

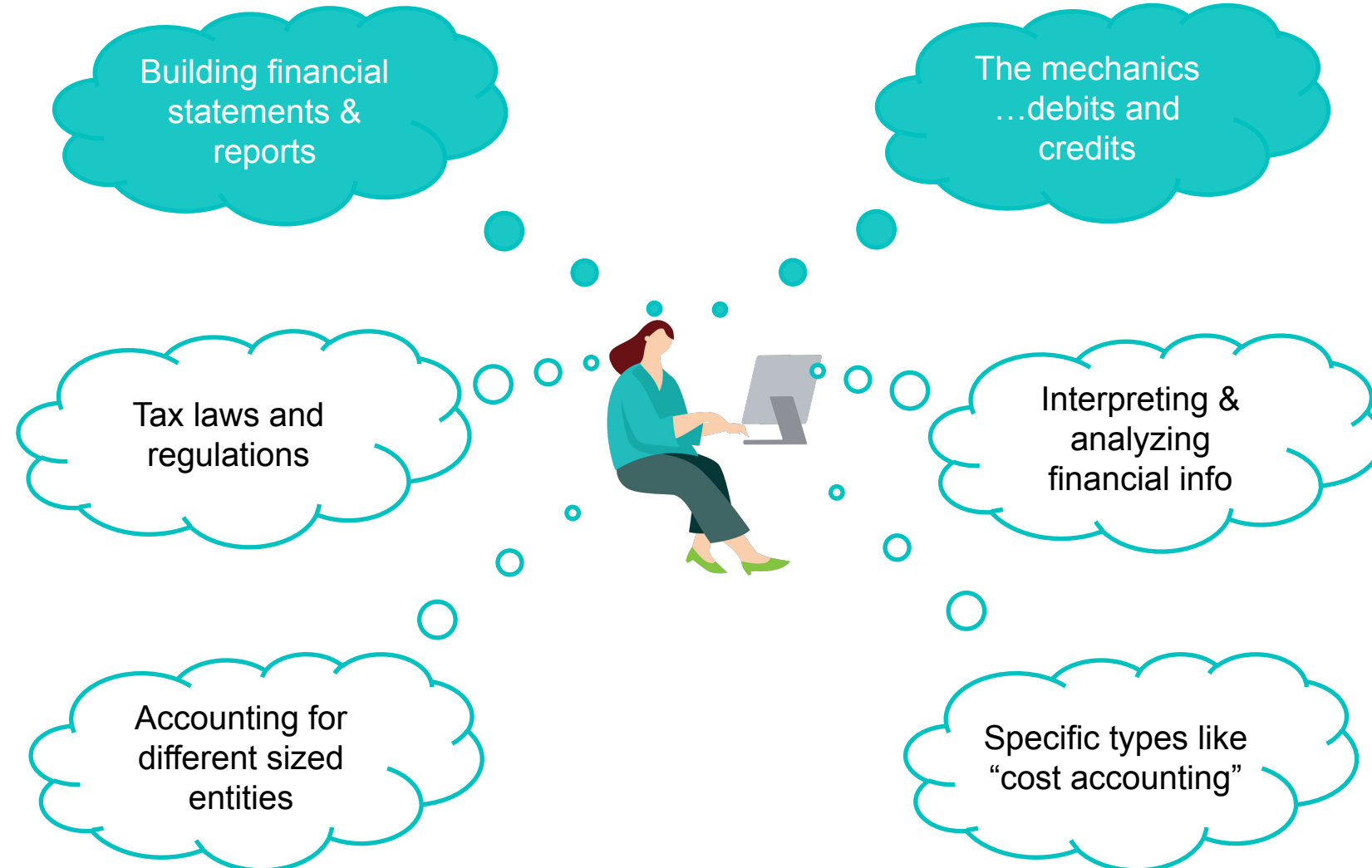


QuickBooksTraining.com

Crash Course in Bookkeeping



Accounting knowledge includes...



The order you'll learn it

Intro to accounting

- What is accounting? What is the “Accounting Equation”?

Recording activities in the “Books”

- Understanding and entering financial transactions

Debits & Credits

- Using T-accounts and making journal entries

Reconciliation & Financial Statements

- How to prepare financial statements and reconcile accounts

Accounts

- Naming and getting the “section” right

Day-to-day activities

- Entering transactions for money-in and money-out

More complex entries

- Accounting entries for retained earnings, fixed assets, inventory, & payroll

Bookkeeping Challenges

- Tips for tackling tricky transactions and concepts for bookkeepers

ABCDEF GHI
JKLMNOPQ
RSTUVWXYZ

**Accounting
doesn't
always make
sense**



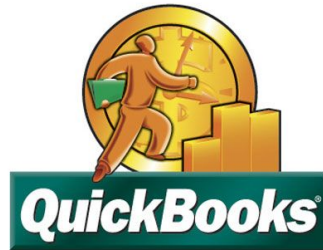
Chapter 1

Intro to accounting

Who does this accounting thing?



Bookkeepers



Accountants

Anybody with a
computer & QuickBooks

What are Bookkeeping Ethics?



Bookkeepers



Accountants

Objectivity

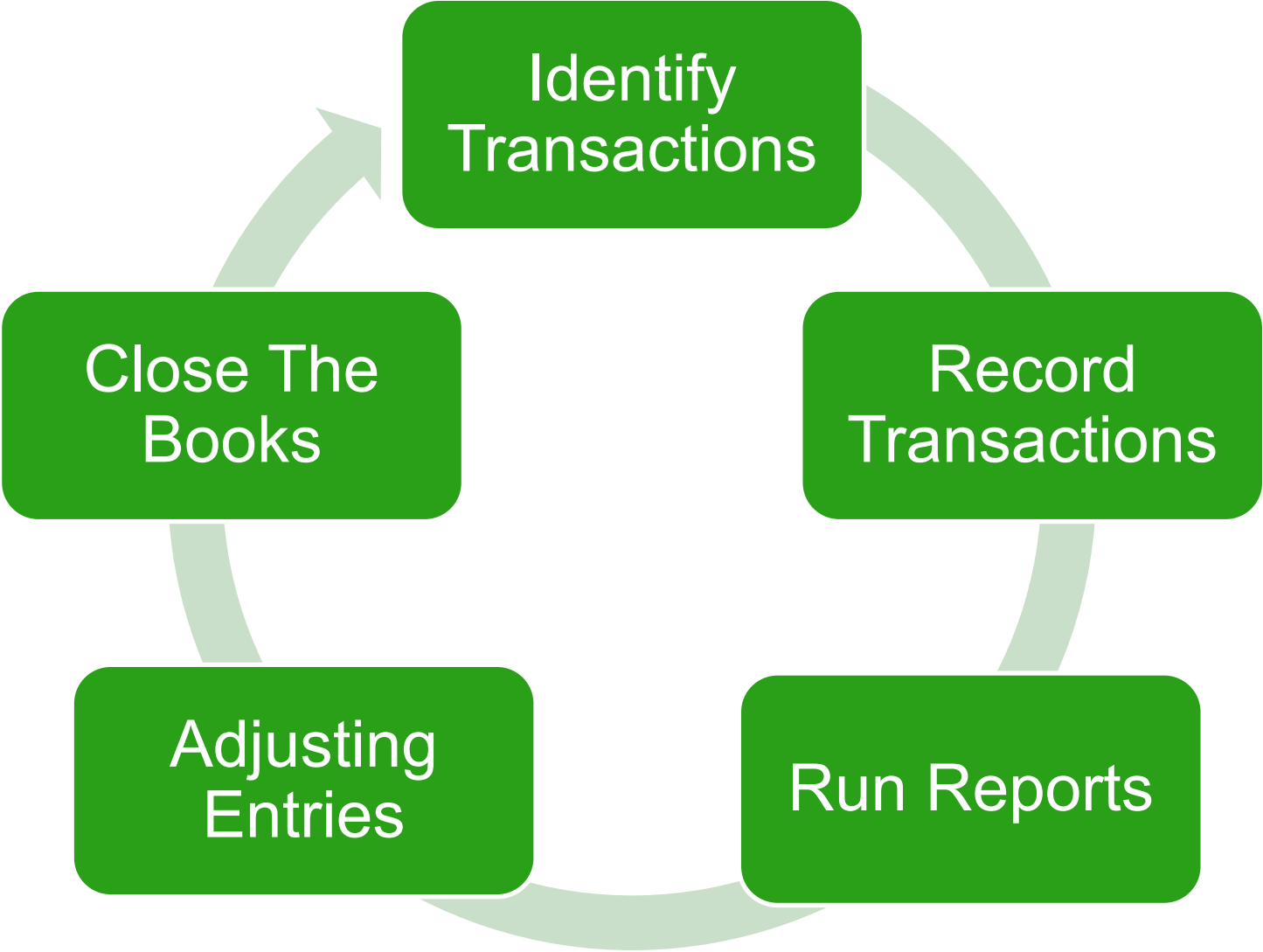
Competence

Integrity

Confidentiality

Professional Conduct

Bookkeeping Cycle



What is a business?

GOODS



Business

SERVICES



Customers

Another definition

$$2 + 2 = 7$$

Inputs

Outputs

A business adds value...
which represents **profit**

Where does accounting fit it?



Business



- Management
- Owners
- Investors
- Lenders
- Government

Accounting communicates the **financial position** and **financial performance** of a business to stakeholders

Economic Entity principle



Isabella

Isabella is independently wealthy. She sent you one book that includes her personal wealth and her store.



Spencer

Spencer is quite the entrepreneur! He owns a store...and 20 other businesses. He sent one BIG book that includes all his businesses.



Karen

Karen keeps a separate book for her store. This excludes all personal money and any other business interests.



You



Economic Entity Principle

A business is a separate entity from owners and other businesses and must keep separate books.

Does it go in the business' book?

Yes

No

- | | | | |
|---|---|--------------------------|--------------------------|
| ① | Pay cash to the city for a business license | <input type="checkbox"/> | <input type="checkbox"/> |
| ② | Decide to take the family to dinner. You paid with cash. | <input type="checkbox"/> | <input type="checkbox"/> |
| ③ | Pay a lawyer to talk about the paperwork for your company. | <input type="checkbox"/> | <input type="checkbox"/> |
| ④ | Receive a bank loan to buy a delivery truck. | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑤ | Buy a new sofa for your living room. | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑥ | Open a business bank account with \$50,000 of your own savings. | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑦ | A friend loans you money to buy a computer for the business. | <input type="checkbox"/> | <input type="checkbox"/> |

Click the blue box to check your work.

What

= Who

\$10,000 TV

= \$10,000 You

\$1,000 Computer

= \$1,000 You

Everything of value
has an owner...

What

= Who

100,000 Car

= 90,000 Bank
10,000 You

300,000 Home

= 250,000 Bank
50,000 You

What

= Who has Claim

What

= + Other's Claims
Your Claims

The accounting equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$\text{What} = \text{Other's Claims} + \text{Your Claims}$$

Assets

Liabilities
Other's Claims

Equity
Owner's Claims

What = Who



Chapter 2

Recording activity in the book

1st month's transactions

- ① You (owner) open a business bank account with 50,000 of your own savings.
Checking, Owners Contribution
- ② Write a check to buy kitchen equipment for 22,000.
Checking, Kitchen Equipment
- ③ Buy delivery truck for 30,000...1,000 down and 29,000 financed by the dealer.
Truck, Truck Loan, Checking

You do your first catering event!

- ④ Customer pays with a check for 15,000.
Catering Sales, Checking
- ⑤ Write a check for 2,500 of food (all used at event).
Food, Checking
- ⑥ Write a check for 500 of catering supplies (all used at event).
Supplies, Checking
- ⑦ Write a check to employment agency for 1,200 (temporary workers).
Labor, Checking

Assets

Liabilities
Other's Claims

Equity
Owner's Claims

What = Who

Assets

Account name goes here



Total 0

Account name goes here



Total 0

Account name goes here



Total 0

Assets 0

Liabilities

Account name goes here



Total 0

Account name Goes Here



Total 0

Equity

Account name goes here



Total 0

Liabs & Equity 0

Assets

Liabilities
Other's Claims

Equity
Owner's Claims

What = Who

Assets

Account name goes here



Total 0

Account name goes here



Total 0

Account name goes here



Total 0

Assets 0

Liabilities

Account name goes here



Total 0

Account name Goes Here



Total 0

Equity

Account name goes here



Total 0

Liabs & Equity 0

Accounts

Used to categorize and group financial transactions so you can prepare meaningful financial reports.

1st month's transactions

- ① You (owner) open a business bank account with 50,000 of your own savings.
Checking, Owners Contribution
- ② Write a check to buy kitchen equipment for 22,000.
Checking, Kitchen Equipment
- ③ Buy delivery truck for 30,000...1,000 down and 29,000 financed by the dealer.
Truck, Truck Loan, Checking

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- ④ Customer pays with a check for 15,000.
Catering Sales, Checking
- ⑤ Write a check for 2,500 of food (all used at event).
Food, Checking
- ⑥ Write a check for 500 of catering supplies (all used at event).
Supplies, Checking
- ⑦ Write a check to employment agency for 1,200 (temporary workers).
Labor, Checking

Assets

Checking	
1	50,000
▼	
▼	
▼	
▼	
▼	
▼	
Total	50,000

<i>Account name goes here</i>	
▼	
▼	
▼	
▼	
Total	0

<i>Account name goes here</i>	
▼	
▼	
▼	
Total	0

Assets 50,000

Liabilities

<i>Account name goes here</i>	
▼	
▼	
▼	
Total	0

<i>Account name Goes Here</i>	
▼	
▼	
▼	
Total	0

Equity

<i>Account name goes here</i>	
▼	
▼	
▼	
Total	0

Liabs & Equity 0

Let's talk about Equity...

Equity only increases when:

The owner makes a contribution to the company

Or...the company makes a profit

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
Total	42,000

Kitchen Equipment	
2	22,000
Total	22,000

Truck	
3	30,000
Total	30,000

Assets 94,000

Liabilities

Truck Loan	
3	29,000
Total	29,000

Account name Goes Here	
Total	0

Equity

Owner Contribution	
1	50,000
Total	50,000

Liabs & Equity 79,000

Where do sales go in the book?

Equity only increases when:

-The owner makes a contribution to the company

-Or...the company makes a profit

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)
Total	39,500

Kitchen Equipment	
2	22,000
Total	22,000

Truck	
3	30,000
Total	30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000
Total	29,000

Account name Goes Here	
Total	0

Equity

Owner Contribution	
1	50,000
Total	50,000

Profit:Sales 15,000

Liabs & Equity 94,000

Where does "Food" go in the book?

