

The background of the slide is a light gray gradient. It is decorated with numerous water droplets of various sizes and shapes, scattered across the top and bottom edges. The droplets have a realistic, glossy appearance with highlights and shadows, giving them a three-dimensional look. The text 'ACCOUNTING PRINCIPLES' is centered in the upper half of the slide.

ACCOUNTING PRINCIPLES

Definition of Accounting

Accounting is an information system that **identifies**, **records**, and **communicates** the economic events of an organization to interested users.

Three Activities

Identification



Select economic events (transactions)

Recording



Record, classify, and summarize

Communication



Prepare accounting reports



Analyze and interpret for users

Who Uses Accounting Data

1- INTERNAL USERS

Internal users of accounting information are those individuals inside a company who **plan, organize, and run the business.**

Questions Asked by Internal 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?

Who Uses Accounting Data

2- EXTERNAL USERS

External users are individuals and organizations outside a company who want financial information about the company.

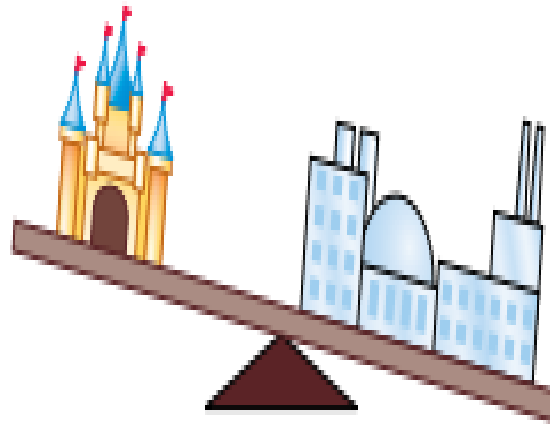
Investors & Creditors

Questions Asked by External Users



Investors

Is **General Electric** earning satisfactory income?



Investors

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



Creditors

Will **United Airlines** be able to pay its debts as they come due?

Functions of Accounting

- From the definition of the above the main functions of accounting can be summarized as:
 - (1) Keeping systematic record of business transactions.
 - (2) Protecting properties of the business.
 - (3) Communicating the results to various parties interested in or connected with the business.
 - (4) Meeting legal requirements.

Objectives of Accounting

The following are the main objectives of accounting:

- (1) To keep systematic records.
- (2) To protect business properties.
- (3) To ascertain the operational profit or loss.
- (4) To ascertain the financial position of business.
- (5) To facilitate rational decision making.

ACCOUNTING CYCLE

Accounting cycle is the financial process starting with **recording Business Transactions** and leading up to the preparation of **Financial Statements**. This process demonstrates the purpose of financial accounting--to create useful financial information in the form of general-purpose financial statements.



ACCOUNTING EQUATION

THE EQUATION THAT IS THE FOUNDATION OF DOUBLE ENTRY ACCOUNTING. THE ACCOUNTING EQUATION DISPLAYS THAT ALL ASSETS ARE EITHER FINANCED BY BORROWING MONEY OR PAYING WITH THE MONEY OF THE COMPANY'S SHAREHOLDERS. THUS, THE ACCOUNTING EQUATION IS

$$\text{ASSETS} = \text{LIABILITIES} + \text{OWNER'S EQUITY}$$

ACCOUNTING EQUATION

- **ASSETS** ARE RESOURCES WITH FUTURE BENEFITS THAT ARE OWNED OR CONTROLLED BY A COMPANY.
- **LIABILITIES** ARE WHAT A COMPANY OWES ITS CREDITORS IN FUTURE PRODUCTS OR SERVICES.
- **OWNER'S EQUITY:** THE OWNERSHIP CLAIM ON TOTAL ASSETS IS KNOWN AS OWNER'S EQUITY. IT IS EQUAL TO TOTAL ASSETS MINUS TOTAL LIABILITIES.

- REVENUES: GROSS INCREASE IN EQUITY FROM A COMPANY'S EARNINGS ACTIVITIES.
- EXPENSES: THE COST OF ASSETS OR SERVICES USED TO EARN REVENUE. EXPENSES DECREASE OWNER'S EQUITY.
- INVESTMENTS: THE ASSETS AN OWNER PUTS INTO THE COMPANY.
- WITHDRAWALS: THE ASSETS TAKE AWAY FROM THE COMPANY FOR PERSONAL USE.

EXPANDED ACCOUNTING EQUATION

BASIC EQUATION

ASSETS = LIABILITIES + OWNER'S EQUITY

EXPANDED EQUATION

ASSETS = LIABILITIES + OWNER'S CAPITAL -

OWNER'S DRAWINGS + REVENUES - EXPENSES

ASSETS

Cash

Accounts
Receivable

Notes
Receivable

Resources
owned or
controlled
by a
company

Cars

Lands

Goods

Buildings

Equipment

Assets

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graph TD; Assets --> Tangible[Tangible assets]; Assets --> Intangible[Intangible assets]; Tangible --> Current[Current Assets]; Tangible --> Fixed[Fixed Assets]; Intangible --- Goodwill[Goodwill];
```

Tangible assets

Current Assets

- Inventory
- Accounts receivable
- Cash
- Short-term investments

Fixed Assets

- Property, Plant & Equipment
- Company cars
- Office furniture
- Machinery

Intangible assets

- Patents
- Trademarks
- Copyrights
- Brand name
- Internet domain name

Goodwill

LIABILITIES

**Accounts
Payable**

Notes Payable

**Creditors'
claims on
assets**

**Taxes
Payable**

**Wages
Payable**

CAPITAL

INCREASES

DECREASES

