Accounting Principles and Business Transactions Cheat Sheet
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Accounting Principles

Generally Accepted Accounting Principles (GAAP) allow investors and other users to compare one company to another.

Financial Accounting Standards Board (FASB) has the primary responsibility for developing accounting principles and publishes *Statements of Financial Accounting* and *Interpretations* of these standards.

The **Securities Exchange Commission** (SEC), a US government agency, has authority over accounting and financial information for companies whose shares of stock are traded and sold to the public.

SEC follows the FASB guidelines but may issue Staff of Accounting Bulletins *to address accounting matters FASB did not include.*

International Accounting Standards Board issues *International Financial Reporting Standards* (IFRS) which is different from the FASB.

They're working together to develop a set of worldwide accounting principles to facilitate investment and business in a global economy.

Accounting Equation

Assets

Resources owned by a business:

- cash
- land
- buildings
- equipment

Rights are divided into 2 types:

- rights of the creditors (liabilities)
- rights of the owners (owner's equity)

Accounting equation showing the relationship among all 3 variables:

Asset = Liability + Owner's Equity

Liabilities are shown before owner's equity because creditors have first rights to the assets.

Accounting Concepts

BUSINESS ENTITY CONCEPT

Shows the economic data in an accounting system directly related to the business ONLY and does not include personal activities, properties and debts by the owner.

A business entity can take the form of a proprietorship, partnership, corporation or limitedliability company (LLC).

Proprietorship

- own by one individual
- easy and cheap to organize
- resources are limited to owner
- used by small businesses

Partnership

- own by two or more individuals
- combined skills and resources

Corporation

- a separated legal tax entity
- generates 90% of business revenues
- ownership divided into shares (stock)
- obtain resources by issuing stock
- used by large businesses

Limited liability company (LLC)

- combines partnership & corporation
- used as alternative to partnership
- tax and legal liability advantages

COST CONCEPT

Amounts are recorded in accounting records at their cost or purchase price.

The cost concept includes the objectivity and unit of measure concepts.

objectivity concept requires the amount be based upon objective evidence where the final agreed upon amount has been established.

Revisions upward/downward on offers, appraisals and opinions can make the accounting report unstable or unreliable.

unit of measure concept requires the economic data be recorded in dollars.

Business Transactions

Business transactions are defined as an economic event or condition that DIRECTLY changes an entity's financial condition or even it's operations.

Changes in business credit rating does not directly affect cash or any other asset, liability or owner's equity amount.

All business transactions can be stated in terms of changes in the elements of the accounting equation.

Summary of Transactions

- effect is either an increase (+) or decrease (-) in the equation elements
- the two sides are always equal
- stockholder's equity is increased (+) by amounts invested by stockholders
- stockholder's equity is increased (+) by *revenues* and decreased (-) by expenses
- stockholder's equity is decreased (-) by *dividends* paid to stockholders

Stockholder's Equity

- Capital Stock
- Retained Earnings

Capital stock is shares of ownership distributed to investors of corporations.

Retained earnings is the stockholder's equity created from business operations through revenue and expense transactions.

Both transactions are reported separately from each other

Also see the *Nature and Business of Accounting* for use in conjunction with this sheet http://www.cheatography.com/thuhuong/cheat-sheets/nature-of-business-and-accounting/.

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