

# Accounting 1

| Exam Information                                                                                                                                                                                                       | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| <b>Exam number</b><br><b>210</b><br><br><b>Items</b><br><b>70</b><br><br><b>National Career Cluster</b><br><b>Business Management &amp; Administration Finance</b><br><br><b>Certification available</b><br><b>Yes</b> | <p>Candidates will develop skills beginning with an understanding of the basic elements and concepts of double-entry accounting systems related to a service business organized as a sole proprietorship. Skills include, understanding the accounting equation, analyzing business transactions, entering transactions in journals, posting to ledgers, compiling end-of period financial statements, preparing closing entries, and managing and protecting cash.</p> |

## Exam Blueprint and Performance Skills

| Standard                                    | Percentage of exam score |
|---------------------------------------------|--------------------------|
| 1. Generally Accepted Accounting Principles | 10%                      |
| 2. Accounting Equation                      | 10%                      |
| 3. Double Entry                             | 23%                      |
| 4. Journal Entries                          | 17%                      |
| 5. Financial Statements                     | 16%                      |
| 6. Closing Process                          | 9%                       |
| 7. Cash Control                             | 14%                      |
| 8. Pathways, Post Secondary, And Careers    |                          |

\*Includes performance skill evaluation

## Standard 1 - Generally Accepted Accounting Principles

Candidates will define (GAAP) generally accepted accounting principles and basic business structure

**Objective 1** Define accounting and generally accepted accounting principles (GAAP).

Accounting: The collecting, recording, and reporting of financial information.

GAAP: Generally Accepted accounting principles. All Businesses work off the same rules for finances.

1. GAAP concepts:
  - a. Business Entity: A principle that treats a business as separate from its owners for accounting purposes. independent of government or personal accounts.
  - b. Going Concern: The assumption that a business will continue to operate unless evidence suggests otherwise.
  - c. Accounting Period: Dividing financial activities into specific time periods for reporting, like fiscal years.
  - d. Revenue Recognition: Determining when and how revenue should be recorded based on the nature of the income-generating activities.

**Objective 2** Identify each step of the accounting cycle.

1. Step 1 – Analyze business transactions to determine debit(s) and credit(s) and the use of a T-account.
2. Step 2 – Journalize transactions in a general journal
3. Step 3 – Post debit(s) and credit(s) from the general journal to general ledger
4. Step 4 – Prepare a trial balance to prove that debits equal credits
5. Step 5 – Prepare the following financial statements:
  - a. Income statement (profit and loss)
  - b. Balance sheet
6. Step 6 - Journalize and post closing entries
7. Step 7 - Prepare post-closing trial balance



#### Definitions of key terms and concepts.

1. T-Accounts: A tool used to analyze transactions
2. Debits: The amount recorded on the left side of the T-account
3. Credits: The amount recorded on the right side of the T-account
4. General Journal: A chronological record of all financial transactions.
5. General Ledger: A collection of the summary of all accounts used by a business.
6. Trial Balance: A list of account balances to prove that debits equal credits in the ledger.
7. Income Statement: Shows revenues and expenses to calculate net income over a period of time.
8. Balance Sheet: Provides a snapshot of a business's financial position with the accounting equation.
9. Closing Entries: Entries made to reset temporary accounts for the next accounting period.
10. Post-Closing Trial Balance: A list of permanent account balances after closing entries have been made to ensure balance before a new period.

**Objective 3** Identify and explain business structures.

1. Identify and differentiate among the three forms of business ownership.
  - a. Sole Proprietorship: A sole proprietorship is a simple and common structure chosen to start a business. It is owned and run by one individual with no distinction between the business and you, the owner. The owner is entitled to all profits and is responsible for all your business's debts, losses, and liabilities.
  - b. Partnership: an arrangement between two or more people to oversee business operations and share its profits and liabilities.
  - c. Corporation: is legally a separate and distinct entity from its owners. Corporations possess many of the same legal rights and responsibilities as individuals. It has limited liability, which means that its shareholders are not personally responsible for the company's debts. It may be created by an individual or a group of people with a shared goal.
2. Identify and differentiate among the three types of businesses and their accounting.
  - a. Service: focus on intangible services and primarily track service revenue and expenses.
  - b. Merchandising: A business that purchases and resells goods.
  - c. Manufacturing: A business that uses raw materials to create goods for wholesalers.

