Bookkeeping Basics

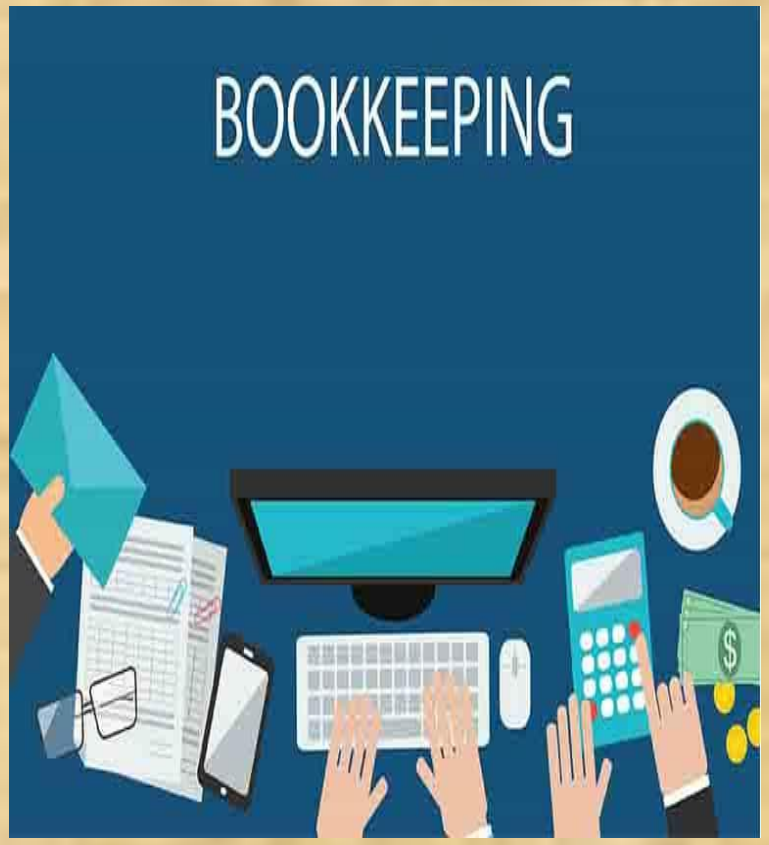
Tuesday, September 21, 2021

10 a.m. – 2:00 p.m.

Presentation by: Lisa Abraham-Rengechel

What is bookkeeping?

Bookkeeping means keeping your books (records) in order. It is a process of recording and organizing a business financial transactions. A bookkeeper is someone who follows this system and does this process.



Bookkeeping and Accounting are very much the same, except bookkeeping emphasizes on the recording and classifying; whereas, accounting emphasizes on the analyzing the records collected.

The magic formula:

ASSET = LIABILITY + OWNER'S EQUITY

ASSETS:
Property of value owned by the business.

LIABILITY:
The portion of the asset owed to entities outside of the business.

Owner's Equity:
The portion of the assets that are not owed to entities outside of the business.

Basic types of accounts:

ASSETS:

Includes cash and resources owned by the business, i.e. accounts receivable, inventory, and equipments.

LIABILITY:

Includes the obligations and debts owned by the business, i.e. accounts payable and notes payables.

Equity:

The value remaining after liabilities have been subtracted from the assets. This represents the owner's held interest in the business, i.e. stocks and retained earnings.

Revenues/Income:

Money that the business earns by selling goods and/or services.

Expenses/Expenditures:

Money going out of the business to pay for goods and/or services, i.e. wages, fringe benefits, rent, utilities, etc.

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Sample Chart of Accounts

ASSETS	LIABILITIES	OWNER'S EQUITY
CASH	ACCOUNTS PAYABLE	SALES REVENUE
ACCOUNTS RECEIVABLE	NOTES PAYABLE	RENT EXPENSE
SUPPLIES	WAGES PAYABLE	UTILITIES EXPENSE
INVENTORY	LOANS PAYABLE	OWNER CAPITAL
EQUIPMENT	UNEARNED REVENUE	OWNER WITHDRAWALS
BUILDING/LAND		

Each business may use different account names.

