

## 1-1: Accounting in Action

accounting	A planned process designed to compile financial data and summarize the results in accounting records and reports.
accounting system	The process of planning, recording, analyzing, and interpreting financial information.
asset	Anything of value that is owned.
business ethics	The principles of right and wrong that guide an individual in making decisions.
equity	The difference between personal assets and personal liabilities.
ethics	The use of ethics in making business decisions.
financial statements	Financial reports that summarize the financial condition and operations of a business.
liability	A formal report that shows what an individual owns, what an individual owes, and the difference between the two.
net worth statement	An amount owed.
personal net worth	The difference between assets and liabilities.

## 1-2: How Business Activities Change the Accounting Equation

account	A record that summarizes all the transactions pertaining to a single item in the accounting equation.
account balance	The name given to an account.
account title	The difference between the increases and decreases in an account.
accounting equation	A business that performs an activity for a fee.
business plan	A business owned by one person.
capital account	A formal written document that describes the nature of a business and how it will operate.
creditor	The amount remaining after the value of all liabilities is subtracted from the value of all assets.
equities	Financial rights to the assets of a business.
GAAP	An equation showing the relationship among assets, liabilities, and owner's equity.
owner's equity	Any business activity that changes assets, liabilities, or owner's equity.
proprietorship	An account used to summarize the owner's equity in a business.
service business	A person or business to whom a liability is owed.
transaction	The standards and rules that accountants follow while recording and reporting financial activities.

Fill-in the Accounting equation:

$$\underline{\text{Assets}} = \underline{\text{Liabilities}} + \underline{\text{Owner's Equity}}$$

**1-3: How Transactions Change Owner's Equity in an Accounting Equation**

**expense** An increase in equity resulting from the sale of goods or services.

**sale on account** A sale for which payment will be received at a later date.

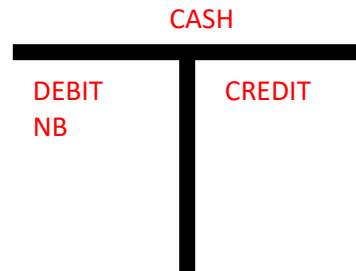
**withdrawals** The cost of goods or services used to operate a business.

**revenue** Assets taken from the business for the owner's personal use.

## 2-1: Using T Accounts

<b>T account</b>	An amount recorded on the left side of an account.
<b>debit</b>	The side of an account that is increased is called the normal balance of the account.
<b>credit</b>	An accounting device used to analyze transactions.
<b>normal balance</b>	An amount recorded on the right side of an account.

Label this T-Account for CASH using the following: debit, credit, normal balance



## 2-2: Analyzing How Transactions Affect Accounts

<b>accounts payable</b>	A list of accounts used by a business.
<b>chart of accounts</b>	Amounts to be paid in the future for goods or services already acquired.

What four questions to we ask when analyzing transactions?

1. Which accounts are affected?
2. How is each account classified?
3. How are the classifications changed?
4. How is each amount entered?

## 2-2: Analyzing How Transactions Affect Owner's Equity Accounts

Decide if each of these accounts INCREASES or DECREASES Owner's Equity

	<u>Owner's Equity</u>	
<b>Expense</b>	-	+
<b>Revenue</b>	DECREASES Owner's Equity	INCREASES Owner's Equity
<b>Withdrawal</b>	<u>Revenue</u>	<u>Expense</u>
	<u>                    </u>	<u>Withdrawal</u>

### 3-1 Recording Transactions and the General Journal

<b>check</b>	A form for recording transactions in chronological order.
<b>double-entry accounting</b>	Recording transactions in a journal.
<b>entry</b>	Information for each transaction recorded in a journal.
<b>invoice</b>	The recording of debit and credit parts of a transaction.
<b>journal</b>	A business paper from which information is obtained for a journal entry.
<b>journalizing</b>	A business form ordering a bank to pay cash from a bank account
<b>memorandum</b>	A form describing the goods or services sold, the quantity, the price, and the terms of sale.
<b>receipt</b>	An invoice used as a source document for recording a sale on account
<b>sales invoice</b>	A business form giving written acknowledgement for cash received.
<b>source document</b>	A form on which a brief message is written to describe a transaction.

### 3-2: Transactions Affecting Prepaid Insurance and Supplies

Match the accounts with their account category.

