Accounting Principles

Thirteenth Edition

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Chapter 1

Accounting in Action

Chapter Outline

Learning Objectives

LO 1 Identify the activities and users associated with accounting.

LO 2 Explain the building blocks of accounting: ethics, principles, and assumptions.

LO 3 State the accounting equation, and define its components.

LO 4 Analyze the effects of business transactions on the accounting equation.

LO 5 Describe the four financial statements and how they are prepared.

Accounting Activities and Users

Accounting consists of **three activities**

1. **Identification** – Identify economic events (relevant to its business)
2. **Recording** - Record, classify, and summarize
3. **Communication**
   - Prepare accounting reports
   - Analyze and interpret the reported information

Who Uses Accounting Data (1 of 2)

Internal Users

- **Finance** - Is cash sufficient to pay dividends to **Microsoft** stockholders?
- **Marketing** – What price should **Apple** charge for an iPad to maximize net income?
- **Human Resources** – Can **General Motors** afford to give its employees pay raises this year?
- **Management** - Which **PepsiCo** product line is the most profitable? Should any product lines be eliminated?

Who Uses Accounting Data (2 of 2)

External Users

- **Investors**
  - Is **General Electric** earning satisfactory income?
  - How does **Disney** compare in size and profitability with **Time Warner**?
- **Creditors** – Will **United Airlines** be able to pay its debts as they come due?

Do It! 1: Basic Concepts (1 of 2)

Indicate whether each of the statements is **true** or **false**.

1. The three steps in the accounting process are identification, recording, and communication.
2. Bookkeeping encompasses all steps in the accounting process.
3. Accountants prepare, but do not interpret, financial reports.
4. The two most common types of external users are investors and company officers.
5. Managerial accounting focuses on reports for internal users.

Solution: **1.** **2.** **3.** **4.** **5.**

Do It! 1: Basic Concepts (2 of 2)

Indicate whether each of the statements is **true** or **false**.

1. The three steps in the accounting process are identification, recording, and communication.
2. Bookkeeping encompasses all steps in the accounting process.
3. Accountants prepare, but do not interpret, financial reports.
4. The two most common types of external users are investors and company officers.
5. Managerial accounting focuses on reports for internal users.

Solution: **1. True** **2. False** **3. False** **4. False** **5. True**

The Building Blocks of Accounting

Ethics in Financial Reporting

- Financial scandals include: **Enron**, **WorldCom**, **HealthSouth**, **AIG**.
- Regulators and lawmakers were concerned that economy would suffer if investors lost confidence in corporate accounting
  - Congress passed **Sarbanes-Oxley Act (SOX)**
- Effective financial reporting depends on sound ethical behavior

Ethics in Financial Reporting (1 of 2)

Ethics are the standards of conduct by which actions are judged as:

a. right or wrong

b. honest or dishonest

c. fair or not fair

d. all of these options

Ethics in Financial Reporting (2 of 2)

Ethics are the standards of conduct by which actions are judged as:

a. right or wrong

b. honest or dishonest

c. fair or not fair

d. Answer: all of these options

Generally Accepted Accounting Principles

Standards that are generally accepted and universally practiced. These standards indicate how to report economic events.

Standard-setting bodies:

- **Financial Accounting Standards Board (FASB)**
- **Securities and Exchange Commission (SEC)**
- **International Accounting Standards Board (IASB)**

Measurement Principles

Historical Cost Principle (or cost principle)

- Record assets at their cost.

Fair Value Principle

- Assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability)

Selection of which principle to follow generally relates to trade-offs between **relevance** and **faithful representation**.

