

# ACCOUNTING 101



LEARN HOW TO BECOME YOUR VERY OWN ACCOUNTANT

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# Introductory

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**Anyone who's worked in an office at some point or another has had to go to accounting.**

They're the people who pay and send out the bills that keep the business running. They do a lot more than that, though.

Sometimes referred to as "bean counters" they also keep their eye on profits, costs and losses. Unless you're running your own business and acting as your own accountant, you'd have no way of knowing just how profitable - or not - your business is without some form of accounting.

No matter what business you're in, even if all you do is balance a checkbook, that's still accounting. It's part of even a kid's life. Saving an allowance, spending it all at once - these are accounting principles.

What are some other businesses where accounting is critical? Well, farmers need to follow careful accounting procedures. Many of them run their farms year to year by taking loans to plant the crops. If it's a good year, a profitable one, then they can pay off their loan; if not, they might have to carry the loan over, and accrue more interest charges.

Every business and every individual needs to have some kind of accounting system in their lives. Otherwise, the finances can get away from them, they don't know what they've spent, or whether they can expect a profit or a loss from their business.

Staying on top of accounting, whether it's for a multi-billion-dollar business or for a personal checking account is a necessary activity on a daily basis if you're smart. Not doing so can mean anything from a bounced check or posting a loss to a company's shareholders. Both scenarios can be equally devastating.

Accounting is basically information, and this information is published periodically in business as a profit and loss statement, or an income statement.

# Chapter 1: Accounting Principles

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**If everyone involved in the process of accounting followed their own system, or no system at all, there's be no way to truly tell whether a company was profitable or not.**

Most companies follow what are called generally accepted accounting principles, or GAAP, and there are huge tomes in libraries and bookstores devoted to just this one topic. Unless a company states otherwise, anyone reading a financial statement can make the assumption that company has used GAAP.

If GAAP are not the principles used for preparing financial statements, then a business needs to make clear which other form of accounting they're used and are bound to avoid using titles in its financial statements that could mislead the person examining it.

GAAP are the gold standard for preparing financial statement. Not disclosing that it has used principles other than GAAP makes a company legally liable for any misleading or misunderstood data. These principles have been fine-tuned over decades and have effectively governed accounting methods and the financial reporting systems of businesses.

Different principles have been established for different types of business entities, such for-profit and not-for-profit companies, governments and other enterprises.

GAAP are not cut and dried, however. They're guidelines and as such are often open to interpretation. Estimates have to be made at times, and they require good faith efforts towards accuracy. You've surely heard the phrase "creative accounting" and this is when a company pushes the envelope a little (or a lot) to make their business look more profitable than it might actually be.

This is also called massaging the numbers. This can get out of control and quickly turn into accounting fraud, which is also called cooking the books. The results of these practices can be devastating and ruin hundreds and thousands of lives, as in the cases of Enron, Rite Aid and others.

## Chapter 2: Basic Accounting Principles

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**Accounting has been defined as, by Professor of Accounting at the University of Michigan William A Paton as having one basic function: "facilitating the administration of economic activity."**

This function has two closely related phases: 1) measuring and arraying economic data; and 2) communicating the results of this process to interested parties."

As an example, a company's accountants periodically measure the profit and loss for a month, a quarter or a fiscal year and publish these results in a statement of profit and loss that's called an income statement. These statements include elements such as accounts receivable (what's owed to the company) and accounts payable (what the company owes).

It can also get pretty complicated with subjects like retained earnings and accelerated depreciation. This at the higher levels of accounting and in the organization.

Much of accounting though, is also concerned with basic bookkeeping. This is the process that records every transaction; every bill paid, every dime owed, every dollar and cent spent and accumulated.

But the owners of the company, which can be individual owners or millions of shareholders are most concerned with the summaries of these transactions, contained in the financial statement. The financial statement summarizes a company's assets.

A value of an asset is what it cost when it was first acquired. The financial statement also records what the sources of the assets were. Some assets are in the form of loans that have to be paid back. Profits are also an asset of the business.

In what's called double-entry bookkeeping, the liabilities are also summarized. Obviously, a company wants to show a higher amount of assets to offset the liabilities and show a profit. The management of these two elements is the essence of accounting.

There is a system for doing this; not every company or individual can devise their own systems for accounting; the result would be chaos!

