

# ACCOUNTING 101

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*Product Evangelist*

**priority**<sup>™</sup>

*This document was written with the best intentions of describing the daily accounting functions that most small business owners grapple with. The accounting processes, terminology and theory described here relates to our own experiences here in the USA, and may not translate exactly to your own local, regional, or national customs, laws, or practices.*

*Our goal is present a basic overview, so any discrepancies for localization are purely accidental.*

Like all small business owners, you went into business with a dream: to sell your unique product or services and make a good living for you, your family, your employees and your partners. You also wanted to change the world so you made the decision to run your small business using AccountEdge. Now reality has kicked in and you are faced with the challenge of managing your operations and your finances, all on a Macintosh. In this special edition of “Accounting 101” we’ll explain the basics of accounting in easy to understand terms with real life examples, showing you the impact on your financial statements. We’ll also discuss working with your CPA, no matter what platform they are using.

Let’s review what you’ve probably already done today. When you got to work you probably checked the fax machine for any incoming orders. Next, you reviewed your email for any email or web orders. You also check voice mail to see if any previous quotes have been accepted. You also checked the mail, where you found a stack of vendor bills and a few customer checks. Next, you reviewed your online bank balance and saw that the big deposit you were waiting for finally arrived. Next, you wrote some checks and ordered more inventory. Feeling kind of flush, you called the local Apple Store and placed an order for that new MacBook Air you wanted, using your credit card. Since it’s Friday, you also had to run payroll, process paychecks and make your direct deposits. You also went to the bank and made a 941 deposit. When you got back to the office you had a stack of phone messages, including one from your best supplier offering a one-day sale and from your newest customer who wanted to exchange some parts and place another order, he was also asking for credit terms, and he had a lead for some new business you had discussed. Then your cell phone rings, another new client with a huge order asking if you accept credit cards. Finally, you realize you better pay yourself, if there is money left. Then you ask yourself: How’s cash flow? Who owes me money? Whom do I owe money to? Is my business going to succeed? How do I keep it all together? How do I know?

Does this sound like a typical day for you? As a small business entrepreneur, it probably does. Most likely, you deal with all this stuff and more before your first cup of coffee. Admit it, you probably struggle a little bit to keep it all together. No matter how you handle all these transactions, the fact is, they are all accounting transactions: taking orders, buying stock, selling parts, buying computers, making deposits, writing paychecks, remitting payroll taxes, paying yourself, and more. In the average day, you probably do more accounting than you ever thought possible. How you track that data, what reports you have access to and how accurate and up to date they are play a large part in determining your financial success.

How you work with your bookkeeper (if that's not you) and your CPA (you should have one you love) probably determine how successful your business is.

How you keep it all running smoothly probably falls on your shoulders. Knowing your local, state and federal tax regulations, deadlines and responsibilities probably keeps you up at night. Understanding what it all means and using that information to your advantage is what this document is all about.

When you started your small business you probably did as most small business entrepreneurs do and tried to use software that came with your Mac or PC, or downloaded for free, to run your business. Maybe you tried some free service or Excel. If you are a creative professional, you may have used a system that looks like this: Invoices were done using InDesign (because you could put your logo on them in 1200dpi...), checkbook register in Excel, and everything else done by hand. Your first experience with 'bookkeeping' was probably to use a computerized checkbook system since it worked so well for your home finances. Not a bad place to start. But, as your business grew 'beyond the checkbook,' your record keeping, reporting, and compliance requirements also grew.

Now you have customers to track, vendors to pay, sales to record, sales taxes and payroll taxes to track and a full set of accounts to maintain. You probably also have an accountant who is preparing your state, federal and maybe even your payroll taxes for you. Maybe you have inventory, or bill your employees time, or hire lots of subcontractors – all of these things require integrated record keeping, they require... a-c-c-o-u-n-t-i-n-g!

By now you find yourself spending more time keeping your books than keeping your customers happy. You understand the importance of having accurate books, but you have a lot of demands on your time, so accounting and record keeping never seem to get the attention they require. You fondly skipped all those high school and college accounting courses, figuring you weren't "going to be an accountant anyway." Well, surprise! Not only are you an accountant, you are a lawyer, a shipping clerk, a customer service rep, a lawyer and more – all in the pursuit of your dream.

So what can you do to make this work? The first step is to understand the basics and how they all fit together. At the end of this booklet is a glossary of all the relevant accounting terms that will help you understand the science of accounting. Understanding the terminology will help you understand the concepts and their relevance to you, and more importantly, they will help you analyze and run your small business. All the information you need to run a successful

small business is contained in your accounting system – recording your transactions, verifying their accuracy, and interpreting your financial statements – that’s your goal!

