

Accounting

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Accounting, or accountancy, is the measurement, processing and communication of financial information about economic entities. Accounting, which has been called the "language of business", measures the results of an organization's economic activities and conveys this information to a variety of users including investors, creditors, management, and regulators.

Speaking the Language of Accounting

The basic accounting equation, also called the balance sheet equation, represents the relationship between the assets, liabilities, and owner's equity of a business. It is the foundation for the double-entry bookkeeping system. For each transaction, the total debits equal the total credits.

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Example: A student buys a computer for \$945. This student borrows \$500 from his parents and spent another \$445 earned by his part-time job. Now his assets (computer) are worth \$945, liabilities (what he owes his parents) are \$500, and the equity is \$445.

$$\begin{array}{rcl} \text{Assets} = & \text{Liabilities} + & \text{Owner's Equity} \\ \$945 = & \$500 + & \$445 \end{array}$$

The basic accounting formula **must** balance at all times.

Financial Statements

Two important documents, or financial statements, in Accounting are the Balance Sheet and the Income Statement. The income statement is a summary of income and expenses during a specific period such as a month, quarter or year. Sometimes it is referred to as a "profit and loss statement." The income statement will show revenue and expenses. Revenue usually comes from the sale of goods or services that are provided. Expenses are the cost of operating a business such as utilities, insurance, and advertising. The balance sheet is a summary of a business's assets, liabilities, and owner's equity.

- Balance Sheet: Watch the video on [An introduction to a Balance Sheet](#).

Balance Sheet			
As of December 31, 2013			
Assets	Liabilities and Owner's Equity		
Cash	6,414	Commercial Paper	3,755
Inventory	13,786	Accounts Payable	12,004
Land	52,000	Accrued Liabilities	11,569
Fixtures and Equipment	24,000	Long-Term Debt	<u>18,240</u>
Total Assets	<u>96,200</u>	Total Liabilities	45,560
		<i>Total Shareholder's Equity</i>	<u>50,640</u>
		Total Liabilities & Owner's Equity	<u>96,200</u>

- Income Statement: Watch the video on [An Introduction to the Income statement](#).

Georgia Air Cakes	
Income Statement for the Year Ended	
December 31, 2013	
Net Sales	\$201,850
Good of Goods Sold	<u>121,205</u>
Gross Profit	80,645
Operating Expenses	
Salaries	\$28,000
Rent	12,000
Utilities	4,016
Advertising	<u>3,325</u>
Total Operating Expenses	47,341
Net Income From Operations	<u>33,304</u>

Assignment: Analyzing a Balance Sheet

Directions: Use the Balance Sheet shown here, to answer the questions in itsLearning.

North Fashion Mart Balance Sheet December 31, 2013	
Current Assets	
Cash	12,000
Accounts Receivable	24,500
Inventory	37,020
Fixtures	8,000
Total Assets	?
Current Liabilities	
Notes Payable	45,500
Accounts Payable	7,500
Salaries Payable	3,250
Taxes Payable	1,275
Total Liabilities	?
Net Worth	?

Assignment: Analyzing an Income Statement

Directions: Use the Income Statement shown here, to answer the questions in itsLearning.

North Fashion Mart Income Statement for the Year Ended December 31, 2013	
Net Sales	\$313,250
Cost of Goods Sold	112,085
Gross Profit	?
Operating Expenses	
Salaries	\$36,050
Rent	12,600
Utilities	6,400
Taxes	1,750
Advertising	3,020
Total Operating Expenses	?
Net Income From Operations	?

Debits & Credits using T Accounts

The DEBIT - CREDIT rule

Debit	Credit
Left	Right

A record summarizing all the information pertaining to a single item in the accounting equation is known as an account. Transactions change the balances of accounts in the accounting equation, by increasing or decreasing their value. Accounting



transactions must be analyzed, using an accounting device known as a T account, to determine how account balances are changed. There are special names for amounts recorded on the left and right side of a T account. An amount recorded on the left side is called a **debit** and the amount recorded on the right side is called a **credit**.

Assets		=	Liabilities		+	Owner's Equity	
Debit	Credit		Debit	Credit		Debit	Credit
+	-		-	+		-	+

The side of the account that is increased in called the **normal balance**. Assets are increased on the left (debit) and decreased on the right (credit) while liabilities and owner's equity are decreased on the left (debit) and increased on

the right (credit).

Let's look at some examples. **Every** transaction will have a debit and a credit:

June 1. Received cash from owner as an investment, \$10,000.

