



## Introduction to Accounting

B. Carter/R. Gallant

Semester 1



Introduction to Accounting 120 is a course intended to provide essential understandings, economic framework, consumer skills and attitudes to successfully participate in a society influenced by financial and business decisions. Students will better manage personal finances, understand obligations of business owners and make informed decisions concerning life careers and choices. The intention of this course is to encourage students to further their education in post-secondary business studies.

### **Materials Needed:**

Textbook & Workbook - Accounting: A Systems Approach

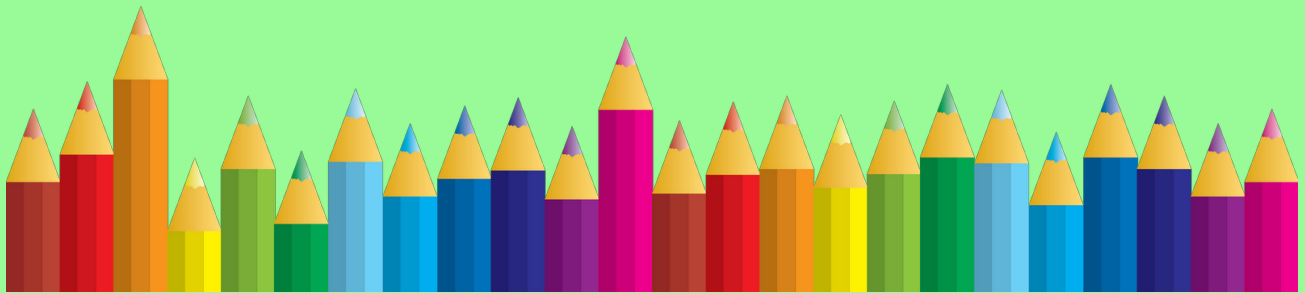
Binder

\*\*Calculator\*\*

**Curriculum Outcomes:**

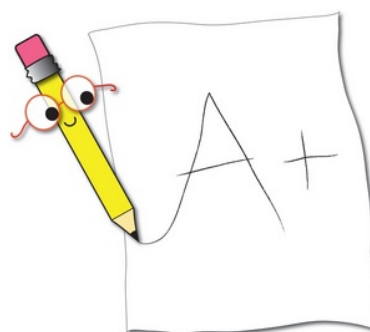
By the end of this course, students will be able to demonstrate an understanding of:

- The Necessity and Basic Activities of Accounting in Various Forms of Businesses
- Financial Position and the Preparation of a Simple Balance Sheet
- Changes in Financial Position and Their Effect on the Balance Sheet
- Debit and Credit Theory and Journalizing
- Owner's Equity, Income Statements & Report Form Balance Sheets
- Source Documents and Accounting for Sales Taxes
- Posting to the General Ledger
- Six-column Worksheet, the Preparation of a Classified Balance Sheet and Income Statement and how Financial Decisions are Based on These Documents
- Adjusting Entries, Closing Entries, Depreciation, the Extended Worksheet and the Preparation of a Post-closing Trial Balance



## Evaluation:

Assignments	15%
Quizzes	15%
Tests	40%
Exam	30%



**Why do we need accounting?**

# Unit 1 (first 2 outcomes):

- The Necessity and Basic Activities of Accounting in Various Forms of Businesses
- Financial Position and the Preparation of a Simple Balance Sheet

FIVE main activities involved in Accounting:

- gathering financial information
- preparing and collecting permanent records
- re-arranging, summarizing and classifying financial information
- preparing information reports & summaries
- establishing controls to promote accuracy and honesty among employees

