

Name: _____

Accounting

Chapter 1

The purpose of accounting is to:

- (1) _____, _____, and _____ the economic events of an
- (2) organization to
- (3) _____ users.

There are 3 main activities in accounting

- 1.
- 2.
- 3.

There are 3 types of accounting

- _____ Accounting - Information describing financial resources (assets), obligations (liabilities), and activities of an economic entity (A \$ picture of the company)
- _____ Accounting - Accounting information to assist in management decisions
- _____ Accounting - Accounting information specializing in income tax returns

There are 2 types of users:

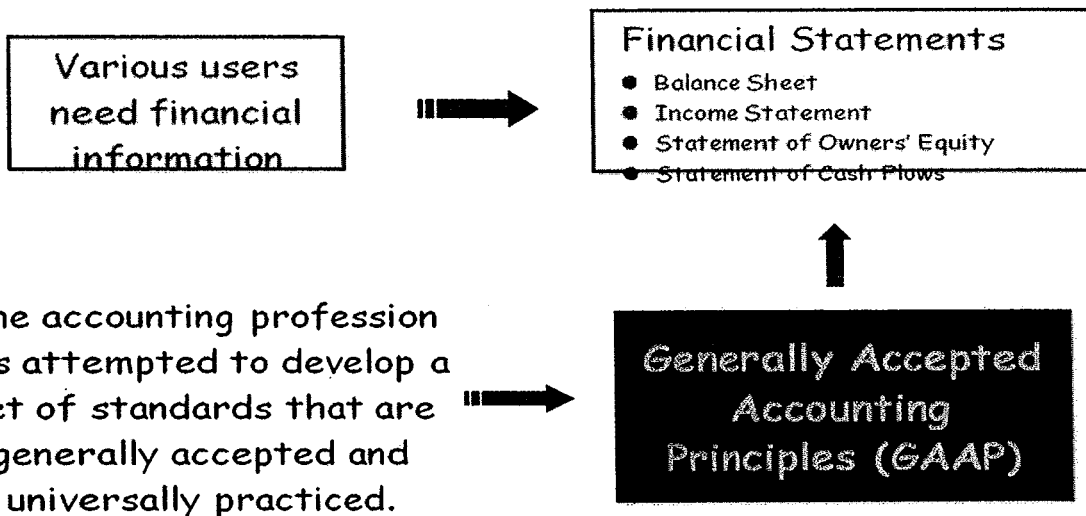
1. _____ or inside the business. Some examples are:
2. _____ or outside the business. Some examples are:

Common Questions Asked

User

- Can we afford to give our employees a pay raise? →
- Did the company earn a satisfactory income? →
- Do we need to borrow in the near future? →
- Is cash sufficient to pay dividends to the stockholders? →
- What price for our product will maximize net income? →
- Will the company be able to pay its short-term debts? →

Why is there such an emphasis on ethics?



Organizations involved in setting standards:

-
-
-

Important Accounting Terms:

Cost Principle (Historical) – dictates that companies record assets at their _____.

- Reported at cost when purchased and also over the _____ the asset is held.
- Cost easily _____, whereas market value is often _____.
- Fair value information may be more useful.

_____ **Assumption** – in the long run the dollar will remain stable and does not lose purchasing power.

_____ **Principle** – describes asset valuations that are factual and can be _____ by independent experts.

Going Concern Principle – Assumption that the business will continue operating in the _____.

_____ **Unit Assumption**– Assumption that only data that is expressed in terms of money be included in the accounting records.

Economic (Business) Entity Assumption – requires that activities of the entity (business) be kept _____ and distinct from the activities of its _____ and all other economic entities.

Forms of Ownership:

Proprietorship

Partnership

Corporation

Ethics in Financial Reporting:

Standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair, are Ethics.

- Recent financial scandals include: Enron, WorldCom, Tyco, HealthSouth, AIG, and others.
- Congress passed Sarbanes-Oxley Act of 2002.
- Effective financial reporting depends on sound ethical behavior.

THE BASIC ACCOUNTING EQUATION!!

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

Provides the **underlying framework** for recording and summarizing economic events.

Assets are claimed by either creditors or owners.

