

# **LESSON PLAN #1 BASIC ACCOUNTING INTRODUCTION**

**KEY CONCEPT:** Introduction to accounting principles and purpose

**PERFORMANCE OBJECTIVES:**

1. Students will understand the importance of accurate accounting and business analysis through financial statements.
2. Student will understand the basic principles and procedures of the accounting cycle .

**PATHWAY STANDARDS ADDRESSED:**

**A1.0 – Students understand the basic principles and procedures of the accounting cycle.**

**A1.2 – Examine, analyze, and categorize financial transactions**

**A2.0 – Students understand and apply accounting principles and concepts.**

**A2.1: Understand how to identify current and long-term assets and liabilities**

**A2.3: Understand the processes involved in revenue recognition and in matching income and expenses.**

**ACADEMIC SKILLS REINFORCED: (List)**

**Math: 24.2 Students identify the hypothesis and conclusion in logical deduction**

**English: 2.4 Listening and Speaking**

- (1.1) Formulate judgments about the ideas under discussion and support those judgments with convincing evidence.**

**FOUNDATION OR ESLRS ADDRESSED: (List)**

**5.3 Use critical thinking skills to make informed decisions and solve problems.**

**5.4 Understand how financial systems and tools are used to solve business problems.**

**MATERIALS:**

**Fundamental Accounting Principles 15<sup>th</sup> ed; McGraw-Hill**

**[www.sec.gov](http://www.sec.gov) = online database called Edgar that has accounting information for thousands of companies.**

**Principles of Accounting PowerPoint (outline attached)**

**Principles of Accounting Challenge with Key**

**Cards with GAAP principles – hand out to students**

**Accounting Jeopardy**

**MOTIVATION/OPENER:**

**What do you know about accounting? When do you think people first began to use accounting? Would you believe the first recorded accounting records were found in Egypt where Pharaohs kept track of labor and materials in the building of the pyramids? Who do you think comes up with the rules that companies use to determine how they account for their business? No, it isn't corrupt CEOs of corporations. We're going to take a look at the fascinating world of accounting – yes, it can be mind-numbing, but once you understand the basics of accounting, it is mind-boggling!**

**PRESENTATION: (Teacher Activities):**

**10 min:** Show PowerPoint “Accounting — Mind-numbing or Mind-boggling?”

**APPLICATION: (Student Activities)**

*Group activity:*

**Students will respond by raising appropriate answer card to questions flashed on Jeopardy game based on accounting questions.**

**ASSESSMENT/EVALUATION:**

*Individual activity:*

**Principles of Accounting Challenge.**

**CLOSURE:**

**Remind students of the Pharaohs – now they understand how the pyramids were built ... right? Well, maybe not, but at least they understand how the first accountants kept track of the costs! Isn't it mind-boggling?**

# Principles of Accounting PowerPoint Outline

## Accounting and Finance

Introduction to Accounting –  
Mind-numbing or mind-boggling?

### What is accounting?

- the process of recording and using financial information collected by a business
- accounting is “the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information”

### A History of Accounting

- Account records date back to the ancient civilizations of China, Babylonia, Greece, and Egypt.**
- The rulers of these civilizations used accounting to keep track of the cost of labour and materials used in building structures like the great pyramids.**
- The need for accounting has existed as long as there has been activity involving money or resources.**

### What is Accounting?

- Identifies, measures and communicates financial information
- Focuses on economic entities
- Provides this information to interested parties, these being the users of financial information
- Provides this information with the purpose to assist the organization in reaching its stated goals
- Enhances the understanding of what is being measured as well as providing information for decision making.

### Users of financial information

- Internal users
- ✓ **owners** – to assess the benefits of their investment
- ✓ **managers** – to record, plan, control, analyse and evaluate activities and performance
- ✓ **employees** – to look at the security of their employment and for pay rises

## Users of financial information

- External users
- ✓ **government** – to ensure that legal requirements and tax obligations are met; to assess business activity and performance in order to put together economic information
- ✓ **competitors** – to measure performance against others and identify strengths and weaknesses

## Users of financial information

- ✓ **suppliers** – to know the prospects of customers before agreeing to supply
- ✓ **customers** – after-sales support and warranties will only be provided if a business stays in existence
- ✓ **local community** – often relies on businesses for wealth creation
- ✓ **investors** – to check and compare the value of their investments

## FINANCIAL STATEMENTS

Balance Sheet

Income Statement

Cash Flow

## BALANCE SHEET

Reflects a Moment in Time

Shows Financial Position of Business as of specific date

- Financial Position - what you have/what you owe/what your stockholders have
- Value of Business to Owners

## **BALANCE SHEET**

- "Have" - "Owe" = "Value to Owners"
- Assets - Liabilities = Stockholder's Equity
- Indicates Assets, Liabilities and Equity of business as of specific date

## **INCOME STATEMENT**

- Reflects a Period of Time - Month, Quarter, Year
- Shows financial activity of business during that period
- Indicates Profit or (Loss) earned during period

## **CASH FLOW STATEMENT**

- Reflects a Period of Time - Month, Quarter, Year
- Shows cash inflows and outflows during period
- Indicates solvency of company during period

# **GAAP**

## **THE CONCEPTUAL FRAMEWORK OF ACCOUNTING**

- ◆ Generally accepted accounting principles are a set of rules and practices that are recognized as a general guide for financial reporting purposes.

