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Section A

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Subject Accounting

ACCOUNTING DEFINITION:

Accounting maybe define as “A systematic recording of information which involves analyzing, classifying, summarizing and interpreting business transaction”

Type of accounting,

There are three type accounting,

* Financial accounting: financial accounting is refers to information describe the final resources, obligation, and activities of economic entity an organization or an individual.
* Management accounting : management accounting involves the development and interpretation of accounting information intended specifically to aid management in running the business.
* TAX ACCOUNTING: the tax accounting preparation of income tax returns is a specialized field within accounting.

BASIC FUNCTION OF ACCOUNTING:

* Interpret and record the effects of business transactions.
* Classify the effects of similar transactions in a manner that permits determination of the various totals and subtotals useful to management and use in accounting reports.
* Summarize and communicate the information contained in the system to decision markers.

Characteristics of externally reported information:

* Financial reporting deals with past and historical data up to the present.
* Financial reporting is based on assumptions , judgements and estimates.
* FINANCIAL STATEMENTS:
* Financial statement reporting encompasses financial statements.

Introduction of financial statements:

This tutorial will provide a brief introduction to the three most important financial statements:

* Balance sheet
* Income statement
* Cash flow statement

The purpose of this tutorial is only to introduction the format and purpose of the three financial statements. as will as acquaint you with the various account categories within each statement.

There is flow up for statement that provides more information on how the statements are generate, though only at a superficial level.

* Balance sheet: balance sheet is divided into two parts that based on the following equation, must equal each other out. The main formula behind a balance sheet is:
* Assets =liability +shareholders’ equity
* This means that assets or the means used to operation the company, are balance sheet by a company financial obligation, along with the equity investment brought into the company and its retained earnings.
* Income statements: an income statement is a financial statements that show you how profitable your business was over a given reporting period. It shows your revenue, minus your expenses and losses.
* Cash flow: the cash flow is the net amount of cash and cash-equivalents being transferred into and out of a business.
* Increase owner equity: the owner equity in a business comes from two sources.
* Investments cash flow or other assets by the owner.
* Losses from unprofitable operation of the business.
* Decrease in owner equity: decrease in owner equity also are caused in two ways.
* Withdrawals of cash or other assets by the owner.
* Losses from unprofitable operation of the business.
* Accounting for withdrawals and net losses will be addressed.

The accounting cycle: the accounting cycle is a collective process of identifying, analyzing, and recording the accounting cycle events of a company. The series of steps being when a transaction occurs and end with its include in the financial statements.

Preparing the annual report: publicly owned companies –those with share listed on a stock exchange –have obligation to release annual and quarterly information to their stockholders and to the public .These companies don’t just prepare financial statements-they publish annual reports.

ADJUSTING ENTRIES: A CLOSER LOOK: WE introduced adjusting entries in a chapter 3. Using as example the entries to record supplies expense and depreciation expense .We will now see that other types of expenses – and also revenue –may require adjustments at the end of the of the accounting period but first let us review the roles of adjusting entries in the accounting cycle.

Accounting for merchandising activities: learning objectives

After studying this chapter you should be able to:

1. Describe the operation cycle of a merchandising company.
2. Define subsidiary ledgers and explain their usefulness.
3. Accounting for purchases and sales of merchandise in a perpetual inventory system.
4. Explain how a periodic of inventory system operates.
5. Discuss the factors to be considers in selecting an inventory system.
6. Compute gross profit margin and explain its usefulness.

MERCHANDISING COMPANIES: In the preceding chapters we examined organization that render services to their customers. Merchandising companies earn most of their revenue by selling goods. Goods that are purchased for resale to customers are called inventory.

INVENTORIES AND THE COST OF GOODS SOLD: COST the goods of the merchandise that was sold to customers. The cost of goods sold is reported on the income statement. When the sales revenue of the goods sold, the $85 is removed from inventory and is reported as cost of goods sold on the income statement.