To Assets like the Kitchen Equipment and Truck?

No...and here's why....

What = Who

\$10,000 TV = **\$10,000 You**

\$1,000 Computer = **\$1,000 You**

**Have future
value...**

Assets

\$2 Bottle of Water = **\$2 You**

\$5 Cleaning = **\$5 You**

Used now...

Expenses

**Everything of value
has an owner...**

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)
Total	39,500

Kitchen Equipment	
2	22,000
Total	22,000

Truck	
3	30,000
Total	30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000
Total	29,000

Account name Goes Here	
Total	0

Equity

Owner Contribution	
1	50,000
Total	50,000
Profit:Sales	15,000

Liabs & Equity 94,000

Where do Expenses go in the book?

Equity only increases when:

The owner makes a contribution to the company

Or...the company makes a **profit**

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)
Total	39,500

Kitchen Equipment	
2	22,000
Total	22,000

Truck	
3	30,000
Total	30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000
Total	29,000

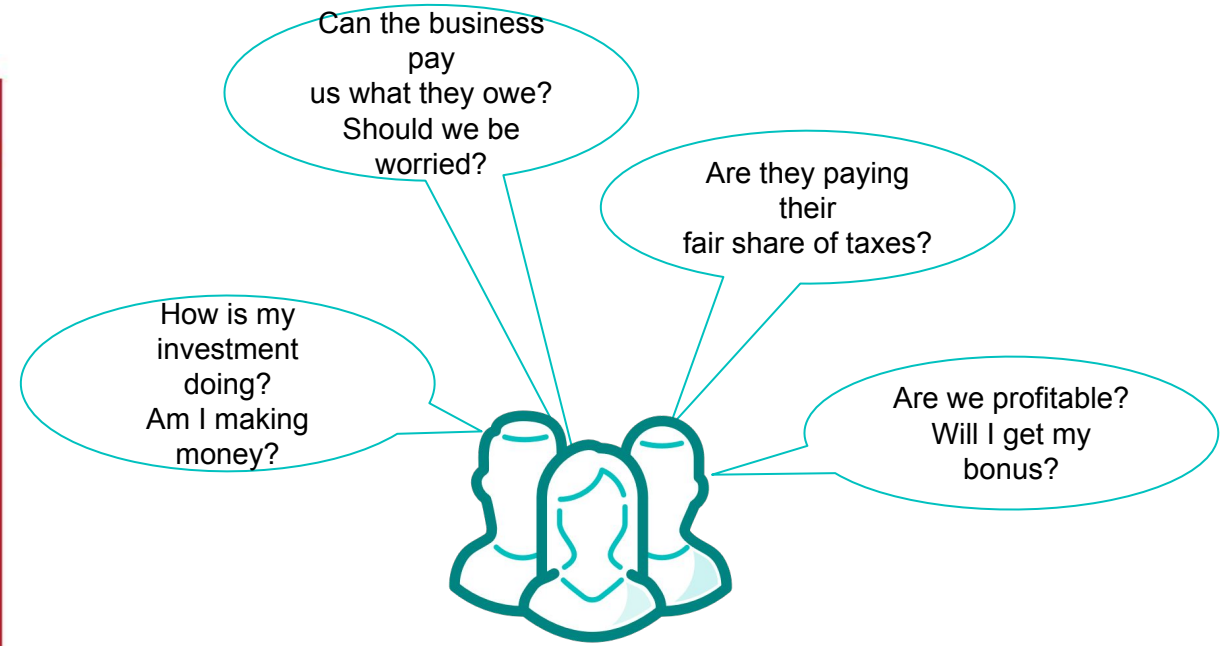
Account name Goes Here	
Total	0

Equity

Owner Contribution	
1	50,000
Total	50,000

Profit:Sales 15,000
Profit:Food (2,500)

Liabs & Equity 91,500



Stakeholders

- Management
- Owners
- Investors
- Lenders
- Government

Accounting communicates the financial position and financial performance of a business to stakeholders

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)
Total	39,500

Kitchen Equipment	
2	22,000
Total	22,000

Truck	
3	30,000
Total	30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000
Total	29,000

Account name Goes Here	
Total	0

Equity

Owner Contribution	
1	50,000
Total	50,000

Profit:Sales 15,000
Profit:Food (2,500)

Liabs & Equity 91,500

What is Financial Position?

Where the business stands...

- What the business **owns** (Assets)
- What the business **owes** (Liabilities)
- What the business **is worth** (Equity)

Accounting communicates the **financial position** and financial performance of a business to stakeholders

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)

Total 39,500

Kitchen Equipment	
2	22,000

Total 22,000

Truck	
3	30,000

Total 30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000

Total 29,000

Account name Goes Here

Total 0

Equity

Owner Contribution	
1	50,000

Total 50,000

Profit:Sales 15,000
Profit:Food (2,500)

Liabs & Equity 91,500

What is Financial Performance?

How the business did...

- What the business earned from selling services & products (Income)
- What it cost to generate the income (Expenses)
- What's the profit (Income minus Expenses)

Accounting communicates the financial position and **financial performance** of a business to stakeholders

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)

Total 39,500

Kitchen Equipment	
2	22,000

Total 22,000

Truck	
3	30,000

Total 30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000

Total 29,000

Account name Goes Here

Total 0

Equity

Owner Contribution	
1	50,000

Total 50,000

Profit:Sales 15,000
Profit:Food (2,500)

Liabs & Equity 91,500

But here's the problem....

- Most businesses have LOTS of Sales and Expense accounts and MANY transactions flow through these accounts.
- Right now, the **financial performance** is "buried" in Equity.

Here's how accounting handles this....

Accounting communicates the financial position and **financial performance** of a business to stakeholders

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)

Total 39,500

Kitchen Equipment	
2	22,000

Total 22,000

Truck	
3	30,000

Total 30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000

Total 29,000

Account name Goes Here

Total 0

Equity

Owner Contribution	
1	50,000

Total 50,000

Profit:Sales 15,000
Profit:Food (2,500)

Liabs & Equity 91,500

Income

Catering Sales	
4	15,000

Total 15,000

Account name goes here

Total 0

Expenses

Food	
5	2,500

Total 2,500

Account name goes here

Total 0

Account name goes here

Total 0

Account name goes here

Total 0

12,500

Profit

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)
Total	39,500

Kitchen Equipment	
2	22,000
Total	22,000

Truck	
3	30,000
Total	30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000
Total	29,000

Account name Goes Here	
Total	0

Equity

Owner Contribution	
1	50,000
Total	50,000

--	--

Liabs & Equity 79,000

Income

Catering Sales	
4	15,000
Total	15,000

Account name goes here	
Total	0

Expenses

Food	
5	2,500
Total	2,500

Account name goes here	
Total	0

Account name goes here	
Total	0

Account name goes here	
Total	0

12,500 Profit

Assets

Checking	
1	50,000
2	(22,000)
3	(1,000)
4	15,000
5	(2,500)
Total	39,500

Kitchen Equipment	
2	22,000
Total	22,000

Truck	
3	30,000
Total	30,000

Assets 91,500

Liabilities

Truck Loan	
3	29,000
Total	29,000

Account name Goes Here	
Total	0

Equity

Owner Contribution	
1	50,000
Total	50,000

Profit 12,500

Liabs & Equity 91,500

Income

Catering Sales		Account name goes here	
4	15,000		
Total	15,000	Total	0

Expenses

Food		Account name goes here	
5	2,500		
Total	2,500	Total	0

Account name goes here		Account name goes here	
Total	0	Total	0

12,500 Profit

1st month's transactions

- ① You (owner) open a business bank account with 50,000 of your own savings.
Checking, Owners Contribution
- ② Write a check to buy kitchen equipment for 22,000.
Checking, Kitchen Equipment
- ③ Buy delivery truck for 30,000...1,000 down and 29,000 financed by the dealer.
Truck, Truck Loan, Checking

You do your first catering event!

- ④ Customer pays with a check for 15,000.
Catering Sales, Checking
- ⑤ Write a check for 2,500 of food (all used at event).
Food, Checking
- ⑥ Write a check for 500 of catering supplies (all used at event).
Supplies, Checking
- ⑦ Write a check to employment agency for 1,200 (temporary workers).
Labor, Checking

Balance Sheet
Catering is US
As of 3/31/2024

Assets

Checking \$37,800
Kitchen Equipment 22,000
Truck 30,000
Total Assets **\$89,800**

Liabilities & Equity

Liabilities:
Truck Loan \$29,000

Equity:
Owner Contribution 50,000
Profit 10,800
Total Equity 60,800

Total Liab's & Equity **\$89,800**

Financial Position

Profit & Loss Statement
Catering is US
Month ended 3/31/2024

Income:
Catering Sales \$15,000

Expenses:
Food 2,500
Labor 1,200
Supplies 500
Total Expenses 4,200

Profit **\$10,800**

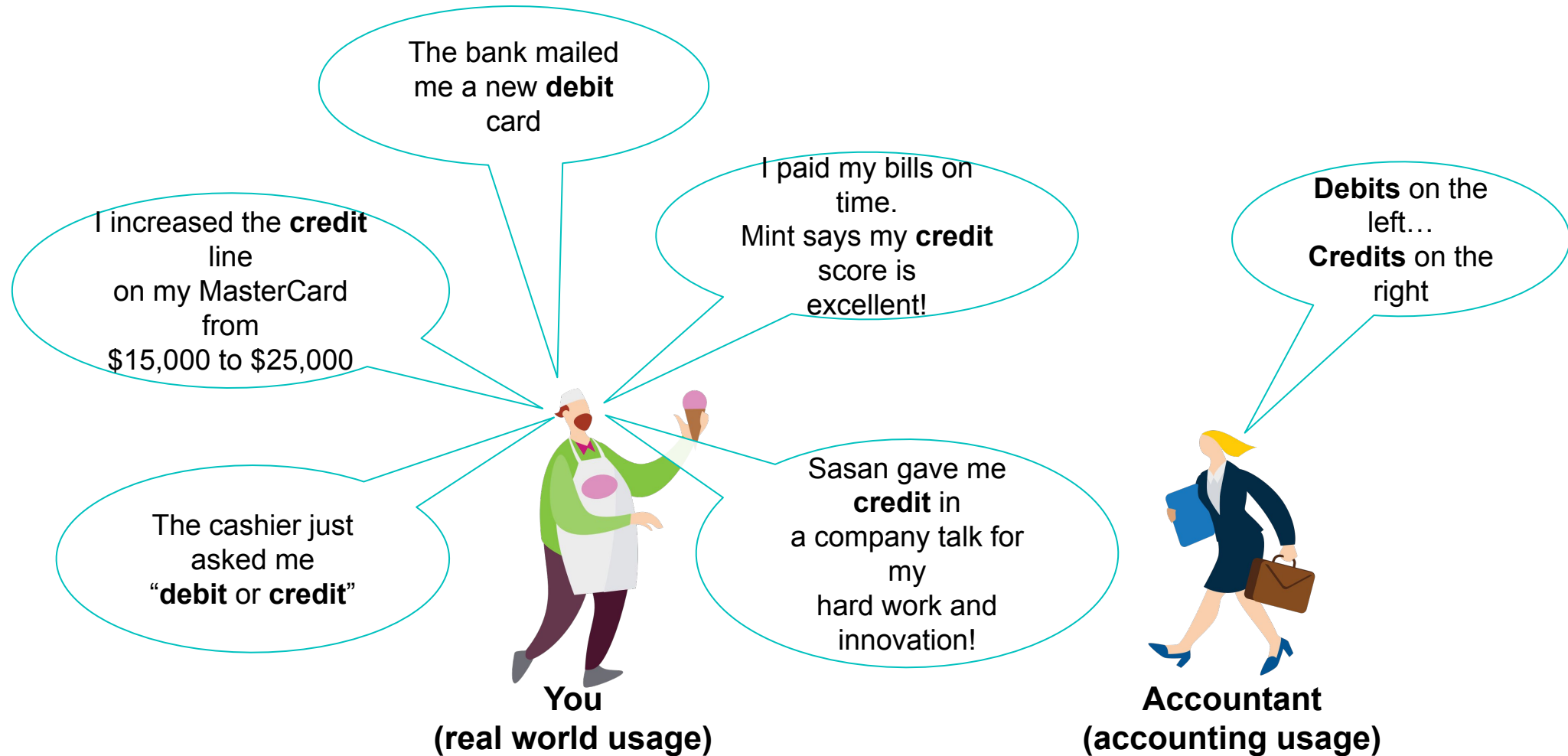
Financial Performance



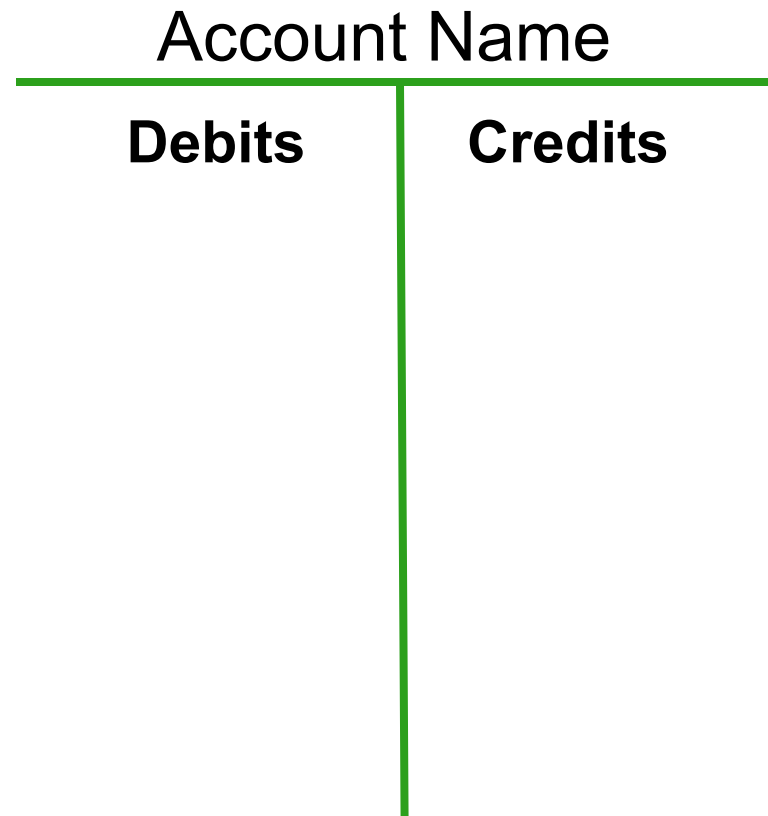
Chapter 3

Debits & credits

The words debit & credit



T-account



T-account group practice

Checking	
Debits	Credits
+	-
① 50,000	② 22,000
④ 15,000	③ 1,000
	⑤ 2,500
	⑥ 500
	⑦ 1,200

T-account individual practice

1. Deposit a 10,000 check from a customer.
2. Pay a lawyer 500 for some legal work.
3. Pay 300 for office supplies.
4. The bank adds 10 to your bank account for interest.
5. Send a customer a refund for 1,500.
6. Pay a web designer 5,000 for building your website.
7. Your lawyer over-billed you and sends a 200 refund.
8. You pay 700 to repair your truck (engine issues).
9. You buy a pizza oven for 2,500...using your company credit card.

