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**ACCOUNTING I**

**Chapter 1 Reading Guide**

1-1 Accounting in Action

Please answer the following questions as you read Chapter 1, pages 4-29.

1. An accounting system is a planned process designed to compile financial data and summarize the results in accounting reports called financial statements. How do business owners and managers use this information?
2. Define what an asset is and provide two examples.
3. Define what a liability is and provide an example.
4. Define equity (or Net Worth). If assets are $4,000 and liabilities are $1,500, what is the amount of equity?
5. What does a personal net worth statement show?
6. Business ethics is the use of ethics in making business decisions. How does it differ from ethics?

1-2 How Business Activities Change the Accounting Equation

1. What is a service business?
2. What is a proprietorship?
3. Following GAAP principles and concepts ensures consistent reporting. Please define GAAP (Generally Accepted Accounting Principles) and provide an example.
4. How is the Business Entity Concept applied?
5. Define equities. A business has two types of equities. What are they?
6. The accounting equation must be in balance after each transaction. The left side of the equation must always equal the right side of the equation. State and define the accounting equation.
7. Any time a business spends money, receives money, or owes money, it engages in a business activity. What is a transaction?
8. What is the capital account?
9. For some transactions, two asset accounts may be changed. If two changes are both on the left side of the equation, what must happen?
10. Prepaid insurance is an asset account. Why are paid insurance premiums considered an asset?
11. Define buying on account. Is this the same as using a credit card?
12. What is a creditor? Would a creditor want you to have more assets than debt OR more debt than assets?

1-3 How Transactions Change Owner’s Equity in an Accounting Equation

1. Revenue is an increase in equity resulting from the sale of goods or services. What happens to the accounting equation when cash is received from a sale?
2. A sale on account is a sale for which payment will be received at a later date. What is the Realization of Revenue Concept?
3. What is an expense, and how does this differ from a liability? Please give an example of an expense.
4. Expenses are a normal part of operating a business. Some examples of expenses are payments for advertising, equipment repairs, and rent. How do expense transactions affect owner’s equity?
5. Please define withdrawals. How do they affect owner’s equity? What is the most common type of withdrawal?
6. When an owner withdraws cash from a business, the transaction affects both assets and owner’s equity. Is a withdrawal considered an expense?