

## BASIC ACCOUNTING

**ASSETS:** RESOURCES OWNED BY A BUSINESS (E.G., CASH, INVENTORY, EQUIPMENT) THAT ARE EXPECTED TO BRING FUTURE ECONOMIC BENEFITS.

### Current Assets:

**Cash and Cash Equivalents:** Liquid assets like cash in hand or bank accounts that can be readily converted to cash.

**Accounts Receivable:** Money owed to the company by customers for goods or services sold on credit.

**Inventory:** Goods held for sale in the ordinary course of business.

**Prepaid Expenses:** Payments made in advance for goods or services to be received in the future (e.g., insurance premiums, rent).

**Marketable Securities:** Short-term investments that can be quickly converted to cash, such as stocks and bonds.

### Non-Current Assets:

**Property, Plant, and Equipment (PPE):** Long-term tangible assets used in business operations, such as buildings, machinery, and equipment.

**Intangible Assets:** Non-physical assets like patents, trademarks, and goodwill.

**Long-Term Investments:** Investments in stocks, bonds, or other securities that are intended to be held for more than one year.

**Deferred Tax Assets:** Future tax benefits resulting from temporary differences between accounting and tax treatments of certain items.

**LIABILITIES:** OBLIGATIONS OF A BUSINESS (E.G., LOANS, ACCOUNTS PAYABLE) THAT THE BUSINESS NEEDS TO PAY IN THE FUTURE.

### Current Liabilities:

**Accounts Payable:** Amounts a company owes to its suppliers for goods or services purchased on credit.

**Short-Term Debt:** Loans and borrowings that are due within one year.

**Accrued Expenses:** Expenses that have been incurred but not yet paid, such as wages, interest, and utilities.

**Unearned Revenue:** Money received in advance for goods or services that have not yet been delivered or performed.

**Taxes Payable:** Taxes that a company owes to the government but has not yet paid.

**Dividends Payable:** Dividends that have been declared by a company but not yet paid to shareholders.

### Non-Current Liabilities:

**Long-Term Debt:** Loans and borrowings that are due after one year, such as mortgages and bonds.

**Deferred Tax Liabilities:** Future tax obligations arising from temporary differences between accounting and tax treatments of certain items.

**Lease Liabilities:** Obligations related to long-term lease agreements.

**Pension Liabilities:** Obligations to pay pension benefits to employees in the future.

**EQUITY:** THE OWNER'S INTEREST IN THE BUSINESS, CALCULATED AS ASSETS MINUS LIABILITIES. IT'S ALSO KNOWN AS OWNER'S EQUITY OR SHAREHOLDER'S EQUITY.

### For a Sole Proprietorship:

#### Owner's Capital:

Represents the initial and additional investments made by the owner into the business.

#### Owner's Withdrawals (Drawings):

Represents the amounts taken out by the owner for personal use. This is a contra-equity account and reduces the owner's capital.

#### Retained Earnings:

The cumulative net income of the business that has been retained and reinvested in the business, rather than withdrawn by the owner.

### For a Partnership:

#### Partner's Capital Accounts:

Each partner has a separate capital account that records their initial and additional investments into the business.

## BASIC ACCOUNTING

### **Partner's Withdrawals (Drawings) Accounts:**

Each partner has a separate withdrawals account that records the amounts taken out by them for personal use. These are contra-equity accounts and reduce the respective partner's capital account.

### **Retained Earnings:**

The cumulative net income of the partnership that has been retained and reinvested in the business, rather than distributed to the partners.

**REVENUE:** THE INCOME GENERATED FROM NORMAL BUSINESS OPERATIONS, SUCH AS SALES OF GOODS OR SERVICES.

In a sole proprietorship, revenue and expenses are recorded to reflect the financial performance of the business. Here are the main accounts typically included under revenue and expenses:

### **Revenue Accounts:**

**Sales Revenue:** Income generated from selling goods or services.

**Service Revenue:** Income earned from providing services.

**Interest Income:** Income earned from interest on investments or savings.

**Other Income:** Any other income that does not fall under the primary business activities, such as rental income or gains from the sale of assets.

**EXPENSES:** THE COSTS INCURRED IN THE PROCESS OF EARNING REVENUE, SUCH AS RENT, SALARIES, AND UTILITIES.

### **Expense Accounts:**

**Cost of Goods Sold (COGS):** The direct costs associated with the production of goods sold, such as raw materials and labor.

**Salaries and Wages Expense:** Payments made to employees for their services.

**Rent Expense:** Payments made for renting office or business space.

**Utilities Expense:** Costs for utilities such as electricity, water, and gas.

**Insurance Expense:** Payments for insurance premiums to cover business risks.

**Depreciation Expense:** The systematic allocation of the cost of tangible assets over their useful lives.

**Supplies Expense:** Costs for supplies used in business operations, such as office supplies.

**Advertising Expense:** Costs incurred for promoting the business and its products or services.

**Interest Expense:** Payments for interest on loans or other borrowed funds.

**Taxes Expense:** Payments for business-related taxes, such as property tax or sales tax.

**Miscellaneous Expense:** Any other expenses that do not fall under the primary categories, such as postage or travel expenses.