T-account calculate balance

Checking	
Debits	Credits
+	-
① 50,000	② 22,000
④ 15,000	③ 1,000
	⑤ 2,500
	⑤ 500
	⑦ 1,200
65,000	27,200
37,800	

Assets

Debit	Credit
+	-

Checking

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
0	

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
0	

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
0	

Assets = 0

Liabilities

Debit	Credit
-	+

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
	0

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
	0

Equity

Debit	Credit
-	+

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
	0

Profit 0

Liab/Equity = 0

Income

Debit	Credit
-	+

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
	0

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
	0

Expenses

Debit	Credit
+	-

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
0	

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
	0

Account name goes here

▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
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0	

Account name goes here

▼	▼
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▼	▼
▼	▼
▼	▼
▼	▼
▼	▼
	0

0 Profit

Debit or credit?

Debit

Credit

- ① Checking (Asset) increased by 1,000.
- ② Catering Income increased by 15,000.
- ③ Loan Payable (Liability) decreased by 2,000.
- ④ Trucks (Asset) increased by 30,000.
- ⑤ Kitchen Equipment (Asset) increased by 12,000.
- ⑥ Food (Expense) increased by 500.
- ⑦ Labor (Expense) increased by 1,500.
- ⑧ Owner's Contribution (Equity) increased by 15,000.
- ⑨ Cash (Asset) decreased by 5,000.

Click the blue box to check your work.

1st month's transactions

- ① You (owner) open a business bank account with 50,000 of your own savings.
Checking, Owners Contribution
- ② Write a check to buy kitchen equipment for 22,000.
Checking, Kitchen Equipment
- ③ Buy delivery truck for 30,000...1,000 down and 29,000 financed by the dealer.
Truck, Truck Loan, Checking

You do your first catering event!

- ④ Customer pays with a check for 15,000.
Catering Sales, Checking
- ⑤ Write a check for 2,500 of food (all used at event).
Food, Checking
- ⑥ Write a check for 500 of catering supplies (all used at event).
Supplies, Checking
- ⑦ Write a check to employment agency for 1,200 (temporary workers).
Labor, Checking

Journal Entry

A way to document an accounting entry. Lists debits and credits and includes a description of the transaction.

Account/Description	Debit	Credit
Trucks	30,000	
Truck Loan		29,000
Checking		1,000
To record purchase of truck and the related loan		

Transaction Journal

Transaction Journal		
All Transactions		
Account	Debit	Credit
▶ 10100 - Checking		1,000.00 ◀
Trucks	30,000.00	
Truck Loan		29,000.00
	30,000.00	30,000.00

Journal			
All Dates			
DATE	ACCOUNT	DEBIT	CREDIT
08/12/2021	Checking		\$1,000.00
	Trucks	\$30,000.00	
	Truck Loan		\$29,000.00
		\$30,000.00	\$30,000.00

General Ledger

Catering is US

As of 3/31/2024

Account DEBIT CREDIT

Checking	\$65,000	\$27,200
Kitchen Equipment		\$22,000
Truck	\$30,000	
Truck Loan		\$29,000
Owner Contribution		\$50,000
Catering Sales		\$15,000
Food	\$2,500	
Labor	\$1,200	
Supplies	\$500	
Total	\$121,200	\$121,200

Why Use Debit and Credits?

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Why Use Debit and Credits?


Assets = **Liabilities** + **Equity**

Assets = **Liabilities** + **Equity** + **Income** - **Expenses**

Expenses + **Assets** = **Liabilities** + **Equity** + **Income**

Practice with debits & credits

1. Write a check for \$200 of office supplies.
2. Write a \$1,000 check to your lawyer for preparation of business formation documents.
3. Pay office rent for the month. The check is for \$2,500.
4. Write a check for truck repairs... \$1,200.
5. You return some faulty printer cartridges to the office supply store and receive a refund of \$20.
6. The bank pays you interest on the checking account for \$10.
7. You did a big catering event. The customer pays you with a check for \$15,000.
8. You need some spending money and transfer \$5,000 to your personal bank account.



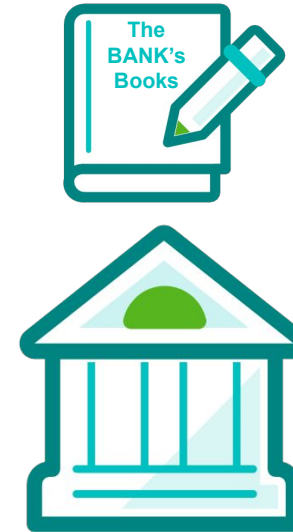
Chapter 4

Reconciliation

What is reconciliation?



Business



Bank

Reconciliation compares your records to the bank's records to ensure your books are accurate.

Which accounts do I reconcile?



Bank Accounts



Credit Cards



Other
Liability/Equity/Asset
Accounts
with
Statements

Steps for Reconciling



Record all the transactions in your books throughout the statement period.



Collect your bank statement.



Identify the transactions in your books that match your bank statement.



Research missing transactions or unreconciled items.



Handle bank reconciling items and inaccurate items. Complete the reconciliation.

Step 1: Gather Data

DATE	REF NO.	ACCOUNT	PAYEE	PAYMENT (USD)	DEPOSIT (USD)
06/24/2021	15	Job Expenses	Tania's Nursery	108.09	
07/03/2021	5664	Accounts Receivable (A/R)	Freeman Sportin...		86.40
07/03/2021	1008	Design income	Kate Whelan	225.00	
07/05/2021		Accounts Receivable (A/R)	Amy's Bird Sanct...		105.00
07/07/2021	7	Accounts Payable (A/P)	Hicks Hardware	250.00	
07/10/2021	8	Landscaping Services:Job ...	Hicks Hardware	24.36	
07/19/2021		Automobile	Squeaky Kleen C...	19.99	
07/19/2021		Meals and Entertainment	Bob's Burger Joint	5.66	
07/19/2021		Legal & Professional Fees:L...	Tony Rondonuwu	100.00	
07/20/2021	70	Maintenance and Repair	Chin's Gas and Oil	185.00	
07/20/2021		Automobile:Fuel	Chin's Gas and Oil	52.14	
07/21/2021	11	Accounts Payable (A/P)	Hall Properties	900.00	
		(A/R) Cool Cars			694.00
		Mahoney Mugs		18.08	
		Materials	Hicks Hardware	215.66	

1 Collect your records. This is usually your accounting software, and most programs include a feature for reconciling.

Buildem, Inc.
5501 LBJ Freeway
Dallas, TX 75240

Account Summary

Opening Balance	\$50,000.00
Withdrawals	\$43,600.00
Deposits	\$40,030.00

Closing Balance on Jan 31, 2020 \$46,430.00

You are eligible for a \$100 bonus

Scan this QR code with your Smartphone To find out more about a High Interest Savings Account – with the first \$100 Deposit on us!



You may need to get a QR Code® reader from your SmartPhone App Store

Your Transaction Details

Date	Ref No.	Detail	Withdrawal	Deposit	Balance
01/01/2020		Opening Balance		50,000.00	50,000.00
01/02/2020	84	Jim Buildem	22,000.00		28,000.00
01/03/2020	3333	Mazda Finance	1,000.00		27,000.00
01/04/2020	85	Aaron's Photography Studio		15,000.00	42,000.00
		Restaurant Supply	2,500.00		39,500.00
		Party Warehouse	500.00		39,000.00
		Solfrank Agency	1,200.00		37,800.00
		ney's Office	200.00		37,600.00
		Seitz	1,000.00		36,600.00
		ay-echeck	2,500.00		34,100.00
		Mekanix	1,200.00		32,900.00
		ney's Office		20.00	32,920.00
		st Earned		10.00	32,930.00
		Bird Sanctuary		15,000.00	47,930.00

2 Retrieve your bank or credit card statement. Your financial institution often sends this to you on a monthly basis.

4

Determine the date range of the statement.

For Jan 01, 2020 to Jan 31, 2020

Account Number
00-123456
Branch Transit Number
098765

Contact Information

1-800-222-0123
Contact us by phone for questions, on this statement, change of personal information, and general inquiries, 24 hours a day, 7 days a week

TTY for the hearing impaired:
800-123-0007

3 Identify the opening and closing balance.

Dallas, TX
75240

Step 2: Identify matching transactions

Your Transaction Details

Date	Ref No.	Detail	Withdrawal	Deposit	Balance
01/01/2020		Opening Balance		50,000.00	50,000.00
01/02/2020	84	Jim Buildem	22,000.00		28,000.00
01/03/2020	3333	Mazda Finance	1,000.00		27,000.00
01/04/2020	85	Aaron's Photography Studio		15,000.00	42,000.00
01/05/2020		Erik's Restaurant Supply	2,500.00		39,500.00
01/06/2020		Art's Party Warehouse	500.00		39,000.00
01/08/2020		Dylan Solfrank Agency	1,200.00		37,800.00
01/11/2020		Mahoney's Office	200.00		37,600.00
01/12/2020		Pam Seitz	1,000.00		36,600.00
01/13/2020		Autopay-echeck	2,500.00		34,100.00
01/14/2020		Otto Mekanix	1,200.00		32,900.00
01/15/2020		Mahoney's Office		20.00	32,920.00
01/16/2020		Interest Earned		10.00	32,930.00
01/17/2020	1023	Amy's Bird Sanctuary		15,000.00	47,930.00
01/18/2020		Transfer	5,000.00		42,930.00
01/21/2020		Travis Waldron		10,000.00	52,930.00
01/22/2020		Pam Seitz	500.00		52,430.00
01/23/2020		Mahoney's Office	300.00		52,130.00
01/25/2020	1020	Aaron's Photography Studio	1,500.00		50,630.00
01/28/2020	1022	Otto Mekanix	700.00		49,930.00
01/31/2020		Mastercard	3,500.00		46,430.00

Bank Statement

Catering is US
As of 1/31/2021

Bank Account

<input type="checkbox"/>	Date	No.	Account	Payee	Payment	Deposit
✓	1/1/2020			Owner's Contribu	50000.00	
✓	1/2/2020	84	Kitchen Equipme	Jim Buildem	22000.00	
✓	1/3/2020	3333	Truck		1000.00	
✓	1/4/2020	85	Catering Sales	Aaron's Photog		15,000.00
✓	1/5/2020		Food	Erik's Restaura	2500.00	
✓	1/6/2020		Supplies	Art's Party War	500.00	
✓	1/8/2020		Labor	Dylan Solfrank	1200.00	
✓	1/11/2020		Office Supplies	Mahoney's		200.00
✓	1/12/2020		Legal Fees	Pam Seitz	1000.00	
✓	1/13/2020		Rent		2500.00	
✓	1/14/2020		Vehicle Expenses	Otto Mekanix		1200.00
✓	1/15/2020		Office Supplies	Mahoney's		20.00
✓	1/16/2020		Interest Income			10.00
✓	1/17/2020	1023	Catering Sales	Amy's BirdSan		15000.00
✓	1/18/2020		Owner' Draw		5000.00	
✓	1/21/2020		Catering Sales	Waldron Foun		10000.00
✓	1/22/2020		Legal	Pam Seitz	500.00	
✓	1/23/2020		Office Supplies	Mahoney's		300.00
✓	1/25/2020	1020	Catering Sales	Aaron's Phot	1500.00	
✓	1/26/2020	CK # 86	Accounts Payable	Webs R Us	5000.00	
✓	1/27/2020		Legal	Pam Seitz	200.00	
✓	1/28/2020	1022	Vehicle Expenses	Otto Mekanix		700.00

Your books

Step 3: Add missing transactions

Your Transaction Details

Date	Ref No.	Detail	Withdrawal	Deposit	Balance
01/01/2020		Opening Balance		50,000.00	50,000.00
01/02/2020	84	Jim Buildem	22,000.00		28,000.00
01/03/2020	3333	Mazda Finance	1,000.00		27,000.00
01/04/2020	85	Aaron's Photography Studio		15,000.00	42,000.00
01/05/2020		Erik's Restaurant Supply	2,500.00		39,500.00
01/06/2020		Art's Party Warehouse	500.00		39,000.00
01/08/2020		Dylan Solfrank Agency	1,200.00		37,800.00
01/11/2020		Mahoney's Office	200.00		37,600.00
01/12/2020		Pam Seitz	1,000.00		36,600.00
01/13/2020		Autopay-echeck	2,500.00		34,100.00
01/14/2020		Otto Mekanix	1,200.00		32,900.00
01/15/2020		Mahoney's Office		20.00	32,920.00
01/16/2020		Interest Earned		10.00	32,930.00
01/17/2020	1023	Amy's Bird Sanctuary		15,000.00	47,930.00
01/18/2020		Transfer	5,000.00		42,930.00
01/21/2020		Travis Waldron		10,000.00	52,930.00
01/22/2020		Pam Seitz	500.00		52,430.00
01/23/2020		Mahoney's Office	300.00		52,130.00
01/25/2020	1020	Aaron's Photography Studio	1,500.00		50,630.00
01/28/2020	1022	Otto Mekanix	700.00		49,930.00
01/31/2020		Mastercard	3,500.00		46,430.00

Bank Statement

Catering is US
As of 1/31/2021

Bank Account

<input type="checkbox"/>	Date	No.	Account	Payee	Payment	Deposit
✓	1/1/2020			Owner'sContrib		50000.00
✓	1/2/2020	84	Kitchen Equipm	Jim Buildem	22000.00	
✓	1/3/2020	3333	Truck	1000.00		
✓	1/4/2020	85	Catering Sales	Aaron's Photog		15,000.00
✓	1/5/2020		Food	Erik's Restaura	2500.00	
✓	1/6/2020		Supplies	Art's Party Wa	500.00	
✓	1/8/2020		Labor	Dylan Solfrank	1200.00	
✓	1/11/2020		Office Supplies	Mahoney's		200.00
✓	1/12/2020		Legal Fees	Pam Seitz	1000.00	
✓	1/13/2020		Rent	2500.00		
✓	1/14/2020		Vehicle Expenses	Otto Mekanix	1200.00	
✓	1/15/2020		Office Supplies	Mahoney's		20.00
✓	1/16/2020		Interest Income			10.00
✓	1/17/2020	1023	Catering Sales	Amy's BirdSan		15000.00
✓	1/18/2020		Owner' Draw	5000.00		
✓	1/21/2020		Catering Sales	Waldron Found		10000.00
✓	1/22/2020		Legal	Pam Seitz	500.00	
✓	1/23/2020		Office Supplies	Mahoney's		300.00
✓	1/25/2020	1020	Catering Sales	Aaron's Phot	1500.00	
✓	1/26/2020	CK # 86	Accounts Paya	Webs R Us	5000.00	
✓	1/27/2020		Legal	Pam Seitz	200.00	
✓	1/28/2020	1022	Vehicle Expenses	Otto Mekanix	700.00	
✓	1/31/2020		Mastercard-5341	Mastercard		3500.00

Your books

Step 4: Research unreconciled items

Uncleared Checks (Outstanding checks):

If you record a check in your books, but the payee doesn't cash it immediately, it won't show on your bank statement.

