

BUSINESS ACCOUNTING FOR BEGINNERS

1 What is Business Accounting?

Accounting is the process of systematically recording, analyzing, and interpreting your business's financial information.

Business owners use accounting to track their financial operations, meet legal obligations, and make stronger business decisions.

2 Accounting Basics

Regardless of who manages your business accounting, it's wise to understand accounting basics.

If you can read and prepare these basic documents, you'll understand your business's performance and financial health — as a result, you'll have greater control of your company and financial decisions.

Income Statement

[Company Name] Income Statement					
	Year 1	Year 2	Year 3		
Revenue	\$75,000.00	\$75,000.00	\$75,000.00		
Less: Sales Returns	\$2,000.00	\$2,000.00	\$2,000.00		
Less: Discounts and Allowances	\$1,000.00	\$1,500.00	\$1,000.00		
Net Sales	\$72,000.00	\$71,500.00	\$72,000.00		
Less: Cost of Goods Sold	\$50,000.00	\$50,000.00	\$50,000.00		
Gross Profit	\$22,000.00	\$21,500.00	\$22,000.00		
Operating Expenses					
Wages	\$50,000.00	\$50,000.00	\$50,000.00		
Advertising	\$500.00	\$500.00	\$500.00		
Repairs & Maintenance	\$100.00	\$100.00	\$100.00		
Travel	\$200.00	\$200.00	\$200.00		
Freight/Lease	\$5,000.00	\$5,000.00	\$5,000.00		
Delivery/Freight Expense	\$1,000.00	\$1,000.00	\$1,000.00		
Utilities/Telephone Expenses	\$1,000.00	\$1,000.00	\$1,000.00		
Insurance	\$500.00	\$500.00	\$500.00		
Depreciation	\$5,000.00	\$5,000.00	\$5,000.00		
Other Supplies	\$1,000.00	\$1,000.00	\$1,000.00		
Depreciation	\$5,000.00	\$5,000.00	\$5,000.00		
Interest	\$2,000.00	\$2,000.00	\$2,000.00		
Other Expenses	\$100.00	\$100.00	\$100.00		
Total Operating Expenses	\$79,700.00	\$79,700.00	\$79,700.00		
Operating Profit (Loss)	-\$4,700.00	-\$4,200.00	-\$4,700.00		
Add Other Income	\$1,000.00	\$1,000.00	\$1,000.00		
Other Income	\$2,000.00	\$2,000.00	\$2,000.00		
Profit (Loss) Before Taxes	\$2,300.00	\$2,800.00	\$2,300.00		
Less: Tax Expense	\$500.00	\$500.00	\$500.00		
Net Profit (Loss)	\$1,800.00	\$2,300.00	\$1,800.00		

An **income statement** shows your company's profitability and tells you how much money your business has made or lost.

Balance Sheet

	Start of Year	Difference	END OF YEAR
ASSETS			
Current Asset			
Cash	1,842.22	(8,156.24)	(6,314.02)
Accounts Receivable	11,822.22	14,121.77	25,943.99
Inventory	(102.22)	(20.00)	(122.22)
Prepaid Asset	1,000.00	9,846.99	10,846.99
Equipment	0.00	(8.00)	(8.00)
Fixed Asset	0.00	85.00	85.00
Other Asset	0.00	100.00	100.00
Other	0.00	100.00	100.00
Total Assets	13,562.22	15,825.52	29,387.74
LIABILITIES			
Current Liability			
Accounts Payable	0.00	1,164.14	1,164.14
Notes Payable	0.00	1,564.14	1,564.14
Unearned Revenue	0.00	2,826.24	2,826.24
Interest Payable	0.00	748.00	748.00
Deferred Compensation Tax	0.00	737.47	737.47
Total Current Liability	0.00	6,039.99	6,039.99
LONG TERM			
Notes	0.00	85.00	85.00
Capital	0.00	85.00	85.00
Total Liabilities and Capital	0.00	6,124.99	6,124.99

A **balance sheet** is a snapshot of your business' financial standing at a single point in time.

A balance sheet will also show you your business's **retained earnings**, which is the amount of profit that you've reinvested in your business.

Profit & Loss Statement

ABC Company												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Cost of Goods Sold	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)
Gross Profit	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Operating Expenses	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Operating Profit	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Other Income	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Other Expenses	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Net Profit	230,000	230,000	230,000	230,000	230,000	230,000	230,000	230,000	230,000	230,000	230,000	230,000

A **profit and loss (P&L) statement** is a snapshot of your business's income and expenses during a given time period (e.g. quarterly, monthly, or yearly).

