



Accounting Basics and the Importance of Accounting to Your Business.

September 2023

Intro: Ann Zimmerman

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Ann was born and raised in Pierce County, and has lived and worked in the area most of her adult life.

Ann's background is in accounting and finance and has over thirty years of experience in business. Ann has earned her Master's Degree in Accounting and Tax from WSU, and is a retired CPA.

She has worked in various industries including: retail, construction services, manufacturing, healthcare and not-for-profit.

Ann specializes in assisting her clients in establishing solid policies and procedures while bringing an organization and flow to their operations. Other areas of expertise include: financial analysis, budgeting, organizational effectiveness, management, and business leadership.

"In working with my clients, my main focus is to assist clients to identify their resources, determine how to access them, and how to best leverage those resources toward building a successful, sustainable, and profitable business. I am excited at the opportunity to serve my clients and community through my work at the Washington Small Business Development center by educating, teaching, guiding and advising."

DISCLAIMER

- **This class does not represent legal or accounting advice.**
- Each business has its own unique legal situation and it is recommended that you seek professional and/or legal advice from a licensed professional for the specific needs of your business.
- The purpose of this class is to provide small business owners with an education about the basics of accounting.

Objectives:

- The importance of accounting in business
- Review Accounting and Business definitions
- Learn about Accounting Systems
- Discuss on a high level Accounting Processes and Procedures

Why is accounting important to running a business?



We all have different reasons for owning a business

The common, underlying motive under all our different reasons is:

TO MAKE MONEY!



*Dollars is the language that we use to measure our success.
Accounting is the function of gathering that data and reporting it.*

The Importance of accounting

Dollars is the language that we use to measure our success. Accounting is the system we use to capture that data and provide information to our stakeholders (including ourselves)!

Who are your stakeholders?

And, why do they care whether you are making money or not?

The Importance of Accounting - Summary

Accounting supports:

- Decision making
- Business Growth
- Tax Filings
- Funding
- Cash Management
- Performance Assessment
- Financial Projections
- Legal Compliance

So let's talk bookkeeping systems and what they can do for you

- Streamlines recordkeeping
- Helps reduce errors, missed transactions and seamless reporting
- Easier to calculate and file tax returns
- Assist with the analysis of your business performance
- Can automate some processes i.e. invoicing and payment collections
- Can integrate with other business systems i.e. CRM, Timekeeping, etc.

So let's talk Bookkeeping Systems

(areas to consider when selecting a bookkeeping system)

- Cost
- Usability
- Features
- Integrations
- Reporting Capabilities
- Scalability

So let's talk bookkeeping systems

(some examples, and there are more out there)

- Quickbooks: www.quickbooks.intuit.com
- Freshbooks: www.freshbooks.com
- Zohobooks: www.zoho.com
- Xero: www.xero.com
- Wave Financial: www.waveapps.com



Who will do your bookkeeping?

- You?
- A Bookkeeper?
- An Accountant or a CPA?



Do I do my own Bookkeeping? (It's all personal!)

Everyone's answer will be different and that answer may be different over time.

Questions to ask yourself:

- Do you know how to do bookkeeping? Am I willing to learn?
- What is your comfort level with numbers and detail?
- Do you have enough free time?
- How comfortable are you with taxes and regulations?
- Can I afford a bookkeeper or accountant?

Bookkeeper versus an Accountant

Bookkeeper

- No specific certifications or educational requirements
- Focus on day-to day recording of financial transactions
- Transactional and administrative role
- Provide basic reporting without assurance
- File basic tax returns

CPA

- Required number of educational hours specifically in accounting, pass the CPA exam, and is licensed through the state
- Review of financial reports and attest to the accuracy of those reports
- Indepth analysis
- Provide complex reporting engagements

How do I choose a bookkeeper?

A bookkeeper or accountant should be a trusted member of your professional advisory team.

Interview at least three different candidates.

So your questions will revolve around what is important to you and your business and how to build a trusting relationship.

[Hiring an Accountant FAQ's](#)

Even if you hire a Bookkeeper, you still need to understand your books!