## Chapter 3: Accounting - All Businesses Need One

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**As business becomes more and more global, and complexities continue to emerge, certain fields have gained prominence in today's career market. One of these is accounting.**

Accounting is a very conceptual career or task, more a question of information handling than any hands-on approach to product development. However, as trends change, accounting is becoming a little more diverse and less just a question of 'crunching numbers'.

These days, there are specific kinds of accountants who do separate jobs as part of a given company. There are accountants who monitor spending and resource use; these are called 'audit' accountants. Then there are other professionals who use accounting information to guide procedures and to facilitate decision-making, and these are referred to as 'management' accountants.

One could say that while audit accountants are involved in book-keeping history, management accounting is a process of looking to the future to try to foresee events and plan for these in terms of a company's resources. 'Ledgers' and classic ideas of accounting belong more to audit accounting, while management accounting deals directly with the machinery of a firm.

Both positions require people skills and analytical skills; both types of accountants need to know how to use computers. Spreadsheet software like Microsoft Excel is popular in keeping accounting information available in a flexible format.

As to the issue of how the two are related, audit accounting is often considered more essential to small businesses. A small business may not need any more oversight than the owner or general manager can provide, but someone always had to keep the books.

Also, in management, the old adage may apply that 'too many cooks spoil the broth'. Management accounting seems to be a more useful role in large companies that need many consultants to micro-manage a variety of projects.

In general, accounting is becoming a popular career choice. Some may shy away from it due to an aversion to how accountants have been described in the past. Some people 'don't like numbers' and consider accounting work to be unbearably dry or tedious. Others, however, have already completed their degree to become a CPA (Certified Public Accountant) and these may find themselves well placed in high-profile audit accounting positions. For others, management accounting provides a new look at a classic career.

Either way, the study of this valuable field can be a good way to get into a certain kind of company. many companies are hiring temporary accountants, and the abundance of opportunities means that employers and university graduates may be able to find each other through the phenomenon of accounting, as the majority of businesses turn their efforts toward the study of resource allocation, asset management, or more simply, crunching numbers.



## Chapter 4: All About Personal Accounting

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**If you have a checking account, of course you balance it periodically to account for any differences between what's in your statement and what you wrote down for checks and deposits.**

Many people do it once a month when their statement is mailed to them, but with the advent of online banking, you can do it daily if you're the sort whose banking tends to get away from them.

You balance your checkbook to note any charges in your checking account that you haven't recorded in your checkbook. Some of these can include ATM fees, overdraft fees, special transaction fees or low balance fees, if you're required to keep a minimum balance in your account.

You also balance your checkbook to record any credits that you haven't noted previously. They might include automatic deposits, or refunds or other electronic deposits. Your checking account might be an interest-bearing account and you want to record any interest that it's earned.

You also need to discover if you've made any errors in your recordkeeping or if the bank has made any errors.

Another form of accounting that we all dread is the filing of annual federal income tax returns. Many people use a CPA to do their returns; others do it themselves.

*Most forms include the following items:*

### **Income:**

Any money you've earned from working or owning assets, unless there are specific exemptions from income tax.

### **Personal Exemptions:**

This is a certain amount of income that is excused from tax.

### **Standard Deduction:**

Some personal expenditures or business expenses can be deducted from your income to reduce the taxable amount of income. These expenses

include items such as interest paid on your home mortgage, charitable contributions and property taxes.

**Taxable Income:**

This is the balance of income that's subject to taxes after personal exemptions and deductions are factored in.

## Chapter 5: Everyday Accounting

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**By the end of the day, imagine the amount of money you have spent. Just think for a second. Some of you may not have spent much at all, if anything.**

The rest of us generally spend more than we need to; or at least, we spend more than we realize. This all adds up, sometimes to financial heights that incrementally sap our wallets. While it may not seem significant, this price analogy should quell potential disinterest: people find it unsavory to purchase a thirty-dollar item each day, yet they easily spend thirty dollars incrementally, perhaps because they are not as aware. They are not aware, for example, of their fixed spending (insurance, payments, bills...).

Simple everyday accounting helps to raise awareness.

Save money by logging day-to-day expenses, especially expendable purchases. Either log purchases into a pocket notepad, or simply remember them inside your head. Accounting simply entails adding up purchases, either in print or no print.

Do this for one routine day and, depending on your habits, you may be surprised. The psychology behind our purchases lay in how cheap we perceive things to be.