<b>Asset</b>	Sales
<b>Liability</b>	Accounts Payable – Supply Mart
<b>Owner's Equity</b>	Prepaid Insurance
	Norma Dirks, Drawing
	Rent Expense

### 3-3: Transactions Affecting Owner's Equity and Asset Accounts

Match the accounts with their correct Normal Balance.

<b>Debit</b>	Sales
<b>Credit</b>	Accounts Payable – Supply Mart
	Prepaid Insurance
	Norma Dirks, Drawing
	Rent Expense
	Accounts Receivable – K. Spah

### 3-4: Starting a New Journal Page

**When do we start a new journal page?**

When there isn't enough room to complete the next entry

**Why do we cross through versus erase incorrect entries?**

To leave no questions – that way auditors can see our trail. The corrections should be apparent and not hidden.

### 4-1: Chart of Accounts and Account Maintenance

account number	A group of accounts
file maintenance	A ledger that contains all accounts needed to prepare financial statements.
general ledger	The number assigned to an account.
ledger	The procedure for arranging accounts in a general ledger, assigning account numbers, and keeping records current.
opening an account	Writing an account title and number on the heading of an account.

### 4-2: Posting from the General Journal to General Ledger & Proving Cash

posting	Transferring information from a journal entry to a ledger account.
proving cash	Determining that the amount of cash agrees with the balance of the cash account in the accounting records.

**What is the new account balance for Accounts Receivable?**

ACCOUNT Accounts Receivable					ACCOUNT NO. 113	
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
2019 Jul. 29		P1	1095.00		1095.00	
	30	G3		235.00	860.00	

### 4-3: Journalizing Correcting Entries and Correcting Posting Errors

If we posted a number incorrectly on a general ledger, we generally must correct TWO columns or areas on the General Ledger. Which two columns?

Either the debit/credit  
and the account balance.

If a journal entry is already posted to the general ledger, how do we correct the entry?

We must journalize a correcting entry and post the corrections.

### 5-1: Checking Accounts

<b>blank endorsement</b>	A bank account from which payments can be ordered by a depositor.
<b>checking account</b>	A bank form which lists the checks, currency, and coins an account holder is adding to a bank account.
<b>deposit slip</b>	A signature or stamp on the back of a check transferring ownership.
<b>endorsement</b>	An endorsement consisting only of the endorser's signature.
<b>postdated check</b>	An endorsement indicating a new owner of a check.
<b>restrictive endorsement</b>	An endorsement restricting further transfer of a check's ownership.
<b>special endorsement</b>	A check with a future date on it.
<b>voided check</b>	A check that cannot be processed because the maker has made it invalid.

### 5-2: Bank Reconciliation

**When do we place a check mark on a check stub?**

List four reasons why bank records and the account owner's records may be different:

We place a checkmark on the check stub when checks have cleared the bank (also known as a "cancelled check", a check that has been cashed.)

1. Checks may not have been cashed yet. (Outstanding)
2. Deposits may not be entered yet. (Outstanding)
3. Service charges may not be entered in personal records yet.
4. There may be errors in records on either side.

### 5-3: Dishonored Checks and Electronic Banking

<b>debit card</b>	A check that a bank refuses to pay.
<b>dishonored check</b>	A check dishonored by the bank because of insufficient funds in the account of the maker of the check.
<b>electronic funds transfer</b>	A computerized cash payments system that transfers funds without the use of checks, currency, or other paper documents.
<b>non-sufficient funds check</b>	A bank card that automatically deducts the amount of a purchase from the checking account of the cardholder.

### 5-4: Petty Cash

<b>cash over</b>	An amount of cash kept on hand and used for making small payments.
<b>cash short</b>	A form showing proof of a petty cash payment.
<b>petty cash</b>	A petty cash on hand amount that is less than the recorded amount.
<b>petty cash slip</b>	A petty cash on hand amount that is more than the recorded amount.

### 6-1: Creating a work Sheet

#### Consistent Reporting

fiscal period

fiscal year

work sheet

trial balance

A columnar accounting form used to summarize the general ledger information needed to prepare financial statements.

A proof of the equality of debits and credits in a general ledger.

The length of time for which a business summarizes its financial information and reports its financial performance.

A fiscal period consisting of 12 consecutive months.

The same accounting procedures are followed in the same way in each accounting period.

