Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chapter 1 Notes

Starting A Proprietorship: Changes that Affect the Accounting Equation

Section 1.1 – The Accounting Equation

What is Accounting?

* Accounting –
* F S - reports that summarize the financial condition and operation of a business

Types of Business

* S B -

*versus*

* Merchandising Business -
* P - a business owned by one person

Accounting Concept:

B E C - A business's financial information is recorded and reported separately from the owner's personal financial information.

The Accounting Equation

= +

* A - anything of value that is owned
  + Examples:
* Equities –
  + L - equity of those to whom money is owed, an amount owed by a business
  + Owner’s Equity –

Work Together 1-1

Complete the missing part of the accounting equation.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets = Liabilities + Owner’s Equity | | |
| 1 |  | $3,000 | $8,000 |
| 2 | $10,000 |  | $6,000 |
| 3 | $63,000 | $35,000 |  |

Section 1.2 – How Business Activities Change the Accounting Equation

* T –
* A –
* A **B** –

Transactions

Owner’s Equity Account

Liability Account

Asset Accounts

Let’s Record Some Transactions!

For each transaction described below, write the accounts affected and the amount by which each is affected. As you go from problem to problem, carry forward the balances. An example has been given.

Ex) August 1. Received cash from owner as an investment, $5,000.

**Assets = Liabilities + Owner’s Equity**

Cash + Supplies + Prepaid = Accts. Pay., + Kim Park,

Insurance Supply Depot Capital

*Balance* $0 $0 $0 $0 $0

*Transaction* +5,000 +5,000

*New Balance* $5,000 $0 $0 $0 $5,000

1. August 3. Paid cash for supplies, $275.

**Assets = Liabilities + Owner’s Equity**

Cash + Supplies + Prepaid = Accts. Pay., + Kim Park,

Insurance Supply Depot Capital

*Balance* $5,000 $0 $0 $0 $5,000

*Transaction*

*New Balance*

1. August 4. Paid cash for insurance, $1,200.

**Assets = Liabilities + Owner’s Equity**

Cash + Supplies + Prepaid = Accts. Pay., + Kim Park,

Insurance Supply Depot Capital

*Balance*

*Transaction*

*New Balance*

1. August 7. Bought supplies on account from Supply Depot, $500.

**Assets = Liabilities + Owner’s Equity**

Cash + Supplies + Prepaid = Accts. Pay., + Kim Park,

Insurance Supply Depot Capital

*Balance*

*Transaction*

*New Balance*

1. August 11. Paid cash on account to Supply Depot, $300.

**Assets = Liabilities + Owner’s Equity**

Cash + Supplies + Prepaid = Accts. Pay., + Kim Park,

Insurance Supply Depot Capital

*Balance*

*Transaction*

*New Balance*

Work Together 1-2

For each transaction below, write the names of the accounts affected and then denote if each is increased or decreased.

Ex) Paid cash for supplies.

Supplies – increased, Cash - decreased

1. Bought supplies on account from ABC Company.

1. Received cash from owner, Mrs. Burnett, as an investment.
2. Paid cash for insurance.

1. Paid cash on account to ABC Company.

Section 1.3 – How Business Activities Change Owner’s Equity in an Accounting Equation

Accounting Concepts:

U of M C - Business transactions are stated in numbers that have common values (dollars)

Realization of Revenue -

* Revenue –

1. C S
2. S on A -

* E - decrease in owner’s equity resulting from the operation of a business
* Withdrawal -

Work Together 1-3

For each transaction below, place a plus (+) in the appropriate column if the account is increased. Place a minus (-) in the appropriate column if the account is decreased.

1. Received cash from sales.
2. Sold services on account to Bowman Co.
3. Paid cash for telephone bill.
4. Received cash on account from Bowman Co.
5. Paid cash to owner for personal use.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Trans. No. | Assets **=** Liabilities **+** Owner’s Equity | | | | | |
| Cash  **+** | Accts. Rec. – Bowman Co.  **+** | Supplies  **+** | Prepaid Insurance  **=** | Accts. Pay. – Maxwell Co.  **+** | Susan Sanders, Capital |
| 1. |  |  |  |  |  |  |
| 2. |  |  |  |  |  |  |
| 3. |  |  |  |  |  |  |
| 4. |  |  |  |  |  |  |
| 5. |  |  |  |  |  |  |