

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:

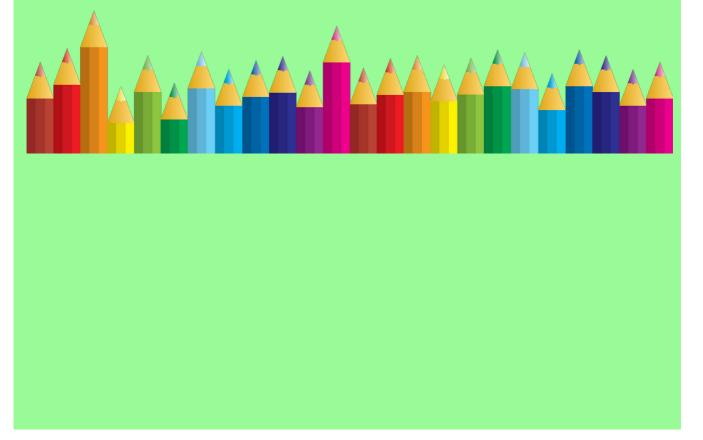
Textbook & Workbook - Accounting: A Systems Approach Binder

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



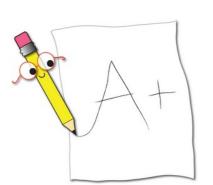
Evaluation:

Assiç	nments	15%
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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

<u>Service</u>

- · LAWN CARE
- · HAIR DRESSER
- · DENTIST

Manufacturing

- PRODUCTION OF 600DS
- · AUTO MAKERS

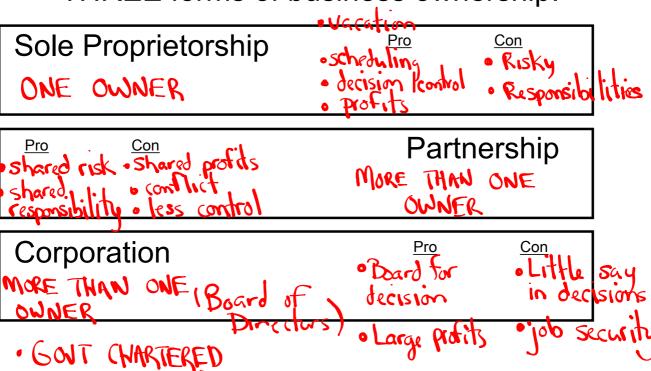
Merchandising

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

Non-Profit

- · WRED
- · BIEBROS/BIESIS
 - 26(V

THREE forms of business ownership:



What does a person need to start a business?

- money location
 an idea building
 plan employees
 investus merchandise letock



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 ar 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.

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.

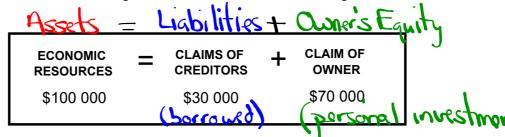
In Canada, the legal system allows creditors to sue debtors for small overdue amounts; a banker who lent \$500 to a business may place a claim before the **small claims court.**

We can show these ideas in **two equations**:

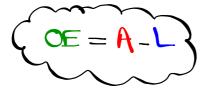
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ECONOMIC ECONOMIC RESOURCES

$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.



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:

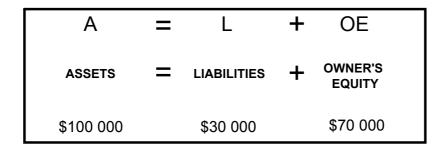
Economic resources are known as assets

Liabilities replace the claims of creditors

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



THE ACCOUNTING EQUATION



- 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:

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

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

Mortgage Payable: a long-term debt wherein the collateral consist of the property bought

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 <u>assets</u> and <u>liabilities</u>: Cash, \$60 000: Automobile, \$15 000; Furniture, \$8000. Office Equipment, \$7000. Bank Loan Payable, \$20 000; Accounts Payable, \$10 000.

