ACCOUNTING	
BMS8.0 Use accounting information to make business decisions.	
8.1	Identify accounting principles and procedures.
8.1	Accounting – Accounting is the systematic recording, reporting, and analysis of financial transactions of a business.
8.1	Accounting Equation – Assets = Liabilities + Owner's Equity. Left side of the equation must be in balance with the right side of the equation.
8.1	Accounting Software • Set of instructions that operate the computer and enable the user to enter financial information and create reports, spreadsheets, graphs and documents. Specifically, automated accounting can process information ○ Purchase of assets, supplies, services, and the related payments ○ Investments in the business ○ Sales, cash receipts, and noncash transactions
8.1	Accounting System - A systematic approach to recording and maintaining financial transactions and reports following certain steps in an accounting cycle process which include analyzing transactions into debit and credit parts, journalizing transactions, posting transactions, preparing worksheets, preparing financial reports, and completing closing entries and a post closing trial balance.
8.1	Accrual Accounting – An accounting method that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur. The general idea is that economic events are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made (or received).
8.1	Analyzing Financial Transactions into Debit and Credit Parts – This is an accounting function. A T-Account is used to determine the debit and credit parts of a financial transaction. Debits are on the left side of the T, and credits are on the right side of the T. Assets increase in value through a debit. Liabilities and Owner's Equities increase on the credit side. Every transaction has a debit part and a credit part which must always be in balance/equal to each other.
8.1	Assets – Things of value owned by a business such as cash, supplies, buildings, and equipment.
8.1	Automated Accounting System - A computerized accounting system **is a** system used by businesses for recording their financial information
8.1	Capital – The account used to summarize the owner's equity in a business. Also a type of resource incorporating all tools, equipment, machinery, and buildings used in providing a good or service.
8.1	Capitalization – In accounting, it is where costs to acquire an asset are included in the price of the asset. It is also the sum of a corporation's stock, long-term debt and retained earnings which is known as "invested capital". Finally, it can be a company's outstanding shares multiplied by its share price, better known as "market capitalization".
8.1	Cash Payments Journal – A special journal used to record only cash payment transactions.
8.1	Credit – An amount recorded on the right side of a t-account. Credits decrease assets and increase liabilities and owner's equities accounts.
8.1	Debit – An amount recorded on the left side of a t-account. Debits increase asset accounts and decrease liability and owner's equity accounts.
8.1	Depreciation – A noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose their value over time (in other words, they depreciate), and must be replaced once the end of their useful life is reached.
8.1	Double-Entry Accounting – An accounting system in which both the debit and credit parts of a transaction are reported.
8.1	Fiscal Period – The length of time for which a business summarizes and reports financial information. Consistent reporting is required.
8.1	General Ledger – A ledger that contains all accounts needed to prepare financial statements for a business.
8.1	Generally Accepted Accounting Principles (GAAP) – The rules followed by accountants in the United States to ensure financial reports are produced correctly.
8.1	Journal Entry - A *journal entry*, in accounting, is a logging of transactions into accounting journal items. The journal entry can consist of several items, each of which is either a debit or a credit. The total of the debits must equal the total of the credits or the journal entry is said to be "unbalanced".
8.1	Journalizing – Recording the debit and credit parts of a financial transaction onto an accounting form called a journal. This is the second step in the accounting process after transactions have been analyzed into their debit and credit parts

