



LIFEPAAC®

# Accounting

Student Book

Unit 1



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Alpha Omega Publications

# ACCOUNTING LIFE PAC® 1

## ACCOUNTING OVERVIEW

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# ACCOUNTING LIFE PAC 1

## ACCOUNTING OVERVIEW

### OVERVIEW

An understanding of bookkeeping and accounting is essential to anyone interested in a business career. This understanding is necessary because of the importance of accurate recording and reporting of business transactions. We should understand the basic principles of bookkeeping in order to maintain our own personal financial records. These records are important so that we are able to manage our finances to satisfy our basic needs and wants.



### OBJECTIVES

When you have completed this LIFE PAC, you will be able to:

1. Understand the nature of accounting.
2. Identify accounting concepts.
3. Define a proprietorship, partnership and corporation.
4. List the advantages and disadvantages of a proprietorship, partnership, and corporation.
5. Define accounting terms related to the accounting equation.
6. Identify the components of the accounting equation.
7. Classify accounts as assets, liabilities, or owner's equity.
8. Make changes in the accounting equation and explain the effect on each element of that equation.
9. Analyze how these changes affect the accounts in the accounting equation.
10. Prove the equality of assets, liabilities and capital from the information provided by the basic accounting equation after each transaction.



### VOCABULARY

**Accountant** – a person responsible for interpreting financial data.

**Asset** – anything of value that is owned.

**Basic accounting equation** – a formula that illustrates the relationship between assets, liabilities and capital.

**Bookkeeper** – a person responsible for recording business transactions.

**Business entity** – the existence of a business as an artificial individual.

**Business transaction** – business activity that causes changes in the value of assets, liabilities and capital.

**Capital** – the financial interest of the owner of a business; determined by subtracting total liabilities from the total assets. Also called Owner’s Equity.

**Corporation** – an association of individuals united for a common purpose to use a common name and to change members without dissolving the association; a business chartered under state law and owned by stockholders.

**Drawing** – an owner’s withdrawal of cash from his business for personal use.

**Equities** – the claims against the assets of a business.

**Fiscal period** – the period of time that the books are open to record transactions and summarize accounting information.

**Liability** – any amount that is owed.

**Partnership** – an association of two or more persons to carry on as co-owners of a business for profit.

**Proprietor** – the owner of a business.

**Revenue** – the increase in owner’s equity caused by income from the sale of goods and services.

**Sole proprietorship** – a business owned and managed by one person.



# SECTION I. THE NATURE OF BOOKKEEPING & ACCOUNTING

## Career Opportunities

The nature of accounting is to provide accurate financial information needed by a business to succeed in a competitive business environment. This information is needed by owners, managers, creditors and government agencies.

The **bookkeeper** is the person responsible for *recording* business transactions, while the **accountant** has the responsibility of *interpreting* that data. The data is compiled in the necessary reports to help management make sound business decisions that include:

1. Determining the price of goods or services provided by the business;
2. Determining the profit or loss from production of goods or providing a service;
3. Determining the cost of and profit from adding new goods or services;
4. Determining how to cut costs without affecting quality or service;
5. Determining how much to borrow;
6. Determining if a loan can be obtained;
7. Determining state and federal income taxes;
8. Determining the legality of a business operation; and
9. Determining if governmental regulations are being followed.



Many career opportunities exist for a person to provide these essential business services. The job availability covers the entire financial community which includes business, government and nonprofit organizations (churches, YMCA, etc). The choice of a career is entirely up to you. Listed below are some of the career choices you have in the accounting field.

## General Office Clerk

**Job Responsibilities:** General office tasks including bookkeeping, word processing and secretarial duties.

**Education:** High school diploma with at least one year of accounting and computer applications.

**OFFICE WORK. PT.** Good w/figures. Flexible hours.

**Clerks Wanted** Exc. Hrs.,  
Exc. Salary. For Appt. call  
123-555-1234

**RECEPTIONIST/Bookkeeper**  
Duties incl acct pay, data  
entry, inventory control. FT.  
Comp salary & benefits. eoe

## Accounting Clerk

**Job Responsibilities:** Record, sort and file accounting information.

**Types of Clerks:** Payroll Clerk, Accounts Payable Clerk, Accounts Receivable Clerk, Receiving Clerk, etc.

**Education:** High school diploma with a minimum of one year of accounting and computer applications. Recommend a two-year program.

<p><b>ACCOUNTS RECEIVABLE:</b> P/T. temp position, for 6-8 wks in Binghamton area. Must possess good data entry &amp; computer skills. Medicare billing, exp. preferred. Apply online at:</p>	<p><b>ACCOUNTS RECEIVABLE CLERK - PT</b> 12-5 pm Long-term to perm.</p>	<p><b>Accounts Payable/Clerical</b> Immediate opening. Reqs. strong organizational, communication &amp; detail skills. Exp. preparing invoices, data entry, filing &amp; general office. Microsoft Word &amp; Excel knowledge. FT. Send resume &amp; career objective letter to:</p>
	<p><b>Payroll Specialist.</b> Exp. in payroll data entry &amp; payroll tax</p>	

## Bookkeeper

**Job Responsibilities:** General accounting which includes recording and summarizing accounting information.

**Education:** High school diploma with a minimum of two years of accounting and at least one year of computer applications. Many employers strongly suggest additional education in accounting, either in a community college or business school.

