

Overview of Accounting

Overview of Accounting – Study Notes

1. What Is Accounting?

- **Definition:** The systematic process of recording, classifying, summarizing, and interpreting financial transactions of an entity.
 - **Purpose:** Provide useful financial information for decision-making by internal and external users (management, investors, creditors, regulators, etc.).
 - **Key Concepts:**
 - **Economic Entity Assumption** – business activities are separate from owners' personal affairs.
 - **Going Concern Assumption** – the entity will continue operating for the foreseeable future.
 - **Monetary Unit Assumption** – transactions are measured in a stable currency.
 - **Periodicity Assumption** – financial performance is reported over regular intervals (month, quarter, year).
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2. Fundamental Accounting Equation

$$[\text{Assets}] = [\text{Liabilities}] + [\text{Owner's Equity}]$$

- **Assets:** Resources owned or controlled (cash, inventory, equipment).
- **Liabilities:** Obligations to outsiders (accounts payable, loans).
- **Owner's Equity:** Residual interest of owners (common stock, retained earnings).

All transactions must keep this equation in balance.

3. The Accounting Cycle (Steps)

Step	Description	Primary Output
1. Identify & Analyze	Examine source documents (invoices, receipts).	Transaction list

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2. Journalize	Record transactions in the General Journal using double-entry (debit & credit).	Journal entries
4. Post to Ledger	Transfer journal entries to General Ledger accounts.	Updated T-accounts
5. Trial Balance	Summarize debits & credits to ensure they equal.	Unadjusted trial balance
6. Adjusting Entries	Record accruals, deferrals, depreciation, etc.	Adjusted trial balance
7. Financial Statements	Prepare Income Statement, Statement of Owner's Equity, Balance Sheet, Cash Flow Statement.	Final reports
8. Closing Entries	Reset temporary accounts (revenues, expenses) to zero for the next period.	Post-closing trial balance
9. Reverse Entries (optional)	Simplify next period's accruals.	Reversed entries

4. Primary Financial Statements

Statement	Focus	Key Elements
Income Statement	Profitability over a period	Revenues, Expenses, Net Income (or Loss)
Statement of Owner's Equity	Changes in owners' stake	Beginning equity, Add: Net income, Subtract: Withdrawals, Ending equity
Balance Sheet	Financial position at a point in time	Assets (current vs. non-current), Liabilities (current vs. long-term), Equity
Cash Flow Statement	Cash movements	Operating, Investing, Financing activities

The Income Statement links to the Balance Sheet through retained earnings.

5. Accounting Standards & Frameworks

Framework

Governing Body

Scope

Overview of Accounting

GAAP (Generally Accepted Accounting Principles)	FASB (U.S.)	U.S. public & private entities
IFRS (International Financial Reporting Standards)	IASB	Over 140 countries; many multinational corporations
US?GAAP vs. IFRS	Comparison	Differences in revenue recognition, lease accounting, inventory costing, etc.
Regulatory Oversight	SEC (U.S.), PCAOB, local securities commissions	Enforcement,