

# Chapter 2

# The World of Business and Accounting

## What You'll Learn

- Describe profit, risk-taking, and entrepreneurs.
- Describe service, merchandising, and manufacturing businesses.
- Compare the sole proprietorship, partnership, and corporate forms of business.
- List the advantages and disadvantages of each form of business organization.
- Describe the purpose of accounting.
- Explain financial and management accounting.
- Describe three basic accounting assumptions.
- Define the accounting terms introduced in this chapter.

# Exploring the World of Business

## Main Idea

The United States has a free enterprise system with various kinds of businesses.

## You Will Learn

- about the environment of business.
- the three types of business operations.
- the three forms of business organization.

# Exploring the World of Business

## The Environment of Business

When you hear the word *business*, what do you think of?

In the U.S. we have a ; people are free to produce goods and services and spend money as they wish.

A business can operate at a or a. If the revenues are greater than the costs, the money left over is profit. When costs are greater than revenues, the business operates at a loss.

In order to survive, a business must

- operate at a profit, and
- have an individual willing to take the risk to run it.

# Exploring the World of Business

## The Need for a Risk-Taker

In a business, inventors generate ideas, employees provide labor, and managers supervise. An transforms ideas into actual businesses.

# Exploring the World of Business

## Traits of Entrepreneurs

Most entrepreneurs:

- are self-starters.
- have organizational skills.
- have marketing knowledge.
- have accounting skills.

# Exploring the World of Business

## Types and Forms of Business

In a free enterprise system, an entrepreneur can choose the type and form of business to run.

# Exploring the World of Business

## Types of Business Operations

There are three types of business operations:

- : An example would be Holiday Inn Hotels.
- : An example would be Wal-Mart
- : An example would be General Motors.

Each type needs (money) from investors,  
banks,  
or business owners to begin.

# Exploring the World of Business

## Forms of Business Organization

Most U.S. businesses are organized in one of three ways:

1.

Adv:

Dis:

# Exploring the World of Business

## Forms of Business Organization

2.

Adv:

Dis:

# Exploring the World of Business

## Forms of Business Organization

3.

Adv:

Dis:

# Accounting: The Universal Language of Business

## Main Idea

The accounting system produces information used to make decisions.

## You Will Learn

- how the accounting system works.
- how decision makers use accounting reports.
- three important accounting assumptions.

# Accounting: The Universal Language of Business

## The Accounting System

The accounting system is designed to collect, document, and report on financial transactions.

There are two types of accounting systems:

- manual accounting system
- computerized accounting system

Accountants must follow rules issued by the Financial Accounting Standards Board (FASB).

Financial reports contain a summary of the financial status of a business.

# Accounting: The Universal Language of Business

## Using Accounting Reports for Making Business Decisions

Accounting provides financial information about a business or organization. There are two groups that use accounting reports:

- individuals *outside* the business who have an interest in the business
- individuals *inside* the business

# Accounting: The Universal Language of Business

## Financial Accounting

In financial accounting, reports are prepared for individuals *outside* the business.

Those interested in the financial accounting reports of a business include

# Accounting: The Universal Language of Business

## Management Accounting

In **management accounting**, reports are prepared for managers *inside* the business.

Financial accounting reports help a manager decide:

- what to do,
- how to do it,
- when to do it, and
- whether or not the results match the plans for the future.

# Accounting: The Universal Language of Business

## Accounting Assumptions

As mentioned before, all businesses follow GAAP, which includes three assumptions:

- A business is a **legal entity**, separate from its owner's personal holdings.
- There is a **set time period**.
- A business is expected to continue as a **going concern**, able to survive and operate indefinitely.

***Refer to Business Principles Handout***

# Chapter 2 Review

## Question 1

DePalm Pizza had the following cash transactions yesterday.

**Receipts (money in):** Checks: \$650.00, Cash \$500.00

**Expenditures (money out):** Gas and oil for delivery vehicle \$75.98, supplies \$477.50, salaries \$380.00, and miscellaneous expenditures \$123.76.

Did DePalm have a “profit” or “loss” for the day?

# Chapter 2 Review

## Question 2

Sole proprietorship is the most popular form of business ownership, yet very few large businesses are sole proprietorships. Give at least two reasons to explain this.