Sage Business Cloud Accounting:
Introduction to Bookkeeping

Introduction to Bookkeeping

Learning Outcomes

To introduce the concepts of Accounting and Bookkeeping and to learn the basics of Accounting.

Learning Objectives

By the end of this lesson, you will be able to:

- Explain the fundamentals of accounting and bookkeeping
- Explain the accounting and bookkeeping cycle
- Define the accounting equation
- Explain what debits and credits are and how they affect account balances
- Explain what the financial statements for a company are

NOTE: Throughout the duration of the course, you will encounter important icons and visual conventions as part of your learning experience to guide learners through the chapters. The cues are indicated here:

Important Information / Important Note / Additional Information	Item where caution and attention is required or additional insight and information is provided.
Exercise	Your opportunity to practice a concept.
End of Exercise	Indicates the end of an exercise.
Check Your Knowledge	Review questions at the end of a lesson to check your understanding and ability to implement concepts.
Summary	Overview of the most important items covered in a section or lesson.
End of Lesson	The end of the lesson.

What is Bookkeeping and Accounting?

Every business needs a reliable bookkeeping system based on established accounting principles. Keep in mind that accounting is a much wider term than bookkeeping. Bookkeeping refers mostly to the record keeping aspects of accounting and it is in fact the process of recording all the evidence regarding the transactions and financial activities of a business.

What is Bookkeeping?

Bookkeeping is a vital subsection of accounting. Bookkeeping refers to the process of gathering, organizing, storing, and retrieving the financial information base of an entity, which is needed for two basic purposes:

- Simplifying the day-to-day operations of the entity; and
- Preparing financial statements, tax returns, and internal reports to supervisors.

Bookkeeping or recordkeeping can be thought of as the financial information structure of an entity. The financial information base should be complete, accurate, and timely. Every recordkeeping system needs quality controls built into it, which are called internal controls.

What is Accounting?

Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.

Accounting records and measures the financial effects of economic activity. Furthermore, accounting reports on the value and performance of a company to those that need the information. Business managers and many others depend on financial reports for information about the performance and condition of a company.

Accountants design the internal controls for the bookkeeping system, which serve to minimize errors in recording the large number of activities that an entity engages in over the period. The internal controls that accountants design are also trusted on to detect theft, fraud and dishonest behavior of all kinds.

Accountants formulate reports based on the information accumulated by the bookkeeping process: financial statements, tax returns and various confidential reports to supervisors. Measuring profit is a critical task that accountants perform and a task that depends on the accuracy of the information recorded by the bookkeeper. The accountant decides how to measure sales revenue and expenses to determine the profit or loss for the period.

The Accounting Equation

From the large corporation down to the corner shop, every business transaction will have an effect on a company's financial position. The financial position of a company is measured by the following items:

Asset

The value of everything owned and used in a business is considered an asset. Examples are cash, office equipment and stock. For example, the computers, copier machines and office furniture are its assets. Assets can even include any money owed to a business, for example money owed by customers is known as Accounts Receivable.

Liability

A liability is an obligation to pay an outside interest at a future date. For example, the amount of money the company owes a person or company for goods or services rendered is considered a liability. For example, when a company buys office supplies and charges them to an account with a promise to pay, the money owed is considered a liability and is often classified as Accounts Payable. In addition, when a company borrows money from a bank, the loan is a liability.

Owner's Equity

The part of the company that belongs to the owner is the owner's equity. Equity is the capital invested by the owner(s) in a business plus the net income since the business began, reduced by the amount of money the owner has withdrawn from the business.

Accounting Equation

The accounting equation (or basic accounting equation) offers a simple way to understand how these three amounts relate to each other.

The formula for the accounting equation is:

Assets = Liabilities + Owner's Equity

Income vs. Expenses

Income and expenses are two categories that are included in owner's equity.

Income

Income is monies that a company earns from selling goods or services to another firm or individual. The term income is often used when referring to revenue accounts. For example, the income account for a cinema might include ticket income and concession income. Income will also include items that are not directly involved with operations, such as interest income.

Expenses

Expenses are the costs a company incurs as part of running a business. Included in these costs are goods or services that a company buys and uses to help earn income. Examples of an expense account might include rent expense, utilities expense, and insurance expense.

