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[Finance](https://assignbuster.com/essay-subjects/finance/)

The accounting profession is a prestigious job position that deals with recording, monitoring, and tracking of financial activity. In the United s in 2008 there was a total 1. 3 million accountants (Bls, 2011). Accountants perform many functions based on accounting theory, rules, and regulations. The accounting profession is mostly self-regulated and its practitioners have to abide by the generally accepted accounting principles. Three accounting topics that will be analyzed and discussed in this term paper are financial statements, the Sarbanes Oxley Act (SOX) of 2002, and conservatism.
The four major financial statements are the income statement, balance sheet, statement of retained earnings, and the statement of cash flow. The income statement and balance sheet are often referred to as common size financial statements. The income statement measures the profitability of a company during a specific period of time. The normal accounting cycle takes one year to complete. The financial statements are the end result of the accounting cycle. The balance sheet shows the financial position of a company at a specific point in time. The three major components of the balance sheet are the assets, liabilities, and stockholders equity. The balance sheet is prepared based on the logic from the basic accounting of equation. The basic accounting equation states that assets equal liabilities plus stockholders equity. The statement of cash flow illustrated the inflow and outflows of cash during a financial period. The three sections of the statement of cash flow are operating, financing, and investing. The statement or retained earnings outlines the changes in equity during a financial period.
The Sarbanes Oxley Act of 2002 was created by Senator Paul Sarbanes and Representative Michael Oxley. The purpose of the act was to raise investor confidence in the stock market after the financial debacles that occurred at Enron, Tyco, and WorldCom among other companies. The Act was created to increase the accountability, reliability, and accuracy of financial information. The Sarbanes Oxley Act is composed of 11 titles. The 11 titles of the Sarbanes-Oxley Act are listed below:
Title I: Public Company Accounting Oversight
Title II : Auditor Independence
Title III: Corporate Responsibility
Title IV: Enhance Financial Disclosures
Title V: Analyst Coverage of Interest
Title VI: Commission Resources and Authorities
Title VII: Corporate and Criminal Fraud Responsibilities
Title VIII: Studies and Report
Title IX: White Collar Crime Penalty Enhancement
Title X: Corporate Tax Returns
Title XI: Corporate Fraud and Accountability
The third subject of accounting that will be discussed is conservatism. Conservatism states that if a situation arises where there are two acceptable alternatives for reporting an item, conservatism directs the accountant to choose the alternative that will result in less net income and/or less asset amount (Accountingcoach, 2011). When an accountant is making a sales forecast they must apply the principle of conservatism. Accountants are always expected to be biased and objective. Based on the conservatism principles accountants are supposed to report potential lawsuits from lawsuit, but any potential gains should not be disclosed in the financial statements.
References
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Bls. gov (2009). Accountants and Auditors. Retrieved October 30, 2011 from http://www. bls. gov/oco/ocos001. htm