You have learned that accounting is important since it provides an overview of a business’s operating performance and financial health and therefore helps managers make better business decisions. You have also learned about different types of accounts, how each business transaction impacts at least two accounts, and how account balances are maintained throughout each recording period.

After completing Chapter 1, you should be able to answer the following questions:

#### 1.    What is accounting?

Accounting is a system of recording and summarizing financial transactions in such a way that they can be analyzed or used to communicate with others.

#### 2.    How are accounts classified?

Accounts are classified as one of five types: assets, liabilities, stockholders’ equity, revenue, or expenses.

#### 3.    What is the accounting equation?

The balances in the account categories come together to form the accounting equation.

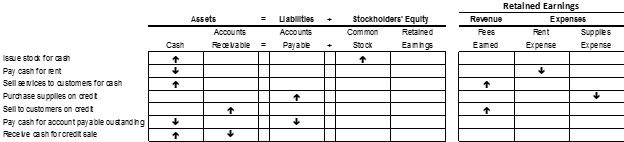
Assets = Liabilities + Stockholders’ Equity

#### 4.    What are temporary and permanent accounts and examples of each?

Temporary account balances are reset to zero when the new accounting period starts -the balances in permanent accounts carry over from one period to the next.

Revenue and expenses are temporary accounts.  Assets, liabilities and stockholders’ equity are permanent accounts.

#### 5.    What are a few common business transactions and how does each one affect the accounts?

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## Test Your Understanding