- ◆ **Generally accepted means that these principles must have substantial authoritative support.**
- ◆ **This support usually comes from the Financial Accounting Standards Board (FASB) and Securities and Exchange Commission (SEC).**
- ◆ **The FASB has the responsibility for developing accounting principles in the United States.**

## **ASSUMPTIONS**

- **Monetary unit**  
Only transaction data that can be expressed in terms of money should be included in the accounting records of a company.
- **Economic entity**  
Economic events can be identified with a particular unit of accountability and are separate from actual owner's financial data.
- **Going concern**  
Assumes a business will continue in operation long enough to carry out existing objectives.
- **Time Period**  
The economic life of a business can be divided into artificial time periods.

## **PRINCIPLES**

- **Revenue recognition**  
Revenue should be recognized in the accounting period in which it is *earned*.
- **Matching**  
Expenses should be matched with revenues in the period in which the revenues are earned. (i.e. the need for prepaid expenses)
- **Full disclosure**  
Circumstances and events that make a difference to financial statement users be disclosed.
- **Cost**  
Asset must always be recorded at their cost and remain at their cost.

## Accounting Equation

(Assets = liabilities + equity)

(also called Balance Sheet Equation)

To understand information in financial statements, we need to know how an accounting system captures relevant data about transactions, classifies and records data and reports data in financial statement. The basic tool of modern accounting systems is the accounting equation.

## Transaction:

- exchange of economic consideration between 2 parties.
- Because two different parties exchange assets and liabilities, business transactions always have at least two effects on the components of the accounting equation. The equation is always in balance when transactions are properly recorded.

## ASSET

Something the company owns that has value

## LIABILITY

Money the company owes to creditors

## EQUITY (aka CAPITAL)

- Owner's claim on the assets of a business after deducting the liabilities
- Equity includes and profit or loss from the business

## Principles of Accounting Challenge

1.	Accounting is the cornerstone of any business. The accounting system is designed to collect, document, and report on ...				
	a.	financial information.		c.	financial transactions affecting the business.
	b.	business industry information.		d.	industry trends.

2.	All accountants use the same set of rules, called _____ to prepare their reports.				
	a.	Generally Accepted Accounting Principles (GAAP)		c.	Principles of General Accounting (PGA)
	b.	General Principles of Accounting (GPA)		d.	Acceptable Accounting Practices (AAP)

3.	The very first step in setting up an accounting system is developing the _____. Usually some type of numbering system is used for the various accounts.				
	a.	Chart of Accounts		c.	Balance Sheet
	b.	Income Statement		d.	Journal

4.	The _____ reports the net income or net loss earned by a business in a fiscal period.				
	a.	Chart of Accounts		c.	Balance Sheet
	b.	Income Statement		d.	Journal

5.	The _____ reports the final, updated balances of all assets, liabilities, and stockholder's equity accounts as of a specific period.				
	a.	Chart of Accounts		c.	Balance Sheet
	b.	Income Statement		d.	Journal

6.	If you were looking at a document that reflected a company's revenue, cost of merchandise sold, gross profit, operating expenses, operating income, and net income, you are most likely looking at the _____.			
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	a.	Chart of Accounts		c.	Balance Sheet
	b.	Income Statement		d.	Journal

7.	What is capital?				
	a.	Accrued salaries payable, which is the amount of salaries you owe your employees that you have not paid them yet.		c.	The net worth of your business
	b.	Accounts Payable, which is the amount you owe your creditors for purchases of merchandise or services on account that will be paid within the next twelve months.		d.	The Long-Term Debt which is the amount the company owes the bank on a loan that was granted to the company by the bank

8.	The accounting equation is				
	a.	Assets = liabilities + capital		c.	Liabilities = assets + capital
	b.	Income + revenue = profit		d.	Assets = revenue - expenses

9.	The Cash Flow Statement identifies where a company's cash came from and _____				
	a.	And what account it went into		c.	if there was a profit
	b.	projects future income		d.	where it went

10.	The amount of investment in a company is represented in it's				
	a.	revenue		c.	profit
	b.	capital		d.	Loan proceeds

## Principles of Accounting Challenge Key

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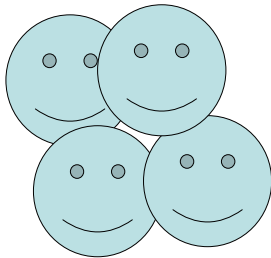
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a.	revenue	c.	profit
b.	<b>capital</b>	d.	Loan proceeds