Before we go any further, keep this in mind: **you don’t have to be an accountant to run AccountEdge**. All too often small business owners use this line to shun doing any type of record keeping (and therefore, business management), to their own detriment. The reality is, I’m not a mechanic, but I can drive my car. I’m also not a plumber, but I can fix a running toilet and I’m certainly not a doctor, but I can put a band-aid on my kids’ knee, even take out a splinter. All it takes is the will to succeed and the desire to run a successful operation. Will it be easy? I wish I could say yes. Will it be frustrating? I wish I could say no. Will it be invaluable to your business and your long-term success? You bet! Will you ever need outside help? You might, so don’t be afraid to call in a professional – either your accountant or one of our AccountEdge Certified Consultants (local, tech-savvy, business management experts) in your community, find them online at <http://www.accountedge.com/locator/>.

Our goal is to help you understand the basic concepts of accounting and how they relate to your business. One of the great things about AccountEdge is that it does all the debits and credits for you empowering you to manage your business. Smarter.

## **Your Daily Life**

First, let's start with an overview of how accounting fits into your daily life. Quite simply, every transaction you make results in an entry into your “books.” Whether it is a receipt of cash, a sale, a check you’ve written or a deposit from a customer – every transaction gets recorded in your books at some point. The timeliness and accuracy of when and how you record your transaction directly affects your ability to manage your business and your cash flow because accurate and timely data entry equal accurate and timely financial statements. Want to know how you are doing year to date? As long as all your transactions are entered correctly, a simple click of the mouse will produce the information you need.

If you think your business is “checkbook-centric,” remember that there are plenty of transactions that do not involve cash that should be recorded in your books. Anything that affects the things you own (assets) like repairs or purchases, all require a transaction. Anything that affects what you owe (liabilities) like sales taxes or payroll taxes requires a transaction to be recorded. Anything that affects sales (revenue), like an invoice or a product return needs to be recorded. And, as you no doubt already know, all your vendor bills (expenses) are recorded when received and again when they are paid. Just because cash is not exchanged does not

mean there are no entries to record. For example, you might sell items or services on credit. In this simple example, you record the sales when your invoice is issued, and then subsequently record the cash receipt when your customer pays you.

## **Cash vs. Accrual Accounting**

Cash-based accounting recognizes revenue and expenses ONLY when cash is received or paid. In our simple example above, your revenue would be recognized when you receive payment from your customer – not when you invoice them. Conversely, expenses would be recognized when cash is disbursed – not when the bill is received.

Businesses that start out using a checkbook-centric method of recording cash are basically using a cash-based system. For some small businesses, a hybrid system works best and it looks something like this: Revenue is recorded when invoiced so you have the ability to track receivables. Expenses are recorded when bills are paid. In effect, you are using accrual-based accounting for revenue recognition (because you need to track sales and customers accounts) and you use cash-based accounting for recognizing expenses (simply writing a check).

In the end, your accountant will make the necessary adjustments in order to prepare and file your tax returns. They will take your hybrid system and adjust it to reflect cash-based or accrual-based numbers. What that means is that they adjust your ‘accrued’ balances back to zero as if the transactions never happened. If you have an Accounts Receivable balance reflecting \$2,500 in sales you’ve not been paid for, your accountant will make an adjustment to reduce Accounts Receivable by \$2,500 and reduce Sales by the same amount, as if it never happened. In the world of cash-based accounting, technically, those sales aren’t recorded until cash changes hands. The same idea applies to Accounts Payable (by adjusting the amounts posted to each asset or expense, for example).

For companies that use accrual accounting, their system looks like this: An invoice is generated for goods and services sold, increasing sales and creating an amount due (an accounts receivable). When the customer pays you another transaction is recorded increasing your cash balance and reducing their receivable to zero. The same idea works when recording expenses: a bill is received and recorded by tracking what expense was incurred and creating an accounts payable record. When you pay your vendor another transaction is recorded, a check, which reduces cash and reduces your payable to the vendor.

In AccountEdge terms, the scenario above would look like this: An invoice is generated for goods and services sold, crediting Sales and debiting Accounts Receivable. When the customer pays you another transaction is recorded increasing your cash balance and reducing their receivable to zero. The same idea works when recording expenses: A bill is received and recorded by tracking what expense was incurred and creating an accounts payable record. When you pay your vendor, another transaction is recorded – a check – which reduces cash and reduces your payable.