Assets =		Liabilities + Owner's Equity	
Cash		Sharon Green, Capital	
Debit	Credit	Debit	Credit
10,000			10,000

Explanation: When Mrs. Green gives the business \$10,000, the cash (assets) increases on the debit side and Sharon Green, Capital (owner's equity) increases on the credit side.

August 10. Bought supplies on account from Supply R Us, \$150.00

Assets =		Liabilities + Owner's Equity	
Supplies		Accts. Pay – Supply R. Us	
Debit	Credit	Debit	Credit
150.00			150.00

Explanation: When we purchase supplies on account, the amount of supplies (assets) increases on the debit side and the Accounts Payable (liabilities) increases on the credit side. We now have \$150 more supplies but we also owe \$150 in liabilities.

Sometimes your credits and debits will only affect one side of the accounting equation. Here is another scenario.

September 1. Bought supplies with cash for \$50.00.

<i>Assets =</i>			
<i>Debit</i>	<i>Cash</i>	<i>Credit</i>	<i>Supplies</i>
		50.00	50.00

Explanation: In this case we are only exchanging one asset for another asset. We exchanged cash for supplies. The cash decreased (credit) by \$50 while the supplies increased (debit) by \$50.

September 13. Paid \$150.00 to Supply R Us for amount owed.

<i>Assets =</i>		<i>Liabilities + Owner's Equity</i>	
<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>

Explanation: Now it's your turn to figure it out. Which accounts will be affected, by how much, and on which sides? [Click here.](#)

[Answer](#)

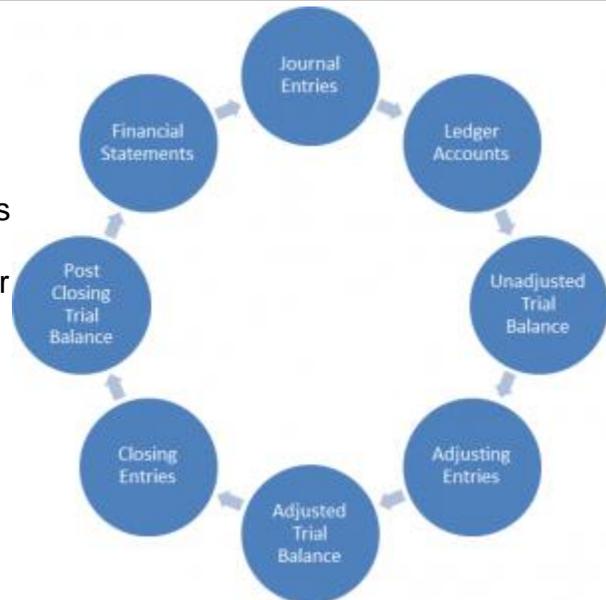
Assignment: Analyzing transactions into debit and credit parts

Directions: Download the transaction worksheet from itsLearning. Read the transaction, review the list of accounts, and complete the T-account. For each transaction, you will have at least 1 debit and at least 1 credit. A sample has been provided for you. You can type directly on the T-accounts. Submit the completed worksheet to itsLearning.

Major Steps in Accounting Cycle

The accounting cycle is the collective process of recording and processing the accounting events of a company. Following are the major steps involved in the accounting cycle:

1. Analyzing and recording transactions via journal entries
2. Posting journal entries to ledger accounts
3. Preparing unadjusted trial balance
4. Preparing adjusting entries at the end of the period
5. Preparing adjusted trial balance
6. Preparing financial statements
7. Closing temporary accounts via closing entries
8. Preparing post-closing trial balance



Completion of the Accounting Cycle

Click on the picture to read the presentation

Assignment: Annual Report Scavenger Hunt

Directions: Locate an annual report for a company of your choice. It can be an actual annual report that your parents have at home (you get them if you are invested with a company) or one that is available on the World Wide Web and answer the questions in itsLearning.

Review

Resources

If you are having problems viewing this page, opening videos, or accessing the URLs, the direct links are posted below. All assignments are submitted in itsLearning. If you have having problems, contact Mrs. Rush through the itsLearning email client.

Completion of the Accounting Cycle presentation:
<https://www.mrsrush.net/accounting/acyclepres.pdf>

Accounting Vocabulary: https://www.examtime.com/p/936076-Accounting-Vocabulary-flash_card_decks

Accounting Review: https://www.examtime.com/en-US/p/940414?dont_count=true&frame=true&fs=true

Transcript: <http://mrsrush.net/accounting/index.pdf>

[Transcript of this lesson](#)