

# **Overview of Financial Accounting**

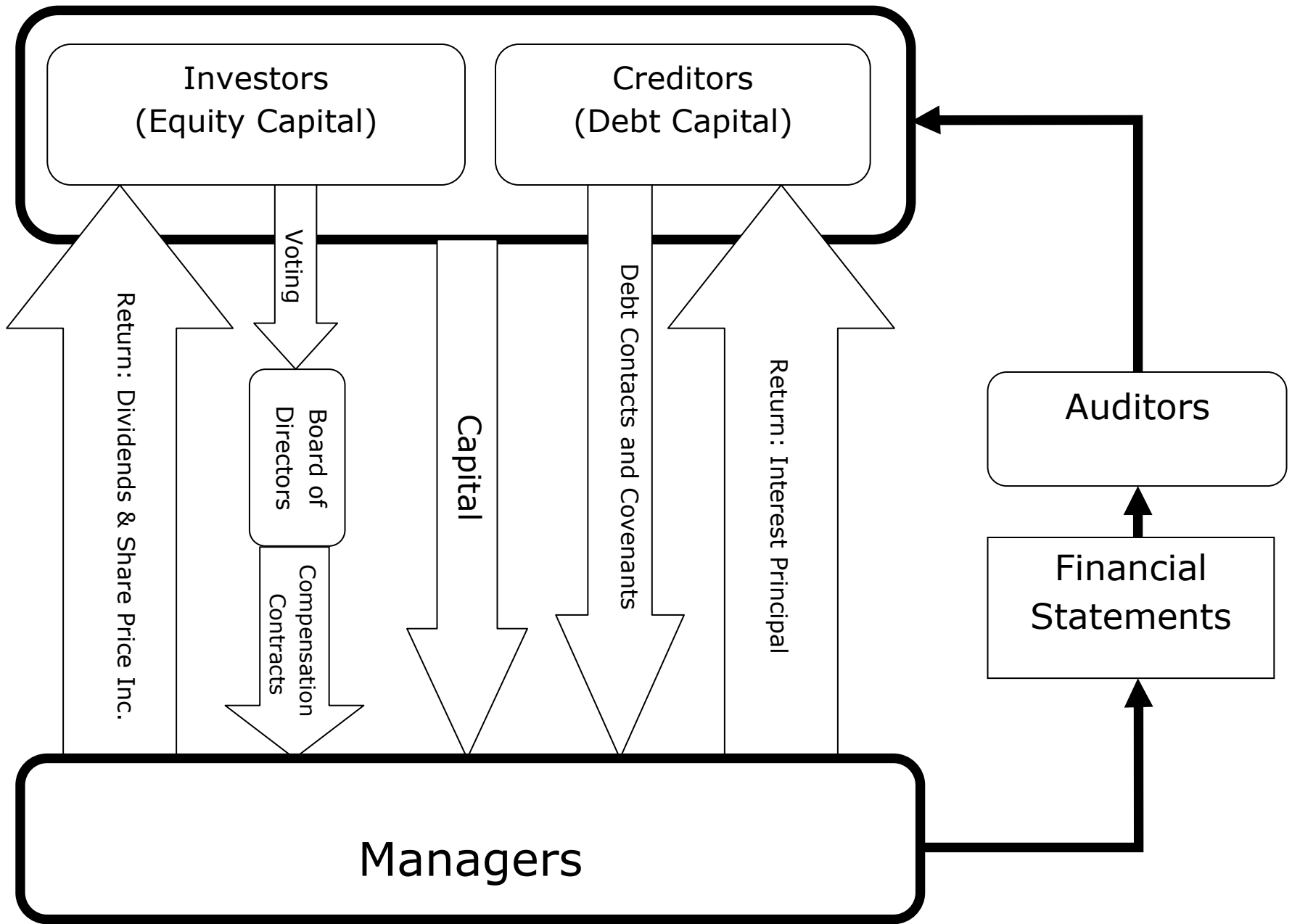
## **Pratt, Financial Accounting 7e, Chapter 1**

How many of you would like to own a business one day?

What do you need to start a business?

Rank each of these from hardest to easiest?

So, how does accounting fit into all of this?



# Basic Financial Statements

## 1. Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$$

Assets –

Liabilities –

Stockholder's Equity –

## 2. Income Statement

$$\text{Revenues} - \text{Expenses} = \text{Net Income (or Net Loss)}$$

Revenues –

Expenses –

## 3. Statement of Retained Earnings

$$\text{Beg. Retained Earnings} + \text{Net Income} - \text{Dividends} = \text{Ending Retained Earnings}$$

Retained Earnings –

## 4. Statement of Cash Flows

Explains what caused cash to increase or decrease during the period?

- Operating
- Investing
- Financing

Other Elements of a Financial Statement

- Notes (Footnotes)
- MD&A – Management’s Discussion and Analysis
- Auditor’s Report
- Management Certifications

Who uses financial statements?

- Internal Users
- External Users
  - Investors
  - Creditors
  - Others

Who makes the rules?

- Securities and Exchange Commission (SEC)
- Financial Accounting Standards Board (FASB)

International Accounting Standards

Ethics in Accounting