# Four Types of Businesses

## Service

- LAWN CARE
- HAIR DRESSER
- DENTIST

## Manufacturing

- PRODUCTION OF GOODS
- AUTO MAKERS

## Merchandising

- SALE OF GOODS
- "THE WAL-MART"
- DENIM WEARHOUSE

## Non-Profit

- WRED
- BIG BROS/ BIG SIS
- SPCA

## THREE forms of business ownership:

<p>Sole Proprietorship</p> <p>ONE OWNER</p>	<p><u>Pro</u></p> <ul style="list-style-type: none"> <li>• vacation</li> <li>• scheduling</li> <li>• decision control</li> <li>• profits</li> </ul>	<p><u>Con</u></p> <ul style="list-style-type: none"> <li>• Risky</li> <li>• Responsibilities</li> </ul>
<p><u>Pro</u></p> <ul style="list-style-type: none"> <li>• shared risk</li> <li>• shared responsibility</li> </ul>	<p><u>Con</u></p> <ul style="list-style-type: none"> <li>• Shared profits</li> <li>• conflict</li> <li>• less control</li> </ul>	<p>Partnership</p> <p>MORE THAN ONE OWNER</p>
<p>Corporation</p> <p>MORE THAN ONE OWNER</p> <p>• GOVT CHARTERED</p>	<p><u>Pro</u></p> <ul style="list-style-type: none"> <li>• Board for decision</li> <li>• Large profits</li> </ul>	<p><u>Con</u></p> <ul style="list-style-type: none"> <li>• Little say in decisions</li> <li>• job security</li> </ul>

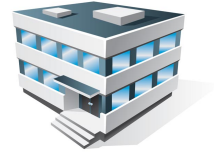


What does a person need to start a business?

- money
- commitment
- Building
- Land
- A good idea
- Employees
- Education



# RESOURCES



To start any type of pro-fit making business, a person needs resources such as land, building, goods for sale, equipment, etc.

Since these resources are scarce in the sense that they exist in limited amounts, all require effort to produce and for which a price must be paid, these resources are called **economic resources**.



## **HUMAN RESOURCES (OR LABOUR)**

People are required to begin any business, but from an accounting standpoint, people are considered a human **resource** or **labour**.



You will learn that a business accounts for this resource with a payroll system. For this reason, human resources are excluded from the list of economic resources to begin a business.

*How would a business acquire the economic resources to begin a business?*

- Borrow (Bank loan)
- Invest (Personal Savings)

When the owner of a business obtains a loan from a chartered bank, the money is used to purchase economic resources such as equipment, furniture or delivery trucks.

In borrowing from the bank, the business has acquired a **debt** and is a **debtor**.

The bank becomes a **creditor** because it has granted **credit** - a time period in which to pay back the money borrowed - to the business.

Debtor → a person/business who owes money

Creditor → a person/business whom money or goods are owed to.

Until a debt that is owed to a business is paid off, a creditor has a **claim** against the economic resources of the business.

For example, when money is borrowed from the bank, the bank has a legal claim against the economic resources of the borrower until the debt has been paid.

In Canada, the legal system allows creditors to sue debtors for small overdue amounts; a banker who lent \$500 to a business may place a claim before the **small claims court**.

We can show these ideas in two equations:

ECONOMIC RESOURCES	=	CLAIMS AGAINST ECONOMIC RESOURCES
\$100 000	=	\$100 000

Notice that the economic resources are placed on the left side of the equation and the claims against the resources are on the right.

ECONOMIC RESOURCES	=	CLAIMS OF CREDITORS	+	CLAIM OF OWNER
\$100 000		\$30 000		\$70 000

*borrowed*      *invested*

This equation is very similar to the first except it breaks up the claims into two groups. The claims of creditors represents borrowed resources and claim of owner represents the amount invested by the owner(s). The equations must always be balanced.

In the language of accounting:

Economic resources are known as **assets**

**Liabilities** replace the claims of creditors

The claim of the owner is called **Owner's Equity**

$$\begin{array}{l} \boxed{\text{ECONOMIC}} \\ \boxed{\text{RESOURCES}} \\ \$100\,000 \end{array} = \begin{array}{l} \boxed{\text{CLAIMS OF}} \\ \boxed{\text{CREDITORS}} \\ \$30\,000 \end{array} + \begin{array}{l} \boxed{\text{CLAIM OF}} \\ \boxed{\text{OWNER}} \\ \$70\,000 \end{array}$$

$$\begin{array}{l} \text{Assets} \\ \$100\,000 \end{array} = \begin{array}{l} \text{Liabilities} \\ \$30\,000 \end{array} + \begin{array}{l} \text{Owner's Equity} \\ \$70\,000 \end{array}$$