Claims of creditors must be paid before ownership claims.

Assets

- Resources a business _____.
- Can be _____ or _____.
- Provide future services or _____.
- Examples:

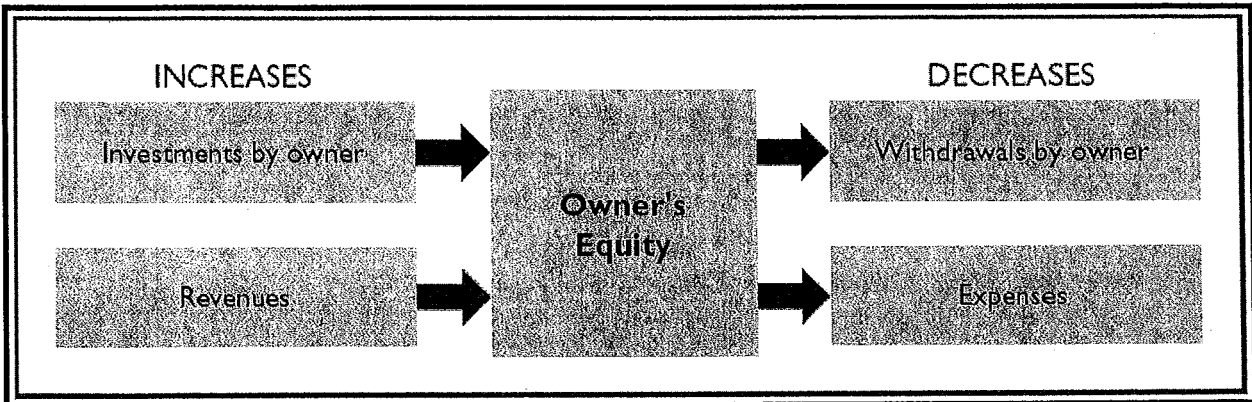
Liabilities

- Claims _____ assets (debts and obligations).
- _____ - party to whom money is owed.
- Examples:

Owners' Equity

- Ownership _____ on total assets.
- Referred to as residual equity.
- Examples:

How Owners' Equity Increases or Decreases:



Revenues result from business activities entered into for the purpose of earning _____.

- Common sources of revenue are:

Expenses are the cost of _____ or _____ used in the process of earning revenue.

- Common expenses are:

Transactions are a business's economic events _____ by accountants. I.E.

- May be external or internal.
- Not all activities represent transactions.
- Each transaction has a _____ on the accounting equation.

Are the following events recorded in the accounting records?

Event	Supplies are purchased on account.	An employee is hired.	Owner withdraws cash for personal use.
--------------	------------------------------------	-----------------------	--

Criterion	Is the financial position (assets, liabilities, or owner's equity) of the company changed?
------------------	--

**Record/
Don't Record**

P1-1A: Barone's Repair Shop was started on May 1 by Nancy. Prepare a tabular analysis of the following transactions for the month of May. (Mention if the transaction is an Investment, Drawings, Revenue, Expense.)

Assets			=	Liabilities	+	Equity
Cash	+ Accounts Receivable	+ Equipment	=	Accounts Payable	+	Barone, Capital

ACCOUNTING

Ex. 1-1 p. 32 text

Boeing Company is the largest manufacturer of commercial aircraft in the US and is a major employer in Seattle, Washington. Explain why each of the following individuals or organizations would be interested in financial information about the company.

- a. **California Public Employees Retirement System**, one of the world's largest pension funds.
- b. **China Airlines**, a rapidly growing airline serving the Pacific Rim.
- c. Henry James, a real estate investor considering building apartments in the Seattle area.
- d. **Boeing's** management
- e. **International Aerospace Machinists**, a labor union representing many Boeing employees.

Name: _____

Accounting Ch. 1-2

Users of Financial Statements

The following are users of financial statements. Identify the users as being either **External User** or an **Internal User**.

