



#### LESSON CONTENT TEMPLATE

 <p>Erasmus+</p>	<p>Project funded by: <b>Erasmus+ / Key Action 2 - Cooperation for innovation and the exchange of good practices, Knowledge Alliances.</b></p>
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## 1. Lesson Document

Topic 4: Measuring Performance in the Short Term  
Lesson 1

### Accounting Methods

#### Introduction

Accounting refers to recording and organizing important financial data into categories that provide useful information. Accounting is also a common language of business. (Book *Entrepreneurial Finance Concepts and Cases*, 2020). In this lesson, we will learn more about accounting and its importance.



Resource: [Pixabay](#)

#### Chart of Accounts

Basic building blocks of the accounting system. It is a list of all the accounts in the business.

#### Accounting Methods

Another important decision that entrepreneurs need to make is choosing between cash or an accrual accounting method. The cash accounting method notes revenues when cash is received and expenses when bills are paid. In accrual accounting revenues are noted when the sale is made, even if no cash is received at the time of sale, such as a sale on credit to a buyer.

A common cost that we need to mention that differs between the method of calculation and the cash method is the **Cost Of Goods Sold**. The calculation method is trying to match COGS on revenues generated in the same period.



Resource: [Pixabay](#)

For non-manufacturing businesses:

$$\text{COGS} = \text{Beginning Inventory} + \text{Purchases} - \text{Ending Inventory}$$

For manufacturing businesses:

$$\text{COGS} = \text{Beginning Inventory} + \text{Costs of Labor} + \text{Costs of Materials and Supplies} - \text{Ending Inventory}$$

### Conclusions

Accounting is very important because it allows a company to track every aspect of its finances, from income through expenses to taxes and more. Without accurate accounting, the company would not know where it is financially located, which would most likely result in its collapse.