

Name: _____

ACCOUNTING I

Chapter 1-- Starting a Proprietorship: Changes that Affect the Accounting Equation

Lesson 1-1: Accounting in Action

Learning Targets:

- Describe the different users of accounting information.
- Prepare a net worth statement and explain its purpose.

A. The Role of Accounting

- Data must be recorded and _____ in accounting reports. Then, the information can be provided to _____, _____, _____, and _____ to make business decisions and measure performance.

B. What is Accounting?

- Accounting is often referred to as “_____”. Inaccurate _____ can make a business fail.
- Define Accounting:
 - Accounting involves _____ and _____ a business’s operations to determine its financial well-being and plan its future success.
- Define Accounting System:
- Define Financial Statements:
 - Business owners and managers use _____ to make good business decisions.

C. Accounting in Personal Life

- Define Net Worth Statement:
- Asset:
 - AKA: What we **OWN**
 - An example? _____
- Liability:
 - AKA: What we **OWE**
 - An example? _____

TOTAL ASSETS - LIABILITIES = NET WORTH

- Personal Net Worth:
 - When we are talking about accounting for a business, net worth is called _____ (the difference between the assets and liabilities).
 - What is one example where a non-accountant would use accounting?
 - A double rule on a financial statement indicates _____.

		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

- Define Ethics:
- Define Business Ethics:
- Ethics and laws are NOT the same. Something may be unethical, but not against the law. Can you think of an example? _____
(Use google if you can't think of one!)
- Why is it so important for Accountants to behave ethically?

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

Learning Targets:

- Classify accounts as assets, liabilities, or owner's equity and demonstrate their relationship in the accounting equation.
- Analyze the effects of transactions on the accounting equation.
- Distinguish between cash and on account transactions.

A. The Business – Delgado Web Services

- What is a business? _____
(use google or a dictionary if you are unsure!)
- Define Service Business:
 - List an example of a service business: _____
- Define Proprietorship:
 - In a proprietorship, the owner is responsible for all money owed to someone else, the _____ is a disadvantage.
- Define Business Plan:

B. Accounting Standards and Rules

- The accounting rules and standards that accountants follow are called _____
_____ (AKA GAAP "gap")
 - Following GAAP ensures _____, meaning everyone is reporting using the same guidelines.
- Define **GAAP Concept--UNIT OF MEASUREMENT**:
 - What Unit of Measurement does the U.S. use? _____
- Define **GAAP Concept--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 _____. _____ have value because they can either be used in the business or used to buy things for the business.
- Define Equities:
 - A business has two kinds of equities: 1. _____
2. _____

- An amount owed by a business is called a _____.
- Define Owner's Equity:
- Accounting Equation: The relationship among _____, _____, & _____.

$$\underline{\hspace{2cm}} = \underline{\hspace{2cm}} + \underline{\hspace{2cm}}$$

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

D. Receiving Cash

- When a business spends or receives money, it _____ in a _____
 _____.
- Define Transaction:
- Define Account:
 - To see a list of Delgado Web Services accounts (Chart of Accounts), click on [The Business: Delgado Web Services](#) immediately before Chapter 1 in MindTap.
 - Define Account Title:
 - Define Account Balance:
 - Define Capital Account:
 - 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.
 - _____ can include a bank checking account, savings account, and cash on hand that belongs to the business.
- Received cash from owner as an investment, \$2000.00.

	Assets	=	Liabilities	+	Owner's Equity
	Cash	=			Michael Delgado, Capital
Beginning Balances	\$0		\$0		\$0
Received cash from owner as an investment	+2,000		0		+2,000
New Balances	\$2,000		\$0		\$2,000

- Which two accounts are affected?
- This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]

E. Paying Cash

- Paid cash for supplies, \$165.00

	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

- Which two accounts are affected?
- This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]
- If a transaction affects only one side of the accounting equation, one account must _____ and one account must _____, to keep the equation in balance.
- Insurance premiums are paid BEFORE they are used, so they are called: _____.

F. Transactions on Account

- 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 \$\$.
- Define Creditor:
- Bought supplies on account from Cannon Office Supplies, \$220.00 [See image below.]
 - Which two accounts are affected?
 - This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]

	Assets			=	Liabilities	+	Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Canyon Office Supplies	+	Michael Delgado, Capital
Balances	\$935	\$165	\$900		\$0		\$2,000
Bought supplies on account		+220			+220		
New Balances	\$935	\$385	\$900		\$220		\$2,000
Paid cash on account	-100				-100		
New Balances	\$835	\$385	\$900		\$120		\$2,000

- **Paid cash on account to Cannon Office Supplies, \$100.00 [See image above.]**
 - Which two accounts are affected?
 - This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]

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

Learning Targets:

- Compare and contrast the types of transactions that increase and decrease owner's equity.
- Explain the difference between expenses and liabilities.

A. Transactions Affecting Owner's Equity

- Define Revenue:
- Define Sale on account:
 - Regardless of when payment is made, the revenue should be recorded at the _____.
- Define **GAAP Concept-- REALIZATION OF REVENUE**:
- **Received cash from sales, \$1,100.00. [See image below.]**
 - Which two accounts are being affected?
 - This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]

	Assets				=	Liabilities + Owner's Equity	
	Cash +	Accts. Rec.— Main Street Services	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Canyon Office Supplies	+ Michael Delgado, Capital
Balances	\$835	\$0	\$385	\$900		\$120	\$2,000
Received cash from sales	+1,100						+1,100 (revenue)
New Balances	\$1,935	\$0	\$385	\$900		\$120	\$3,100
Sold services on account		+500					+500 (revenue)
New Balances	\$1,935	\$500	\$385	\$900		\$120	\$3,600

- **Sold services on account to Main Street Services, \$500.00. [See image above.]**
 - Which two accounts are being affected?
 - This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]

B. Expense Transactions

- Define Expense:
 - Give an example of an expense that the school (or another business) might have.
 - Remember, _____ is a cost of doing business, whereas a _____ is debt owed to someone.
- **Paid cash for communications bill for cell phone and internet service, \$80.00.**

	Assets				=	Liabilities + Owner's Equity	
	Cash +	Accts. Rec.— Main Street Services	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Canyon Office Supplies	+ Michael Delgado, Capital
Balances	\$1,935	\$500	\$385	\$900		\$120	\$3,600
Paid cash for communications bill	-80						-80 (expense)
New Balances	\$1,855	\$500	\$385	\$900		\$120	\$3,520

- Which two accounts are being affected?
- This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]

C. Other Cash Transactions

- **Received cash on account from Main Street Services, \$200.00. [See image below.]**

- Which two accounts are being affected?
- This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]

	Assets				=	Liabilities	+	Owner's Equity
	Cash +	Accts. Rec.— Main Street Services	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Canyon Office Supplies	+	Michael Delgado, Capital
Balances	\$1,455	\$500	\$385	\$900		\$120		\$3,120
Received cash on account	+200	-200						
New Balances	\$1,655	\$300	\$385	\$900		\$120		\$3,120
Paid cash to owner for personal use	-350							-350 (withdrawal)
New Balances	\$1,305	\$300	\$385	\$900		\$120		\$2,770

- Define Withdrawal:
 - When the owner of a business takes money (or any asset) from the business for PERSONAL use, it is not considered an _____, because it is not a cost of normal business actions.
- Michael Delgado withdrew equity in the form of cash, \$350.00. [See image above.]
 - Which two accounts are being affected?
 - This changes an account balance on **one/both** side(s) of the accounting equation, keeping the equation balanced. [Highlight the correct answer.]