	using the T-Account.
8.1	Matching Expenses with Revenue – A generally accepted accounting principle in which the expenses incurred associated with earning revenue are reporting during the same fiscal period as each other.
8.1	Petty Cash – An amount of cash kept on hand and used for making small payments. A petty cash slip is a form used to record proof of using the petty cash fund for a purchase.
8.1	Posting – An accounting function of recording entries from the journal to the proper account within the general ledger of a company.
8.1	Realization of Revenue – The revenue recognition principle is a cornerstone of accrual accounting together with matching principle. They both determine the accounting period, in which revenues and expenses are recognized. According to the principle, revenues are recognized when they are realized or realizable, and are earned (usually when goods are transferred or services rendered), no matter when cash is received.Cash received from the sale of assets during liquidation of a partnership.
8.1	Sarbanes-Oxley Act (SOX) – Accounting regulation that top management must now individually certify the accuracy of financial information. In addition, penalties for fraudulent financial activity are much more severe. Also, SOX increased the independence of the outside auditors who review the accuracy of corporate financial statements, and increased the oversight role of boards of directors. The bill was enacted as a reaction to a number of major corporate and accounting scandals including those affecting Enron, Tyco International, Adelphia, Peregrine Systems and WorldCom. These scandals, which cost investors billions of dollars when the share prices of affected companies collapsed, shook public confidence in the nation's securities markets.
8.1	T-Account – An accounting device that can be used for analyzing financial transactions into their debit and credit parts.
8.1	Y=mx+b a straight line, also may be written as –b-mx+y=0
8.2	**Evaluate and process account receivables.**
8.2	Accounts Receivable – Asset of money that is owed to a business by others who are usually customers.
8.2	Accounts Receivable Ledger – A subsidiary ledger containing only accounts for charge customers.
8.2	Collections – A collection agency is a company or organization that creditors or lenders hire to collect on bad debts, delinquent loans and receivables. Most companies are required to write off accounts as bad debts when there has been no payment received in 180 days. The Fair Debt Collection Practices Act is an amendment, establishing legal protection from abusive debt collection practices, to the Consumer Credit Protection Act, as Title VIII of that Act. The statute's stated purposes are: to eliminate abusive practices in the collection of consumer debts, to promote fair debt collection, and to provide consumers with an avenue for disputing and obtaining validation of debt information in order to ensure the information's accuracy. The Act creates guidelines under which debt collectors may conduct business, defines rights of consumers involved with debt collectors, and prescribes penalties and remedies for violations of the Act. It is sometimes used in conjunction with the Fair Credit Reporting Act.
8.2	Receipt – A source document showing payment was made and received for a purchase.
8.3	**Evaluate and process account payables.**
8.3	Accounts Payable – Debt/money/liability a business owes to others who are usually vendors.
8.3	Liabilities – What a business owes to others. They are debts.
8.4	**Evaluate and process business purchases.**
8.4	Inventory Turnover – The number of times the average inventory has been sold and replaced in a given period of time.
8.4	Invoice - or bill is a commercial document issued by a seller to the buyer, indicating the products, quantities, and agreed prices for products or services the seller has provided the buyer. Payment terms are also usually included on the invoice. Common payment terms are 2/10, net 30 which means a buyer could get a 2 percent discount if he/she pays the bill within 10 days of the invoice date.
8.4	Purchase Order – A legal contract between a seller and buyer to purchase a specific number of products at a specified price.
8.4	Purchases Journal – A special journal used to record only purchases of merchandise on account. Merchandising businesses use these journals since they purchase large quantities of merchandise to resell on a regular basis.
8.4	Purchasing – The function in a business that searches for quality material resources, finds the best supplies, and negotiates the best price for goods and services.

8.4 Straight Line Depreciation Method

The simplest and most commonly used depreciation method, straight line depreciation is calculated by taking the purchase or acquisition price of an asset subtracted by the salvage value divided by the total productive years the asset can be reasonably expected to benefit the company (called "useful life" in accounting jargon).

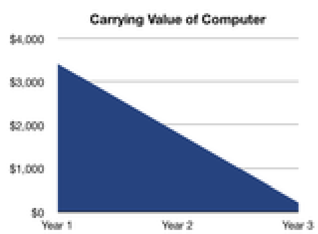
Straight Line Depreciation Calculation

(Purchase Price of Asset - Approximate Salvage Value) ÷ Estimated Useful Life of Asset

Example: You buy a new computer for your business costing approximately $5,000. You expect a salvage value of $200 selling parts when you dispose of it. Accounting rules allow a maximum useful life of five years for computers. In the past, your business has upgraded its hardware every three years, so you think this is a more realistic estimate of useful life, since you are apt to dispose of the computer at that time. Using that information, you would plug it into the formula:

($5,000 purchase price - $200 approximate salvage value) ÷ 3 years estimated useful life

The answer, $1,600, is the depreciation charges your business would take annually if you were using the straight line method.



Carrying Value of Computer	
Year 1	$3,400
Year 2	$1,800
Year 3	$200

With a $5,000 purchase price, a $200 salvage value, and 3 years, the result would be a $1,600 annual depreciation charge using the straight line method.

8.5 Analyze and prepare budgets.

8.5 Budget

Steps in setting up a budget

- Set financial goals
  - Most income must go for daily expenses, but you want to consider expensive purchases to save for
    - College, car, home, etc
- Estimate Income
  - Identify all of your income sources
    - Paychecks, gifts, interest on savings, etc
- Plan Expenditures
  - List all the things you will need to purchase over the budget period and rank them in order of importance

