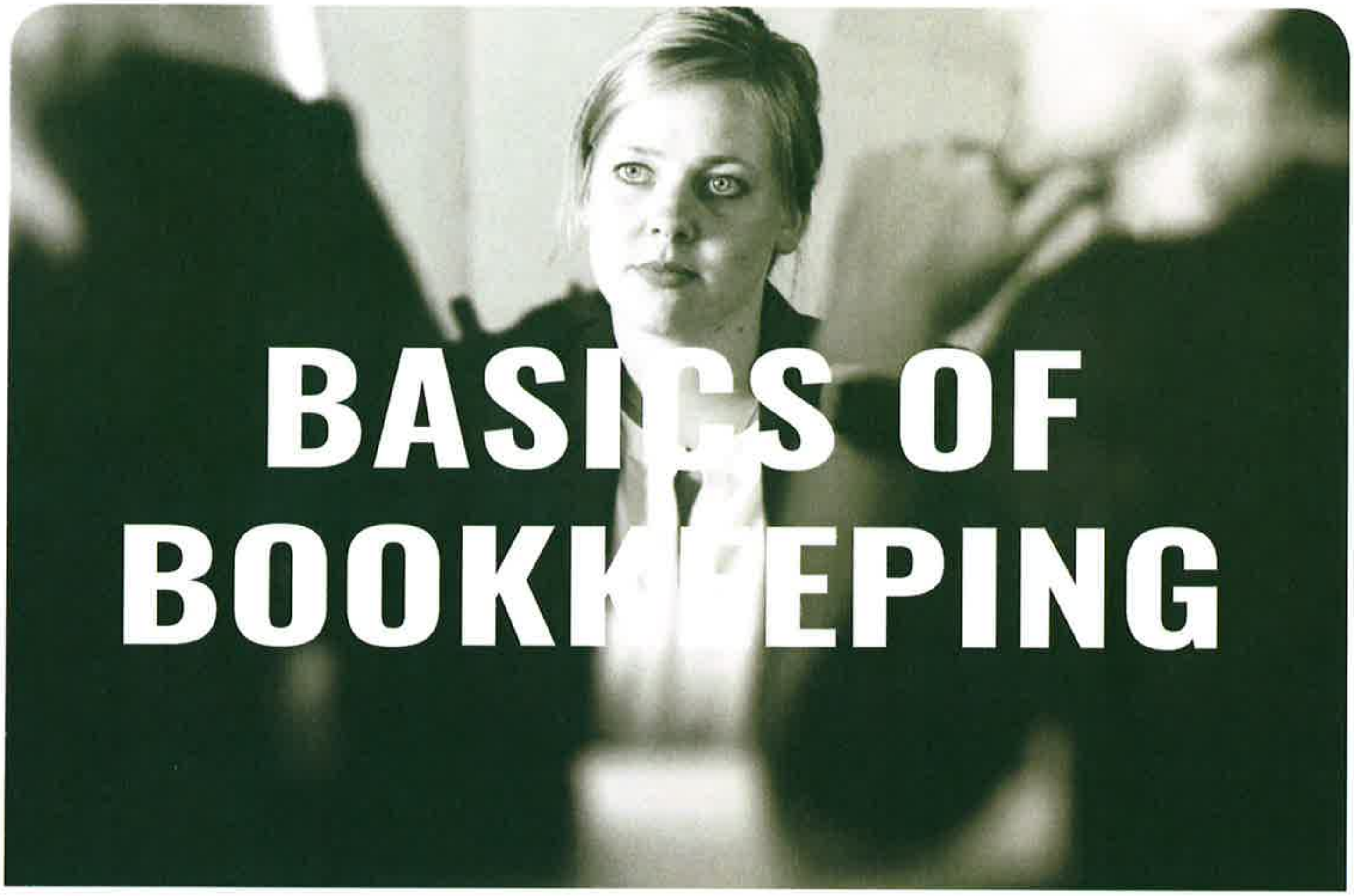
BASICS OF BOOKKEEPING



CO-SPONSORED BY:

Ent Business Banking

TRI-LAKES CHAMBER OF COMMERCE AND VISITOR CENTER

PRESENTED BY:

Colorado SBDC
PIKES PEAK Small Business Development Center

PRESENTER:

Paul DuMond, CPA
Beyond the Box Accounting

719-667-3803
www.pikespeaksbdc.org

EL PASO COUNTY COLORADO | COLORADO SPRINGS OLYMPIC CITY USA | connect2DOT | COLORADO Office of Economic Development & International Trade Minority Business Office | Ent Business Banking | POWERED BY SBA U.S. Small Business Administration

Funded in part through a cooperative agreement with the U.S. Small Business Administration

PIKES PEAK *Small Business Development Center*

About the Facilitator...

