

**Ch (1) : Accounting in action**

**What is the Accounting ?**
The information system that measures business activities, processes that information into reports and communicates the results to decision makers.

**Financial accounting :**
The field of accounting that focuses on providing information for external decision makers

**Managerial accounting :**
The field of accounting that focuses on providing information for internal decision makers

**Who Uses Accounting Data ?**
1 - **Internal users :**
Management – marketing – finance – H.R.

2 - **External users :**

**Ethics In Accounting :**
Considerations affect accounting, investors and creditors need relevant and faithfully representative information about a company.

**Accounting Standards**
- International Accounting Standards Board (IASB) : issued (IFRS)
- Financial Accounting Standards Board (FASB) : issued Generally Accepted Accounting Principles (GAAP).

**Measurement Principles**
- **Cost Principle principles** dictates that companies record assets at their cost.
- **Monetary Unit :** the assumption that requires the items on the financial statements to be measured in terms of a monetary unit.
- **Economic Entity :** requires that activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.
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**Accounting equation**

\[\text{Assets} = \text{Liabilities} + \text{Equity}\]

1. **Assets**: - economic resources that are expected to benefit the business in the future.

**example**:

1. **Fixed Assets**:
   - Land.
   - Building.
   - Furniture.
   - Equipment.

2. **Current Assets**:
   - Cash.
   - Account receivable.(A/R)
   - Note receivable. (N/R)
   - Office Supplies
   - Inventory.
   - Prepaid insurance.

   \[\text{Note: all assets accounts are debit}\]

2. **Liabilities**:

   - claims against assets
   - (obligations – creditors – money's owned)

**example**:

- Accounts payable.
- Note payable.
- Salary payable.
- Rent payable.
- Interest payable.
- Unearned revenue.
- Bonds payable.

   \[\text{Note: all liabilities accounts are credit}\]
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3. **Equity**: the owner's claims against assets of business.

**Example:**
- Owner's Capital.
- Owner's Withdrawals
- Revenue
- Expenses

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**Companies:**
- Proprietorship. (Generally owned by one person)
- Partnership. (Owned by two or more persons) unlimited personal liability.
- Corporation. (Ownership divided into shares) Separate legal existence
- Limited liability company: a company in which each member is only liable for his or her own actions.