

Accounting Fundamentals



Accounting Overview

- Financial record keeping
- Collection, consolidation, and distribution of financial information
 - Investors
 - Regulatory bodies
 - Managers
- Two important types:
 - Financial Accounting
 - Managerial Accounting

Accounting Terminology

- **Assets**

- A resource that a business owns that can be used to create positive economic value.

- **Liabilities**

- Account(s) that the business owes money on.

- **Equity**

- Equal to assets minus liabilities; What the business could give to shareholders upon liquidation.

- **Revenue**

- Profit of a business before any expenses or losses.

- **Expenses**

- Costs incurred during operations.

Accrual vs. Cash Based Accounting

- Main difference lies in the timing of when transactions are logged in accounts.
- Cash Based
 - Recognizes transactions when cash is moving.
 - Easy to keep track of money moving into and out of the business.
- Accrual Based
 - Revenues and payments are recorded upon a set date
 - Not necessarily impacted upon the movement of cash
 - For instance, payment may come weeks or months after the completion of a project
 - More complex than cash based.

Single Entry Method

- One sided accounting entry
- Activities are either producing a profit or a loss
- The income statement can be identified as a type of single entry document.



Double Entry Method

- Every transaction has an equal and opposite effect in at least two different accounts
 - Debits: (+) Assets and Expenses | (-) Liabilities and Equity
 - Credits: (+) Liabilities and Equity | (-) Assets and Expenses
- Debits = Credits must hold
- Left side of account is dedicated to debits
- Right side of account is dedicated to credits
- T-Accounts are generally used

Tools and Methods

- Online services like Quickbooks and Netsuite.
- Spreadsheet softwares like Excel and Google Sheets.
- Financial Calculators
- Accounting Cycle

To summarize

- Accounting is necessary in maintaining the transparency of financial health to a variety of stakeholders.
- Equations and ledgers must balance.
- There are many great accounting softwares and tools out there at your disposal.