



جامعة
المنارة
MANSOURA UNIVERSITY

CHAPTER

1

Introduction to Accounting and Business

Accounting
27e

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Nature of Business and Accounting

- A business is an organization in which basic resources (inputs), such as materials and labor, are assembled and processed to provide goods or services (outputs) to customers.
- The objective of most businesses is to earn a profit.
- Profit is the difference between the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services.
- Business is an artificial person
- Business has its own identity and it is considered as separate from its owner.

Role of Accounting in Business

- You've heard the term accounting, but what exactly is it? Accounting is the information system that measures business activities, processes the information into reports, and communicates the results to decision makers. Accounting is the language of business. The better you understand the language of business, the better you can manage your own business, be a valuable employee, or make wise investments.
- what accountants really do. Accounting starts with economic activities that accountants review and evaluate using critical thinking and judgment to create useful information that helps individuals make good decisions.

Types of Businesses

Service Businesses	Service
Delta Air Lines	Transportation services
The Walt Disney Company	Entertainment services
Merchandising Businesses	Product
Walmart	General merchandise
Amazon.com	Internet books, music, videos
Manufacturing Businesses	Product
Ford Motor Co.	Cars, trucks, vans
Dell Inc.	Personal computers

Forms of Business

- A Proprietorship is owned by 1 person who generally is the manager. Examples include the local barber shop, an electrician or an entrepreneur who starts a business.
- A Partnership is owned by two or more individuals, for example by lawyers or CPAs to carry on business.
- A Corporation is a separate legal entity owned by stockholders.

Forms of Business Organization

Forms of Business Organization

• Sole Proprietorship

- Simple to establish
- Owner-controlled
- Tax advantages

• Partnership

- Simple to establish
- Shared control
- Broader skills and resources
- Tax advantages

• Corporation

- Easier to transfer ownership
- Easier to raise funds
- No personal liability

Transaction

- Transaction can be defined as exchange of some property

Sale of goods

Purchase of goods

Payment of rent

Payment of utility bills

Types of Transactions

Transactions that occur on daily basis

- ✓ Purchase of goods
- ✓ Receipts of cash sales

Transactions that occur on monthly basis

- ✓ Payroll or wages
- ✓ Payment for credit purchases or credit sales
- ✓ Rent, electricity bills etc.

Transactions that occur in long term

- ✓ Purchase and sale of non-current assets

Questions Asked by Internal Users



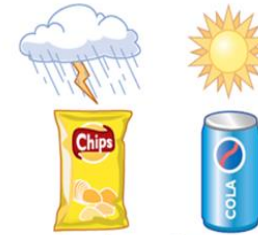
Finance

Is cash sufficient to pay dividends to **Microsoft** stockholders?



Marketing

What price should **Apple** charge for an iPhone to maximize the company's net income?



Snacks

Beverages

Management

Which **PepsiCo** product line is the most profitable? Should any product lines be eliminated?

Users of Financial Information



Make Decisions About



1. **Investors** decide whether to invest in stock.
2. **Creditors** decide whether to lend money.
3. **Customers** decide whether to purchase products.
4. **Suppliers** decide the customer's ability to pay for supplies.
5. **Managers** decide production and expansion.
6. **Employees** decide employment opportunities.
7. **Competitors** decide market share and profitability.
8. **Regulators** decide on social welfare.
9. **Tax authorities** decide on taxation policies.
10. **Local communities** decide on environmental issues.

Management Accounting

- The area of accounting that provides internal users with information is called managerial accounting, or management accounting.

Financial Accounting

- ❑ The area of accounting that provides external users with information is called financial accounting.
- ❑ The objective of financial accounting is to provide relevant and timely information for the decision-making needs of users outside of the business.
- ❑ General-purpose financial statements are one type of financial accounting report that is distributed to external users.

Role of Ethics in Accounting and Business

- The objective of accounting is to provide relevant, timely information for user decision making.
- Accountants must behave in an ethical manner so that the information they provide users will be trustworthy and, thus, useful for decision making.
- Ethics are moral principles that guide the conduct of individuals.

