SMALL BUSINESS
KNOWLEDGE AND
TRAINING PORTAL

TSBDC.org

AMERICA'S SBDC TENNESSEE

# BASIC ACCOUNTING

## LESSON TOPICS

### 1. Basic Accounting Concepts

Accounting is known as the language of business because accounting can provide a to measure and communicate a company's projections, goals, and performance.
**Debit and Credit:** This refers to the left and right side of accounts. The left being debit and the right being credit.
**Business Transactions:** Are financial events that are recorded in the journal by date then posted in the ledger by account title.
**Accounts:** These are grouped transactions summarized by types.
**Chart of Accounts:** This is the list of accounts that a business wants to use. These accounts all have their own name and ledger.

### 2. Five Account Categories

**Assets:** Are prepaid expenses. This would be anything that is owned by the company that will create future benefit or value.
**Liabilities:** These are a company's debts or obligations.
**Equity:** Is a residual, the difference between assets and liabilities. With this category comes the accounting equation of assets-liability=equity. This equation is represented in the balance sheet, which is where the company will show all the assets are financed through debt or equity, also known as the capital structure of the company.
**Revenues:** This is what the business earns or the sells.
**Expenses:** These are the cost related to making the revenue.
-Both revenue and expenses are reported on the income statement. The income statement is found by the equation: revenue - expenses = income statement.

### 3. The Rules

The rules insure that the accounting information shared is relevant, reliable, verifiable, timely, and comparable. For larger companies the rules are known as GAAP, or Generally Accepted Accounting Principles. GAAP provides guidance for estimates and allocation systems. The rules can allow for choice between alternatives but all the alternatives are systematic and follow the overall principals for high quality information. Smaller companies can also use GAAP for preparing accounting records and to compare financials to larger companies within their industry.
Under GAAP, companies use the five types of accounts to summarize their financial performance on four specific statements. These four statements include income statement, balance sheet, cash flow statement, and a statement that summarizes the changes in equity. Companies can choose to provide a report including these four statements on a monthly, quarterly, or annual bases.

### 4. Accrual Accounting

Accrual Accounting is recording revenues, when earned, and matching all the costs associated with earning that revenue, in the same period, giving a more accurate picture of turning a sale of goods into income. A CPA is a vital resource for tax preparation, and they can also be your go-to financial advisor and answer accounting questions. Your CPA can help you set up dashboards to track key performance indicators to assist in making better strategic and operational decisions. Go to them with supply chain, financing, budgeting, and expansion questions.