_____ Customers

_____ Internal Revenue Service

_____ Labor Unions

_____ Marketing Manager

_____ Production Supervisor

_____ Securities and Exchange Commission

_____ Store Manager

_____ Suppliers

_____ Vice-President of Finance

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ACCOUNTING PRINCIPLES—GAAP

Generally Accepted Accounting Principles

- **Concept of Business Entity**
- **Cost Principle**
- **Objectivity Principle**
- **Going-Concern Principle**

Directions: For each of the cases below, indicate (1) what the appropriate balance sheet value of the asset should be and (2) the *generally accepted accounting principle* that applies to the case.

CASE #1 Forester, Inc. purchased land in 1980 for \$40,000. In September 2005, it purchased an identical parcel of land for \$300,000. Their realtor assessed the land purchased in 1980 to also have a market value of \$300,000. When Forester, Inc. prepared its 2005 balance sheet, the company valued these two parcels of land at a combined amount of \$600,000.

Value of Buildings: _____
GAAP Principle(s): _____

~~CASE #2~~ World-Wide Travel was able to purchase 2 brand new computers from another travel agency that lost two of their agents and were not planning to replace them. The computers originally cost \$3,000 each, but WWT was able to get them for \$2,200. What should WWT record the value of the computers on their balance sheet?

~~Value of Buildings: _____
GAAP Principle(s): _____~~

~~CASE #3~~ Palmer's Rentals is a new business started this year by Palmer Reed. Palmer included on his balance sheet cash valued at \$32,000. This includes \$30,000 of his personal savings that he has plans to use in the near future for a new sports car for himself. He also listed his personal laptop as an asset. Did Reed do a correct valuation of the assets on Palmer's Rentals balance sheet?

~~Value of Buildings: _____
GAAP Principle(s): _____~~

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THE ACCOUNTING EQUATION

Identifying Assets & Liabilities

From the following list of assets and liabilities of a business, identify which ones are assets and which ones represent liabilities. Then record them in the section of the accounting equation below.

Accounts payable

Cash

Citrus trees

Wages payable

Livestock

Irrigation system

Land

Notes payable

Machinery

Accounts Receivable

Barns & sheds

Property taxes payable

Fences & gates

A

=

L

+

OE

Accounting
 Chapter 1 - 5
 Problem

Exercise 1: Compute the missing amounts in the following table:

	Assets	= Liabilities	+ Owners' Equity
1.	\$558,000	\$342,000	?
2.	?	\$562,500	\$375,000
3.	\$307,500	?	\$142,500
4.	\$245,000	\$125,000	?
5.	\$870,000	?	\$124,000
6.	?	\$425,000	\$0

Exercise 2:

A number of business transactions carried out by Cooper Manufacturing Company are as follows:

- a. Borrowed money from a bank.
- b. Sold land for cash at a price equal to its cost.
- c. Paid a liability
- d. Sold land for cash at a price in excess of cost. (Hint: The difference between cost and sales price represents a gain that will be in the company's income statement.)
- e. Purchased a computer on credit.
- f. The owner invested cash in the business.
- g. Purchased office equipment for cash.
- h. Collected an account receivable.

Indicate the effects of each of these transactions on the total amounts of the company's assets, liabilities, and owners' equity. Fill in the chart below by entering an **I** for increase, **D** for decrease, and **NE** for no effect. The answer for transaction a is provided as an example:

Transaction	Assets	= Liabilities	+ Owners' Equity
A	I	I	NE
B			
C			
D			
E			
F			
G			
H			

**The Accounting Equation
Effects of Business Transactions**

Name _____

Directions—Analyze each of the following business transactions, and record how the transaction affects the accounting equation using the chart below.

Transactions for Delta Communications:

1. Delta invested \$25,000 to start his business.
2. Purchased land and a small office building for a total price of \$90,000, of which \$35,000 was the value of the land and \$55,000 was the value of the building. Paid \$22,500 in cash and signed a note payable for the remaining \$67,500.
3. Bought several computer systems on credit for \$8,500.
4. Obtained a loan from Capital Bank in the amount of \$20,000. Signed a Note Payable.
5. Paid the \$8,500 account payable.

Assets = Liabilities + OE

Tran #	Cash	Land	Building	Office Equipment	Notes Payable	AP	Delta, Capital	Explanation
1								
2								
3								
4								
5								
Bal.								

