

MIDGETT •

An Accounting Primer

An Accounting Primer

by ELWIN W. MIDGETT

First World printing—1969

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To Nell

An Accounting Primer

Preface

Accounting has been called the "heart" of business and few people would disagree with this statement. More and more it is becoming imperative that young executives, management trainees and all businessmen become knowledgeable in this subject.

At any meeting of a group of businessmen, whether a civic club, country club or church board, the author is always amazed at the total lack of understanding of a balance sheet or a profit and loss statement. Although the author does not believe that this situation is one that calls for immediate action, he has attempted to include in this book some ideas, gleaned from twenty-five years of classroom instruction in accounting, that may be of help to anyone who needs, or would like to have, a knowledge of this subject, regardless of his profession. The author has included many shortcuts, learned from experience, that may be of help to bookkeepers who are already on the job.

The purpose of this book is simply to make accounting principles easy to understand. Because this book is written in clear, concise terms, it will enable a busy person to save time, and can make a valuable contribution to his general education without forcing him to read a difficult eight or nine-hundred-page textbook.

The author wishes to thank Professor Henrietta Wade of Middle Tennessee State University for her invaluable aid in the production of the book, and particularly for her encouragement during the book's formative stages.



Chapter 1

GETTING THE RIGHT START

ACCOUNTING PRINCIPLES have not changed since an Italian monk, Fra Luca Pacioli, introduced the double entry system in 1494. This fact should encourage anyone who is beginning the study of accounting. Here is a subject that can be learned, the principles of which will not change as long as $1 + 1 = 2$, or better still, as long as $2 = 1 + 1$.

Accounting will be easy to learn if the fundamental accounting equation, $\text{Assets} = \text{Liabilities} + \text{Proprietorship}$, is understood thoroughly. The importance of a complete understanding of this equation cannot be over-emphasized. The balance sheet, the most important business statement, is based upon the equation. The theory of debit and credit or the "how" of recording business transactions becomes simple and certain with the proper understanding of this equation. No one ever gets away from the influence of this equation in his study of accounting. In learning problems of an advanced nature, such as the preparation of a work sheet for a "Statement of Application of Funds," he will find this equation a most valuable tool.

To understand the equation one must understand the words used in it. Assets are things of value that someone owns—the watch on his wrist, the money in his pocket or in the bank, the clothes on his back, the automobile he drives. Some of these may not be completely paid for, but if they are in his possession, and he has title to them,