Another type of Chart of Accounts

Account	Account type
Accounts Payable	Liability
Accounts Receivable	Asset
Cash	Asset
Dividends	Equity
Equipment	Asset
Insrance Expense	Expense
Interest Expense	Expense
Interest Income	Revenue
Inventory	Asset
Owner's Capital	Equity
Real Estate	Asset
Rent Expense	Expense
Rental Income	Revenue
Retained Earnings	Equity
Salaries and Wages	Expense
Sales Income	Revenue
Supplies	Asset
Supplies Expense	Expense
Unearned Service Revenue	Liability
Utilities Expense	Expense

USING DEBITS & CREDITS…

ACCOUNT TYPE	DEBITS	CREDITS
ASSET	INCREASE	DECREASE
LIABILITY	DECREASE	INCREASE
CAPITAL	DECREASE	INCREASE
WITHDRAWAL	INCREASE	DECREASE
REVENUE	DECREASE	INCREASE
EXPENSE	INCREASE	DECREASE

Evaluating a Transaction

OWNER INVESTS OWN MONEY, $500

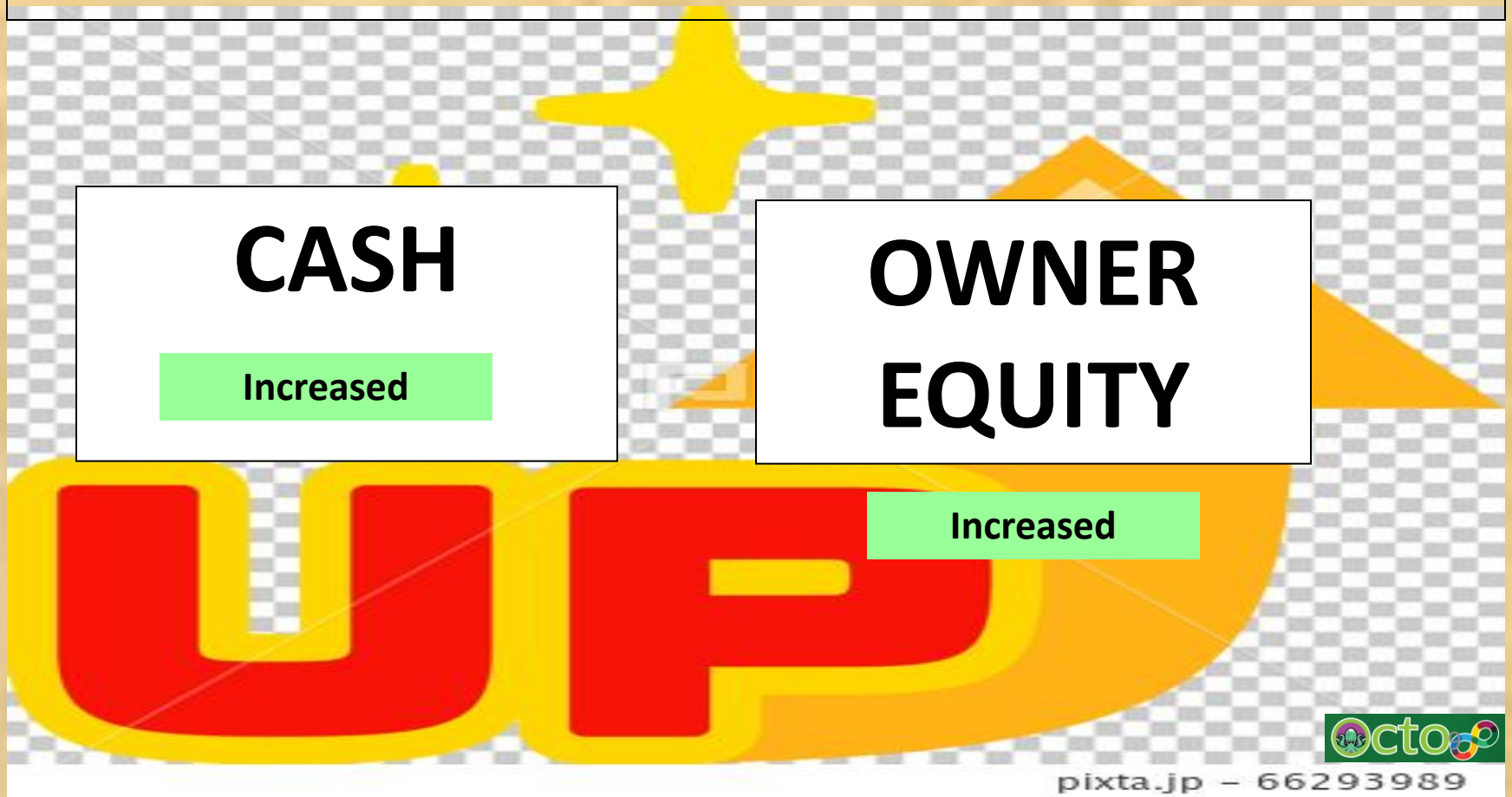
CASH

OWNER EQUITY

1. What accounts are impacted?

OWNER INVESTS OWN MONEY, $500

2. Determine whether the balance in each account has increased or decreased…



OWNER INVESTS OWN MONEY, $500

3. Determine how much each account has been impacted…

CASH	OWNER EQUITY
$500	$500

Now, Record the transaction:

