**6.00 Understand Financial Analysis**

**NC CTE 6.01: Acquire a foundational knowledge of accounting to understand its nature and scope.**

Terms

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: The foundation for accounting; represents the relationship between assets, liabilities, and owners’ equity
  + (Assets = Liabilities + Owners’ Equity)
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: Anything of value that a business or individual owns.
  + \_\_\_\_**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:** Debts, usually money, that the business owes.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: Assets minus liabilities; also known as stockholders’ (or shareholders’) equity, book value, and net worth.
  + <https://youtu.be/eezXyx7ZANY?list=PLhJU6Orty7YhF9-fsLSpjAaac_SxL6Dwc>
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: The money received by resource owners and by producers for supplying goods and services to customers
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ INCOME/PROFIT/EARNINGS: Money remaining after operating expenses are subtracted from gross profit
* NET \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: A company’s worth according to the balance sheet; also called book value
* ACCOUNTS \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: All monies owed to a firm by its customers
* ACCOUNTS \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: All monies owed by the business to others
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - The process of keeping and interpreting financial records.
  + A basic business function
    - A career choice
    - Something we use in our daily lives
* What Do Businesses Track with Accounting Information?
  + The value of the things they \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Accounts \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_to them
  + Amounts that they \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to others
* Why Is Accounting Important to Businesses?
  + Enables them to maintain \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of their money
  + Is used to make good \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ decisions
* Who Uses Accounting Information?
  + Internal users
    - Are usually \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Use managerial accounting information
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ accounting - A type of accounting that involves preparing and reporting financial data to internal users, usually managers, who need financial information to control day-to-day operations and to make financial decisions and plans affecting the business
  + External users
    - Consist of: Investors, Creditors, & Government
    - Use financial accounting information
* Accounting \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- The methods and procedures used in consistently handling the business's financial information.
  + The Accounting System Described:
    - Is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ applied process for handling a business’s financial information
    - Enables users to understand and accurately \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the numbers
    - Must contain accurate, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_information
    - Should meet a business’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ needs and requirements
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ accounting - Used to reduce and eliminate costs in a business. Cost accounting is used to determine a price for a product or service that will allow earnings of a reasonable profit.

**Steps in the Accounting Cycle**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ financial transactions
* Journalize transactions
  + Accounting methods used to enter transactions into journals:
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ accounting method - A method of accounting that records transactions at the time they occur even if no money changes hands at the time
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_accounting method - An accounting method in which income and expenditures are recorded at the time the money changes hands.
* Post to ledgers

(\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - The accounting record for a specific department or area of the business. )

* Balance the books
* Prepare financial statements

(Summaries of accounting information)

* + Accounting \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - Rules that accountants must follow when preparing financial statements:
    - Rules to follow when preparing financial statements
    - Types of financial statements:
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ sheet - A financial statement that captures the financial condition of the business at that particular moment.
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_statement - A financial summary that shows how much money the business has made or has lost over a period of time; also called the profit-and-loss statement.
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_statement - A financial summary with estimates as to when, where, and how much money will flow into and out of a business.
* Close the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**ACCOUNTANT:** An individual who has had specialized training in accounting procedures

**ACCOUNTING CYCLE:** A process or series of steps that businesses complete to maintain their financial records effectively

**BOOKKEEPING:** The steps of the accounting cycle that involve recording each business transaction; the process of analyzing financial transactions, journalizing transactions, posting to ledgers, and balancing the books

**CASH:** Currency and coins

**CREDIT:** The arrangement by which businesses or individuals can purchase now and pay later

**EXPENDITURES:** The monies that a business spends; also called expenses

**EXPENSES:** The monies that a business spends; also called expenditures

**FINANCIAL ACCOUNTING:** A type of accounting that involves preparing and reporting financial data to external users who are not directly involved in business operations

**INVESTORS:** Those who invest their funds in a business; may be owners or stockholders

**JOURNAL:** A special book or computer program in which a business’s transactions are recorded in the order in which they occur

**TRANSACTION:** A business activity such as a sale, a purchase, or a return

**TRIAL BALANCE:** The listing of a business’s different accounts and their current balances; used to check the accuracy of journal and ledger entries