Key Terms | Unit 1

1. **Accounting equation** - The relationship of assets, liabilities, and equity is reflected in the following accounting equation: \[ \text{Assets} = \text{Liabilities} + \text{Equity} \]

2. **Assets** - Assets are resources a company owns or controls. These resources are expected to yield future benefits.

3. **Balance sheet** - describes a company’s financial position (types and amounts of assets, liabilities, and equity) at a point in time.

4. **Bookkeeping** – Also called recordkeeping, the recording of transactions and events, either manually or electronically.

5. **Conceptual framework** - The conceptual framework guides standard setting (ie, GAAP).

6. **Cost-benefit constraint** - Prescribes that only information with benefits of disclosure greater than the costs of providing it need be disclosed.

7. **Ethics** - Ethics are beliefs that distinguish right from wrong. They are accepted standards of good and bad behavior.

8. **External users** - External users of accounting information are not directly involved in running the organization. They include shareholders (investors), lenders, directors, customers, suppliers, regulators, lawyers, brokers, and the press. External users have limited access to an organization’s information.

9. **Financial accounting** - The area of accounting aimed at serving external users by providing them with general-purpose financial statements.

10. **Generally accepted accounting principles (GAAP)** - Financial accounting practice is governed by concepts and rules known as generally accepted accounting principles.

11. **Internal users** - Internal users of accounting information are those directly involved in managing and operating an organization.
12. **Managerial accounting** - The area of accounting that serves the decision-making needs of internal users. Internal reports are not subject to the same rules as external reports and instead are designed with the special needs of internal users in mind.

13. **Risk** - The uncertainty about the return we will earn. All business investments involve risk, but some investments involve more risk than others. The lower the risk of an investment, the lower is our expected return.

14. **Sarbanes–Oxley Act** - Congress passed the Sarbanes–Oxley Act, also called SOX, to help curb financial abuses at companies that issue their stock to the public. SOX requires that these public companies apply both accounting oversight and stringent internal controls. The desired results include more transparency, accountability, and truthfulness in reporting transactions.