OWNER INVESTS OWN MONEY, $500

CASH	
Debit	Credit
$500.00	

Owner's Equity	
Debit	Credit
	$500.00

GENERAL & SPECIAL JOURNALS…

- General Journals contain entries that do not fit within a specific journal. In other words, “subsidiary journal in which transactions relating to adjustment entries, opening stock, depreciation, accounting errors...”

- Special Journals display all transactions of a specific types;
  - Provide efficient method for reviewing business activity
  - Companies can tailor to their own specific needs

  - *A special journal (also known as a specialized journal) is useful in a manual accounting or bookkeeping system to reduce the tedious task of recording both the debit and credit general ledger account names and amounts in a general journal.*

GENERAL & SPECIAL JOURNALS…

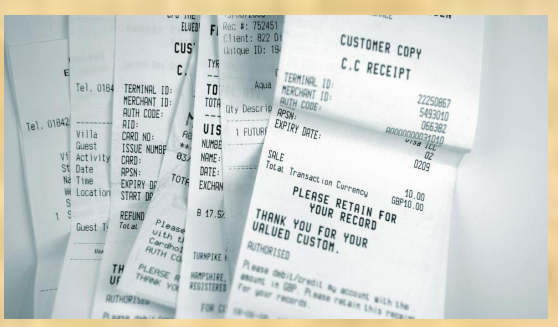
JOURNAL TYPES and ACTIVITIES:

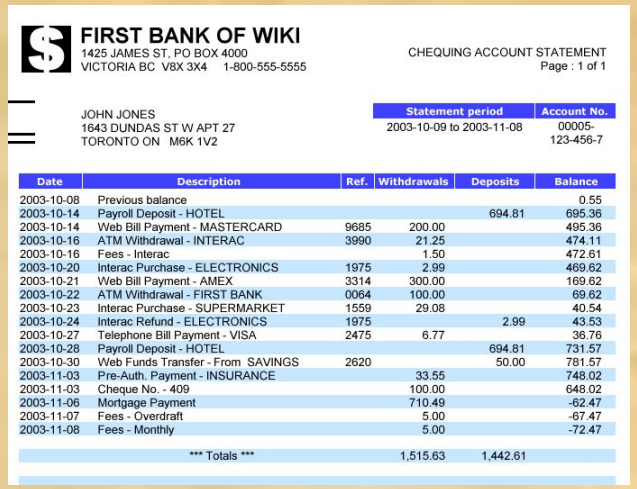
- **CASH RECEIPTS**: Entries in which cash is received.
- **CASH PAYMENTS**: Entries in which cash is paid out.
- **REVENUE:** Entries in which revenue is earned on account (accounts receivable).
- **PURCHASES:** Entries in which purchases are made on account (accounts payable).

Accounting Cycle
Collect Source Documents
Verify Source Documents
Analyze Transactions
Journalize Transactions
Post to Ledger
Prepare Trial Balance
Prepare Worksheet
Prepare Financial Statements

COMMON SOURCE DOCUMENT…

- ❖Invoices
- ❖Checks
- ❖Receipts
- ❖Bank Statements
- ❖Purchase order





FIRST BANK OF WIKI
1425 JAMES ST, PO BOX 4000
VICTORIA BC V8X 3X4 1-800-555-5555

CHEQUING ACCOUNT STATEMENT
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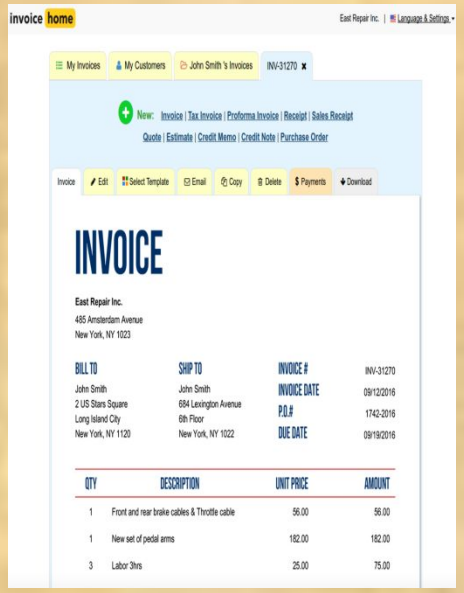
JOHN JONES
1643 DUNDAS ST W APT 27
TORONTO ON M6K 1V2

