

Introduction

As a manager, you may be asked to produce or contribute towards an income statement for your own business unit. This provides senior management with an indication of how your business unit is performing against its targets over a specific period, for example quarterly. In addition, you will usually be expected to understand simple financial reports and communicate effectively with financial people in your own organization.

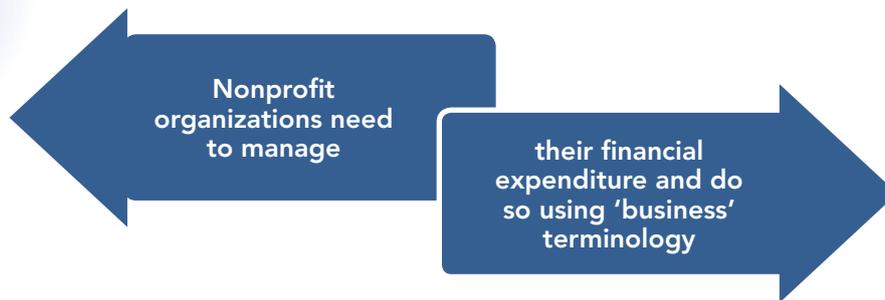
This eBook explains all of the basic accounting concepts and terminology you will need to understand the three primary financial statements that appear in every organization's annual report and most internal monthly reports as well.



These are:

- **The Income Statement**—An accounting of revenue, expenses, and profit for a given period. This can also be an internal document that can be used to make management decisions about almost any activity where you have a record of the money spent and the associated return.
- **The Balance Sheet**—An itemized statement that summarizes the assets and liabilities of the business at a given date.
- **The Statement of Cash Flow**—A report that shows the effect of all transactions that involved or influenced cash but did not appear on the income statement.

If you work in a nonprofit sector then do not be put off by words like 'business' and 'profit.' Even if your organization is not a business that exists to make a profit, it is still important to understand the basic principles of finance and management reporting so that you can monitor efficiency and control your budget effectively.



Your organization may not be concerned with sales and profit as such, but there will be some metrics for measuring the service delivered and the costs incurred in delivering it.

Financial reporting requires an understanding of: basic financial terms, the differences between cash-based and accrual accounting, and an appreciation of when revenue and costs are recognized. All of these topics are dealt with in this eBook, which is an ideal introduction to basic accounting principles.

KEY POINT

- ✓ You should make sure that you know the basic concepts and terminology needed to understand income statements, balance sheets, and statements of cash flow as these are widely used, even by nonprofit organizations.