Accountability Quest Study Guide

Entrepreneurship and Business Basics

Entrepreneurs take risks to start businesses and earn revenue by selling goods and services. When revenue is higher than expenses, they earn a profit. A strong economy allows people to buy more, while inflation (rising prices) affects what they can afford. The Gross Domestic Product (GDP) measures a country's total economic activity. Market structures, like oligopolies (where a few large companies dominate), impact prices and competition.

Business Planning and Strategy

Successful businesses follow a plan. A business plan outlines goals, target customers, and competitive advantages. Accounting is important for tracking finances, recording transactions, and making informed decisions. Two key elements of a financial statement are:

- **Income statement** – shows money earned (revenue) and spent (expenses) over time.
- **Balance sheet** – lists a company's assets (what it owns), liabilities (debts), and owner's equity (what's left).

Accounting and Financial Reporting

Accounting follows standard rules called Generally Accepted Accounting Principles (GAAP) to ensure accuracy. The accounting equation is:

Assets = Liabilities + Owner's Equity

Financial accounting helps external users (investors, government, etc.), while cost accounting helps businesses manage expenses. Auditing checks financial records for accuracy.

Types of Businesses and Transactions

Businesses have different structures:

- **Sole proprietorship** – one owner, responsible for all debts.
- **Partnership** – two or more owners sharing responsibilities.
- **Corporation** – a separate legal entity with one or more shareholders (owners), reducing owner risk.

Businesses track financial transactions carefully. For example, collecting payments (accounts receivable) increases assets, while unpaid expenses (accounts payable) are liabilities. Liquidity is how easily a business can pay its short-term bills.

Manufacturing and Cost Management

Manufacturing businesses manage costs by tracking:

- **Direct materials** – raw materials used to make products.
- **Direct labor** – wages for workers making the products.
- **Overhead costs** – expenses like factory rent and utilities.

Depreciation accounts for the loss of value in equipment over time. The cash flow statement tracks money coming in and going out, helping businesses stay financially stable.

Real-World Accounting Examples

- Buying supplies on credit increases inventory and accounts payable.
- Paying workers affects cash and expenses, specifically decreasing cash and increasing salary expenses.
- Recording depreciation lowers the value of fixed assets.

By understanding these basics, students can improve their financial skills, analyze business success, and make smart decisions in competitions and real-world business situations.