

Study Guide 1

Name	Perfect Score	Your Score
Identifying Accounting Terms	22 Pts.	
Identifying Accounting Concepts and Practices	18 Pts.	
Analyzing How Transactions Change an Accounting Equation	10 Pts.	
Analyzing How Transactions Change Owner's Equity in an Accounting Equation	12 Pts.	
Total	62 Pts.	

Part One—Identifying Accounting Terms

Directions: Select the one term in Column I that best fits each definition in Column II. Print the letter identifying your choice in the Answers column.

Column I	Column II	Answers
A. account	1. Planning, recording, analyzing, and interpreting financial information. (p. 6)	1. _____
B. account balance	2. A planned process for providing financial information that will be useful to management. (p. 6)	2. _____
C. account title	3. Organized summaries of a business's financial activities. (p. 6)	3. _____
D. accounting	4. Financial reports that summarize the financial condition and operations of a business. (p. 6)	4. _____
E. accounting equation	5. A business that performs an activity for a fee. (p. 6)	5. _____
F. accounting records	6. A business owned by one person. (p. 6)	6. _____
G. accounting system	7. Anything of value that is owned. (p. 8)	7. _____
H. asset	8. Financial rights to the assets of a business. (p. 8)	8. _____
I. business ethics	9. An amount owed by a business. (p. 8)	9. _____
J. capital	10. The amount remaining after the value of all liabilities is subtracted from the value of all assets. (p. 8)	10. _____
K. equities	11. An equation showing the relationship among assets, liabilities, and owner's equity. (p. 8)	11. _____
L. ethics	12. The principles of right and wrong that guide an individual in making decisions. (p. 8)	12. _____
M. expense	13. The use of ethics in making business decisions. (p. 8)	13. _____
N. financial statements	14. A business activity that changes assets, liabilities, or owner's equity. (p. 10)	14. _____
O. liability	15. A record summarizing all the information pertaining to a single item in the accounting equation. (p. 10)	15. _____
P. owner's equity	16. The name given to an account. (p. 10)	16. _____
Q. proprietorship	17. The amount in an account. (p. 10)	17. _____
R. revenue	18. The account used to summarize the owner's equity in a business. (p. 10)	18. _____
S. sale on account	19. An increase in owner's equity resulting from the operation of a business. (p. 14)	19. _____
T. service business	20. A sale for which cash will be received at a later date. (p. 14)	20. _____
U. transaction	21. A decrease in owner's equity resulting from the operation of a business. (p. 15)	21. _____
V. withdrawals	22. Assets taken out of a business for the owner's personal use. (p. 16)	22. _____

Part Two—Identifying Accounting Concepts and Practices

Directions: Place a *T* for True or an *F* for False in the Answers column to show whether each of the following statements is true or false.

	Answers
1. Accounting is the language of business. (p. 6)	1. _____
2. Keeping personal and business records separate is an application of the business entity concept. (p. 6)	2. _____
3. Assets such as cash and supplies have value because they can be used to acquire other assets or be used to operate a business. (p. 8)	3. _____
4. The relationship among assets, liabilities, and owner's equity can be written as an equation. (p. 8)	4. _____
5. The accounting equation does not have to be in balance to be correct. (p. 8)	5. _____
6. The sum of the assets and liabilities of a business always equals the investment of the business owner. (p. 10)	6. _____
7. Recording business costs in terms of hours required to complete projects is an application of the unit of measurement concept. (p. 10)	7. _____
8. The capital account is an owner's equity account. (p. 10)	8. _____
9. If two amounts are recorded on the same side of the accounting equation, the equation will no longer be in balance. (p. 11)	9. _____
10. When a company pays insurance premiums in advance to an insurer, it records the payment as a liability because the insurer owes future coverage. (p. 11)	10. _____
11. When items are bought and paid for later this is referred to as buying on account. (p. 12)	11. _____
12. When cash is paid on account, a liability is increased. (p. 12)	12. _____
13. When cash is received from a sale, the total amount of both assets and owner's equity is increased. (p. 14)	13. _____
14. A sale for which cash will be received at a later date is called a charge sale. (p. 14)	14. _____
15. The accounting concept Realization of Revenue is applied when revenue is recorded at the time goods or services are sold. (p. 14)	15. _____
16. When cash is paid for expenses, the business has more equity. (p. 15)	16. _____
17. When a company receives cash from a customer for a prior sale, the transaction increases the cash account balance and increases the accounts receivable balance. (p. 16)	17. _____
18. A withdrawal decreases owner's equity. (p. 16)	18. _____

Part Three—Analyzing How Transactions Change an Accounting Equation

Directions: For each of the following transactions, select the two accounts in the accounting equation that are changed. Decide if each account is increased or decreased. Place a “+” in the column if the account is increased. Place a “-” in the column if the account is decreased.

Transactions

- 1-2. Received cash from owner J. Nichols as an investment. (p. 10)
- 3-4. Paid cash for supplies. (p. 11)
- 5-6. Paid cash for insurance. (p. 11)
- 7-8. Bought supplies on account from Suburban Office Supplies. (p. 12)
- 9-10. Paid cash on account to Suburban Office Supplies. (p. 12)

Trans. No.	Assets			=	Liabilities	+	Owner's Equity		
	Cash	+	Supplies	+	Prepaid Insurance	=	Accts. Pay.—Suburban Office Supplies	+	J. Nichols, Capital
1-2.									
3-4.									
5-6.									
7-8.									
9-10.									

