

Visual Learning Maps

Introductory Financial Accounting



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VIRTUAL TEXT BOOK

Accounting & Bookkeeping – What's the **Difference?** 1 of 2

Bookkeeping is a sub-structure of the Accounting system. Bookkeeping is about ensuring that the debits and credits in every transaction get recorded to the correct accounts under the iron rules of the Foundation Equation. In short, Bookkeeping maintains the accounts in balance, **always**; and aims for the correct balance.

Nowadays, software solves the first issue – the user cannot get out of balance; so efforts concentrate on carefully reviewing transactions, then recording them to the right accounts.

Accounting is the superstructure wherein bookkeeping is housed.

Accounting communicates through four key interwoven documents, the financial statements, to answer important questions for all businesses:

- Balance Sheet
- Income Statement
- Cash Flow Statement



These are the result of all Bookkeeping entries

- Notes to The financial Statements – **Explains numbers detail & GAAP**

Accounting is a rationale system that rules the bookkeeping input, directs the bookkeeping processes of identifying and classifying transactions; and most importantly, communicates the meaning of the final numbers in two management deliberation contexts:

1) What happened; and

2) What's the plan now?

Accounting & Bookkeeping – What’s the **Difference?** – 2 of 2

What Happened – last month, last quarter, last year?

The **Balance Sheet** answers these important questions:

- *Do we have any money / assets; how much?*
- *How much debt do we have?*
- *“Do we have more assets than debt or vice versa?”*

The **Income Statement** answers the important question

- *“Did we make a profit?”*

The **Cash Flow Statement** answers the important question

- *“Where did the cash come from and where did it go?”*

What’s the Plan Now?

In the “What Happened?” context management looks at the results of business activities and compares the *actuals* to the business plan and goals set in the past, called the budget or forecast. This comparison measures the degree of success; or the lack of it.

From this evaluation of achievement, decisions are made around all aspects of the business as to what action will or will not be taken to meet the goals, revised or not, for the future. Then a new budget is prepared, managers manage according to it and wait for the next period’s actual results.

Then the cycle repeats.