## The Golden Rules of Accounting

Let's discuss the Golden Rules of Accounting. They are:

1. Debits ALWAYS EQUAL Credits
2. Increases DO NOT NECESSARILY EQUAL Decreases
3. Assets - Liabilities = Owner's Equity (The accounting equation!)

Don't let the words 'debits' and 'credits' scare you. They simply refer to the 'left side' and 'right side' of a 'T Account', a graphical representation of the amounts recorded into an account (see the examples below). Every transaction recorded into AccountEdge is posted to your accounts as a combination of debits and credits; we do all the work for you, so relax, get more coffee...

## Chart of Accounts

The chart of accounts, or simply 'accounts', is a list of categories into which all your accounting transactions will be recorded. In AccountEdge they are defined by a five-digit number and account name: A one-digit prefix designates what type of account it is (asset, liability, expense) and where it will be displayed on your financial statements, followed by a four-digit main account number. With AccountEdge you have complete control over your account numbers and their names. You can add your own, delete ones you don't use or combine similar accounts. When creating a new company data file you can select an account template from a list provided by us or create your own. Either way, this list becomes the basis for your financial statements and can be molded as your business and your requirements change. You can add, edit, delete, and combine accounts.

*When your bank says that they are **crediting** your account, they are referring to an entry on **THEIR** books.*

*Your money in the bank is a liability to the bank; therefore, when they **credit** your account, they are increasing their liability to you on their books.*

Here is a table that will help you understand what this means and how it applies to your business;

	ACCOUNT NUMBER	ACCOUNT TYPE	INCREASE	DECREASE
<b>Balance Sheet</b> <i>(As of a 'point in time')</i>	1-xxxx	Assets	DEBIT	CREDIT
	2-xxxx	Liabilities	CREDIT	DEBIT
	3-xxxx	Owner's Equity	CREDIT	DEBIT
<b>Profit and Loss</b> <i>(For a 'period of time')</i>	4-xxxx	Revenue	CREDIT	DEBIT
	5-xxxx	Cost of Goods Sold	DEBIT	CREDIT
	6-xxxx	Expenses	DEBIT	CREDIT
	8-xxxx	Other Income	CREDIT	DEBIT
	9-xxxx	Other Expenses	DEBIT	CREDIT

*The exceptions are contra accounts, which are accounts that are offset against another account. Examples include: Accumulated Depreciation, Sales Discounts, and Sales Returns and Allowances.*

Let's drill down on how each account type actually relates to your small business.

## **Assets**

An asset is anything you own in your business. They are the things in your office, your laptops and desktops, scanners, hard drives, your vehicles, your receivables owed by customers and your cash on hand. Everything you own is considered an asset of the business. Assets are used to generate revenue and purchase other assets. For example, when you buy a new computer, you use one asset (cash) in exchange for another asset (computer equipment).

## **Liabilities**

Your liabilities are the things you owe, like sales taxes received from sales but not yet paid to the state, or loans payable to your bank. Another example is your credit cards – unless you pay your balance off every month, the money you owe to your credit card company is considered a liability on your books. Liabilities represent claims against your assets.

## **Owner's Equity**

The difference between the value of your assets and the total of your liabilities is the value of your company. As the Accounting Equation states:  $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$ . Depending on the type of taxable entity you created when you first formed your company, the Owner's Equity section of your Chart of Accounts and Balance Sheet may have another name.

## **Revenue**

The revenue of your company is the total amount of proceeds generated for providing goods and services to your customers. This is typically the total amount of the invoices that you generated for your customers.

## **Cost of Sales**

Cost of Sales (or COGS) refers to the total value of the goods and services that were sold to your customers. Typically, this refers to items-based businesses that buy inventory for resale, or a manufacturer who builds items for resale. Total revenue less cost of goods sold equals your gross profit.

**Expenses**

Expenses are the costs you incur to run your business, whether they are fixed costs (independent of how much business activity you have, like rent) or variable costs (directly related to how much business activity you have, like shipping).

**T Accounts and Double-Entry Accounting**

T accounts are a graphical representation of debits (left side) and credits (right side) in a specific General Ledger account. Double-entry accounting means that every transaction has at least one debit and one corresponding credit.

<b>Account Name (x-xxxx)</b>	
debits	credits

The total debits always equal the total credits.

Below is a series of typical accounting transactions and their affect on the appropriate General Ledger accounts. The next page shows the financial statements resulting from these entries.

## Examples (Part 1):

There is an initial \$5,000 cash investment by the owner.