Statement period	Account No.
2003-10-09 to 2003-11-08	00005-123-456-7

Date	Description	Ref.	Withdrawals	Deposits	Balance
2003-10-08	Previous balance				0.55
2003-10-14	Payroll Deposit - HOTEL			694.81	695.36
2003-10-14	Web Bill Payment - MASTERCARD	9685	200.00		495.36
2003-10-16	ATM Withdrawal - INTERAC	3990	21.25		474.11
2003-10-16	Fees - Interac		1.50		472.61
2003-10-20	Interac Purchase - ELECTRONICS	1975	2.99		469.62
2003-10-21	Web Bill Payment - AMEX	3314	300.00		169.62
2003-10-22	ATM Withdrawal - FIRST BANK	0064	100.00		69.62
2003-10-23	Interac Purchase - SUPERMARKET	1559	29.08		40.54
2003-10-24	Interac Refund - ELECTRONICS	1975		2.99	43.53
2003-10-27	Telephone Bill Payment - VISA	2475	6.77		36.76
2003-10-28	Payroll Deposit - HOTEL			694.81	731.57
2003-10-30	Web Funds Transfer - From SAVINGS	2620		50.00	781.57
2003-11-03	Pre-Auth. Payment - INSURANCE		33.55		748.02
2003-11-03	Cheque No. - 409		100.00		648.02
2003-11-06	Mortgage Payment		710.49		-62.47
2003-11-07	Fees - Overdraft		5.00		-67.47
2003-11-08	Fees - Monthly		5.00		-72.47
	*** Totals ***		1,515.63	1,442.61	



GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)…

- **COSTS**: Every asset must be recorded at the amount paid for the item.

- **TIME PERIOD**: Accounting activity may be expressed over specific periods of time.

- **REVENUE**: Revenue must be recorded in the period in which it is earned.

- **MATCHING**: Expenses must be recorded in the same period as the revenue that they generated.

POSTING JOURNAL ENTRIES…

Amounts in a journal entry are copied to a T-Account for their respective accounts

CASH				
Date	Explanation	Debit	Credit	Balance
8/1/21		$ 35,000.00		$ 35,000.00
8/2/21			$ 20,000.00	$ 15,000.00
8/7/21		$ 850.00		$ 15,850.00
8/12/21			$ 1,500.00	$ 14,350.00
8/18/21			$ 250.00	$ 14,100.00
8/21/21		$ 300.00		$ 14,400.00
8/30/21			$ 1,700.00	$ 12,700.00
8/31/21			$ 400.00	$ 12,300.00

Name of account

CASH

Debit	Credit
$ 35,000	$ 20,000
$ 850	$ 1,500
$ 300	$ 250
	$ 1,700
	$ 400
$ 12,300	

Debit

Credit

Total Debits:	$ 36,150
Total Credits:	$ 23,850
Difference:	$ 12,300

Ending Balance

Once all amounts have been posted, the total balance for each account can be determined.

PREPARING AN UNADJUSTED TRIAL BALANCE:

- **Preparing an Unadjusted Trial Balance allows the bookkeeper to:**
  - Summarize all account balance in one location;
  - Ensure that all account balances have been correctly calculated.

ADJUSTING JOURNAL ENTRIES:

- **Accrual Basis of Accounting**
  - Revenues and expenses are recorded at the time the transaction occurs, regardless of when the cash (payment) is received.
  - Must record adjusting journal entries.

- **Cash Basis of Accounting**
  - Revenues and expenses are recorded when cash is receive or paid out.
  - Recording adjusting journal entries not required.

ALL OF THESE PROCESSES IS FOR THE FOLLOWING:

INCOME STATEMENT

- The INCOME STATEMENT is the first financial statement a company completes. It lists all revenues and expenses, and concludes with Net Income.

