

BASICS OF BOOKKEEPING

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PRESENTER:

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Beyond the Box Accounting



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About the Facilitator...

Paul DuMond, CPA ***Beyond The Box Accounting, LLC***



Paul started Beyond The Box Accounting in 2014 after leaving the corporate world to pursue his passion to assist small business owners and managers with their everyday accounting needs – including QuickBooks set-up and training, general bookkeeping, payroll, financial reviews, monthly reconciliations, financial guidance, as well as personal, business, payroll, and sales taxes.

Paul received dual degrees in Accounting and Finance from the University of Colorado, Boulder and is a Certified Public Accountant licensed in the state of Colorado as well as a certified QuickBooks Pro Advisor.

Paul's career started as an auditor with one of the Big Eight public accounting firms. After two years, he moved to Croatia to volunteer his accounting services to a small international faith-based college. Five years later he returned to Colorado and served as the Corporate Controller for over 11 years for a faith-based organization in Colorado Springs. Since then Paul's roles have included Accounting Manager, Assistant Controller, and Controller of both public and private companies in the medical, entertainment, and hospitality industries, as well as an Internal Auditor with a Fortune 200 public company in Dallas and the Director of Audit for a small CPA firm in Denver.

Paul's diverse career background and real world experience puts him in a unique position to provide the accounting expertise that is so important for the success of any small business.

BASICS OF BOOKKEEPING

THE PIKES PEAK SMALL BUSINESS DEVELOPMENT CENTER HAS BEEN DEDICATED TO HELPING EXISTING AND NEW BUSINESSES GROW AND PROSPER FOR MORE THAN 30 YEARS.

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BASICS OF BOOKKEEPING

Presenter: Paul J DuMond, CPA

Ground Rules:

1. Please let me know if anything I say isn't clear – if you're confused someone else probably is also!
2. Participate and speak loud enough for everyone in the room to hear.
3. The only dumb question is the one that isn't asked!
4. **HAVE FUN!**

Introductions:



1. Name
2. Business name and type of business
3. Bookkeeping knowledge (scale of 1 to 10)
4. Are you currently using accounting software and if so which one?
5. What would you rather be doing?

Why do you even have to keep accounting records?

- Enables you to manage your business the right way – not by the “seat of your pants”!
- Helps you stay organized when dealing with customers, clients, and vendors – you look like you know what you’re doing!
- Makes it easy to prepare financial statements so you can determine whether you’re making money, what your margins are, etc.



- Makes it possible to find important information and documents quickly – saves time!
- Facilitates borrowing money – emergency? growth?
- Helps you plan for large cash outlays like taxes, capital expenditures, expansion
- Helps you avoid interest and penalties on late payments
- Makes filing your tax return easier and less expensive
- Enables you to comply with legal requirements!

And lastly and maybe the reason many of us do it at all is because of this little organization we all have to report to every year:



Top Bookkeeping mistakes made by small businesses:

- 1. Not saving receipts for small \$ amounts – why?**
- 2. Mixing business expenses and personal expenses**
- 3. Not properly classifying employees (employee vs independent contractor – see handout for more)**
- 4. Lack of communication with bookkeeper – how can they record what they don't know?**

- 5. Not timely reconciling the books with the bank statement every month**
- 6. Inadequate data backup**
- 7. Not deducting sales tax when reporting sales**
- 8. Misclassifying expenses (ie: payroll net vs gross, entering credit card payment as an expense)**
- 9. Writing off major purchases as immediate expenses**
- 10. Trying to keep the books without adequate knowledge of accounting and tax rules**

Principal methods of bookkeeping:

Cash:

Income is recorded when cash is received.

Expense is recorded when paid.

Accrual:

Income is recorded when the service is provided or the good is shipped or order is placed.

Expense is recorded when you actually receive the good or service.

Is it cash or accrual?



- 1. You record sales income when the job is done.**
- 2. You record the utility expense when you write the check.**
- 3. You record your payroll expense at the end of the pay period.**
- 4. You record income from a client when you meet with them.**
- 5. You record receipt of a customer payment to sales.**
- 6. You record the payment to the bank as expense.**

Example of how to determine which basis (cash or accrual) reports in QuickBooks are run and how to change it:

6:09 AM
05/18/17

Beyond The Box Accounting
Profit & Loss
January through December 2017

▼ Ordinary Income/Expense
▼ Income

Jan - Dec 17

To change it:

Customize Report | Comment on Report | Share Template | Memorize | Print | E-mail | Excel | Hide Header | Collapse | Refresh

Dates: 1/1/2017 to 12/31/2017 | From 01/01/2017 | To 12/31/2017 | Show Columns: Total only | Sort By: Default

REPORT BASIS

Accrual Cash

This setting determines how this report calculates income and expenses.