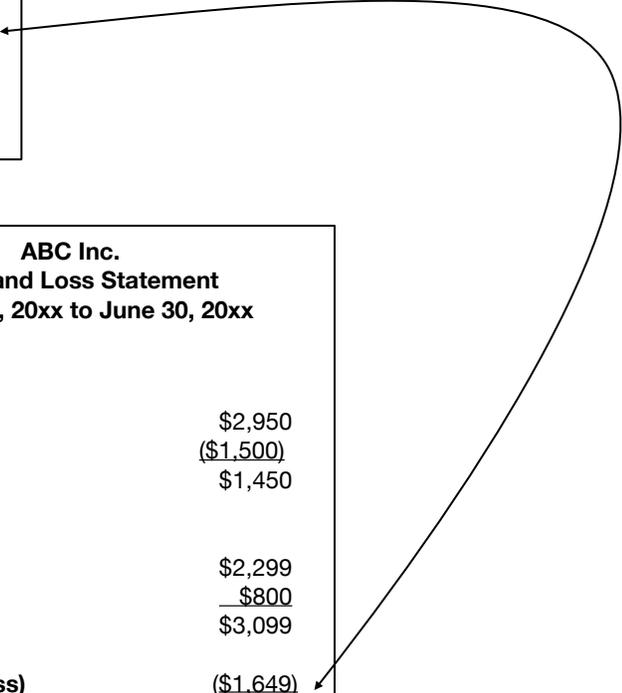
- 1.) You buy an iMac at the Apple store and pay \$1,299 cash
- 2.) You buy two Mac Mini's for \$1,000 with your company credit card\*
- 3.) You buy 10 Widgets for inventory at \$150 each and pay on COD
- 4.) You sell 4 Widgets from inventory for \$250 each on Net 30 terms\*
- 5.) You pay your monthly rent of \$800
- 6.) You pay your credit card company for your new Mini's
- 7.) Your customer pays for the Widgets they purchased
- 8.) You sell 3 Widgets for \$300 each, cash
- 9.) You buy 10 Widgets for inventory at \$150 each and pay on COD
- 10.) You sell 3 Widgets for \$350 each and take a \$500 deposit

*Using AccountEdge Basic, no transaction is recorded until the bill is paid or cash is received. (With AccountEdge Pro a purchase can be recorded showing a \$1,000 liability in Accounts Payable, and a sale for \$1,000 resulting in a balance in Accounts Receivable for \$1,000.)*

<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">Cash (1-xxxx)</th> </tr> <tr> <td style="width: 50%;">\$5,000</td> <td style="width: 50%;">1.) \$1,299</td> </tr> <tr> <td>7.) \$1,000</td> <td>3.) \$1,500</td> </tr> <tr> <td>8.) \$900</td> <td>5.) \$800</td> </tr> <tr> <td>10.) \$500</td> <td>6.) \$1,000</td> </tr> <tr> <td></td> <td>9.) \$1,500</td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">Accounts Receivable (1-xxx)</th> </tr> <tr> <td style="width: 50%;">4.) \$1,000</td> <td style="width: 50%;">7.) \$1,000</td> </tr> <tr> <td>10.) \$550</td> <td></td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">Inventory (1-xxxx)</th> </tr> <tr> <td style="width: 50%;">3.) \$1,500</td> <td style="width: 50%;">4.) \$600</td> </tr> <tr> <td>9.) \$1,500</td> <td>8.) \$450</td> </tr> <tr> <td></td> <td>10.) \$450</td> </tr> </table>	Cash (1-xxxx)		\$5,000	1.) \$1,299	7.) \$1,000	3.) \$1,500	8.) \$900	5.) \$800	10.) \$500	6.) \$1,000		9.) \$1,500	Accounts Receivable (1-xxx)		4.) \$1,000	7.) \$1,000	10.) \$550		Inventory (1-xxxx)		3.) \$1,500	4.) \$600	9.) \$1,500	8.) \$450		10.) \$450	<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">Owner's Equity (3-xxxx)</th> </tr> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">\$5,000</td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">Sales (4-xxxx)</th> </tr> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">4.) \$1,000</td> </tr> <tr> <td></td> <td>8.) \$900</td> </tr> <tr> <td></td> <td>10.) \$1,050</td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">COGS (5-xxxx)</th> </tr> <tr> <td style="width: 50%;">4.) \$600</td> <td style="width: 50%;"></td> </tr> <tr> <td>8.) \$450</td> <td></td> </tr> <tr> <td>10.) \$450</td> <td></td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">Office Expense (6-xxxx)</th> </tr> <tr> <td style="width: 50%;">1.) \$1,299</td> <td style="width: 50%;"></td> </tr> <tr> <td>6.) \$1,000</td> <td></td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; border-bottom: 1px solid black;">Rent (6-xxxx)</th> </tr> <tr> <td style="width: 50%;">5.) \$800</td> <td style="width: 50%;"></td> </tr> </table>	Owner's Equity (3-xxxx)			\$5,000	Sales (4-xxxx)			4.) \$1,000		8.) \$900		10.) \$1,050	COGS (5-xxxx)		4.) \$600		8.) \$450		10.) \$450		Office Expense (6-xxxx)		1.) \$1,299		6.) \$1,000		Rent (6-xxxx)		5.) \$800	
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<b>ABC Inc. Balance Sheet June 30, 20xx</b>	
<b>Assets</b>	
Cash	\$1,301
Accounts Receivable	\$550
Inventory	<u>\$1,500</u>
<b>Total Assets</b>	<u><b>\$3,351</b></u>
<b>Liabilities</b>	
	\$ 0
<b>Equity</b>	
Owners Investment	\$5,000
Current Year Earning	<u>(\$1,649)</u>
<b>Total Equity</b>	<u><b>\$3,351</b></u>
<b>Total Liabilities and Equity</b>	<u><b>\$3,351</b></u>

