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Chapter 4-6 Summary

This week's reading covered the importance of accountants following Generally Accepted Accounting Principles (GAAP), the various financial roles in business, the relevance of matching principles, and how to analyze an income statement.

Generally Accepted Accounting Principles (GAAP), includes all the rules, standards, and procedures companies use to prepare their financial statements. GAAP isn't a law, but it serves as guidelines for accounting professionals to follow. For example, when a company expects a gain, the accountant can only record the transaction once the sale occurs. According to GAAP, there are at least four conditions that need to be met for the accountant to record this in their company's books:

1. Persuasive evidence that an arrangement exists.
2. Proof of what was sold was delivered to the customer.
3. A fixed price on what's being sold.
4. There is a high probability that the company will collect on the transaction.

In addition to GAAP rules, there are non-GAAP rules, which are statements that more accurately portray a company's performance. For example, Earnings Before Interest and Taxes (EBIT) measures a company's operations' profitability.

The three prominent financial roles in business are the Chief Financial Officer (CFO), Treasurer, and Controller. The CFO oversees all financial functions and is usually part of the executive committee. The Treasurer is uniquely responsible for building and maintaining banking relationships, managing cash flow, and making capital-structure decisions. The Controller solely focuses on internal operations, ensuring that day-to-day transactions are recorded accurately and properly. The Treasurer and Controller report to the CFO.

The "Matching Principle" is when an accountant matches the cost with its associated revenue to determine profits at a specific time. For example, this concept applies to when an accountant depreciates an asset over time. If a company purchases a truck expected to last three years (36 months), the truck's total cost doesn't show up on the income statement that month but 1/36 of the truck's cost every month for three years.

An income statement has three main categories: revenue, expenses, and net income. The most important takeaway from this chapter is that many numbers on an income statement are estimates. For this reason, **profit is always an estimate, and accounts should not spend "leftover money."**

Works Cited

Berman, Karen. "Financial Intelligence, Revised Edition: A Manager's Guide to Knowing What the Numbers Really Mean." *Google Play*, Google, Jan. 2013, play.google.com/store/books/details/Karen_Berman_Financial_Intelligence_Revised_Editio?id=7TfCiz1LkMMC.