Accounting Cheatsheet

Accounting Definition

Identifies, records, and communicates economic events to users.

Five Types of Accounts

1. **Assets:** Resources owned (e.g., Cash, Equipment).
2. **Liabilities:** Creditor claims (e.g., Accounts Payable).
3. **Owner's Equity**: Residual claim (A - L = OE).
4. **Revenue:** Gross increases in OE from business activities.
5. **Expense:** Decreases in OE from operations.

Basic Accounting Equation

Assets = Liabilities + Owner's Equity

Financial Statements

1. **Income Statement:** Revenues - Expenses = Net Income.
2. **Balance Sheet:** Assets = Liabilities + Owner's Equity.
3. **Cash Flow Statement:** Operating, Investing, Financing activities.
4. **Owner's Equity Statement**: Changes in capital (Investments, Drawings, Net Income)

Debits & Credits

Account Type	Debit	Credit
Assets	Up	Down
Liabilities	Down	Up
Owner's Equity	Down	Up
Revenue	Down	Up
Expenses	Up	Down

Normal Balances

- Assets: Debit
- Liabilities/OE/Revenue: Credit
- Expenses: Debit

Double-Entry Rules

- Every transaction affects at least two accounts.
- Total debits = Total credits.

Summarized by: Nazmul Huda, Data Insightopia

Inventory Valuation Methods

1. **FIFO**: First units purchased are first sold.
2. **LIFO:** Last units purchased are first sold.
3. **Weighted Average:** Total cost / Total units.

Impact of Inventory Errors

1. **Overstated Ending Inventory**: down COGS, up Net Income.
2. **Understated Ending Inventory**: up COGS, down Net Income.

Depreciation Methods

1. **Straight-Line: Annual Expense** = (Cost **-** Salvage Value) / Useful Life
2. **Declining Balance**: Apply fixed rate to book value (ignores salvage).

Liquidity Ratios

1. **Current Ratio**: Current Assets / Current Liabilities
2. **Quick Ratio**: (Current Assets **-** Inventory) / Current Liabilities

Profitability Ratios

1. **Net Profit Margin**: (Net Income / Net Sales) x 100
2. **Return on Assets (ROA):** (Net Income / Average Total Assets) x 100

Activity Ratios

1. **Inventory Turnover**: COGS / Average Inventory
2. **Receivables Turnover**: Net Credit Sales / Average Receivables

Solvency Ratios

1. **Debt-to-Equity:** Total Liabilities / Total Equity
2. **Interest Coverage:** EBIT / Interest Expense

Cost Volume Profit (CVP) Key Formulas

1. **Contribution Margin (CM):** Sales - Variable Costs
2. **Break-Even Point (Units):** Fixed Costs / CM per Unit
3. **Target Profit (Units):** (Fixed Costs + Target Profit) / CM per Unit

Budgeting Steps

1. Sales Budget > Production Budget > Direct Materials/Labor Budgets > Cash Budget.
2. Master Budget Includes: Operating budgets (sales, production) and financial budgets (cash flow, income statement).

Relevant Costs for Decisions

1. **Make or Buy**: Compare internal production cost vs. supplier price.
2. **Drop a Segmen**t: Retain if segment margin > 0 (ignore common fixed costs).
3. **Special Order:** Accept if incremental revenue > incremental costs.

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