So, while we may feel guilty in buying a single thirty-dollar item, we would feel less so with three ten-dollar items. Regardless of getting more bang for your buck, the sum total still balances out. The difficulty comes in the temptation of the ten-dollar items; because it leads us to spend more than we like. This can be a financial strain concerning day-to-day purchases; finances usually reserved for long term matters like insurance and payments.

The principle vice points to food. The more food purchased, the more money spent, the greater calories gained. A scientist need not mention the symbiosis of food spending and weight gain. This example of food purchases should be the most obvious habit of anyone with even a meager amount of disposable income.

Unless you pack your meals from home, accounting for your food purchases can be a clear indication of your spending habits. In fact, it may compel a person to pack more often.

In theory, this can lead to weight loss, as people tend to be less picky with what they bring from home, versus the plethora of fast food chains and hearty restaurants. Give it a shot, and likewise, you may be in for a surprise.

The goal of everyday accounting: to fatten your wallets; or, to keep your wallets fat. The act of spending should not be passive. It has an immediate effect on lifestyle, because it brings awareness to everyday excesses. It makes common sense to save money. And the way to account for your disposable income is to factor in the amount you make from your job.

With the aforementioned example of food, add in other daily expenses, like gas. With the information provided by your log of one routine day (or week), calculate the total amount of money spent. Now, with the sum total, find out at what percent it eats up from an average paycheck.

Yes, disposable income is disposable income. Yet what sacrifices can be made? What corners can be cut? Chances are the most expensive, routine items from your log are the expendable or replaceable items. Just be sure to optimize your purchases, and keep that wallet stuffed. Becoming aware of what you buy may lead to a rewarding change in lifestyle, and will alleviate conflicts with fixed spending variables, like bills and insurance.

## Chapter 6: Online Accounting

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**Accounting in USA has seen lots of change. There was a time when the accounting was more of book keeping done in huge ledgers and was the purview of select few.**

It's not so anymore. Accounting is much more widely accepted as a business function and general people also look for the accounting details of the firms they are associated with. Also lot more transparency is required now. Keeping in line with the development of IT and other technologies, the accounting is also now based on internet and has taken wide strides. Online accounting services, viewed as merely experimental only a few years ago are now becoming the run-away business.

As such accounting industry has been little slow to adopt the newer technology and has not left fully its love for the pen and pencil work.

The SU accounting industry has seen new trend of outsourcing its work now. All these have forced the industry to adopt the Online Accounting. The internets as well as other technologies are used now to build more efficient book keeping systems. Also, it's becoming more cost efficient for larger firms to outsource the work. Outsourcing is very much easier with work being delivered online. It's much more cost effective as well as fast also.

The shift from the practice where clients paid the accounting firms as per the billable hours to a fixed fee based system is forcing the accounting firms to deliver efficient work in cost effective manner. This means that they cannot any longer cover their inefficient work by merely putting in more time into the projects. This has favored the Online accounting practices much. Value billing has forced accounting professionals to become more efficient.

Online accounting very effectively cuts short the time taken to transfer the time taken by information exchange between the clients and accounting firm. The seamless transfer is far more efficient and much faster. The accounting firm has dynamic access to the sourcing documents of the client's firms and can access anytime any information it requires from its client's side.

The online accounting system also allows the accounting firm access to client data from far away locations at the a few clicks on the internet. The time sensitive financial data is readily available to the accounting firm.

Other than the speed and cost of services, online accounting enables better customer service and more reliability and trust. Accounting firms recently have been exposed as in cahoots with some very big clients, committing serious financial crimes. In this scenario the new practice builds more transparency also.

The online accounting practice also provide for more timely communication between the firm and clients. Since the client has more immediate access to information and to time sensitive documents with Online Accounting practices, questions and problems can be more easily identified and resolved. This translates into increased profits as well as happier clients!!

Since the clients get better service, they get more value for the money they spend. It is generally quite cheaper for the business owner to outsource the bookkeeping and accounting than to hire and supervise it in-house. Savings for the business owner can be as much as 30% for some clients! Online Accounting is great for such services.

The accounting firms also charge now a fee (fixed on a monthly basis) almost five times the average monthly fee (based on billable hours) they charged earlier.

Generally, the various online accounting processes available are customized for their users where they can choose the menu of features they like.

