

# Module 1: ACC 1100 Core Accounting Workflow Pack

## Introduction

Accounting is an information and measurement system used to identify, record, and communicate business activities.

Accounting helps businesses understand:

- what they own
- what they owe
- how profitable their operations are

The accounting process follows a structured workflow that begins with analyzing transactions and ends with preparing financial statements.

Understanding this workflow is essential for success in accounting courses.

## The Accounting Equation

The accounting system is built on the accounting equation.

Assets = Liabilities + Owner's Equity

This equation must remain balanced after every transaction.

## Assets

Assets are resources owned by the business that provide future economic benefit.

Assets increase on the debit side and decrease on the credit side.

Examples include:

- Cash
- Accounts Receivable
- Supplies
- Prepaid Insurance
- Land
- Equipment

## Liabilities

Liabilities are obligations owed to creditors.

These represent claims against the company's assets.

Liabilities increase as credits and decrease as debits.

Examples include:

- Accounts Payable
- Notes Payable
- Salaries Payable

- Interest Payable
- Unearned Revenue

### **Owner's Equity**

Owner's equity represents the owner's claim to the assets of the business.

Owner's Equity = Assets – Liabilities

Owner's equity increases through:

- owner investments
- revenues

Owner's equity decreases through:

- expenses
- withdrawals

### **Components of Owner's Equity**

#### **Owner's Capital**

Owner contributions increase equity.

Example:

Owner invests cash into the business.

Journal entry:

Debit: Cash

Credit: Owner's Capital

#### **Owner's Withdrawals**

Withdrawals occur when the owner removes assets for personal use.

Journal entry:

Debit: Owner's Withdrawals

Credit: Cash

#### **Revenue**

Revenue represents income earned from providing services or selling goods.

Revenue increases owner's equity.

Example:

Debit: Cash

Credit: Service Revenue

## **Expenses**

Expenses represent costs incurred to generate revenue.

Expenses decrease owner's equity.

Examples include:

- rent expense
- salaries expense
- insurance expense
- utilities expense

Example entry:

Debit: Rent Expense

Credit: Cash

## **Step 1: Identifying and Analyzing Transactions**

The first step in accounting is identifying transactions that affect the financial position of the business.

A transaction must involve:

- a measurable financial impact
- at least two accounts

Example transaction:

The company purchases supplies for cash.

Accounts affected:

Supplies (asset increases)

Cash (asset decreases)

Journal entry:

Debit: Supplies

Credit: Cash

## **Step 2: Journalizing Transactions**

Transactions are recorded in the general journal using debits and credits.

Each journal entry must include:

- date
- account titles
- debit amounts
- credit amounts
- explanation

Example:

Purchased equipment for \$5,000 cash.

Debit: Equipment 5,000

Credit: Cash 5,000

### Step 3: Posting to the Ledger

After journal entries are recorded, they are transferred to the general ledger.

A ledger organizes transactions by account.

Each account is shown using a T-account format.

Example:

Cash

Debit	Credit
5,000	

Equipment

Debit	Credit
5,000	

This allows accountants to track changes to each account.

### Step 4: Preparing a Trial Balance

A trial balance lists all accounts and their balances.

The purpose of the trial balance is to verify that total debits equal total credits.

Example format:

Account | Debit | Credit

Cash | 12,000 |

Accounts Receivable | 6,000 |

Supplies | 2,000 |

Equipment | 25,000 |

Accounts Payable | | 3,000

Owner's Capital | | 42,000

Totals must balance.

## Adjusting Entries

At the end of the accounting period, adjustments must be made to ensure accounts reflect accurate balances.

Adjustments follow accrual accounting principles.

There are four common types.

### 1. Prepaid Expenses

Prepaid expenses are assets that are initially recorded but later become expenses.

Examples:

- prepaid insurance
- supplies
- depreciation

Example:

Insurance expired during the period.

Debit: Insurance Expense

Credit: Prepaid Insurance

### 2. Unearned Revenue

Unearned revenue occurs when cash is received before services are performed.

Initial entry:

Debit: Cash

Credit: Unearned Revenue

Adjusting entry when revenue is earned:

Debit: Unearned Revenue

Credit: Service Revenue

### 3. Accrued Expenses

Accrued expenses are expenses incurred but not yet paid.

Example:

Interest owed but not yet paid.

Debit: Interest Expense

Credit: Interest Payable

### 4. Accrued Revenue

Accrued revenue occurs when revenue has been earned but not yet recorded.

Example:

Services performed but not yet billed.

Debit: Accounts Receivable

Credit: Service Revenue

### **Adjusted Trial Balance**

After adjusting entries are posted, an adjusted trial balance is prepared.

This trial balance includes updated account balances used to prepare financial statements.

The adjusted trial balance ensures:

Total Debits = Total Credits

### **Financial Statements**

Three primary financial statements are prepared from the adjusted trial balance.

#### **Income Statement**

The income statement reports revenues and expenses.

Net Income = Revenues – Expenses

Example:

Service Revenue = 10,000

Expenses = 7,000

Net Income = 3,000

#### **Statement of Owner's Equity**

This statement shows changes in the owner's capital account.

Beginning Capital

- Net Income
- Withdrawals
- = Ending Capital

#### **Balance Sheet**

The balance sheet shows the company's financial position.

Assets = Liabilities + Owner's Equity

Example:

Assets

Cash 12,000

Equipment 25,000

Liabilities

Accounts Payable 3,000

Owner's Equity

Owner's Capital 34,000

## Closing Entries

Closing entries reset temporary accounts to zero at the end of the accounting period.

Temporary accounts include:

- revenue accounts
- expense accounts
- withdrawals

Permanent accounts remain open.

### Step 1: Close Revenue Accounts

Debit: Service Revenue

Credit: Income Summary

### Step 2: Close Expense Accounts

Debit: Income Summary

Credit: Rent Expense

Credit: Salaries Expense

### Step 3: Close Income Summary

Debit: Income Summary

Credit: Owner's Capital

### Step 4: Close Withdrawals

Debit: Owner's Capital

Credit: Owner's Withdrawals

## Post-Closing Trial Balance

A post-closing trial balance includes only permanent accounts.

Temporary accounts will have zero balances.

This ensures the accounting system is ready for the next accounting period.

## Common Student Errors

Students often make the following mistakes:

- reversing debits and credits
- forgetting adjusting entries
- recording only one side of a journal entry
- misunderstanding the accounting equation

To avoid errors:

- always identify the accounts affected
- determine whether each account increases or decreases
- verify that debits equal credits

## Practice Problems

### Problem 1

Record the following transaction.

The owner invests \$20,000 cash in the business.

### Problem 2

The company purchases supplies for \$800 cash.

Record the journal entry.

### Problem 3

Services are provided to a customer for \$1,200 cash.

Record the journal entry.

### Problem 4

At the end of the month, \$300 of prepaid insurance has expired.

Record the adjusting entry.

## Practice Problem Answers

### Problem 1

Debit: Cash 20,000

Credit: Owner's Capital 20,000

### Problem 2

Debit: Supplies 800

Credit: Cash 800

### Problem 3

Debit: Cash 1,200

Credit: Service Revenue 1,200

### Problem 4

Debit: Insurance Expense 300

Credit: Prepaid Insurance 300