Cash Flow Statement

Company Name	2016	2017	2018	2019	2020	2021	2022
Cash from Operations	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Investing Activities	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Financing Activities	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Net Change in Cash	100,000	100,000	100,000	100,000	100,000	100,000	100,000

A **cash flow statement** analyzes your business's operating, financing, and investing activities to show how and where you're receiving and spending money.

Bank Reconciliation

XYZ Company Bank Reconciliation Statement Month Ended March 31, 2018	
Cash balance as per bank statement, February 28, 2018	\$300,000
Add: Deposit in transit	20,000
Adjusted cash balance	\$320,000
Deduct: Outstanding checks	50,000
Adjusted cash balance	\$270,000
Balance as per depositor's record, February 28, 2018	\$260,000
Add: Receivable collected by bank	9,800
Interest earned	20
Adjusted cash balance	\$270,000

A **bank reconciliation** compares your cash expenditures with your overall bank statements and helps keep your business records consistent.

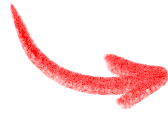
3 Basic Accounting Terms to Know

1. Accounts Receivable

The amount of money owed by your customers after goods or services have been delivered and/or used.

2. Accounts Payable

The amount of money you owe creditors (suppliers, etc.) in return for goods and/or services they have delivered.



BUSINESS EXAMPLE:

If your company pays \$5,000 in rent each month.

Here's how that would be recorded in your financial records before that amount is paid out.

DATE	ACCOUNT	DEBIT	CREDIT
7/31/21	Rent	5000	
7/31/21	Accounts Payable		5000

Once that value is paid, here's how that would be recorded in your company's financial records:

DATE	ACCOUNT	DEBIT	CREDIT
8/1/21	Accounts Payable	5000	
8/1/21	Cash Account		5000

3. Current Assets

Assets that will be used within one year. Typically this could be cash, inventory or accounts receivable.

4. Fixed Assets

Asset that are more long-term and will likely provide benefits to a company for more than one year, such as a building, land or machinery.

5. Depreciation

The systematic allocation of the cost of equipment and buildings used in a business from the balance sheet to the income statement over the useful life of the asset.

4 What is Bookkeeping?

Bookkeeping refers to the process of organizing and recording financial transactions for a business. It's crucial to have good bookkeeping practices in place because this is the primary way to determine if your business is profitable — and it's also vital for making sure you have accurate and complete information for income tax preparation.

At the most basic level, bookkeeping is simply “keeping an eye on your numbers.”

When you have a good sense of where you stand, you can make informed decisions about your business's future. You can also address financial challenges early — before they grow into big problems.

Bookkeeping Tasks

- Recording all business transactions.
- Sending invoices to customers.
- Making payments to vendors.
- Making bank accounts.
- Payroll preparation.
- Preparing financial statements and reports.

5 Good Bookkeeping Habits

As a business owner, it's essential to create a system for organizing your bookkeeping tasks.

A dedicated system will make it easy to find receipts and keep you up to date, so you don't have to scramble when tax season comes around.

One thing you can do right now to improve the way you handle your books is to create a set of simple bookkeeping checklists. These lists will give you a quick, reliable way to streamline basic financial tasks throughout the year.

Daily Checklist

- ✓ **Refresh your financial data.** Sync your bank and credit card feeds, sales data from your POS system, and any other automated financial transactions.
- ✓ **Reconcile cash against receipts.** This allows you to discover shortages and overages right away.
- ✓ **Record transactions.** For example, invoices you send and payments you make to vendors. Keeping up on this daily makes it less cumbersome when you get to the end of the month.
- ✓ **Record any payments and deposit cash and checks.** You'll save a lot of time and hassle if you use a business bank account with mobile deposit features.
- ✓ **Record any inventory you receive.**
- ✓ **Back-up your data.**

Quarterly Checklist

- ✓ **Calculate a new profit and loss statement.**
- ✓ **Prepare quarterly payroll forms and make quarterly tax payments.**
- ✓ **Review sales tax and remit payments.** This may have to be done monthly, depending on your state's filing frequency.
- ✓ **Contact your tax preparer.** Review your income tax situation. Quarterly estimated tax payments may be due.

Annual Checklist

- ✓ **Review any past-due receivables.** Look at invoices and follow up with any reminders.
- ✓ **Thoroughly evaluate your inventory.** Perform a physical inventory count.
- ✓ **Complete time sensitive paperwork.** This includes W-2 and 1099 paperwork, any other payroll forms that are due annually, and issue statements to employees and contractors.
- ✓ **Contact your tax preparer to file your annual tax return.**



Recommended Initiate Resources

Accounting Definitions
Good Bookkeeping Habits
Bookkeeping Reporting Basics