Chapter 3



Accounting Bellwork

4th Hour: Consider you own property. List five items that you are wearing or have. What rights do you have to that property? Is it all yours, or does someone else have rights to it also?

Plans for today

- Grade H.W. and Test
 - Internet Activity
 - Math Review Worksheet
 - Hand Back Unit 1 Test
- Begin Ch3
- Assignment for Ch3-1

Chapter 3

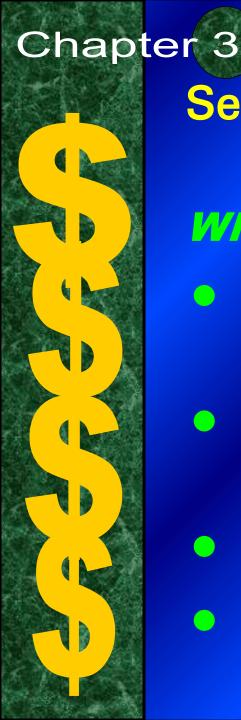


Business Transactions and the Accounting Equation

Making Accounting Relevant

Every business has assets, liabilities (debts), and owner's equity. Think about a business in your community.

What possible assets does this business possess?



Section 1Property and Financial Claims

What You'll Learn

- The relationship between property and financial claims.
- The meaning of equity as it is used in accounting.
- The parts of the accounting equation.
- The definition of each part of the accounting equation.



Why It's Important

The accounting equation is the basis for keeping all accounting records in balance.

Key Terms

- property
- property rights
- financial claims
- credit
- creditor
- assets

- investments
- equity
- owner's equity
- liabilities
- accounting equation



Property: Ownership and Control

Property is anything of value that is owned or controlled.

PropertyFinancial RightClaim

Own Yes Yes

Control (like rent) Yes No





In accounting, property and financial claims are measured in dollar amounts.

Property=Financial (Cost)(Financial Investments)

Bike=Your Claim to the Bike \$600=\$600



Property: Ownership and Control (con't.)

When you buy property and agree to pay for it later, you are buying on credit.

Property=Financial Claims

Bike Creditor's Owner's Lock = Financial Claim+Financial Claim

\$100=\$40+\$60

Demonstration Problem 1

- Hand Chapter 3 Demonstration Problems.
- Problems 3-1 through 3-5.

PROBLEM 3-1 ASSESSING FINANCIAL CLAIMS

You bought a coat for \$60 cash. In equation form, what is the relationship between the property and your financial claims?

Property _ Financial Claim

<u>s 60 = s 60</u>



Financial Claims in Accounting

Assets property or items of value owned by a business

Examples of assets include:

- Cash
- Office equipment
- Manufacturing equipment
- Buildings
- Land





- Equity is the term for the financial claims to the assets.
- Investments are assets, generally long-term in nature, that are not intended to be converted to cash or to be used in their normal operations of the business in the next accounting period.





- Owner's Equity the owner's claims to the assets of the business
- Liabilities creditor's claims to the assets of the business



The Accounting Equation

Creditor's Owner's
Property = +
Financial ClaimFinancial Claim

Assets=Liabilities+Owner's Equity

Demonstration Problem 2

PROBLEM 3-2 SHARING FINANCIAL CLAIMS WITH A CREDITOR

You want to buy a bicycle that costs \$200, but you have only \$45. E and T Sports Store agrees to sell you the bicycle on credit. You pay \$45 down and sign an agreement to pay the remaining \$155 in installment payments. How can you show this purchase using the equation

PROPERTY = FINANCIAL CLAIMS

Propert

Creditors

Financial Claim

Owners

Financial Claim

\$ 200 = \$ 155 + \$ 45



Assignment

Check Your Understanding p49

Thinking Critically 1&2

Computing in the Business World

Problem 3-1

A Matter of Ethics