Golden Plains High School
Accounting I
Chapter 1-Starting a Proprietorship: Changes That Affect the Accounting Equation
Notes

Review: Discuss Accounting in the Real World p. 5

Examine newspaper job openings for accounting skills required

Assign Students to Read Ch. 1 and complete the terms p. 4. (Students may hand-write them on handout or do on word processor)

Discuss: What is Accounting? P. 6

<u>Accounting</u>-Planning, recording, analyzing, and interpreting financial information.

<u>Accounting System</u>-a planned process for providing financial information that will be useful to management.

<u>Accounting Records</u>-organized summaries of a business's financial activities.

Accounting is the language of business.

Many people prepare accounting forms/reports
Owners, managers, and accounting personnel use the information to make business decisions

Individual employees do a better job if they understand accounting

Financial statements-financial reports that summarize the financial condition and operations of a business. Used by vendors/loan officers/creditors to make decisions.

Inaccurate Records can lead to poor decisions/business failure

Nearly everyone in the US must file income tax reports

The Business-TechKnow Consulting

A Service Business is a business that performs an activity for a fee.

(name some locally)

A Proprietorship is a business owned by one person.

--also called a sole proprietorship

CONCEPT: Business Entity--a business's financial information is recorded and reported separately from the owner's personal financial information. (Appendix A lists all ten accounting concepts)

BUSINESS Structures (p. 7)

Advantages/Disadvantages of Proprietorship

Discuss: The Accounting Equation p. 8

Anything of value that is owned is an Asset.
Financial rights to the assets of a business are equities.
Two types of equities:

> Liabilities--Equity of those to whom money is owed
> Owner's Equity--the amount remaining after the value of all liabilities is subtracted from the value of all assets.

The Accounting Equation is an equation showing the relationship among assets, liabilities, and owner's equity. It must be in balance (equal) to be correct!!! (Left side must always equal right side.

Assets = Liabilities + Owner's Equity

Practice: Complete Work Together/On Your Own p. 9

Assign: Application Problem 1-1 p. 19

Discuss Section 1-2: How Business Activities Change the Accounting Equation

A Transaction is a business activity that changes assets, liabilities, or owner's equity.

CONCEPT: Unit of Measurement--using a common unit of measurement in recording business transactions. (the dollar in the US)

An <u>account</u> is a record summarizing all the information pertaining to a single item in the accounting equation.

The name given to an account is the <u>Account Title</u>.

The amount in an account is called the <u>Account Balance</u>.

The account used to summarize the owner's equity in a business is called <u>Capital</u>.

<u>Transaction #1--Received Cash from the owner as investment.</u> (P. 10)
Increase Cash Account (Asset) 10,000
Increase Capital Account (Owner's Equity) 10,000

Equation still in balance!

<u>Transaction #2--Paid Cash for Supplies (p. 11</u>)
Decrease Cash $1577.00 (asset)
Increase Supplies $1577.00 (asset)

<u>Transaction #3--Paid Cash for Insurance (p. 12)</u>
Decrease Cash $1200.00 (asset)
Increase Prepaid Insurance $1200.00 (asset)

<u>Transaction #4--Bought Supplies on Account</u> (p.12)
Increase Supplies $2720.00 (asset) Increase Accounts Payable/Ling Music Supplies 2720.00 (liability)

Transaction #5--Paid Cash on Account (p.12)
Decrease Cash $1360.00 (asset)
Decrease Accounts Payable/Ling Music Supplies $1360.00 (liability)

Practice: Complete Work Together/On Your Own p. 13

Assign: Application Problem 1-2

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

A transaction for the sale of goods or services results in an increase in owner's equity. An increase in owner's equity resulting from the operation of a business is called **REVENUE**

Transaction # 6—Received Cash From Sales (p. 14)
Increase Cash (asset) $295
Increase Capital (owner's equity) $295

A sale for which cash will be received at a later date is a **SALE ON ACCOUNT**.

Transaction #7 Sold services on account to Oakdale School
Increase Accounts Receivable/Oakdale School (asset)
Increase Capital (revenue)

A transaction to pay for goods or services needed to operate a business results in a decrease in owner's equity. A decrease in owner's equity resulting from the operation of a business is called an **<u>EXPENSE.</u>**

<u>Transaction #8 Paid Cash for Rent</u>
Decrease capital (expense)
Decrease Cash (asset)

<u>Transaction #9 Paid Cash for Telephone Bill</u>
Decrease capital (expense)
Decrease Cash (asset)

***All Expenses affect accounting equation the same way.

<u>Transaction #10 Received cash on account from Oakdale School</u>
Increase Cash (asset)
Decrease Accounts Receivable/Oakdale School (asset)

Assets taken out of a business for the owner's personal use are called **<u>WITHDRAWALS</u>**. Withdrawals decrease owner's equity. Withdrawals are NOT an expense!

<u>Transaction #11 Paid Cash to owner for personal use.</u>
Decrease Cash (asset)
Decrease Capital (withdrawal)

ACCOUNTING EQUATION MUST REMAIN IN BALANCE AFTER EVERY TRANSACTION!!!

Practice: Complete Work Together/On Your Own p. 17

Assign: Application Problem 1-3 p. 20

Formative Assessment: Assign Mastery Problem 1-4 p. 21

Assign Challenge Problem 1-5 p. 22

Prepare for Summative Assessment:
Complete Study Guide 1--handout
Examine Cases for Critical Thinking/Graphing/Analyze
Financial Statement. p. 23
Review for Exam

Summative Assessment--Ch. 1 Quiz--Concept &
Application

Automated Accounting Activity:
Review Accounting Software-Quickbooks p. 24

Continue with Ch. 2