4.01 Accounting and Finance
What is Accounting?

- Method of reporting financial activity of a business
- Financial transactions recorded in an orderly fashion
Accounting Equation

Assets = Liabilities + Owner's Equity
Assets

Anything of Value owned by the Business

Cash / Accounts Receivable

Office Equipment

Office Supplies

Office Furniture

Building / Real Estate

Company Cars
Liabilities

Money owed by the business

- Accounts Payable
- Mortgage Payable
- Taxes Due
- Office Supply Store
- Utilities Corporation
Financial Statements

- Financial Statements
  - Written reports that describe the financial health of a company; prepared regularly on quarterly and annual basis.

- Balance Sheet
- Income Statement
- Statement of Change in Owner’s Equity
Financial Statements, cont.

- **Balance Sheet**
  - Reports **assets**, **liabilities**, and **owner’s equity** on a certain date

- **Assets**
  - Anything of value that is owned by the business.

- **Liabilities**
  - Money owed by the business (debts, accounts payable)

- **Owner’s Equity**
  - Net worth of the business
Financial Statements, cont.

- **Income Statement**
  - Financial Statement of a business that reports the revenue, expenses and the net income (loss) of a business for the fiscal period.

- **Revenue**
  - Amount of money that a company earns

- **Expenses**
  - Costs of maintaining and operating a business.

- **Income/Profit**
  - Results when a business’s income is greater than its expenses.

- **Loss**
  - Results when a business’s expenses are greater than its income.

- **Fiscal Period**
  - Specific period of time covered by an accounting statement or report (1 month or year)
Financial Statements, cont.

• Statement of Change in Owner’s Equity
  • Financial Statement of a business that reports the changes that have occurred in the owner’s equity account during the fiscal period.
Accounting Activities
related to orderly record-keeping of financial information

- Recording daily transactions
- Preparing financial statements
- Paying bills
- Preparing payroll checks
- Preparing tax forms
- Auditing financial records
- Examining financial records for accuracy and compliance with regulations
- Reconciling the checkbook
- Bringing the checkbook into agreement with bank statement

What are other accounting activities?
Banking Activities

occur in banks, credit unions and savings and loans

- Accepting deposits and processing withdrawals
- Preparing money orders and cashier checks
- Opening new accounts for customers
- Processing loan applications

What are other banking activities?
Finance Activities

are related to investments and managing finances

- Analyzing budgets
- Buying and selling stock and other securities
- Consulting with businesses on financial matters
- Counseling investors
- Selling insurance
- Managing the finances for the entire company

What are other finance activities?
Finance Careers

• Financial Manager
  • Top level professional who may have final responsibility for aspects of a business’ financial activity

• Accountant
  • Professional who produces and examines financial records, prepares financial reports and tax returns; may give budget, tax or investment advice to company/customer
Finance Careers, cont.

• Certified Public Accountant (CPA)
  • Accountants who meet specific educational requirements and pass a national examination

• Auditor
  • Professional whose work involves checking on the accuracy of work completed by bookkeepers and accountants

• Bank Teller
  • Bank employee who handles deposits, withdrawals, selling travelers check, accepting loan payments, preparing money orders
✓ Check your understanding!

1. ASSETS = LIABILITIES + OWNER’S EQUITY.
   a. Payroll Record
   b. Budget
   c. Accounting Equation

2. Money owed by the business (debts, accounts payable)
   a. Revenue
   b. Liabilities
   c. Assets
3. Anything of value that is owned by the business
   a. Revenue
   b. Loss
   c. Assets

4. Net worth of the business
   a. Liabilities
   b. Owner’s Equity
   c. Revenue
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