

# Study Guide 1

Name	Perfect Score	Your Score
Identifying Accounting Terms	27 Pts.	
Identifying Account 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.	
<b>Total</b>	<b>65 Pts.</b>	

## 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.

<b>Column I</b>	<b>Column II</b>	<b>Answers</b>
A. account	1. The process of planning, recording, analyzing, and interpreting financial information. (p. 6)	1. _____
B. account balance	2. A planned process designed to compile financial data and summarize the results in accounting records and reports. (p. 6)	2. _____
C. account title	3. Financial reports that summarize the financial condition and operations of a business. (p. 6)	3. _____
D. accounting	4. A formal report that shows what an individual owns, what an individual owes, and the difference between the two. (p. 7)	4. _____
E. accounting equation	5. Anything of value that is owned. (p. 7)	5. _____
F. accounting system	6. An amount owed. (p. 7)	6. _____
G. asset	7. The difference between personal assets and personal liabilities. (p. 7)	7. _____
H. business ethics	8. The difference between assets and liabilities. (p. 7)	8. _____
I. business plan	9. The principles of right and wrong that guide an individual in making decisions. (p. 8)	9. _____
J. capital account	10. The use of ethics in making business decisions. (p. 8)	10. _____
K. creditor	11. A business that performs an activity for a fee. (p. 10)	11. _____
L. equities	12. A business owned by one person. (p. 10)	12. _____
M. equity	13. A formal written document that describes the nature of a business and how it will operate. (p. 10)	13. _____
N. ethics	14. Generally Accepted Accounting Principles. The standards and rules that accountants follow while recording and reporting financial activities. (p. 11)	14. _____
O. expense	15. Financial rights to the assets of a business. (p. 13)	15. _____
P. financial statements	16. The amount remaining after the value of all liabilities is subtracted from the value of all assets. (p. 13)	16. _____
Q. GAAP	17. The equation showing the relationship among assets, liabilities, and owner's equity. (p. 13)	17. _____
R. liability	18. Any business activity that changes assets, liabilities, or owner's equity. (p. 14)	18. _____
S. net worth statement	19. A record that summarizes all the transactions pertaining to a single item in the accounting equation. (p. 14)	19. _____
T. owner's equity	20. The name given to an account. (p. 14)	20. _____
U. personal net worth	21. The difference between the increases and decreases in an account. (p. 14)	21. _____

<b>Column I</b>	<b>Column II</b>	<b>Answers</b>
V. proprietorship	22. An account used to summarize the owner's equity in a business. (p. 14)	22. _____
W. revenue	23. A person or business to whom a liability is owed. (p. 16)	23. _____
X. sale on account	24. An increase in equity resulting from the sale of goods or services. (p. 18)	24. _____
Y. service business	25. A sale for which payment will be received at a later date. (p. 18)	25. _____
Z. transaction	26. The cost of goods or services used to operate a business. (p. 19)	26. _____
AA. withdrawals	27. Assets taken from the business for the owner's personal use (p. 20)	27. _____

## **Part Two—Identifying Account 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.

	<b>Answers</b>
1. Accounting is the language of business. (p. 6)	1. _____
2. A creditor would favor a positive net worth. (p. 7)	2. _____
3. The principles of right and wrong that guide an individual in making personal decisions is called business ethics. (p. 8)	3. _____
4. Keeping personal and business records separate is an application of the business entity concept. (p. 11)	4. _____
5. Generally Accepted Accounting Principles, GAAP, allows for flexibility in reporting. (p. 11)	5. _____
6. Recording business costs in terms of hours required to complete projects is an application of the unit of measurement concept. (p. 11 )	6. _____
7. 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. 13)	7. _____
8. The relationship among assets, liabilities, and owner's equity can be written as an equation. (p. 13)	8. _____
9. The accounting equation does not have to be in balance to be correct. (p. 13)	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. 15)	10. _____
11. When items are bought and paid for later, this is referred to as buying on account. (p. 16)	11. _____
12. When cash is paid on account, a liability is increased. (p. 16)	12. _____
13. When cash is received from a sale, the total amount of both assets and owner's equity is increased. (p. 18)	13. _____
14. The accounting concept Realization of Revenue is applied when revenue is recorded at the time goods or services are sold. (p. 18)	14. _____
15. When cash is paid for expenses, the business has more equity. (p. 19)	15. _____
16. If two amounts are recorded on the same side of the accounting equation, the equation will no longer be in balance. (p. 20)	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. 20)	17. _____
18. A withdrawal decreases owner's equity. (p. 20)	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 Nicole McGraw as an investment. (p. 14)
- 3-4. Paid cash for supplies. (p. 15)
- 5-6. Paid cash for insurance. (p. 15)
- 7-8. Bought supplies on account from Hyde Park Office Supplies. (p. 16)
- 9-10. Paid cash on account to Hyde Park Office Supplies. (p. 16)

