

Using The Quick Notes Learning System

Quick Notes

outlines the key material required to understand basic accounting principles. These clear, concise, one- and two-page outlines may easily be studied a number of times.

Using Quick Notes

The beginning of each outline contains the key definitions, theories, and concepts needed to understand the topic being studied. Here you see page 2 of the first outline explaining The Accounting Equation.

The Businesses of Darin Jones

Quick Notes definitions, theories, and concepts are followed by a continuous example accounting for the businesses of Darin Jones. He opens the Quick Clean Laundry Service in college, Darin's Music Emporium upon graduation, and lastly, Future Horizons Corporation. These businesses will be used to explain the theories and concepts being outlined.

THE ACCOUNTING EQUATION

I. ASSETS - LIABILITIES = OWNER'S EQUITY

Items Of Value - What Is Owed = Net Worth

II. DEFINITIONS

ACCOUNT - a storage area for financial information.

DEBIT - left side of an account.

T ACCOUNT - a simplified account.

CREDIT - right side of an account.

III. BALANCE SHEET ACCOUNTS

ASSETS are items of value.

CAPITAL is the Owner's Equity account for sole proprietorships and partnerships.

LIABILITIES are amounts owed.

COMMON STOCK is the primary account for tracking the invested equity of a corporation.

OWNER'S EQUITY is the net worth of a business.

RETAINED EARNINGS is the account used to store income earned but not distributed by a corporation.

IV. DEBITS AND CREDITS

Please relate the definitions in Part III to the schematic below. Note the accounting equation has been rewritten to better explain debits and credits.

ASSETS		=	LIABILITIES		+	OWNER'S EQUITY	
DR.	CR.		DR.	CR.		DR.	CR.
+	-		-	+		-	+

The DOUBLE ENTRY system of debits and credits facilitates the increasing and decreasing of the amounts stored in the Balance Sheet Accounts. The above schematic summarizes part of the system.

After rewriting the accounting equation, it should be noted that assets are on the opposite side of the equation from Liabilities and Owner's Equity and are therefore treated in an opposite manner by the system.

NOTE: The following example will show only the current transaction information in each T account.

V. ANALYZING TRANSACTIONS - SAMPLE PROBLEM

Assets = Liabilities + Owner's Equity

- Darin Jones, a sophomore at State University, started the Quick Clean Laundry Service with a \$100 cash investment.

Cash		Capital
100		100

- On Sept. 1, paid \$50 for 5 months of ads in the school newspaper.

Prepaid Advertising		Cash
50		50

- On Sept. 1, purchased Laundry Supplies for \$25 cash.

Laundry Supplies		Cash
25		25

- On Sept. 1, purchased \$48 of Laundry Equipment paying \$8 down.

Laundry Equipment		Accounts Payable
48		40
Cash		8

- Darin made an additional investment of \$50.

Cash		Darin Jones, Capital
50		50

- Paid one-fourth the amount owed on the Laundry Equipment.

Cash		Accounts Payable
10		10

I. THE ACCOUNTING EQUATION

Write the accounting equation at the top of these three T accounts. Place the abbreviation DR. and CR. on the proper side of all T accounts. Also, use a plus or minus sign to indicate the directional change each side of the T account represents.



II. ANALYZING TRANSACTIONS - SAMPLE PROBLEM

Instructions: Record only the current transaction information in T accounts arranged according to the Accounting Equation.

1. Linda Smith, a sophomore at State University, started the Speedy Ironing Service with a \$125 cash investment on Sept. 1, 1991.

2. On Sept. 1, paid \$60 for 4 months of ads in the school newspaper.

3. On Sept. 1, purchased Ironing Supplies for \$10 cash.

4. On Sept. 1, purchased \$60 of Ironing Equipment paying \$30 down.

Practice Sets Provide Reinforcement

Each set of Quick Notes is followed by a Practice Set of similar design. If you have a problem answering a Practice Set question, just turn back 2 pages to about the same place on the page to see a similar example solved in Quick Notes.

The Businesses of Linda Smith

Practice Sets account for the three businesses owned by Linda Smith. She began Speedy Ironing Service in college, Linda's Video Showcase upon graduation, and lastly, The Computer Warehouse.

Quick Questions Stress Important Concepts

Complete Solutions

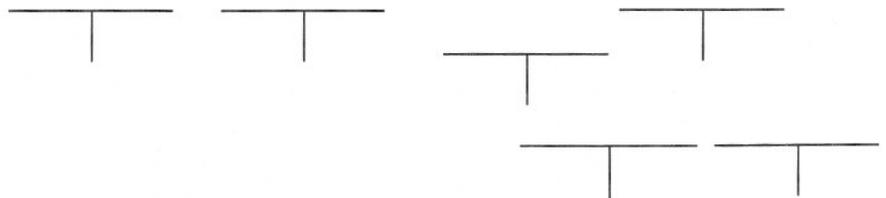
to Practice Sets and Quick Questions have been provided to help with difficult concepts. See Appendix III beginning on page A3.

Generic Working Papers

have been provided in Appendix IV beginning on page A130 for those taking a college course in accounting.

Quick Questions On Analyzing Expense And Revenue Transactions

1. Write the expanded accounting equation above these T accounts. Place the abbreviation DR. and CR. on the proper side of all T accounts. Also, use a plus or minus sign to indicate the directional change each side of the T account represents.



2. Record the following in T accounts.

- Jan. 1 Mary Brown started A & B Consultants with an investment of \$50,000.
- 14 Collected Consulting Fees of \$500 cash.
- 22 Mary withdrew \$200 for personal use.
- 25 Paid salaries of \$1,450.
- 28 Billed Z Corporation \$5,000 for consulting work just completed.
- 31 Received \$1,500 from Q Company as a retainer for future advice.