

ACC100 Tip Sheet

Accounting is a system for gathering data about an entity's economic activity, processing and organizing the data to produce useful information about the entity

Introduction

Components of the financial statement package:

- Balance sheet (Snapshot of company)
- Income statement (Inflows and outflows)
- Statement of retain earnings (How much money does the company retain from income statement)
- Statement of cash flows (Introduces the inflows and outflows of cash within certain context)

Balance Sheet

Is the summary of the company's financial position at a point in time (snapshot of how the company is doing at any given time)?

Information can help stakeholders evaluate the company's performance and will aid their decisions in their choice of investment in the company.

Elements of Balances

- **Assets** – These are the resources that provide future benefit to the company
- **Liabilities**- These are the company's obligations or what they owe
- **Owners' Equity**- The investment that owners of the company make to the company

FUNDAMENTAL ACCOUNTING FORMULA

Assets= Liabilities + Owner's Equity

The equation states that your assets must be equivalent to the value of all the money you owe and currently have.

Assets

In the transaction charts make sure you list your assets from the most liquid form starting with Cash, Accounts Receivable, Inventory, Property, Plant and Equipment...

Current Assets are made up from mostly CASH and Accounts Receivable.

Liabilities

These are the company's obligations to pay money or provide goods or services to suppliers, lenders, customers, and or government.

A liability MUST:

- Be the result of a past transaction or economic event;
- Require some kind of economic sacrifice to settle. (Monetary value or a service)

Liabilities is split into two sections, **Current Liabilities** and **Non-Current Liabilities**

Current liabilities must be paid within a year.

Non-current liabilities will be paid in more than one year or one operating cycle.

Types of Liability:

- Accounts payable- These are the amount you owe to a third party (Credit card balance)
- Customers deposit – These are the amounts that customers have gave to you for security purposes.
- Unearned Revenue – You have received this amount, but you did not complete the job or deliver the service yet.

Owners' Equity

The amount owners have invested in the company.

You might see similar term as the *shareholder's equity*, which is owner's equity of a corporation.

Overall

There are five basic elements in the financial statements:

- Assets, Liabilities, Owners Equity, Revenue, Expense

Understanding the Concept Questions

1. What are the components of a financial statement?
2. Why is a balance sheet a "Snapshot"
3. Define each of the 5 elements of the financial statement.
4. What is a current asset vs long term asset?
5. What is a current liability vs long term liability
6. Explain why assets are arranged in the form of *liquidity*.