Accounting Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Ch. 1 - Starting a Proprietorship

*Introduction*

* What is a *Proprietorship?* A business owned by one person.
* What is *Accounting?*

1. Def. - Planning, recording, analyzing and interpreting

financial information

 2. The language of business.

* What is the *Accounting System?*

A planned process for providing financial information that

will be useful to management.

* What are *Accounting Records?*

Organized summaries of a businesses financial activities.

* Why should you keep Accounting Records?

 1. Inaccurate records can often contribute to business failure

and bankruptcy.

 2. Understanding records helps managers make better

decisions.

 3. Nearly everyone in the US earns money and must submit

income tax reports to the federal & state governments;

therefore, you need to plan ways to keep spending within

available income.

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Background Information (pg. 6)

The Business: Encore Music

The Owner: Barbara Trevino

1. Service Business - Performs an activity for a fee.

(Encore Music provides music lessons for a fee.)

2. (Sole) Proprietorship - A business owned by only one person.

3. Proprietor - Individual who owns a business (Barb Trevino)

4. Costs of the Business

 a. rent office space

 b. rent instruments

5. The owner *must* keep personal $ and business $ separate!!!

**1-1 The Accounting Equation**

 Assets = Liabilities + Owner's Equity

left side amount right side amount

 $0 $0

A. Assets (left side)

 1. Anything of value that is owned.

 2. They are valuable because they can be used to acquire

other assets or to operate a business.

 3. Example: supplies purchased or cash

B. 2 Types of Equity (right side)

 1. **Liabilities**

a. Money that is owed to others.

b. Example: buy supplies today and pay for them later.

 2. **Owner's Equity** - The amount of money remaining after

the value (total) of all liabilities is subtracted from the

value (total) of the assets.

C. Accounting Equation (page 7)

1. Assets (own) = Liabilities (owe) + Owner’s Equity (value)

 2. States the relationship between A, L & OE

 3. It must be in *balance* to be correct.

 a. left side = right side

 b. A = L + OE

**1 - 2 How Business Activities Change the Accounting Equation**

A. What is a Transaction?

1. Transaction – A business activity that changes assets,

liabilities, or owner’s equity.

a. Ex. A business pays cash to purchase supplies.

b. After each transaction the Accounting Equation must

remain in BALANCE!

2. Account – A record summarizing all information

pertaining to a single item in the Accounting Equation.

a. Account Title – name given to an account. (cash)

b. Each part of the accounting equation consists of one

or more accounts.

B. Receiving Cash, pg. 9

Transaction 1 - August 1. Received cash from the owner as an

investment, $10,000.00

1. Cash – Assets Account

a. Account used to summarize information about the

amount of money the business has available.

b. LEFT side of the accounting equation is increased.

2. Capital - Owner’s Equity Account

a. Account used to summarize the owner’s equity (value) in a business.

b. RIGHT side of the accounting equation is increased.

3. Will the Accounting Equation balance? Will the totals of

the left and right sides be equal?

4. Review the Transaction of Receiving Cash

Transaction 1 – August 1, Received $10,000.00 cash from owner as an initial investment.

a. Increase Asset Account (Cash)

b. Increase Owner's Equity Account (BT, Capital)

*Remember: A transaction does not always require that an amount be recorded on both sides of the equation. The same amount may be added and subtracted on the same side.*

C. Paying Cash

1. Paid Cash for Supplies

Transaction 2 – August 3, paid cash for supplies, $1,577.00

a. Decrease Asset Account (Cash)

b. Increase Asset Account (Supplies)

c. The Equation is kept in balance because one account

is increased and one is decreased on the same side of

the equation.

2. Paid Cash for Insurance

a. Insurance Premiums must be paid in advance

(Pre-Paid).

Transaction 3 – August 4. Paid cash for insurance, $1,200.00

b. Asset account is Decreased (Cash)

c. Asset Account is Increased (Pre-Paid Insurance)

D. Transactions on Account

1. Bought supplies on account

a. Purchasing Supplies on Account – buy items now

and pay for them at a future date.

Transaction 4 - August 7. Bought supplies on account from Ling Music Supplies, $2,720.00

b. Increase Asset Account (Supplies)

c. Increase Liability Account, Accounts Payable is

created for Ling Music Supplies.

