

Accounting for Non-Accountants



A five minute Accounting
appreciation course

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Learning the language

Accounting, they say, is the language of business. It is the art of analyzing, recording, summarizing, reporting, reviewing, and interpreting financial information. No matter what language they speak, businessmen around the world use accounting to keep track of the performance of their businesses. Wouldn't you want to learn it?

A simple equation

Accounting is really simple. It revolves around the idea that the total assets of a business are equal to the total claims of its creditors and the equity of its owners or stockholders. All other ideas are just extensions to this equation. For example, revenues are essentially additions, while expenses are deductions from owners' equity.

The method

To maintain the balance of the accounting equation, standard accounting makes use of the double-entry method in recording transactions. This means that for every "debit", there is a corresponding amount of "credit". Any error would result to a discrepancy, a "disbalance" in Filipino, and nothing is more irritating to the one maintaining the books.

In recording transactions, accounting uses what we refer to as "accounts". A list of these accounts is contained in the chart of accounts, a primary document of an accounting system. In fact, when you hear an accountant say that he or she will be setting up the books of a business, one of the first things he or she actually does is to prepare a chart of accounts.

The types of accounts

Accounts are generally classified into assets, liabilities, equity, revenue and expense accounts. Assets are the

economic resources of a business. They are either current, meaning readily convertible to cash, or long-term or fixed assets, those not easily convertible.

On the other hand, liabilities are the obligations of a business, or the claims of creditors to the resources of a business. Like assets, they are also classified into current and long-term.

Equity represents the rights of owners over the resources of the business. It is also referred to as the net worth of the business - the value of its assets less liabilities. This is increased by revenues or income earned, and decreased by expenses, meaning the costs of operations and other activities incurred during the accounting period.

The nature of accounts

Assets are debit accounts. This means that they are accounts normally at the left side of the accounting equation. To increase, you debit the account. To decrease, you credit it.

On the other hand, liabilities and equity are credit accounts. They are normally at the right side of the equation. To increase, you credit them. To decrease, you debit them.

This increase/decrease of account balances is done by the recording of transactions through a journal entry. A journal is considered in accounting as the book of original entry. This is where transactions are first recorded or entered. The entry looks like this:

<u>Particulars</u>	<u>Debit</u>	<u>Credit</u>
Cash	P250	
Accounts Receivable		P250
<i>To record payment of accounts receivable</i>		

Summarizing entries

Entries will then be posted to what is known as the ledger. Using the ledger, the balances of each account may be computed at the end of the accounting period. These balances will form the trial balance which will be the basis of the financial statements of the business.

The financial statements include the income statement (also known as the income and expense, revenue and expense or profit and loss statement), the balance sheet (also known as the statement of financial condition), and the cash flow statement.

These statements show results of operation and financial condition of the business. For further assurance, these may be audited by an external and independent auditor or auditors who will determine the “fairness” of their presentation.

Tips for Entrepreneurs and Businessmen

It is good to have an idea how to make journal entries and post them to your ledgers. It will help you understand the figures appearing on your financial statements. However, you do not have to do the bookkeeping yourself.

Bookkeeping entails repetitive tasks that will eat up your valuable time. I suggest you leave the task to someone whose rate per hour is much lower than you. Instead, focus on understanding your financial statements and use every bit of information to your advantage.

Do not hesitate to hire a professional public accountant. The investment you make in setting up a proper accounting system, as well as in instituting the necessary internal control measures, may save you of hundreds of employee man hours or from costly management blunders in the future.

For more information, feel free to contact GEL Accounting Solutions and Consultancy at <http://www.lumantao.com> and email address lumantao@gmail.com.