**INCOME STATEMENT:** A FINANCIAL STATEMENT THAT SHOWS A COMPANY'S REVENUES AND EXPENSES OVER A SPECIFIC PERIOD, LEADING TO NET INCOME OR LOSS.

### **Income Statement:**

The income statement shows the financial performance of the business over a specific period. Here are the main accounts:

#### **Revenues:**

Sales Revenue

Service Revenue

Interest Income

Other Income

#### **Expenses:**

Cost of Goods Sold (COGS)

Salaries and Wages Expense

Rent Expense

Utilities Expense

Insurance Expense

Depreciation Expense

Supplies Expense

## **BASIC ACCOUNTING**

Advertising Expense  
Interest Expense  
Taxes Expense  
Miscellaneous Expense

### **Net Income:**

The difference between total revenues and total expenses, representing the profit or loss for the period.

**BALANCE SHEET:** A FINANCIAL STATEMENT THAT PRESENTS THE FINANCIAL POSITION OF A COMPANY AT A SPECIFIC POINT IN TIME, SHOWING ASSETS, LIABILITIES, AND EQUITY.

### **Balance Sheet:**

The balance sheet shows the financial position of the business at a specific point in time. Here are the main accounts:

#### **Assets:**

##### **Current Assets:**

Cash and Cash Equivalents  
Accounts Receivable  
Inventory  
Prepaid Expenses  
Marketable Securities

##### **Non-Current Assets:**

Property, Plant, and Equipment (PPE)  
Intangible Assets  
Long-Term Investments  
Deferred Tax Assets

#### **Liabilities:**

##### **Current Liabilities:**

Accounts Payable  
Short-Term Debt  
Accrued Expenses  
Unearned Revenue  
Taxes Payable  
Dividends Payable

##### **Non-Current Liabilities:**

Long-Term Debt  
Deferred Tax Liabilities  
Lease Liabilities  
Pension Liabilities

##### **Owner's Equity:**

Owner's Capital  
Owner's Withdrawals (Drawings)  
Retained Earnings

**CASH FLOW STATEMENT:** A FINANCIAL STATEMENT THAT PROVIDES A SUMMARY OF CASH INFLOWS AND OUTFLOWS OVER A SPECIFIC PERIOD.

### **Cash Flow Statement:**

The cash flow statement shows the cash inflows and outflows over a specific period. Here are the main sections and accounts:

#### **Cash Flows from Operating Activities:**

Cash Receipts from Customers  
Cash Payments to Suppliers and Employees  
Interest Paid  
Taxes Paid  
Other Operating Cash Payments

#### **Cash Flows from Investing Activities:**

Purchase of Property, Plant, and Equipment (PPE)  
Sale of Property, Plant, and Equipment (PPE)  
Purchase of Investments  
Sale of Investments

#### **Cash Flows from Financing Activities:**

Owner's Capital Contributions

## BASIC ACCOUNTING

Owner's Withdrawals (Drawings)  
Proceeds from Loans  
Repayment of Loans

**ACCOUNTS RECEIVABLE:** MONEY OWED TO A COMPANY BY ITS CUSTOMERS FOR GOODS OR SERVICES PROVIDED ON CREDIT.

### Accounts Receivable:

Accounts receivable represent money owed to the business by customers for goods or services provided on credit. Here are the main accounts typically included under accounts receivable:

**Trade Receivables:** Amounts due from customers for sales of goods or services.

**Notes Receivable:** Written promises from customers to pay a certain amount on a specific date.

**Allowance for Doubtful Accounts:** A contra-asset account that represents the estimated uncollectible amounts from receivables.

**Other Receivables:** Amounts due from non-trade sources, such as interest receivable or employee advances.

**ACCOUNTS PAYABLE:** MONEY OWED BY A COMPANY TO ITS SUPPLIERS FOR GOODS OR SERVICES PURCHASED ON CREDIT.

### Accounts Payable:

Accounts payable represent money owed by the business to suppliers for goods or services purchased on credit. Here are the main accounts typically included under accounts payable:

**Trade Payables:** Amounts due to suppliers for purchases of goods or services.

**Accrued Expenses:** Expenses that have been incurred but not yet paid, such as wages, interest, and utilities.

**Other Payables:** Amounts due to non-trade sources, such as taxes payable or dividends payable.

**Depreciation:** The systematic allocation of the cost of a tangible asset over its useful life. Depreciation is the systematic allocation of the cost of tangible assets over their useful lives. Here are the main accounts typically included under depreciation:

- **Depreciation Expense:** The periodic expense recorded to allocate the cost of tangible assets over their useful lives.
- **Accumulated Depreciation:** A contra-asset account that represents the total depreciation expense recorded for an asset since it was acquired. It reduces the book value of the asset on the balance sheet.

**ACCRUAL ACCOUNTING:** AN ACCOUNTING METHOD THAT RECORDS REVENUES AND EXPENSES WHEN THEY ARE EARNED OR INCURRED, REGARDLESS OF WHEN CASH IS EXCHANGED.