## Standard 2 - Accounting Equation

Candidates will identify the three basic accounting equation elements, apply them to accounts, and use them in the accounting equation.

**Objective 1** Identify the characteristics of an asset, liability, and owner's equity.

1. Asset: property owned by the business
2. Liability: creditors' financial claim to assets (debt)
3. Owner's Equity: an owner's financial claim to assets
4. Explain the classifications of accounts as assets, liabilities, or owner's equity.

**Objective 2** Demonstrate an understanding of the fundamental accounting equation.

1. Asset: property owned by the business
2. Liability: creditors' financial claim to assets (debt)
3. Owner's Equity: an owner's financial claim to assets
4. Explain the classifications of accounts as assets, liabilities, or owner's equity.

**Performance Skills**

1. Calculate missing elements of the accounting equation.
2. Classify various accounts as either assets, liabilities, or owner's equity.

**Optional: Standard performance evaluations on the final page of this document**

## Standard 3 - Double Entry Accounting

Candidates will explain the process of analyzing transactions using double-entry accounting and T-accounts to determine debit(s), credit(s) and normal balance.

**Objective 1** Explain the basic steps of double-entry accounting in business transactions.

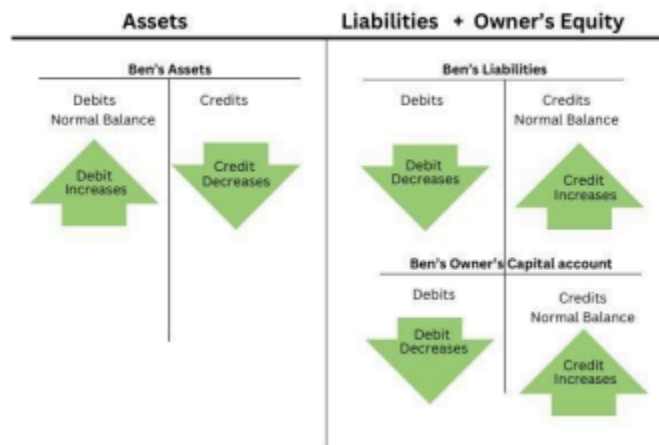
Double-entry accounting: recording the debits and credits of each transaction that will affect at least two accounts.

Using the following steps:

1. Identify which accounts on the chart of accounts are affected.
2. Classify the affected accounts as an asset, liability, or owner's equity.
3. Determine the affected accounts and the amounts that will increase or decrease.
4. Identify increase, decrease, and normal balance of assets, liability, and owner's equity accounts.

Normal Balance: The normal balance in accounting is always on the increase side (debit or credit) of an account used to record changes in that account.

**Objective 2** Analyze how debit and credits affect each individual account.



1. Define debit and credit.
2. Identify increase, decrease, and normal balance of assets, liability, and owner's equity accounts.

**Objective 3** Explain how to use T-accounts as a tool to analyze business transactions into debit(s) and credit(s)

1. Label a T-account
2. Enter the debit(s) and credit(s) on the T-account

3. Recognize the effect of debit(s) and credit(s) on the accounting equation using T-accounts.
4. Verify the accounting equation is in balance.

**Objective 4** Describe the chart of accounts in a business entity and how it is created.

1. Assets organized by liquidity: How quickly an asset can be converted into cash or used to settle obligations.
2. Liabilities are organized alphabetically
3. Owner's Equity are organized alphabetically
  - a. Capital
  - b. Revenue, Sales or Service
  - c. Expenses
  - d. Withdrawal
4. Chart of Accounts frequently used numbering system includes the following.
  - a. Assets = 100s
  - b. Liabilities = 200s
  - c. Capital = 300s
  - d. Revenue = 400s
  - e. Expenses = 500s

### Performance Skills

1. Create a chart of accounts
2. Calculate changes to accounts using double-entry accounting while keeping the accounting equation in balance.
3. Analyze transactions that increase/decrease assets, liabilities and owner's capital accounts, record them in T-accounts, and prove the equality of debits and credits

**Optional: Standard performance evaluations on the final page of this document**

## Standard 4 - Journal Entries

Candidates will identify and use source documents to journalize transactions, post journal entries to the ledger, and prepare a trial balance.