Net Income/Loss

Income and expense transactions tell whether a company is making a profit or incurring a loss from its operations. If the income total is larger than the expense total, there is a net profit. If the expenses are larger than the income, there is a net loss.

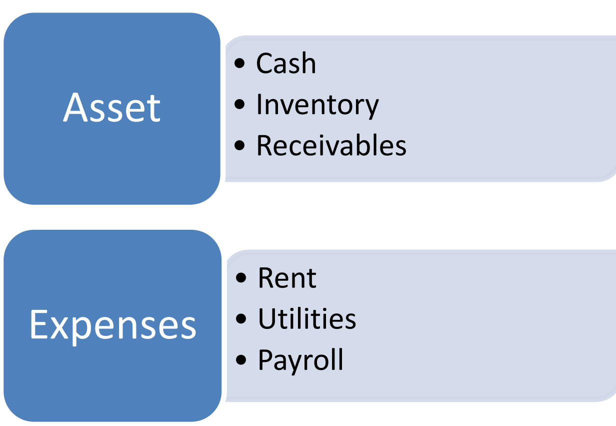
Debit and Credit

Debits and credits are entries made to an account to record the changes in value from a transaction. In order to understand debits and credits, you must understand how they increase or decrease assets, liabilities and owner's equity.

Increases in asset and expenses are recorded on the debit side and increases in liability, revenue and owner's capital accounts are recorded on the credit side.

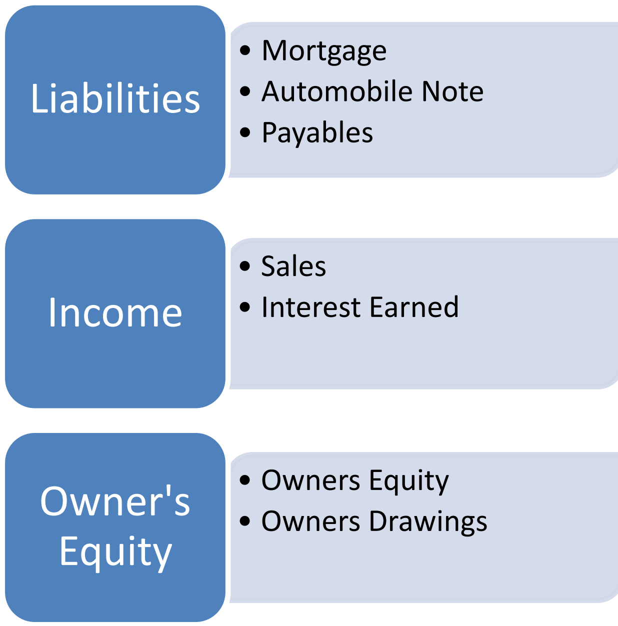
Debit Accounts

Assets and Expenses are considered Debit accounts. A debit transaction increases the balance of these accounts. A credit transaction decreases the balance of these accounts.



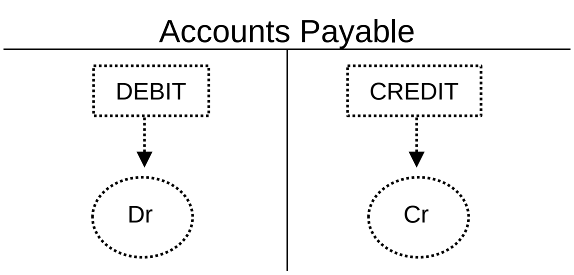
Credit Accounts

Liabilities, Income, and Owner's Equity are considered Credit accounts. A credit transaction increases the balance of these accounts. A debit transaction decreases the balance of these accounts.



T Account

A T account is a simplified form used to record a transaction that results in the increase or decrease of various accounts. It gets its name from its resemblance to the letter T and is used to divide an account into two sides, debits and credits.



The left side of any account is called the debit side and is abbreviated Dr. The right side of any account is called the credit side, abbreviated Cr. The name of the specific account, such as Accounts Payable or Office Supplies, is listed at the top of the T structure.

In order to understand debits and credits, you must understand how they increase or decrease assets, liabilities, equity, revenues and expenses.