How to determine what accounting method you have used in the past or how to state what method you will use if it's your 1st tax return for the business – this example is for a Single Member LLC or Sole Proprietor

SCHEDULE C (Form 1040) **Profit or Loss From Business (Sole Proprietorship)** OMB No. 1545-0074

Department of the Treasury Internal Revenue Service (IRS) ▶ Information about Schedule C and its separate instructions is at www.irs.gov/schedulec. ▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Attachment Sequence No. **09**

2016

Name of proprietor: _____ Social security number (SSN): _____

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions

C Business name, if no separate business name, leave blank.

D Employer ID number (EIN, see inst.)

E Business address (including suite or room no.) ▶
City, month or post office, state, and ZIP code

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2016? No, see instructions for limit on losses Yes No

At this point you may be asking yourself :
"WHY do I even care since this is all just
accounting mumbo jumbo?"



Let's take a real world example to demonstrate
why you should care.

Facts are:

1. Construction business that started in 2016
2. It often takes 30-60 days or longer to be paid for a job
3. Multi-member LLC

Lets look at the Profit & Loss Cash basis vs Accrual basis:

4:38 PM 05/18/17 Cash Basis		4:38 PM 05/18/17 Accrual Basis	
Construction Company, LLC Profit & Loss January through December 2017		Construction Company, LLC Profit & Loss January through December 2017	
Ordinary Income/Expense	Income	Ordinary Income/Expense	Income
Cost of Goods Sold	Cost of Goods Sold	Cost of Goods Sold	Cost of Goods Sold
Gross Profit	Gross Profit	Gross Profit	Gross Profit
Expenses	Expenses	Expenses	Expenses
5000 Payroll Expenses	5000 Payroll Expenses	5000 Payroll Expenses	5000 Payroll Expenses
5005 Professional Fees	5005 Professional Fees	5005 Professional Fees	5005 Professional Fees
5008 Office Overhead	5008 Office Overhead	5008 Office Overhead	5008 Office Overhead
5009 Other Expenses	5009 Other Expenses	5009 Other Expenses	5009 Other Expenses
Total Expenses	Total Expenses	Total Expenses	Total Expenses
Net Ordinary Income	Net Ordinary Income	Net Ordinary Income	Net Ordinary Income
Other Income/Expense	Other Income	Other Income/Expense	Other Income
Other Income	Other Expense	Other Expense	Other Expense
Net Other Income	Net Other Income	Net Other Income	Net Other Income
Net Income	Net Income	Net Income	Net Income

Note the difference in the bottom line of \$50K!

But WHY?? Let's see if the Balance Sheet holds the answer!
 Given what we've learned about cash vs accrual – will the cash
 Balance Sheet have an Accounts Receivable balance? **NO**

Let's compare the 2017 and 2016
 Accounts Receivable balances

Construction Company, LLC Balance Sheet As of December 31, 2017		Construction Company, LLC Balance Sheet As of December 31, 2016	
ASSETS		ASSETS	
Current Assets		Current Assets	
Cash/Equivalents	14,136.00	Cash/Equivalents	79,294.00
Accounts Receivable	111,201.47	Accounts Receivable	141,888.39
Other Current Assets	7,569.50	Other Current Assets	2,289.50
TOTAL Current Assets	132,906.97	TOTAL Current Assets	224,471.89
TOTAL ASSETS	132,906.97	TOTAL ASSETS	224,471.89
LIABILITIES & EQUITY		LIABILITIES & EQUITY	
Liabilities		Liabilities	
Current Liabilities	113,846.26	Current Liabilities	88,791.93
Total Liabilities	113,846.26	Accounts Payable	14,730.30
Equity	19,060.71	Other Current Liabilities	73,061.63
TOTAL LIABILITIES & EQUITY	132,906.97	Total Current Liabilities	161,852.53
		Total Liabilities	161,852.53
		Equity	153,427.28
		TOTAL LIABILITIES & EQUITY	215,279.81

Note: A red arrow labeled "\$50K" points from the 2017 Accounts Receivable value (111,201.47) to the 2016 Accounts Receivable value (141,888.39).