A = L + OE

Coims of (reditors + Personal invest

Assets = LIABILITIES + OWNER'S

Equity

Furnisher 8000

Equip
$$7000$$
 = 3000 + \$60 000

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

	ASSETS	=	LIABILTIES	+	OWNER'S EQUITY
a)	\$500	=	\$100	+	400
b)	\$4000	=	1500	+	\$2500
c)	\$740	=	\$300	+	440
d)	1800	=	\$800	+	\$1000
e)	\$9000	=	<u>9800</u>	+	\$6200
f)	\$4800	=	\$2100	+	<u>9700</u>
g)	11409	=	\$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 = LIABILTIES + OWNER'S EQUITY

$$\frac{4000}{5000} = \frac{300}{5000} = \frac{3000}{5000} + \frac{3000}{5000}$$
 $\frac{6000}{5000} = \frac{3000}{5000} + \frac{3000}{5000}$
 $0E = A - L$
= 6000 - 36000

- 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
	Bank Loan \$ 8500
<u>Land</u> <u>52000</u>	Mortage 130000
<u> Building</u> 184000	AP^{30} 3000
m. Farin 9500	
_ truck _ 8000	
0. Equip. 900	
Total Assets \$ 95400	Total Liabilities \$ 41 500
Assets \$ Liabilities \$	41500 + Owner's Equity \$ 53 900

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.

Assume accounts payable are: Guthrie Home Hardware Ltd., \$1000; and P&P Equipment Supplies, Inc., \$2000.

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

ASSETS		LIABILITIES	
Cash	s 1000	Bank Loan	\$ 8500
Land	52000	Mortgage	130000
Bulding	194000	_ A/P:	
M. Equip	9500	Cuthrie Home.	. 1000
truck	8000	Pap Equipment.	. 3000
O. Equip.	900		
Total Assets	\$ <u>195460</u>	Total Liabilities	s <u>141500</u>
		Œ	\$ 53900

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

ASSETS

\$_____ + \$____ + \$____ + \$____ + \$____ + \$____

= \$_____

LIABILITIES + OWNER'S EQUITY

\$_____ + \$____ + \$____ + \$____

= \$_____

Andrea Cooper owns and operates Andrea's Delivery Service. She gave you the following information about her assets & liabilities for her beginning business: <u>Cash</u>, \$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)

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

ASSETS		LIABILITIES	
<u>Cash</u>		Bank Loan	\$ <u>\b\@</u> \$_
Supplies	s S O	Accounts Payable	• •• \$
Lond	<u>\$ 25000</u>	Beta 6.	<u>\$ 600</u>
Building	<u>\$_75000</u>	Delta 6	_ s_ 80 0
_Truck	<u>\$ 20000</u>	Zebra (o	<u>\$</u> ∂ 0 0
Equipment	s 10 000	Mortgage	s 80 000
Total Assets	<u>332500</u>	Total Liabilities	<u>\$93 600</u>
Assets \$ 139 500	= Liabilities \$ 93	+ Owner's Equity	. 38 900

25

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 maching 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.

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

c) Prepare an itemized accounting e	quation for Needles and Pins.	
Debtor > Needles + ASSETS PINS =	Crediturs	L OWNEDIC FOURTY
ASSETS Pins =	LIABILITIES	→ OWNER'S EQUITY
<u>Cash</u> \$ 14300	Bank Loans 15000	
<u>Land</u> <u>35000</u>	<u>Mortgage</u> 100000	
Building 100 000	A/P? 0	
Sew machine 450	Al's Sering 450	
Supplies 350	Fabrics Units. 250	
Equipment 100		
Total Assets \$ 50 700	Total Liabilities \$	\$ <u>35000</u>
0E = A-	L	
= 150	700 - 115700	
25	000	
= 30		

Preparing the Balance Sheet

Heading - Line 1: Who

Line 2: What

Line 3: When



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

Cash	\$60 000.00
Automobile	15 000.00
Furniture	8 000.00
Office Equipment	7 000.00

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

Bank Loan Payable.....\$20 000.00

Accounts Payable:

Bell Furniture Co. \$3 000.00

Ryan Equipment Co. 2 000.00

Westown Motors Ltd. <u>5 000.00</u> <u>10 000.00</u>

Total Liabilities...... \$30 000.00



*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.