Increases in asset and expense accounts are recorded on the debit side and increases in liability, revenue and owner's equity accounts are recorded on the credit side. An account's assigned normal balance is on the side where increases go because the increases in any account are usually greater than the decreases.

Therefore, asset and expense accounts usually have debit balances. Liability, revenue and equity accounts usually have credit balances. To determine the correct entry, identify the accounts affected by a transaction, which category each account falls into and whether the transaction increases or decreases the account's balance.

When recording a transaction, the sum of amounts recorded on the debit side will always equal the sum of amounts recorded on the credit side. This is a key concept of Accounting and ensures the Accounting Equation will always remain balanced.

Example

A company purchased $10,000.00 worth of new teleconferencing equipment and elected to pay it over the next six months. An asset account, such as Equipment, would be established to record the equipment purchased. Since the company owns more equipment after the purchase, you would increase the balance of the account by $10,000.00 on the left, or debit side, of the account.

A liability account, Accounts Payable, would be established to record the amount owed to the vendor that sold the equipment. Since the $10,000.00 represents an increase in the money the company owes the vendor, the $10,000.00 would be listed on the right, or credit, side of the T account for Accounts Payable.

Equipment	
$10,000.00	

Account Payable	
	$10,000.00

Financial Statements

Financial statements are a record of a company's financial activities. They report the financial position of a company as of a certain date or over a certain time period. The economic information is used by a wide range of users for decision making.

Balance Sheet

Financial report that shows the assets, liabilities, and owner's equity at a moment in time; both sides of the accounting equation are shown on a Balance Sheet.

The Balance Sheet can be defined as a statement of a business's assets, liabilities, and net worth. It is also seen as a snapshot of a business's financial position at a particular point in time. The main purpose of a Balance Sheet is to show a business's financial position.

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Balance Sheet As at 01/31/2019

ASSET		
Current Assets		
Chequing Bank Account	5,789.64	
Savings Bank Account	1,000.00	
Petty Cash	547.20	
Total Cash		7,336.84
Accounts Receivable		1,472.00
Prepaid Expenses		-229.60
Total Current Assets		8,579.24
TOTAL ASSET		8,579.24
LIABILITY		
Current Liabilities		
PST Payable		692.30
GST/HST Charged on Sales	494.50	
GST/HST Paid on Purchases	-96.85	
GST/HST Owing (Refund)		397.65
Total Current Liabilities		1,089.95
TOTAL LIABILITY		1,089.95
EQUITY		
Current Earnings		7,489.29
TOTAL EQUITY		7,489.29

Income Statement

Financial report that summarizes the income and expenses of a company over a period of time, and reports the difference as net profit or loss; also referred to as the Profit and Loss Statement (P&L statement). The purpose of an Income Statement is to show the profitability of a business over a period of time.

The Income Statement is limited in that it does not show how much cash is coming into your business. A business may have excellent sales, but not a good track record of collecting outstanding debts.

Importance of Balance Sheets and Income Statements

Before a bank will give you a business loan, they may want to see your Income Statement and Balance Sheet to determine if you can service the debt. In some cases, a supplier will want to see your financial statements, especially if you are making a long term, expensive purchase from them. As a business owner, you will want to see an Income Statement before making decisions about future expenditures, for example expanding the business or moving premises.

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Income Statement 01/01/2019 to 01/31/2019

REVENUE	
Sales Revenue	
Landscaping Sales	9,030.00
Irrigation Sales	850.00
Early Payment Sales Discounts	-60.48
Net Sales	9,819.52
Total Other Revenue	10.00
TOTAL REVENUE	9,829.52
EXPENSE	
General & Administrative Exp...	
Accounting & Legal	1,016.50
Insurance	229.60
Interest & Bank Charges	38.00
Office Supplies	249.35
Rent	535.00
Utilities	271.78
Total General & Admin. Expe...	2,340.23
TOTAL EXPENSE	2,340.23
NET INCOME	7,489.29

General Ledger

Principal ledger which contains all of the balance sheet and income statement accounts and their transactions.

