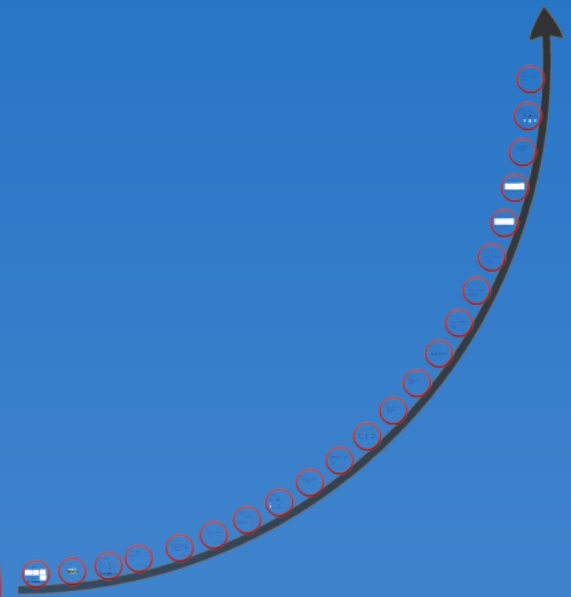


# Shareholders' Equity: Accounting and Analysis

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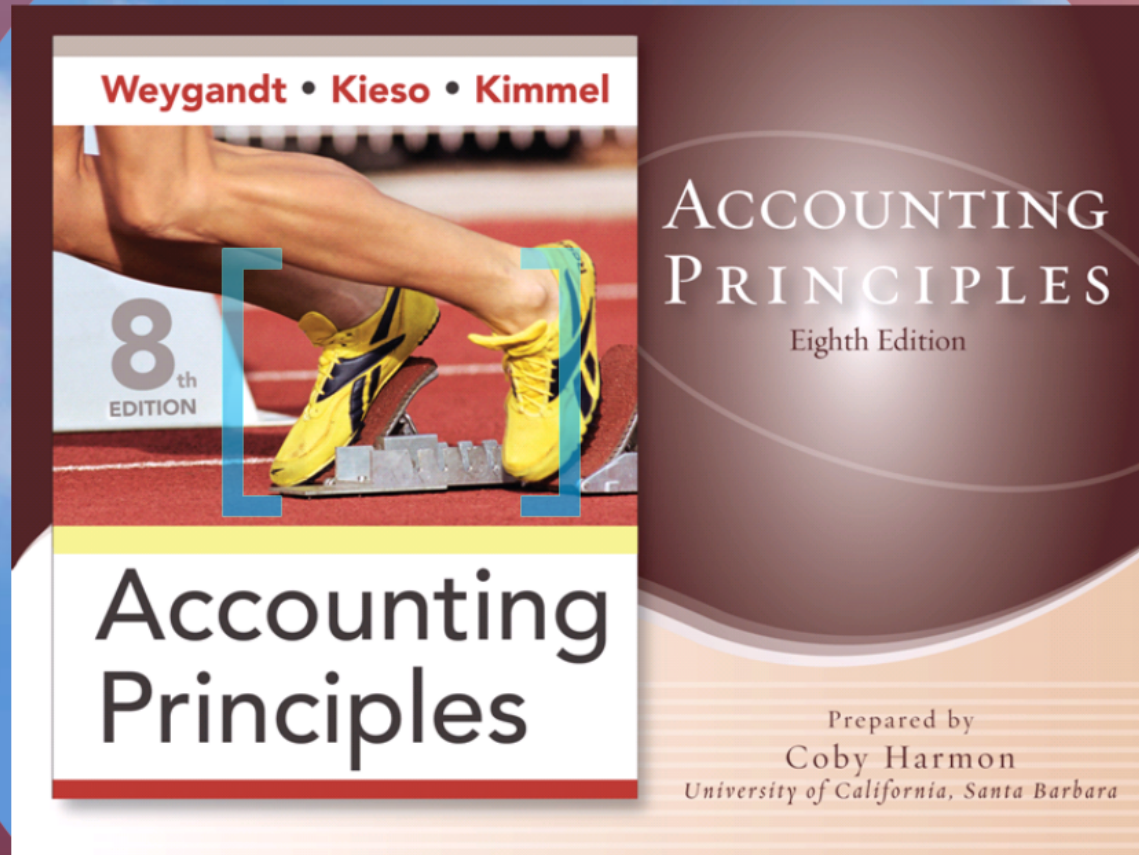


# Shareholders' Equity: Accounting and Analysis

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# CHAPTER 1

ACCOUNTING IN ACTION

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Accounting Principles, Eighth Edition

## Study Objectives

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Explain what accounting is.

Identify the users and uses of accounting.

Understand why ethics is a fundamental business concept.

Explain generally accepted accounting principles and the cost principle.

Explain the monetary unit assumption and the economic entity assumption.

State the accounting equation, and define assets, liabilities, and owner's equity.

Analyze the effects of business transactions on the accounting equation.

Understand the four financial statements and how they are prepared.

# Accounting in Action

## What is Accounting?

Three activities  
Who uses accounting  
data

## The Building Blocks of Accounting

Ethics in financial  
reporting  
Generally accepted  
accounting principles  
Assumptions

## The Basic Accounting

### Equation

Assets  
Liabilities  
Owner's equity

## Using the Basic Accounting Equation

Transaction analysis  
Summary of  
transactions

## Financial Statements

Income statement  
Owner's equity  
statement  
Balance sheet  
Statement of cash  
flows

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## What is Accounting?

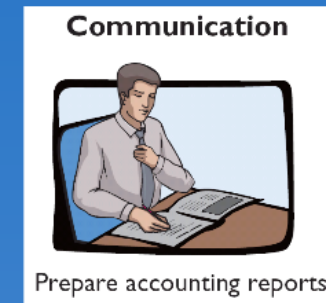
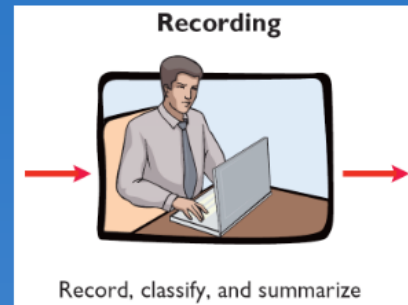
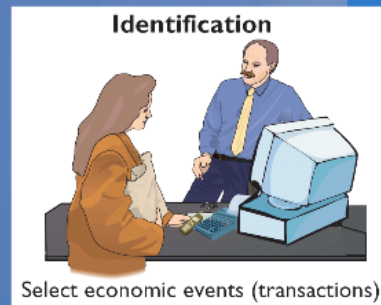
The purpose of accounting is to:  
identify, record, and communicate the economic events of an  
organization to  
interested users.

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# What is Accounting?

Illustration 1-1  
Accounting process



The accounting process includes the bookkeeping function.

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## Who Uses Accounting Data?

### Common Questions Asked

1. Can we afford to give our employees a pay raise?
2. Did the company earn a satisfactory income?
3. Do we need to borrow in the near future?
4. Is cash sufficient to pay dividends to the stockholders?
5. What price for our product will maximize net income?
6. Will the company be able to pay its short-term debts?



### User

Human Resources

Investors

Management

Finance

Marketing

Creditors

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