## THE ACCOUNTING EQUATION

A	=	L	+	OE
ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
\$100 000		\$30 000		\$70 000

- Assets are the economic resources required to establish any business.
- Liabilities represent the debts of the business (claims of the creditors)
- Owner's equity is the claim of the owner against the assets
- Liabilities always come before Owner's equity on the right side of the equation; in Canadian courts the claims of creditors are considered before those of the owner(s)
- If you know the value of two elements of the equation you can figure out the value of the third:

$$A = L + OE$$

①  $\underline{9500} = 5000 + 4500$

②  $15000 = 8000 + \underline{7000}$  (OE = A - L)

③  $20500 = \underline{11500} + 9000$  (L = A - OE)

## **SOME TERMS TO KNOW**

(relating to the Accounting Equation)

**Cash:** currency, cheques, money orders, and bank deposits (Asset)

**Bank Loan Payable:** the claim of a bank against the assets of a borrowing business (Liability)

**Accounts Payable:** amounts owing to creditors (other than banks) for the purchase of goods or services (Liability)

**Mortgage Payable:** a long-term debt wherein the collateral consist of the property bought (Liability)

## APPLYING THE ACCOUNTING EQUATION

### Example:

J. Emery Real Estate is a small business that has been established as a sole proprietorship and is owned by Jane Emery. The business consists of buying and selling homes, office buildings, and other types of real estate.  
What kind of business is this?

J. Emery Real Estate began with the following assets and liabilities: Cash, \$60 000; Automobile, \$15 000; Furniture, \$8000; Office Equipment, \$7000; Bank Loan Payable, \$20 000; Accounts Payable, \$10 000.

A	=	L	+	OE
ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash 60000 Auto 15000 Furniture 8000 Equip <u>7000</u>	=	Bank Loan 20000 Acc. Payable <u>10000</u>	+	<u>60000</u>
<u>90000</u>		<u>30000</u>		

$$\begin{aligned}
 OE &= A - L \\
 &= 90000 - 30000 \\
 &= 60000
 \end{aligned}$$

1. Solve for the unknown in each of the following equations:

	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
a)	\$500	=	\$100	+	<u>\$400</u>
b)	\$4000	=	<u>\$1500</u>	+	\$2500
c)	\$740	=	\$300	+	<u>\$440</u>
d)	<u>\$1800</u>	=	\$800	+	\$1000
e)	\$9000	=	<u>\$2800</u>	+	\$6200
f)	\$4800	=	\$2100	+	<u>\$2700</u>
g)	<u>\$11400</u>	=	\$4500	+	\$6900

2. On March 10 of this year, Jeanne Fung opened an accounting office. The following is a list of her business's assets and liabilities on that date: Accounts Payable, \$300; Office Equipment, \$4000; Cash, \$700; Bank Loan Payable, \$3300; Office Furniture, \$1900. Determine the owner's equity while writing an accounting equation that itemizes the three elements of the equation.

ASSETS			=	LIABILITIES		+	OWNER'S EQUITY
OFF. E. \$ <u>4000</u>	Cash \$ <u>700</u>	Furn. \$ <u>1900</u>	=	A/P \$ <u>300</u>	Bank Loan \$ <u>3300</u>	+	Investment \$ <u>3000</u>
\$ <u>6600</u>			=	\$ <u>3600</u>		+	\$ <u>3000</u>

$$\begin{aligned}
 OE &= A - L. \\
 &= 6600 - 3600 \\
 &= 3000
 \end{aligned}$$

3. Norman Liebenson, owner of the Saskatchewan Garden Maintenance Company, started his business with the following economic resources and debts: Cash, \$1000; Land, \$52 000; Building, \$124 000; Bank Loan Payable, \$8500; Mortgage Payable, \$130 000; Maintenance Equipment, \$9500; Accounts Payable, \$3000, Truck, \$8000; and Office Equipment, \$900.

a) List assets and liabilities; then calculate owner's equity.