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

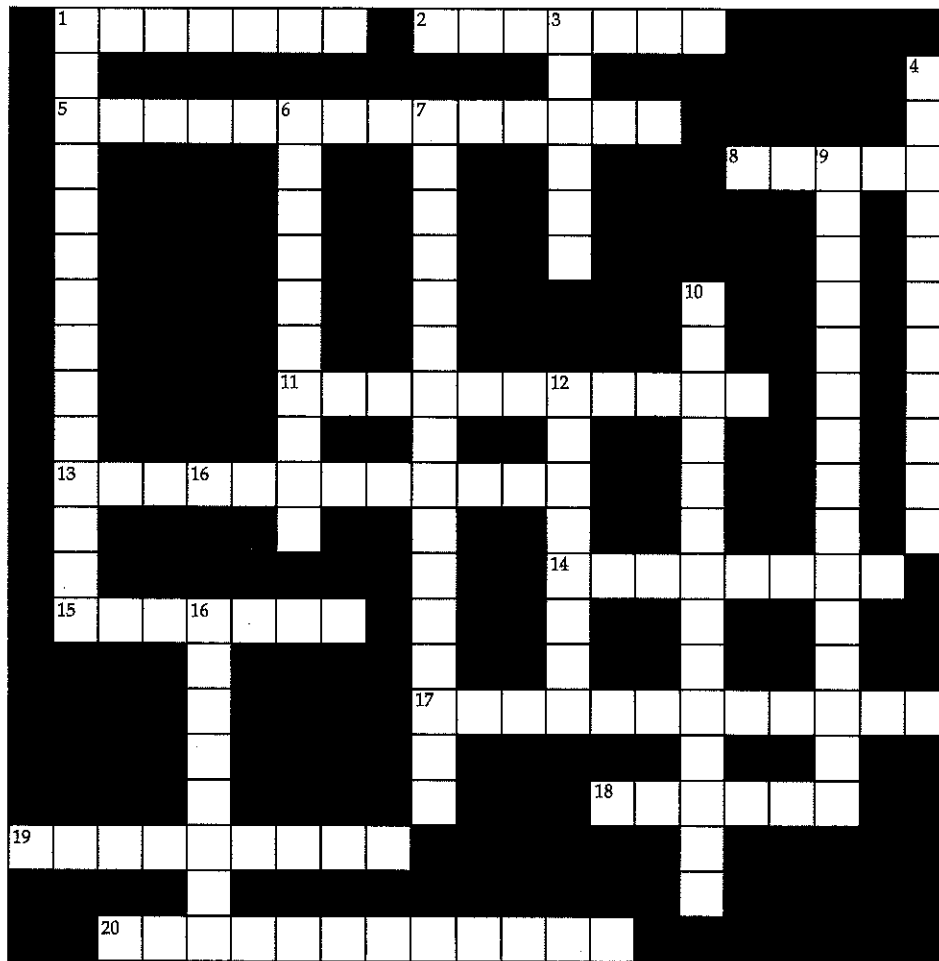
## Part Four—Analyzing How Transactions Change Owner's Equity in an Accounting Equation

**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. 18)
- 3–4. Sold services on account to New U Fitness. (p. 18)
- 5–6. Paid cash for rent. (p. 19)
- 7–8. Paid cash for telephone bill. (p. 19)
- 9–10. Received cash on account from New U Fitness. (p. 20)
- 11–12. Paid cash to owner A. Conrad for personal use. (p. 20)

Trans. No.	Assets				=	Liabilities	+	Owner's Equity
	Cash	Accts. Rec.— New U Fitness	Supplies	Prepaid Insurance	=	Accts. Pay.— Hardcore Fitness Supplies	+	A. Conrad, Capital
1–2								
3–4								
5–6								
7–8								
9–10								
11–12								



### Across

1. A record that summarizes all the transactions pertaining to a single item in the accounting equation.
2. An increase in equity resulting from the sale of goods or services.
5. An account used to summarize the owner's equity in a business.
8. Anything of value that is owned.
11. Any business activity that changes assets, liabilities, or owner's equity.
13. The name given to an account.
14. An amount paid for the use of money for a period of time.
15. The cost of goods or services used to operate a business.
17. Someone who owns, operates, and takes the risk of a business venture.
18. The principles of right and wrong that guide an individual in making decisions.
19. An amount owed.
20. A formal written document that describes the nature of a business and how it will operate.

### Down

1. The difference between the increases and decreases in an account.
3. The difference between assets and liabilities.
4. Assets taken from the business for the owner's personal use.
6. The process of planning, recording, analyzing, and interpreting financial information.
7. Interest paid on an original amount deposited in a bank plus any interest that has been paid.
9. A business that performs an activity for a fee.
10. A business owned by one person.
12. A person or business to whom a liability is owed.
16. Financial rights to the assets of a business.