2. Paid cash on account

a. Paying Cash on Account – Pay part of what you owe

Ling Music Supplies.

Transaction 5 – August 11. Paid cash on account to Ling Music Supplies, $1,360.00

b. Decrease Asset Account (Cash)

c. Decrease Liability Account (Accounts Payable to

Ling Music Supplies)

**1 – 3 Reporting Financial Information on a Balance Sheet**

A. Balance Sheet – A financial statement that reports assets,

 liabilities and owner’s equity on a specific date. (pg. 14)

B. Going Concern Concept – Financial statements are prepared with the expectation that a business will remain in operation indefinitely.

# C. Body of a Balance Sheet

1. Assets – Put on the left side of the Balance Sheet.

2. Liabilities – Put on the right side of the Balance Sheet.

3. Owner’s Equity – Put on the right side of the Balance

Sheet.

# D. Steps to Preparing a Balance Sheet

1. Write the heading centered on the three lines at the top of

the balance sheet.

a. the name of the business Encore Music

b. the name of the report Balance Sheet

c. the date of the report August 11, 2020

2. Prepare the Assets section on the left side of the Balance

Sheet.

a. Center the word Assets on the first line of the wide

column.

b. Write each asset account title under this heading.

3. Prepare the Liabilities section on the right side of the

Balance Sheet.

a. Center the word Liabilities on the first line of the

wide column (on the right).

b. Write each liability account title under this heading.

4. Prepare the Owner’s Equity section on the right side of

the Balance Sheet.

a. Center the words Owner’s Equity on the next blank

line (under L)

b. Write each Owner’s Equity account title under the

heading.

5. Add all the Asset amounts.

6. Add all the Liabilities & Owners Equity amounts.

7. If the totals equal, the balance sheet is in balance.

8. If the totals don’t equal, find errors before completing any

more work.

9. Rule a single line across each amount column.

10. A single line means that amounts are to be added or

subtracted.

11. On the next line on the left side write *total* *Assets* & write

the total amount under the single rule line.

12. On the right side write *Total Liabilities & Owner’s Equity*

and write the total L and OE amount under the single rule

line.

13. Rule double lines below the amount column totals.

(Double rules mean that the totals have been verified as

correct).

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Sample Transactions Covered

Received Cash from Owner as an Investment

* Transaction 1 – August 1, received $10, 000 Cash from owner as an initial investment

+ Cash + Capital

# Paid Cash for Supplies

* Transaction 2 – August 3, paid $1,577 Cash for Supplies

- cash + supplies

# Paid Cash for Insurance

* Transaction 3 – August 4, paid $1,200 Cash for Pre-Paid Insurance

- cash + Prepaid Insurance

Bought Supplies on Account

* Transaction 4 – August 7, bought supplies for $ 2,720 on account from Ling Music Supplies.

+ Supplies + Accounts Payable, Ling Music Supplies

Pay Cash on Account

* Transaction 5 – August 11, Paid $1,360.00 on Account to Ling Music Supplies.

- cash - Accounts Payable, Ling Music Supplies

Ch. 1 Starting a Proprietorship

Instructions for Preparing a Balance Sheet

1. Write the heading centered on the three lines at the top of the balance sheet.

a. the name of the business

b. the name of the report

c. the date of the report

2. Prepare the Assets section on the left side of the Balance Sheet.

a. Center the word Assets on the first line of the wide column.

b. Write each asset account title under this heading.

3. Prepare the Liabilities section on the right side of the Balance Sheet.

a. Center the word Liabilities on the first line of the wide column

b. Write each liability account title under this heading.

4. Prepare the Owner’s Equity section on the right side of the Balance Sheet.

a. Center the words Owner’s Equity on the next blank line (under L)

b. Write each Owner’s Equity account title under the heading.

5. Add all the A amounts.

6. Add all the L & OE amounts.

7. If the totals equal, the balance sheet is in balance.

8. If the totals don’t equal, find errors before completing any more work.

9. Rule a single line across each amount column.

10. A single line means that amounts are to be added or subtracted.

11. On the next line on the left side write total Assets & write the total amount under

the single rule line.

12. On the right side write *Total Liabilities & Owner’s Equity* and write the total L and

OE amount under the single rule line.

13. Rule double lines below the amount column totals.

(Double rules mean that the totals have been verified as correct).