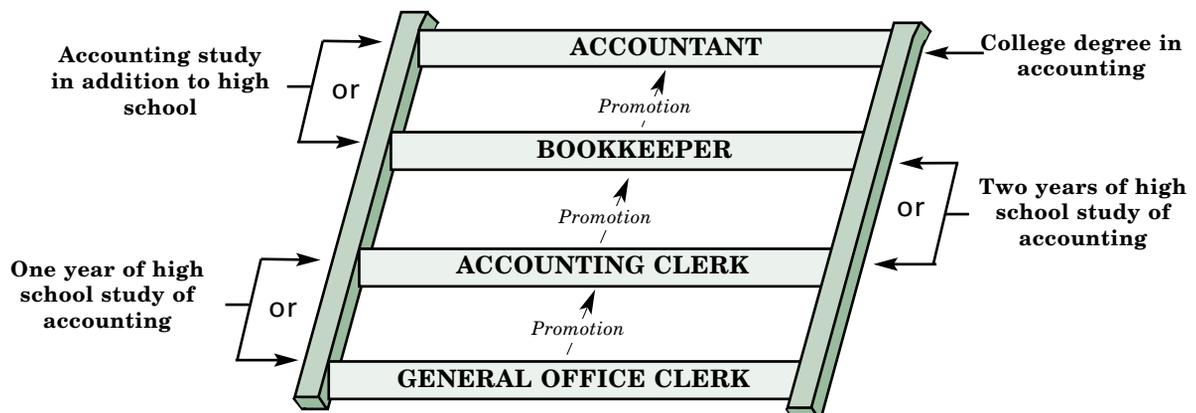
<p><b>Accounting Paraprofessional</b> PT flex hrs. exp. w/computer, book-keeping, payroll &amp; sales tax; prep of personal/corp. tax returns. Email resume to:</p>	<p><b>ACCOUNTANT</b> CPA firm seeking CPA or candidate. 2+ years public experience preferred.</p>
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## Accountant

**Job Responsibilities:** Summarize, analyze and interpret accounting information.

**Types of Accounting:** Tax, governmental, managerial, financial and non-profit organizations.

**Education:** High school diploma with a major in accounting plus additional education in a community college or business school. A two- to four-year program is recommended.



## Accounting Concepts and Terms

The accounting profession is guided by basic accounting concepts. These concepts are applied when designing a financial system, interpreting accounting records and creating business reports. All accounting concepts will be applied as we continue our study of bookkeeping and accounting.

**Business Entity:** A business is considered an entity (an individual). Therefore, all business financial information is entered and reported separately from the owner's personal financial records. It is very important that the business owner have very defined accounting systems to keep personal and business information completely segregated.

**Accounting Period Cycle:** Changes in the financial information are prepared for a specific period of time. This period of time can be a month, a quarter, semi-annually, or annually. Many businesses use an annual reporting cycle to aid in the preparation of tax reports. This cycle is known as a **fiscal period**.

**Objective Evidence:** Every business transaction is supported by a source document to prove the transaction occurred.

**Unit of Measurement:** All transactions are recorded in a unit of measurement such as the dollar.

**Realization of Revenue:** Income from a business transaction is recorded and accounted for at the time goods or services are sold.

**Matching Expenses with Revenue:** All revenue and expenses associated with a business activity are recorded in the same accounting period.

**Historical Costs:** The actual amount of money paid or received is the amount actually entered in the accounting records.

**Adequate Disclosure:** All financial statements should contain all information needed for any person to understand the business's financial condition.

**Consistent Reporting:** The same accounting concepts are applied the same way for each accounting period for as long as the business operates.



Review the material in this section in preparation for the Self Test. The Self Test will check your mastery of this particular section. The items missed on this Self Test will indicate specific areas where restudy is needed for mastery.

# SELF TEST 1

**Match the following accounting concepts with their definitions** (each answer, 5 points).

- |      |   |                                   |
|------|---|-----------------------------------|
| 1.01 | _____ a specific period of time during which business transactions are recorded   | a. Matching Expenses with Revenue |
| 1.02 | _____ a business is considered an individual  | b. Adequate Disclosure            |
| 1.03 | _____ every business transaction is supported by a source document  | c. Consistent Reporting           |
| 1.04 | _____ the same accounting concepts are applied the same way for each accounting period  | d. Business Entity                |
| 1.05 | _____ the dollar, for example   | e. Objective Evidence             |
| 1.06 | _____ the actual amount of money paid or received is the amount that is entered into the accounting records                   | f. Historical Costs               |
| 1.07 | _____ all financial statements should contain the information necessary to understand the financial condition of the business | g. Accounting Period Cycle        |
| 1.08 | _____ income from transactions is recorded at the time goods or services are sold   | h. Unit of Measurement            |
| 1.09 | _____ all revenue and expenses associated with a business activity are recorded in the same accounting period                 | i. Realization of Revenue         |

**Complete these activities** (each answer, 5 points).

1.010 Describe the difference between a bookkeeper and an accountant \_\_\_\_\_

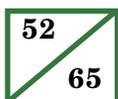
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

1.011 List three career opportunities that are available in the accounting field:

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_



Score \_\_\_\_\_

Adult Check \_\_\_\_\_

Initial \_\_\_\_\_ Date \_\_\_\_\_