Piper, Mike - Accounting Made Simple

2013, [Surrounding Knowledge] Grade ★★★★

An introductory text on accounting should in some form or another include: a) the accounting principles that form the normative base, b) bookkeeping procedures that provide the input for the accounting and c) the financial statements that constitute the output. The question is in what order these building blocks should be assembled in order for the reader to best comprehend the whole. The order above is perhaps the most logical but presenting principles before their application risks making them too abstract, presenting the end result ahead of the principles makes no sense as the reader cannot fully appreciate what they are seeing. The author has solved this in a rather clever way. He presents various accounting principles as they are needed to understand the practical application that is covered next by the text. Mike Piper is the author of introductory level books on an array of economic areas. Piper a certified public accountant, former financial advisor, tax accountant and nowadays full time author, has written nine books on personal finance topics – all with the subtitle "*Explained in 100 Pages or Less*". This text aims to give a quick basic understanding of accounting and bookkeeping.

After explaining the accounting equation, which is that assets equal liabilities plus owner's equity, Part One of the book presents the balance sheet, the income statement, the statement of retained earnings and the cash flow statement in four separate chapters. Most major line items on the financial statements are given a short but adequate explanation and topics such as the difference between current and long term balance sheet items, operating vs. net income, retained earnings as a bridge between the income statement and the balance sheet and the three categories of cash flows are discussed. To help the reader draw conclusions from the financial statements part one ends with a chapter on financial ratios. Two or three ratios each are presented under the headers liquidity ratios, profitability ratios, leverage ratios and asset turnover ratios. This is all fine but in his efforts to simplify for the benefit of the user Piper in one instance goes too far. The numerator in return on assets is not the same as the one in return on equity. Return on assets uses pre-tax income plus financial costs, not net income.

Part two is a mix of accounting principles, bookkeeping and a few slightly more complicated financial statement topics. After briefly discussing FASB and GAAP, the author describes the bookkeeping process with the debits and credits of the double-entry accounting, T-accounts, general ledgers and trial balances. Piper then proceeds with a chapter on accrual accounting, - this separation of cash inflows and outflows from recorded revenues and expenses that is perhaps one of the less intuitive ones for the non accountant reader and that is also the arena for most of the accounting irregularities in real life. However, accruals are important to understand as the topic next in line is the closing of the books. The book totals ninety-seven pages and so Piper has three pages to spare. The discussion on how to close the books could have benefited from at least one of these. It is a bit too brief to be educative (I would also dedicate one page to a flow chart between the financial statements to complement part one). After a presentation of a number of remaining accounting principles - where the text on historical cost principle in my opinion at least could have mentioned the more prevalent use of mark to market in today's accounting, Part Two wraps up with three chapters of left over topics, namely depreciation of fixed assets, amortization of intangible assets and a discussion of inventory and CoGS.

Who is the main beneficiary of this book? The text is really basic and it's not really practical enough for the person who wants to start keeping the books in a business and it doesn't problematize or point to loopholes that would help a financial analyst. However, it is absolutely perfect for a one day read prior to taking a university class in accounting. Everything the teacher says during the course will make perfect sense.

Mats Larsson, February 16, 2014