Define a trial balance: a financial report in which the balances of all ledgers are compiled into debit and credit account column totals that are equal.

**Objective 1** Compare and contrast the differences in the following source documents:

Source Documents: Documents that provide evidence of a financial transaction.

1. Checks – cash purchases
2. Sales Invoices – sales on account
3. Receipts – cash received from sources other than sales
4. Memorandums – when other source documents are not produced or available
5. Cash Register Tape - cash received from daily sales

**Objective 2** Demonstrate and explain the purpose of the general journal and journalize transactions by analyzing source documents.

1. Explain the Purpose of a General Journal.
  - a. General Journal: is used to maintain accurate chronological records and ensure the accounting equation remains balanced.

**Objective 3** Demonstrate and explain the purpose of the general ledger and post debits and credits from the general journal to the ledger accounts.

1. Explain the Purpose of a General Ledger account
  - a. General ledger is used to compile all financial transactions of a business creating a comprehensive and detailed record of the company's entire financial activity.
2. Steps to recording transactions in the general ledger
  - a. Post information from the general journal to the general ledger.
  - b. Calculate and record new account balance.
  - c. Explain how to trace a transaction back to its source. Methods may include post-referencing or audit trail.

**Objective 4** Create a trial balance. Clarify the concept of ensuring that debits and credits are in equilibrium, even though they may not always signify accuracy.

1. Identify the proper order of accounts on a trial balance
2. Identify and use mathematical methods for locating and correcting errors shown by the trial balance
  - a. Difference of 1, 10, 100, 1000 (typically refers to addition error)
  - b. Evenly divided by 9 (typically refers to transposition or slide error)
  - c. Evenly divided by 2 (typically omitted a debit or credit)
3. Journalize and post correcting entries.
4. Common posting errors include (but are not limited to):
  - a. Omitting journal entry
  - b. Reversing the debit and credit in a transaction.
  - c. Recording a debit or a credit in the wrong account.

### **Performance Skills**

1. Analyze and journalize business transactions using source documents.
2. Post debit(s) and credit(s) from a general journal to accounts in the general ledger.
3. Prepare a trial balance.
4. Analyze, journalize and post correcting entries

**Optional: Standard performance evaluations on the final page of this document**

## Standard 5 -Financial Statements

Candidates will describe the process of creating the income statement and balance sheet.

**Objective 1** Identify the appropriate headings for the income statement and balance sheet.

1. Company name
2. Report name
3. Date (Income statement period of time, balance statement specific point in time)

**Objective 2** Explain the process of creating an income statement.

1. Identify the elements of an income statement.
  - a. Income Statement: a document used to report the profit or loss of an entity. Also call a Profit and Loss statement.
  - b. Revenue: is the total money a business brings in from selling its goods or services.
  - c. Expenses: are the costs a business incurs in order to operate and produce its goods or services
  - d. Net income: Net income is the total profit of a business after all expenses and taxes have been subtracted from its revenue.
  - e. Net loss: If expenses exceed revenue, the result is a net loss.
2. Explain the formula to calculate the net income.
  - a.  $\text{Revenue} - \text{Expenses} = \text{Net Income or net loss}$

**Objective 3** Define ending capital and the calculation for the ending capital account balance.

1. Identify elements that change in capital
  - a. Net income
  - b. Withdrawals/drawing
  - c. Investments
2. Compute the ending account balance
3. Explain the formula to calculate ending capital
  - a.  $\text{Beginning capital} + \text{investments} \pm \text{net income (net loss)} - \text{withdrawals/drawing}$

**Objective 4** Explain the process of creating a balance sheet.

1. Identify the elements of a balance sheet.
  - a. Assets
  - b. Liabilities
  - c. Owners Equity (ending capital)
2. Explain the relationship between the balance sheet and the accounting equation.
  - a. This is the Aha "Oprah Moment" where candidates should realize that they have been learning this the whole time.
3. Explain the relationship between the balance sheet and the income statement.

