

Dutchess Community College
ACC 104 – Financial Accounting
Quiz Prep Chapter 1
Introduction to Financial Statements

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Disclaimer

This *Quiz Prep* is provided as an outline of the key concepts from the chapter.

It is not intended to be comprehensive or exhaustive.

Quizzes may include material from the classroom lectures, the text or the homework assignments.

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3 Primary Forms of Business Organization

	Sole Proprietor	Partnership	Corporation
Set-up	Easy	Easy/Hard	Hard
Life	Limited	Limited	Unlimited
Borrow	Hard	Hard	Easier
Regulations	Few	Few	Many
Liability	Unlimited	Unlimited	Limited
Taxation	Single	Single	Double
Transfer Ownership	Hard	Hard	Easy

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3 Principal Types of Business Activities

Financing	<ul style="list-style-type: none"> • Borrow (Liability) • Investor (Equity)
Investing	Purchase Assets
Operating	Run the Business

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Other Forms of Business Organization *

The objective of these types of organization is to achieve limited liability without double taxation.

Sub-chapter S Corporations – Corporations that meet criteria (including limited to maximum 100 shareholders) that elect to be treated as a partnership for federal tax purposes.

Limited Partnership – consists of *General Partners* (same as in a regular partnership) and *Limited Partners* who contribute only capital, i.e., they cannot be involved in management, and their liability is limited to their capital contribution.

** This material is FYI, is not in the text and will not be tested.*

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Other Forms of Business Organization *

Limited Liability Partnership (LLP) – State designation that provides some level of limited liability. In some states (including NY) is limited to state licensed professionals, such as CPAs, doctors and architects.

Limited Liability Company (LLC) – State designation that provides limited liability in exchange for a Franchise Fee. LLCs can elect to be treated as a partnership for federal tax purposes.

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6 Types of Accounts

Account Type	Examples
Assets	Cash, Inventory, Equipment
Liabilities	Loans, Payables
Owners Equity	Common Stock, Retained Earnings
Revenues	Sales, Service Fees
Expenses	Rent, Salaries, Supplies
Dividends	Dividends (only one)

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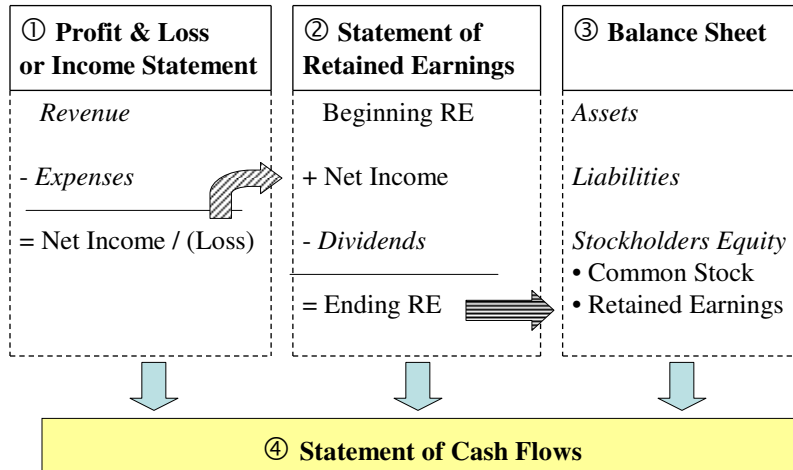
Dividends

Dividends are distributions of a corporation's earnings to the shareholders (i.e., the owners)

- Declared by Board of Directors
- The corporation must have retained earnings
- The distribution is typically, but not necessarily, cash. If a cash dividend, then the corporation must also have enough cash.

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4 Financial Statements in the order of preparation



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The Accounting Equation

ALE (a type of beer)

$$A = L + E$$

<u>A</u> ssets	=	<u>L</u> iabilitys + <u>E</u> quity
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Everything you need to run your business

How you funded the Assets:

- Liabilities = Borrow
- Equity = Ownership Interest

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Annual Report

The Annual Report includes:

- The 4 Financial Statements
- The Notes to the Financial Statements
- The Auditor's Report
- The Management Discussion and Analysis (MD&A)