

Introduction to Accounting

Chapter 1

TERMS

Accounting is known as the _____ of business.

Business Entity Concept

_____ considered _____ and distinct from _____

Examples:

Business Transaction

_____, occurrence, or _____ that needs to be _____;
usually in _____ terms

Assets

W, K & K: _____ by a
business

@ ORU: _____

Users of Accounting Information

1. _____
2. _____
3. _____
4. _____



Equities

_____ or claims to _____ (assets)

therefore

Types of Equities

Liabilities: _____

or _____

The Accounting Equation

ASSETS = EQUITIES

ASSETS = _____

ASSETS = LIABILITIES + _____

Possible Ways to Keep the Equation in Balance

	ASSETS	=	LIABILITIES	+	OWNERS' EQUITY
1.	_____				_____
2.	_____				_____
3.	_____				_____
4.	_____				_____

Sample Problem

A student decided to offer his services as a tutor for fellow students who had difficulty with their classes.

With a \$100 deposit, he opened a separate bank account to use solely for tutoring enterprise.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Purchased \$20 of supplies for cash.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Tutored student who promised to pay on Friday, \$10.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Placed \$15 advertisement in student newspaper to be paid next week.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Received \$40 from students tutored.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Paid student newspaper for ad placed earlier.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Received payment from student who earlier had promised to pay.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Revenue (_____ owner's equity)

_____ coming into the business because of _____ ...

Expenses (_____ owner's equity)

_____ made in order to earn _____

The "Father of Accounting" -- Luca Pacioli 1445 - 1517

"...described a system to ensure that financial information was recorded efficiently and accurately." [Accounting Principles](#), Weygant, et.al., 10th ed, pg 5

"It is also notable for including the first published description of the method of bookkeeping that Venetian merchants used during the Italian Renaissance, known as the double-entry accounting system. Although Pacioli codified rather than invented this system, he is widely regarded as the "Father of Accounting". The system he published included most of the accounting cycle as we know it today. He described the use of journals and ledgers, and warned that a person



should not go to sleep at night until the debits equaled the credits. His ledger had accounts for assets (including receivables and inventories), liabilities, capital, income, and expenses — the account categories that are reported on an organization's balance sheet and income statement, respectively. He demonstrated year-end closing entries and proposed that a trial balance be used to prove a balanced ledger. Also, his treatise touches on a wide range of related topics from accounting ethics to cost accounting.”



http://en.wikipedia.org/wiki/Luca_Pacioli

“...described himself modestly as a ‘humble professor of sacred theology.’ In actuality, however, he was one of the brilliant ‘all- purpose’ men for whom the Renaissance is noted. A friend of Leonardo da Vinci (who illustrated one of Pacioli’s works,) the Franciscan monk was highly esteemed in his time as a writer, a teacher, and an expert in such diverse fields as mathematics, theology, architecture, sports and games, military strategy, and the world of commerce. Although most of [his] writings are on the subject of arithmetic and geometry, he is best remembered today for his book on ... accounting, published in 1494. Most of the accounting methods he described are considered to be as applicable today as they were in the 15th century, as are [his] many practical hints on ‘how to succeed in business.’”

“A Brief Biography of Fra Luca Pacioli”, Timothy Gillis,
<http://www.neca.com/qvctc/brian/qvhtmls/paci.htm>

and the reason any of these are included:

“Pacioli...published a revolutionary book in 1494, *Summa de Arithmetica, geometria, proportioni et Proportionalita...* Goethe said that this was ‘one of the finest discoveries of the human intellect.’ An economist and sociologist, Werner Sombart, said, ‘...bookkeeping is born with the same spirit as the system of Galileo and Newton.’

Pacioli’s work was dedicated to the glory of God. ...He wrote in the *Summa* that people should begin all their economic transactions ‘in the name of God.’ The methodology he developed changed the future of business forever and led to the development of spread sheets. His ingenious accounting equation of ‘Assets = Liabilities + Owner’s Equity’ is used worldwide today. **This humble servant of Jesus Christ has provided the world a vital tool for business — to the greater glory of God.**”

Kennedy, D. James, and Newcombe, Jerry. What If Jesus Had Never Been Born?
Thomas Nelson Publishers, Nashville, TN, 1994, pg 111.