Assumptions (1 of 5)

Monetary Unit Assumption

- Include in accounting records only transaction data that can be expressed in terms of money

Economic Entity Assumption

- Activities of entity be kept separate and distinct from activities of its owner and all other economic entities

Forms of Business Ownership

- **Proprietorship**
- **Partnership**
- **Corporation**

Forms of Business Ownership

Proprietorship

- Owned by one person
- Owner is often manager/operator
- Owner receives any profits, suffers any losses, and is personally liable for all debts

Partnership

- Owned by two or more persons
- Often retail and service-type businesses
- Generally unlimited personal liability
- Partnership agreement

Corporation

- Ownership divided into transferable shares of stock
- Separate legal entity organized under state corporation law
- Limited liability

Assumptions (2 of 5)

Combining the activities of Kellogg and General Mills would violate the

a. cost principle

b. economic entity assumption

c. monetary unit assumption

d. ethics principle.

Assumptions (3 of 5)

Combining the activities of Kellogg and General Mills would violate the

a. cost principle

b. Answer: economic entity assumption

c. monetary unit assumption

d. ethics principle.

Assumptions (4 of 5)

A business organized as a separate legal entity under state law having ownership divided into shares of stock is a

a. proprietorship

b. partnership

c. corporation

d. sole proprietorship

Assumptions (5 of 5)

A business organized as a separate legal entity under state law having ownership divided into shares of stock is a

a. proprietorship

b. partnership

c. Answer: corporation

d. sole proprietorship

Do It! 2: Building Blocks of Accounting (1 of 4)

Indicate whether each of the five statements presented below is **true** or **false**. If **false**, indicate how to correct the statement.

1. Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.
2. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
3. The historical cost principle dictates that companies record assets at their cost. In later periods, however, the fair value of the asset must be used if fair value is higher than its cost.

Solution: **1.**

2.

3.

Do It! 2: Building Blocks of Accounting (2 of 4)

Indicate whether each of the five statements presented below is **true** or **false**. If **false**, indicate how to correct the statement.

1. Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.
2. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
3. The historical cost principle dictates that companies record assets at their cost. In later periods, however, the fair value of the asset must be used if fair value is higher than its cost.

Solution: **1. True**

2. True

3. False. The historical cost principle dictates that companies record assets at their cost. Under the historical cost principle, the company must also use cost in later periods.

Do It! 2: Building Blocks of Accounting (3 of 4)

Indicate whether each of the five statements presented below is **true** or **false**. If **false**, indicate how to correct the statement.

4. Relevance means that financial information matches what really happened; the information is factual.
5. A business owner's personal expenses must be separated from expenses of the business to comply with accounting's economic entity assumption.

Solution:

1. True

2. True

3. False

4.

5.

Do It! 2: Building Blocks of Accounting (4 of 4)

Indicate whether each of the five statements presented below is **true** or **false**. If **false**, indicate how to correct the statement.

4. Relevance means that financial information matches what really happened; the information is factual.
5. A business owner's personal expenses must be separated from expenses of the business to comply with accounting's economic entity assumption.

Solution:

1. True

2. True

3. False

4. False. Faithful representation, not relevance, means that financial information matches what really happened; the information is factual.

5. True

The Accounting Equation (1 of 6)

Assets	=	Liabilities	+	Owner's Equity

Basic Accounting Equation

- Provides underlying framework for recording and summarizing economic events
- Assets are claimed by either creditors or owners
- If a business is liquidated, claims of creditors must be paid before ownership claims

The Accounting Equation (2 of 6)

Assets	=	Liabilities	+	Owner's Equity

Assets

- Resources a business owns
- Provide future services or benefits
- Cash, Supplies, Equipment, etc.

The Accounting Equation (3 of 6)

Assets	=	Liabilities	+	Owner's Equity

Liabilities

- Claims against assets (debts and obligations)
- Creditors (party to whom money is owed)
- Accounts Payable, Notes Payable, Salaries and Wages Payable, etc.

