

CHAPTER I

BOOKKEEPING SYSTEMS

BOOKKEEPING RECORDS. The key to good business management is good bookkeeping records. Bookkeeping records can show whether a business operates at a profit or at a loss. Studies show that the success or the failure of a business may often be traced to the kind of records that are kept.

THE WORK OF THE ACCOUNTANT. One who records all the business affairs of a business in an orderly manner is called an accountant. An accountant must be - - accurate, understand what he is to do and how he - - should do it, and be systematic, neat and rapid in his work. A person who knows bookkeeping can manage business affairs.

ACCOUNTING CONCEPTS

The individual, an entire industry or government - branch has to make decisions on how to allocate its resources. Accounting aids these decisions by Recording, classifying, summarizing, and reporting business transactions. This definition makes it clear - that the recording of data, or Bookkeeping is only -

the first step in the accounting process.

The information provided by accounting is used as -- follows.

Direct users. Owners, Managers Customers Employees, taxing authorities Suppliers, Creditors.

Indirect users. Labor unions, Stock exchanges, financial press, trade associations, etc.

The field of accounting has expanded into separate - branches.

Branches.

Teaching. Accountants teach accounting courses in - universities and junior colleges.

Governmental accounting. Accountants working in federal, state, and local government units are engaged in governmental accounting.

Private accounting. Accountants employed by an enterprise to work on its own affairs are engaged in private accounting.

Public accounting. Accountants who offer their professional services to the public for a fee, are enga

ged in public accounting. These are Certified Public Accountants.

The Branches of accounting.

There are six principal specialization of private -- accounting these are indicated belw.

CONTROLLER

Costs Taxes Budgets Accounting Auditing Systems

These same specializations may be performed in other branches of accounting. For example, auditing is - performed by public accountants, by private accountants who are called internal auditors and by governmental auditors.

The fundamental bookkeeping equation

This equation is true of all balance sheets. It is therefore known as the fundamental bookkeeping equation.

Assets. Properties that are owned and have monetary value: For Instance, Cash, buildings, office equipment, accounts receivable, inventory.

Liabilities. Amounts owed to outsiders, such as --

accounts payable, notes payable, mortgage payable -- bonds payable.

Capital. The amount that would remain if all the -- liabilities were paid is known as Capital. The amount of the Capital is obtained by subtracting the total liabilities from the total assets. Capital. The interest of the owners in an enterprise.

Assets, Liabilities, Capital, These elements are Connected by a fundamental relationship Called the -- bookkeeping or accounting equation.

This equation expresses the equality of the assets on one side with the claims of the creditors and owners on the other side:

$$\downarrow \rightarrow \text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

{ According to the accounting equation, a firm is assumed to possess its assets subject to the rights of - the creditors and owners. }

Example A:

If a business owned assets of \$ 150,000, owed creditors \$ 100,000, and owed the owner \$ 50,000. The - accounting equation would be:

$$\begin{array}{rcl} \text{ASSETS} & = & \text{LIABILITIES} + \text{CAPITAL} \\ \$ 150,00 & & \$ 100,000 \quad \$ 50,000 \end{array}$$

Any business event which alters the amount of assets, liabilities or capital is called a transaction. Example B, We show how the accountant makes a meaningful record of a series of transactions, reconciling them step by step with the accounting equation.

Example B:

During the month of January Mr. John Kelly, Physician,

1. Opened his practice by investing \$ 5,000 in the business.
2. Bought supplies (stationery, pencils, etc.) for cash \$ 300.
3. Bought office equipment form Cindy Furniture Company on account, \$ 2,500.
4. Received \$ 2,000 in fees earned during the month.
5. Paid office rent for January \$ 500.

We show how these transactions might be analyzed and recorded.

Transaction 1.- Mr. Kelly invested \$ 5,000 to open his practice. There are two accounts that are affected; the asset Cash is increased, and the capital of the firm is increased by the same amount.

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

$$\begin{array}{rcl} \text{CASH} & & \text{J. KELLY CAPITAL} \\ + \$ 5,000 & = & + \$ 5,000 \end{array}$$

Transaction 2.- Bought supplies for Cash \$ 300. In this case, Mr. Kelly is substituting one asset for another: he is receiving (+) the asset Supplies and paying out (-) the asset Cash. Note that the capital of \$ 5,000 remains unchanged.

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

$$\begin{array}{rcl} \text{CASH} + \text{SUPPLIES} & & \text{J. KELLY CAPITAL} \\ + \$ 5,000 & & + \$ 5,000 \\ \quad - 300 & + 300 & \\ \hline \$ 4,700 & 300 & \hline & & \$ 5,000 \end{array}$$

Transaction 3.- Bought office equipment from Cindy Furniture Company on account \$ 2,500. He is receiving the asset Equipment, but is not paying for it with the asset Cash. Instead, he will owe the money to the Cindy Furniture Company. Therefore he is liable for this amount in the future, thus creating the liability Accounts Payable.

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

CASH + SUPPLIES + EQUIPMENT	ACCOUNTS PAYABLE	J. KELLY CAPITAL
\$ 4,700 \$ 300		\$ 5,000
<u> </u> <u> </u> <u>\$ 2,500</u>	<u>\$ 2,500</u>	<u> </u>
\$ 4,700 + \$ 300 + \$ 2,500 =	\$ 2,500 +	\$ 5,000

Transaction 4.- Received \$ 2,000 in fees earned during the month. Because he received \$ 2,000, the asset Cash increased and also his capital increased. It is important to note that he labels the \$ 2,000 fees income to show its origin.

ASSETS = LIABILITIES + CAPITAL

CASH + SUPPLIES + EQUIPMENT	ACCOUNTS PAYABLE	J. KELLY CAPITAL
\$ 4,700 \$ 300 \$ 2,500	\$ 2,500	\$ 5,000
+ <u>2,000</u>	<u> </u>	<u>2,000</u> Fees income
\$ 6,700 + \$ 300 + \$ 2,500 =	\$ 2,500 +	\$ 7,000

Transaction 5.- Paid office rent for January \$ 500. When the word "paid" is stated, you know it means a deduction from Cash, since he is paying out his asset Cash. Payment of expense is a reduction of Capital. It is termed rent expense.

ASSETS = LIABILITIES + CAPITAL

CASH + SUPPLIES + EQUIPMENT	ACCOUNTS PAYABLE	J. KELLY CAPITAL
\$ 6,700 \$ 300 \$ 2,500	\$ 2,500	\$ 7,000
<u>- 500</u>	<u> </u>	<u>- 500</u> rent expenses
\$ 6,200 + \$ 300 + \$ 2,500	\$ 2,500	\$ 6,500

REVIEW

- The phases of accounting are _____
- The accounting equation is _____
- Items owned by a business that have monetary value are known as _____
- _____ is the interest of the owner in a business.
- Money owed to an outsider is a _____
- The difference between assets and liabilities is _____
- Financial events that occur in a business are termed _____