ASSETS		LIABILITIES	
Cash	\$ 1000	Bank Loan	\$ 8500
Land	52000	Mortgage	130000
Building	124000	Acc. Payable	3000
M. Equip	9500		
Truck	8000		
O. Equip	900		
Total Assets.....	\$ 195400	Total Liabilities.....	\$ 141500
Assets \$ <u>195400</u> = Liabilities \$ <u>141500</u> + Owner's Equity \$ <u>53900</u>			

$$OE = 195400 - 141500 = 53900$$

b) Write the accounting equation for the Saskatchewan Garden Maintenance Company, itemizing the three elements.

## ASSETS

$$\begin{array}{r}
 \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \\
 \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} \\
 \\
 = \$ \underline{195\,400}
 \end{array}$$

## LIABILITIES

+

## OWNER'S EQUITY

$$\begin{array}{r}
 \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \quad \underline{\hspace{2cm}} \\
 \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} \quad 141\,500 \quad + \quad \$ \underline{53\,900} \\
 \\
 = \$ \underline{195\,400}
 \end{array}$$

Andrea Cooper owns and operates Andrea's Delivery Service. She gave you the following information about her assets & liabilities for her beginning business: Cash, \$2 000; Bank Loan, \$12 000; bought supplies on account from Beta Company, \$600, Supplies on hand, \$500; Land, \$25 000; purchased supplies on credit from Delta Company; Building, \$75 000; Truck, \$20 000; Equipment, \$10 000; bought supplies on account from Zebra Company, \$200; and Mortgage Payable \$80 000.

(Check: Assets total \$132 500)

\$ 800

a) List assets and liabilities; then calculate owner's equity.

ASSETS		LIABILITIES	
Cash	\$ 2 000	Bank Loan	\$ 12 000
Supplies	\$ 500	Accounts Payable:	\$
Land	\$ 25 000	Beta Co.	\$ 600
Building	\$ 75 000	Delta Co.	\$ 800
Truck	\$ 20 000	Zebra Co.	\$ 200
Equipment	\$ 10 000	Mortgage	\$ 80 000
Total Assets.....	\$ 132 500	Total Liabilities.....	\$ 93 600

Assets \$ 132 500 = Liabilities \$ 93 600 + Owner's Equity \$ 38 900



Alice Tang has just begun a clothing alteration and repair called Needles and Pins. She borrowed \$15 000 from the bank and opened a bank account in the name of the business, bought a piece of land and small house which will be her store location for \$135 000; took out a mortgage on the land and building, \$100 000; bought a used sewing machine on the account from Al's Sewing Machines Ltd., \$450; bought sewing supplies on credit from Fabrics Unlimited, \$250; and bought \$700 of other equipment with cash from her personal bank account. Note: Divide the cost of purchased property between land (\$35 000) and the building (\$100 000).

- a) Identify each of the items that are involved with Alice's business by using the language of accounting, for example, Cash is an economic resource.

$$15\,000 - 700 = 14\,300$$

- b) Identify each of the people or businesses listed above as a creditor or a debtor.

- c) Prepare an itemized accounting equation for Needles and Pins.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash \$ 14300		Bank Loan \$ 15000		_____
Land 35000		Mortgage 100000		_____
Building 100000		Al's Sewing 450		_____
Equipment 700		Fabrics Unltd. 250		_____
sew machine 450		_____		_____
supplies 250		_____		_____
_____		_____		_____
Total Assets... \$ <u>150 700</u>		Total Liabilities... \$ <u>115 700</u>		\$ <u>35 000</u>

$$\begin{aligned}
 OE &= A - L \\
 &= 150\,700 - 115\,700 \\
 &= 35\,000
 \end{aligned}$$

# Preparing the Balance Sheet

**Heading -**  
 Line 1: Who  
 Line 2: What  
 Line 3: When

*Full Company Name.  
 Balance Sheet.  
 as at September 13, 2016*

**Asset Section**

On the first line, center the title ASSETS

Look carefully at the order of assets - the order is how quickly each asset can be converted into cash - this is called Liquidity Order.

**ASSETS**

① Cash.....	\$60 000.00
Automobile.....	15 000.00
Furniture.....	8 000.00
Office Equipment.....	<u>7 000.00</u>

**Liability Section**

On the first line, center the title LIABILITIES

Order of Liabilities - the order of retiring debts; based on due dates - debts that need to be paid off first, come first in the order.