Online Accounting is an excellent tool for accounting and book keeping, one that is help full for both the accounting firms as well as the clients.

## Chapter 7: Understanding Accounting Vocabulary

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**The following article is an excerpt from the free online course "Using Finance & Accounting in Your Small Business".**

When you learn something new like accounting concepts and terms, it helps to create links between what you know and what you are trying to learn. In some ways, it is like learning a second language and decoding the new word is part of the learning process. For example, trying to translate the Spanish word necesario you might brainstorm with necessary - and you would be right. How about blanco? Blanco is like blank which is like white. So, blanco is Spanish for the color white.

Try to make some logical connections about the accounting vocabulary. Take the word - accounting - and think about it. Really, the accounting system is a basic counting of what goes on in your business.

Let's move on to transactions. Transactions are the business activities, or actions, that build day by day and become your expenses and income. Try to think about the term - transactions. Actions are business activities, and trans means across or thru. These are the basic building blocks of an accounting system. Transactions are to accounting like what raw materials are to a factory, or gasoline is to your engine - the transactions are real and how your accounting system handles them impacts your business.

You must keep a record of your transactions to know how much money your business earned and how much money your business spent. Sounds obvious, right? Ask your bookkeeper or accountant how obvious some transactions are. It can get tricky quickly if you are not clear about what happened in the transaction and how you want it recorded.

For example, if you were a carpenter you might pay cash for a bucket of nails to assemble handmade wooden deck chairs. The nail purchase is a transaction and will have to be counted as a business expense. In your workshop, you then assemble the chair using a pneumatic nail gun, sand paper, stain and varnish.

The next day you deliver the chair to a customer in a neighboring town. You hand the customer a sales slip and they then write you a check. That, too, is a transaction. It is easy to see the transactions when money is spent or received. Did you, however, see the other transactions?

The stain and varnish, nail gun use and chair parts were also part of the transaction. What about the gasoline and truck used to deliver the chair? Did you have any leftover nails or did you use them all? Maybe there is a little life left in the sand paper but it is not new anymore, is it? If we do not account for those costs we are missing a piece of the picture-an important piece-that could affect how much money you have at the end of the year.

In all your business activities, try to think in terms of transactions because once you can identify what transactions occur in your business, you will be able to organize them into a meaningful manner. Right now, take a minute to list what transactions occur in your business each day, week and year.

Always thinking in terms of transactions might seem miserly, but it is important to be cost-conscious and honest with yourself about all your transactions. Your success in business depends upon it.

Some transactions are initiated by customers and suppliers. Other transactions can take place inside your business or back office. The bookkeeping department creates transactions when they adjust your books for year-end considerations like machinery depreciation or inventory shrinkage.

What is depreciation? Let's say you bought a brand-new car, a 2017 Professor Now Coupe, and you spend \$27,500 on this new car. Next year the car has some dings on the doors, wear on the tires, stains on the seats and 20,000 miles on the engine. You know your car is not worth \$27,500 anymore. This means your car has lost value or depreciated.

When it comes to business owned equipment, you can deduct this lost value as a business expense. Sure, you did not spend cash on the lost value but with depreciation, this is a transaction your bookkeeper or accountant will force through at the end of the year.

On your taxes, it helps you by increasing your expenses like all other cash transactions. Of course, the other side of depreciation means your equipment is not worth as much anymore.

In order for you to get a really clear picture of how your business is operating, you need to be diligent and thoughtful about what your real expenses are. Depreciation is a real expense even though it is not a cash transaction.

Learning to see transactions for what they are takes practice and contemplation. Transactions affect so many areas of your business that you must analyze the daily details so you can piece together the big picture.



## Chapter 8: Personal Accounting

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You balance your checkbook to note any charges in your checking account that you haven't recorded in your checkbook. Some of these can include ATM fees, overdraft fees, special transaction fees or low balance fees, if you're required to keep a minimum balance in your account.

You also balance your checkbook to record any credits that you haven't noted previously. They might include automatic deposits, or refunds or other electronic deposits. Your checking account might be an interest-bearing account and you want to record any interest that it's earned.

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## Chapter 9: Accounting and Accountancy

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**Accountancy is the profession and accounting is the methods by which accountants measure, track and report on financial information so that resource allocation decisions can be made by, well, whoever the decision makers are.**

Oftentimes when I meet someone for the second or third time, they say, “aren’t you in accounting?” While I am into accounting, which is the methodology and measuring aspect of my work, the profession as a whole is better labeled as ‘accountancy’.

