Basic Accounting Reference Guide

Bridgeway Capital

Balance Sheet

What is a Balance Sheet?
The Balance sheet is a "Snap Shot" of what a company owns and owes at a given point in time
It is based off of this following equation:

Assets = Liabilities + Shareholder's Equity (SE)

What is an Asset?
· Assets are the economic resources owned by a company
· Each resource is expected to provide a future benefit or have value
· Examples:
- -Cash
- -Accounts Receivables (money that is owed to you)
- - Inventory
- - PP & E (Property, Plant, and Equipment)

What is a Liability?
· Liabilities are the company's debts or obligations (i.e., what the company owes to others)
· Each liability is expected to require the sacrifice of a benefit
· Examples:
- -Accounts Payable (Money owed to others that has not been paid yet)
- -Notes/Loans Payable

What is SE?
· SE is what's left after subtracting what the entity owes (its liabilities) from what the entity owns (its assets)
· It is comprised of two separate accounts
- - Retained Earnings: the amount of earnings (profits) reinvested in the business
- - Contributed Capital: the investment of cash and other assets in the business by owners of the business.

SE = Retained Earnings + Contributed Capital

Income Statement

What is an Income Statement?
It is the report of the economic performance of a company over a period of time
It is based off of this following Equation:

Net Income = Revenue - Expenses

What is **Net Income**?
· **Net Income** measures a company's success in selling goods and services for more than their cost to produce and sell
· If **Net Income** is negative, it is called a Net Loss

Beginning Period Retained Earnings

+ Net Income

- Dividends (a sum of money paid regularly, typically quarterly, by a company to its shareholders out of its profits)

= Ending Retained Earnings (**SE**)

What is **Revenue**?
· **Revenue** is earned when cash or promises to pay are received and the firm delivers its goods or services
· Example:
-Sales Revenue

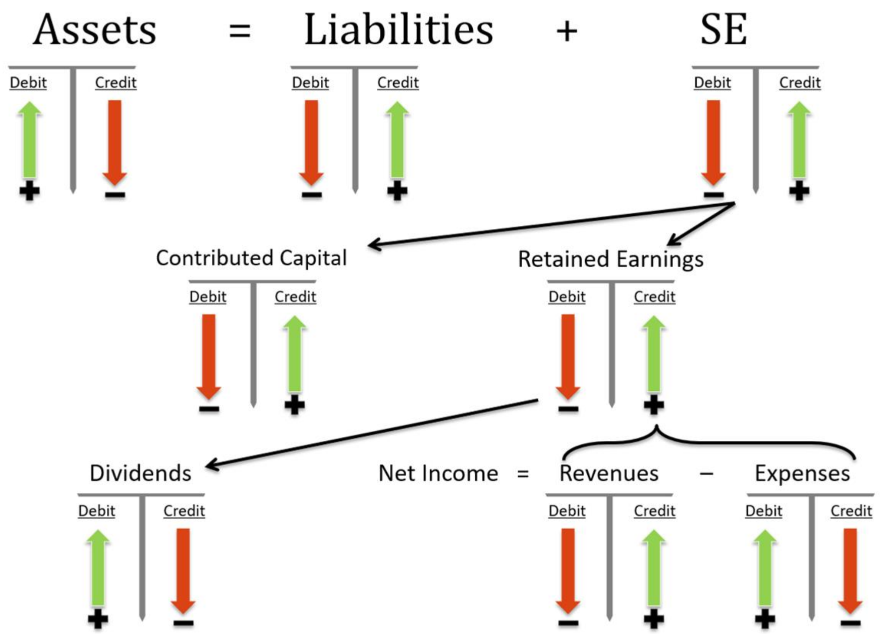
What are **Expenses**?
· **Expenses** are incurred when resources are used to earn that period's revenue
· Examples:
-Supplies Expense (used supplies)
-Cost of Goods Sold (How much money it took to produce what you are selling)
-Salary/Wage Expense
-Utility Expense
-Rent Expense
-Interest Expense

Debits = Credits

What are debits and credits?

Debits and Credits are used to increase or decrease account balances

The amount debited will ***always*** have to equal the amount credited to accounts



Journal Entries

What are Journal Entries?

Journal Entries are used to update account balances through debiting and crediting impacted accounts

Ref#	Account Title (effect)	Debit	Credit
(1)	Debited Account (+A or -L or -SE)	$$	
	Credited Account (-A or +L or +SE)		$$

Example: Chipotle pays $1 Million in Cash exchange for Tortillas

	DR	CR
Tortillas (A↑)	1,000,000	
Cash (A↓)		1,000,000

A = L + SE ✓

+1M
−1M.

DR = CR ✓