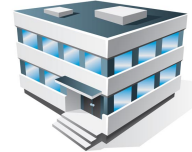


What does a person need to start a business?

- money
- plan / idea
- product
- market
- store / building
- investors
- land
- employees



# RESOURCES



To start any type of profit 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**. (Assets)



## **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 (loan) → Bank/Investor
- invest your own money.

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.

Assets		Liabilities	Owner's Equity
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**

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

$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ $A = L + OE$	Equity
---	--------

$$OE = A - L \quad \text{or} \quad L = A - OE$$



# 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) *borrowed*
- Owner's equity is the claim of the owner against the assets *invested*
- 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:

## Assets (Economic Resources)

- land
- building
- cash
- equipment
- supplies
- vehicle
- accounts receivable

## Liabilities (Claims of Creditors)

- Bank Loan
- Mortgage Payable
- Accounts Payable

## Owner's Equity (Claims of Owner(s))

- Personal Investment (Capital)

## **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? (Service)

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 + Auto + Furniture + Equipment 60000 + 15000 + 8000 + 7000 90000	=	Bank Loan + A/P 20000 + 10000 30000	+	OE ? 60000

$$OE = A - L$$

$$OE = 90000 - 30000$$

$$OE = 60000$$

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
\$ <u>4000</u> \$ <u>700</u> \$ <u>1900</u>	=	\$ <u>300</u> \$ <u>3300</u>	+	\$ <u>3000</u>
\$ <u>6600</u>	=	\$ <u>3600</u>	+	\$ <u>3000</u>

$$OE = A - L$$

$$OE = 6600 - 3600$$

$$OE = \$3000 \text{ (personal investment)}$$

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	\$ 1000.00	Bank Loan	\$ 8500.00
Land	52000.00	Mortgage	130000.00
Building	124000.00	A/P	3000.00
Main. Equip	9500.00		
Truck	8000.00		
Office Equip.	900.00		
Total Assets.....	\$ 195400.00	Total Liabilities.....	\$ 141500.00
<p>Assets \$ <u>195400</u> = Liabilities \$ <u>141500</u> + Owner's Equity \$ <u>53900</u></p>			

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

## ASSETS

$$\begin{array}{r}
 \underline{\$ 1000} + \underline{\$ 52000} + \underline{\$ 124000} + \underline{\$ 9500} + \underline{\$ 8000} + \underline{\$ 900} \\
 = \underline{\$ 195400}
 \end{array}$$

## LIABILITIES

+

## OWNER'S EQUITY

$$\begin{array}{r}
 \underline{\$ 8500} + \underline{\$ 130000} + \underline{\$ 3600} + \underline{\$ 53900} \\
 = \underline{\$ 141500}
 \end{array}$$

Cash ↑ 15000

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.

assets

Investment 35 000

700

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	\$15000		Bank Loan	\$15000	35000
land	35000		Mortgage	100000	700
Building	100000		A/P		
Machine	450		Al's Sewing	450	
Supplies	250		Fabrics Ltd	250	
Equipment	700				
Total Assets...	\$151400	=	Total Liabilities...	\$115700	+ \$35700



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 \$500 of 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	
_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
Total Assets.....	\$ _____	Total Liabilities.....	\$ _____

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: Cash, \$2 000; Bank Loan, \$12 000; bought supplies on account from Beta Company, \$600, Supplies on hand, \$500; Land, \$25 000; purchased \$500 of 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.  $OE = A - L$

ASSETS		LIABILITIES	
Cash	\$ 2 000	Bank Loan	\$ 12 000
Supplies	\$ 500	Accounts Payable:	\$
Land	\$ 25 000	Beta Co.	\$ 600
Building	\$ 75 000	Delta Co.	\$ 500
Truck	\$ 20 000	Zebra Co.	\$ 200
Equipment	\$ 10 000	Mortgage	\$ 80 000
Total Assets.....	\$ 132 500	Total Liabilities.....	\$ 93 300

Assets \$ 132 500 = Liabilities \$ 93 300 + Owner's Equity \$ 39 200

## 2.1 ► Financial Position

One of the most important uses of accounting data is to show the financial position of a person, a business, or other organization. The **financial position** of a business is the status of the business based on its assets, liabilities, and owner's equity. In fact, the concept of financial position is basic to the whole system of accounting.