Deposits in Transit:

If you record a deposit in your books, but the bank hasn't processed it yet, it won't show on your bank statement.

Duplicates/Errors:

Remove duplicate entries from your ledger and correct any errors you find.

Catering is US
As of 1/31/2021

Bank Account

<input type="checkbox"/>	Date	No.	Account	Payee	Payment	Deposit
✓	1/1/2020			Owner's Contri	50000.00	
✓	1/2/2020	84	Kitchen Equipm	Jim Buildem	22000.00	
✓	1/3/2020	3333	Truck	1000.00		
✓	1/4/2020	85	Catering Sales	Aaron's Phot		15,000.00
✓	1/5/2020		Food	Erik's Restaur	2500.00	
✓	1/6/2020		Supplies	Art's Party Wa	500.00	
✓	1/8/2020		Labor	Dylan Solfrank	1200.00	
✓	1/11/2020		Office Supplies	Mahoney's		200.00
✓	1/12/2020		Legal Fees	Pam Seitz	1000.00	
✓	1/13/2020		Rent	2500.00		
✓	1/14/2020		Vehicle Expenses	Otto Mekanix		1200.00
✓	1/15/2020		Office Supplies	Mahoney's		20.00
✓	1/16/2020		Interest Income			10.00
✓	1/17/2020	1023	Catering Sales	Amy's BirdSan		15000.00
✓	1/18/2020		Owner' Draw	5000.00		
✓	1/21/2020		Catering Sales	Waldron Fo		10000.00
✓	1/22/2020		Legal	Pam Seitz	500.00	
✓	1/23/2020		Office Supplies	Mahoney's		300.00
✓	1/25/2020	1020	Catering Sales	Aaron's Photo	1500.00	
✓	1/26/2020	CK # 86	Accounts Payab	Webs R Us	5000.00	
✓	1/27/2020		Legal	Pam Seitz	200.00	
✓	1/28/2020	1022	Vehicle Expenses	Otto Mekanix	700.00	
✓	1/31/2020		Mastercard-5341	Mastercard		3500.00

Your books

Step 5: CELEBRATE!





Chapter 5

Financial Statements

Balance Sheet
Catering is US
As of 3/31/2024

Assets

Checking \$37,800
Kitchen Equipment 22,000
Truck 30,000
Total Assets **\$89,800**

Liabilities & Equity

Liabilities:
Truck Loan \$29,000

Equity:
Owner Contribution 50,000
Net Income 10,800
Total Equity 60,800

Total Liab's & Equity **\$89,800**

Financial Position

Profit & Loss Statement
Catering is US
Month ended 3/31/2024

Income:
Catering Sales \$15,000

Expenses:
Food 2,500
Labor 1,200
Supplies 500
Total Expenses 4,200

Net Income **\$10,800**

Financial Performance

Comparative Balance Sheet

Catering is US

Account	This Year	Last Year	Change	
Checking	55,435	52,435	3,000	
Kitchen Equipment	22,000	22,000	0.00	
Trucks	30,000	30,000	0.00	
Acc. Depreciation	-2,800	-1,400	-1,400	
Assets	\$104,635	\$103,035	\$1,600	
Truck Loan	25,000	29,000	-4,000	
Owner's Investment	50,000	50,000	0.00	
Owner's Draw	-28,000	-12,000	-16,000	
Retained Earnings	36,035		36,035	
Net Income	21,600	36,035	-14,435	
Liabilities & Equity	\$104,635	\$103,035	\$1,600	

Comparative Income Statement

Catering is US

Account	Jan	Feb	March	Total
Catering Sales	\$8850	\$9,000	\$15,000	\$32,850
Party Planning	\$5,700	\$5,000	\$8,450	\$19,150
Total Income	\$14,550	\$14,000	\$23,450	\$52,000
Food	\$1,450	\$1,450	\$1,450	\$5,350
Labor	\$880	\$900	\$1,200	\$2,980
Supplies	\$295	\$300	\$500	\$1,095
Insurance	\$275	\$275	\$275	\$275
Rent	\$1,200	\$1,200	\$1,200	\$3,600
Utilities	\$238	\$242	\$235	\$714
Total Expenses	\$4,338	\$4,317	\$5,910	\$14,565
Total	\$10,212	\$9,683	\$17,540	\$37,435

Budget vs. Actual


Catering is US

Account Actual Budget \$ Over Budget %

Catering Sales	15,000	10,000	5,000	150%
Party Planning	8,450	5,500	2,950	154%
Total Income	\$23,450	\$15,500	\$7,950	151%

Food	2,500	1,500	1,000	166%
Labor	1,200	1,000	200	120%
Supplies	500	350	150	143%
Insurance	275	275	0.00	100%
Rent	1,200	1,200	0.00	100%
Utilities	235	250	-15	94%
Total Expenses	\$5,910	\$4,317	\$1,335	129%

Total	\$17,540	\$10,925	\$6,615	160%
--------------	-----------------	-----------------	----------------	-------------



Chapter 6

Accounts

Chart of Accounts

Catering is US

No.	Name	Type	Balance
1010	Checking	Bank	55,435.00
1020	Savings	Bank	26,320.01
1030	Petty Cash	Bank	500.00
1100	Accounts Receivable	Accounts Receiv	93,007.93
1200	Undeposited Funds	Other Current As	0.00
1500	Truck	Fixed Asset	30,000.00
1510	Kitchen Equipment	Fixed Asset	22,000.00
2000	Accounts Payable	Accounts Payable	26,636.92
2050	Visa Credit Card		3500.00
2200	Sales Tax Payable	Other Current Lia	957.63
2300	Truck Loan	Long Term Liabil	29,000.00
3100	Owner's Contribution	Equity	50,000.00
3110	Owner's Draw	Equity	5,000.00
3200	Retained Earnings	Equity	
4010	Services	Income	
4030	Interest Income	Income	
5010	Cost of Goods Sold	Cost of Goods S	
6010	Food	Expense	
6020	Labor	Expense	
6030	Legal	Expense	
6040	Office Supplies	Expense	
6050	Rent	Expense	

How many accounts do you need?



Must have enough detail for tax return. For example... “Travel Meals” must be a separate account.



Beyond this, must have enough detail to run the business and prepare meaningful financial statements.



Must balance “simplicity” against needs of business.



Must also consider if detail is tracked somewhere else. For example, the amount each customer owes is tracked on the customer list.

Are these the right level of detail?

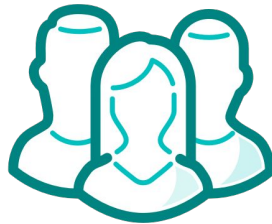
- | | Yes | No |
|--|--------------------------|--------------------------|
| ① Accounts Receivable-Cust 1, Accounts Receivable-Cust 2, Accounts Receivable-Cust 3, etc. | <input type="checkbox"/> | <input type="checkbox"/> |
| ② Legal Costs | <input type="checkbox"/> | <input type="checkbox"/> |
| ③ Copy Paper Used in Xerox Machine | <input type="checkbox"/> | <input type="checkbox"/> |
| ④ Office Supplies | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑤ Stuff I Buy | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑥ Delivery Truck-1, Delivery Truck-2 (etc...all the way to Delivery Truck-45) | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑦ Sales Expense (includes all Travel & Entertainment) | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑧ Food Purchased from A-1 Food Supply | <input type="checkbox"/> | <input type="checkbox"/> |
| ⑨ Checking Account, Savings Account, and Money Market Account | <input type="checkbox"/> | <input type="checkbox"/> |

Click the blue box to check your work.

What should you name accounts?



There are a few standard names used in accounting... Accounts Receivable, Accounts Payable, and Depreciation Expense.



Beyond this, use whatever has **meaning to stakeholders** when they read financial statements.



Names should be short and concise.



Don't worry about getting the "exact" name (beyond standard names)...as long as the name meets the other criteria.

Are these good account names?

① Office Papers, Pencils, and Other Supplies

Good

Bad

② Legal Costs

③ Amounts Due from My Customers

④ Delivery Vehicles

⑤ Stuff I Buy

⑥ Office Supplies

⑦ What I Owe Suppliers

⑧ Checking Account

⑨ Catering Events...the Purpose of My Business

⑩ Customer Refunds

Click the blue box to check your work.

<u>Assets</u>	Debit +	Credit -
Have future value...		

<u>Liabilities</u>	Debit -	Credit +
Owed to 3rd parties...		

<u>Equity</u>	Debit -	Credit +
Owner's share of assets...		

<u>Income</u>	Debit -	Credit +
Earned from services performed and products sold		
<u>Expenses</u>	Debit +	Credit -
Used in current period		


Which section of the book?

Pick a choice

- ① Legal Fees (pay a lawyer for some legal work) ▼
- ② Office Supplies (pay for office supplies) ▼
- ③ Catering Sales (receive a check from a customer for a catering event) ▼
- ④ Customer Refunds (you send a customer a refund check for an event that didn't go as planned) ▼
- ⑤ Owners Withdrawal (you need cash and take a withdrawal from the company's bank account) ▼
- ⑥ Interest Income (the bank adds money to your bank account for interest) ▼
- ⑦ Note Payable (your dad loans money to the business) ▼
- ⑧ Kitchen Equipment (you buy a pizza oven) ▼
- ⑨ Prepaid Insurance (pay \$10,000 for 2 years of insurance...in advance) ▼

Click the blue box to check your work.





Chapter 7

Money-in

When to record revenue



You

- In **January**, you were hired to build some furniture. It's a \$10,000 job.
- You're busy...so you can't do the work until **February**. You send an invoice that month.
- The customer pays you \$10,000 in **March**.



Lalitha

Lalitha said to show the revenue in January...the month you were hired and agreed to the price.



Katie

Katie told you to show the revenue in February...when you did the work.



Trevor

Trevor says "cash is king"...and tells you to record the revenue in March...when you were paid.

Revenue Recognition principle

- Record income when you've earned it (do the work or sell the product) ...even if you haven't received the money yet.
- The balance that a customer owes is called **Accounts Receivable** (an asset).

Money-in practice

1. Invoice* to Acme Hospitals for 10,000. This was for a catering event.
2. Invoice* to Flopbox.com for 15,000. This was for a catering event.
3. Invoice* to Intuit for 7,500. This was for a catering event.
4. Invoice* to Flappy Birds, Inc. for 36,000:
 - a) 20,000 was for Catering
 - b) 16,000 was for Entertainment
5. Intuit pays you what they owe (7,500). You deposit the check in your bank account.

** Invoices to be paid later*

Accounts Receivable sub-ledger

Accounts Receivable	
① 10,000	⑤ 7,500
② 15,000	
③ 7,500	
④ 36,000	
61,000	

Acme Hospitals		Flopbox.com	
① 10,000		② 15,000	
10,000		15,000	
Intuit		Flappy Birds Inc.	
③ 7,500	⑤ 7,500	④ 36,000	
0		36,000	
Total = 61,000			

Undeposited Funds

The bank records in QuickBooks must match the real banks' records **EXACTLY**.

Accounting Records

Debit +	Credit -
<p style="text-align: center;">Checking</p> <hr/> <div style="border: 2px solid cyan; padding: 5px; display: inline-block;"> ① 7,500 ② 10,000 </div>	<p style="text-align: center;">Accounts Receivable</p> <hr/> ① 7,500 ② 10,000

Bank's Records

LAKE CITY NAT'L BANK						
THIS STATEMENT COVERS: JULY 1, 20X3 THROUGH JULY 31, 20X3						
CHECKING ACCOUNT # 767888-0987			STATEMENT FOR: THE TABLE SHACK, 445 MAIN STREET, LAKE CITY			
MONTHLY SUMMARY						
PREVIOUS STATEMENT BALANCE ON 6-30-X3		46,643.89				
TOTAL OF 4 DEPOSITS FOR		31,809.11 +				
TOTAL OF 16 WITHDRAWALS FOR		27,077.77 -				
INTEREST EARNINGS FOR		119.28 +				
SERVICE CHARGES FOR		55.00 -				
NEW BALANCE		50,739.57				
CHECKS AND OTHER DEBITS	CHECK	DATE PAID	AMOUNT	CHECK	DATE PAID	AMOUNT
	5454	2-JUL	4456.09	*5465*	16-JUL	85.58
	5457	3-JUL	345.00	5466	19-JUL	1199.19
	5458	3-JUL	13.26	5467	22-JUL	76.14
	5459	10-JUL	66.14	5468	23-JUL	375.62
	5460	5-JUL	11995.20	5469	30-JUL	2779.59
	5461	9-JUL	3000.00	5470	27-JUL	9.31
	5463	16-JUL	2119.44	*5472*	31-JUL	109.00
ELECTRONIC FUND TRANSFER						
NSF RETURNED CHECK						
NSF FEE						
MONTHLY SERVICE FEE						
DEPOSITS AND OTHER CREDITS						
CUSTOMER DEPOSIT AT MAIN LOCATION						
CUSTOMER DEPOSIT AT RIVER BRANCH LOCATION						
COLLECTION ITEM - NOTE RECEIVABLE						
CREDIT CARD POSTING - TRANSACTION 07679849657						
INTEREST EARNINGS						
				17,500		



Small Business



Bank

Undeposited Funds

Undeposited Funds helps match the accounting records to the bank's records.