The Accounting Equation (4 of 6)

Assets	=	Liabilities	+	Owner's Equity

Owner's Equity

- Ownership claim on total assets
- Referred to as residual equity
- Investment by owners and revenues increases owner's equity
- Drawings and expenses decreases owner's equity

The Accounting Equation (5 of 6)

Equation	Assets	=	Liabilities	+	Owner's Equity						
Expanded Equation	Assets	=	Liabilities	+	Owner's Capital	−	Owner's Drawings	+	Revenues	−	Expenses

Increase in Owner's Equity

- **Investment by Owner.** Assets the owner puts into the business
- **Revenues.** Increases in assets or decreases in liabilities resulting from sale of goods or performance of services in normal course of business

The Accounting Equation (6 of 6)

Equation	Assets	=	Liabilities	+	Owner's Equity						
Expanded Equation	Assets	=	Liabilities	+	Owner's Capital	−	Owner's Drawings	+	Revenues	−	Expenses

Decrease in Owner’s Equity

- **Drawings.** A withdraw of cash or other assets for personal use
- **Expenses.** Cost of assets consumed or services used in the process of earning revenue

Do It! 3: Owner's Equity Effects

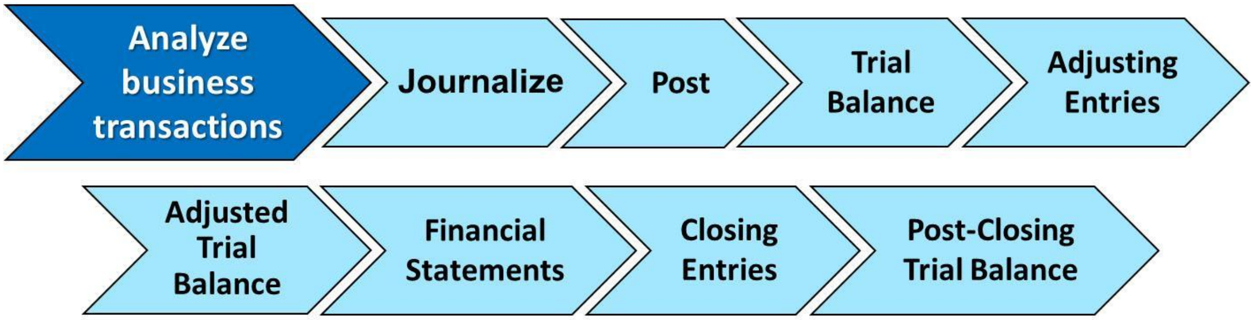
Classify the following items as investment by owner (I), owner's drawings (D), revenues (R), or expenses (E). Then indicate whether each item increases or decreases owner's equity.

	Classification	Effect on Equity
1. Rent Expense	Expense	Decrease
2. Service Revenue	Revenue	Increase
3. Drawings	Owner's Drawings	Decrease
4. Salaries and Wages Expense	Expense	Decrease

Analyzing Business Transactions (1 of 2)

Transactions are a business's economic events recorded by accountants.

- May be external or internal
- Not all activities represent transactions
- Have a dual effect on the accounting equation



Analyzing Business Transactions (2 of 2)

Illustration: Are the following events recorded in the accounting records?

Event	**Purchase computer**	**Discuss product design with potential customer**	**Pay rent**
Criterion	**Is the financial position (assets, liabilities, or owner's equity) of the company changed?**		
Record/ Don't Record	**Yes**	**No**	**Yes**

Transaction Analysis (1 of 10)

Transaction 1. Ray Neal decides to start a smartphone app development company which he names Softbyte. On September 1, 2020, he invests $15,000 cash in the business. This transaction results in an equal increase in assets and owner's equity.

	Assets	=	Liabilities	+	Owner's Equity	
	Cash	=			Owner's Capital	
(1)	+$15,000	=			+$15,000	Initial investment

Transaction Analysis (2 of 10)

Transaction 2. Softbyte purchases computer equipment for $7,000 cash.

	Assets			=	Liabilities	+	Owner's Equity
	Cash	+	Equipment	=			Owner's Capital
	$15,000						$15,000
(2)	**−7,000**		**+$7,000**				
	$ 8,000	+	$7,000	=			$15,000
	$15,000						

Transaction Analysis (3 of 10)

Transaction 3. Softbyte Inc. purchases for $1,600 headsets and other computer accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

	Assets					=	Liabilities	+	Owner's Equity
	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital
	$8,000				$7,000				$15,000
(3)			**+$1,600**				**+$1,600**		
	$8,000	+	$1,600	+	$7,000	=	$1,600	+	$15,000
			$16,600					$16,600	

Transaction Analysis (4 of 10)

Transaction 4. Softbyte receives $1,200 cash from customers for app development services it has performed.

	Assets					=	Liabilities	+	Owner's Equity			
	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital	+	Revenues	
	$8,000		$1,600		$7,000		$1,600		$15,000			
(4)	**+1,200**										**+$1,200**	**Service Revenue**
	$9,200	+	$1,600	+	$7,000	=	$1,600	+	$15,000	+	$1,200	
			$17,800						$17,800			

Transaction Analysis (5 of 10)

Transaction 5. Softbyte Inc. receives a bill for $250 from the Daily News for advertising on its online website but postpones payment until a later date.

	Assets					=	Liabilities	+	Owner's Equity					
	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital	+	Revenues	−	Expenses	
	$9,200		$1,600		$7,000		$1,600		$15,000		$1,200			
(5)							+250						−$250	Advertising Expense
	$9,200	+	$1,600	+	$7,000	=	$1,850	+	$15,000	+	$1,200	−	$ 250	
	$17,800						$17,800							

Transaction Analysis (6 of 10)

Transaction 6. Softbyte performs $3,500 of app development services for customers. The company receives cash of $1,500 from customers, and it bills the balance of $2,000 on account.

	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Revenues	− Expenses	
	$9,200		$1,600	$7,000	$1,850	$15,000	$1,200	$250	
(6)	+1,500	+$2,000					+3,500		Service Revenue
	$10,700 +	$2,000 +	$1,600 +	$7,000	= $1,850	+ $15,000 +	$4,700	− $250	
	$21,300				$21,300				

Transaction Analysis (7 of 10)

Transaction 7. Softbyte pays the following expenses in cash for September: office rent $600, salaries and wages of employees $900, and utilities $200.

	Assets								=	Liabilities	+	Owner's Equity					
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment		=	Accounts Payable	+	Owner's Capital	+	Revenues	–	Expenses	
	$10,700		$2,000		$1,600		$7,000			$1,850		$15,000		$4,700		$ 250	
(7)	**−1,700**															**−600**	**Rent Expense**
																−900	**Sal. and Wages Exp.**
																−200	**Utilities Exp.**
	$9,000	+	$2,000	+	$1,600	+	$7,000		=	$1,850	+	$15,000	+	$4,700	–	$1,950	
	$19,600									$19,600							

Transaction Analysis (8 of 10)

Transaction 8. Softbyte pays its $250 Daily News bill in cash. The company previously (in Transaction 5) recorded the bill as an increase in Accounts Payable and a decrease in owner's equity.

	Assets							=	Liabilities	+	Owner's Equity				
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital	+	Revenues	−	Expenses
	$9,000		$2,000		$1,600		$7,000		$1,850		$15,000		$4,700		$1,950
(8)	−250								−250						
	$8,750	+	$2,000	+	$1,600	+	$7,000	=	$1,600	+	$15,000	+	$4,700	−	$1,950
	$19,350								$19,350						

Transaction Analysis (9 of 10)

Transaction 9. Softbyte receives $600 in cash from customers who had been billed for services (in Transaction 6).

	Assets							=	Liabilities	+	Owner's Equity				
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital	+	Revenues	–	Expenses
	$8,750		$2,000		$1,600		$7,000		$1,600		$15,000		$4,700		$1,950
(9)	+600		−600												
	$9,350	+	$1,400	+	$1,600	+	$7,000	=	$1,600	+	$15,000	+	$4,700	–	$1,950
	$19,350								$19,350						

Transaction Analysis (10 of 10)

Transaction 10. Ray Neal withdraws $1,300 in cash from the business for his personal use.

	Assets							=	Liabilities	+	Owner's Equity							
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital	−	Owner's Drawings	+	Revenues	−	Expenses	
	$9,350		$1,400		$1,600		$7,000		$1,600		$15,000				$4,700		$1,950	
(10)	**−1,300**												**−$1,300**					**Drawings**
	$8,050	+	$1,400	+	$1,600	+	$7,000	=	$1,600	+	$15,000	−	$1,300	+	$4,700	−	$1,950	
	$18,050								$18,050									

Summary of Transactions

1. Each transaction analyzed in terms of effect on:
   a. Three components of basic accounting equation
      - Assets
      - Liabilities
      - Owner's equity

   b. Specific types of items, such as Cash
2. Two sides of equation must always be equal
3. The Owner's Capital, Owner's Drawings, Revenues, and Expenses columns indicate the cause of each change in the owner's claim on assets.

Do It! 4: Tabular Analysis (1 of 6)

Transactions made by Virmari & Co., a public accounting firm, for the month of August are shown below. Prepare a tabular analysis which shows the effects of these transactions on the expanded accounting equation, similar to that shown in Illustration 1.8.

1. The owner invested $25,000 cash in the business.
2. The company purchased $7,000 of office equipment on credit.
3. The company received $8,000 cash in exchange for services performed.
4. The company paid $850 for this month's rent.
5. The owner withdrew $1,000 cash for personal use.

Do It! 4: Tabular Analysis (2 of 6)

Transaction 1. The owner invested $25,000 cash in the business.

	Assets			=	Liabilities	+	Owner's Equity						
Trans-action	Cash	+	Equipment	=	Accounts Payable	+	Owner's Capital	−	Owner's Drawings	+	Revenues	−	Expenses
(1)	+$25,000						+$25,000						

Do It! 4: Tabular Analysis (3 of 6)

Transaction 2. The company purchased $7,000 of office equipment on credit.

	Assets			=	**Liabilities**	+	**Owner's Equity**						
Trans-action	Cash	+	Equipment	=	Accounts Payable	+	Owner's Capital	−	Owner's Drawings	+	Revenues	−	Expenses
(1)	+$25,000						+$25,000						
(2)			+$7,000		+$7,000								

Do It! 4: Tabular Analysis (4 of 6)

Transaction 3. The company received $8,000 cash in exchange for services performed.

	Assets			=	Liabilities	+	Owner's Equity							
Trans-action	Cash	+	Equipment	=	Accounts Payable	+	Owner's Capital	−	Owner's Drawings	+	Revenues	−	Expenses	
(1)	+$25,000						+$25,000							
(2)			+$7,000		+$7,000									
(3)	+8,000										+$8,000			**Service Revenue**

Do It! 4: Tabular Analysis (5 of 6)

Transaction 4. The company paid $850 for this month's rent.

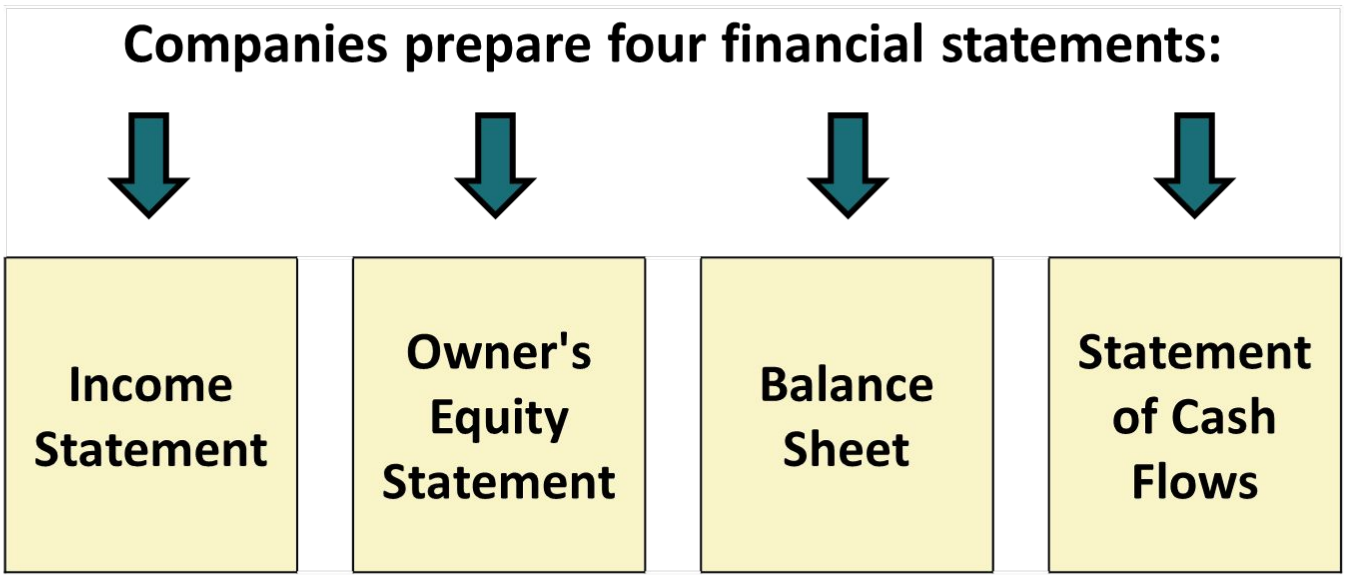
	Assets			=	Liabilities	+	Owner's Equity							
Trans-action	Cash	+	Equipment	=	Accounts Payable	+	Owner's Capital	–	Owner's Drawings	+	Revenues	–	Expenses	
(1)	+$25,000						+$25,000							
(2)			+$7,000		+$7,000									
(3)	+8,000										+$8,000			Service Revenue
(4)	–850												–$850	Rent Expense

Do It! 4: Tabular Analysis (6 of 6)

Transaction 5. The owner withdrew $1,000 cash for personal use.

	Assets			=	Liabilities	+	Owner's Equity							
Transaction	Cash	+	Equipment	=	Accounts Payable	+	Owner's Capital	−	Owner's Drawings	+	Revenues	−	Expenses	
(1)	+$25,000						+$25,000							
(2)			+$7,000		+$7,000									
(3)	+8,000										+$8,000			**Service Revenue**
(4)	−850												−$850	**Rent Expense**
(5)	−1,000								−$1,000					**Drawings**
	$31,150	+	$7,000	=	$7,000	+	$25,000	−	$1,000	+	$8,000	−	$850	
	$38,150				$38,150									

The Four Financial Statements



Financial Statements (1 of 7)

Net income will result during a time period when:

a. assets exceed liabilities

b. assets exceed revenues

c. expenses exceed revenues

d. revenues exceed expenses

Financial Statements (2 of 7)

Net income will result during a time period when:

a. assets exceed liabilities

b. assets exceed revenues

c. expenses exceed revenues

d. Answer: revenues exceed expenses

Financial Statements (3 of 7)

Softbyte statements for the Month Ended September 30, 2020

Income Statement		
Revenues		$4,700
Service revenue		
Expenses		
Salaries and wages expense	900	
Rent expense	600	
Advertising expense	250	
Utilities expense	200	
Total expenses		1,950
Net income		**$2,750**

Owner's Equity Statement	
Owner's capital, September 1	$ 0
Add: Investments	15,000
Add: Net income	**2,750**
Less: Drawings	1,300
Owner's capital, September 30	$16,450

Financial Statements (4 of 7)

Softbyte statements for the Month Ended September 30, 2020

Owner's Equity Statement	
Owner's capital, September 1	$ 0
Add: Investments	15,000
Add: Net income	2,750
Less: Drawings	1,300
Owner's capital, September 30	**$16,450**

