

Chapter 17 Managing Business Finances

Section 17.2 Accounting

Section Summary with Key Terms and Academic Vocabulary

Accounting An accounting system collects, records, and reports financial transactions that affect the operation of a business. Accountants follow a uniform set of rules. These rules provide a consistent way to share financial information. The accounting equation is the basis of accounting. It equates assets to liabilities plus owner's equity. Key documents include the balance sheet, the income statement, and the statement of cash flows.

Key Terms

accounting The systematic process of recording and reporting the financial position of a person or an organization

generally accepted accounting principles (GAAP) Rules that provide a way to communicate financial information to others

property Anything of value that is owned or controlled

assets Property or other items of value owned by a business

current assets Assets that are either used up or converted to cash during the normal cycle of the business

accounts receivable The total amount of money owed to a business. It represents money to be received in payments after goods or services are sold on credit.

fixed assets Items of value that are held for more than one year

equity Value of a piece of property less the amount still owed on the money borrowed to purchase it

liabilities Creditors' claims to the assets of a business

accounts payable The total amount a business owes to creditors

owner's equity An owner's claims to the assets of a business

accounting equation A concept that states that assets must always equal the sum of liabilities and owner's equity

financial statements Documents summarizing the changes resulting from business transactions that occur during an accounting period

income statement A report of the revenue, expenses, and net income or net loss for an accounting period

balance sheet A report of the balances in all asset, liability, and owner's equity accounts at the end of an accounting period

cash flows The amount of money that is available to a business at any given time

statement of cash flows A financial report that shows incoming and outgoing money during an accounting period (often monthly or quarterly)

Academic Vocabulary

convert To change from one form or function to another

generate To bring into existence, produce

release To make available to the public

formula A group of symbols associated to express facts or data concisely