Debit		Credit	
+		-	
Accounting Records			
Checking		Undeposited Funds	Accounts Receivable
③ 17,500		① 7,500	① 7,500
		② 10,000	② 10,000
		③ 17,500	


Bank's Records					
LAKE CITY NAT'L BANK					
THIS STATEMENT COVERS JULY 1, 20X3 THROUGH JULY 31, 20X3			STATEMENT FOR: THE TABLE SHACK 445 MAIN STREET LAKE CITY		
CHECKING ACCOUNT # 767888-0987	MONTHLY SUMMARY				
	PREVIOUS STATEMENT BALANCE ON 6-30-X3				46,843.89
	TOTAL OF ALL DEPOSITS FOR				31,809.11 +
	TOTAL OF ALL WITHDRAWALS FOR				27,077.77 -
	INTEREST EARNINGS FOR				119.58 +
	SERVICE CHARGES FOR				55.00 -
	NEW BALANCE				50,739.57
CHECKS AND OTHER DEBITS	CHECK	DATE PAID	AMOUNT	CHECK	DATE PAID
	5454	2-JUL	4456.09	*5465*	16-JUL
	5457	3-JUL	345.00	5466	19-JUL
	5458	3-JUL	13.26	5467	22-JUL
	5459	10-JUL	66.14	5468	23-JUL
	5460	5-JUL	11995.20	5469	30-JUL
	5461	9-JUL	3000.00	5470	27-JUL
	5463	16-JUL	2119.44	*5472*	31-JUL
	ELECTRONIC FUND TRANSFER				13-JUL
	NSF RETURNED CHECK				17-JUL
	NSF FEE				17-JUL
	MONTHLY SERVICE FEE				17-JUL
DEPOSITS AND OTHER CREDITS	CUSTOMER DEPOSIT AT MAIN LOCATION				
	CUSTOMER DEPOSIT AT RIVER BRANCH LOCATION				
	COLLECTION ITEM - NOTE RECEIVABLE				
	CREDIT CARD POSTING - TRANSACTION 07679849657				25-JUL
	INTEREST EARNINGS				3009.65
					17,500



Small Business



Bank



Chapter 8

Money-out

When to record costs



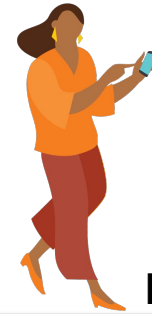
Vendor

- In **January**, you hire someone to repair your stove. It's a \$5,000 job.
- They're busy...so they can't do the work until **February**. They send an invoice that month.
- You pay the vendor \$5,000 in **March**.



Felipe

Felipe said to record the cost in January... the month you hired the vendor and agreed to the price.



Brittany

Brittany said to record the cost in February... when your vendor did the work.



Trevor

Trevor says "cash is king"...and tells you to record the cost in March...when you paid the vendor.

Matching principle

- To see true *performance* and *position* on financial statements, you record costs when you get the product/service.
- The balance that owe suppliers is called **Accounts Payable** (a liability).

Money-out practice

1. 35,000 bill from A-1 Food Supply for Food.
2. 10,000 bill from Spammy Kitchen Supply for Catering Supplies.
3. 24,000 bill from California Temps:
 - a) 15,000 is for Labor
 - b) 9,000 is for Entertainment Costs
4. You pay the 35,000 bill to A-1 Food Supply.

Accounts Payable sub-ledger

Accounts Payable	
④ 35,000	① 35,000
	② 10,000
	③ 24,000
	34,000

A-1 Food Supply	Spammy Kitchen Supply
④ 35,000	① 35,000
	② 10,000
	10,000
	0
	California Temps
	③ 24,000
	24,000
	Total = 34,000

Cash Basis Accounting

- **QuickBooks Connect in November**
- The fee was \$1,000,000!
- Your costs were \$800,000



Intuit pays you \$1,000,000 in November... thanks Intuit!

Your suppliers give you 30 days to pay...so you pay them in December.



You

November P&L on Cash Basis
Sales \$1,000,000
Expenses \$0
Profit \$1,000,000

December P&L on Cash Basis
Sales \$0
Expenses \$800,000
Profit (\$800,000)

- ### Cash Basis Accounting
- **Revenue** recorded when \$ received...and **Costs** recorded when \$ paid.
 - Easier to understand and manage cash flow.

Accrual Basis Accounting

QuickBooks Connect in November

- The fee was \$1,000,000!
- Your costs were \$800,000



Intuit pays you \$1,000,000 in November... thanks Intuit!

Your suppliers give you 30 days to pay...so you pay them in December.



You

November P&L on **Accrual Basis**

Sales \$1,000,000

Expenses \$800,000

Profit **\$200,000**

December P&L on **Accrual Basis**

Sales \$0

Expenses \$0

Profit **\$0**

Accrual Basis of accounting

- **Revenue** recorded when **earned**...and **Costs** recorded when you get product/service.
- This gives a “truer” representation of performance.

Statement of Cash Flow
Catering is US
January through March 2024

Operating Activities

Net Income 37,800
Accounts Receivable (61,000)
Accounts Payable 34,000
Purchases on Credit Card 3,500
Sales Tax Payable 987
Acc. Depreciation 200
Net Cash from O.A. 15,487

Investing Activities

Kitchen Equipment (22,000)
Trucks (30,000)
Net Cash from I.A. (52,000)

Financing Activities

Truck Loan 28,700
Owner Contribution 50,000
Net Cash from F.A. 78,700

Net Cash Increase **\$42,187**



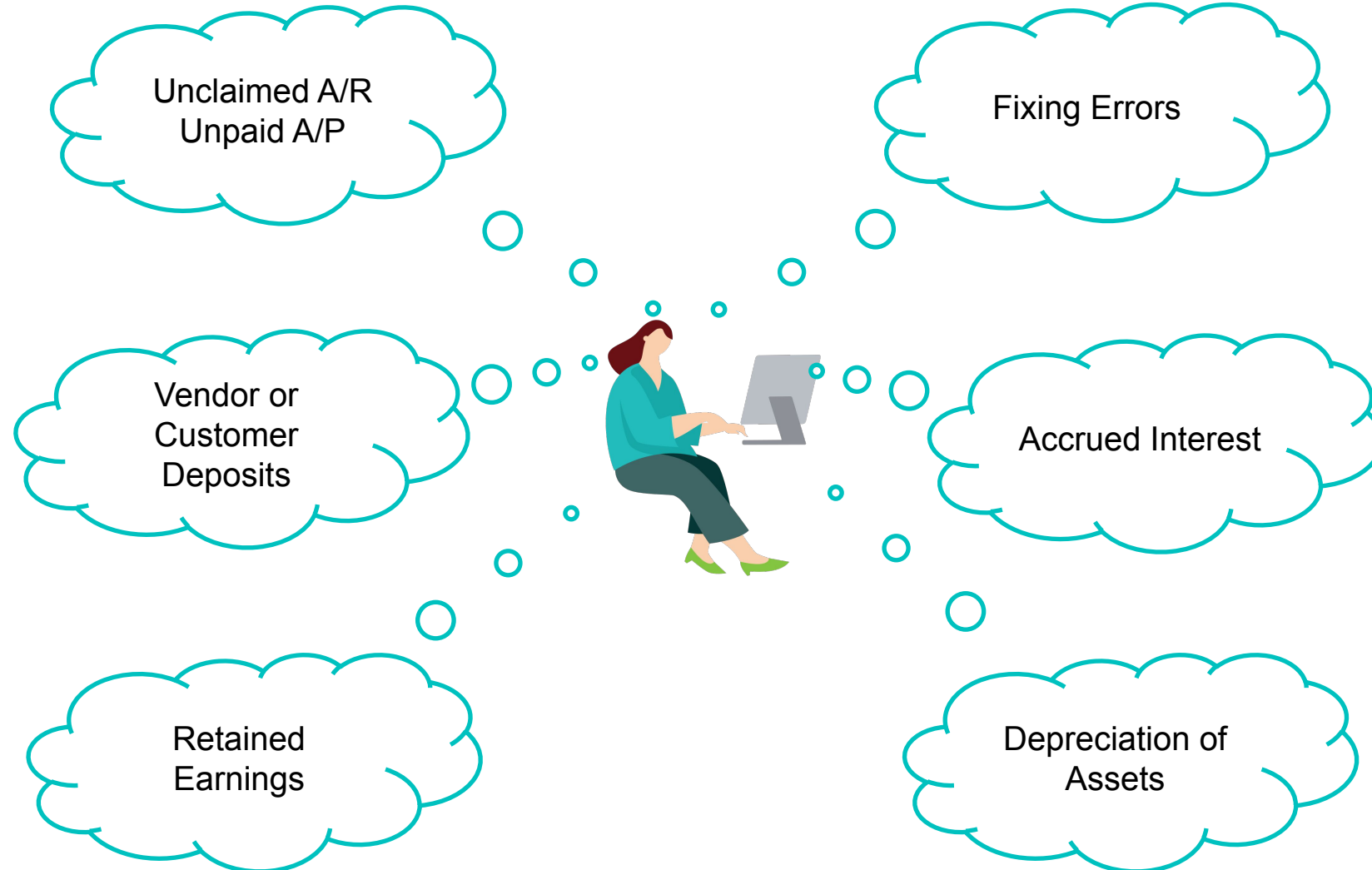
Chapter 9

Complex entries



Adjusting Entries

Adjusting Entry Examples





Retained Earnings

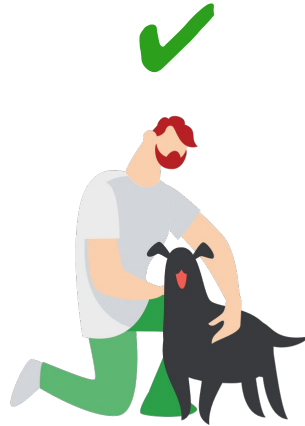
Which pet store is the best investment?



Cats 'R Us

Sales \$1,000,000

Profit **\$100,000**



Dogs 'R Us

Sales \$1,000,000

Profit **\$150,000**

Disturbing Fact!!!

- Cats 'R Us' Profit & Loss Statement was for one year...but...
- Dogs 'R Us' was for 3 years!!!!

Time Period Principle

- A business must finish the full accounting process over a specific operating time period (a year).
- To start a new year, the Profit and Loss accounts are "reset" to zero.

Balance Sheet

Catering is US
As of 1/1/2025

Assets

Checking \$37,800
Kitchen Equipment 22,000
Truck 30,000
Total Assets **\$89,800**

Liabilities & Equity

Liabilities:
Truck Loan \$29,000

Equity:
Owner Contribution 50,000
Retained Earnings 10,800
Net Income 0.00
Total Equity 60,800

Total Liab's & Equity **\$89,800**

Financial Position

Profit & Loss Statement

Catering is US
1/1/2025

Income:
Catering Sales \$0.00

Expenses:
Food 0.00
Labor 0.00
Supplies 0.00
Total Expenses 0.00

Net Income \$0.00

Financial Performance

Statement of Owner's Equity

Catering is US
As of 3/31/2024

Beginning Capital	50,000
Additional Contribution	7,500
Retained Earnings	43,525
<u>Net Income</u>	<u>37,435</u>
Gross Equity	\$138,460
Owner's Draw	30,000
<u>Net Equity</u>	<u>\$108,460</u>



Depreciation

What = Who

\$10,000 TV = \$10,000 You

\$1,000 Computer = \$1,000 You

Have future
value...

Assets

\$2 Bottle of Water = \$2 You

\$5 Cleaning = \$5 You

Used now...

Expenses

However...what if you
“use” something over
time?

Fixed Assets

You bought a super-deluxe Tesla-like new delivery truck!

- You paid \$100,000 during January.
- The truck has a useful life of 4 years.



So...from an accounting perspective, you **use** $\frac{1}{4}$ of the truck each year...or \$25,000.

Fixed Asset

- **Tangible** assets you buy for long-term use that are not likely to be converted quickly into cash.
- Examples include furniture, equipment, machinery, and vehicles.

Full Year P&L w/o Depreciation

Sales \$200,000

Expenses \$150,000

Profit **\$50,000**

Correct Full Year P&L

Sales \$200,000

Expenses \$150,000

Depreciation \$25,000

Profit **\$25,000**

Matching Principle

- You record the expense of generating income in the same period you record the income.
- For Fixed Assets, moving the cost from an asset to expenses is called **Depreciation**.

Balance Sheet
Catering is US
As of 12/31/2024

Assets

Checking \$50,000
Accounts Receivable 25,000
Trucks 100,000
Less: Accumulated Depreciation (25,000)
Net Trucks 75,000

Total Assets **\$150,000**

Liabilities & Equity

Liabilities:
Accounts Payable \$70,000

Equity:
Profit 80,000

Total Liab's & Equity **\$150,000**

Financial Position

Profit & Loss Statement
Catering is US
Year ended 12/31/2024

Income:
Catering Sales \$300,000

Expenses:
Depreciation 25,000

Food 120,000
Labor 60,000
Supplies 15,000
Total Expenses 220,000

Profit **\$80,000**

Financial Performance

Cost principle



- I've been very tough on my truck! Someone told me they'd give me \$5,000 for it...and I paid \$100,000!
- Should I change the cost on the books?



- I bought a building and land in Silicon Valley about 20 years ago...for \$200,000.
- Now it's worth millions and millions (and millions).
- Should I change the cost on the books?

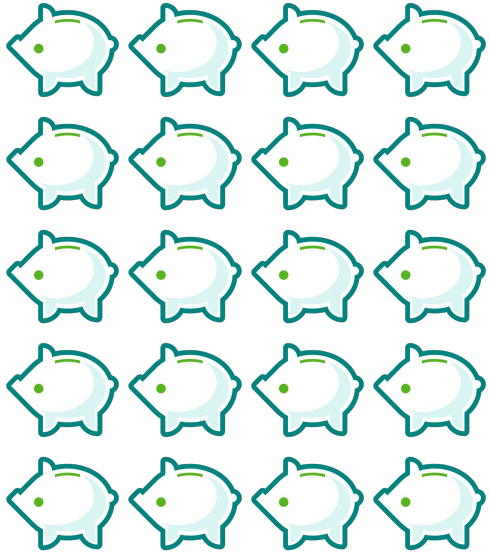
NO...because of the Cost Principle

Assets should always be recorded and presented at their **actual cost**...not the prevailing market value or future value.



