

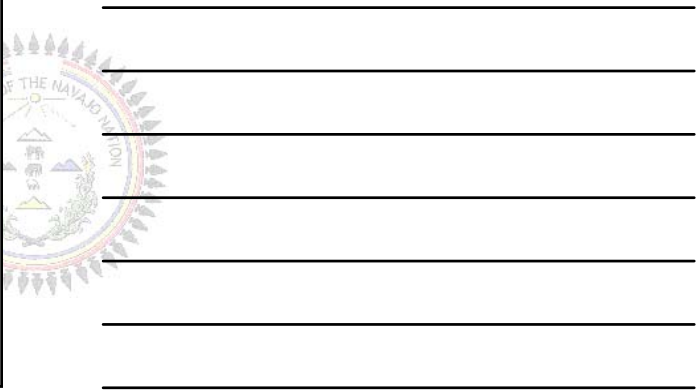


Navajo Nation Department of Economic Development (DED)

Paper Bookkeeping



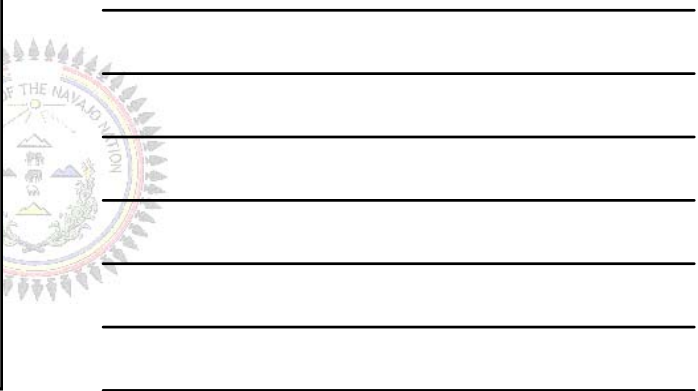
WELCOME

Paper Bookkeeping

1:00 PM - 5:00 PM
Thursday, May 3, 2007

Please Sign In and Be Seated

We Will Begin Shortly

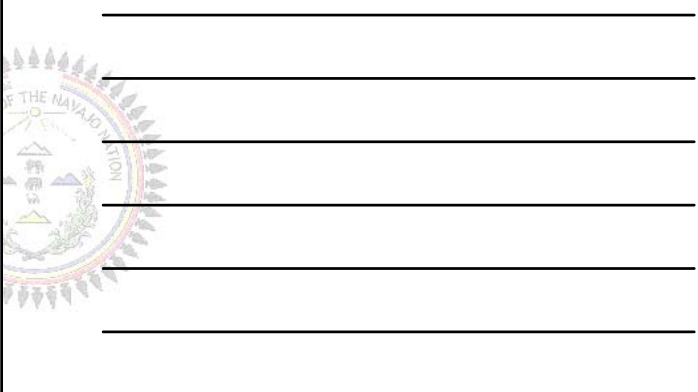
Welcome

Shiprock - Regional Business Development Office (RBDO)

Randolph Sells, Program Manager

| | |
|---|---|
| Rose Morgan, Senior Economic Development Specialist | Sally Begay, Senior Economic Development Specialist |
| Henry Silentman, Economic Development Specialist | Eva Begaye, Office Specialist |







Paper Bookkeeping

- Definitions
 - Bookkeeping



"The art of recording business transactions in a regular, systematic manner"
 - Paper Bookkeeping

"The art of recording business transactions in a regular, systematic manner using only paper and manual tools, no automatic processes, i.e. computer"



Paper Bookkeeping

- Why is bookkeeping important?
- Who should know basic bookkeeping concepts and processes?



Introduction

- How to keep financial records of your financial transactions
- How to use your financial records
- Practical Overview of the Bookkeeping Function



Agenda

- History and Overview
- Accounting Principles and Elements
- “Cash vs. Accrual”
- “Debt and Credit”
- Transaction Characteristics





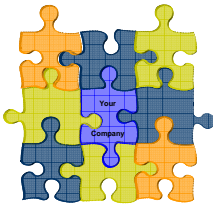
Agenda (Cont'd)

- Chart of Accounts
- Transactions Examples
- Reconciliation of Accounts
- Financial Statements
- Case Study – Work Session
-- Bilagaana Trading Co. --



History

- Who Started keeping books? Why?
- Isolation vs. Interaction

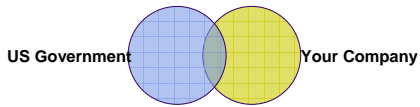


History (Cont'd)