1-7

**The Accounting Equation
Effects of Business Transactions**

Name _____

Directions—Analyze each of the following business transactions, and record how the transaction affects the accounting equation using the chart below.

Transactions for Erica Company:

1. Erica paid \$400 toward her accounts payable.
2. Provided services and sent a bill for \$1,500 to Smith Inc.
3. Erica Jones withdrew \$100 for personal use.
4. Purchased \$5,000 of equipment. Paid \$1,000 in cash and the rest on account.
5. Incurred \$500 of Advertising expenses.
6. Received \$500 from the bill sent to Smith Inc.

Assets = Liabilities + OE

Tran #	Cash	Accts Rec.	Equipment	Accts. Pay	Erica, Capital	Erica, Drawings	Revenue	Expenses	Explanation
1									
2									
3									
4									
5									
6									
Bal.									

**The Accounting Equation
Effects of Business Transactions**

Name _____

Directions—Analyze each of the following business transactions, and record how the transaction affects the accounting equation using the chart below.

Transactions for Grace's Sailing Adventures:

1. Grace invested \$14,000 to start his business.
2. Purchased a sail boat from Chris' Yachts, costing \$28,000. Grace paid \$8,000 in cash and the rest with a Note Payable.
3. Grace rented store space at the lake. She paid the rent for the month of September, \$1,200. (Rent is an expense of running the business)
4. Purchased life jackets for \$650 on account from Safety Co.
5. Weekly sales amounted to \$4,220, of which \$1650 was on account.
6. Paid Utilities expense for the month, \$260 cash
7. Collected \$750 of an accounts receivable.
8. Paid her part-time employees for the first week of business, cash \$500
9. Wrote check in amount of \$450 to Safety Co. for partial payment on account.

Assets = Liabilities + OE

Tran #	Cash	A/R	Sail Boat	Life Jackets	A/P	N/P	Grace, Capital	Explanation
2								
3								
4								
5								
6								
7								
8								
9								
Bal								

The Accounting Equation
Effects of Business Transactions 1-9

Name _____

Directions—Analyze each of the following business transactions, and record how the transaction affects the accounting equation using the chart below. If the transaction affects Owner's Equity provide an explanation.

Transactions for Pat's Primo Pizzeria:

1. Pat invested \$25,000 to start his business.
2. Pat paid \$250 for advertising in the D & C.
3. Pat rented store space in town. He paid the rent for the month of September, \$900.
4. Pat bought an oven, on account, from Justin Time Ovens for \$2,000.
5. Purchased a delivery truck for \$18,000. Pat paid \$8,000 and took a Note for the balance.
6. Purchased Pizza Supplies on account from Meghan's Marinara for \$325.
7. Weekly sales amounted to \$1,650, of which \$950 was on account.
8. Paid Utilities expense for the month, \$260 cash
9. Collected \$475 of an accounts receivable.
10. Wrote check in amount of \$150 to Meghan's Marinara for partial payment on account.
11. Paid his part-time employees for the first two weeks of business, cash \$680

Assets =

Liabilities + OE

Tran #	Cash	A/R	Delivery Truck	Pizza Oven	Pizza Supplies	A/P	N/P	Pat, Capital	Explanation
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
Bl									

**The Accounting Equation
Effects of Business Transactions**

Name _____

Directions—Analyze each of the following business transactions, and record how the transaction affects the accounting equation using the chart below.

Transactions for Will's Chicken Parm:

1. Will invested \$8,000 to start his business.
2. Purchased a commercial fryer from Pat's Appliance, on account for \$1,400
3. Will rented store space at the Pittsford Plaza. He paid the rent for the month of September, \$600. (Rent is an expense of running the business)
4. Purchased baking pans and utensils for \$300 on account from Wilton Co.
5. Purchased flour, sugar and other baking supplies from Cody City Goods, on account for \$350.
6. Weekly sales amounted to \$2,960, of which \$620 was on account.
7. Paid Utilities expense for the month, \$120 cash
8. Collected \$280 of an accounts receivable.
9. Paid his part-time employees for the first two weeks of business, cash \$480
10. Wrote check in amount of \$600 to Pat's Appliance for partial payment on account.