Example Corporation
Income Statement
Years ended December 31

(in thousands of dollars)

	2020	2019	2018
Net sales	$ 3,980	$ 3,750	$ 3,400
Cost of sales	3,100	2,950	2,700
Gross profit	880	800	700
Selling, general and administrative expenses	640	590	510
Operating income	240	210	190
Interest expense	20	15	15
Loss on sale of equipment	5	-	4
Income before income taxes	215	195	171
Income tax expense	50	40	36
Net income	$ 165	$ 155	$ 135

See notes to the financial statements.

STATEMENT OF OWNER'S EQUITY

Rodney's Restaurant Supply
Statement of Owner's Equity
For the Year Ended December 31, 20xx

Owner's Equity at January 1, 20xx	
Add:	
Owner's capital contribution	$20,000
Net Income	$150,000
Subtotal	$170,000
Deduct:	
Owner's draws	($75,000)
Owner's Equity at December 31, 20xx	**$95,000**

The Income Statement must be completed first so that the Net Income figure will be available for insertion within the Statement of Owner's Equity.

BALANCE SHEET

Balance sheet of ABC LTD as at 31/12/2014

Fixed Assets		
Van		10,000
Machinery		30,000
Current Assets		
Debtors	5,000	
Bank	7,500	
Stock	3,500	
	16,000	
Current Liabilities		
Creditors	6,000	
Working Capital		10,000
Total Net Assets		50,000
Equity		
Owner's investment	15,000	
Retained earnings	35,000	
Total Equity		50,000

Displays all asset, liability, and equity account balances that have not been listed within an earlier financial statement.

Designed to prove that the accounting equation remains in balance at the end of the period.

STATEMENT OF CASH FLOW

SAMPLE SUMMARY CASH FLOW STATEMENT	
Operating Cash Flow	
Net Income	$2,000
Depreciation	300
Increase in Accounts Receivable	(250)
Decrease in Inventory	200
Increase in Accounts Payable	100
	2,350
Investing Cash Flow	
Equipment Purchases	(400)
	(400)
Financing Cash Flow	
Payments on Debt	(300)
Owner Distributions	(800)
	(1,100)
Change in Cash	850
Beginning Cash	1,350
Ending Cash	$2,200

The Statement of Cash Flows displays all the cash activity for the period.

All the money that came in.

All the money that went out.

CLOSING ENTRIES

- Temporary accounts are closed at the end of each period.

- Permanent accounts have account balances that are carried over from one period to the next.

- REQUIRES FOUR JOURNAL ENTRIES:
  1. First entry closes the revenue account(s)
  2. Second entry closes the expense account(s)
  3. Third entry closes the Income Summary account
  4. Fourth entry closes the withdrawal account(s)

POST-CLOSING TRIAL BALANCE

Company A
Post-Closing Trial Balance
31-Jan-10

	Debit	Credit
Cash	$20,000	-
Accounts Receivable	7,500	-
Office Supplies	5,000	-
Prepaid Rent	23,000	-
Equipment	90,000	-
Accumulated Depreciation	-	$1,500
Accounts Payable	-	6,200
Utilities Payable	-	5,100
Unearned Revenue	-	3,500
Interest Payable	-	200
Notes Payable	-	30,000
Common Stock	-	90,000
Retained Earnings	-	9,000
Total	$145,500	$145,500

Final step in the Accounting Cycle;

A **post-closing trial balance** is prepared immediately following the posting of closing entries. The purpose is to ensure that the debits and credits in the general ledger are equal and that all temporary accounts have been closed.

ADVISE on “Best Practice”:

- At least once-a-week to record all financial transactions; Sales receipts, Bill Payments, Purchases

- Close your books regularly too. Perhaps once-a-month or every quarter.

**** Tackle your books when your mind is fresh, not tired. Perhaps in the morning before you start your day…***

STORE RECORDS SECURELY…

- Proper recordkeeping for small businesses makes the process easier and keeps you compliant with the law.
- Keep things simple.
- Keep records organized.
- Keep records organized.
- Use folders, binders, labels, and etc.
- Store all records properly to avoid damages.

SEEK HELP WHEN YOU NEED…

- PALAU CHAMBER OF COMMERCE'S Resource Partners.
- PALAU SBDC and their training programs.
- Hire a bookkeeper.
- Invest in an accounting software.
- Outsource to an accounting services business.

CONCLUSION…

QUESTION TIME…