The Fundamentals of Accounting

VIFM
Virginia Institute of Finance and Management

Learning Objectives

- Understand the role and importance of the financial statements.
- Define various financial statement terms.
- Explain the format of the income statement, balance sheet, and cash flow statement.
- Record financial statement transactions.
- Understand how transactions move through the financial statements.
- Prepare simple financial statements.

Accounting Fundamentals

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Importance of Accounting & Financial Statements

Understanding accounting is crucial to understanding finance.

This course is great for those wanting to learn or refresh financial statements and accounting fundamentals.

Accounting gives insight into profitability, operations, and growth.

Importance of Accounting & Financial Statements

The Balance Sheet
Recording and documenting transactions.

The Income Statement
Recording and exploring how transactions move

The Cashflow Statement
Building based on the balance sheet and income statement.

The language of Business

Financial statements are a method of communicating the financial health and viability of an organization to internal and external stakeholders.

Accounting is sometimes referred to as the language of business. Throughout the life of a corporation, the accounting processes identify, track, and record all financial transactions.

Common accounting terms include Accounts, debits, credits, Journal Entries, and the general ledger.
Each of these contributes to the creation of an organization's financial statements..

Financial statements are a tool used to communicate the financial performance of all organizations and businesses.

One of the key tasks for financial analysts is the ability to review financial statements.

Different Types of Organizations

Organizations come in all shapes and sizes and can have a range of purposes.

Generates revenue and earns money for the owners.

For-Profit

Non-Profit or Charitable

Generates money from programs, services, or research.

For-Profit Organizations

For-profit businesses can be structured in three ways.

Sole Proprietorship

- Owned by one person
- Unlimited Liabilities

Partnership

- Owned by legal entities.
- Unlimited liability

Corporation

- Owned by shareholders
- Limited liability

If sued, owners are liable. Personally liable.

Shareholders are only at risk. up to the amount they have invested in the shares.

Financial Statement

The financial statements are a record of the financial activities of a business.

Income Statement

- Revenues
- Expenses
- Profit or Loss

Balance Sheet

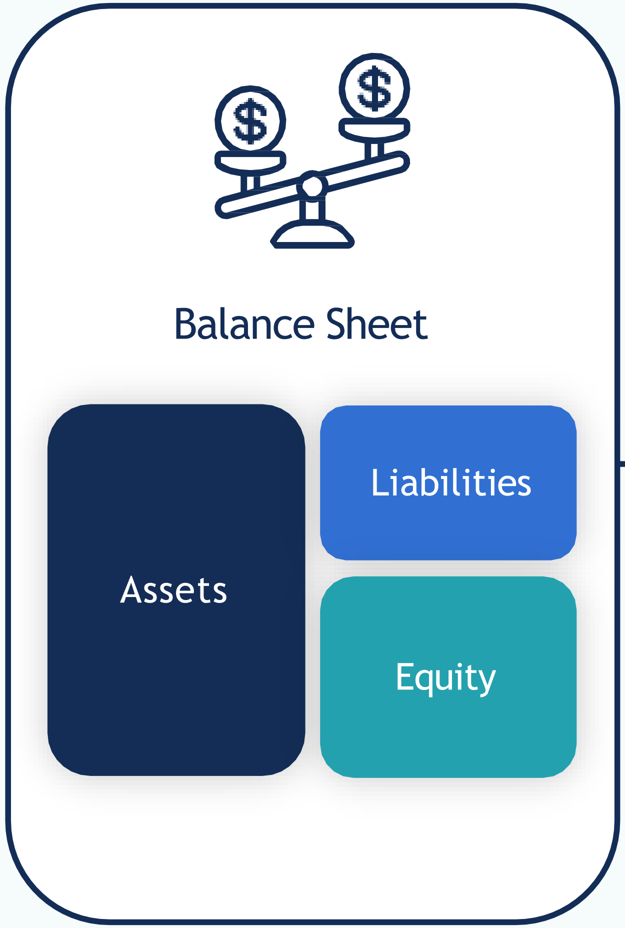
- Assets
- Liabilities
- Equity

Statement of cashflow

- Operating
- Investing
- Financing

The Accounting Equation

The accounting equation is the foundation of all accounting information.



Assets = Liabilities + Equity

The balance equation **must always be true**

The Accounting Equation

Assets	=	Liabilities	+	Equity
What they own E.g., inventory, equipment,		What they owe • E.g., long term loans, account payable		What is owed. E.g., Shareholders equity

The Accounting Equation

Assets = Ji»bilities + EquitQ

What they own

1,500,000

-

What they owe

750,000

=

What is owed

750,000

The Accounting Equation

Assets = Liabilities + Equity

Assets

Wh»t theQ owm

ľ,000,000

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Liabilities

Wh»t theQ owe

750,000

=

Equity

What is owed

↑ Issuimg stock, Generating Revenues

↓ Increasing expenses, net losses, dividends