<b>ABC Inc. Profit and Loss Statement January 1, 20xx to June 30, 20xx</b>	
<b>Revenue</b>	
Sales	\$2,950
COGS	<u>(\$1,500)</u>
<b>Gross Profit</b>	<b>\$1,450</b>
<b>Expenses</b>	
Office Expense	\$2,299
Rent	<u>\$800</u>
<b>Total Expenses</b>	<b>\$3,099</b>
<b>Net Income/(Loss)</b>	<u><b>(\$1,649)</b></u>



## **Financial Statements**

The primary financial statements of any business include the Balance Sheet and the Profit and Loss. Together, they represent the total financial picture of your business. They must be reviewed as a set because collectively they tell you about your business, both in the short term and the long term.

### **The Balance Sheet**

The Balance Sheet, one of the primary financial statements, is a reflection of your total assets, less total liabilities and the difference, or owner's equity. The balance sheet reflects a 'point in time' in the life of the business; for example, you could produce a Balance Sheet as of December 31, 20xx that would reflect all the account balances "as of" that date - a point in time. For example, you would see the balance of your assets, liabilities and owner's equity accounts on December 31st.

### **The Profit and Loss Statement (or Income Statement)**

The Profit and Loss, also one of the primary financial statements, is a reflection of your total revenue generated, less the cost of items sold (which equals your Gross Profit), less your operating expenses (which equals your Net Income or Loss). The profit and loss reflects results for a 'period of time': the net income or loss for a specific period of time, for example, January 1, 20xx through December 31, 20xx.

The Equity section of your Balance Sheet includes an account called "Current Year Earnings" which represents the year to date net income or loss of your business. The life to date history of profit and losses for your business is recorded into the Retained Earnings account. At the close of every year, the Current Year Earnings accounting is rolled into (closed) the Retained Earnings account. In our example above, our business is brand new, so the loss for the year is presented on the Balance Sheet as a reduction of Equity in the Current Year Earnings account. If the next fiscal year produces a \$2000 profit, the Retained Earnings account will reflect the balance of \$351 (a \$1,649 loss plus a \$2,000 profit), the cumulative balance. Each year, your Profit and Loss information is closed into your Retained Earnings account, which is how the Balance Sheet and the Profit and Loss report are tied together.

Again, it is important to remember, that a Balance Sheet represents a point in time (as of June 30), while a Profit and Loss represents a period of time (January 1 through June 30).

Now let's add some additional entries to the mix that include more 'advanced' issues, like accounts receivable and payable, depreciation, inventory and payroll.

## Examples (Part 2):

Remember, there is a \$5,000 initial investment by the owner.

- 11.) You buy office furniture and receive Net 30 Day terms for \$1,900
- 12.) You buy a new Mac Server and 3 workstations, receive Net 60 Day terms, total investment - \$7,500
- 13.) You record your first month's depreciation on your new hardware\*
- 14.) You buy 1000 Widgets for inventory at \$150 each and receive 2% 10, Net 30 terms
- 15.) You ship an order for 400 Widgets at \$300 each and get a 50% deposit, plus you collect 6% sales tax
- 16.) You pay your monthly rent of \$800
- 17.) You pay your employee (salary of \$1,000, less; \$150 in Federal taxes, \$77 in FICA and Medicare, \$70 in State and Local taxes)
- 18.) You make your 941 deposit (Federal and FICA/Medicare) at your bank
- 19.) You sell 500 widgets for \$325 on COD
- 20.) You pay for the 1,000 Widgets and take the 2% discount

\* Just for the purpose of this example, we are going to depreciate our new hardware over 3 years, using straight-line depreciation (divided evenly over 36 months). The provisions of Internal Revenue Code Section 179 allow a sole proprietor, partnership or corporation to fully expense tangible property in the year it is purchased, check the limits on the IRS website.

