

Starting a Proprietorship

Chapter 1

Accounting

- Planning, recording, analyzing, and interpreting financial information

Accounting System

- A planned process for providing financial information that will be useful to management.

Financial Statements

- Financial reports that summarize the financial conditions and operations of a business

Accounting Records

- Organized summaries of business's financial activities

Service Business

- A business that performs an activity for a fee

Proprietorship

- A business owned by one person

Assets

- Anything that is owned

Equities

- Financial Rights to the assets of a business

Liability

- An amount owed by a business

Owner's Equity

- The amount remaining after the value of all liabilities is subtracted from the value of all assets

The Accounting Equation

Assets = Liabilities + Owner's Equity

Assets	=	Liabilities + Owner's Equity
Left side amount		Right side amounts
\$0	=	\$0 + \$0

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How Business Activities Change the Accounting Equation

Transaction

- A business activity that changes assets, liabilities or owner's equity.

Examples??

Account

- A record summarizing all the information pertaining to a single item in the accounting equation.

Account Title

- The name given to an account.
- Possible Names of Accounts...
 - Cash
 - Prepaid Insurance
 - Supplies
 - Accounts Payable - Sears

Account Balance

- The amount in an account

Capital

- The account used to summarize the owner's equity in a business.
- Written as:
 - Owner's Name, Capital

RECEIVING CASH

Transaction 1 August 1. Received cash from owner an an investment, \$10,000.00.

	Assets	=	Liabilities	+	Owner's Equity
	Cash	=			Barbara Treviño, Capital
Beginning Balances	\$0		\$0		\$0
Received cash from owner as an investment	+10,000				+10,000
New Balances	\$10,000		\$0		\$10,000

PAYING CASH

Transaction 2 August 3. Paid cash for supplies, \$1,577.00.

	Assets			=	Liabilities	+	Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=			Barbara Treviño, Capital
Balances	\$10,000	\$0	\$0		\$0		\$10,000
→ Paid cash for supplies	-1,577	+1,577					
Balances	\$8,423	\$1,577	\$0		\$0		\$10,000
→ Paid cash for insurance	-1,200		+1,200				
New Balances	\$7,223	\$1,577	\$1,200		\$0		\$10,000

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

TRANSACTIONS ON ACCOUNT

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

	Assets			=	Liabilities	+	Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Ling Music Supplies	+	Barbara Treviño, Capital
Balances	\$7,223	\$1,577	\$1,200		\$0		\$10,000
→ Bought supplies on account		+2,720			+2,720		
New Balances	\$7,223	\$4,297	\$1,200		\$2,720		\$10,000
→ Paid cash on account	-1,360				-1,360		
New Balances	\$5,863	\$4,297	\$1,200		\$1,360		\$10,000

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

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How Transactions
Change Owner's Equity
in an Accounting
Equation

Revenue

An increase in owner's equity resulting from the operation of a business

Sale on Account

A sale for which cash will be received at a later date.

Expense

A decrease in owner's equity
resulting from the operation of a
business

Withdrawals

Assets taken out of a
business for the owner's
personal use

Assets

= Liabilities + Owner's Equity

	Assets				=	Liabilities + Owner's Equity	
	Cash +	Accts. Rec.— Oakdale School	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Supply Depot	+ Kim Park, Capital
Balances	\$3,225	—0—	\$775	\$1,200		\$200	\$5,000
Received cash from sales	+295						+295 (revenue)
New Balances	\$3,520	—0—	\$775	\$1,200		\$200	\$5,295
Sold services on account		+350					+350 (revenue)
New Balances	\$3,520	\$350	\$775	\$1,200		\$200	\$5,645
	Total of left side:					Total of right side:	
	\$3,520 + \$350 + \$775 + \$1,200 = \$5,845					\$200 + \$5,645 = \$5,845	

Transaction 6 August 12. Received cash from sales, \$295.00.

Transaction 7 August 12. Sold services on account to Oakdale School, \$350.00.

	Assets				=	Liabilities + Owner's Equity	
	Cash +	Accts. Rec.— Oakdale School	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Supply Depot	+ Kim Park, Capital
Balances	\$3,520	\$350	\$775	\$1,200		\$200	\$5,645
Paid cash for rent	-300						-300 (expense)
New Balances	\$3,220	\$350	\$775	\$1,200		\$200	\$5,345
Paid cash for telephone bill	-40						-40 (expense)
New Balances	\$3,180	\$350	\$775	\$1,200		\$200	\$5,305
	Total of left side: \$3,180 + \$350 + \$775 + \$1,200 = \$5,505					Total of right side: \$200 + \$5,305 = \$5,505	

Transaction 8 August 12. Paid cash for rent, \$300.00.

Transaction 9 August 12. Paid cash for telephone bill, \$40.00.

OTHER CASH TRANSACTIONS

	Assets				=	Liabilities + Owner's Equity	
	Cash +	Accts. Rec.— Oakdale School	+ Supplies	+ Prepaid Insurance		Accts. Pay.— Supply Depot	+ Kim Park, Capital
Balances	\$3,180	\$350	\$775	\$1,200		\$200	\$5,305
Received cash on account	+200	-200					
New Balances	\$3,380	\$150	\$775	\$1,200		\$200	\$5,305
Paid cash to owner for personal use							-125 (withdrawal)
New Balances	\$3,255	\$150	\$775	\$1,200		\$200	\$5,180
	Total of left side:					Total of right side:	
	\$3,255 + \$150 + \$775 + \$1,200 = \$5,380					\$200 + \$5,180 = \$5,380	

Transaction 10 August 12. Received cash on account from Oakdale School, \$200.00.

Transaction 11 August 12. Paid cash to owner for personal use, \$125.00.