Accounting Primer

Basic Definitions

**Revenues** - The dollar value of all goods and services sold during a given time period.

**Inventory** - The cost to acquire and/or produce goods which are currently held by the business.

**Cost of Goods Sold** - The cost of the goods or services which are associated with the revenue of the period.

For example, Cost of Goods Sold for a retail firm is computed as:

\[
\text{Beginning Inventory} + \text{Purchases} = \text{Cost of Goods Available For Sale};
\]
\[
\text{Cost of Goods Available For Sale} - \text{Ending Inventory} = \text{Cost of Goods Sold}
\]

**Selling and Administrative Expenses** - Expenses incurred during the period that are not associated with any particular good/service, but the business as a whole.

**Income Statement** - Also known as the Profit and Loss Statement - Shows the revenue, cost of goods sold, and expenses of the period. Basic Format:

\[
\text{Revenue} - \text{Cost of Goods Sold} = \text{Gross Profit};
\]
\[
\text{Gross Profit} - \text{Selling and Administrative Expenses} = \text{Net Income}
\]

**Assets** - Tangible or intangible items that the business holds or has rights to (less accumulated depreciation).

- **Current Assets** - Assets that are cash or can be converted into cash in less than one year.
- **Plant, Property, and Equipment** - Long-term assets used to produce revenue for the firm.
- **Other Assets** - Patents, copyrights, goodwill, etc.

**Depreciation** - The systematic way in which the cost of a long-term asset is expensed over time. For example: Straight Line Depreciation simply divides the cost of the asset (less any expected salvage value) by the expected useful life of the asset. Note: Land is not depreciable.

**Liabilities** - Promises by the business to repay another party.

- **Current Liabilities** are due within one year.
- **Long-Term Liabilities** are due more than one year from now.

**Equity** - The difference between assets and liabilities. Also equals all contributed capital plus retained earnings.

**Fundamental Accounting Equation (Balance Sheet)**

\[
\text{Assets} = \text{Liabilities} + \text{Equity}
\]

**Working Capital** = Current Assets - Current Liabilities

Working capital is an indicator of the firm’s ability to operate in the short term.
The following worksheets are provided to help you prepare statements for your business.