Paul DuMond, CPA
Beyond The Box Accounting, LLC

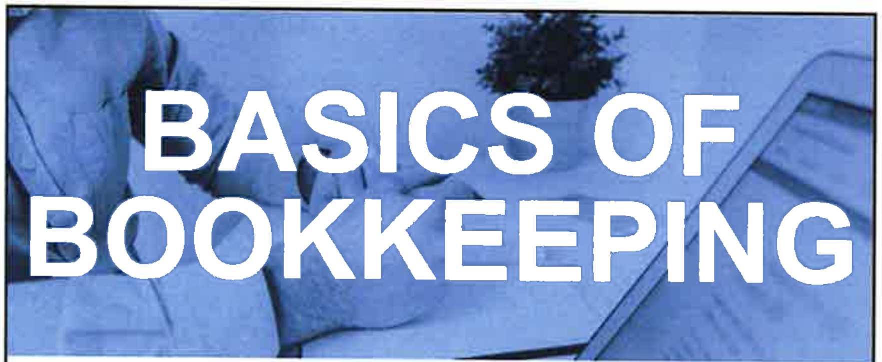
Paul started Beyond The Box Accounting in 2014 after leaving the corporate world to pursue his passion to assist small business owners and managers with their everyday accounting needs – including QuickBooks set-up and training, general bookkeeping, payroll, financial reviews, monthly reconciliations,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

Pikes Peak Small Business Development Center
Phone: (719) 667-3803
Email: sbdc@elpasoco.com
Website: www.pikespeaksbdc.org



Colorado SBDC — PIKES PEAK Small Business Development Center

Ent Business Banking

TRI-LAKES CHAMBER OF COMMERCE AND VISITOR CENTER

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

FREE CONSULTING — PRACTICAL TRAINING — BUSINESS RESOURCES

WWW.PIKESPEAKSBDC.ORG/CONSULTING

WWW.PIKESPEAKSBDC.ORG/WORKSHOPS

BASICS OF BOOKKEEPING

BEYOND THE BOX ACCOUNTING
Licensed Certified Public Accountants

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:

IRS

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:	Accrual:
Income is recorded when cash is received.	Income is recorded when the service is provided or the good is shipped or order is placed.
Expense is recorded when paid.	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
Accrual Basis

Beyond The Box Accounting
Profit & Loss
January through December 2017

Jan - Dec 17

Ordinary Income/Expense
Income

To change it:

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

Dates: This Fiscal Year | 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)
Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)
▶ 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.

OMB No. 1545-0074
2016
Attachment Sequence No. 09

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 instr.)

E Business address (including suite or room no.) ▶
City, town 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? If "No," see instructions for limit on losses ☐ Yes ☐ No

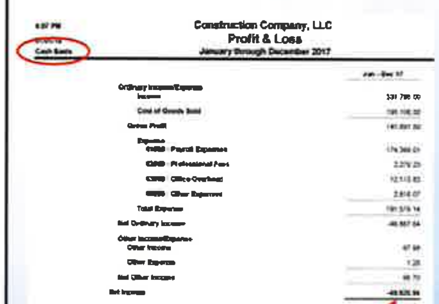
At this point you may be asking yourself :
"WHY do I even care since this is all just accounting mumbo jumbo?"

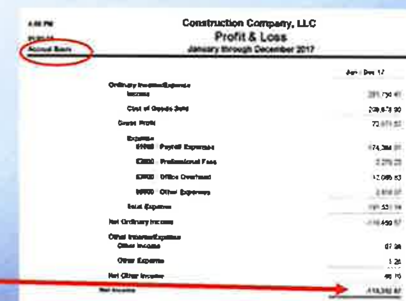
Let's take a real world example to demonstrate why you should care.

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:





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

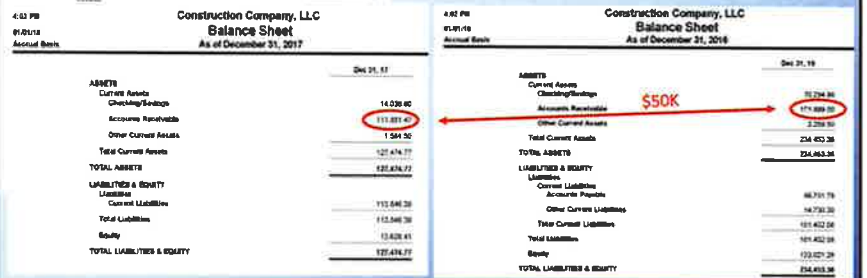


Chart of Accounts **– A listing accounts that a company has identified and made available for recording transactions in its general ledger (commonly referred to as the "books")**

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:

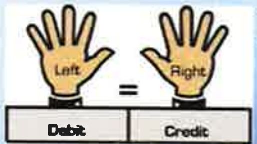
• Inventory	Asset – Balance Sheet
• Taxes Payable	Liability – Balance Sheet
• Cost of Goods Sold	Expense – Income Statement
• Interest Expense	Non Oper Expense – Income Statement
• Depreciation Expense	Expense – Income Statement
• Machinery	Asset – Balance Sheet
• Owner Draw	Equity – Balance Sheet
• 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:

paul@btbacct.com

719-602-9317

Pikes Peak Small Business Development Center

559 E. Pikes Peak Ave., Suite 101, Colorado Springs, CO 80903

719-667-3803
sbdc@elpasoco.com

www.pikespeaksbdc.org

OUR SPONSORS: