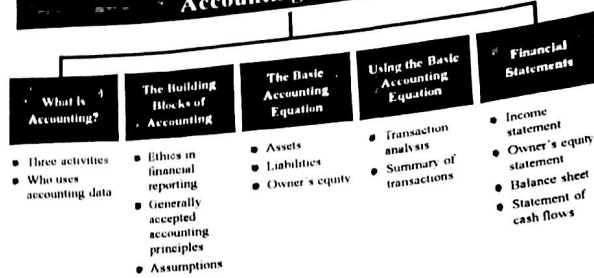


CHAPTER

ACCOUNTING IN ACTION

Chapter 1-1

Accounting in Action



Chapter 1-2

What is Accounting?

The purpose of accounting is to:

- (1) identify, record, and communicate the economic events of an
- (2) organization to
- (3) interested users.

Accounting is an information system that (1) identifies, (2) records, & (3) summarizes and (4) communicates the economic events of an organization to interested users

Chapter 1-3

LO 1 Explain what accounting is.

What is Accounting?

Three Activities

Illustration 1-1
Accounting process

Communication

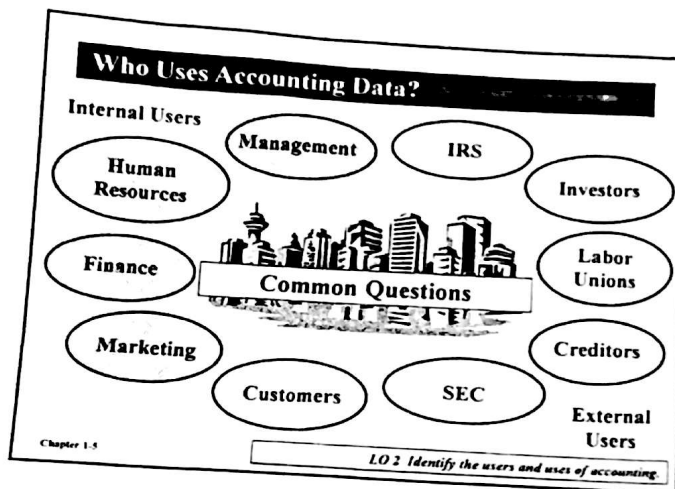


The accounting process includes the bookkeeping function.



Chapter 1-4

LO 1 Explain what accounting is.

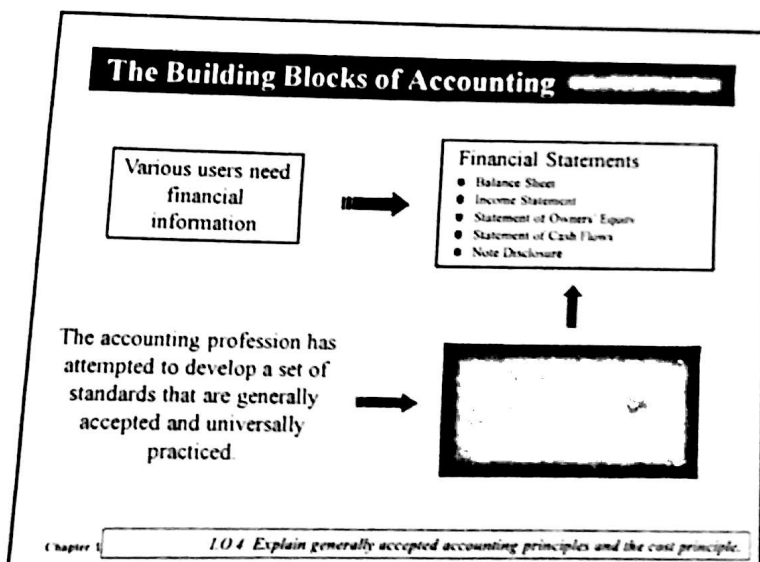


Who Uses Accounting Data?

Common Questions Asked	User
1. Can we afford to give our employees a pay raise?	Human Resources
2. Did the company earn a satisfactory income?	Investors
3. Do we need to borrow in the near future?	Management
4. Is cash sufficient to pay dividends to the stockholders?	Finance
5. What price for our product will maximize net income?	Marketing
6. Will the company be able to pay its short-term debts?	Creditors

Chapter 1.4




LO 2 Identify the users and uses of accounting.



- ### CONCEPTUAL FRAMEWORK OF ACCOUNTING
- Generally accepted accounting principles- set of standards & rules that are recognized as a general guide for financial reporting
 - Generally accepted- means that these principles must have substantial authoritative support
 - Financial Accounting Standards Board (FASB) & Securities & Exchange Commission (SEC)
 - The FASB has the responsibility for developing accounting principles in the United States.
- Chapter 1.4

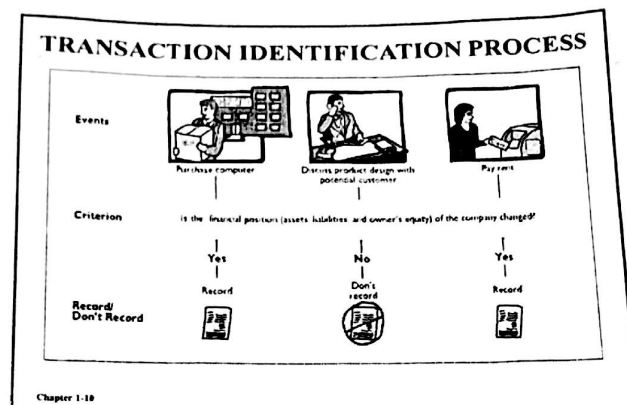
The Building Blocks of Accounting

Organizations Involved in Standard Setting:

	Securities and Exchange Commission (SEC)	http://www.sec.gov/
	Financial Accounting Standards Board (FASB)	http://www.fasb.org/
	International Accounting Standards Board (IASB)	http://www.iasb.org/

Chapter 1-5

LO 4 Explain generally accepted accounting principles and the cost principle.



FINANCIAL STATEMENTS

- Four financial statements are prepared from the summarized accounting data:
 - Income Statement
revenues & expenses & resulting net income or net loss for a specific period of time
 - Owner's Equity Statement
changes in owner's equity for a specific period of time
 - Balance Sheet
assets, liabilities, & owner's equity at a specific date
 - Statement of Cash Flows
cash inflows (receipts) & outflows (payments) for a specific period of time

The Basic Accounting Equation

Assets	=	Liabilities	+	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.

Chapter 1-12

LO 6 State the accounting equation, and define assets, liabilities, and owner's equity.

The Basic Accounting Equation

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

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

Assets

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

Chapter 1-13

LO 6 State the accounting equation, and define assets, liabilities, and owner's equity.

The Basic Accounting Equation

Liabilities

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

Owners' Equity

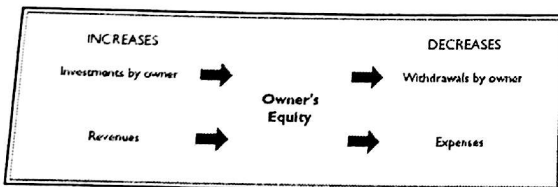
- Ownership claim on total assets.
- Referred to as residual equity.
- Capital, Drawings, etc. (Proprietorship or Partnership).

Chapter 1-14

LO 6 State the accounting equation, and define assets, liabilities, and owner's equity.

Owners' Equity

Illustration 1-4



Revenues result from business activities entered into for the purpose of earning income. Common sources of revenue are: sales, fees, services, commissions, interest, dividends, royalties, and rent.

Expenses are the cost of assets consumed or services used in the process of earning revenue. Common expenses are: salaries expense, rent expense, utilities expense, tax expense, etc.

Chapter 1-15

LO 6 State the accounting equation, and define assets, liabilities, and owner's equity.

Using The Basic Accounting Equation

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

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

Chapter 1-16

LO 7 Analyze the effects of business transactions on the accounting equation.

Transactions (Question?)

Q1-15: 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	Record	Don't Record	Record

LO 7 Analyze the effects of business transactions on the accounting equation.

Transactions (Problem)

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.

- Invested \$10,000 cash to start the repair shop.
- Purchased equipment for \$5,000 cash.

Assets			Liabilities		Equity		
Cash	+ Accounts Receivable	+ Equipment	= Accounts Payable	+ Barone, Capital	+ Investment		
1. +10,000					+10,000		Investment
2. -5,000		+5,000					

LO 7 Analyze the effects of business transactions on the accounting equation.

Transactions (Problem)

- Paid \$400 cash for May office rent.
- Received \$5,100 from customers for repair service.
- Withdrew \$1,000 cash for personal use.
- Paid part-time employee salaries of \$2,000.

Assets			Liabilities		Equity		
Cash	+ Accounts Receivable	+ Equipment	= Accounts Payable	+ Barone, Capital	+ Investment		
1. +10,000					+10,000		Investment
2. -5,000		+5,000					
3. -400					-400		Expense
4. +5,100					+5,100		Revenue
5. -1,000					-1,000		Drawings
6. -2,000					-2,000		Expense

Chapter 1-19

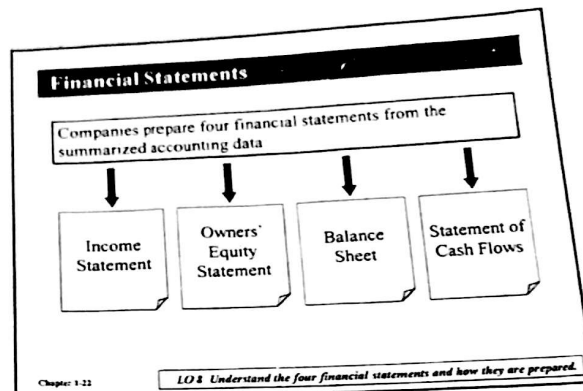
Transactions (Problem)

- Incurred \$250 of advertising costs, on account.
- Provided \$750 of repair services on account.

Assets			Liabilities		Equity		
Cash	+ Accounts Receivable	+ Equipment	= Accounts Payable	+ Barone, Capital	+ Investment		
1. +10,000					+10,000		Investment
2. -5,000		+5,000					
3. -400					-400		Expense
4. +5,100					+5,100		Revenue
5. -1,000					-1,000		Drawings
6. -2,000					-2,000		Expense
7.				+250	-250		Expense
8.	+750				+750		Revenue

Chapter 1-20

Transactions (Problem)					
9. Collected \$120 cash for services previously billed.					
Assets			Liabilities		Equity
Cash	Accounts Receivable	Equipment	Accounts Payable		Barone, Capital
1. +10,000					+10,000
2. -5,000					
3. -400		+5,000			
4. +5,100					-400
5. -1,000					+5,100
6. -2,000					-1,000
7. -					-2,000
8. -			+250		-250
9. +120	+750				+750
6,820	630	5,000	250		12,200



Financial Statements

Income Statement

Barone's Repair Shop Income Statement For the Month Ended May 31, 2007	
Revenues:	
Service revenue	\$ 5,850
Expenses:	
Salary expense	2,000
Rent expense	400
Advertising expense	250
Total expenses	2,650
Net income	\$ 3,200

- Reports the revenues and expenses for a specific period of time.
- Net income – revenues exceed expenses.
- Net loss – expenses exceed revenues.

Chapter 1-23 **LO 8 Understand the four financial statements and how they are prepared.**

Financial Statements

Income Statement

Barone's Repair Shop Income Statement For the Month Ended May 31, 2007	
Revenues:	
Service revenue	\$ 5,850
Expenses:	
Salary expense	2,000
Rent expense	400
Advertising expense	250
Total expenses	2,650
Net income	\$ 3,200

Owners' Equity Statement

Barone's Repair Shop Owners' Equity Statement For the Month Ended May 31, 2007	
Barone's, Capital May 1	\$ -
Add: Investment	10,000
Net income	3,200
	13,200
Less: Drawings	1,000
Barone's, Capital May 31	\$ 12,200

Net income is needed to determine the ending balance in owner's equity.

Chapter 1-24 **LO 8 Understand the four financial statements and how they are prepared.**

Financial Statements

- Statement indicates the reasons why owner's equity has increased or decreased during the period

Owners' Equity Statement

Barone's Repair Shop Owners' Equity Statement For the Month Ended May 31, 2007	
Barone's, Capital May 1	\$ 10,000
Add: Investment	3,200
Net income	13,200
Less: Drawings	1,000
Barone's, Capital May 31	\$ 12,200

LO 8 Understand the four financial statements and how they are prepared.

Financial Statements

Balance Sheet

Barone's Repair Shop Balance Sheet May 31, 2007	
Assets	
Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	\$ 12,450
Liabilities	
Accounts payable	\$ 250
Owners' Equity	12,200
Barone's, capital	\$ 12,450
Total liab. & equity	\$ 12,450

Owners' Equity Statement

Barone's Repair Shop Owners' Equity Statement For the Month Ended May 31, 2007	
Barone's, Capital May 1	\$ 10,000
Add: Investment	3,200
Net income	13,200
Less: Drawings	1,000
Barone's, Capital May 31	\$ 12,200

The ending balance in owner's equity is needed in preparing the balance sheet

LO 8 Understand the four financial statements and how they are prepared.