# Cards with GAAP Principles – Student Handout

## OBJECTIVITY PRINCIPLE



=

RELIABLE  
REPORTS

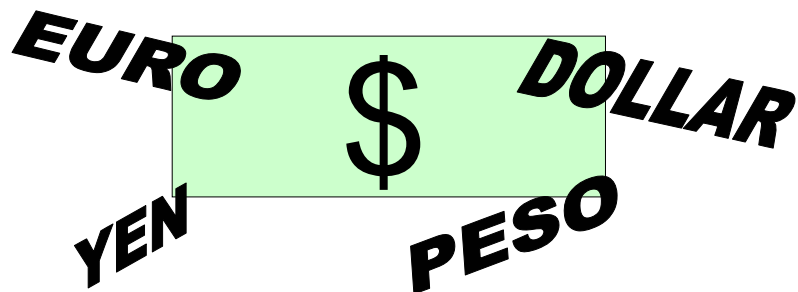
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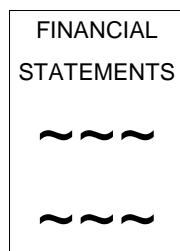
## GOING CONCERN PRINCIPLE

**OPEN**  
FOR  
BUSINESS

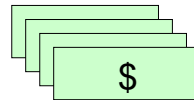
# MONETRAY UNIT PRINCIPLE



# COST PRINCIPLE



=



OR  
EQUAL TO

CASH

**BUSINESS/SEPARATE  
ENTITY**

**PRINCIPLE**

**WHO'S THE**

**BOSS**

**OWNER?**

# Accounting Jeopardy

It Means WHAT?	Rules to Live By	Say Again?	Owners or renters?	Tell me the Truth
<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>
<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>
<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>

It Means WHAT? -- \$100

➤ Transaction of money paid for goods or services used to operate a business

It Means WHAT? -- \$100

➤ What is an expense?

It Means WHAT? -- \$200

It Means WHAT? -- \$200

➤ What is an "asset"?

It Means WHAT? -- \$300

➤ Income earned by providing goods or services to customers.

It Means WHAT? -- \$300

➤ What is revenue?

It Means WHAT? -- \$400

It Means WHAT? -- \$400

➤ What is a liability?

It Means WHAT? -- \$500

It Means WHAT? -- \$500

☞What is Owner's Equity?

Rules to Live By -- \$100

☞The set of accounting principles used by all companies

Rules to Live By -- \$100

☞What is GAAP or Generally Accepted Accounting Principles?

Rules to Live By -- \$200

☞Assumption that a business will survive and operate indefinitely

Rules to Live By -- \$200

☞What is the "going concern" principle ?

Rules to Live By -- \$300

Rules to Live By -- \$300

☞What is the Cost Principle ?

Rules to Live By -- \$400

☞The requirement that affairs of the owners be accounted for separate from the affairs of the business

Rules to Live By -- \$400

☞What is the Separate Entity Principle?

Rules to Live By -- \$500

☞Requirement to use the least optimistic measures when the value of an asset or liability is uncertain.

Rules to Live By -- \$500

☞What is conservatism?

Say Again? -- \$100

☞Money used for personal use by the owner

Say Again? -- \$100

☞What is a draw or withdrawal?

Say Again? -- \$200

☞A person who risks time labor and capital to create a profit

Say Again? -- \$200

➤What is an entrepreneur ?

Say Again? -- \$300

➤Money invested in a business by its owner

Say Again? -- \$300

➤What is Capital ?

Say Again? -- \$400

➤Summary of all account names used in a company's accounting system

Say Again? -- \$400

➤What is the chart of accounts ?

Say Again? -- \$500

➤Uniform period of time for reporting business financial information

Say Again? -- \$500

➤What is an accounting period ?

Owners or Renters -- \$100

➤A business with one owner who assumes unlimited liability

Owners or Renters -- \$200

➤A business owned by two or more persons who share liability for the debts of the business

Owners or Renters -- \$200

➤What is a partnership ?

Owners or Renters -- \$300

➤A business that operates as separate from its owners (stockholders)

Owners or Renters -- \$300

➤What is a Corporation?

Owners or Renters -- \$400

➤A business owned by two or more persons with only limited liability for the debts of the business

Owners or Renters -- \$400

➤What is a Limited Liability Corporation?

Owners or Renters -- \$500

☞ A business that has its stock bought and sold on exchanges

Owners or Renters -- \$500

☞ What is a public company ?

Tell me the Truth -- \$100

☞ Formally shows the difference between revenues and expenses

Tell me the Truth -- \$100

☞ What is an income statement ?

Tell me the Truth -- \$200

☞ The equation used for the balance sheet

Tell me the Truth -- \$200

☞ What is  $\text{assets} = \text{liabilities} + \text{stockholder's equity}$ ?

Tell me the Truth -- \$300

☞ The term used to describe the situation when expenses exactly equal revenues

Tell me the Truth -- \$300

☞ What is breakeven?

Tell me the Truth -- \$400

☞ The account that represents the company's total earnings and losses less all dividends occurring since the formation of the corporation

Tell me the Truth -- \$400

☞ What is Retained Earnings ?

Tell me the Truth -- \$500

☞ Phrase indicating the time period covered by the Balance Sheet

Tell me the Truth -- \$500

☞ What is "As of \_\_\_\_ Date"?