Landscaping Pros
General Ledger Report 01/01/2019 to 02/27/2019
Sorted by: Transaction Number

Date	Comment	Source #	JE#	Debits	Credits	Balance
1020	**Chequing Bank Account**					- Dr
01/15/2019	Action Line Construction	3	J9	1,149.12	-	1,149.12 Dr
01/23/2019	Armstrong Home Hardware: Depos...	4	J10	2,000.00	-	3,149.12 Dr
01/30/2019	Armstrong Home Hardware	5	J12	2,032.00	-	5,181.12 Dr
01/15/2019	MNB Industrial Park Inc.	1	J15	-	560.00	4,621.12 Dr
01/31/2019	Visa	2	J18	-	261.00	4,360.12 Dr
01/05/2019	Legal and More Inc.: Retainer for re...	3	J19	-	500.00	3,860.12 Dr
01/30/2019	Legal and More Inc.	4	J21	-	564.00	3,296.12 Dr
01/30/2019	Western Hydro Inc.	Online Ref1346	J24	-	284.48	3,011.64 Dr
02/27/2019	Receiver General - RT: GST remitt...	5	J26	-	397.65	2,613.99 Dr
01/31/2019	Bank deposit by	1	J29	4,016.00	-	6,629.99 Dr
01/31/2019	to transfer funds to savings	FundsTransfer	J30	-	1,000.00	5,629.99 Dr
01/31/2019	to fund Petty Cash	FundsTransfer	J31	-	200.00	5,429.99 Dr
01/31/2019	Bank Charges	Jan 2015	J32	-	38.00	5,391.99 Dr
				9,197.12	3,805.13	
1030	**Savings Bank Account**					- Dr
01/31/2019	to transfer funds to savings	FundsTransfer	J30	1,000.00	-	1,000.00 Dr
1040	**To be deposited**					- Dr
01/31/2019	South Pines Seniors Centre	6	J27	2,000.00	-	2,000.00 Dr
01/31/2019	UBC Management Group	7	J28	2,016.00	-	4,016.00 Dr
01/31/2019	Bank deposit by	1	J29	-	4,016.00	- Dr

Check Your Knowledge

Answer the following questions about the material covered in this lesson.

Short Answer
Write a short answer to the question below.

1. What is the Accounting Equation?

____

____

Multiple Choice
Mark the correct answer(s) to the question below.

2. What type of report summarizes the income and expenses of a company over a period of time, and reports the difference as net profit or loss?
   A. ______ Balance Sheet
   B. ______ T Account
   C. ______ Income Statement
   D. ______ General Ledger

3. This type of account is an obligation to pay an outside interest at a future date
   A. ______ Asset
   B. ______ Revenue
   C. ______ Expense
   D. ______ Liability

True or False
Enter 'T' for True or 'F' for False for each of the affirmations below.

4. ______ Account Payable is an example of an Equity account
5. ______ A debit to an asset account will increase the value of the account
6. ______ The General Ledger is the Principal ledger which contains all of the balance sheet and income statement accounts and their transactions.

Summary

Every business needs a reliable bookkeeping system based on established accounting principles. Bookkeeping refers mostly to the record keeping aspects of accounting and it is in fact the process of recording all the evidence regarding the transactions and financial activities of a business. Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.

The formula for the accounting equation is:

Assets = Liabilities + Owner's Equity

Assets are the value of everything owned and used in a business. A liability is an obligation to pay an outside interest at a future date. The part of the company that belongs to the owner is the owner's equity. Part of what belongs to the owner is the net income or loss of the company.

The formula for Net Income is:

Net Income/Loss = Revenue – Expenses

Income is monies that a company earns from selling goods or services to another firm or individual. Expenses are the costs a company incurs as part of running a business.

Debits and credits are entries made to an account to record the changes in value from a transaction.
Increases in asset and expenses are recorded on the debit side and increases in liability, revenue and owner's capital accounts are recorded on the credit side.

