Accounting Cheat Sheet Version 1

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Income Statement

Sometimes called **Profit & Loss** (P&L), shows all of the money flowing in and out of the business to determine if the business is profitable or not.

Revenue – COGS & Expenses = Profit

Balance Sheet

Shows the value of the business by adding up everything the business owns and subtracting everything that the business owes. The actual value of a business is often more complex than the Balance Sheet shows, but the Balance Sheet provides an accurate view of its financial position.

Assets – Liabilities = Equity

Cash Flow Statement

Shows the timing of money flowing in and out of the business. This report is particularly important in helping make sure the business does not run out of money, unexpectedly.

Money IN – Money OUT

Net Profit & Gross Profit

Gross Profit = Revenue – COGS
Net Profit = Revenue – COGS – Expenses

Retained Earnings

Net profit that remains in the company, as opposed to profit or earnings that are paid out to company shareholders —called a **Dividend**.

Cost of Goods Sold

COGS normally includes all costs associated with producing a product. This includes raw materials, parts, assembly, labor, and the transportation costs to bring everything together.

Budget

An amount of money a business has reserved to invest in a project or business function in a given period of time — week, month, quarter, year. Budget is not money already spent — it is money set aside to be spent.

Cash Versus Accrual

Two types of accounting methods. The difference between them is the timing of when transactions are recorded. With **Cash Basis Accounting**, revenue is recorded when cash is received from customers, and expenses are recorded when cash is paid out. With **Accrual Basis Accounting**, revenue is recorded when the sale is made, whether or not the cash money is received from customers. Expenses are recorded when they are incurred, whether or not the cash money has been paid out.

Double-Entry Bookkeeping

A method of recording financial transactions. This system is believed to have been developed over 600 years ago.

Accounts

Accounts are used to categorize financial transactions in accounting. They track how cash is used and how any item of value is moved in and out of the business, or changes value within the business. There are five major categories (or classes):

Assets — Items of value, like cash and product inventory.

Liabilities — Debts the business owes.

Equity — Money from selling shares (ownership) in the business and holds retained profit.

Revenue — Money received from customers and others.

Expenses — Goods and services purchased by the business.

Debits & Credits

Every time a financial transaction is recorded in accounting, at least two accounts must be modified. Debit means to increase Assets or Expenses and decrease Liabilities or Equity or Revenue. Credit means to decrease Assets or Expenses and increase Liabilities or Equity or Revenue.

	DEBIT (DR)	CREDIT (CR)
Assets	↑	↓
Liabilities	↓	↑
Equity	↓	↑
Revenue	↓	↑
Expenses	↑	↓

Accounts Payable & Receivable

Accounts Payable is used to record purchases of goods and services made by a business for which the business has not yet paid, but expects to pay within one year. It is a liability abbreviated as A/P. **Accounts Receivable** is used to record sales made of goods or services by the business for which the business has not yet received payment, but expects to within one year. It is an asset that is abbreviated as A/R.

Order Form

A document, online form, or online shopping cart provided by a seller to be used by customers to place orders for goods or services.

Purchase Order (PO)

A document used to place an order for goods or services. The buyer prepares and sends a PO to the seller, indicating the item(s) to be purchased, the price, and payment method. If the seller agrees with the offer in the PO, the seller provides the goods or services to the buyer.

Bill & Invoice

A Bill or Invoice is a document that lists the goods and services consumed or to be purchased with a total cost that is expected to be paid. For accounting purposes, a business that provides a product and expects to be paid will issue an Invoice to a customer. The customer that receives the invoice records the invoice as a Bill.

Receipt

A document that confirms that something of value has been transferred from one person or organization to another.

Accounting Standards

Accounting rules may vary based on the different standards used around the world. Businesses in the USA, Canada, and some other countries use **Generally Accepted Accounting Principles** – **GAAP**. The **International Financial Reporting Standards** – **IFRS** – is another common standard used in many countries.