Tangible eligible property includes;

- Machinery and equipment
- Furniture and fixtures
- Most storage facilities
- Single-purpose agricultural or horticultural structures

The definition of eligible section 179 property was expanded by the 2003 legislative changes to include off-the-shelf computer software. Previously, it had to be written off over three years.

If depreciation scares you, just ask your accountant how it should appear on your monthly financial statements and what monthly General Journal Entries you should be recording. Then, set them up as Recurring Journal Entry's in your Accounts Command Center in AccountEdge.

<b>Cash (1-xxxx)</b>	
\$5,000	1.) \$1,299
7.) \$1,000	3.) \$1,500
8.) \$900	5.) \$800
10.) \$500	6.) \$1,000
15.) \$67,200	9.) \$1,500
19.) \$162,500	16.) \$800
	17.) \$703
	18.) \$304
	20.) \$147,000

<b>Accts Receivable (1-xxxx)</b>	
4.) \$1,000	7.) \$1,000
10.) \$550	
15.) \$60,000	

<b>Inventory (1-xxxx)</b>	
3.) \$1,500	4.) \$600
9.) \$1,500	8.) \$450
14.) \$150,000	10.) \$450
	15.) \$60,000
	19.) \$75,000

<b>Office Furniture (1-xxxx)</b>	
11.) \$1,900	

<b>Office Equipment (1-xxxx)</b>	
12.) \$7,500	

<b>Accumulated Depreciation - Office Furn &amp; Equip (1-xxxx)</b>	
	13.) \$208

<b>Accts Payable (2-xxxx)</b>	
20.) \$150,000	11.) \$1,900
	12.) \$7,500
	14.) \$150,000

<b>Sales Tax Payable (2-xxxx)</b>	
	15.) \$7,200

<b>Federal Income Taxes Payable (2-xxxx)</b>	
18.) \$150	17.) \$150

<b>FICA &amp; Medicare Taxes Payable (2-xxxx)</b>	
18.) \$154	17.) \$77
	17.) ** \$77

<b>State and Local Taxes Payable (2-xxxx)</b>	
	17.) \$70

<b>Owner's Equity (3-xxxx)</b>	
	\$5,000

\*\* This additional entry for \$77 represents the employers' matching of the FICA/Medicare liability that is withheld from an employees paycheck. This expense is paid as part of your '941' deposit.

<b>Sales (4-xxxx)</b>	
	4.) \$1,000
	8.) \$900
	10.) \$1,050
	15.) \$120,000
	19.) \$162,500

<b>COGS (5-xxxx)</b>	
4.) \$600	
8.) \$450	
10.) \$450	
15.) \$60,000	
19.) \$75,000	

Purchase Discounts (5-xxxx)	
20.)	\$3,000

Rent Exp (6-xxxx)	
5.)	\$800
16.)	\$800

Salary (6-xxxx)	
17.)	\$1,000

Employer Payroll Tax Exp (6-xxxx)	
17.)	\$77

Office Exp (6-xxxx)	
1.)	\$1,299
6.)	\$1,000

Depreciation Exp (6-xxxx)	
13.)	\$208

ABC Inc. Balance Sheet June 30, 20xx	
<b>Assets</b>	
Cash	\$82,194
Accounts Receivable	\$60,550
Inventory	\$16,500
Office Furniture	\$ 1,900
Office Equipment	\$ 7,500
Accum. Depr – Off Equip	(\$208)
<b>Total Assets</b>	<b><u>\$168,436</u></b>
<b>Liabilities</b>	
Accounts Payable	\$9,400
Sales Tax Payable	\$7,200
Federal Inc Taxes Payable	0
FICA & Medicare Taxes Payable	0
State and Local Taxes Payable	\$ 70
<b>Total Liabilities</b>	<b><u>\$16,670</u></b>
<b>Equity</b>	
Owners Investment	\$5,000
Current Year Earnings	<u>\$146,766</u>
Total Equity	\$151,766
<b>Total Liabilities and Equity</b>	<b><u>\$168,436</u></b>

ABC Inc. Profit and Loss Statement January 1, 20xx to June 30, 20xx	
<b>Revenue</b>	
Sales	\$285,450
COGS	\$136,500
Less: Purch Disc	<u>\$ 3,000</u>
	(\$133,500)
<b>Gross Profit</b>	<b>\$151,950</b>
<b>Expenses</b>	
Salary	\$1,000
Office Expense	\$2,299
Rent	\$1,600
Employer PR Tax Expense	\$ 77
Depreciation Expense	<u>\$ 208</u>
Total Expenses	\$5,184
<b>Net Income/(Loss)</b>	<b><u>\$146,766</u></b>

## Working with your CPA

From an accounting perspective, your accountant has several ways to work with your AccountEdge data.