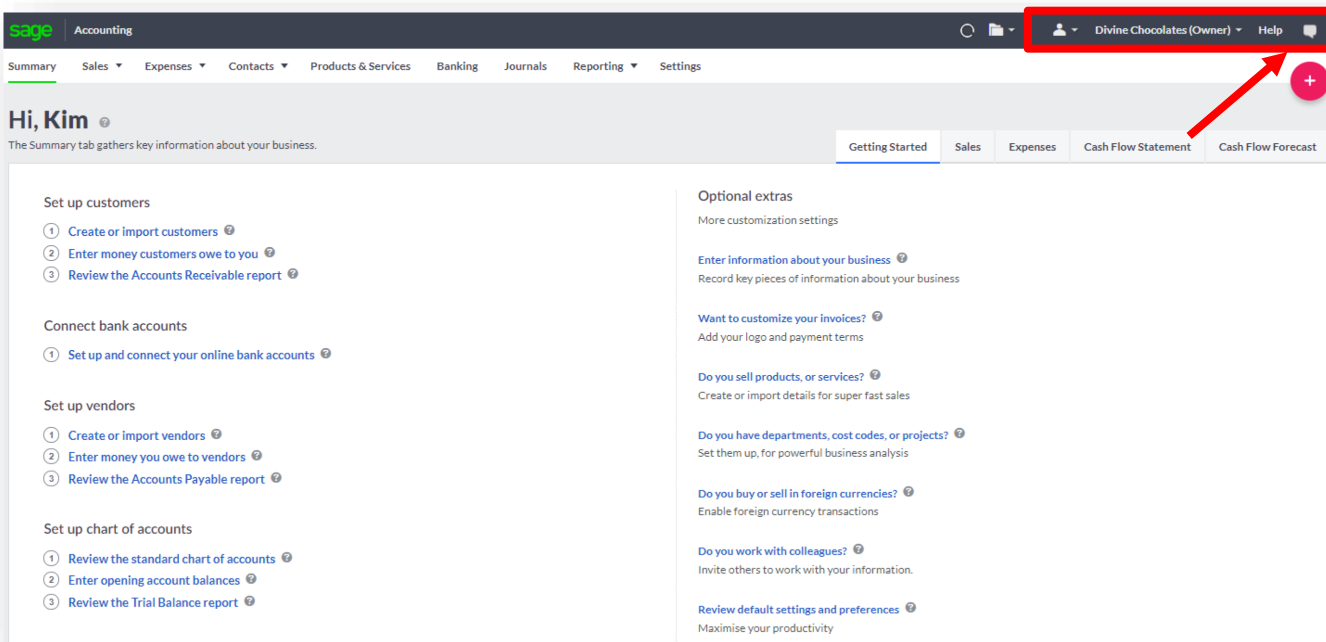
A good way to track the changes in value of an account is by using a T account. A T account will list debit changes to an account on the left side and credit changes on the right hand side.

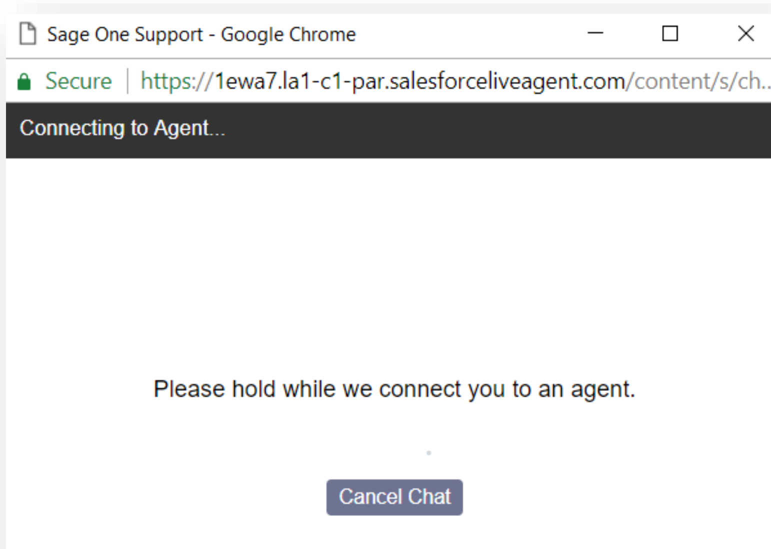
Financial statements are a record of a company's financial activities. Balance sheets track total assets on one side and total liabilities and equities on the other side. Income statements will compare total revenues to total expenses to calculate a net income/loss.