For a small business owner’s personal finances, as an example, I may be measuring the finances of a few people (the family), and reporting the necessary information to the small business owner. In this situation, the decision maker is the small business owner and his decisions involve deciding how much money he has to put toward family necessities.

Generally speaking, there are two main types of accounting. There is financial accounting and there is auditing. Financial accounting typically involves processing of financial information about a business operation where information is recorded, organized, summarized, interpreted and finally communicated.

Auditing, on the other hand, is the process that an independent auditor examines accounting records and financial statements so that he or she can express a professional opinion about the financial records and answer questions about projections.

At the heart of accountancy lies the need to take stock of the day to day state of various sales and expenses. In the modern world when many contracts are partially fulfilled at varying times, bookkeeping is the only way to know where you and your business stand in the greater scheme of things.

If you operate your own small business, you may be able to do just fine with some accounting software. Take a look around for some flowchart templates. These can make monthly financial recording and reporting, dare I say it, fun. Simply enter in the various types of income and expenses, then each

subsection updates the appropriate fields. Before you know it you've got proof that all bills have been allotted for and you've got your bottom line.

If you find you can manage your business finances on your own, then, by all means, stick with the system that you know works for you. If, however, you start running into complications that make it hard for you to see where discrepancies are coming from, it may be time to enlist the services of a professional accountant.

memory bus is also called an address bus or front side bus and both busses are high speed digital superhighways. Access methods and speed are two of the fundamental technical differences between memory and mass storage devices. All memory sizes and storage capacities will inevitably be exceeded with advances in technology over time.

Cache memory is a special type of internal memory used by many central processing units to increase their performance or throughput. Some of the information in the main memory is duplicated in the cache memory, which is slightly slower but of much greater capacity than the processor registers, and faster but much smaller than main memory. Multi-level cache memory is also commonly used. Primary cache is the smallest, fastest and closest to the processing device. Secondary cache is larger and slower, but still faster and much smaller than main memory.

Semiconductor memory uses semiconductor based integrated circuits to store information. A semiconductor memory chip may contain millions of tiny transistors or capacitors. Both volatile and non-volatile forms of semiconductor memory exist. In modern computers, primary storage almost exclusively consists of dynamic volatile semiconductor memory or dynamic random-access memory.

Since the turn of the century, a type of non-volatile semiconductor memory known as flash memory has steadily gained share as offline storage for home computers. Non-volatile semiconductor memory is also used for secondary storage in various advanced electronic devices and specialized computers.

## Chapter 10: Accounting For Home Based Businesses

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**Home based businesses are still businesses, and as such a financial accounting is needed for several reasons.**

Taxes are one of the most important reasons for a home business to keep accounting records to show money made and money paid. There are several ways to do this, and your knowledge of accounting practices is not a roadblock. Some small business owners think that since they work from home, income and expenses do not need to be tracked, but this is totally untrue.

Keeping account books and records can be done with a variety of accounting software available for sale. This type of software has easy to understand spreadsheets that make it very easy for a small home business owner to balance books and get an idea of the profitability of their home business. The software for these applications is made by a variety of trusted manufacturers, and some of these programs even have fields for important tax return information for the end of the year. These software programs greatly simplify bookkeeping for home businesses, even for someone with no accounting experience.

Some home business owners prefer to do things the old-fashioned way, with a pencil and paper. With computer hackers and viruses out there, some owners would prefer not to keep their financial records on their computer. In this case, a general accounting ledger with three columns will work as effectively as the expensive software.

One column can represent money that is received for the home business, one column can be used for money that is paid out on behalf of the home business, and one column can be used to keep the running balance of your home business. This accounting system is easy to use and follow, because each day every transaction is recorded in the ledger. The ledger is also an important record for the tax preparation of your home business at the end of your fiscal year.

Accounting records are a very important part of running a home business. Whether you purchase software or just an old-fashioned ledger, keeping track of the payments received and sent on behalf of your home business is a very important step in running a successful home-based business. A lot of home business owners do not worry about accounting in relation to their home business, and this can be a fatal mistake for you and your home business.

Make sure that you keep track of the accounting for your home business, and whether you use software or the old pencil and paper method, keep records of your financial dealings. This will have you a lot of time and trouble at the end of the year.