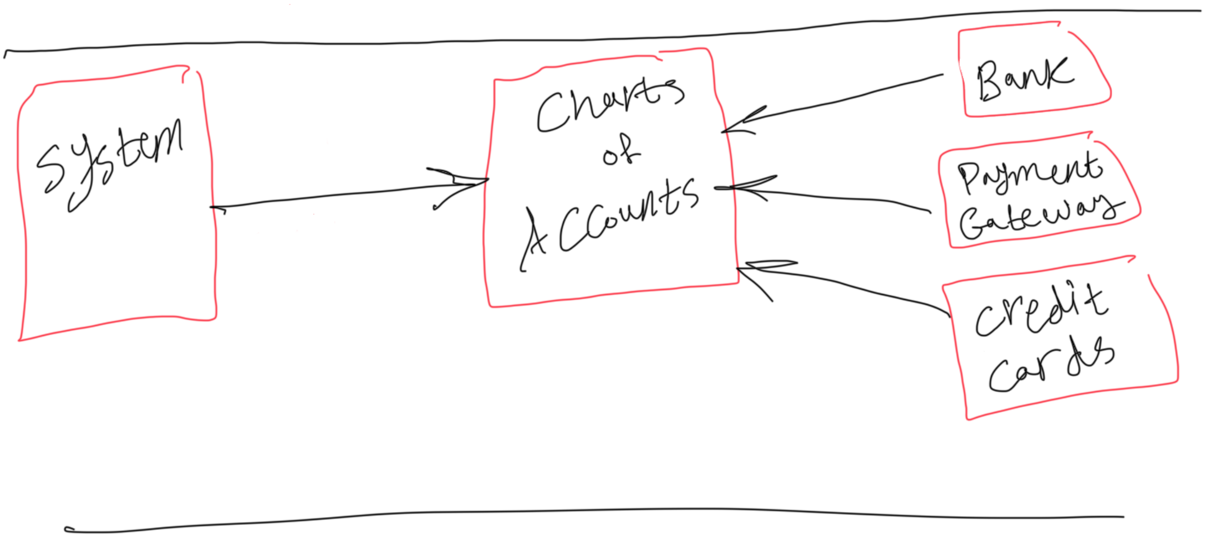
Finance & Accounting

What is Chart of Accounts?

Is a listing of all the accounts used in a business's accounting system. It provides a systematic way of organizing financial transactions and helps track the flow of money through the business.

Importance of Chart of Accounts:

- **Accurate Financial Reporting**: Provides a clear & organized way of recording all financial transactions.
- **Better Decision Making**: Identify areas where we can cut costs, increase revenue or invest new opportunities.
- **Compliance**: It is easier to comply with regulatory requirements and financial reporting standards.
- **Improved Communication:** The finance team can easily communicate financial information to other departments.
- **Audit Trail:** Businesses can quickly identify and investigate any discrepancies in their financial statements.



Classifications of Chart of Accounts:

- **Assets**: Something of value that you owned === **(Liabilities + Equity).**
  - Inventory
  - Office Property
  - Cash
- **Equity**:
  - Residential Value
  - Common Shares
  - Owner Equity
- **Revenue**:
  - Sales Revenue
  - Service Revenue
  - Interest Income

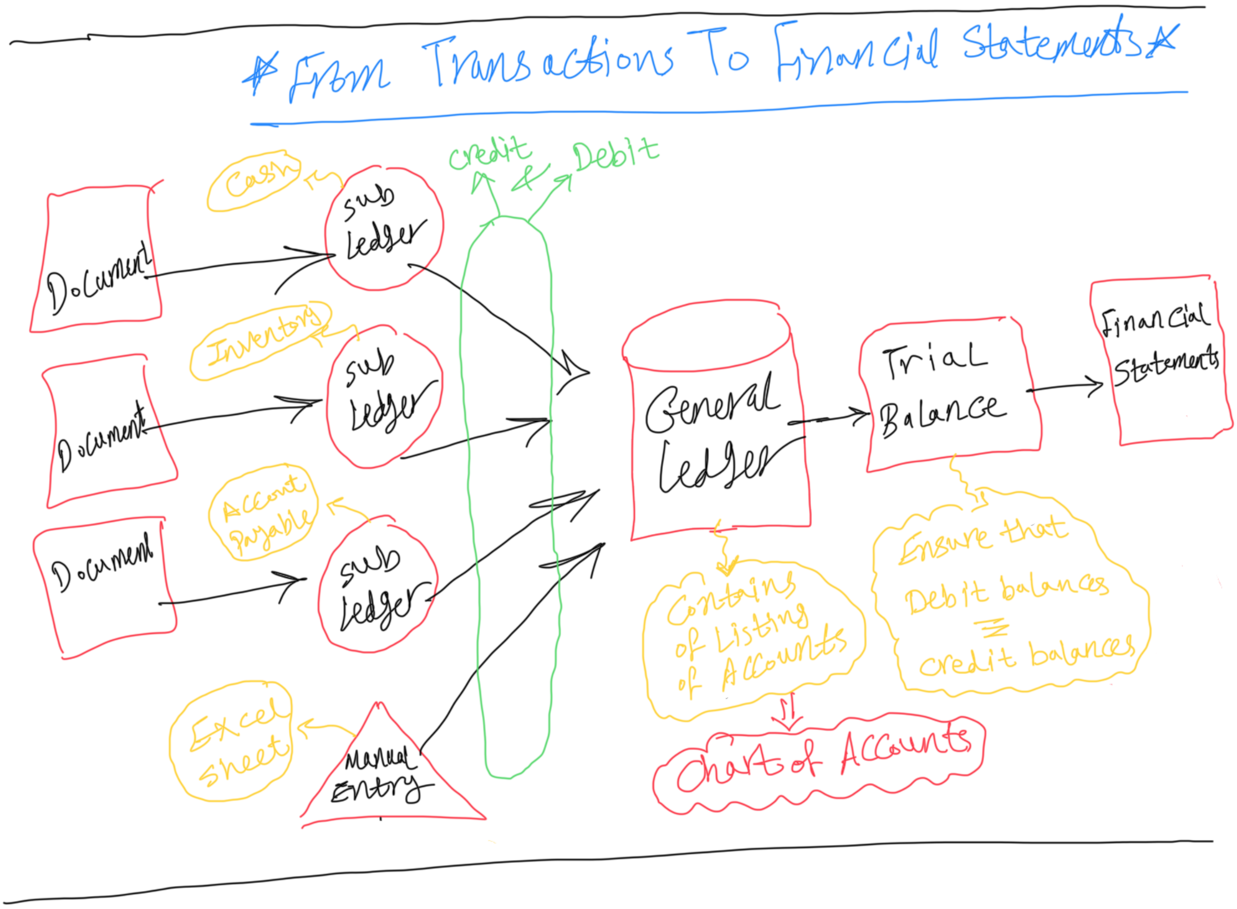
- **Expenses**:
  - Rent
  - Utilities
  - Salaries
  - Advertising Expenses
- **Liabilities**: Things you owe.
  - Loan
  - Tax
  - Debt
  - Account Payable