- They can receive all the reports available in AccountEdge as PDF files, so they can review your operation and make adjustments that you'll record into your General Ledger As Journal Entries.
- They can receive those same reports as Excel files so they can be manipulated for enhanced data analysis and auditing.
- They can use a Free Accountants Copy of AccountEdge and view your company file to run their own reports.
- Your accountant can join our Partner Programs and build a successful consulting practice working with AccountEdge customers. As a member, they'll receive a complete suite of products, services and support. Have them check it out online at [www.accountedge.com](http://www.accountedge.com).

## Did You Know...

- Your accountant can receive a FREE copy of AccountEdge (macOS or Windows)? Visit our website for more Information.
- AccountEdge company files are cross platform. This means your accountant using a PC can open your Mac company file, be sure that the file name has .myo as the file extension.
- Have your accountant export the Journal Entries they want you to 'book' (at year end, for example) and have them email you that text file, then you can import them directly into your AccountEdge company file.

## Perform an “AccountEdge Self Check”

A list of 5 things you can do to perform a “self check”

1. Check Accounts Receivable and Accounts Payable vs. the details – Run an Accounts Receivable (and Accounts Payable) Reconciliation Report, which will compare your outstanding accounts receivable and accounts payable, detailed by customer and vendor, to the balance in your linked accounts receivable account (1-xxxx) and your linked accounts payable account (2-xxxx).
  
2. Is cash reconciled – AccountEdge makes reconciling your cash and checking accounts really easy and you should be doing this monthly. If not, take some time to get this together, with the help of your bookkeeper, accountant or an AccountEdge Certified Consultant (see below).
  
3. Is your Balance Sheet complete and accurate – Print a Balance Sheet as of right now. Look at each account and ask yourself three simple questions:
  1. Do I have all my assets listed here?
  2. Do I have backup for each of these accounts?
  3. Is the ownership section of the report correct?
  
4. Have you closed your books – Have you gone through the process to Start a New Fiscal Year? AccountEdge allows you to have 26 open periods, by the end of the 26<sup>th</sup> period, you’ll have to close a year, by selecting SANFY under the File menu in AccountEdge.
  
5. Are you keeping current and backing up – This is the single most valuable piece of advice in this entire document. It is imperative that you keep your records up to date by entering all the relevant transactions when they happen. And, of course, you want to backup daily, weekly, monthly, quarterly, annually.

## **Other Sources of Information**

### **Speak to your Accountant**

Ask them what they need from you in order to complete work on your accounts on a quarterly and annual basis - from financial reports to your tax return. Ask them specifically what reports they want, what backup data they want, in what format, and how often.

### **Work with an AccountEdge Certified Consultant**

If you need on-site assistance with all issues related to AccountEdge consider working with an AccountEdge Certified Consultant. These are small business experts that can provide services and support beyond what we offer over the phone or online. See the Directory under the Help menu in AccountEdge or on our locator at [accountedge.com/locator/](https://accountedge.com/locator/).

### **Get information from the IRS**

The IRS has a great deal of resources on their web site, every small business person should have the web site bookmarked at: [www.irs.gov](http://www.irs.gov). Once there, select "Credits and Deductions" then "Information for..." Business & Self-Employed, also available [here](#). They have excellent content on numerous topics of importance to you and your small business.

### **Access our Software Support tools**

Check out our support page at [accountedge.com/support](https://accountedge.com/support) for access to all our support tools. Those of you who run payroll will find a monthly or annual Payroll Tax Service to fit your needs, available with or without telephone support. For more information, please visit us at [accountedge.com/pro/payroll](https://accountedge.com/pro/payroll). Be sure to visit our YouTube channel for dozens of videos to help you get started at [www.youtube.com/accountedge](http://www.youtube.com/accountedge). We also have excellent Start Here information to help you get up and running at [accountedge.com/start-here/](https://accountedge.com/start-here/).

