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A perfect book for managers who need to be knowledgeable,  
but don't want to become finance and accounting experts."*

JIM HOLTHOUSE

*Senior Vice President, Homewood Suites  
Hilton Hotels Corporation*

# THE PRACTICAL GUIDE TO FINANCE AND ACCOUNTING

**A PLAIN-LANGUAGE, NON-TECHNICAL  
EXPLANATION OF ALL KEY CONCEPTS,  
TERMS, PRACTICES, AND PROCEDURES  
THAT ANYONE CAN USE**

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**THE**

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**PRACTICAL  
GUIDE TO  
FINANCE AND  
ACCOUNTING**

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**SUSAN M. DRAKE  
RENEE G. DINGLER, CPA**

**P R E N T I C E   H A L L**

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# DEDICATION

*To the millions of nonfinancial people who have struggled  
to understand these concepts, and to the financial people  
who have dealt with them.*

*May this book help them appreciate each other.*

# ACKNOWLEDGMENTS

*From Susan M. Drake:*

Because this is a long book, we have lots of people to thank. Many friends have contributed their knowledge and skills. More importantly, they have given their personal support and been willing to listen to a lot of whining as I immersed myself in the mysterious world of finance and accounting.

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***From Renée G. Dingler:***

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To my friend and co-author, Susan Drake, who is the creative genius behind this book: Thank you for asking me to share this with you. We've always known that God put us together for a reason; we just didn't know it was to write a finance and accounting book! (Who would've ever thought it?)

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# PREFACE

If you're in business, it helps to know whether you're making money, losing money, or just breaking even. To do that, you need to at least understand the basics of finance and accounting, because they're the nuts and bolts of running a business.

The professionals who practice finance and accounting (which we'll refer to as F&A) must know every detail of the rules and regulations that govern financial matters. But if you're not a professional in one of those fields, you still need to understand the principles of these disciplines to use the information they convey to run your business. Whether you're a corporate manager, a small business owner, an investor in the stock market, or someone who deals with accounting and finance people in your daily work, understanding F&A will help you make sound business decisions.

Unfortunately, writing a book about those subjects is like writing a book about brain surgery; you can't tell people just a little and then send them out into the world to do an operation. Those who want only a general understanding of F&A discover that there is no shortcut to either subject. A little knowledge is a dangerous thing. The good news is that these matters don't have (quite) the potentially serious side effects as brain surgery.

Like many professions, F&A is built on concepts and language that defy decoding by the average person. What's more, books written by F&A professionals do little to alleviate confusion, because they're cloaked in the same jargon. We don't blame the pros. It's really not their fault. They've been steeped in it since they cracked open their first Accounting 101 book. We only realized the difficulty when Susan—the creative one—began digging into the why's and wherefores that Renee—the analytical one—was giving her. To our surprise, simple words like *account* or symbols like parentheses (a negative sign to mathematicians but a credit sign to accountants) had completely different meanings in nonfinancial and financial settings. The uninformed, attempting to become educated about the subject, can become just further confounded.

Because our team combines the strengths of a right-brain creative type and a left-brain analytical person, in this book we are able to accomplish several things. We

- Look at processes from both perspectives, which helps us explain them in accurate yet understandable ways.
- Challenge prevailing F&A beliefs about how things must be done.
- Find creative solutions to seemingly impossible tasks (such as explaining things like subordinated debentures)!

This book is designed as a practical guide, not in the usual sense of textbook practicality, but as a translation; it offers information to be used by laypersons to better understand the highly technical concepts that underlie accounting and finance. While we wrote it as a comprehensive, accurate reference, we did not write it as a legal document or as a textbook for those who would practice the art—or science—of financial matters.

Although individuals may need to understand F&A as it relates to their personal lives, this book is written primarily from the perspective of business. The concepts are universal, but the application we describe is based on its uses in corporations. We hope that this book will provide a foundation that will allow corporate managers to confidently move through the ranks of an organization, to talk at ease with experts, and to know when to seek advice from professionals. Ideally, it will enhance their decision-making ability. The same holds true for small business owners, who can use this book to learn what their accountants are talking about, and to understand how to talk intelligently with them.

Finally, despite some popular beliefs, neither accounting nor finance are black-and-white subjects. Both are open to opinion to a greater or lesser degree. This book represents our opinions.



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