Part Four—Analyzing How Transactions Change Owner's Equity in an Accounting Equation

Directions: For each of the following transactions, select the two accounts in the accounting equation that are changed. Decide if each account is increased or decreased. Place a "+" in the column if the account is increased. Place a "-" in the column if the account is decreased.

Transactions

- 1-2. Received cash from sales. (p. 14)
- 3-4. Sold services on account to Imagination Station. (p. 14)
- 5-6. Paid cash for rent. (p. 15)
- 7-8. Paid cash for telephone bill. (p. 15)
- 9-10. Received cash on account from Imagination Station. (p. 16)
- 11-12. Paid cash to owner J. Nichols for personal use. (p. 16)

Trans. No.	Assets				=	Liabilities	+	Owner's Equity
	Cash	Accts. Rec.— Imagination Station	Supplies	Prepaid Insurance	=	Accts. Pay.—Ling Music Supplies	+	J. Nichols, Capital
1-2.								
3-4.								
5-6.								
7-8.								
9-10.								
11-12.								

1-1 WORK TOGETHER, p. 9

Completing the accounting equation

Assets	=	Liabilities	+	Owner's Equity
		3,000		8,000
10,000				6,000
63,000		35,000		

1-1 ON YOUR OWN, p. 9

Completing the accounting equation

Assets	=	Liabilities	+	Owner's Equity
30,000				13,000
		60,000		20,000
51,000		25,000		

1-2 WORK TOGETHER, p. 13

Determining how transactions change an accounting equation

Trans. No.	Assets	=	Liabilities	+	Owner's Equity
1.					
2.					
3.					
4.					

1-2 ON YOUR OWN, p. 13

Determining how transactions change an accounting equation

Trans. No.	Assets	=	Liabilities	+	Owner's Equity
1.					
2.					
3.					
4.					
5.					

1-3 WORK TOGETHER, p. 17

Determining how transactions change an accounting equation

Trans. No.	Assets				=	Liabilities	+	Owner's Equity			
	Cash	+	Accts. Rec.— Bowman Co.	+	Supplies	+	Prepaid Insurance	=	Accts. Pay.— Maxwell Co.	+	Susan Sanders, Capital
1.											
2.											
3.											
4.											
5.											

1-3 ON YOUR OWN, p. 17

Determining how transactions change an accounting equation

Trans. No.	Assets				=	Liabilities	+	Owner's Equity
	Cash	Accts. Rec.— + Navarro Co.	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Barrett Co.	+	Vincent Orr, Capital
1.								
2.								
3.								
4.								
5.								

1-1 APPLICATION PROBLEM, p. 19

Completing the accounting equation

Assets	=	Liabilities	+	Owner's Equity
95,000		51,000		
		44,000		20,000
4,000				2,500
138,000		70,000		
19,000				11,000
		4,000		12,000
35,000		13,000		
		120,000		49,000
8,000				3,200
86,000		48,000		
12,000				7,000
		8,000		22,000
47,000		24,000		
		29,000		13,000
57,000				36,000
125,000		69,000		
11,000				6,000
		2,000		3,300

1-2 APPLICATION PROBLEM, p. 19

Determining how transactions change an accounting equation

Trans. No.	Assets			=	Liabilities		+	Owner's Equity			
	Cash	+	Supplies	+	Prepaid Insurance	=	Accts. Pay.— Five Star Supply	+	Accts. Pay.— Riverland Co.	+	Calvin Parrish, Capital
Beg. Bal. 1.	0 +3,000		0		0		0		0		0 +3,000
New Bal. 2.	3,000		0		0		0		0		3,000
New Bal. 3.											
New Bal. 4.											
New Bal. 5.											
New Bal. 6.											
New Bal. 7.											
New Bal. 8.											
New Bal.											

1-3 APPLICATION PROBLEM, p. 20

Determining how revenue, expense, and withdrawal transactions change an accounting equation

Trans. No.	Assets				=	Liabilities	+	Owner's Equity			
	Cash	+	Accts. Rec.— Lisa Lee	+	Supplies	+	Prepaid Insurance	=	Accts. Pay.— Kline Co.	+	Peter Smith, Capital
Beg. Bal. 1.	625 -300		0		375		300		200		1,100 -300 (expense)
New Bal. 2.	325		0		375		300		200		800
New Bal. 3.											
New Bal. 4.											
New Bal. 5.											
New Bal. 6.											
New Bal. 7.											
New Bal. 8.											
New Bal.											

1-4 MASTERY PROBLEM, p. 21

Determining how transactions change an accounting equation

Trans. No.	Assets				=	Liabilities	+	Owner's Equity
	Cash	+ Accts. Rec.— Ana Santiago	Supplies	+ Prepaid Insurance	=	Accts. Pay.— Delta Co.	+	Marion Cassidy, Capital
Beg. Bal. 1.	2,300 -400	0	200	100		1,800		800 -400 (expense)
New Bal. 2.	1,900	0	200	100		1,800		400
New Bal. 3.								
New Bal. 4.								
New Bal. 5.								
New Bal. 6.								
New Bal. 7.								
New Bal. 8.								
New Bal. 9.								
New Bal. 10.								
New Bal. 11.								
New Bal. 12.								
New Bal. 13.								
New Bal. 14.								

