

# Accounting Notes

Concepts, Accounting Equation, Financial Statements

## **Characteristics of Business Organizations:**

	Sole Proprietorship	Partnership	Corporation
1) Owner(s)	One Owner	Two or more (partners)	Many owners (shareholders)
2) Life of organization	Limited by owners choice or death	Limited by partners choice or death	Unlimited
3) Personal Liability of Owner(s) for business debt	Owner is personally liable	Partners are personally liable	Shareholders are not personally liable
4) Accounting Status	Business is separate from the owner	Partnership is separate from the partners	Corporation is separate from the shareholders

## **Accounting Concepts and Principles:**

The Entity Concept - An organization is a separate entity from the owner(s) of the organization.

The Reliability (Objectivity) Principle - Accounting records and statements should be based on the most reliable data available so that they will be as accurate and useful as possible.

The Cost Principle - Acquired assets and services should be recorded at their actual cost not at what they are believed to be worth.

The Going-Concern Concept - The assumption that the business will continue operationing for the foreseeable future.

The Stable-Monetary Unit Concept - Accounting transaction are recorded in the monetary unit used in the country where the business is located.

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## **The Accounting Equation:**

Assets	=	Liabilities	+	Owner's Equity
Anything that belongs to or is owed to the business		A debt owed by the business to its creditors		The owners claim to the assets of the business. The assets that are left over after the liabilities are paid

## **Difference between Accounts Receivable and Notes Receivable:**

Accounts Receivable - The promise by a customer to pay the business for a service or product provided

Note Receivable - The WRITTEN promise for a future collection of cash within a specified period. Usually includes the requirement for interest to be paid.

## **Difference between Accounts Payable and Notes Payable:**

Accounts Payable - The amount owed by the business to a creditor that is backed by the general reputation and credit history of the business.

Notes Payable - A WRITTEN promise by the business for a future payment to a creditor within a specified period.. Usually includes the requirement for interest to be paid.

## **Financial Statements:**

**Income Statement** - a summary of a company's revenues and expenses for a specific period of time

Revenue - Amounts earned by delivering goods or services to customers.

Expense - The using up of assets or the accrual of liabilities in the course of delivering goods or services to the customers.

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Income Statement Format:

Revenues	\$xx,xxx
Expenses	<u>xx,xxx</u>
= Net Income	<u>\$ x,xxx</u>

**Statement of Owner's Equity** - a summary of the changes that occurred in the company's owner's equity during a specific period of time.

Statement of Owner's Equity Format:

Capital, Jan 1 19X1		\$xx,xxx
Add: Investments by owner	\$x,xxx	
Net Income for the period	<u>x,xxx</u>	<u>x,xxx</u>
Subtotal		\$xx,xxx
Deduct: Withdrawals by owner	\$x,xxx	
Net Loss for the period	<u>x,xxx</u>	<u>x,xxx</u>
Capital, Dec 31 19X1		<u>\$xx,xxx</u>

**Balance Sheet** - a summary of a company's assets, liabilities, and owner's equity on a specific date.

Balance Sheet Format:

Assets		Liabilities	
Cash	\$xx,xxx	Accounts Payable	\$xx,xxx
Accounts Receivable	x,xxx	Notes Payable	x,xxx
Supplies	x,xxx	Total liabilities	\$xx,xxx
		Owner's Equity	
		Capital	\$xx,xxx
		Total Liabilities and	
Total Assets	<u>\$xx,xxx</u>	Owner's Equity	<u>\$xx,xxx</u>