### **What Software Support can and can't help you with**

There will be issues that our Software Support reps won't be able to help you with. They include tax issues, networking issues and accounting help. While we will do our best to help you get the most out of AccountEdge, these topics are better handled by your other outside advisors.

### **Accounting Terminology**

The key to understanding the concepts of accounting is understanding the terminology used. Much like you learned the lexicon of using a Mac (Command key, control-shift, drop downs,

check boxes, double click, etc.), common phrases used in accounting will help you understand the language of business.

**Accounts Payable:** Money or other obligations owed to creditors for services and materials, a Liability on the Balance Sheet.

**Accounts Receivable:** Money or other obligations due for services rendered or items sold on terms, an Asset on the Balance Sheet.

**Accrual Based Accounting:** Represents a method of recording accounting transactions when they occur, whether or not cash has changed hands.

**Accrued Liabilities:** Represents expenses that are incurred prior to being paid. For example, salaries earned by your employees and paid in a subsequent month are accrued as a liability until they are paid.

**Accrued Revenue:** Represents revenue that is earned and recorded but not yet received in the form of cash.

**Asset:** The things a company owns, seen on the Balance Sheet and represented as 1-xxxx accounts in your Chart of Accounts.

**Balance Sheet:** The primary financial statement that shows detailed assets, liabilities and equity at a point in time.

**Cash Based Accounting:** Represents a method of recording accounting transactions most easily described as accounting for cash transactions. Entries do not affect your financial statements until cash changes hands. In this environment, you do not track receivables and payables. Cash received is recorded as income when received and expenses are recorded when paid.

**Chart of Accounts:** A list of categories or accounts where transactions are recorded.

**Cost of Goods Sold (COGS):** Represents the cost of items or services sold to customers. These costs are kept in the Inventory asset account (1-xxxx) until they are sold. Then they are

passed over to the COGS (5-xxxx) account. Seen on the Profit and Loss and represented as 3-xxxx accounts in your Chart of Accounts.

**Credit:** A credit is the right hand side of an account, represented in T-Account format on the previous page.

**Current Year Earnings:** This account represents year to date earnings, not yet recorded into the Retained Earnings account.

**Debit:** A debit is the left hand side of an account, represented in T-Account format on the previous page.

**Deferred Revenue:** Represents income received, but not yet earned. This is typically a liability account.

**Double Entry Accounting:** AccountEdge follows the convention of Double Entry Accounting. Every accounting transaction is comprised of debits that equal credits.

**Equity (Capital):** The owner's interest in the business, which is the total assets minus the total liabilities of a company, seen on the balance sheet and represented as 3-xxxx accounts in your Chart of Accounts.

**Expenses:** Costs incurred in the business used to generate revenue, seen on the Profit and Loss report and represented in your Chart of Accounts as 6-xxxx accounts.

**General Ledger:** An accounting record where all of your accounts are maintained. In AccountEdge, when you enter any transaction, the General Ledger accounts are automatically updated.

**Gross Profit:** Represents your revenue from sales of inventory or services, less Cost of Goods Sold, before overhead expenses.

**Journals:** Account ledgers where entries are recorded. AccountEdge has General, Disbursements, Receipts, Sales, Purchases, and Purchases journals. Every transaction creates a corresponding set of debit and credit entries in a specific journal.

**Liability:** The things a company owes in cash or other resources, represented as 2-xxxx in your Chart of Accounts. These are claims against assets.

**Net Profit/Loss:** Total Income minus Total Expenses.

**Operating Profit:** Profit before Other Income is added and Other Expenses are subtracted.

**Overhead Expenses:** Represents the expenses of a business independent of how much revenue is generated. Can also be considered Fixed Costs, things like rent, salaries, and utilities.

**Profit and Loss Statement (or Income Statement):** The primary financial statement that shows detailed revenues and expenses for a period of time.

**Prepaid Expenses:** Represents expenses that are paid in advance of incurring them. For example, you might pay a year's worth of insurance and accrue 1/12 of it each month. This is typically an asset account.

**Retained Earnings:** Represents the cumulative net income or loss of a business since its inception. When you Start a New Year in AccountEdge, the program automatically transfers your year-end income or (Current Year's Earnings) loss to this account. This is called the closing entry.

**Start a New Year:** The process in AccountEdge that closes a fiscal year, transfers your Current Years Earnings to Retained Earnings and prepares the accounts for a new fiscal year. All Income and Expense accounts are 'zeroed out' to start the new year.

**Subsidiary Ledgers:** Customer and vendor balances that equal the amount of the Accounts Receivable and Accounts Payable General Ledger accounts.

**Trial Balance:** A list of all your General Ledger accounts and their current balances.

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