Balance Sheet	
Assets	
Cash	$ 8,050
Accounts receivable	1,400
Supplies	1,600
Equipment	7,000
Total assets	$18,050
Liabilities and Owner's Equity	
Accounts payable	$ 1,600
Owner's capital	**16,450**
Total liabilities and equity	$18,050

Financial Statements (5 of 7)

Softbyte statements for the Month Ended September 30, 2020

Balance Sheet (partial)	
Assets	
Cash	**$ 8,050**
Accounts receivable	1,400
Supplies	1,600

Statement of Cash Flows	
Cash flows from operating activities	
Cash receipts from revenues	3,300
Cash payments from expenses	(1,950)
Net cash from operating activities	1,350
Cash flows from investing activities	
Purchase of equipment	(7,000)
Cash flows from financing activities	
Investments by owner	15,000
Drawings by owner	(1,300)
Net cash from financing activities	13,700
Net increase in cash	8,050
Cash at beginning of period	0
Cash at end of period	**$ 8,050**

Income Statement

- Reports revenues and expenses for a specific period of time
- Lists revenues first, followed by expenses
- Shows net income (or net loss)
- Does not include investment and withdrawal transactions between owner and business in measuring net income

Owner’s Equity Statement

- Reports changes in owner’s equity for a specific period of time
- Time period is the same as that covered by the income statement

Balance Sheet

- Reports assets, liabilities, and owner's equity at a specific date
- Lists assets at top, followed by liabilities and owner's equity
- Total assets must equal total liabilities and owner's equity
- Snapshot of company's financial condition at a specific moment in time (usually month-end or year-end)

Statement of Cash Flows

- Provides information on cash receipts and payments for a specific period of time
- Answers the following:
  - Where did cash come from during the period?
  - What was cash used for during the period?
  - What was the change in the cash balance during the period?

Usefulness of the Statement of Cash Flows

Provides information to help assess:

1. Entity's ability to generate future cash flows.
2. Entity's ability to pay dividends and meet obligations.
3. Reasons for difference between net income and net cash provided (used) by operating activities.
4. Cash investing and financing transactions during the period.

Financial Statements (6 of 7)

Which of the following financial statements is prepared as of a specific date?

a. Balance sheet

b. Income statement

c. Owner's equity statement

d. Statement of cash flows

Financial Statements (7 of 7)

Which of the following financial statements is prepared as of a specific date?

a. Answer: Balance sheet

b. Income statement

c. Owner's equity statement

d. Statement of cash flows

Do It! 5: Financial Statement Items (1 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

a. Determine the total assets of Flanagan Company at December 31, 2020.

b. Determine the net income that Flanagan Company reported for December 2020.

c. Determine the owner's equity of Flanagan Company at December 31, 2020.

Do It! 5: Financial Statement Items (2 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

a. Determine the total assets of Flanagan Company at December 31, 2020.

Cash	$ 8,000
Accounts receivable	9,000
Equipment	10,000
Total assets	**$27,000**

Do It! 5: Financial Statement Items (3 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

b. Determine the net income that Flanagan Company reported for December 2020.

Service revenue	$36,000
Rent expense	11,000
Salaries and wages expense	7,000
Utilities expense	4,000
Net income	**$14,000**

Do It! 5: Financial Statement Items (4 of 4)

Presented below is selected information related to Flanagan Company at December 31, 2020. Flanagan reports financial information monthly.

Equipment	10,000	Utilities Expense	4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

c. Determine the owner's equity of Flanagan Company at December 31, 2020.

Total assets	$27,000
Less: Notes payable expense	16,500
Less: Accounts payable	2,000
Owner's equity	**$ 8,500**

Appendix 1A: Career Opportunities in Accounting

Public Accounting
Careers in auditing, taxation, and management consulting serving the general public.

Private Accounting
Careers in industry working in cost accounting, budgeting, accounting information systems, and tax planning and preparation.

Governmental Accounting
Careers with the IRS, FBI, the SEC, public colleges and universities, and in state and local governments.

Forensic Accounting
Uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud.

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