**LIABILITIES**

① Bank Loan Payable.....	\$20 000.00
② Accounts Payable:	
Bell Furniture Co.	\$3 000.00
Ryan Equipment Co.	2 000.00
Westtown Motors Ltd.	<u>5 000.00</u> <u>10 000.00</u>
Total Liabilities.....	<u>\$30 000.00</u>

*single rule*

\*Bank Loans come first because they are usually considered a 'demand' loan - meaning that a bank has the right to ask for payment on demand.

\*Rule for Accounts Payable: Creditors usually give the business a period of time to repay the loan - 30, 60 or 90 days.

**Totals & Use of Rules (under lines)**

After the Assets, Liabilities and Equity are entered, both sides of the sheet must be totaled (assets should equal the total Liabilities & Equity). A dollar sign appears with each total.

A **double rule (line)** is drawn across each money column to indicate that they are complete.

**Owner's Equity Section**

On the first line, center the title OWNER'S EQUITY

The word 'capital' is always present in the stating of the owner's equity. "Capital" means investment.

Sole Proprietorship  
**OWNER'S EQUITY**

J. Emery, Capital.....	<u>\$60 000</u>
------------------------	-----------------

Partnership  
**PARTNER'S EQUITY**

D. Stockli, Capital.....	\$35 000
R. Patrick, Capital.....	\$35 000

Corporation  
**SHAREHOLDERS' EQUITY**

Share Capital.....	\$125 000
--------------------	-----------

Total Assets..... \$90 000.00

Total Liabilities & Owner's Equity..... \$90 000.00

*double rule*

## THE BALANCE SHEET

a financial statement reporting assets, liabilities and owner's equity as at a certain date.

Using the example from J. Emery Real Estate, we will complete a balance sheet for the business as of ~~September 30th, 2015~~. **September 13, 2016**

First, we will put the businesses Assets & Liabilities into the accounting equation:

<b>ASSETS</b>				=	<b>LIABILITIES</b>		+	<b>OWNER'S EQUITY</b>
<u>Cash</u>	<u>Automobile</u>	<u>Furniture</u>	<u>Office Equipment</u>	=	<u>Bank Loan Payable</u>	<u>Accounts Payable</u>	+	<u>J. Emery, Capital</u>
\$60 000	+ \$15 000	+ <del>\$8</del> 000	+ \$7 000		\$20 000	+ \$10 000		\$60 000
<b>\$90 000</b>				=	<b>\$30 000</b>		+	<b>\$60 000</b>

J. Emery Real Estate  
Balance Sheet  
as at September 13, 2016

Assets				Liabilities			
Cash	\$	6000.00		Bank Loan Payable	\$	2000.00	
Automobile		15000.00		Accounts Payable:			
Furniture		8000.00		Bell Furniture Co.		3000.00	
Office Equipment		7000.00		Ryan Equipment Co.		2000.00	
				Westawn Motors Ltd.		5000.00	10000.00
				Total Liabilities	\$	30000.00	
				Owner's Equity			
				J. Emery, Capital		60000.00	
Total Assets	\$	<u>90000.00</u>		Total Liabilities and Owner's Equity	\$	<u>90000.00</u>	

On a balance sheet, **Accounts Payable** are broken down so that it shows where the account is from.

In the case of J. Emery Real Estate, the business acquired some assets on credit from an auto dealer, a furniture dealer and an office equipment supplier. Let's assume that these separate accounts are owing: to Bell Furniture Co., \$3000; to Ryan Equipment Co., \$2000; and to Westtown Motors Ltd., \$5000.