Inventory

Inventory



**Piggy Banks
R' Us**



Accounting Records

Debit +		Credit -		Debit -		Credit +		Debit +		Credit -									
Inventory				Checking				Sales of Products				Cost of Goods Sold							
① 15,000		② 1,000		③ 2,000		① 15,000			③ 2,000			② 1,000							

Inventory

- Goods held for the ultimate purpose of resale to customers.
- Until you sell it, represents an asset because it has future value.

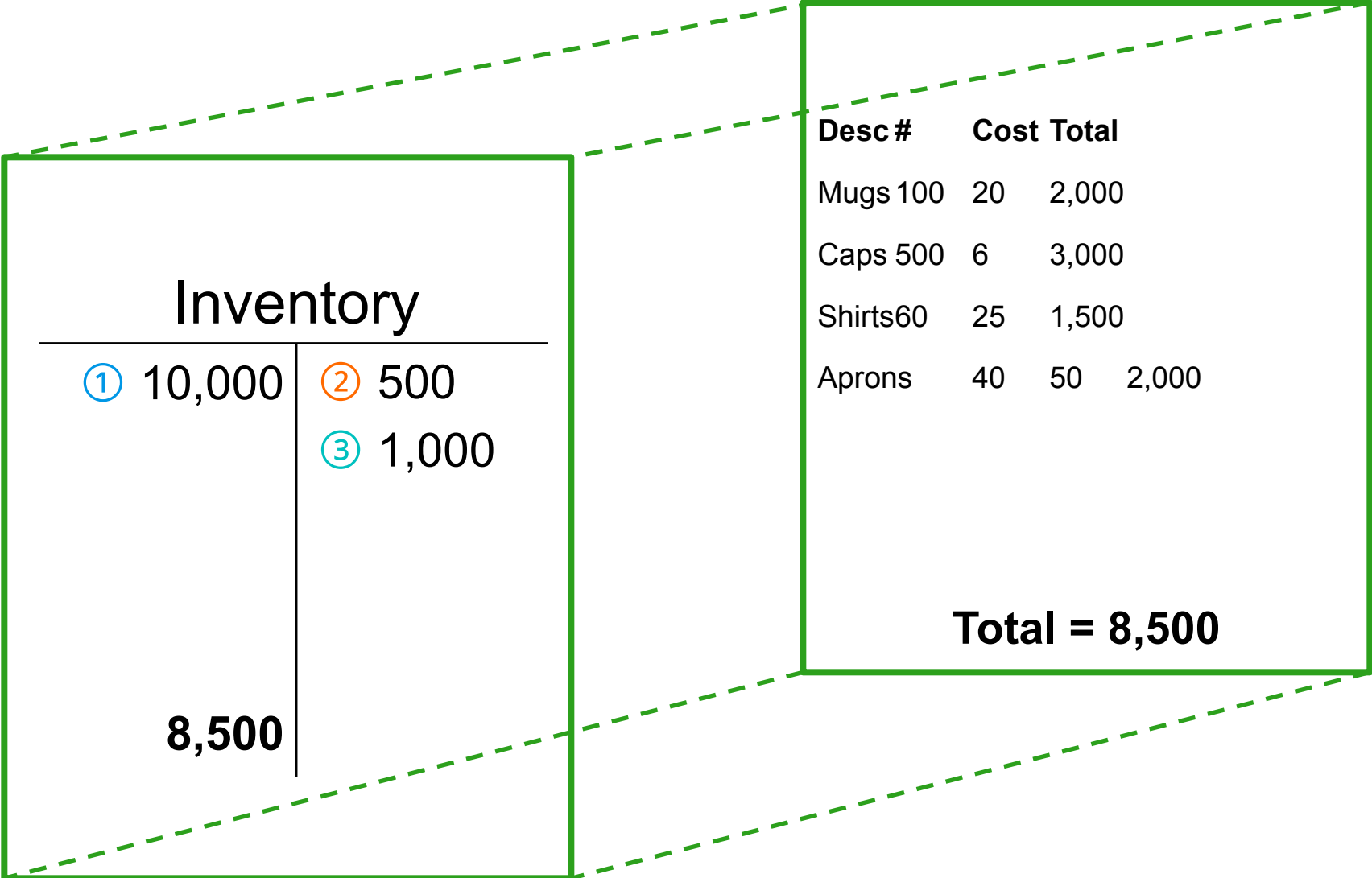


Customers

Inventory practice

1. You buy inventory for 10,000. You pay on delivery...so money comes from bank account (doesn't go to "Accounts Payable" to pay later).
2. You sell some inventory at an event. The customer pays with a check:
 - a) Sale was 1,000
 - b) Cost of inventory sold was 500
3. You sell inventory at a 2nd event. The customer pays with a check:
 - a) Sale was 2,000
 - b) Cost of inventory sold was 1,000

Inventory sub-ledger



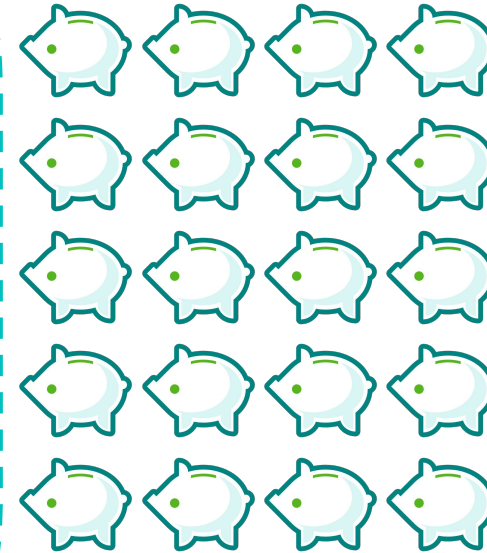
Inventory cost

Day 1
You buy 100 piggy banks at \$10 each

Day 2
You buy 100 piggy banks at \$20 each

Day 3
You sell 100 piggy banks for \$50 each

Which piggy banks did you sell...the \$10 or \$20 versions?



FIFO **First-in, First Out**

First you buy is the first you sell

Sales \$5,000

COGS \$1,000

Profit **\$4,000**

Inventory = \$2,000

LIFO **Last-in, First Out**

Last you buy is the first you sell

Sales \$5,000

COGS \$2,000

Profit **\$3,000**

Inventory = \$1,000

Average **Cost**

Uses average cost of purchases

Sales \$5,000

COGS \$1,500

Profit **\$3,500**

Inventory = \$1,500



Chapter 10

Payroll

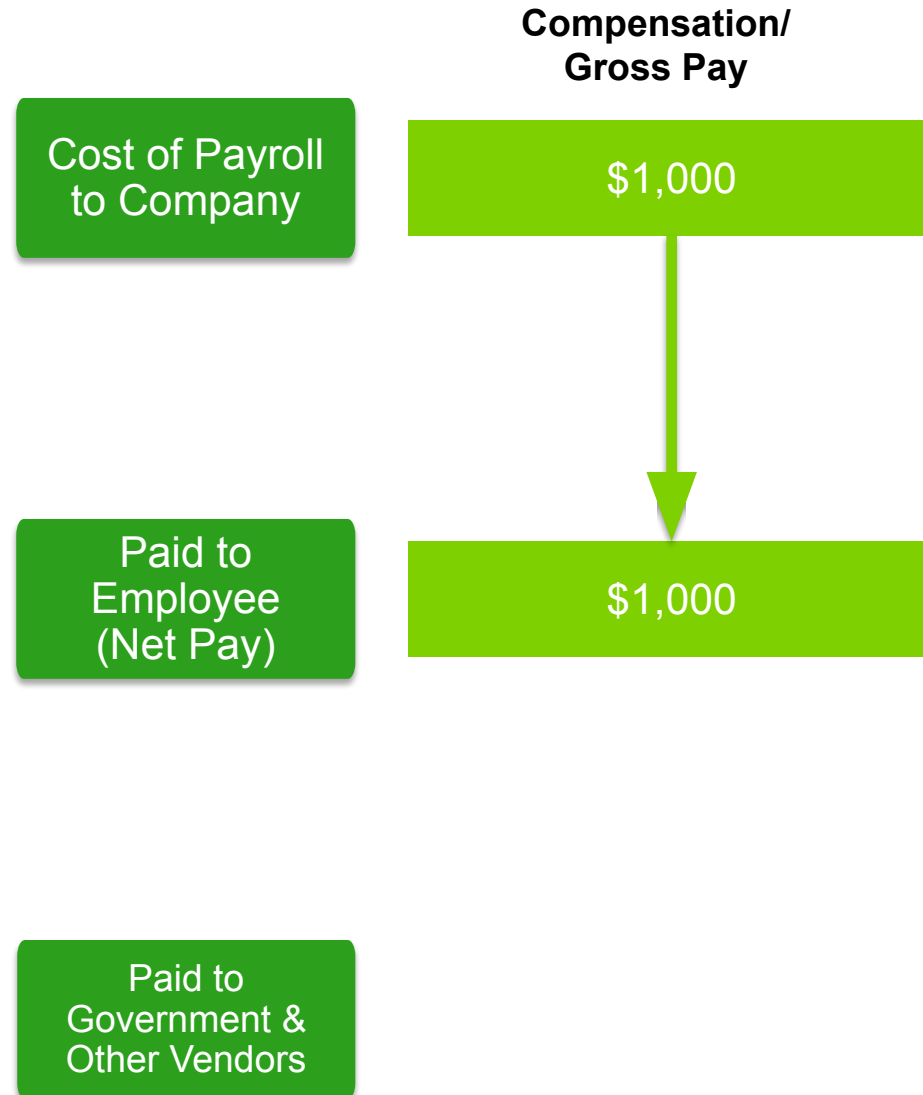
A paycheck

Cost of Payroll
to Company

Paid to
Employee
(Net Pay)

Paid to
Government &
Other Vendors

A paycheck

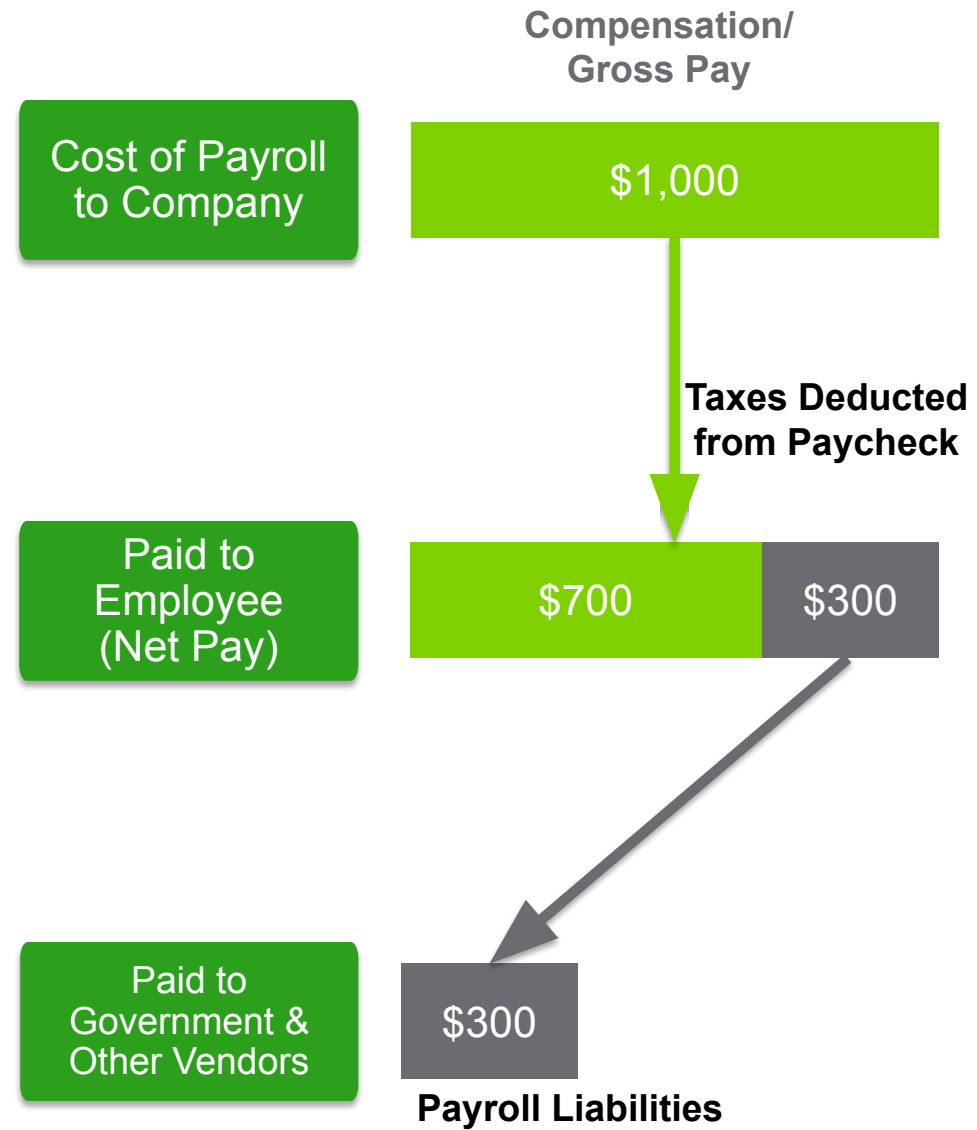


Payroll Entries

Time to pay your first employee!

