

Name: _____

Lesson 1-1: Accounting in Action

Objectives: LO1: Describe the different users of accounting information.

LO2: Prepare a net worth statement and explain its purpose.

A. The Role of Accounting

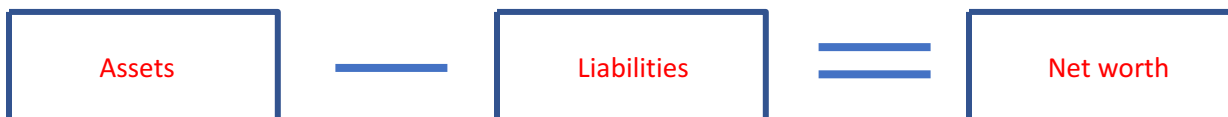
- Information must be documented and **reports** must be created in order for accounting information to be useful. **Business Owners, Managers, investors, and others** use these reports to make important business decisions.

B. What is Accounting?

- Accounting is often referred to as “**language of business**” Inaccurate **accounting records** can make a business fail.
- Accounting: **is the process of planning, recording, analyzing, and interpreting financial information**
 - Accounting involves **analyzing** and **interpreting** a business’s daily actions to determine if the business is making a profit and to plan for the future.
- Accounting System: **is a planned process designed to compile financial data and summarize the results in accounting records and reports.**
- Financial Statements: **Financial reports that summarize the financial condition and operations of a business.**
 - Business owners use **financial statements** to make good business decisions.

C. Accounting in Personal Life

- Net Worth Statement: **formal report that shows what someone owns, owes, and the difference.**
- Asset: **something of value owned**
 - AKA: What we **OWN**
 - An example? **Car, house, computer**
- Liability: **An amount owed**
 - AKA: What we **OWE**
 - An example? **IOU, Car loan, credit card bill**



- Personal Net Worth: **The difference between personal assets and personal liabilities**

- When we are talking about accounting for a business, we call Net Worth this **equity** (the difference between the assets and liabilities).
- When we create a personal Net Worth Statement, accounts should be listed in DECREASING order (highest number at top).
- What is one example where a nonaccountant would use accounting? **to check financial strength**
- **Maybe need a car loan or house?**
- A double rule on a financial statement indicates a **total from a calculation**.

| | | | |
|---|-------------------|---------------------|----------|
| | | Saida Khelchy | |
| | | Net Worth Statement | |
| | | September 27, 20-- | |
| | | | |
| | | Assets | |
| ① | Total Assets | Savings Account | 2,000.00 |
| | | Class Ring | 250.00 |
| | | Total Assets | 2,250.00 |
| | | | |
| | | Liabilities | |
| ② | Total Liabilities | Owed to Parents | 50.00 |
| | | Ace Electronics | 125.00 |
| | | Total Liabilities | 175.00 |
| | | | |
| ③ | Net Worth | Net Worth | 2,075.00 |

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

D. Ethics in Business

- Ethics: **The principles of right and wrong that guide an individual in making decisions.**
- Business ethics: **use of ethics in making business decisions**
- Ethics and laws are NOT the same. Something may be unethical, but not against the law. Can you think of an example? **Being late for work – against the law? Ethical?**
(Use google if you can't think of one!)
- Why is it so important for Accountants to behave ethically? **Dealing with a lot of \$\$ - can really harm a business**

Check yourself!

1. What is accounting? **Accounting is the process of planning, recording, analyzing, and interpreting financial information.**
2. Why is accounting called the language of business? **Accounting provides financial information to everyone who needs it to make good business decisions.**
3. Describe a scenario in which you, as a nonaccountant, might use accounting. **Answers may include creating a personal budget or providing information for a loan or credit card application.**

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

Objectives: LO3: Classify accounts as assets, liabilities, or owner's equity and demonstrate their relationship in the accounting equation.

LO4L: Analyze the effects of transactions on the accounting equation.

LO5: Distinguish between cash and on account transactions.

A. The Business – Delgado Web Services

- What is a business? the purchase and sale of products or services to make a profit.
(use google or a dictionary if you are unsure!)
- Service business: A business that performs an activity for a fee
 - List an example of a service business: lawncare, dentist, masseuse
- Proprietorship: a business owned by one person
 - In a proprietorship, the owner is responsible for all money owed to someone else, the unlimited liability is a disadvantage.
- Business plan: a formal written document that describes the nature of a business and how it will operate.

B. Accounting Standards and Rules

- The accounting rules and standards that accountants follow are called generally accepted accounting principles (AKA GAAP “gap”)
 - Following GAAP ensures consistent reporting meaning everyone is reporting using the same guidelines.
- **GAAP- UNIT OF MEASUREMENT:**
- What Unit of Measurement does the US use? Dollars
- **GAAP- BUSINESS ENTITY:**
- This means a business owner cannot count his personal boat as a business expense 😊

C. The Accounting Equation

- Anything of value that is owned is an Asset. Assets have value because they can either be used in the business or used to buy things for the business.
- Equities: Financial rights to the assets of a business
 - A business has two kinds of equities: 1. Equity to whom money is owed (liability)
2. Equity of the owner
- An amount owed by a business is called a liability

- Owner's Equity: The amount remaining after the value of all liabilities is subtracted from the value of all assets.
- Accounting Equation: The relationship between _____, _____, & _____.



