ARIZONA★CORPORATION★COMMISSION

ACCOUNTING 101: The Basics

December 6, 2019

SOUTH MOUNTAIN COMMUNITY COLLEGE
A MARICOPA COMMUNITY COLLEGE

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POWERING★ARIZONA'S★FUTURE

Outline

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

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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.

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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

- Accounts Payable
- **Wells**
- **Services**
- Depreciation
- Taxes Payable
- **Office Equipment**
- **Hydrants**
- Common Stock
- **Vehicles**
- **Mains**
- **Accounts Receivable**
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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
- Hydrants
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Pick the Liabilities

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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.

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Pick the Equity Accounts

- Accounts Payable
- Wells
- Services
- Depreciation
- Taxes Payable
- Office Equipment
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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
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- **Metered Water Revenue**
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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
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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

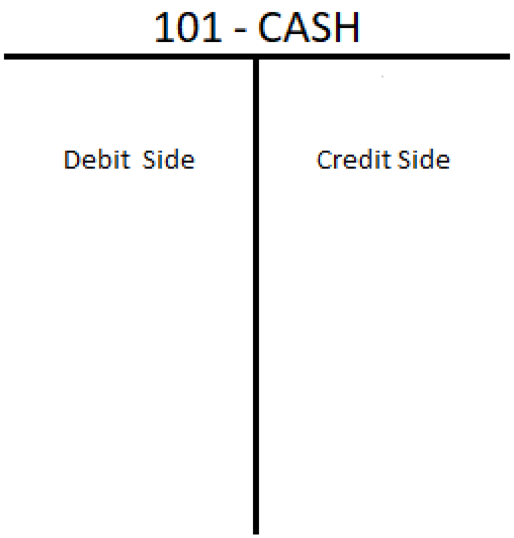
- When recording a financial transaction, you must have at least one debit and one credit.

- 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.

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THANK YOU

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