What's accounting ?

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

The Functions of accounting

- identifying
- recording
- communication

identifying

* **This function involves selecting those events that are considered evidence of economic activity relevant to a particular business organization.**

recording

* **is the keeping of a chronological diary of events, measured in dollars and cents.**

Communicating

* **occurs through the preparation and distribution of accounting reports.**

Users and Uses of Accounting.

* 1.**Internal users** of accounting information are managers who plan, organize, and run a business. These include marketing managers, production supervisors, finance directors, and company officers.
* 2.**External users** are individuals and organizations outside of a company who are either:
* a. ***Investors or creditors***: Investors (owners) use accounting information to make decisions to buy, hold, or sell ownership shares of a company. Creditors (suppliers and bankers) use accounting information to evaluate the risks of granting credit or lending money.
* ***b.Other external users:*** This includes taxing authorities (Internal Revenue Service), regulatory agencies (Securities and Exchange Commission), customers, and labor unions.

Business Enterprises

* There are three types of business enterprises are proprietorships, partnerships, and corporations.
* **A proprietorship** is a business owned by one person.
* **A partnership** is a business owned by two or more persons associated as partners.
* **A corporation** is a business organized as a separate legal entity under state corporation law with ownership divided into transferable shares of stock.

The Basic Accounting Equation.

Assets = Liabilities + Owner's Equity.

The expanded accounting equation is:

Assets = Liabilities + (Owner's Capital – Owner's Drawings + Revenues – Expenses).

* **Assets** are resources a business owns. The business uses its assets in carrying out such activities as production and sales.
* **Liabilities** are creditors' claims against assets. They are existing debts and obligations.
* **Owner's equity** is equal to total assets minus total liabilities; owner's equity represents the ownership claim on total assets. The principal subdivisions of owner's equity are capital, drawings, revenues, and expenses.

- **Capital** is the owner's investment in the business.

- **Drawings** are the withdrawal of cash or other assets from a proprietorship for the personal use of the owner(s).

- **Revenues** are the gross increase in owner's equity resulting from business activities entered into for the purpose of earning income.

- **Expenses** are the cost of assets consumed or services used in the process of earning revenue.

There are two types of transaction.

1. **External transactions** are economic events between the company and some outside enterprise.
2. **Internal transactions** are economic events that occur entirely within one company.

- Each transaction must have a dual effect on the accounting equation.

The Financial Statements.

1. An income statement presents the revenues and expenses and resulting net income or net loss for a specific period of time.
2. An owner's equity statement summarizes the changes in owner's equity for a specific period of time.
3. A balance sheet reports the assets, liabilities, and owner's equity at a specific date.
4. A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.