Module- I

Principles of Accounting

PRINCIPLES OF ACCOUNTING

Objectives:

1. Describe the functions of *accounting.*
2. Complete an *accounting equation*.
3. Prepare a *balance sheet*.
4. Demonstrate the process of recording *business transactions* in equation form.

Beginning an Accounting System

(continued)

- **Debts owed by a business are *liabilities.***
- ***Owner's equity* is an accounting term that indicates the financial interest of the owner in a business.**

The Accounting Equation

Assets = Liabilities + Owner's Equity

The *Balance Sheet*

- The ***balance sheet*** is an itemized list of the ***assets***, ***liabilities***, and ***owner's equity*** of a business on one particular date.

The Effect of Business Activities on the Balance Sheet

- Business activities such as buying, selling, receiving money, and paying bills cause continual changes in the amounts of the *assets, liabilities,* and *owner's equity.*

The Effect of Business Activities on the Balance Sheet

(continued)

- These business activities are called transactions and need to be recorded as part of the business' operations.

Accounting Terminology

- Account
- Accounting
- Accounting Equation
- Accounts Payable
- Assets
- Balance Sheet
- Business Transactions
- Creditors
- Invest
- Investment
- Liabilities
- Owner's Equity
- Proprietor

Chapter Summary

- ***Assets*** **are the property owned by a business.**
- ***Liabilities*** **are debts owed by a business.**
- ***Owner's equity*** **is the difference between the assets and the liabilities and represents the financial interest of the owner in a business.**

Chapter Summary (continued)

- ***Liabilities*** **represent the claims of creditors to the assets of a business, and** ***owner's equity*** **is the claim of the owner to the assets.**
- **The fundamental accounting equation is:** ***Assets=Liabilities + Owner's Equity*****.**

Chapter Summary (continued)

- The *balance sheet* is a statement of *assets, liabilities*, and *owner's equity.* It shows the financial position of a business on one particular date.
- Every *business transaction* affects at least two items.

Topic Quiz

Answer the following true/false questions:

1. All the properties a business owns are called assets.

   TRUE

2. Debts owed by a business are called liabilities.

   TRUE

3. Owner's equity is the financial interest of creditors in a business.

   FALSE

Investigating on the Internet

Sources of information about *balance sheets* can be accessed at the websites of most major businesses.

As a research assignment, access two or three business' websites. Compare and contrast their use of balance sheets and how they are used to show the state of the business.

Topic Quiz (continued)

3. Owner's equity is the financial interest of creditors in a business.

FALSE

It is the financial interest of the owner in a business.

Ref: Mcgrac-Hill

(Return to Topic Quiz)