1. Enter the paycheck for \$1,000 without taxes or deductions.

A paycheck

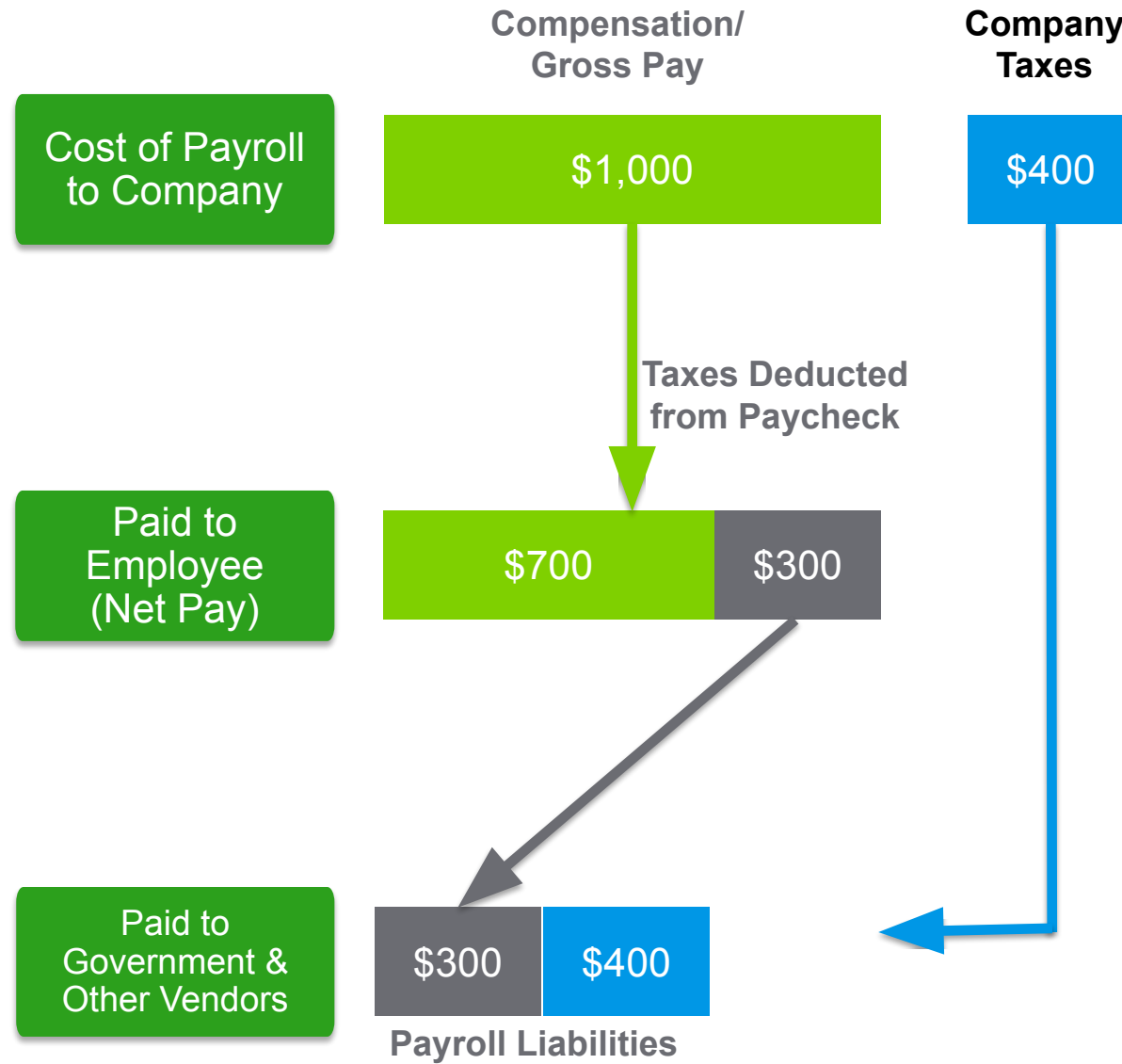


Payroll practice

Time to pay your first employee!

1. Enter the paycheck for \$1,000 without taxes or deductions.
2. The taxes deducted from the paycheck are \$300.

A paycheck

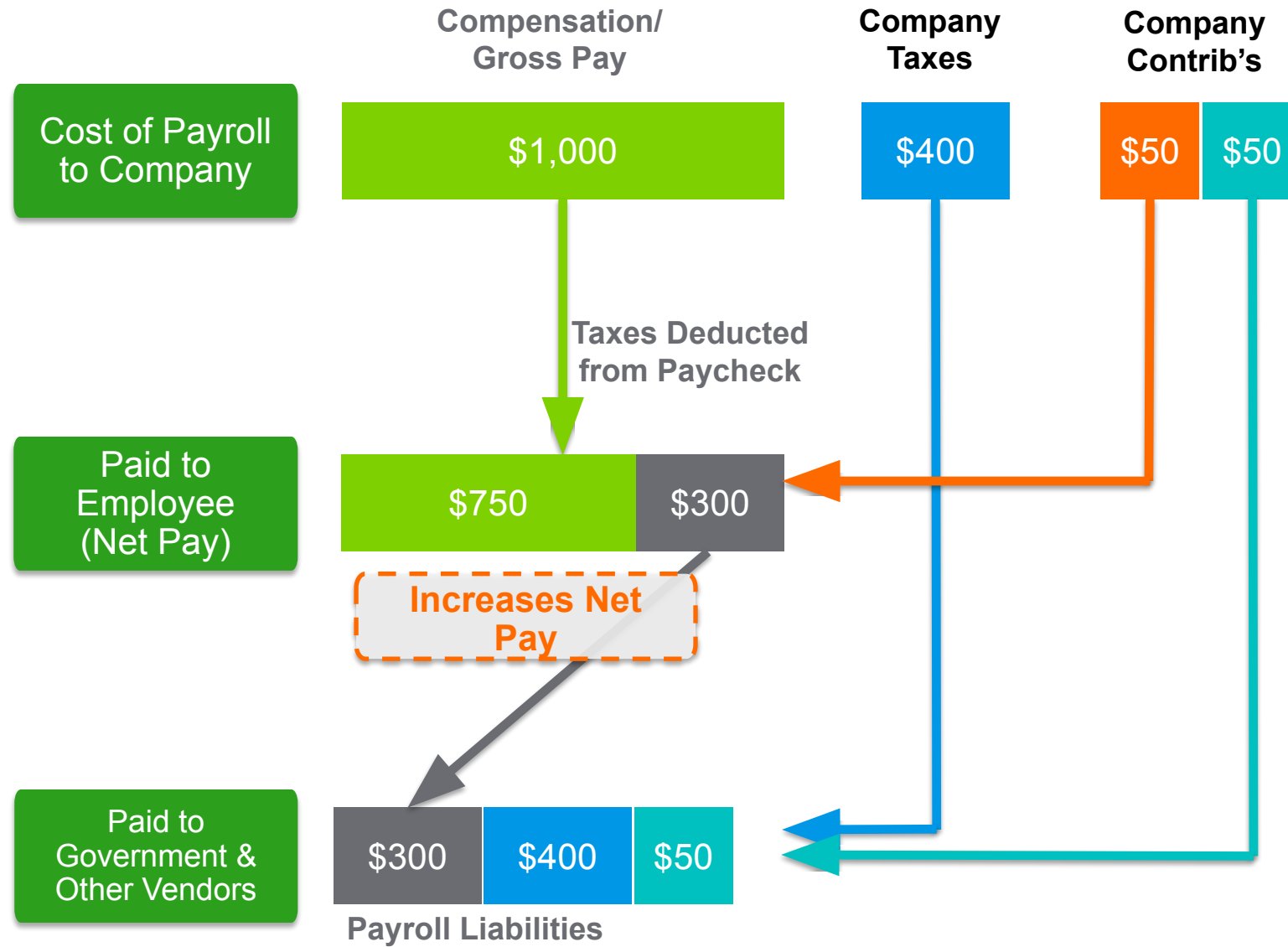


Payroll practice

Time to pay your first employee!

1. Enter the paycheck for \$1,000 without taxes or deductions.
2. The taxes deducted from the paycheck are \$300.
3. The company's share of payroll taxes are \$400.

A paycheck

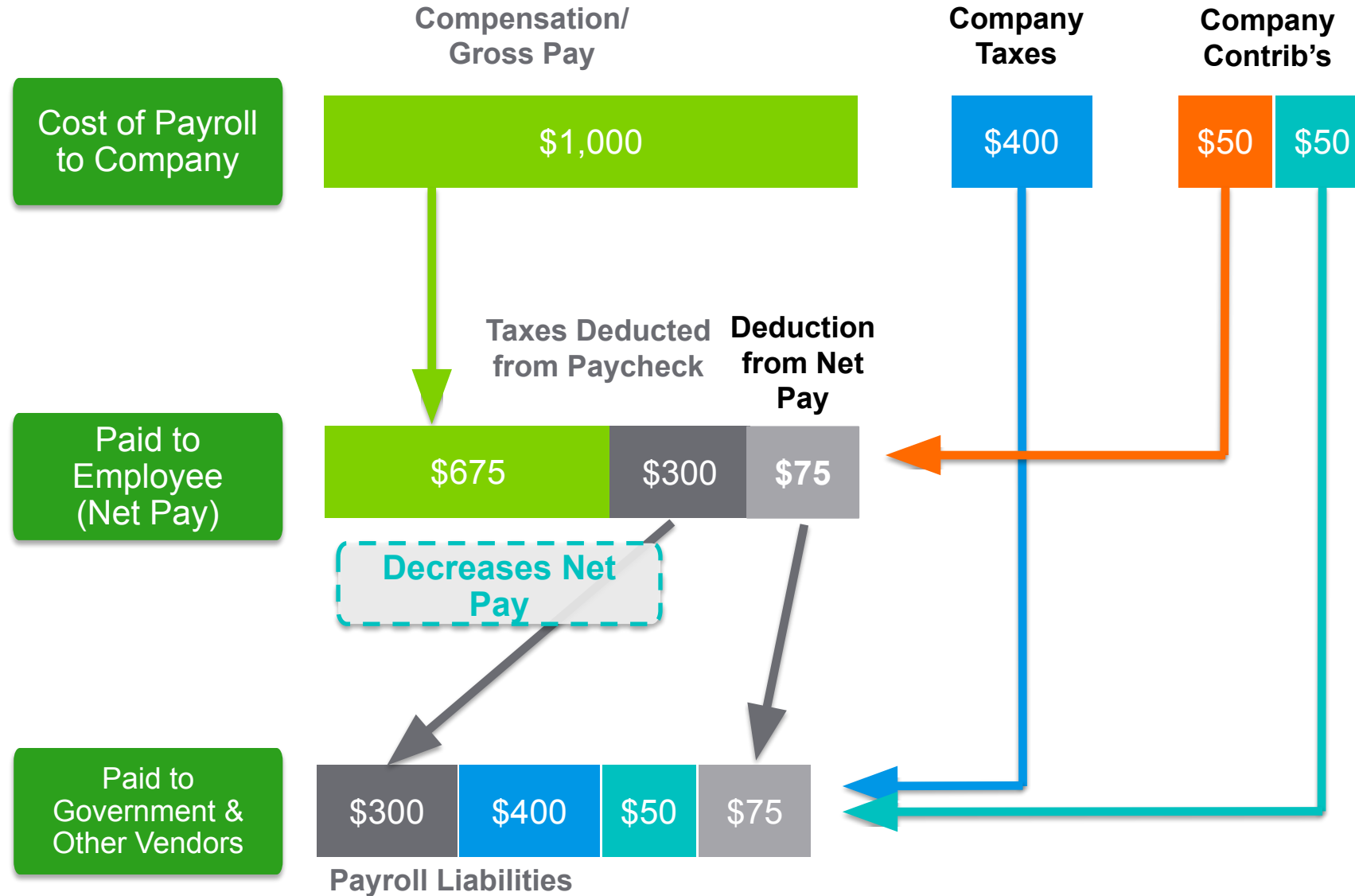


Payroll practice

Time to pay your first employee!

1. Enter the paycheck for \$1,000 without taxes or deductions.
2. The taxes deducted from the paycheck are \$300.
3. The company's share of payroll taxes are \$400.
4. Add a mobile phone reimbursement to the paycheck for \$50.
5. The company's contribution to the employee's health insurance is \$50.

A paycheck



Payroll practice

Time to pay your first employee!

1. Enter the paycheck for \$1,000 without taxes or deductions.
2. The taxes deducted from the paycheck are \$300.
3. The company's share of payroll taxes are \$400.
4. Add a mobile phone reimbursement to the paycheck for \$50.
5. The company's contribution to the employee's health insurance is \$50.
6. Your employee has a \$75 insurance deduction. Include this in the paycheck.

Payroll practice

Time to pay your employee!

1. Enter the paycheck for \$2500 without taxes or deductions.
2. The taxes deducted from the paycheck are \$750.
3. The company's share of payroll taxes are \$1000.
4. Your employee has a \$100 deduction for their retirement plan.
5. The company's contribution for retirement matching is \$100.

Payroll Journal Entry

Date: 1/31/2024		
Account/Description	Debits	Credits
Payroll Expenses	3600	
Payroll Liabilities		1950
Checking	1650	
For employee paycheck		

Payroll Forms

Federal



941:
Employer's
Quarterly Federal
Tax Return



940:
Employer's Annual
Federal
Unemployment
(FUTA) Tax Return



W-2/W-3:
Annual Wage
and Tax
Statement &
Transmittal

State



Quarterly State
Unemployment
Insurance Forms



Annual State
Withholding Forms

Always verify with your accountant!



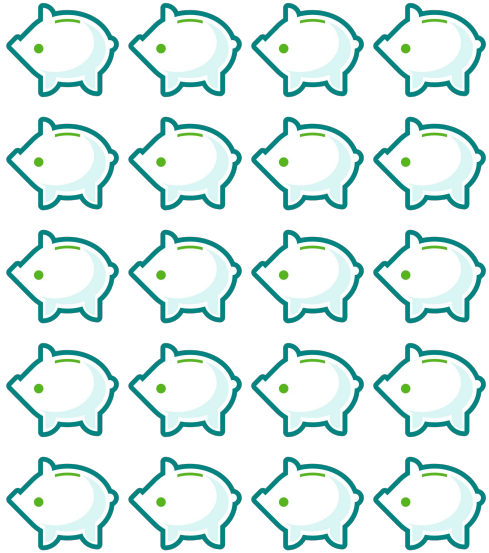
Chapter 11

Bookkeeping Extras



Inventory Adjustments

Inventory



**Piggy Banks
R' Us**

Accounting Records

Debit +		Credit -		Debit -		Credit +		Debit +		Credit -	
Inventory		Checking		Sales of Products		Cost of Goods Sold					
① 15,000	② 1,000	③ 2,000	① 15,000		③ 2,000		② 1,000				

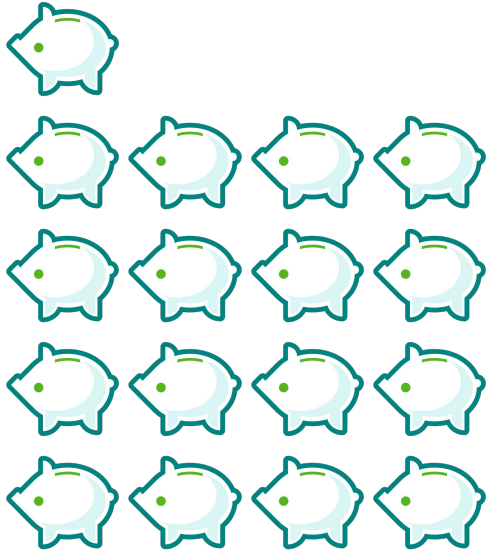
Inventory

- Goods held for the ultimate purpose of resale to customers.
- Until you sell it, represents an asset because it has future value.