Chart of Accounts – A listing accounts that a company has identified and made available for recording transactions in its general ledger (commonly referred to as the “books”)

Typically accounts are listed in the following order:

Balance Sheet accounts:

Assets
Liabilities
Owner's Equity

Income Statement accounts:

Operating Revenues
Operating Expenses
Non-operating Revenues
Non-operating Expenses

Financial Statements:

Balance Sheet

- Shows the financial position of business at a specific **point in time**
- Does not “close at end of year”
- Must balance: Assets = Liabilities + Owners Equity

Income Statement:

- Shows revenue and expense activity for a **period of time**
- Closes at end of year into the balance sheet (Retained Earnings)
- Difference between income and expense is profit or loss for period

Let's determine what type of account these are and if they are on the Balance Sheet or Income Statement:

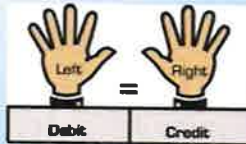
- | | |
|--------------------------|-------------------------------------|
| • Inventory | Asset – Balance Sheet |
| • Taxes Payable | Liability – Balance Sheet |
| • Cost of Goods Sold | Expense – Income Statement |
| • Interest Expense | Non Oper Expense – Income Statement |
| • Depreciation Expense | Expense – Income Statement |
| • Machinery | Asset – Balance Sheet |
| • Owner Draw | Equity – Balance Sheet |
| • Accounts Receivable | Asset – Balance Sheet |
| • Loss on Sale of Assets | Non Oper Expense – Income Statement |
| • Credit Card Payable | Liability – Balance Sheet |
| • Sales Revenues | Income – Income Statement |

What is double entry bookkeeping?

Every transaction must debit at least one account and credit at least one account and total debits MUST always equal total credits

What is a debit?

Debit simply means left side



What is a credit?

Credit refers to the right side

... the left and right of WHAT??

Let's illustrate by using "T Accounts" to post a journal entry like in the old days – we're going to record the deposit of a \$50 check from a customer:



Accounting software today automatically does this for us "behind the scenes"



BUT ... it's important for you to have a general understanding to help you identify errors. An example would be a credit balance in the Accounts Receivable account.

Accounts that typically have a DEBIT balance:

- Assets:
 - Cash
 - Inventory
 - Accounts Receivable
 - Equipment
- Expenses

Accounts that typically have a CREDIT balance:

- Liabilities:
 - Accounts Payable
 - Taxes Payable
 - Bank Loan
 - Customer Deposits
- Income

Now for the more tricky accounts – EQUITY:

Will create a DEBIT balance:

- Owner Draws/Distributions
- Retained Earnings (if cumulative losses > profits)
- Corporation – dividends
- Current Net Loss

Will create a CREDIT balance:

- Owner Contributions
- Retained Earnings (if cumulative profits > losses)
- Corporation – stock
- Current Net Income

What is Depreciation?

A method to expense fixed asset costs over their useful lives

Characteristics:

- Assets are recorded on the books at their cost
- Expense allocated to useful life
- Depreciation accumulates over the “life” of asset
- Accumulated depreciation reduces book value of asset
- IRS Code Section 179 allows certain assets to be expensed in the year purchased

Age old question:

**My Income Statement shows a net profit so
WHY don't I have any money in the bank?**



Increasing IRS Scrutiny

Home Office Expense:

- Exclusive and regular use
- Limited to net income
- Allocate based on square footage
- Can use the optional simplified method (\$5 per SF up to a maximum of 300 SF) or actual expenses (total expenses x SF % of the home office)



Business Mileage:

- **MUST** keep log with date, destination, distance, and business purpose
- Record as incurred – difficult to reconstruct after the fact
- Track business, commuting, and personal mileage for tax return support
- Actual expenses vs. standard mileage rate (2017 = 53.5 cents/mile)
- Caution against switching methods



Meals & Entertainment Expenses:

- High abuse area
- Tax deduction limited to 50%
- **MUST** document WHO, when, where, and BUSINESS PURPOSE!!
- Must be associated with active conduct of business
- Record as incurred – difficult to reconstruct after the fact



QUESTIONS?

Feel free to contact me with any questions:

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Pikes Peak Small Business Development Center

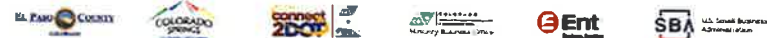
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