CH. 1 CHEAT CARD — THE LANGUAGE OF BUSINESS

1 THE LANGUAGE — what accounting IS

THE 3 JOBS · in order

IDENTIFY the events that touch money
RECORD each one — the diary
COMMUNICATE the reports
bookkeeper = R only · accountant = I·R·C

WHO READS IT

INSIDE managers → managerial accounting
OUTSIDE investors · lenders · the tax office
→ financial accounting
the language of business

THE BUSINESS MACHINE

inputs → outputs people pay for
PROFIT = REVENUES − EXPENSES
service · merchandising · manufacturing
sells help · resells · makes its own

2 THE RULEBOOK, ITS ETHICS & THE LEGAL FORM

GAAP · who writes it

US: FASB writes it · SEC polices it
world: IFRS, from the IASB
one rulebook → numbers compare
ETHICS: numbers are a promise to strangers

THE 4 RULES

ECONOMIC ENTITY — its wallet ≠ yours
MONETARY UNIT — only what $ measures
HISTORICAL COST — what you paid
FAIR VALUE — when a market price exists

LEGAL FORM — liability & tax

PROPRIETORSHIP — one owner (~70%)
PARTNERSHIP — 2+ · CORP — legal person
LLC — shield + one tax · S CORP — 100 cap
structure decides liability + tax

3 THE EQUATION — the one rule everything keeps true

A = L + E

ASSETS — what it owns
LIABILITIES — what it owes · paid first
EQUITY — your slice · the residual
level by construction, not by luck

EXPANDED · 4 forces on equity

A = L + CAPITAL − DRAWINGS
+ REVENUES − EXPENSES
capital ↑ · drawings ↓ · revenue ↑ · expense ↓
drawings are NOT an expense

THE METHOD · every transaction

1 READ · 2 NAME the accounts
3 MARK ↑/↓ · 4 DROP into A = L + E
at least TWO accounts, always
→ double entry, Chapter 2

THE 4 STATEMENTS — in this order, each hands a number to the next

1 INCOME STATEMENT — a period · revenues − expenses = net income
2 OWNER'S EQUITY — a period · + net income − drawings
3 BALANCE SHEET — a MOMENT · A = L + E on paper
4 CASH FLOWS — operating · investing · financing

REMEMBER

profit is an opinion — cash is a fact
lender's read: L ÷ E
the equation never tips

THE EXAM TRAPS: investment is NOT revenue · collecting an old IOU is NOT new revenue · the balance sheet is a MOMENT