The concept of financial position is simple and straightforward. If you wanted to determine your own financial position, how would you go about it?

You would likely decide that the following three steps were necessary:

- Step 1** List and total the things that you own that have dollar values. These are called assets. **Economic Resources**
- Step 2** List and total your debts. These are called liabilities. **Claims of Creditors**
- Step 3** Calculate the difference between total assets and total liabilities. This difference is called **equity**. Other terms for equity you might hear are capital, owner's equity, or net worth. **Claim of Owner**

$$E = A - L$$

*Example*

Let us follow the three steps given above to work out the financial position of Chris Turner, a student, on September 15, 20–.

**Step 1** List and total the things of value that Chris owns. These assets might be as follows:

Cash	\$ 55.00
Bank Balance	245.00
Canada Savings Bonds	3 000.00
Mountain Bike	620.00
Snowboard	750.00
Computer and Electronics	1 900.00
Mobile Phone	500.00
Clothes	2 700.00
Total Assets	<u>\$ 9 770.00</u>

} Assets  
(Economic Resources)

**Step 2** List and total Chris's debts. These liabilities might be as follows:

Owed to brother Philip	\$220.00
Owed to Dad	300.00
Mobile Phone Bill	400.00
Total Liabilities	<u>\$920.00</u>

} Liabilities  
(Claims of Creditors)

**Step 3** Calculate the difference between total assets and total liabilities. The calculation is as follows:

Total Assets	\$9 770.00
Total Liabilities	– 920.00
Difference	<u>\$8 850.00</u>

Equity / Capital / Net worth

This difference of \$8850.00 is the amount that Chris is worth. It is known as his equity, his capital, or his net worth.

The analysis just completed shows that three steps are needed to work out a person's financial position. These same three steps are needed to work out the financial position of a business or other organization.

## Homework

#1-6 on page 19

#1-6 on page 20

## CHAPTER 2

## The Balance Sheet

## SECTION 2.1 REVIEW QUESTIONS (page 19)

1. *To calculate a person's financial position, list and total the assets, list and total the liabilities, and then subtract the total liabilities from the total assets.*
2. *An asset is something you own that has a dollar value.*
3. *A liability is a debt or money owed.*
4. *Owner's equity is the difference between a person's total assets and total liabilities.*
5. *Another term that means the same as equity is capital or net worth.*
6. *Two forms of the fundamental accounting equation are  $A - L = OE$  and  $A = L + OE$ , where  $A$  represents assets,  $L$  represents liabilities, and  $OE$  represents owner's equity.*

## SECTION 2.1 EXERCISES (page 20)

## Exercise 1, p. 20

office furniture	<i>asset</i>	an amount loaned to R. Jonas	<i>asset</i>
land	<i>asset</i>	automobile	<i>asset</i>
bank loan	<i>liability</i>	mortgage payable	<i>liability</i>
house and lot	<i>asset</i>	a bank deposit	<i>asset</i>
an unpaid heating bill	<i>liability</i>		

## Exercise 2, p. 20

$$A - L = OE$$

$$\$150\,000 - \$65\,000 = \$85\,000$$

*Karen Lipka's equity is \$85 000.*

## Exercise 3, p. 20

$$A - L = OE$$

$$\$37\,486.49 - \$11\,547.80 = \$25\,938.69$$

*The owner's equity of the business is \$25 938.69.*

**SECTION 2.1 EXERCISES** (continued)  
**Exercise 5, p. 20**

Assets

<i>Bank balance</i>	\$	3	6	5	0	-
<i>Home</i>		492	0	0	0	-
<i>Furniture and household equipment</i>		55	0	0	0	-
<i>Summer property</i>		225	0	0	0	-
		<b>\$775</b>	<b>6</b>	<b>5</b>	<b>0</b>	<b>-</b>

Liabilities

<i>Mortgage on home</i>	\$162	3	6	0	-
<i>Bank loan on summer property</i>	145	0	0	0	-
<i>Unpaid bills</i>	4	2	0	0	-
<i>Amount owed to M. Dupuis</i>	50	0	0	0	-
	<b>\$361</b>	<b>5</b>	<b>6</b>	<b>0</b>	<b>-</b>