Opportunities for Accountants

- Accountants and their staff who provide services on a fee basis are said to be employed in **public accounting**.
- Accountants employed by a business firm, government, or a not-for-profit organization are said to be employed in **private accounting**

Assets

- ❑ Assets are something of value that the business owns or has control of. Cash, Merchandise Inventory, Furniture, and Land are examples of assets.
- ❑ The common characteristics possessed by all assets is the capacity to provide future services or benefits to the entities that use them

Liabilities

- ❑ Liabilities are obligations or debts that an enterprise has to pay at some time in the future. They represent creditors' claims on the firm's assets
- ❑ Many liabilities have the word payable in their titles. Examples include Accounts Payable, Notes Payable, and Salaries Payable.

Equity

- ❑ Residual amount of company assets after deducting its liabilities

The Accounting Equation

- The resources owned by a business are its assets.
- The rights of creditors are the debts of the business and are called liabilities.
- The rights of the owners are called owner's equity.
- The equation $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ is called the accounting equation.

The Accounting Equation

The rights of creditors are
the debts of the business



$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$



The resources owned by a
business



The rights of the owners

Balance Sheet

- A balance sheet is a list of the assets, liabilities, and owner's equity as of a specific date.
- The account form of a balance sheet lists the assets on the left and the liabilities and owner's equity on the right. It resembles the basic format of the accounting equation



Sierra Corporation Balance Sheet October 31, 2022

Assets

Cash		\$15,200
Accounts receivable		200
Supplies		1,000
Prepaid insurance		550
Equipment, net		<u>4,960</u>
Total assets		<u><u>\$21,910</u></u>

Liabilities and Stockholders' Equity

Liabilities		
Notes payable	\$ 5,000	
Accounts payable	2,500	
Unearned service revenue	800	
Salaries and wages payable	1,200	
Interest payable	<u>50</u>	
Total liabilities		\$ 9,550
Stockholders' equity		
Common stock	10,000	
Retained earnings	<u>2,360</u>	
Total stockholders' equity		<u>12,360</u>
Total liabilities and stockholders' equity		<u><u>\$21,910</u></u>

Revenues and Expenses

Revenues are the gross increases in stockholder's equity that result from operating the business.

- Generally, revenues result from the sale of merchandise, the performance of services, the rental of property, or the lending of money.
- Revenues usually result in an increase in an asset.

Expenses are the decreases in stockholders' equity that result from operating the business.

- They are the cost of assets consumed or services used in the process of earning revenue.
- Examples of expenses may be utility expense, rent expense, supplies expense, and tax expense.
- When revenues exceed expenses, net income results.
- When expenses exceed revenues, a net loss results.

Income Statement

- The **income statement** reports the revenues and expenses for a period of time, based on the **matching concept**.
- The matching concept is applied by “matching” the expenses incurred during a period with the revenue that those expenses generated.
- The excess of the revenue over the expenses is called **net income, net profit, or earnings**. If expenses exceed revenue, the excess is a **net loss**.
- Net income (Loss) = Revenues - Expenses

Income Statement



Sierra Corporation

Income Statement

For the Month Ended October 31, 2022

Revenues		
Service revenue		\$10,600
Expenses		
Salaries and wages expense	\$5,200	
Rent expense	900	
Supplies expense	1,500	
Depreciation expense	40	
Interest expense	50	
Insurance expense	50	
Total expenses	<u>7,740</u>	
Net income		<u>\$2,860</u>

Financial Statements

Review Question 1 Answer

- A. Net income will result during a time period when:
- A. assets exceed liabilities.
 - B. assets exceed revenues.
 - C. expenses exceed revenues.
 - D. **Answer:** revenues exceed expenses.

Financial Statements

Review Question 2 Answer



- A. Which of the following financial statements is prepared as of a specific point in time?
- A. **Answer:** Balance sheet.
 - B. Income statement.
 - C. Retained earnings statement.
 - D. Statement of cash flows.

Statement of Owner's Equity

- The **statement of owner's equity** reports the changes in the owner's equity for a period of time.
- It is prepared after the income statement because the net income or net loss for the period must be reported in this statement.
- $\text{Equity End} = \text{Equity Beg} + \text{Net income} - \text{Drawings}$
- $\text{Equity End} = \text{Equity Beg} - \text{Net Loss} - \text{Drawings}$
- $\text{Equity End} = \text{Equity Beg} + \text{Revenues} - \text{Expenses} - \text{Drawings}$

Grane provides the following information about her business:

Equity at 30 September 2023 23,900, Investment in Equity 1,000, Net Income in the year 5,600, Drawings in the year 3,250

What was the balance on Grane's Equity at 1 October 2022?

