it after reviewing.
- Adjust Accounts –Think of adjustments you might need to make.
- Prepare financial statements –One of the most crucial stages
- Close out temporary accounts – What are these temporary accounts? Income and expense are temporary. They only stay open for the current year and then get netted out and closed to income summary and move to retained earnings. If your company has had a good year, retained earnings will grow! This is one of the best signals to look for when analyzing a company.

Remember that most of this is automated in “real life”, but we need to understand how it all works!

As we finish out the discussion, we also learn about FRAUD. The inevitable part of capitalism, business and life is the fraudsters! Most of my work is with fraud and taxation, and it is very exciting work. If some of you remember the big Enron scandal at the beginning of the millennium, you know that fraud causes great damage! People lost everything. Employees lost not only their jobs, but also their pensions. It is our job as accountants to lend credibility to the accuracy of the numbers and statements.

Important Reminders/Tips

This is a good time to check out the Internal Revenue Service website! It is www.irs.gov. There are many good links in there, including a section for professionals. There is also a link to the Financial Accounting Standards Board (FASB) under your Course Materials. FASB writes guidance and rules that accountants follow. It is a very thorough and user-friendly site.

Enjoy your week!

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Reference

[Edmonds, T. O., & Tsay, B. \(2012\). Survey of Accounting \(3rd edition ed.\). New York: McGraw-Hill Irwin.](#)