Accounting, second edition by Michael Jones, a book mapping

- 1. Introduction to Accounting
  - accounting: the provision of financial information to managers or owners so that they can make business decisions
    - it measures, monitors and controls business activities
    - accounting has several limitations:
      - **its historic nature**
      - **its failure to measure the non-financial aspects of business**
    - accountancy incorporates:
      - auditing, book-keeping, financial accounting, financial management, insolvency, management accounting, taxation and management consultancy
  - financial accounting: supplies financial information to external users
  - management accounting: serves the needs of managers
  - accounting information users are: the managers and the shareholders
  - accounting theory and practice are affected by:
    - **history, country, technology and organisation**
- 2. The Accounting Background
  - key accounting terminology includes: income, expenses, capital, assets and liabilities
    - four major accounting conventions are: entity, money measurement, historic cost and periodicity
    - four major accounting concepts are: going concern, matching, consistency and prudence
  - the three major financial statements:
    - **profit and loss account or income statement, the balance sheet, the cash flow statement**
  - the most important external users for companies are the shareholders
- 3. Recording: Double-Entry Book-keeping
  - debits and credits are equal and opposite entries
  - initial recording in the books of accounting using double-entry, balancing off, and preparing the trial balance are the three major steps in double-entry bookkeeping
    - trial balance is a listing of all the balances from the accounts
- 4. Main Financial Statements: The Profit and Loss Account (Income Statement)
  - consists of income, cost of sales and expenses
  - **profit is an elusive concept**
  - **this statement helps us to evaluate the company's performance**
- 5. Main Financial Statements: The Balance Sheet
  - consists of assets, liabilities and capital
  - **this statement is used as a basis to determine the liquidity position of the company**
  - **its usefulness though is limited by missing assets and inconsistent valuation**
- 6. Preparing the Financial Statements
  - the trial balance when re-arranged creates a profit and loss account and a balance sheet
- 7. Partnerships and Limited Companies
- 8. Main Financial Statements: The Cash Flow Statement
  - cash flow is concerned with cash received and cash paid, unlike profit which deals with income earned and expenses incurred
  - there are two methods to prepare a cash flow statement, the direct and the indirect methods / most companies use the indirect one
    - listed companies are using a different format
    - in the indirect method cash flow derives from income statement and balance sheet