- A. \$20,550**
- B. \$27,250**
- C. \$31,750**
- D. \$14,650**

Butler provides the following information about his business:

Assets at 30 September 2023 134,700, Equity at 1 October 2023 49,750, Net Income in the year 35,000, Drawings in the year 12,000

Butler's total liabilities at 30 September 2023 were

Do It! 3a: Financial Statements

CSU Corporation began operations on January 1, 2022. The following information is available for CSU on December 31, 2022:

Accounts receivable	\$ 1,800	Insurance expense	\$ 1,000
Accounts payable	2,000	Service revenue	17,000
Rent expense	9,000	Supplies	4,000
Notes payable	5,000	Supplies expense	200
Common stock	10,000	Cash	1,400
Retained earnings	?	Dividends	600
Equipment	16,000		

Prepare an **income statement**, a retained earnings statement, and a balance sheet.

Do It! 3a: Financial Statements

CSU Corporation
Income Statement
For the Year Ended December 31, 2022

Revenues		
Service revenue		\$17,000
Expenses	\$9,000	
Rent expense	1,000	
Insurance expense	200	
Supplies expense		
Total expenses		<u>10,200</u>
Net income		<u><u>\$ 6,800</u></u>

Do It! 3a: Financial Statements

CSU Corporation Balance Sheet December 31, 2022

Assets

Cash		\$ 1,400
Accounts receivable		1,800
Supplies		4,000
Equipment		16,000
Total assets		<u>\$23,200</u>

Liabilities and Stockholders' Equity

Liabilities		
Notes payable	\$ 5,000	
Accounts payable	<u>2,000</u>	
Total liabilities		\$ 7,000
Stockholders' equity		
Common stock	10,000	
Retained earnings	<u>6,200</u>	
Total stockholders' equity		<u>16,200</u>
Total liabilities and stockholders' equity		<u>\$23,200</u>

1. Hoya Corporation reports the following amounts: Assets Beg = \$50.000; Assets End = \$60.000; Liabilities Beg = \$35.000; Liabilities End = \$15.000; Revenues = \$75.000; and Expenses = \$50.000. What amount is reported for Drawings?
2. At the beginning of the year, Dansk Company had total assets of \$600000 and owner's equity of \$250000. If total assets increased \$150000 during the year and owner's equity decreased \$80000, what is the amount of total liabilities at the end of the year?
3. The following information is available for a sole trader who keeps no accounting records. Net business assets at 1 July 2022 186,000, Net business assets at 30 June 2023 274,000, Cash drawings by proprietor 58.000, Additional capital introduced by proprietor 50,000, Business cash used to buy car for the proprietor's wife 20.000. Using this information, what is the trader's profit for the year ended 30 June 2023?

Principal Types of Business Activities

All businesses are involved in three types of activity

- ✓ Financing
- ✓ Investing
- ✓ Operating

Financing Activities

Financing activities include transactions the company has with investors and creditors, such as issuing stock (\$25,000) and borrowing money from a local bank (\$10,000).

Investing Activities

Investing activities include transactions involving the purchase and sale of resources that are expected to benefit the company for several years, such as the purchase of equipment for \$24,000. With the necessary resources in place, the company is ready to begin operations.

Operating Activities (1 of 2)

Operating activities will include transactions that relate to the primary operations of the company, such as providing products and services to customers and the associated costs of doing so, like rent, salaries, utilities, taxes, and advertising.

Do It! : Business Activities

Classify each item as an asset, liability, common stock, revenue, or expense.

1. Cost of renting property.
2. Truck purchased.
3. Notes payable.
4. Issuance of ownership shares.
5. Amount earned from performing service.
6. Amounts owed to suppliers.

Solution

1. Expense
2. Asset
3. Liability
4. Common stock
5. Revenue
6. Liability

Match each business activity with its description.

Transactions related to revenues and expenses

Transactions with lenders and owners

Transactions involving the purchase and sale of productive assets

Financing

Investing

operating