### 6-2: Planning Adjusting Entries on a work Sheet

prepaid expense

\*accrual basis of accounting

cash basis of accounting

adjustments

Reporting income when earned and expenses when incurred.

Changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period.

Reporting income when the cash is received and expenses when the cash is paid.

Cash paid for an expense in one fiscal period that is not used until a later period.

**Put a star by the form of accounting that is accepted by GAAP.**

### 6-3: Completing the work Sheet and Finding Errors on a work Sheet

**Match the accounts with their correct financial statement.**

Income Statement

Balance Sheet

Sales

Accounts Receivable – Main Street Services

Prepaid Insurance

Rent Expense

Cash

## 7-1: Preparing an Income Statement

financial accounting	The area of accounting which focuses on reporting information to external users.
financial ratio	The area of accounting that focuses on reporting information to internal users.
managerial accounting	A comparison between two components of financial information. Prepaid Insurance
ratio analysis	The calculation and interpretation of a financial ratio.
return on sales (ROS)	The ratio of net income to total sales.
vertical analysis	Reporting an amount on a financial statement as a percentage of another item on the same financial statement.

### Label the Income Statement:

Revenue
Sales
Expenses
Advertising Expense
Cash Short and Over
Communications Expense
Equipment Rental Expense
Insurance Expense
Miscellaneous Expense
Supplies Expense
Total Expenses
Net Profit/Loss

How is the date listed on an income statement? (circle one)

For Month Ended May 31, 2019

(OR)

May 31, 2019

## 7-2: Preparing a Balance Sheet

### Label the Balance Sheet

Assets		Liabilities	
Cash	2 5 9 7 00	Accts. Pay.—Canyon Office Sup.	1 2 0 00
Petty Cash	1 0 0 00	Accts. Pay.—Mountain Graphic Arts	1 0 5 00
Accts. Rec.—Main Street Services	3 0 0 00	Total Liabilities	2 2 5 00
Accts. Rec.—Valley Landscaping	4 0 0 00	Owner's Equity	
Supplies	9 0 00	Michael Delgado, Capital	4 0 1 2 00
Prepaid Insurance	7 5 0 00		

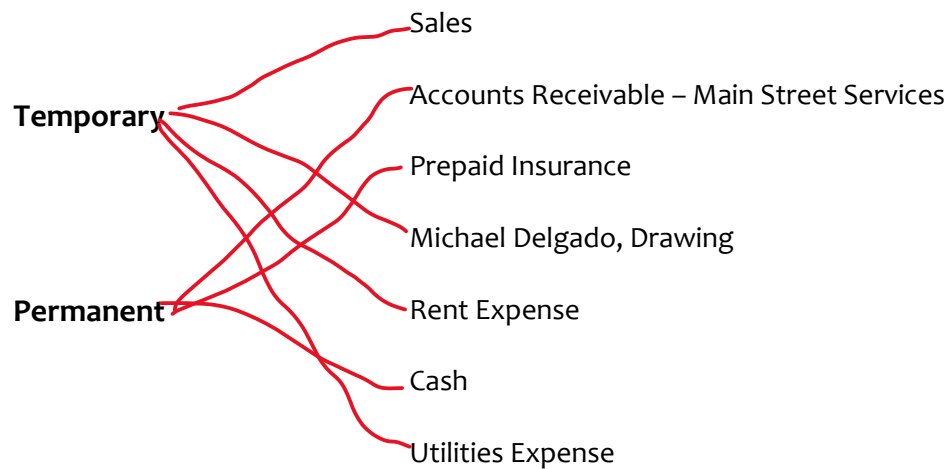
How is the date listed on a balance sheet? (circle one)

For Month Ended May 31, 2019 (OR) May 31, 2019



**8-1: Recording Closing Entries**

Classify the accounts as either temporary or permanent by drawing lines.

**8-2: Preparing a Post-Closing Trial Balance**

Temporary accounts should have a debit/credit/zero (circle one) balance after closing entries are posted.

This temporary account is only used during the closing entry process: Income Summary. We use it to close our Income Summary accounts into our Capital account.

Order the steps in the Accounting Cycle from 1 to 8:

- 4 Prepare a Worksheet
- 2 Journalize
- 5 Journalize and Post Adjusting Entries
- 7 Journalize and Post Closing Entries
- 1 Analyze Transactions
- 8 Prepare a Post-Closing Trial Balance
- 6 Prepare Financial Statements
- 3 Post