

Part I Introduction to Financial Accounting

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Units 1 Introduction to Business

I. The Concept of Business

- A. Business turns natural and human resources into goods and services and distributes them to users.
- B. Businesses are for profit or not for profit.
 - 1. Profit is what is left after accounting for all financial obligations.
 - 2. Non-profit organizations include some colleges, governments, charities, and social organizations.
- C. Business terms often have more than one meaning.
 - 1. The term capital is defined by the financial community as **the money** used to buy items that aid production. An economist defines capital as **something that aids production**.
 - 2. Profit earned by an entrepreneur is different than taxable profit reported by the accounting community.
 - 3. Units 15 and 16 on Financial Statement Analysis will use financial measurements to explore business terms such as *capital* and *profit*.

Remember to look at the key points of a learning unit before studying the detail. This unit covers The Concept of Business, Legal Forms of Business Enterprise, and Business Classifications.



II. Legal Forms of Business Enterprise

- A. There are three legal forms of business.
 - 1. A sole proprietorship is owned by one person.
 - 2. A partnership has two or more owners.
 - 3. A corporation is a legal entity distinguishable from its owners.
- B. These basic characteristics of the three legal forms of business should be considered when determining which legal form is appropriate for a business.

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Characteristic Legal Form	Ease of Formation	Length of Life	Raising Capital	Owner's Liability	Taxes
Sole Proprietorship	Easy, just start	Limited to owner's life	Difficult, resources of one owner	Unlimited, personal assets at risk	Once, as personal income
Partnership	Easy, just start	Shortest, death or disagreement ends partnership	Easier, resources of the owners	Unlimited, personal assets at risk ¹	Once, as personal income
Corporation	Somewhat difficult, file forms, pay state	Unlimited	Easiest, resources of anyone interested	Limited to investment	Twice, as corporate income ² & dividend income

¹ Partners of a **limited liability partnership** are not financially responsible for the actions of their partners.

² A subchapter S corporation has up to 35 owners and is not subject to corporate taxes. Owners are taxed as individuals.

III. Business Classifications

- A. **Manufacturers** make goods (computers, cars, TVs).
- B. **Merchandisers** sell goods.
 - 1. **Wholesalers** move goods from one business to another business. A wholesaler of beverages might gather many kinds of your favorite liquid refreshment and distribute them to stores, colleges, and restaurants.
 - 2. **Retailers** sell goods to end users (Sears, The Gap).
- C. **Services** sell intangibles, such as insurance, education, and housecleaning

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