- **Bookkeeping has a standard**
- **Financial Accounting Standards Board (FASB)**
 - 1973 – FASB was formed
 - Generally Accepted Accounting Principles (G.A.A.P.)
 - International Accounting Standards Board (IASB)
- **Internal Revenue Service (IRS)**

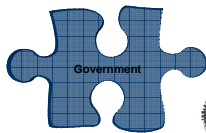


Your Fiscal Relationship with the US Government



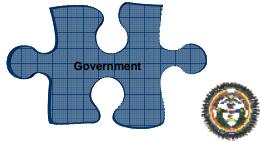
Recordkeeping for the IRS

- Tax Preparation (IRS)
- Audits



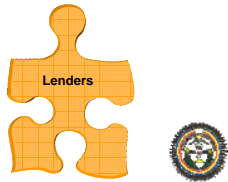
Recordkeeping for the IRS

- IRS Recordkeeping Requirements
 - Clearly shows your income and expenses
 - It will enable you to file a correct return
 - Orderly
 - Traceable



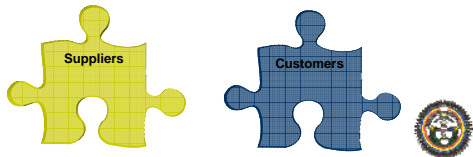
Overview

- Lender Requirements
- Honest Representation of Revenue, Expenses, Profit, and Cash Flow
- RMA – Risk Management Association, formerly Roberts Management Association



Overview




- May require a specific method of accounting
- Record of transaction
- Orderly transfer of funds



Overview



- Management tool
- Decision-Making
- Identify problems
- Financial statements
- Forecasting

Your Company

Vocabulary



- Journal
- Debit
- Credit
- Ledger
- Account
- Reconciliation

Cash vs. Accrual


Accounting/Bookkeeping Systems

| Cash | Accrual |
|---|--|
| -- Impact of Events Not Recognized until Cash is Paid or Received | -- Impact of Events Recognized as They Occur |


Debit vs. Credit

- Resource (owned by the company) vs. Source(s) (of the resource)
- Active Account vs. Passive Account
- “T” Account – An aid to visualize how the transaction affects the different accounts



“T” Account


| | |
|-------|--------|
| Debit | Credit |
|-------|--------|



“T” Account

Cash Account



| | Debit | Credit |
|-----------|-----------------|--------|
| Bal 04/01 | \$100.00 | |
| 04/10 | \$25.00 | |
| Bal 04/15 | <u>\$125.00</u> | |





“T” Account

City Market Account

| Debit | | Credit |
|-------|-----------|---------|
| | Bal 04/01 | \$30.00 |
| | 04/11 | \$25.00 |
| | Bal 04/15 | \$55.00 |

- Kinds of Transactions**
- Cash Sales
 - Credit Sales
 - Accounts Receivable
 - Accounts Payable
 - Receipts
 - Payments
 - Payroll
 - Purchases
 - Depreciation
 - Accounting Entries (Adjusting Entries)
- 
- 



- Transaction**
- Date
 - Account Number (X2, if double-entry)
 - Amount (X2, if double-entry)
 - Memo
- 
- 

Chart of Accounts

- What do you want your Chart of Accounts to Include?
 - The ability to track accounts you want to track
 - Sales Accounts for each line of products or range of service
 - Do not track each product's sales



Chart of Accounts

- Assets – (100s)
- Liabilities – (200s)
- Owner Equity – (300s)
- Revenue – (400s)
- Cost of Goods Sold (500s)
- Expenses – (600s)



Journal

- Diary of the business's financial activity
- Double-entry vs. Single-entry
- "Cash Disbursement Journal"
- "General Ledger"



Double-Entry vs. Single-Entry

Accounting/Bookkeeping Systems

| Single-Entry | Double-Entry |
|---|---|
| -- One journal entry for each transaction | -- Two journal entries for each transaction |
| -- Records only Active Account | -- Reconciliation – Errors easy to find |
| -- Reconciliation | -- Checks and Balances |
| | -- “The Basis of a True Accounting System” |



“T” Account

Cash Account

| Debit | Credit |
|-----------|-----------------|
| Bal 04/01 | \$100.00 |
| 04/10 | \$25.00 |
| Bal 04/15 | <u>\$125.00</u> |