Customers

Inventory



**Piggy Banks
R' Us**

Accounting Records

Debit +		Credit -		Debit -		Credit +		Debit +		Credit -									
Inventory				Checking				Sales of Products				Cost of Goods Sold							
① 15,000		② 1,000		③ 2,000		① 15,000				③ 2,000		② 1,000							
			2,000										2,000						

Inventory Adjustment

- No funds change hands.
- Non-Measurement Triggering Event

Customers

Balance Sheet
Catering is US
As of 06/15/2024

Assets

Checking \$50,000
Inventory Asset 25,000
Trucks 100,000

Total Assets \$175,000

Liabilities

Liabilities:
Accounts Payable \$30,000
Truck Loan 40,000

Equity

Profit 105,000

Total Liab's & Equity \$175,000

Financial Position

Profit & Loss Statement
Catering is US
06/15/2024

Income

Sales \$300,000

Cost of Goods Sold

Inventory Costs 30,000

Expenses

Rent 90,000
Insurance 60,000
Utilities 15,000

Total Expenses 195,000

Profit \$105,000

Financial Performance

Balance Sheet
Catering is US
As of 06/15/2024

Assets

Checking \$50,000
Inventory Asset 23,000
Trucks 100,000

Total Assets \$173,000

Liabilities

Liabilities:
Accounts Payable \$30,000
Truck Loan 40,000

Equity

Profit 103,000

Total Liab's & Equity \$173,000

Financial Position

Profit & Loss Statement
Catering is US
06/15/2024

Income

Sales \$300,000

Cost of Goods Sold

Inventory Costs 30,000
Inventory Shrinkage 2,000

Expenses

Rent 90,000
Insurance 60,000
Utilities 15,000

Total Expenses 197,000

Profit \$103,000

Financial Performance



Bad Debt

Balance Sheet
Catering is US
As of 06/15/2024

Assets

Checking \$50,000
Accounts Receivable 23,000
TRUCKS 100,000

Total Assets \$173,000

Liabilities

Liabilities:
Accounts Payable \$30,000
Truck Loan 40,000

Equity

Profit 103,000

Total Liab's & Equity \$173,000

Financial Position

Profit & Loss Statement
Catering is US
06/15/2024

Income

Sales \$300,000

Cost of Goods Sold

Inventory Costs 30,000
Inventory Shrinkage 2,000

Expenses

Rent 90,000
Insurance 60,000
Utilities 15,000

Total Expenses 197,000

Profit \$103,000

Financial Performance

Normal A/R Debits and Credits

Income	
Debits	Credits
-	+ ① 5,000

Account Receivable	
Debits	Credits
+ ① 5,000	-

Normal A/R Debits and Credits

Checking

Debits	Credits
+	-
① 5,000	

Account Receivable

Debits	Credits
+	-
	① 5,000

Balance Sheet
Catering is US
As of 06/15/2024

Assets

Checking \$55,000
Accounts Receivable 18,000
TRUCKS 100,000

Total Assets \$173,000

Liabilities

Liabilities:
Accounts Payable \$30,000
Truck Loan 40,000

Equity

Profit 103,000

Total Liab's & Equity \$173,000

Financial Position

Profit & Loss Statement
Catering is US
06/15/2024

Income

Sales \$300,000

Cost of Goods Sold

Inventory Costs 30,000
Inventory Shrinkage 2,000

Expenses

Rent 90,000
Insurance 60,000
Utilities 15,000

Total Expenses 197,000

Profit \$103,000

Financial Performance

Bad Debt Debits and Credits

~~Checking~~
Checking

Debits	Credits
-	+
① 5,000	

Account Receivable

Debits	Credits
+	-
	① 5,000

Balance Sheet
Catering is US
As of 06/15/2024

Assets

Checking \$55,000
Accounts Receivable 18,000
TRUCKS 100,000

Total Assets \$173,000

Liabilities

Liabilities:
Accounts Payable \$30,000
Truck Loan 40,000

Equity

Profit 103,000

Total Liab's & Equity \$173,000

Financial Position

Profit & Loss Statement
Catering is US
06/15/2024

Income

Sales \$300,000

Cost of Goods Sold

Inventory Costs 30,000
Inventory Shrinkage 2,000

Expenses

Rent 90,000
Insurance 60,000
Utilities 15,000

Total Expenses 197,000

Profit \$103,000

Financial Performance

Balance Sheet
Catering is US
As of 06/15/2024

Assets

Checking \$55,000

Accounts Receivable 13,000

TRUCKS 100,000

Total Assets \$168,000

Liabilities

Liabilities:

Accounts Payable \$30,000

Truck Loan 40,000

Equity

Profit 98,000

Total Liab's & Equity \$168,000

Financial Position

Profit & Loss Statement
Catering is US
06/15/2024

Income

Sales \$295,000

Cost of Goods Sold

Inventory Costs 30,000

Inventory Shrinkage 2,000

Expenses

Rent 90,000

Insurance 60,000

Utilities 15,000

Total Expenses 197,000

Profit \$98,000

Financial Performance



Tricks to Memorize Account Types

Balance Sheet
Catering is US
As of 06/15/2024

Assets

Checking \$55,000
Accounts Receivable 13,000
Trucks 100,000

Total Assets \$168,000

Liabilities

Liabilities:
Accounts Payable \$30,000
Truck Loan 40,000

Equity

Profit 98,000

Total Liab's & Equity \$168,000

A. L. E.

Profit & Loss Statement
Catering is US
06/15/2024

Income

Sales \$295,000

Cost of Goods Sold

Inventory Costs 30,000
Inventory Shrinkage 2,000

Expenses

Rent 90,000
Insurance 60,000
Utilities 15,000

Total Expenses 197,000

Profit \$98,000

I. C. E.

Account Types

Balance Sheet Position Accounts	Assets Bank Accounts Receivable Other Current Assets Fixed Assets Other Assets	Liabilities and Equity Accounts Payable Credit Cards Other Current Liabilities Long-Term Liabilities Equity
	Expenses Cost of Goods Sold Expenses Other Expenses	Income Income Other Income

Account Types

Balance Sheet (Position)

QuickBooks Type	Description	Examples
Bank	Your bank accounts	Checking and Savings
Accountants Receivable	What your customers owe you	Accounts Receivable
Other Current Asset	Assets likely turned to cash within a year	Inventory and Short-term Investments
Fixed Asset	Assets that last more than 1 year	Furniture, Fixtures and Equipment
Other Asset	Assets that do not belong in other types	Long-Term Investments
Accounts Payable	What you owe to vendors	Accounts Payable
Credit Card	Company credit cards	Amex and Visa
Other Current Liabilities	Liabilities to be paid within 1 year	Sales Tax Payable and Payroll Taxes
Long-Term Liabilities	Liabilities NOT to be paid within 1 year	Mortgage Payable
Equity	Owners' share of assets after liabilities	Owner Contribution and Owner Draws

Account Types

Profit & Loss Statement (Performance)

QuickBooks Type	Description	Examples
Income	Sources of your company's revenue	Product Sales and Service Income
Other Income	Income not a part of regular operations	Interest Income
Cost of Goods Sold	Tracks the cost of products sold	Materials and Cost of Sales
Expense	Normal operating expenses	Office Supplies and Rent
Other Expense	Non-operating expenses	Late tax penalties



Loans

Balance Sheet
Catering is US
As of 12/31/2024

Assets

Checking \$37,800
Kitchen Equipment 22,000
Truck 30,000
Total Assets **\$89,800**

Liabilities & Equity

Liabilities:
Truck Loan \$29,000

Equity:
Owner Contribution 50,000
Net Income 10,800
Total Equity 60,800

Total Liab's & Equity **\$89,800**

Financial Position

Profit & Loss Statement
Catering is US
12/31/2024

Income:
Catering Sales \$15,000

Expenses:
Food 2,500
Labor 1,200
Supplies 500
Total Expenses 4,200

Net Income **\$10,800**

Financial Performance

Balance Sheet
Catering is US
As of 12/31/2024

Assets

Checking \$37,000
Kitchen Equipment 22,000
Truck 30,000
Total Assets **\$89,000**

Liabilities & Equity

Liabilities:
Truck Loan \$28,500

Equity:
Owner Contribution 50,000
Net Income 10,500
Total Equity 60,500

Total Liab's & Equity **\$89,000**

Financial Position

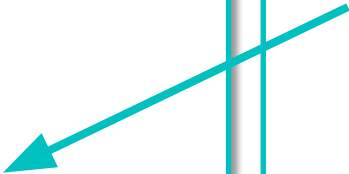
Profit & Loss Statement
Catering is US
12/31/2024

Income:
Catering Sales \$15,000

Expenses:
Food 2,500
Interest Paid 300
Labor 1,200
Supplies 500
Total Expenses 4,200

Net Income **\$10,500**

Financial Performance



Amortization schedule

Loan Data					
Amount	29,000				
Term (months)	36				
Interest Rate	5%				
Monthly Payment	869				
Month	Payment	Interest	Principal	Balance	
0				29,000	
1	869	121	748	28,252	
2	869	118	751	27,501	
3	869	115	755	26,747	
4	869	111	758	25,989	
5	869	108	761	25,228	
6	869	105	764	24,464	
7	869	102	767	23,697	
8	869	99	770	22,926	
9	869	96	774	22,153	
10	869	92	777	21,376	
11	869	89	780	20,596	
12	869	86	783	19,813	
13	869	83	787	19,026	
14	869	79	790	18,236	
15	869	76	793	17,443	
16	869	73	796	16,646	

Loan practice

2. The first month's loan payment is 869:
 - a) Principal 748
 - b) Interest 121

3. The second month's loan payment is 869:
 - a) Principal 751
 - b) Interest 118



Capital Contributions/Gains

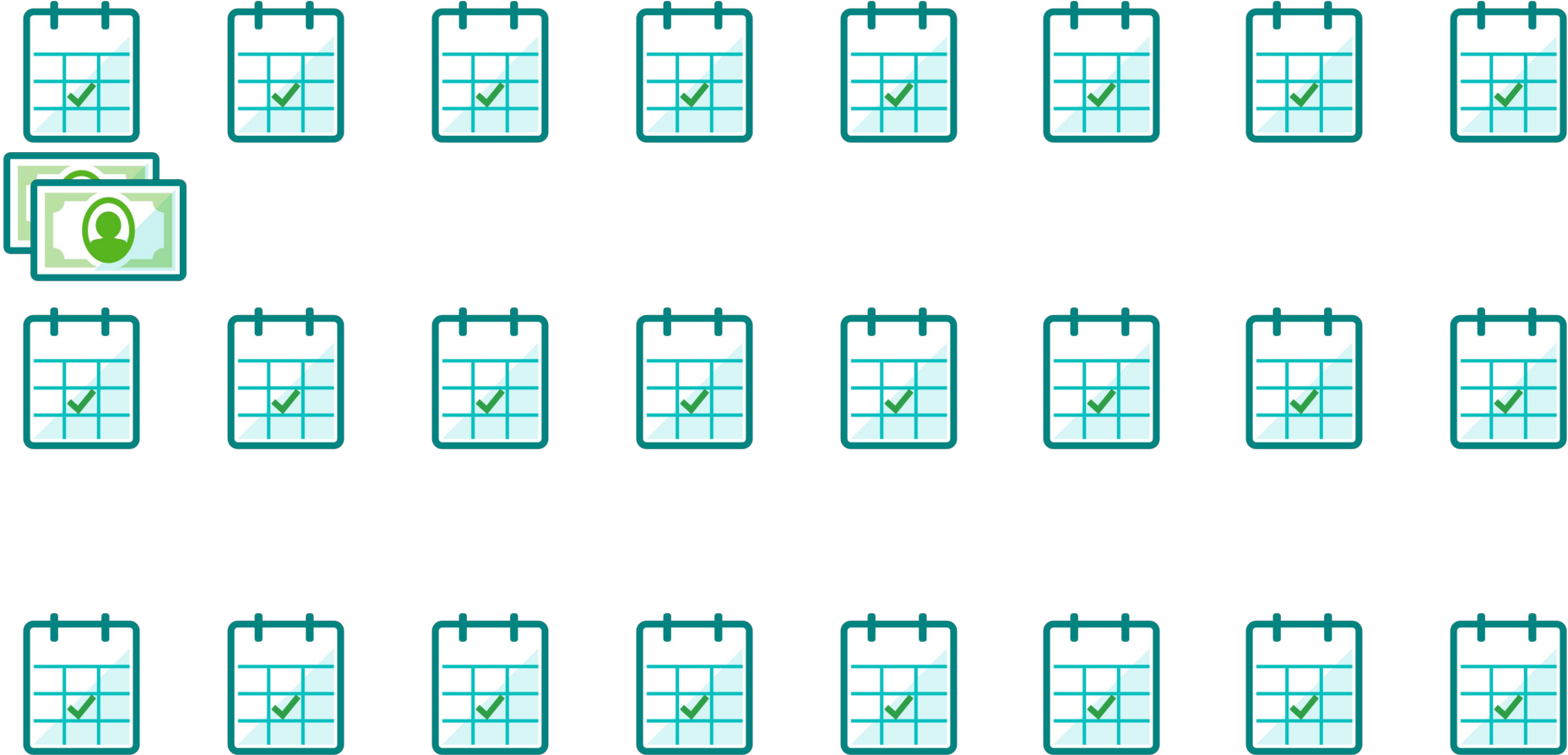


- Prepaid Expenses

Prepaid Expenses



Insurance



Prepaid Expenses

Prepaid Insurance

Accounting Records

	Debit +	Credit -		Debit +	Credit -	
Checking			Prepaid Insurance			Insurance Expense
① 24,000			① 24,000	② 1,000		② 1,000
				③ 1,000		③ 1,000
				④ 1,000		④ 1,000
			24,000			



Jan

Feb

Mar

Prepaid Expenses

Use a journal entry to record expenses you pay up front as assets, and expense out over a period of time.

Account/Description	Debit	Credit
Insurance Expense	1,000	
Prepaid Insurance (Asset)		1,000
To record monthly insurance expense paid up front.		

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