

# Accounting Primer

Hi, I'm Chris Passmore and I am your Social Media CPA. I'm here to share accounting, income tax and general business matters important to social media creators, influencers, entrepreneurs, business owners and anyone else!



## Assets

Resources owned which have future economic value that can be measured and can be expressed in dollars. Examples include cash, accounts receivable, inventory and equipment.

## Prepaid Expenses

Assets that result from payment of expenses that benefit more than one period.

## Accounts Receivable

Asset resulting from selling goods or services on credit.

## Inventory

A current asset whose ending balance reports the cost of a merchandiser's products awaiting to be sold. The inventory of a manufacturer should report the cost of its raw materials, work-in-process and finished goods. The cost of inventory should include all costs necessary to acquire the items and to prepare them ready for sale.

## Fixed Assets

A term used when referring to property, plant and equipment. Assets with long useful lives used in the operation of a business.

## Deposits

An amount paid as part of the purchasing process or in the ordinary course of a rental agreement.

## Liabilities

Amounts owed to lenders or suppliers. Liabilities often have the word "payable" in the account title.

## Accounts Payable

A liability account showing the amount owed for items or services purchased on credit.

## Accrued Liabilities

The amount owed for expenses incurred that have not yet been paid.

## Debt

A contractual obligation to pay money on demand or on fixed or determinable dates.

## Equity

The difference between assets and liabilities, such as stockholders' equity or owner's equity.

## Common Stock

A term used to describe the amount paid by stockholders for the par value of common stock.

## APIC

Additional paid-in capital (APIC) represents the amount a stockholder pays above and beyond the par value of common stock.

## Retained Earnings

A stockholders' equity account that generally reports the net income of a company from its inception until the balance sheet date less dividends and distributions.

## Sales

The sale of goods or services provided to a customer. Sales are also referred to as revenue or income.

## Cost of Sales

The total cost of merchandise sold or services provided during a period. Cost of sales is also referred to as the cost of goods sold or cost of revenue.

## Expenses

The cost of assets consumed or services used during operations.

## Gross Profit

The amount by which sales exceed cost of sales.

## Net Income

The amount by which sales exceed expenses.

## EBITDA

Earnings before interest, taxes, depreciation and amortization. A commonly used metric for understanding a company's ability to generate cash flow.

## Common Financial Statements

### Balance Sheet

A balance sheet is used to portray the financial position of a company or individual as of a point in time (not period of time). Generally, assets are listed based on their liquidity, and liabilities are listed based on their due dates. The order of presentation in terms of liquidity varies.

### Income Statement

The income statement reports the revenues, gains, expenses, losses, net income and other totals for a period of time. The income statement is also referred to as the profit and loss statement, P&L, statement of income and the statement of operations.

### Statement of Stockholder's Equity

A financial statement that shows changes to the various stockholder's equity accounts during a period of time. A stockholder is also referred to as a shareholder.

### Cash Flow Statement

The cash flow statement reports the sources and uses of cash by operating, investing and financing activities during a period of time.

## Basic Accounting Equation

Assets = Liabilities + Stockholder's Equity

## Calendar Versus Fiscal Year

A calendar year refers to the traditional period of time from January 1st to December 31st. A fiscal year commonly refers to an equivalent period of time that

begins and ends on dates elected by a company. For example, a company may elect to report its financial results for the fiscal period from July 1st to June 30th.

## Basis of Accounting

### Cash Basis

An accounting method wherein revenues are recognized when cash is received and expenses are recognized when paid. The cash basis of accounting is usually followed by individuals and small companies.

### Accrual Basis

The accounting method under which revenues are recognized when they are earned. Under the accrual basis, expenses are matched with revenues on the income statement when the expenses expire or title has transferred to the buyer, rather than at the time when expenses are paid.

## Common Accounting Software

**Quickbooks** ([quickbooks.intuit.com](https://quickbooks.intuit.com))

**Xero** ([xero.com](https://xero.com))

**Sage** ([sage.com](https://sage.com))

## General Ledger Basics

The general ledger is a master accounting document providing a record of all financial transactions.

A debit is an accounting entry that either increases an asset or expense, or decreases a liability or equity. A credit is an accounting entry that either increases a liability or equity, or decreases an asset or expense.

A "T Account" is a visual aid used to depict a general ledger account.