**Accounting** = a service-based profession that provides reliable and relevant financial information useful in making decisions.

- **Financial accounting**: provides information that is designed to satisfy the needs of **external users**.
- **Managerial accounting**: provides information that is useful in running a company by **internal users**.

**External users**: parties outside the reporting entity (company) who are interested in the accounting information. Example: investors, creditors, taxing authorities, customers.

**Internal users**: parties inside the reporting entity (company) who are interested in the accounting information. Example: company's management, employees.

**TO PREPARE ACCOUNTING INFORMATION:**
1. Identify economic events.
2. Record, classify & summarize economic events.
3. Communicate information to interested parties.

**FINANCIAL STATEMENT ELEMENTS:**
- **Assets**: economic resources of a business used to accomplish its main goal(s)
- **Liabilities**: debts and obligations of a company
- **Equity**: what the company "owes" to owners
- **Contributed Capital**: component of equity resulting from contributions of capital resources

**FINANCIAL REPORTING:**
- **Income Statement**: presents revenues and expenses and resulting net income or loss for a period of time.
  - Other name(s): Statement of Operations, Earnings Statement, Profit & Loss Statement
- **Statement of Changes in Equity**: shows all changes in owner's equity for a period of time.
  - Other name(s): Owners' Equity Statement
- **Balance Sheet**: presents assets, liabilities and owner's equity at a specific date.
  - Other name(s): Statement of Financial Position
- **Cash Flow Statement**: summarizes information about cash outflows (payments) and inflows (receipts).

Accounting rules in the USA are grouped and called **Generally Accepted Accounting Principles (GAAP)**, which are common standards that indicate how to report economic events.

Some organizations regulating to the accounting profession:
- **Financial Accounting Standards Board (FASB)**
  - Private companies (primarily)
- **Securities and Exchange Commission (SEC)**
  - Public companies (primarily)
- **Public Company Accounting Oversight Board (PCAOB)**

**ACCOUNTS:**
- **Permanent**: are not closed each period (e.g., balance sheet accounts)
  - Other name(s): *real accounts*
- **Temporary**: are closed at the end of each period. They are mostly income statement accounts (revenue, expenses), except distribution is an equity account.
  - Other name(s): *nominal accounts*

**Closing the books (accounts)**: process of transferring balances from temporary accounts to **Retained Earnings** (permanent account).

**TRANSACTIONS (TWO OF FOUR TYPES):**
- **Asset source transaction**: results in an increase in an asset account and in one of the claim accounts.
  - Example: contribution of cash by owners; revenue.
- **Asset use transaction**: results in a decrease in an asset account and in one of the claim accounts.
  - Example: distribution to owners; expense.