Equity

$\$775\ 650 - \$361\ 560 = \$414\ 090$

*Claude Pineau's equity is \$414 090.*

**Exercise 6, p. 20**

A. Assets

<i>Bank balance</i>	\$	8	5	6	25
<i>House and lot</i>	185	0	0	0	-
<i>Cash on hand</i>			8	5	35
<i>Miscellaneous equipment</i>	1	8	5	0	-
<i>Household furniture and furnishings</i>	4	8	0	0	-
<i>Amount loaned to Phil Silva</i>	2	0	0	0	-
	<b>\$194</b>	<b>5</b>	<b>9</b>	<b>1</b>	<b>60</b>

B. Liabilities

<i>Bank loan</i>	\$	5	0	0	0	-
<i>Amount owed to Imperial Oil</i>		1	3	5	60	
<i>Amount owed to Weston Hydro</i>			8	5	50	
<i>Mortgage on house and lot</i>	90	0	0	0	-	
	<b>\$95</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>10</b>	

## The Balance Sheet

The formal way of presenting financial position is by means of a balance sheet. A **balance sheet** is a statement showing the financial position of a person, business, or other organization. Figure 2.1 contains the balance sheet that shows the financial position of Chris Turner whom you met on page 18.

Chris Turner										
Balance Sheet										
September 15, 20–										
Assets					Liabilities					
Cash	\$		5	5	00	Owed to brother Philip	\$	2	2	00
Bank Balance			2	4	00	Owed to Dad		3	0	00
Canada Savings Bonds		3	0	0	00	Mobile Phone Bill		4	0	00
Mountain Bike			6	2	00	Total Liabilities	\$	9	2	00
Snowboard			7	5	00					
Computer and Electronics		1	9	0	00	<i>Owner's Equity</i>				
Mobile Phone			5	0	00	Chris Turner, Capital		8	8	50
Clothes			2	7	00					
Total Assets	\$	9	7	7	00	Total Liabilities and Equity	\$	9	7	70

**Figure 2.1**  
A personal balance sheet



Formats of balance sheets vary. The slight differences are due in part to the accounting standards that govern private businesses and public companies. You will learn more about these standards in Section 2.4.

Although you will work with balance sheets that have small differences in appearance, remember that they all share a common purpose—that is, to show financial position. The balance sheet in Figure 2.2 shows the financial position for a small business.

Easy Rent-Alls													
Balance Sheet													
September 30, 20–													
<u>Assets</u>					<u>Liabilities</u>								
Cash	\$	6	7	5	0	20	Accounts Payable						
Accounts Receivable							– Arrow Supply	\$	3	9	5	0	40
– W. Boa		2	2	3	1	50	– Best Repairs		6	2	5	0	00
– T. Burns		4	3	5	0	00	Bank Loan		35	0	0	0	00
Supplies		2	9	6	5	10	Mortgage Payable		95	2	0	0	00
Land		148	0	0	0	00	Total Liabilities	\$	140	4	0	0	40
Buildings		134	0	0	0	00							
Rental Equipment		75	3	6	4	70	<u>Owner's Equity</u>						
							J. Salas, Capital		233	2	6	1	10
Total Assets	\$	373	6	6	1	50	Total Liabilities and Equity	\$	373	6	6	1	50

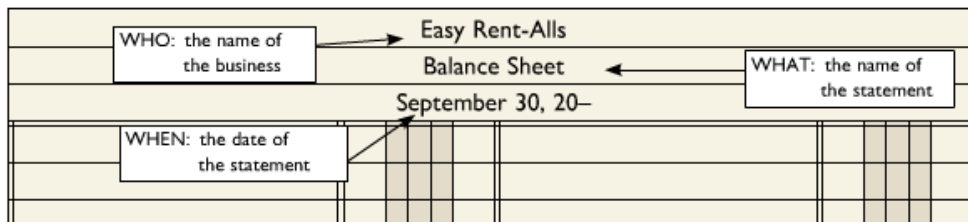
**Figure 2.2**

A balance sheet of a small business

### Preparing a Balance Sheet

The steps in preparing a simple balance sheet are shown in the following illustrations. The balance sheet of Easy Rent-Alls is used in the example.

**Step 1** Write in the statement heading on columnar paper as shown in Figure 2.3 below. The heading must indicate the name of the business, the name of the statement, and the date of the statement.



