

## Answers

1. **False.** A business' accounting system produces a wealth of information. Think of income statements, balance sheets and cash-flow statements as tools to help your business prosper. Used properly, these tools help you set budgets; identify trends in sales; control costs; and make quick, informed decisions that can boost profitability.
2. **True.** A balance sheet shows a snapshot of a business' assets, liabilities and net worth at a specific time while an income statement represents the business' revenue and expenses over a period of time, such as a month or a year.
3. **True.** For example, if you invested \$50,000 of your savings to start a business, that amount is recorded in a capital account, also referred to as an owners'-equity account
4. **True.** Simply stated, assets include tangible items of value that your company owns – cash, real estate, furniture and equipment, and money due to it – and intangible assets such as patents, trademarks and goodwill. Liabilities are the opposite of assets. Liabilities, which include accounts payable and outstanding loans, represent your company's obligation to pay.
5. **True.** It's also called a "P&L."
6. **False.** Retained earnings are profits of an incorporated business that have not been paid out to the shareholders as of the balance sheet date. The earnings have been "retained" for use in the business.
7. **False.** A cash flow statement is a summary of cash inflows and cash outflows. A profit and loss statement measures the company's "bottom line."
8. **False.** G.A.A.P. stands for Generally Accepting Accounting Pinciples.
9. **True.** The excess of the amount of your assets over your liabilities is equal to owner's equity. Owner's equity is equal to the sum of the money you originally used to start the business and the earnings of the business since inception, less any distributions to the owners paid out of the business.
10. **False.** A CPA serves as a critical resource to small business owners. He or she can help set up internal controls, prepare financial statements and tax returns, and provide important business and management advice. But an understanding of basic accounting principles is essential to your ability to carry out the day-to-day responsibilities of managing a business and making the decisions that will help your business to grow and prosper.

If you answered seven to 10 of these questions correctly, you have a basic understanding of some of the accounting issues you will address as an entrepreneur. Those of you who answered four to six questions correctly should consult a business primer; attend a basic accounting course; or consult your CPA before launching a business. If you had fewer than four responses correct, private tutoring by your CPA may help you better understand key accounting concepts relevant to operating a business.