Accrual accounting records revenues and expenses when they are earned or incurred, regardless of when cash is actually received or paid. Here are the key accounts typically involved in accrual accounting:

### Revenues:

**Sales Revenue:** Income generated from selling goods or services, recognized when earned, even if cash has not yet been received.

**Service Revenue:** Income earned from providing services, recognized when the service is performed, regardless of when payment is received.

**Interest Income:** Income earned from interest on investments or savings, recognized when earned.

### Expenses:

**Cost of Goods Sold (COGS):** The direct costs associated with the production of goods sold, recognized when the goods are sold, not when cash is paid.

**Salaries and Wages Expense:** Payments to employees for their services, recognized when incurred, even if not yet paid.

**Rent Expense:** Payments for renting office or business space, recognized when incurred, not when paid.

**Utilities Expense:** Costs for utilities such as electricity, water, and gas, recognized when incurred.

**Insurance Expense:** Payments for insurance premiums, recognized over the coverage period.

**BASIC ACCOUNTING**

- Depreciation Expense:** The systematic allocation of the cost of tangible assets over their useful lives, recognized periodically.
- Supplies Expense:** Costs for supplies used in business operations, recognized when incurred.
- Advertising Expense:** Costs incurred for promoting the business and its products or services, recognized when incurred.
- Interest Expense:** Payments for interest on loans or other borrowed funds, recognized when incurred.
- Taxes Expense:** Payments for business-related taxes, recognized when incurred.
- Miscellaneous Expense:** Any other expenses that do not fall under the primary categories, recognized when incurred.

**Assets and Liabilities:**

- Accounts Receivable:** Money owed to the company by customers for goods or services provided on credit, recognized when the revenue is earned.
- Prepaid Expenses:** Payments made in advance for goods or services to be received in the future, recognized over the period they cover.
- Accrued Expenses:** Expenses that have been incurred but not yet paid, recognized when incurred.
- Unearned Revenue:** Money received in advance for goods or services that have not yet been delivered or performed, recognized as a liability until the revenue is earned.

**LEDGER:** A BOOK OR DATABASE WHERE ALL THE FINANCIAL TRANSACTIONS OF A BUSINESS ARE RECORDED.

**Trial Balance:** A list of all the general ledger accounts and their balances at a particular date, used to verify that debits equal credits.  
A trial balance is a list of all the general ledger accounts and their balances at a specific point in time. It's used to verify that the total of all debit balances equals the total of all credit balances. Here are the key components included in a trial balance:

- 1. Account Titles:**  
The names of all the accounts in the general ledger (e.g., Cash, Accounts Receivable, Inventory, Sales Revenue, Salaries Expense).
- 2. Account Balances:**  
The balances of each account, separated into debit and credit columns.
- 3. Debit Column:**  
All accounts with debit balances are listed in this column. Typical accounts with debit balances include:
  - Assets (e.g., Cash, Accounts Receivable, Inventory)
  - Expenses (e.g., Salaries Expense, Rent Expense)
  - Losses
- 4. Credit Column:**  
All accounts with credit balances are listed in this column. Typical accounts with credit balances include:
  - Liabilities (e.g., Accounts Payable, Notes Payable)
  - Owner's Equity (e.g., Owner's Capital, Retained Earnings)
  - Revenues (e.g., Sales Revenue, Service Revenue)
  - Gains
- 5. Total Debit and Credit Balances:**  
The sum of all debit balances and the sum of all credit balances are calculated and compared to ensure they are equal. This is crucial for confirming the accuracy of the accounting records.

Here's a simplified example of what a trial balance might look like:

Account Title	Debit	Credit
Cash	\$10,000	
Accounts Receivable	\$5,000	
Inventory	\$7,000	
Equipment	\$15,000	
Accounts Payable		\$8,000
Notes Payable		\$12,000

BASIC ACCOUNTING

Account Title	Debit	Credit
		00
Owner's Capital		\$10,000
Sales Revenue		\$20,000
Salaries Expense	\$6,000	
Rent Expense	\$3,000	
Total	\$46,000	\$46,000

**Net Profit:** The final profit after all expenses, including operating expenses, interest, and taxes, have been deducted from revenue.

**Prepaid Expenses:** Payments made in advance for goods or services to be received in the future, such as insurance premiums or rent.

**Deferred Revenue:** Payments received by a business for goods or services that have not yet been delivered or performed.

**Bad Debt:** Accounts receivable that are unlikely to be collected and are written off as an expense.

**Fixed Assets:** Long-term tangible assets that are used in the operations of a business, such as buildings, machinery, and equipment.

**Amortization:** The process of gradually writing off the cost of an intangible asset over its useful life.

**Capital Expenditure (CapEx):** Money spent by a business to acquire or upgrade physical assets such as property, industrial buildings, or equipment.

**Operating Expenditure (OpEx):** The ongoing costs for running a product, business, or system, such as rent, utilities, and salaries.

**Dividends:** A portion of a company's earnings distributed to shareholders as a return on their investment.

**Retained Earnings:** The cumulative net income of a company that is retained (not paid out as dividends) and reinvested in the business.

**Accounting Equation:** Asset = Liabilities + Equity

