SHS LEARNING ACTIVITY

Name: _____ **Score/Mark:** _____
Grade and Section: _____ **Date:** _____
Strand: ☐ STEM ☐ ABM ☐ HUMSS ☐ ICT (*TVL Track*)
Subject: *Fundamentals of ABM 1*
Type of Activity ☐ Concept Notes ☐ Skills: Exercise / Drill ☐ Illustration ☐ Laboratory Report ☐ Essay/Task Report ☐ Others: _____

Activity Title: LA-07. Basic Accounting Concepts and Principles 1
Learning Target: 1) To explain basic accounting concepts and principles
2) To solve exercises on accounting principles as applied in various cases
References: *(Author, Title, Pages)*
1) Hinayon, et al., Fundamentals of Accounting Vol. 1, pp. 23-28
2) Q. J. Abcede, CVIF Learning Activities

To have a solid foundation for the study of accounting, there should be a good understanding of the following accounting concepts and principles:

1. **Business entity principle**. This concept states that the business is a separate entity from its owner/s. Therefore, personal transactions should not be included in the records of the business.

2. **Dual-effect of business transactions**. In a business transaction, when a value is received, the same value should also be given up. For example, you buy a washing machine worth 7,000 pesos for your laundry business. Because of this transaction, you gain a washing machine (worth 7,000 pesos) and, at the same time, you give up cash (also worth 7,000 pesos).

3. **Matching principle**. To measure net income, the expenses incurred during a period should be properly matched with the income earned during the same period. This means that each expense item related to income earned must be recorded in the same accounting period as the income it helped to earn. For example, you consume electricity during the month of September for the laundry business and you pay the electricity expense on October. With the matching principle, although the bill is paid on October, you should include the electricity expense in the September records and not in the October records because the expense has been incurred in September.

Exercise: Consider the Business Entity Principle in answering the statements below with CORRECT or INCORRECT.

Proprietor: *Lenny* Business: *Lenny's Laundry Shop*

_____1. When Lenny invests cash into her business, the cash is no longer a personal resource of Lenny.
_____2. When she buys food and goes to the cinema, these are still part of the laundry shop's expenses.
_____3. Lenny received Php25,000 cash (Php10,000 from the sale of her cell phone to her friend and Php15,000 from customers). Only the Php15,000 is recorded in the accounting records of the laundry shop.