- a. The profit or loss (net income or net loss) from the income statement affects the equity section of the balance sheet.

| ABC Accounting Services<br>Income Statement<br>For the month ended July 31, 20XX |                | ABC Accounting Services<br>Balance Sheet<br>As at July 31, 20XX |                              |
|----------------------------------------------------------------------------------|----------------|-----------------------------------------------------------------|------------------------------|
| <b>Revenue</b>                                                                   |                | <b>Assets</b>                                                   | <b>Liabilities</b>           |
| Service Revenue                                                                  | \$6,000        | Cash                                                            | \$5,000                      |
|                                                                                  |                | A/R                                                             | 1,000                        |
|                                                                                  |                | Equipment                                                       | <u>2,500</u>                 |
| <b>Expenses</b>                                                                  |                |                                                                 | <b>Equity</b>                |
| Rent                                                                             | \$ 700         |                                                                 | Common Stock                 |
| Salaries                                                                         | 3,000          |                                                                 | Net Income                   |
| Supplies                                                                         | 500            |                                                                 | <u>1,300</u>                 |
| Travel                                                                           | <u>500</u>     |                                                                 | Total Equity                 |
| Total Expenses                                                                   | <u>4,700</u>   |                                                                 | <u>3,750</u>                 |
| Net Income                                                                       | <u>\$1,300</u> |                                                                 | Total Liabilities and Equity |
|                                                                                  |                | Total Assets                                                    | <u>\$8,500</u>               |

**Account Relationships**

↑ Net income ⇒ ↑ equity  
 ↑ Revenues ⇒ ↑ Assets (cash or accounts receivable) which ↑ Equity  
 ↑ Expense ⇒ ↓ Assets (cash) and/or ↑ Liabilities (accounts payable) which ↓ Equity

## Performance Skills

1. Prepare an income statement and a balance sheet

Optional: Standard performance evaluations on the final page of this document

## Standard 6 - Closing Process

Candidates will describe how to close an accounting period.

**Objective 13** Identify and describe the purpose of permanent and temporary accounts.

1. Permanent: assets, liabilities, and capital
2. Temporary: revenue, expenses, and withdrawals/drawing

**Objective 2** Define a closing entry and describe how closing entries change capital (e.g. net income increases capital, net loss and withdrawals/drawing decreases capital)

1. Closing entry: A journal entry to zero out a temporary account.

**Objective 3** Describe the difference between a trial balance and a post-closing trial balance.

1. Post-closing trial balance: a list of balances from the general ledger after closing entries are made, ensuring only permanent accounts remain active and that total debits equal total credits.

### Performance Skills

1. Analyze, journalize, and post closing entries and prepare a post-closing trial balance.

**Optional: Standard performance evaluations on the final page of this document**

## Standard 7 - Cash Control

Candidates will explain the importance of cash control documents and systems in relation to the protection of the business' cash.

**Objective 1** Define and describe banking documents

1. Banking Documents: deposit slips, checks, bank statements, EFTs, debit card transactions
2. Define the information needed to produce banking documents deposit slips and checks)
3. Describe the types of check endorsements (blank, restrictive, and special) and when they would be used
4. Endorsements: a signature or a stamp that is placed on the bank to show the transfer of ownership.
5. Discuss internal controls to mitigate fraud and unethical behaviors (using a cash register and safe daily cash deposits, and segregation of duties)
6. Explain the three elements of the fraud triangle (opportunity, pressure, rationalization) and the relation to internal controls



**Objective 2** Describe the process of reconciling a bank statement with the checkbook balance and identify the necessary journal entries.

