

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

## Business Principles

### NOTES: Chapter 17.2 – Accounting Basics

#### \*What is Accounting?

- **Accounting:** The systematic process of \_\_\_\_\_ and \_\_\_\_\_ the \_\_\_\_\_ of a person or organization
  - Collect
  - Record
  - Report
- **Accountant:** Maintains and reviews business records (Small firms)

#### \*Auditing

- Audit: \_\_\_\_\_ of accounting \_\_\_\_\_ and \_\_\_\_\_
- “Big Four”- Operate World Wide: Pricewaterhouse Coopers; Deloitte & Touche; Ernst & Young; KPMG

#### \*Importance of Accounting

- *“The language of business”*
  - Vital in communicating how well a business is doing
- Just like a foreign language...
  - Different \_\_\_\_\_
  - Different \_\_\_\_\_
- *Everyone involved in business should understand accounting basics*

#### \*Rules for Accountants

- **Generally Accepted Accounting Principles (GAAP):** \_\_\_\_\_ all accountants use to \_\_\_\_\_
- \_\_\_\_\_ must follow GAAP rules

#### \*Financial Claims in Accounting

- **Assets:** \_\_\_\_\_ and other items of value; owned by business
  - **Current Assets:** Used up or converted into cash in \_\_\_\_\_
  - **Fixed Assets:** Items of value that are held \_\_\_\_\_ one year

**\*Current or Fixed Assets?**

- Land: \_\_\_\_\_
- Merchandise: \_\_\_\_\_
- Cash: \_\_\_\_\_
- Equipment: \_\_\_\_\_
- Office Supplies: \_\_\_\_\_
- Buildings: \_\_\_\_\_

**\*Financial Claims in Accounting**

- **Accounts Receivable:** Total amount of money \_\_\_\_\_ to a business
  - Money \_\_\_\_\_ after goods/services are sold on credit
- **Equity:** Financial claim to all assets; \_\_\_\_\_ of an asset less all claims against it

**\*Financial Claims Cont.**

- **Liabilities:** Creditor's claims to the assets of the business;  
\_\_\_\_\_
  - **Accounts Payable:** \_\_\_\_\_ that a business owes to creditor's
  - Wages, taxes, salaries, etc.
- **Owner's Equity:** Owner's \_\_\_\_\_ to the \_\_\_\_\_ of a business

**\*The Accounting Equation**

- **Accounting Equation:** Rule that all \_\_\_\_\_ must be \_\_\_\_\_ to the sum of all \_\_\_\_\_ plus owner's \_\_\_\_\_

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

- Ensures that all accounting records will be \_\_\_\_\_
- Must always \_\_\_\_\_

**\*The Accounting Equation**

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

**Right Side:** The value of everything owned by a business

**\*The Accounting Equation**

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

**Left Side:** The rights to those assets

### \*A Company Has...

Assets = \$100,000

Liabilities against those assets = \$40,000

What are the owner's rights to the assets (Owner's Equity)?

$$A = L + OE$$

### \*Financial Statements

- **Financial Statements:** Documents that \_\_\_\_\_ business transactions that occur during the \_\_\_\_\_
  1. Income Statement
  2. Balance Sheet
  3. Statement of Cash Flows

### \*Income Statement

- **Income Statement:** Report of the \_\_\_\_\_, \_\_\_\_\_, and net income/loss over an \_\_\_\_\_
- How much money did you make/lose?

$$\text{Revenue} - \text{Expenses} = \text{Net Income/Loss}$$

### \*Net Income or Net Loss?

- If Revenue > Expenses: \_\_\_\_\_
- If Expenses > Revenue: \_\_\_\_\_

### \*Balance Sheet

- **Balance Sheet:** Report of the balances in all assets, liability, and owner's equity accounts at the \_\_\_\_\_ of an accounting period
- Reflects the \_\_\_\_\_
  - Determine if \_\_\_\_\_ (claims against assets) are \_\_\_\_\_ too much

### \*Statement of Cash Flows

- **Cash Flows:** Money that is available to a business at \_\_\_\_\_
- **Statement of Cash Flows:** Report that shows \_\_\_\_\_ and \_\_\_\_\_ money during an accounting period
- Firms can run out of cash even when they've made a profit (sales on credit)

### **\*Accounting Today**

- Computerized Systems
  - Peachtree, QuickBooks, Oracle
- Spreadsheets
  - Microsoft Excel

### **\*Activity: Prepare a Personal Balance Sheet**

- List all of your assets. Price your assets at the cost that you paid for them.
- List your liabilities (debts).
- Figure out how much you have in owner's equity.
- Compare your financial status with someone else in the class.
  - Write a paragraph explaining the similarities/differences.
  - Write 2 financial goals for yourself based on your balance sheet.