

ACCT 100 – Chapters 1 & 2

I. Definition of Accounting

GAAP –

II. Business Transactions –

1.

2.

3.

4.

A. The 5 Accounting Categories (Classifications)

1. Assets

2. Liabilities

3. Owner's Equity

a. Synonymous with the terms "Capital" and "Net Worth"

4. Revenue

5. Expenses

- a. GAAP says revenue and expenses should be recorded when earned or used, not when paid.
- b. Incurring expenses decreases Owner's Equity

B. Fundamental Accounting Equation

1. Assets = Liabilities + Owner's Equity

2. Assets = Liabilities + Owner's Equity
Capital + Revenue - Expenses

c. Must ALWAYS be in balance

III. Recording Transactions –

A. Accounts

IV. Financial Statements

The result of the “summarizing” process of accounting. The financial statements are how businesses communicate their performance with owner’s, managers, investors, creditors and government agencies.

The financial statements go to external users so appearance is important. There are specific rules regarding the preparation of the financial statements which should be followed.

A. Income Statement

B. Statement of Owner’s Equity

C. Balance Sheet

Ex. 2.5

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ASSETS				LIABILITIES	OWNER'S EQUITY		
Cash	Accounts Receivable	Equipment	=	Accounts Payable	Justin Cole, Capital	Revenue	- Expenses
1							
2							
3							
4							
5							
6							
7							
8							