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...... \$60 000

Partnership PARTNER'S EQUITY

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

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

Corporation
SHAREHOLDERS' EQUITY

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

Totals & Use of Rules (Un)er line

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.

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

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.

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

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash Automobile Furniture Office Equipment \$60 000 + \$15 000 + \$9 000 + \$7 000	=	Bank Loan Accounts Payable Payable \$20 000 + \$10 000	+	J. Emery, Capital \$60 000
\$90 000	=	\$30 000	+	\$60 000

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 Westown Motors Ltd., \$5000.

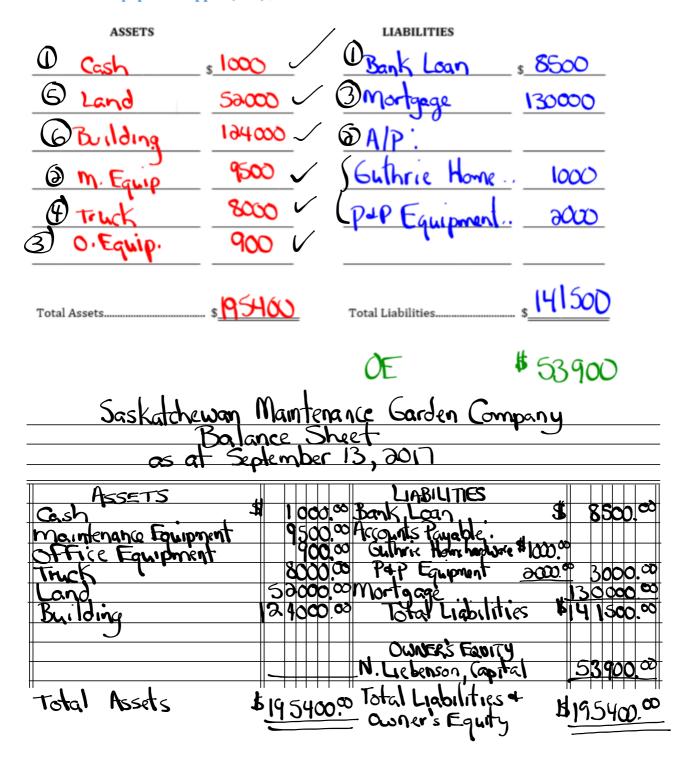
Heading	J. Emery Real Estate Balance Sheet as at September 30th, 2015						
1	ASSETS	LIABILITIES					
	Cash \$60 000.00	Bank Loan Payable\$20 000.00					
	Automobile	Accounts Payable:					
	Furniture 8 000.00	Bell Furniture Co. \$3 000.00					
Death	Office Equipment <u>7 000.00</u>	Ryan Equipment Co. 2 000.00					
Body		Westown Motors Ltd. <u>5 000.00</u> <u>10 000.00</u>					
		Total Liabilities\$30 000.00					
		owner's Equity					
- 1		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>					

Homework

Do problem 1-4 b)

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.

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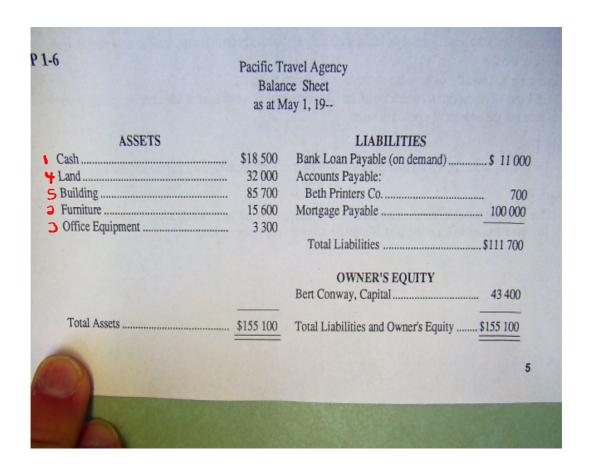
Page 19-20 Problem 1-5a, 1-5b & 1-6

