



UNIT-5

Introduction to Bookkeeping

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Differentiate between Accounting and Bookkeeping
- ✓ Understand the Difference between the cash and accrual accounting methods
- ✓ Use a journal and general ledger to document business financials.
- ✓ Utilize the balance sheet.
- ✓ Identify different types of financial statements.

Unit 5

Introduction to Bookkeeping

Numbers! Numbers! Numbers! Wherever you go, you are bound to see them. On addresses, license plates, phones, prices, and of course, money! Numbers connect us all to each other in many more ways than we might imagine. Essentially, our world revolves around numbers. Some of us enjoy dealing with numbers while others may have a fear of them, or even a phobia. For those of you who have already recognized and appreciate the impact that numbers actually have on just about everything, you deserve a cookie. Welcome to Basic Bookkeeping!

Basic Terminology

Balance Sheet

A balance sheet is a financial statement that shows the assets, liabilities, and owner's equity at a specific point in time. Assets and liabilities are usually listed first, followed by the equity which is the difference



between the assets and the liabilities. The balance sheet will ultimately provide a snapshot of the company's current financial condition.

Balance Sheet (Table 5.1)

Business Title: Bob & Tom's Crunchy Cookie Co.		Date:
Assets		Liabilities
Current Assets	£	Current Liabilities
Cash	£	Accounts Payable £ _____
Petty Cash	£	Notes Payable £ _____
Accounts Receivable	£	Interest Payable £ _____
Inventory	£	Taxes Payable
Short-term Investments	£	Federal Income Tax £ _____
Prepaid Expenses	£	Self-Employment Tax £ _____
		State Income Tax £ _____
		Sales Tax Accrual £ _____
		Property Tax £ _____
		Payroll Accrual £ _____
Long-term Investments	£	Long-term Liabilities
		Notes Payable
		£ _____
Fixed Assets	£	Total Liabilities £ _____
Land (Valued at Cost)	£	Net Worth (Equity)
Buildings	£	Proprietorship £ _____
1. Cost _____		Or
2. Less acc. Depr. _____		Partnership
Improvements	£	(Name) _____, % equity £ _____
1. Cost _____		(Name) _____, % equity £ _____
2. Less acc. Depr. _____		Or
Equipment	£	Corporation
1. Cost _____		Capitol Stock £ _____
2. Less acc. Depr. _____		Surplus Paid in £ _____
Furniture	£	Retained Earnings £ _____
1. Cost _____		
2. Less acc. Depr. _____		
Automobiles	£	
1. Cost _____		
2. Less acc. Depr. _____		
Other Assets	£	Total Net Worth £ _____
1. _____	£	Assets – Liabilities = Net Worth
2. _____		&
Total Assets £		Liabilities + Equity = Total Assets

Assets

Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Anything that has an economic value and can be owned or controlled to produce value has the potential to produce such future economic benefits. Whether tangible or intangible, ownership of any form of value such as cash money or stock is considered to be an asset.



Liabilities

Probable future sacrifices of income or assets, arising from present obligation to a particular entity. If liabilities are settled, they may become transferred assets or provide services to other entities in the future as a result of past transactions or events. A liability is a duty or responsibility to another in return for some form of debt such as a business loan which would entail the settlement of that loan.



Equity

Ownership in assets after all debts owed for that asset has been paid off. Assets such as stock and home ownership can be considered equity if no associated debts remain. Once a house or automobile is paid off, the asset is now the owner's equity. Equity is any asset that can be sold for monetary gain without any attached debts being owed. The owner should gain 100% of the revenue from the sale of an asset if that asset is his or her own equity.



Income Statement

A financial statement is used to summarize the amounts of revenues earned, and the expenses incurred by a business or entity over a period of time. It is used to measure a business's financial performance. This statement includes a summary of how a business typically incurs its revenues and expenses over a fiscal quarter or year.



Revenue

The fee paid to a lender for a loan or all transactions for which monies are received. It can be the income from products and services sold and the use of investments. Revenue can also be a transaction and the resulting income for which monies are received, however, loan funds and equity deposits are not considered revenue.



Cost of Goods Sold

The cost of producing products that are delivered to customers to create revenue or the cost of inventory sold during an accounting period. This includes the cost of purchases made during an inventory period minus the ending inventory for that period. This term is often abbreviated as COGS.



Expenses

Expenses are the cost of producing revenue through the sale of goods or services. They can come in many forms such as salaries or wages, and depreciation of assets. An expense can be almost anything that is incurred when doing business.



Accounting Period

The Accounting period is the amount of time in which income statements and other financial statements are utilized to track and report operating results. They usually run for twelve months between January to December, but can begin and end anytime depending on the businesses needs or wants.



Accounts Receivable

This type of record is used to keep track of money that is owed to a business. Such money can come from extending credit to a customer who purchases the businesses products or services. The best way to keep track of these figures is to set up a separate accounts receivable record for each customer.



Accounts Payable

This type of record is used to keep track of debts owed by a business to creditors for purchased goods or services. Though the business will likely be billed regularly by its creditors for the balance on the account, having its own records will allow the business to be aware of their financial standing with the creditors at any given time.



Depreciation

Involves both the decline in value of assets, usually due to unfavorable market conditions as well as the allocation of the costs of tangible assets over their useful lifetime to the periods in which the assets are actually used. The decline in value will have an effect on the value of business and entities while the allocation of cost effects net income.



General Ledger

In double-entry accounting, these are forms used for the accounts on separate sheets, in a book or binder and are called the general ledger. This is considered to be a permanent, classified record for each business account.



Interest

Interest is a sort of compensation to a lender for taking a risk of principal loss when money or another asset is loaned. When money is borrowed the, borrower usually pays a percentage of the total amount owed also known as the principal, as a fee, along with a certain amount of the original balance for each billing period. It is a sum amount charged for borrowing.



Inventory

Inventory can be described as either a list of goods and materials or the goods and materials themselves. It is considered an asset and usually refers to materials held in stock by a business. Inventory is one of the most important assets that a business possesses because they are ready or will be ready to be sold thus; inventory is often a primary source for revenue.



Journals

A journal is used to record the financial transactions made by a business. Whether the transactions are credits or debits, they should be input into a journal at the time and date which they occur. These recordings can then be used for future reference and reconciling and can be transferred to other official records such as the general ledger. All journal entries should include the transaction date, type, and amount.



Payroll

Payroll can refer to either the total sum in compensation that a business owes to its employees for a set period of time, or the actual list of employees the business must pay along with the amount owed. It is usually a major expense for businesses but will likely differ from time to time depending on the business' need of its employees at the time, amongst other things.



Trial Balance

A worksheet usually prepared at the end of each recording period. The balances of all ledgers are recorded into two columns labeled "debits" and "credits". This worksheet helps to ensure that all numerical data entered into the business' bookkeeping system is correct. If the total debits are in fact equal to the total credits, the trial balance is balanced. This worksheet method is also referred to as a T-Account due to the shape the data takes on with the two column format.



Account Name	
Debit	Credit

Further Reading:

- ✓ *Crystalynn Shelton, (2021), Mastering QuickBooks.*
- ✓ *Stephen L. Nelson, (2021), QuickBooks.*