Accounting Essay, Research Paper

Chapter 17

Accounting: process of systematically collecting, analyzing, and reporting financial information.

Private accountant: employed by a organization

Private Accountants provide the following services:

General accounting: recording business transactions and preparing financial statements

Budgeting: Develop budgets for sales and operating expenses.

Cost Accounting: Determining the cost of producing specific products or services.

Tax Accounting: Planning tax strategy and preparing tax returns for the firm.

Public Accountant: an accountant whose services may be hired on a fee basis by individuals or firms.

Chartered accountant (CA) or Certified general accountant (CGA), Certified management accountant (CMA): an individual who has met requirements for accounting education and experience and has passed a set of accounting examinations from their respective professional organization.

Assets: the resources that the firm owns

Liabilities: firms debts and obligation- what it owes to others

Owners Equity: the difference between a firms assets and its liabilities

Accounting Equation: the basis for the accounting process:

assets = liabilities + owners? equity

Revenues: dollar amounts received by a firm

Expenses: the costs incurred in operating a business.

Double-entry book-keeping: a system in which each financial transaction is recorded as two separate accounting entries to maintain the balance shown in the accounting equation.

General journal: a book of original entry in which typical transactions are recorded in order of their occurrence.

General Ledger: book of accounts containing a separate sheet or section for each account.

Posting: process of transferring journal entries to the general ledger.

Trial Balance: a summary of the balances of all general ledger accounts at the end of the accounting period.

Balance Sheet: summary of the dollar amounts for a firm?s assets, liabilities, and owners? equity accounts at a particular time.

Liquidity: the ease which an asset can be converted into cash.

Current assets: cash and other assets can be converted into cash or that will be used in a year or less.

Prepaid expenses: assets that have been paid for in advance, but not been used.

Fixed assets: assets that will be held or used for a period longer than one year.

Depreciation: process of apportioning the cost of a fixed asset over the period during which it will be used.

Intangible assets: do not exist physically but have a value based on legal rights or advantages that they confer on a firm.

Goodwill: value of a firm?s reputation, location, earning capacity, and other, intangibles that make the business a profitable concern.

Current liabilities: debts that will be repaid in one year or less.

Accounts Payable: short-term obligations that arise as a result of making credit purchases.

Notes Payable: Obligations that have been secured with promissory notes.

Long-term liabilities: debts that need not be repaid for at least one year.

Income Statement: a summary of a firm?s revenues and expenses during an accounting period.

Gross sales: the total dollar amount of all goods and services sold during the accounting period.

Net Sales: the actual dollar amount received by a firm for the goods and services it has sold, after adjustments for returns, allowances, and discounts.

Cost of Goods sold: sold during the accounting period; equal to beginning inventory plus net purchases less ending inventory.

Cost of goods sold = beginning + net – ending

Inventory purchases inventory

Gross profit on sales: net sales ? cost of goods sold

Net income: profit earned (or the loss suffered) by a firm during an accounting period, after all expenses have been deducted from revenue.

Statement of cash flows: illustrates the effect on cash of the operating, investing, and financing activities of a company for an accounting period.

Financial ratio: a number that shows the relationship between two elements of a firms financial statements

Net profit margin = Net income after taxes

Net sales

Return on equity = net income after taxes

Owners? equity

Earnings per share = Net income after taxes

Common-stock shares

Outstanding

Working Capital: difference between current assets and current liabilities.

Current Ratio = current assets

current liabilities

acid-test ratio = current assets ? inventory

current liabilities

accounts receivable turnover = net sales

A/R

Debts-to-assets ratio = total liabilities

Total assets

Debt-to-equity ratio = total liabilities

owners? equity

Bibliography

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