

## Accounting Basics

### Income Statement (aka Profit & Loss Statement)

Reports money earned (**Revenue** or **Income**) and incurred costs (**Expenses**) to arrive at Net Income. For a period of time, usually a month, quarter or year.

<b>Income Statement For the Period 4/1/2020 - 4/30/2020</b>	
Revenue	
Spears Sold	\$50,000
Cost of Goods Sold	
Sticks	\$10,000
Rope	2,500
Labor	<u>15,000</u>
Total Cost of Goods Sold	<u>\$27,500</u>
Gross Margin	\$22,500
Expenses:	
Rent	4,000
Advertising	3,000
Executive Salaries	<u>5,500</u>
Total Expenses	<u>\$12,500</u>
Net Income	\$10,000

### Revenue or Income

Money earned

### Expenses

Costs incurred by the company, such as salaries or rent.

### Cost of Goods Sold

Direct costs that go into producing the product the company sells.

### Gross Margin

Revenue less Cost of Goods Sold

### Overhead

Expenses the company will incur whether the company is producing product or not. For example, salaries, rent, insurance.

### Balance Sheet

Reports all the **assets** and **liabilities** of the company. It is **AS OF** a date, not a range of time.

<b>Balance Sheet As of 12/31/2021</b>	
Assets	
Cash	\$90,000
Accounts Receivable	<u>75,000</u>
Total Current Assets	\$165,000
Fixed Assets	
Factory Building	\$400,000
Equipment	100,000
Less: Accumulated Depreciation	<u>(27,618)</u>
Total Fixed Assets	\$472,382
Total Assets	<b>\$637,382</b>
Liabilities	
Accounts Payable	<u>85,000</u>
Total Current Liabilities	\$85,000
Long-Term Liabilities	
Notes Payable	<u>500,000</u>
Total Long-Term Liabilities	\$500,000
Retained Earnings	<u>\$52,382</u>
Total Liabilities & Equity	<b>\$637,382</b>

## Accounting Basics

### Assets

Things of value that the company owns. Examples include Cash, Buildings, [Accounts Receivable](#).

### Liabilities

Things that the company owes to someone else. Examples include Loans and [Accounts Payable](#).

### Equity

The final portion of the Balance Sheet that consists of any money contributed to the company (may be termed various things, such as Common Stock or Partner's Contribution) and any [Retained Earnings](#).

### Retained Earnings

The sum of all the profits and losses the company has incurred over its lifetime.

### Accounts Receivable

Money owed to the company by customers.

### Accounts Payable

Money the company owes to vendors.

### Current v. Long-Term

A distinction made for Assets and Liabilities on the Balance Sheet, referring to how quickly they can be converted to cash. Current is less than one year and Long-Term is more than one year.

### Financial Statements

The [Income Statement](#), [Balance Sheet](#) and sometimes, a Statement of Cash Flows.

### Accrual Accounting

The most common form of accounting. It best matches revenue to expenses each period because the items are recognized when they occur, not when they are paid.

### Cash Basis Accounting

The simplest form of accounting. Usually only used for tax purposes. Items are only recognized when paid, so financials can be very misleading.

### Depreciation

The concept of expensing an asset (reducing its value) over its useful life.

### Key Accounting Concepts

#### Net Income DOES NOT EQUAL Cash.

A company can be profitable and still run out of money. And vice versa.

#### The Accounting Equation

Assets = Liabilities + Equity

#### Balance Sheet Is Important, but Flawed

Shows the financial position of the company, including assets and debt. However, all items are recorded at historical cost. (In the case of land, that is its original cost- regardless of the current value.) And it rarely includes internally generated items of value such as trade secrets.