General Ledger:

A database that stores a complete record of all accounts & Manual Journal entries. It is a central repository for accounting data transformed from all sub ledgers.

Ledger:

A database that you regularly record a transaction in.



Trial Balance:

Accounting report that summarizes the closing balances of all general ledger accounts.

Ratios:

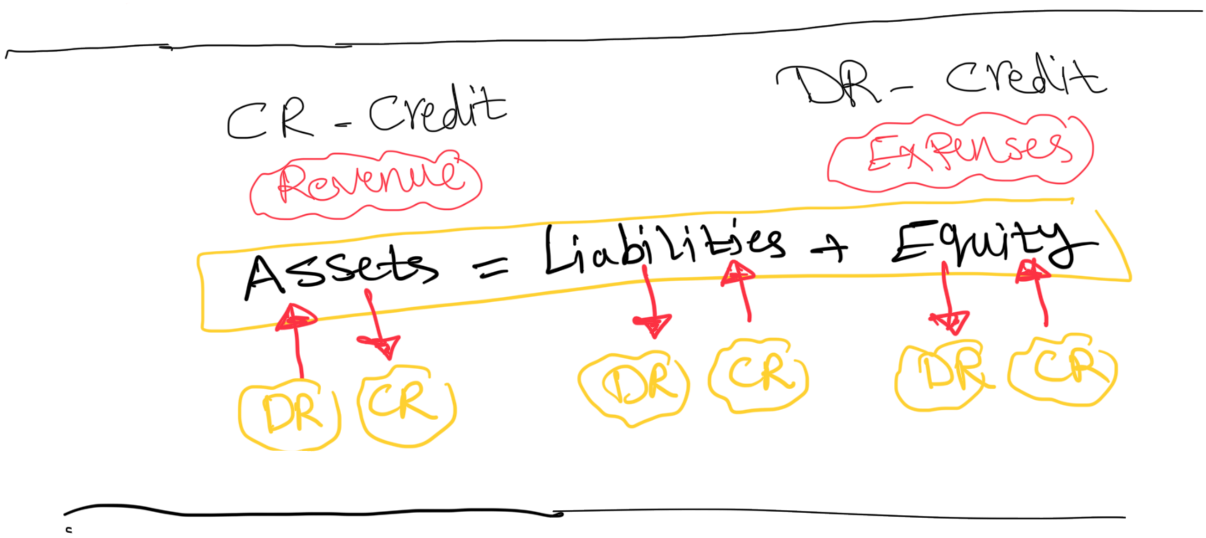
- **Current Ratio**: [Current Assets : Current Liabilities] > (1.5 is safe).
- **Debt Ratio**: [Total Liabilities : Total Assets].
- **Equity Ratio**: [Total Equity: Total Assets].

Closing Entry:

Entry that transfers balances from temp accounts to perm accounts.

Financial Statements:

- **Income Statement:** Net Income **[Revenue - Expenses].**
- **Balance Sheet:** Lists of Assets, Liabilities & Equity **[Assets = Liabilities + Equity].**



Reconciliation:

An accounting procedure that compares two sets of records to check that the figures are correct and in agreement.

Importance of Reconciliation:

- Confirms that accounts in a general ledger are consistent and complete.
- Confirms whether the money leaving an account is the same amount that is spent.
- Allowing to spot signs of fraud and prevent errors on balances.

Normalization:

- Financial statement normalization involves adjusting non-recurring expenses or revenues in financial statements or metrics so that they only reflect the usual transactions of a company.
- Financial statements often contain expenses that do not constitute a company's normal business operations and that may hurt the company's earnings . The purpose of normalization is to eliminate such anomalies and provide accurate historical information that enables reliable comparisons and forecasting.
- Normalization is the expenses that you as an owner put through your business that are really maybe not be typical for a business that would be owned by outsiders say public company or outside shareholders.