**Figure 2.3**  
The heading on a balance sheet

**Step 2** Write in the subheading “Assets” at the top of the left-side column. Underline the sub-heading or make it stand out by using a different writing style or colour. Then write in the individual assets on the left side as shown in Figure 2.4 below.

Easy Rent-Alls												
Balance Sheet												
September 30, 20--												
<u>Assets</u>												
Cash	6	7	5	0	20							
Accounts Receivable												
– W. Boa	2	2	3	1	50							
– T. Burns	4	3	5	0	00							
Supplies	2	9	6	5	10							
Land	1	48	0	0	00							
Buildings	1	34	0	0	00							
Rental Equipment	7	5	3	6	4	70						

**Figure 2.4**  
The assets listed on a balance sheet

Small businesses generally list their assets in the order of their liquidity. Cash is listed first. Accounts receivable are listed next because they are usually collected within 30 days. (The balance sheets in the first part of this text show the names of customers and list them in alphabetical order.) Supplies and long-lasting assets, such as delivery trucks, equipment, and buildings, are listed later because normally they are not converted into cash.

**Step 3** Write in the subheading “Liabilities” at the top of the right-side column. Format the subheading the same way you formatted “Assets.” Then write in the liabilities on the right side as shown in Figure 2.5. The liabilities are listed in the order in which they will be paid. Suppliers’ names are usually placed in alphabetical order.

Draw a line below the last liability amount to indicate that you are adding up the figures above the line. Then write in “Total Liabilities” and the total.

Liabilities are listed in the order in which they must be paid.

In this text and in business, you will see several balance sheets showing Bank Loan before Accounts Payable. This is because the loan may be repayable on demand, which gives the bank the right to call in the loan at any time. Bank management will occasionally use this right to demand repayment if they think the funds they lent are at significant risk.

Easy Rent-Alls									
Balance Sheet									
September 30, 20–					Subheading				
<u>Assets</u>					<u>Liabilities</u>				
Cash	6	7	5	20	Accounts Payable				
Accounts Receivable					– Arrow Supply	3	9	5	40
– W. Boa	2	2	3	50	– Best Repairs	6	2	5	00
– T. Burns	4	3	5	00	Bank Loan	35	0	0	00
Supplies	2	9	6	10	Mortgage Payable	95	2	0	00
Land	148	0	0	00	Total Liabilities	140	4	0	40
Buildings	134	0	0	00					
Rental Equipment	75	3	6	70					

**Figure 2.5**  
The liabilities listed on a balance sheet

**Step 4** Beneath the liabilities, write in the subheading “Owner’s Equity” and format it so it looks like the subheadings for “Assets” and “Liabilities.” Then write in the owner’s name plus the word “Capital” and the equity figure, as shown in Figure 2.6 on the next page. As you know, the equity amount is the difference between the total assets and the total liabilities. You have to know the amount of total assets to calculate equity, but do not write it in until step 5 on the next page.

Easy Rent-Alls										
Balance Sheet										
September 30, 20–										
<u>Assets</u>					<u>Liabilities</u>					
Cash	6	7	5	0	20	Accounts Payable				
Accounts Receivable						– Arrow Supply	3	9	5	0
– W. Boa	2	2	3	1	50	– Best Repairs	6	2	5	0
– T. Burns	4	3	5	0	00	Bank Loan	35	0	0	00
Supplies	2	9	6	5	10	Mortgage Payable	95	2	0	00
Land	148	0	0	0	00	Total Liabilities	140	4	0	40
Buildings	134	0	0	0	00					
Rental Equipment	75	3	6	4	70	<i>Owner's Equity</i>				
						J. Salas, Capital	233	2	6	1

**Figure 2.6**

The owner’s equity recorded on a balance sheet

**Step 5** Complete the balance sheet by writing in the final totals as shown in Figure 2.7. These totals are written on the first fully open line.

On this line, write in “Total Assets” on the left side and “Total Liabilities and Equity” on the right side. Write in the totals. The two totals must be on the same line and must agree. Place a single ruled line above and a double ruled line below each of the two totals.

**Step 6** To help you develop the habit of correctly using dollar signs, this text shows them on most balance sheets. In Figure 2.7, notice a dollar sign is placed with the first amount in every column. A dollar sign is also used beneath each single ruled line in each column.