End of Lesson

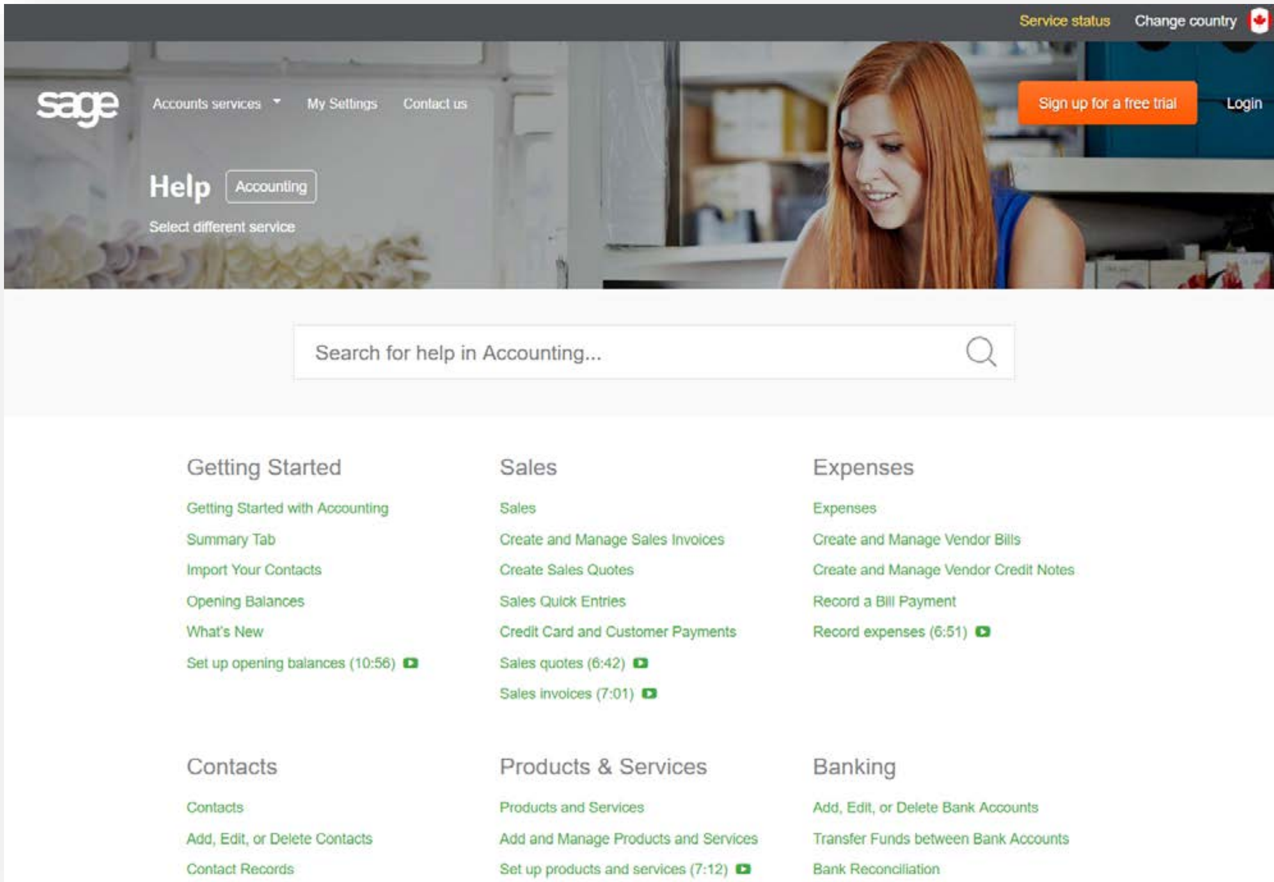
Technical Assistance

To obtain help when signed into **Accounting,** navigate to the menu bar and click on the chat icon to chat with a live support representative, Monday – Friday 9:00 a.m. – 6:00 PM EST. Please note, tech support is unable to assist students with test questions.



