

Financial Accounting Intro

Accounting Terminology

What is accounting?

Accounting is the language of business

Maintaining records of a company's operations and communicating it to decision makers.

What is financial accounting?

Financial accounting is the information we give to people outside the company (externally)

Ask yourself

How is the business activity being measured?

How is the business activity being communicated?

Types of Activity

Financing- transactions the company has with investors and creditors

Investing- transactions involving purchase/sale of long lasting (several years) resources

Operating- transactions relating to primary operations of the company

The Accounting Equation ($A = L + SE$)

Assets = Liabilities + Stockholders Equity

Assets- total resources of company (land, cash, equipment)

Liabilities- amounts owed to creditors (unpaid bills, debt)

Stockholders Equity- owners' claim to resources

Simple Terminology

Revenues- amounts recognized when company provides services or makes sales

Expenses- cost of providing products and services during the current period (year, quarter, month)

Dividends- cash payments to stockholders

↖ Not an expense!

Financial Statements

Financial Statements - Reports published by the company that are for sharing information externally

1. Income Statement

Reports Revenues and Expenses over a period of time

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Income Statement			
For the months of June - September 2024			
Revenues			
	Service Revenue		
	Sales Revenue		
	Total Revenue		
Expenses			
	Transportation Expense		
	Software Expense		
	Fees Expense		
	Other Expenses		
	Total Expenses		
Net Income/Loss			

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2. Statement of Stockholder's Equity

Stockholder's Equity = Common Stock + Retained Earnings

Common Stock (external) - amounts invested by stockholders when they purchase stock

Retained Earnings (internal) - all net income, minus all dividends over the company life

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Statement of Stockholder's Equity				
For month of June, 2024				
		Common Stock	Retained	Total
		Stock	Earnings	Stockholders
				Equity
Beginning Balance		\$ -	\$ -	\$ -
Common Stock Issued		\$ 1,000.00		\$ 1,000.00
Add: Net Income			\$ 6,000.00	\$ 6,000.00
Less: Dividends			\$ (2,000.00)	\$ (2,000.00)
Ending Balance		\$ 1,000.00	\$ 2,000.00	\$ 5,000.00

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All numbers are an example

3. Balance Sheet

Reports the financial stance of a company on a specific day

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Balance Sheet			
Date: MM-DD-2024			
Assets		Liabilities	
Cash		Accounts Payable	
Supplies		Salaries Payable	
Equipment		Interest Payable	
Other Assets		Notes Payable	
		Other Liabilities	
		Total Liabilities	
		Stockholders' Equity	
		Retained Earnings	
		Total SH Equity	
Total Assets		Total Liabilities and SH Equity	

← Insert Common Stock as well

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4. Statement of Cash Flows

measures activities involving cash over a time period

Operating Cash Flows - cash receipts and cash payments involving revenue and expense activities

Investing Cash Flows - cash transactions for purchase and sale of investments and long term assets

Financing Cash flows - cash transactions with lenders (debt) and with stockholders (dividends)

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Statement of Cash Flows			
For the months of June - September 2024			
Cash Flows from Operating Activities			
Cash Inflows			
From Customers			
Cash Outflows			
For Salaries			
For Rent			
Net Cash Flows From Operating Activities			
Cash Flows from Investing Activities			
Purchasing Equipment			
Net Cash Flows From Investing Activities			
Cash Flows from Financing Activities			
Borrow from Bank			
Pay Dividends			
Net Cash Flows From Financing Activities			
Net Increase in Cash			
Cash at the beginning of the period			
Cash at the end of the period			

← insert Common Stock as well

Accountants will also include notes at the end when compiling statements