“T” Account



City Market Account

| Debit | Credit |
|-------|--------------------------|
| | Bal 04/01 \$30.00 |
| | 04/11 \$25.00 |
| | Bal 04/15 <u>\$55.00</u> |





“T” Account

| | |
|-------|--------|
| Debit | Credit |
|-------|--------|

“T” Account



| | | |
|-------|---|--------|
| Debit | = | Credit |
|-------|---|--------|

“T” Account

Cash Account



| | Debit | | Credit |
|-----------|----------------|-------|---------|
| Bal 04/15 | \$125.00 | | |
| | | 04/22 | \$39.00 |
| Bal 04/30 | <u>\$86.00</u> | | |








“T” Account

City Market Account

| | Debit | Credit |
|-------|---------|------------------------|
| | | Bal 04/15 \$55.00 |
| 04/22 | \$39.00 | |
| | | Bal 04/30 \$16.00 |

- Ledger**
- A record of transactions specific to one account (i.e. Cash account, Accounts Payable account)
 - Chart of accounts
- 
- 

- Account Reconciliation**
- What is Reconciliation/Posting?
 - Why do we Reconcile?
 - How Often do we Reconcile?
 - Single Entry vs. Double Entry
 - Trial Balance – Sum of totals from all ledger accounts
 - Adjusting Entries
- 
- 

Adjusting Entries

- End-of-Period adjustments
- May require assistance of an accountant
- Requires judgment and some accounting knowledge
- Record the adjusting entries in the general journal at the end of the accounting period



Transactions Requiring Adjusting Entries

- Prepaid Insurance
- Depreciation
- Inventory (FIFO, LIFO)
- Accrued Wages
- Adjustments for Bad Debts
- Refresh the Ledger Account Balance for Accounts Receivable and Accounts Payable



Financial Statements

- Balance Sheet
- Income Statement
- Cash Flow Statement



Balance Sheet

- Snapshot of your company's net worth at one point in time
- Resources Owned (Assets)
- Resources Owed (Liabilities)
- Investment and Past Profits (Owner Equity)
- $Assets = Liabilities + Owner\ Equity$



Income Statement

- A Summary of Company's results during a Period of Time
- Sales (Revenue)
- Payments (Expenses)
- Reports Net Income and Loss for the Period



Cash Flow Statement

- A Summary of inflows and outflows of cash during a period of time
- Reports Cash Receipts and Cash Payments
- Find the Cash position at a certain point in time
- Combines Income and Balance Sheet (Asset Accounts Activity)



Bilagaana Trading Co.

- At the beginning of April, Matt Bilagaana opened a trading post selling Jewelry.
- Matt Bilagaana had had some accounting at the local college and he is going to do his own bookkeeping.



Chart of Accounts for Bilagaana Trading Co.

| | |
|--------------------------------|---|
| ASSETS | REVENUE |
| 110 Cash | 410 Sales, Squash Blossoms |
| 120 Squash Blossoms, Inventory | 411 Sales, Rings |
| 125 Rings, Inventory | COST OF GOODS SOLD |
| 130 Pre-Paid Insurance | 510 Cost of Goods Sold, Squash Blossoms |
| LIABILITIES | 520 Cost of Goods Sold, Rings |
| 210 Nakai Trading Co. | EXPENSES |
| 211 Ohts'ad Trading Co. | 610 Advertising Expense |
| OWNER EQUITY | 620 Miscellaneous |
| 310 Matthew Bilagaana, Capital | 630 Rent Expense |
| 311 Matthew Bilagaana, Drawing | 640 Utilities Expense |
| | 615 Insurance Expense |
| | 635 Supplies Expense |



Instructions

Bilagaana Trading Co. uses a monthly accounting cycle

Record Bilagaana Trading Co.'s transactions for July on a general journal form.



Summary

- Bookkeeping – a logical method for organizing your small business’s finances
- Uses of bookkeeping data



How to apply your new skills

- Analyze a transaction
- Identify the affected accounts
- Identify how the accounts are affected
- Use “T” accounts to visualize transaction
- Use the memo field to record information effectively



Useful Websites

- Small business assistance, useful tips and suggestions for a wide variety of small business issues
www.sba.gov
- Federal tax forms, Small business accounting guidelines,
www.irs.gov



More Useful Websites

- Small business information website. Resource provider through its small business owner's toolkit by CCH, Inc.

www.toolkit.cch.com

- Small business resource website

www.businessstown.



Even More Useful Websites

- Canadian Website for small business bookkeeping or bookkeeper referral

www.bookkeeperlist.com



Questions and Discussion