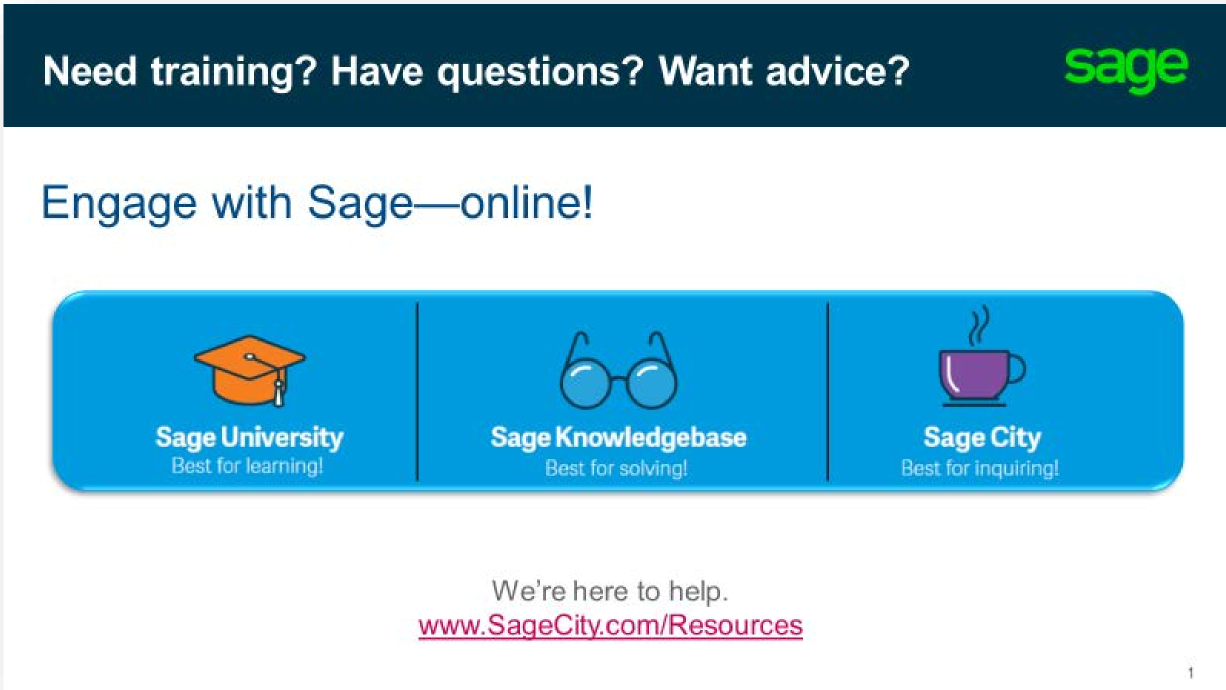


Click on the **Help** icon next to the **Chat** icon to access support articles and how-to videos:



Beyond the Classroom

Your continued success is important to us. Sage has the following additional resources for you to continue your learning.



Certification Assessments

Research has shown that in today's economy it is more important than ever for individuals to obtain solid technical skills and certified proof of their knowledge to secure the best job opportunities. Certification is becoming a requirement for many and the demand for certified professionals has dramatically increased. Sage certification assures proof of your expertise.

Once you have completed a Sage training course, we would therefore encourage you to take the Sage competency assessment. Assessments are offered in English and in an online environment.

Visit **www.sageu.com** to take your assessment.

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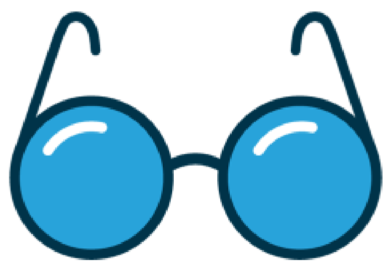
Best for solving . . . Sage Knowledgebase

What is Sage Knowledgebase:
- Home to thousands of articles written by Sage support analysts

Who can access:
- Anyone can access the content.

Benefits to you, our partners:
- Even experts like you need help sometimes! When you need to find answers fast, search Sage Knowledgebase—which is updated by analysts daily.

Benefits to your customers:
- After hours technical questions can be frustrating for customers…let them know about Sage Knowledgebase to find answers when you aren't readily available.



Accessing is easy:
- Visit: support.na.sage.com
- Type in search criteria
- Click Accounting icon

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Please note:

Every effort has been made to ensure that the information provided in this educational series is accurate, up-to-date, and complete, but no guarantee is made to that effect. URLs and additional resources 'Beyond the Classroom' are continuously changing. Because the software is customizable in a number of ways, the language used in this guide may be different from what you 'see' when you work with your company's data file(s).