1. Define the information needed to reconcile the bank statement with the checkbook.
2. Identify the journal entries needed to update the general ledger cash balance (service charges and NSF charges and checks).
3. Prove the cash balance by using the checkbook, bank statement, and general ledger cash balance.
4. Describe the process and purpose of a Petty Cash fund and include the controls used to manage it.
5. Petty Cash: Cash kept on hand for making minor or unexpected purchases.
  - a. Establish a petty cash fund by creating a journal entry in the general journal.
  - b. Complete a petty cash slip or form to account for cash usage
  - c. Reconcile the petty cash account
  - d. Replenish the petty cash account

### **Performance Skills**

1. Prepare deposit slips, checks, and bank reconciliation.
2. Analyze, journalize and post journal entries related to bank reconciliation
3. Complete the process to establish and replenish a Petty Cash fund (journal entry, complete form or slip, reconcile and replenish)

## **Standard 8 - Pathways, Post Secondary, and Careers**

Candidates will understand the opportunities to graduate as a pathway completer, the post-secondary programs, and Career opportunities in Finance.

**Objective 1** The Finance Pathway

1. Explorer Courses: Small Business Math & Startup, Economics, and Investing & Wealth
2. Management, Real Estate, and Business Law.
3. Concentrator Courses: Accounting 2, and Advanced Accounting
4. Completer Courses: BFM Capstone & Internships

**Objective 2** Explore Post Secondary school programs in your region

1. Tech colleges & certifications
2. Associate degree programs
3. 4-year Bachelor's degrees

**Objective 3** Explore why candidates may want to be an accountant, financial planner, CPA, or have a career as a Financial Analyst

Describe career potential in average salaries, benefits, flexibility, Work/Life Balance.

# Performance Skills Evaluation

Exam name: Accounting 1

Candidate Name: \_\_\_\_\_

Performance assessments may be completed and evaluated any time before the certification is issued. The following performance skills can be used in connection with the associated standards and exam. The evaluator will function as the subject matter expert to determine if the candidate meets the skills requirements with a Yes/No for passing.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>Standard 2 – Basic Accounting Elements</b> <ul style="list-style-type: none"> <li>Accounting Equation <ul style="list-style-type: none"> <li>Calculate missing elements of the accounting equation</li> </ul> </li> </ul>                                                                                                                                                                                                                                                | <b>Pass:</b> |
| <b>Standard 3 – Analyzing Transactions</b> <ul style="list-style-type: none"> <li>Double-Entry Accounting: <ul style="list-style-type: none"> <li>Calculate changes to accounts using double-entry accounting while keeping the accounting equation in balance.</li> <li>Analyze transactions that increase/decrease assets, liabilities, and owner's capital accounts, record them in T-accounts, and prove the equality of debits and credits.</li> </ul> </li> </ul>     | <b>Pass:</b> |
| <b>Standard 4 – Source Documents</b> <ul style="list-style-type: none"> <li>Journalizing and Posting: <ul style="list-style-type: none"> <li>Analyze and journalize business transactions using source documents.</li> <li>Post debit(s) and credit(s) from a general journal to accounts in the general ledger.</li> </ul> </li> <li>Prepare a trial balance. <ul style="list-style-type: none"> <li>Analyze, journalize, and post-correct entries.</li> </ul> </li> </ul> | <b>Pass:</b> |
| <b>Standard 5 – Financial Statements</b> <ul style="list-style-type: none"> <li>Financial Reports: <ul style="list-style-type: none"> <li>Prepare an income statement and a balance sheet.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                           | <b>Pass:</b> |
| <b>Standard 6 – Accounting Period</b> <ul style="list-style-type: none"> <li>Closing Entries: <ul style="list-style-type: none"> <li>Analyze, journalize, and post-closing entries and prepare a post-closing trial balance.</li> </ul> </li> </ul>                                                                                                                                                                                                                         | <b>Pass:</b> |
| <b>Standard 6 – Cash Control</b> <ul style="list-style-type: none"> <li>Cash controls: <ul style="list-style-type: none"> <li>Prepare deposit slips, checks, and bank reconciliation.</li> <li>Analyze, journalize, and post journal entries related to bank reconciliation</li> </ul> </li> </ul>                                                                                                                                                                          |              |

Evaluator Name:

Date:

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