	Balan	Real Estate ce Sheet nber 30th, 2015		
ASSET	гѕ	LIABI	LITIES	
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.	5 000.00	10 000.00
		Total Liabi	lities	\$30 000.00
		OWNER	R'S EQUITY	
		J. Emery, Capital		60 000.00
Total Assets	<u>\$90 000.00</u>	Total Liabilities & Owner's E	quity	\$90 000.00

	\neg	\top	\top	\top	

P 1-5a					
Developing the Accounti	ng Equation:	Liabilities			Ownerle E - te
Asscis		Liabilities		*	Owner's Equit
Cash	\$ 17 000	Accounts Payable:			Ruth
Office Equipment	3 400	Hay Stationery Limited	\$ 5400		Forrester
Land	50 000	Lennox Heating Co	3 200		
Building	100 000	Star Equipment Co	3 700		
Furniture	8 000	Total Accounts Payable .	\$12 300		
,		Mortgage Payable	90 000		
Total Assets	\$178 400 =	Total Liabilities	\$102 300	+	\$?????
Calculation of Owner's F	Equity:				
A = L + OE	OE = A	-L $OE = $178400 - 1	02 300		
		OE = \$76 100			

		OE - \$10 100
-5b		
	th Forreste	r's Photo Service
	Balan	ce Sheet
		mber 31, 19
ASSETS		LIABILITIES
Cash	\$17 000	Accounts Payable:
Office Equipment	3 400	Hay Stationery Limited \$5 400
Land	50 000	Lennox Heating Co 3 200
Building	100 000	Star Equipment Co 3 700 12 300
Furniture	8 000	Mortgage Payable 90 000
		Total Liabilities\$102 300
		OWNER'S EQUITY
		Ruth Forrester, Capital 76 100
Total Assets	\$178 400	Total Liabilities and Owner's Equity\$178 400
P 1-6	Pacific Tro	ivel Agency
		e Sheet
		y 1, 19



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	Assets = 329 400.00
Building	89 500.00	
(Land	104 000.00	-Liabilitie = 107 200.00
Accounts Payable	16 600.00	-1 . Let $t_{\alpha} = 10 \cdot 100$
		LIGOIIII 10 1
Landscaping Equipment	78 700.00	
① Cash	3 500.00	OE = 222 200.00
Office Equipment	21 200.00	
S Truck	27 500.00	
Total Assets	\$346 000.00	

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

Accounts Payable is not an asset
 does not Follow liquidity order

b)	Name the	term that des	cribes hov	w the assets	should have	e been listed	in the balance
-	sheet:	liqindity	<u>order</u>				

c) What is the major error in this portion of the balance sheet?

Accounts payable is not an asset

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 16th, 2015.

Highland Landscaping Company Balance Sheet as at September 16, 2015						
	201.181 10 , 001.0					
ASSETS	LIABILITIES 4 1111					
Cash	\$ 3500 00 Bank Loan 8 33600 00					
Accounts Kocemable	POUCHACOUNTS touchle.					
ACCIO En anastr	allago of Kershar Formant \$72000					
Consciona For ment	1 8700 0 5mth Fains 47 940 0 16600 0					
Landscaping Equipment	anso do Martesa Parato					
Land	04000 00 Total Labilities \$107000 00					
Building	89500.00					
Dariotty	OWNER'S FOUTY					
	B. Carter Capital 20 20000					
	, Total Liabilities and H					
Total Assets	Total Liabilities and \$329 400.00					

Due on Monday

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 18th, 2015.