

Cheat Sheet: Accounting and Finance

Essential Concepts

Accounting in Business

Accounting is the process of collecting, recording, classifying, summarizing, reporting, and analyzing financial activities. Accounting provides a framework for looking at past performance, current financial health, and possible future performance.

Managerial accounting provides financial information that managers inside the organization can use to evaluate and make decisions about current and future operations. Financial accounting focuses on preparing external financial reports that are used by outsiders; that is, people who have an interest in the business but are not part of the company's management.

Key Financial Statements

When businesses present their financial condition to external stakeholders, taxing authorities, investors, and the general public, the most common format for this information is one of four key financial statements. These four statements are the Income Statement, Statement of Owners Equity (also called the Statement of Retained Earnings), Balance Sheet, and Statement of Cash Flows. These four statements, although representing different facets of the company's finances, are all interconnected and create a birds-eye view of the company's financial position.

Ethical Practices in Accounting

Certified public accountants (CPAs) and certified management accountants (CMAs) are bound to the Code of Ethics established by their licensing bodies. Generally accepted accounting principles (GAAP) and the Financial Accounting Standards Board (FASB) have established practices designed to ensure that the financial status of a company is "fairly and accurately" presented.

Despite the best efforts of FASB and GAAP, accountants and accounting firms have become increasingly "creative" in reporting the financial position of businesses and in some cases have committed outright fraud. The American Institute of Certified Public Accountants (AICPA) has its own Code of Professional Conduct and guidance to help certified public accountants (CPAs) solve ethical dilemmas not explicitly addressed in the code.

Legislation such as the Sarbanes-Oxley Act has been passed by Congress to strengthen the emphasis on ethical practices in accountancy. Although stories of unethical conduct by companies such as Enron, WorldCom, and HP have made headlines, the overwhelming majority of individuals working as internal or external accountants follow the code of ethics and work hard to ensure that the information provided to stakeholders is fair and accurate.

Career Connection: Interviews

There are several things you can do to prepare for an interview, including reviewing the job description, researching the company, practicing common questions, dressing appropriately, coming prepared with necessary documents, and exuding confidence to make a strong first impression.

To plan for a successful interview, it's important to anticipate the type of interview you may have. Common formats include screening interviews, phone or web conference interviews, one-on-one interviews, panel interviews, serial interviews, lunch interviews, and group interviews, each requiring different strategies and preparations.

Glossary

accounting

the process of collecting, recording, classifying, summarizing, reporting, and analyzing financial activities

assets

things of value owned by the organization

bookkeeping

a mechanical process that records the routine economic activities of a business; one aspect of accounting

balance sheet

lists the company's assets, liabilities, and equity (including dollar amounts) for a specific moment in time, the close of business on the date listed at the top of the balance sheet

double-entry bookkeeping

every transaction must be recorded as two entries on either side of the accounting equation to keep in balance

expenses

the costs incurred to produce revenues

financial accounting

focuses on preparing external financial reports that are used by stakeholders who are external to the organization

Financial Accounting Standards Board (FASB)

a private organization that is responsible for establishing financial accounting standards used in the United States known as GAAP

financial statements

summative reports that communicate information obtained from day-to-day bookkeeping activities

generally accepted accounting principles (GAAP)

financial accounting standards used in the United States

income statement

sometimes called an earnings statement or profit and loss statement; reports the profitability of a business organization for a stated period of time

interview

a meeting where you will talk with a representative of the organization about yourself and your interest in the role you applied for

liabilities

the organization's debts

managerial accounting

provides financial information that managers inside the organization can use to evaluate and make decisions about current and future operations

net income

often called the earnings; revenues minus expenses

net loss

when expenses exceed revenues

owner's equity

the total amount of investment in the organization minus the liabilities; also called net worth or, in the case of shareholder ownership, shareholder's equity

revenues

the inflows of cash resulting from the sale of products or the rendering of services to customers

Sarbanes-Oxley Act

a U.S. federal law enacted in 2002 to enhance corporate governance and financial reporting transparency, aiming to protect investors and restore public trust in the wake of major accounting scandals.

statement of cash flows

a summary of the money flowing into and out of a firm, is the financial statement used to assess the sources and uses of cash during a certain period

statement of retained earnings

explains the changes in retained earnings (or owner's equity) between two balance sheet dates