Assets = Liabilities + OE

Tran #	Cash	AR	Commercial Fryer	Cook ware	Baking Supplies	AP	Will, Capital
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							

Bal

Accounting terms and concepts.

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Listed below are several accounting terms and concepts. Match the letter of each with the appropriate phrase which states its meaning.

- | | |
|---|---|
| a. Accounting | j. Monetary unit assumption |
| b. Internal users | k. Economic entity assumption |
| c. External users | l. Proprietorship |
| d. Financial accounting | m. Partnership |
| e. Managerial accounting | n. Corporation |
| f. Ethics | o. Unlimited liability |
| g. Generally accepted accounting principles | p. Limited liability |
| h. Cost principle | q. Financial Accounting Standards Board |
| i. Securities and Exchange Commission | r. Sarbanes-Oxley Act (SOX) |

- ___ 1. Common standards that indicate how to report economic events.
- ___ 2. The standards by which one's actions are judged as right or wrong.
- ___ 3. An unincorporated business owned by one person.
- ___ 4. The information system that identifies, records, and communicates the economic events of an organization to interested users.
- ___ 5. The employees of a business who need financial information to plan, organize, and run a business.
- ___ 6. An accounting principle that states that assets should be recorded at their cost.
- ___ 7. The legal concept that owners are not personally liable for the debts of a corporation.
- ___ 8. The field of accounting that provides economic and financial information for investors, creditors, and other external users.
- ___ 9. An assumption that requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.
- ___ 10. A business organized under state laws as a separate legal entity from its owners and having ownership divided into transferable shares.
- ___ 11. The field of accounting that provides economic and financial information for manager and other internal users.
- ___ 12. The legal concept that the owners of a business are personally liable for all the debts of the business.
- ___ 13. An assumption stating that only transaction data that can be expressed in terms of money be included in the accounting records.
- ___ 14. Individuals or organizations outside the business that require financial information to make decisions about an entity.

- _____ 15. An association of two or more persons to carry on as co-owners of a business for profit.
- _____ 16. A government agency that requires companies to file periodic financial reports in accordance with generally accepted accounting principles.
- _____ 17. A private organization that establishes generally accepted accounting principles.
- _____ 18. A law passed by Congress in 2002 intended to reduce unethical corporate behavior.

1-12 Accounting terms and concepts.

Listed below are several accounting terms and concepts. Match the letter of each with the appropriate phrase which states its meaning.

- | | |
|------------------------------|-----------------------------|
| a. Basic accounting equation | j. External transactions |
| b. Assets | k. Internal transactions |
| c. Liabilities | l. Accounts receivable |
| d. Owner's equity | m. Account payable |
| e. Revenues | n. Income statement |
| f. Expenses | o. Owner's equity statement |
| g. Investments by owners | p. Balance sheet |
| h. Drawings | q. Statement of cash flows |
| i. Transactions | r. Net income |

- _____ 1. A financial statement that reports the assets, liabilities, and owner's equity at a specific date.
- _____ 2. An economic event between the company and some outside enterprise.
- _____ 3. The value of goods or services sold to customers and results in increasing owner's equity.
- _____ 4. Assets must equal the sum of liabilities and owner's equity.
- _____ 5. This amount is the result of revenues being greater than expenses.
- _____ 6. The assets the owner puts into the business.
- _____ 7. The amounts owed to the business by customers on account that result from the sale of goods or services.
- _____ 8. The amount of assets an owner withdraws for personal use.
- _____ 9. A financial statement that summarizes information about the cash inflows and cash outflows for a specific period of time.
- _____ 10. Resources owned by a business.
- _____ 11. The economic events of an enterprise that are recorded by accountants.
- _____ 12. A financial statement that summarizes the change in owner's equity for a specific period of time.
- _____ 13. A specific debt of a business that results from purchases of goods or services.
- _____ 14. The ownership claim on total assets.

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- _____ 15. The cost of assets consumed or services used in the process of earning revenues.
- _____ 16. The creditor's claims against the assets as a result of borrowing money or making purchases.
- _____ 17. A financial statement that presents the revenues and expenses of a company for a specific period of time.
- _____ 18. Economic events that occur entirely within one company.