For an online demonstration of the steps to follow to create a balance sheet, visit the *Accounting 1* website.

Easy Rent-Alls													
Balance Sheet													
September 30, 20—													
<u>Assets</u>					<u>Liabilities</u>								
Cash	\$	6	7	5	0	20	Accounts Payable						
Accounts Receivable							– Arrow Supply	\$	3	9	5	0	40
– W. Boa		2	2	3	1	50	– Best Repairs		6	2	5	0	00
– T. Burns		4	3	5	0	00	Bank Loan		35	0	0	0	00
Supplies		2	9	6	5	10	Mortgage Payable		95	2	0	0	00
Land		148	0	0	0	00	Total Liabilities	\$	140	4	0	0	40
Buildings		134	0	0	0	00							
Rental Equipment		75	3	6	4	70	<u>Owner's Equity</u>						
							J. Salas, Capital		233	2	6	1	10
Total Assets	\$	373	6	6	1	50	Total Liabilities and Equity	\$	373	6	6	1	50

**Figure 2.7**

The completed balance sheet for a business with dollar signs included

## Homework

Page 28 Section 2.2

Review # 1-17

Exercise 1

**SECTION 2.2 REVIEW QUESTIONS** (page 28)

1. *A balance sheet is a statement showing the financial position of a person, business, or other organization.*
2. *The name of the business appears in the first line of the heading of the balance sheet.*
3. *The assets are listed on the left side of the balance sheet. The liabilities are listed on the right side of the balance sheet.*
4. *The full cost of the automobile is listed as an asset, and the amount owed on the automobile is listed as a liability.*
5. *Dollar signs are placed with the first amount in every column and beneath each single ruled line on a balance sheet.*
6. *A creditor appears under the liabilities on the right-hand side of the balance sheet.*
7. *A single ruled line drawn beneath a column of figures means that the column is to be totalled.*
8. *An accountant's work must be neat because the financial information prepared by an accountant must not be misinterpreted and therefore must be perfectly legible.*
9. *A double ruled line is drawn beneath a total in a column of figures to indicate a final total.*
10. *A short form or abbreviation may be used on financial statements when it is part of a company's formal name.*
11. *The most liquid asset is cash. Liquidity is based on how quickly and easily an asset can be converted to cash, so something that is already cash has the most liquidity.*
12. *Liabilities are listed on the balance sheet in the order in which they will be paid.*
13. *Assets are generally listed on the balance sheet in the order of their liquidity.*
14. *Accounts receivable are the debts owed to a business by its customers.*
15. *Accounts payable are the debts owed by a business to its suppliers.*
16. *Any supplier to whom the business owes money is called a creditor.*
17. *Any company or person who owes money to the business is called a debtor.*



**SECTION 2.2 EXERCISES** (page 28)

**Exercise 1, p. 28**

A.

*THE KRAMER COMPANY*

*BALANCE SHEET*

*SEPTEMBER 30, 20-*

<i>Assets</i>					<i>Liabilities</i>								
<i>Cash</i>	\$	1	6	3	6	-	<i>Accounts Payable</i>						
<i>Accounts Receivable</i>							<i>—Able Supply Company</i>	\$	4	7	4	0	-
<i>—J. Crothers</i>		1	1	0	0	-	<i>—C.P. Gregg</i>		3	0	0	0	-
<i>—R. Zack</i>			3	7	0	-	<i>Bank Loan</i>		10	0	0	0	-
<i>Supplies</i>		1	2	0	0	-	<i>Total Liabilities</i>	\$	17	7	4	0	-
<i>Furniture and Equipment</i>		14	7	0	0	-							
<i>Delivery Equipment</i>		20	1	0	0	-	<i>Owner's Equity</i>						
							<i>Kate Kramer, Capital</i>		21	3	6	6	-
<i>Total Assets</i>	\$	39	1	0	6	-	<i>Total Liabilities and Equity</i>	\$	39	1	0	6	-

B. A retailing business buys goods and resells them at a higher price. Merchandise Inventory is the cost of the goods that will be resold. If sales are brisk, Merchandise Inventory is turned into cash quickly and is therefore quite liquid. So Merchandise Inventory should probably be listed right after Cash and Accounts Receivable.