*******The accounting equation *MUST ALWAYS* be in **BALANCE****
The total on the left must ALWAYS equal the total of the right*****

- When a business spends or receives money, it engages in business activity.
 - Transaction: any business activity that changes assets, liabilities, or owner's equity
 - Account: A record that summarizes all the transactions pertaining to a single item in the accounting equation
 - To see a list of Delgado Web Services accounts (Chart of Accounts), refer to page 3.
 - Account Title: name given to an account
 - Account Balance: difference between increases and decreases in an account.
 - Capital account: An account used to summarize the owner's equity in a business
 - The capital account is basically the amount of the business's equity that the owner has a right to, after all debts are paid off.
 - **Cash** can include a bank checking account, savings account, and cash on hand.
1. Pg 14 – Transaction 1: Which two accounts are being affected? **Cash, Michael Delgado, Capital**
 - This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced.
 2. Pg 15—Transaction 3: Which two accounts are being affected? Cash, **Prepaid Insurance**
 - This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced.

| | Assets | | | = | Liabilities | + | Owner's Equity |
|-------------------------|---------|------------|---------------------|---|-------------|---|--------------------------|
| | Cash | + Supplies | + Prepaid Insurance | = | | | Michael Delgado, Capital |
| Balances | \$2,000 | | | | \$0 | | \$2,000 |
| Paid cash for supplies | -165 | +165 | | | | | |
| New Balances | \$1,835 | \$165 | | | \$0 | | \$2,000 |
| Paid cash for insurance | -900 | | +900 | | | | |
| New Balances | \$935 | \$165 | \$900 | | \$0 | | \$2,000 |

- If a transaction affects only one side of the accounting equation, one account must **increase** and one account must **decrease** to keep the equation in balance.
 - Insurance premiums are paid BEFORE they are used, so they are called: **prepaid**.
 - Buying on account is like going to a coffee shop and telling the owner you will pay tomorrow. You RECEIVE the product/service NOW, but you PAY for it LATER. The coffee shop would be a **creditor**, as you owe them \$\$.

Creditor: **A person or business to whom a liability is owed**
3. Pg 16-Which two accounts are affected in Transaction 5? **Supplies, Cash**

CHECK YOURSELF!

1. Give two examples of service businesses in your area.
Answers should include businesses that perform activities for a fee, such as dry cleaners, car washes, or landscapers.
2. What must be done if a transaction increases the left side of the equation? **The right side must also be increased**
3. How can a transaction affect only one side of the equation? **If one account is increased, another account on the same side of the equation must be decreased by the same amount.**
4. What does the term *on account* mean? **Purchasing on account means buying items or services and paying for them at a future date.**

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

Objectives: LO6: Compare and contrast the types of transactions that increase and decrease owner's equity.

LO7: Explain the difference between expenses and liabilities.

A. Transactions Affecting Owner's Equity

- Revenue: 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
 - Even if no cash is received, a sale is recorded day the service is performed or good is purchased (when?)
 - **GAAP: REALIZATION OF REVENUE**: Revenue is recorded on the day the service is performed or good purchased.
1. Pg. 18 – Transaction 7: Which two accounts are being affected? Revenue, Accts. Rec. – Main Street Services
- Expense: an amount that is owed, the cost of goods or services used to operate a business
 - Give an example of an expense that the school (or another business) might have. Utilities Expense, Miscellaneous expense, fuel expense
 - Remember, expense is a cost of doing business, whereas a liability is debt owed to someone.
2. Which two accounts are affected when CASH IS RECEIVED ON ACCOUNT (Pg. 20; Transaction 10)? Cash, Accounts Receivable – Main Street Services
- Withdrawal: Assets taken from the business for the owner's personal use
 - When the owner of a business takes money (or any asset) from the business for PERSONAL use, it is not considered an expense because it is not a cost of normal business actions.
3. Which two accounts are affected when the owner withdraws money for personal use? (Pg. 20; Transaction 11)
Cash, Michael Delgado, Drawing

| Transaction Number | Kind of Transaction | Change in Owner's Equity |
|------------------------------|----------------------------|--------------------------|
| 6 | Revenue (cash) | +1,100.00 |
| 7 | Revenue (on account) | +500.00 |
| 8 | Expense (communications) | -80.00 |
| 9 | Expense (equipment rental) | -400.00 |
| 11 | Withdrawal of equity | -350.00 |
| Net change in owner's equity | | +770.00 |