Bookkeeping cheat sheet

The terms, the debit and credit rules, and the formulas on 1 page.

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The terms

Asset. Anything the business owns that has value.

Liability. Anything the business owes.

Equity. The owner's share: assets minus liabilities.

Revenue. Money earned from sales, before any costs.

Expense. Money spent to operate the business.

COGS. Cost of goods sold: the direct cost of what the business sold.

Accounts receivable. Sales invoiced to customers and not yet paid.

Accounts payable. Bills received from vendors and not yet paid.

General ledger. The master record of every transaction, sorted by account.

Chart of accounts. The numbered list of every account the ledger uses.

Journal entry. A recorded transaction, with at least one debit and one credit.

Trial balance. A list of every account balance, used to check that debits equal credits.

Reconciliation. A check of the books against the bank statement, row by row.

Accrual basis. Record revenue when you earn it and expenses when you incur them.

Cash basis. Record revenue and expenses when the money moves.

Depreciation. An asset's cost, deducted over the years it is used.

Debits and credits

A debit is the left side of an entry. A credit is the right side. Every entry has equal debits and credits.

Account	Debit	Credit	Balance
Assets	+	–	Debit
Expenses	+	–	Debit
Liabilities	–	+	Credit
Equity	–	+	Credit
Revenue	–	+	Credit

+ increases the account. – decreases it.

The formulas

The accounting equation
`Assets = Liabilities + Equity`

Net income
`Revenue − Expenses`

Gross profit
`Revenue − COGS`

Gross margin
`Gross profit ÷ Revenue`

Working capital
`Current assets − Current liabilities`

Current ratio
`Current assets ÷ Current liabilities`

Retained earnings
`Prior balance + Net income − Distributions`

The 3 financial statements

Balance sheet
What the business owns and owes on a single date.

Income statement
Revenue, expenses, and profit over a period. Its other name is the P&L.

Cash flow statement
Where cash came from and where it went over a period.

Month-end close

- [ ] Reconcile every bank and card account.
- [ ] Record every invoice sent and bill received.
- [ ] Post accruals, depreciation, and payroll entries.
- [ ] Review the aging reports for receivables and payables.
- [ ] Run the trial balance. Make sure that debits equal credits.
- [ ] Lock the period.

Remember
Debits and credits always balance. If a report is wrong, run the trial balance first.