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The Layman’s Guide to Understanding Financial Statements by Simon Lawrence

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Category: Finance & Accounting

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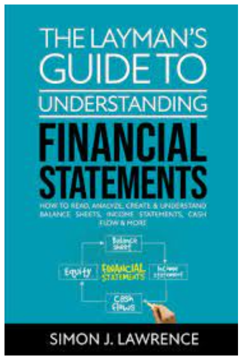

Why: I want to do a better job at bookkeeping.
Goal: learn key accounting and bookkeeping principles.

Action: Do a Trial Balance Before Any Reporting.

3 Key Concepts

1. Bookkeeping is not accounting.
2. Stick to the principles.
3. Understand basic lingo, accounting is a business language.

Summary

How to do a trial balance?

The basic core of accounting and bookkeeping: **trial balance** is a financial statement, where **credit** and **debit** transactions of a business are kept balance (equal).

AKA **Double Entry System of Accounting.**

When it is not in balance, some transactions have been **mined or inaccurately entered** into the ledger.

Check out also: Concept, Preparation, Example of trial balance

This book lays down the most fundamental concepts of bookkeeping and accounting. Highly recommended by both business students and non-business students.

Keep your book balance.

Accounting vs Bookkeeping

Accounting

The process of consolidating, summarizing, analyzing, and reporting the financial record of a company.

Bookkeeping

The practice of recording all the processes of accounting.

Key Principles of Accounting

Bookkeeping must be good. Good in this case means accurate, that a bookkeeper enters all transactions correctly, without any missing item. Here are some key accounting and bookkeeping principles to hold on to.

1. Assume that every business is an **economic entity** that aims to **profit and grow**.
2. All transactions must be recorded in the **same currency**.
3. All financial reports show **results over** a distinct **period of time**.
4. **Cost** of an item **does not change** in the time of reporting withstanding.
5. **Revenue** should be reported **when it is earned,** not received.
6. Record liabilities and expenses **before** gains and revenues to avoid excess taxation due to poor record-keeping.

Some business vocabs

- **Enrolled Agent**: a tax expert who represents taxpayers when dealing with the internal revenue authorities.
- **Asset Classes**: Equities, Fixed income bonds, and Cash equivalents.
- **Retained Earnings**: the profits of a business that are plowed back into the company after paying taxes and dividends.
- **Insolvency**: a state of negative owner's equity, in that the assets of the company are way lesser than the liabilities.
- **Bonds**: when an investor loans money to another entity with the promise of the money back with interest.
- **Coupons**: the annual interest paid on top of the bond.

To sum up

Bookkeeping and **accounting** are not the same things, but they need each other to function properly. Therefore, to keep your book clean and balanced, you should hold a basic accounting principle in mind and put them into practice.

Keep it Balance at All Times.