J. Emery Real Estate Balance Sheet as at September 30th, 2015	
ASSETS	LIABILITIES
Cash..... \$60 000.00	Bank Loan Payable..... \$20 000.00
Automobile..... 15 000.00	Accounts Payable:
Furniture..... 8 000.00	Bell Furniture Co.     \$3 000.00
Office Equipment..... <u>7 000.00</u>	Ryan Equipment Co.    2 000.00
	Westtown Motors Ltd. <u>5 000.00</u> <u>10 000.00</u>
	Total Liabilities..... \$30 000.00
	<b>OWNER'S EQUITY</b>
	J. Emery, Capital..... <u>60 000.00</u>
Total Assets..... <u>\$90 000.00</u>	Total Liabilities & Owner's Equity..... <u>\$90 000.00</u>

1-4 a)

Jeanne Fung Accounting  
Balance Sheet  
as at September 14, 2016

Assets		Liabilities	
Cash	\$ 700.00	Bank Loan Payable	\$ 3300.00
Office Equipment	4000.00	Accounts Payable:	
Office Furniture	1900.00	Sherlock Office Supplies Ltd	300.00
		Total Liabilities	\$ 3600.00
		Owner's Equity	
		Jeanne Fung Capital	3000.00
Total Assets	<u>\$ 6600.00</u>	Total Liabilities and Owner's Equity	<u>\$ 6600.00</u>

## Page 19-20 Problem 1-5a, 1-5b & 1-6 1.4b

J. Emery Real Estate Balance Sheet as at September 30th, 2015			
ASSETS		LIABILITIES	
Cash.....	\$60 000.00	Bank Loan Payable.....	\$20 000.00
Automobile.....	15 000.00	Accounts Payable:	
Furniture.....	8 000.00	Bell Furniture Co.	\$3 000.00
Office Equipment.....	<u>7 000.00</u>	Ryan Equipment Co.	2 000.00
		Westown Motors Ltd.	<u>5 000.00</u> <u>10 000.00</u>
		Total Liabilities.....	\$30 000.00
		OWNER'S EQUITY	
		J. Emery, Capital.....	<u>60 000.00</u>
Total Assets.....	<u>\$90 000.00</u>	Total Liabilities & Owner's Equity.....	<u>\$90 000.00</u>

---



---



---



---



---



---



---



---



---



---



---



---



---



---



---



---



---



---



---



---



---



---

**Accuracy of a Financial Statement**

Julienne LeBlanc, a junior accountant, was asked to review the asset section of the Highland Landscaping Company's balance sheet. She found the following list of assets:

**ASSETS**

Accounts Receivable .....	\$5 000.00
Building .....	89 500.00
Land .....	104 000.00
Accounts Payable .....	16 600.00
Landscaping Equipment ...	78 700.00
Cash .....	3 500.00
Office Equipment .....	21 200.00
Truck .....	<u>27 500.00</u>
Total Assets .....	<u>\$346 000.00</u>

- a) List the errors in accounting concepts that Julienne will most likely find.



- b) Name the term that describes how the assets should have been listed in the balance sheet: \_\_\_\_\_
- c) What is the major error in this portion of the balance sheet?
- d) Let's assume that Highland Landscaping Company has the following other liabilities: a debt to Smith Farms, Ltd. to be paid within 60 days, \$9 400; Mortgage payable, \$67 000; equipment on account with Kershaw Equipment, Ltd. to be paid within 30 days, \$7 200; and a bank loan worth \$23 600.  
Create a new balance sheet for the business as of September 16<sup>th</sup>, 2015.

---

---

---


**Smith's Style is a Beauty Salon that has been established as a sole proprietorship and is owned by Brittany Smith. The business provides services such as: hair cutting, dying & styling, as well as massage, manicures & pedicures.**

**Smith's styles began with the following assets & liabilities: Cash - \$75 000; Automobile - \$24 000; Building - \$123 000; Land - \$12 000; Accounts payable to: Maritime Beauty Ltd. - \$3 400; Sally's Beauty Ltd. - \$2 900; & Body Care Equipment Company - \$34 000; Mortgage Payable - \$65 000; Furniture - \$40 000; Office Equipment - \$21 600; Beauty Products - \$8 700; Bank Loan (on demand) of \$9 000.**

**a) Evaluate the balance sheet (on back) to find the errors. You should be able to find 7 errors. List them below.**

**1.**

**2.**

**3.**

**4.**

**5.**

**6.**

**7.**

**b) Use the blank balance sheet to create a new PROPER balance sheet for Smith's Style as of September 18<sup>th</sup>, 2015.**

