Outline

• Accounting Terms and Definitions
• Assets
• Liabilities
• Equity
• Debits
• Credits
• The Accounting Equation
• Timing of Transactions
Terms and Definitions

• Generally Accepted Accounting Principles ("GAAP") – Principles of accounting established by the Financial Accounting Standards Board ("FASB").

• Asset – Any resource, tangible or otherwise, that is used to provide future benefits to a company.

• Liability – Any future obligation that restricts or encumbers company resources.

• Equity – The remaining amount of a Company’s assets after all liabilities are paid.
Terms and Definitions Continued

• Revenue – Earned resources, whether collected or not, that a Company has claim on from another entity after providing services.

• Sales – Earned resources, whether collected or not, that Company has claim on from another entity after transferring goods.

• Expense – A cost, whether paid or not, that a Company has incurred to help produce revenues or sales.

• Debits – One side of an accounting journal entry that affects the balance on an account and is listed before all credits are listed.

• Credit – One side of an accounting journal entry that affects the balance on an account and is listed after all debits are listed.
Terms and Definitions Concluded

- Cut Off – The balance sheet date at which all future transactions must be recorded in the following accounting period.
- Red Flags – Areas of potential concerns where data irregularities occur.
- Accruals – The earning of revenue or using of expenses without the transfer of cash.
- Deferrals – The receipt of cash for services not yet rendered, or the payment of expenses not used.
What is an Asset?

• Can be tangible or intangible.

• Promises to provide future benefit to the company, usually in the form of revenues or payment of liabilities.

• GAAP requires most assets be valued on the balance sheet at actual cost.
Pick the Assets

- Accounts Payable
- Wells
- Services
- Depreciation
- Taxes Payable
- Office Equipment
- Hydrants
- Common Stock
- Vehicles
- Mains
- Accounts Receivable
- Prepaid Utilities
- Retained Earnings
- Notes Payable
- Lakes
- Computers
- Land Rights
- Bonds
Pick the Assets

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What is a Liability

• Any obligation owed by the Company.

• Future demands on Company assets.
  • current,
  • long-term

• Common Liabilities include
  • accounts payable,
  • sales taxes payable,
  • income taxes payable.
Pick the Liabilities

- Accounts Payable
- Wells
- Services
- Depreciation
- Taxes Payable
- Office Equipment
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What is Equity?

- Equity represents Owner’s value in the company.
- Left over after all liabilities are paid off.
- Include stock issuances, owner’s contributions, net income/earnings retained in the Company for future use.
Pick the Equity Accounts

- Accounts Payable
- Wells
- Services
- Depreciation
- Taxes Payable
- Office Equipment
- Hydrants
- Common Stock
- Vehicles
- Mains
- Accounts Receivable
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What are Revenues?

- Increase in equity from sales of services to customers.

- Any benefit received.

- Can be in the form of cash, work, forgiveness, or other benefits.
Pick the Revenue Accounts

- Unmetered Water Revenue
- Salaries and Wages
- Services
- Depreciation
- Metered Water Revenue
- Purchased Water
- Hydrants
- Common Stock
- Transportation Expense
- Mains
- Contractual Services - Engineering
- Sales for Resale
- Retained Earnings
- Notes Payable
- Purchased Power
- Miscellaneous Revenue
- Land Rights
- Miscellaneous Expense
Pick the Revenue Accounts

• Unmetered Water Revenue
• Salaries and Wages
• Services
• Depreciation
• Metered Water Revenue
• Purchased Water
• Hydrants
• Common Stock
• Transportation Expense

• Mains
• Contractual Services - Engineering
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• Purchased Power
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• Miscellaneous Expense
What are Expenses?

• Decrease to equity from costs of providing products or services to customers.

• Does not need to paid in cash yet.

• Examples include rent, income taxes, utility, payroll, etc.
Pick the Expense Accounts

- Unmetered Water Revenue
- Salaries and Wages
- Services
- Depreciation
- Metered Water Revenue
- Purchased Water
- Hydrants
- Common Stock
- Transportation Expense
- Mains
- Contractual Services - Engineering
- Sales for Resale
- Retained Earnings
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Pick the Expense Accounts

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Accounting Equation

• Assets = Liability + Stockholder’s (owner’s) Equity

• Expanded Equation
  • Assets = Liabilities + Owner’s Contributions – Owner’s Withdrawals + Revenues – Expenses

• Owner Withdrawals and Expenses
  • When these accounts increase, overall, it will be a decrease to equity.
Examples

• Owner invests $20,000 into his/her company
  • Cash (Asset) increases with a debit
  • Owner’s Capital (Equity) increases with a credit

• Company purchases $2,000 Computer
  • Computer (Asset) increases with a debit
  • Cash (Asset) decreases with a credit

• Company pays $500 salary to employee
  • Salaries and Wages expense (Expense) increases with a debit
  • Cash (Asset) decreases with a credit
Double Entry Accounting

• When recording a financial transaction, you must have at least one debit and one credit.

• Can have multiple debits and/or multiple credits.

• All transactions must “balance” meaning total debits must equal total credits.
Debits and Credits

• Debit –
  • Left side of a “T” Account
  • Represents an increase to assets and a decrease to liabilities and equity

• Credit –
  • Right side of a “T” Account
  • Represents an increase to liabilities and equity, and a decrease to assets.
Normal Balances

• A normal balance is what makes the account increase.
  • Asset Account’s normal balance is a debit
  • Liability Account’s normal balance is a credit
  • Equity (or owner’s capital) normal balance is a credit
  • Revenues normal balance is a credit
  • Expenses normal balance is debit
  • Owner’s withdrawals normal balance is a debit
Timing and Cut-Offs

• Most companies operate on a calendar year operating cycle.
  • Cut off is December 31st.
  • Transactions after the cut off are recorded in the subsequent period.

• Accruals
  • Any earned revenue or accrued expenses that have not been recorded at the cut off period.

• Deferrals
  • Any cash received that has not been earned.
  • Any payments for expenses that have not been used.
THANK YOU

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