	▪ Eliminate the less important ones
8.6	**Apply accepted accounting principles and procedures in regards to business payroll.**
8.6	Dependents – Being able to claim a dependent on a tax return is tied to a number of related tax benefits. Taxpayers who claim dependents can claim an additional personal exemption for each dependent. The way the tax laws are written, only one person can claim a dependent on their tax return. Dependents are typically children being supported by their parents as well as the taxpayers themselves.
8.6	Employer Contributions – When completing the payroll record, employers must calculate and report the amount of taxes needed to be paid by the employer to the government plus unemployment insurance expenses. Employers sometimes contribute to employee 401K plans or other retirement investment plans as well.
8.6	FICA – Social Security Taxes that are deducted from a worker's paycheck.
8.6	Involuntary Deductions – Involuntary payroll Deductions are those over which an employer or Employee has little or no control. The employer is required by law to deduct a specific dollar amount of the Employee's pay and remit it to a person or agency to satisfy the law. If the employer fails to deduct and remit that amount the employer will generally be subject to a penalty equal to the amount required plus possible fines and interest. Wage garnishments and child support orders are examples of involuntary deductions from payroll.
8.6	Medicare – In the United States, Medicare is a national social insurance program, administered by the U.S. federal government since 1965, that guarantees access to health insurance for Americans ages 65 and older and younger people with disabilities as well as people with end stage renal disease (Medicare.gov, 2012) and persons with Lou Gehrig's Disease. As a social insurance program, Medicare spreads the financial risk associated with illness across society to protect everyone.
8.6	Payroll - In a company, payroll is the sum of all financial records of salaries for an employee, wages, bonuses and deductions. In accounting, payroll refers to the amount paid to employees for services they provided during a certain period of time.
8.6	Social Security – The comprehensive federal program of benefits providing workers and their dependents with retirement income, disability income, and other payments. The social security tax is used to pay for this program.
8.6	State Tax – Income taxes assessed to a business by a state taxing authority agency. The amount varies depending upon the state.
8.6	W-2 Form- Wage and Tax Statement. The form used to report wages, tips, other compensation, withheld income and social security taxes, and advance earned income credit payments to the IRS, the Social Security Administration and the employee.
8.6	W-4 Form- Employee's Withholding Allowance Certificate. Required by Federal law to be on file with the Payroll Office before any salary or wage payments are made.
8.6	Worker's Compensation Insurance - *Insurance that covers medical and rehabilitation costs and lost wages for employees injured at work; required by law in all states.* Almost every business in the United States that has employees has to handle the problem of workers' compensation. Most states (with a few important exceptions) essentially require employers to purchase an insurance policy to handle their statutory obligations to workers who are injured or made ill due to a workplace exposure.
8.7	**Prepare and process payroll documents, checks, and records.**
8.7	1099 Form - A 1099 is a tax form for independent contractors which shows how much they made from a certain business.
8.7	401K Plan - A qualified plan established by employers to which eligible employees may make salary deferral (salary reduction) contributions on a post-tax and/or pretax basis. The common name in the United States for the tax qualified defined contribution pension plan account and takes its name from subsection 401(k) of the Internal Revenue Code (Title 26 of the United States Code). 401(k) are "defined contribution plans" with annual contributions limited, currently, to $17,500. Contributions are "tax-deferred"—deducted from paychecks before taxes and then taxed when a withdrawal is made from the 401(k) account.

8.7	Allowances - An allowance an individual claims on a W-4 Form. A withholding allowance is mainly used to assist an employer in calculating the amount of income tax to withhold from an employee's paycheck. An allowance can also be a deduction from a bill to account for a defect or fulfillment discrepancy.
8.7	Deductions – Amounts that will be subtracted from gross income such as FICA, State Income Taxes, and Federal Income Taxes to determine net income.
8.7	Direct Deposit – The electronic deposit of funds directly into a bank account as a form of payment. Common uses for direct deposit include paychecks and tax refunds.
8.7	Disbursements – Money paid out; expenditures.
8.7	Payroll Taxes - Payroll taxes generally fall into two categories: deductions from an employee's wages and taxes paid by the employer based on the employee's wages. The first kind are taxes that employers are required to withhold from employees' wages, also known as withholding tax, pay-as-you-earn tax (PAYE), or pay-as-you-go tax (PAYG) and often covering advance payment of income tax, social security contributions, and various insurances (e.g., unemployment and disability). The second kind is a tax that is paid from the employer's own funds and that is directly related to employing a worker.
8.7	Projected Disbursements – Projecting into the future the payment of money, for example, as an expense or to get rid of a debt.
8.7	Taxes- • Payroll taxes are deducted from paychecks to support Social Security (FICA), which is retirement program and Medicare, which funds medical care for the elderly. • Tax incidence indicates who actually bears the burden of the tax. • Proportional taxation – The tax as a percentage of income remains constant as income increases, also called flat tax. • Progressive taxation-The tax as a percentage of income increases as income increases. • Regressive taxation-The tax as a percentage of income decreases as income increases. • Marginal tax rate-The percentage of each additional dollar of income that goes to pay the tax. High marginal rates reduce the after-tax income from working, saving, and investing. • Ability-to-pay tax principle-those with a greater ability to pay, such as those with a higher income, should pay more of a tax. • Tariff-type of trade barrier imposed by a government as a tax on imported or exported goods • Unemployment tax- Federal Unemployment Tax Act (FUTA)-designed to help workers who are temporarily unemployed.
8.7	Voluntary Deductions- The law does not require employers to withhold voluntary deductions from their employees' paychecks. Voluntary deductions are dependent on whether the employee chooses to have the payroll deduction. Some voluntary deductions are pre-tax (deductions are withheld before taxes) while others are post-tax in which contributions are made on an after-tax basis. The Payroll Department processes a variety of voluntary deductions for permanent employees. Some of these deductions are "tax deferred" which means they are exempt from federal and state taxes. Some deductions are "pre-tax" which means they are exempt from FICA/Medicare tax as well as federal and state taxes
8.7	Withholding- If you are an employee, your employer probably withholds income tax from your pay. Tax may also be withheld from certain other income — including pensions, bonuses, commissions, and gambling winnings. In each case, the amount withheld is paid to the IRS in your name.