



AN ASSET IS DEFINED AS ANYTHING THAT HAS A MONETARY VALUE AND IS OWNED BY A COMPANY, SUCH AS CASH, INVESTMENTS, AND LAND.

TAXES HAVEN'T BEEN AROUND FOREVER. THE 16TH AMENDMENT, WHICH GAVE CONGRESS THE AUTHORITY TO ENACT AN INCOME TAX, WASN'T RATIFIED UNTIL 1913.



A  
*CRASH COURSE*  
IN  
**FINANCIAL  
REPORTING**

# ACCOUNTING

FROM **CALCULATING REVENUES** AND **PROFITS** TO **DETERMINING ASSETS** AND **LIABILITIES**, AN ESSENTIAL GUIDE TO **ACCOUNTING BASICS**

# 101

SOME SCHOLARS CLAIM THE FIRST USE OF NUMERICAL REPRESENTATION DATES BACK THOUSANDS OF YEARS TO MESOPOTAMIA, WHEN SCRIBES KEPT RECORDS OF COMMERCE ON CLAY TABLETS.



LIQUIDITY REFERS TO HOW EASY IT WOULD BE TO TURN AN ASSET INTO CASH. YOUR CHECKING ACCOUNT COUNTS AS CASH, MAKING IT 100 PERCENT LIQUID.

MICHELE CAGAN, CPA, Author of *Investing 101*

p65  
495-

สำนักหอสมุด มหาวิทยาลัยเชียงใหม่

๑ 16558884  
๑ 1652368X  
๑ 1650011X

# ACCOUNTING

FROM **CALCULATING REVENUES** AND  
**PROFITS** TO **DETERMINING ASSETS**  
AND **LIABILITIES**, AN ESSENTIAL GUIDE TO  
**ACCOUNTING BASICS**

# 101

MICHELE CAGAN, CPA, Author of *Investing 101*



Adams Media

New York London Toronto Sydney New Delhi

# CONTENTS

## INTRODUCTION 7

### CHAPTER 1

#### THE BUSINESS OF ACCOUNTING 9

WHO USES ACCOUNTING INFORMATION? . . . . .	10
ACCOUNTING IS MORE THAN NUMBERS . . . . .	15
ANCIENT ACCOUNTING . . . . .	22
MODERN ACCOUNTING . . . . .	28
ACCOUNTING RULES . . . . .	32
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES . . . . .	36
TRACKING AND MEASURING SUCCESS . . . . .	43
HOW ACCOUNTANTS CAN HELP YOU . . . . .	47

### CHAPTER 2

#### WHO'S WHO IN ACCOUNTING 54

CPAS ARE LICENSED . . . . .	55
THE AICPA . . . . .	60
BOOKKEEPING VERSUS ACCOUNTING . . . . .	65
ENTERTAINMENT ACCOUNTANTS . . . . .	69
FORENSIC ACCOUNTANTS . . . . .	74
ANTI-MONEY LAUNDERING SPECIALISTS . . . . .	78
CFOS STEER CORPORATIONS . . . . .	82
TAX ACCOUNTANTS . . . . .	86
ENVIRONMENTAL ACCOUNTANTS . . . . .	91
CHOOSING THE RIGHT PROFESSIONAL . . . . .	94

### **CHAPTER 3**

#### **SETTING THE FRAMEWORK 99**

ACCOUNTING STARTS WITH ACCOUNTS . . . . .	100
HOW THE ACCOUNTS CONNECT . . . . .	103
DEBITS AND CREDITS . . . . .	107
WHAT COUNTS AS A TRANSACTION. . . . .	112
THE ACCOUNTING CYCLE. . . . .	117
ACCOUNTING AND ORGANIZATION . . . . .	124

### **CHAPTER 4**

#### **ASSETS, LIABILITIES, AND EQUITY 129**

THE ACCOUNTING EQUATION . . . . .	130
WHAT ARE ASSETS? . . . . .	133
BREAKING DOWN ASSET CATEGORIES. . . . .	137
A CLOSER LOOK AT CURRENT ASSETS . . . . .	143
THE IMPORTANCE OF CASH . . . . .	149
A CLOSER LOOK AT FIXED ASSETS . . . . .	152
CURRENT LIABILITIES. . . . .	158
LONG-TERM LIABILITIES . . . . .	162
EQUITY . . . . .	165

### **CHAPTER 5**

#### **REVENUES, COSTS, AND EXPENSES 169**

REVENUES . . . . .	170
CASH VERSUS CREDIT . . . . .	175
THE COST-INVENTORY CONNECTION. . . . .	179
EXPENSES . . . . .	185
DEPRECIATION . . . . .	192

PEOPLE AND PAYROLL . . . . .	197
EARNING PROFITS, BUT OUT OF CASH. . . . .	203

## CHAPTER 6

### FINANCIAL STATEMENTS 206

THE STATEMENT OF PROFIT AND LOSS . . . . .	207
THE BALANCE SHEET. . . . .	212
THE STATEMENT OF CASH FLOWS . . . . .	216
WHAT FINANCIAL STATEMENTS TELL YOU . . . . .	220
FINANCIAL STATEMENTS FLOW INTO TAX RETURNS . . . . .	227
HOW THESE STATEMENTS INTERCONNECT. . . . .	230

## CHAPTER 7

### ACCOUNTING MOVES FORWARD 234

THE BIG ACCOUNTING FIRMS . . . . .	235
SCANDALS IN THE ACCOUNTING WORLD . . . . .	238
BIG CHANGES IN THE INDUSTRY . . . . .	242
ACCOUNTING SOFTWARE. . . . .	246
ACCOUNTING APPS. . . . .	256
ACCOUNTING IN THE CLOUD . . . . .	260
TOMORROW'S ACCOUNTING . . . . .	263

## INDEX 267