This is your baby!



Definitions, Terms and Reports

Cash Basis

- Transactions are recorded when cash changes hand
- When Expenses are paid
- When Income is received

Accrual Accounting

- Transactions are recorded when the transaction happens before any cash is received or paid out
- Recognize income in the period earned
- Match the expense to the period when it generated the revenue

Definitions, Terms and Reports (cont.)

Assets	A resource owned by your business that can be used to operate your business
Liabilities	Any debt or financial obligation for your business i.e. Accounts payable, Taxes, Wages, Loans, other accounts owed
Owner's Equity	Your claim on the company assets after all debts have been paid; net income is attributed to the business operation and closes into owner's equity
Accounts Payable	Money that your business owes to creditors or vendors; a legal obligation to pay someone else
Accounts Receivable	Money owed by customers for the purchase of goods or services; a legal obligation to pay you

Definitions, Terms and Reports (cont.)

Chart of Accounts

A listing of all the financial accounts in your company's books.

Accounts are used to categorize every financial transaction of your company

Grouped into categories that correspond to the structure of your company i.e. Assets, Liabilities, Equity, Income, Expense

Chart of Accounts			
Number	Description	Account Type	Financial Statement
1-001	Cash	Asset	Balance Sheet
1-010	Accounts Receivable	Asset	Balance Sheet
1-020	Prepaid Expenses	Asset	Balance Sheet
1-030	Inventory	Asset	Balance Sheet
1-040	Fixed Assets	Asset	Balance Sheet
1-050	Accumulated Depreciation	Asset	Balance Sheet
1-060	Other Assets	Asset	Balance Sheet
2-001	Accounts Payable	Liability	Balance Sheet
2-010	Accrued Liabilities	Liability	Balance Sheet
2-020	Taxes Payable	Liability	Balance Sheet
2-030	Payroll Payable	Liability	Balance Sheet
2-040	Notes Payable	Liability	Balance Sheet
3-001	Common Stock	Equity	Balance Sheet
3-010	Retained Earnings	Equity	Balance Sheet
3-020	Additional Paid in Capital	Equity	Balance Sheet

Definitions, Terms and Reports (cont.)

Income Statement

- Summarizes the revenue, expense, and net profit over a specified period
- Provides information on the financial health of the company and how it has been managed

Income Statement	12/31/2019
For the year ended:	
Revenue:	
Yoga Therapy Sessions	225,000
Massage Therapy	100,000
Nutritional Product Sales	-
Total Revenue	<u>325,000</u>
Expenses:	
Salaries	200,000
Benefits	25,300
Rent	50,000
Supplies	10,000
Utilities	2,500
Other	1,000
Total Operating Expenses:	<u>288,800</u>
Net Operating Income Before Taxes	36,200
Taxes	10,200
Net Income	<u>26,000</u>

Definitions, Terms and Reports (cont.)

Balance Sheet

- A listing of your company's total assets and how they are financed
- The Balance Sheet Fundamental Equation:

Assets		Liabilities	
Cash	481	Accounts Payable	625
Marketable Securities	1,346	Current Portion L-T Debt	1,021
Accounts Receivable	1,677	Taxes Payable	36
Inventory	2,936	Accrued Expenses	157
Prepaid Expenses	172	Total Current Liabilities	1,839
Other Current Assets	58	Long-term Debt	2,332
Total Current Assets	6,670	Total Liabilities	4,171
Gross Value of Property, Plant & Equipment	2,019	Owner's Equity	
Accumulated Depreciation	(664)	Common Stock and Paid-in Cap	194
Net Property, Plant, Equipment	1,355	Retained Earnings	4,009
Note Receivable	349	Total Shareholders' Equity	4,203
Total Assets	8,374	Total Liabilities and Equity	8,374

What the Company Owns

What the Company Owes

Shareholders' Equity

$$\underline{\text{Assets} = \text{Liabilities} + \text{Equity}}$$

Definitions, Terms and Reports (cont.)

Statement of Cash Flows

Summarizes the cash inflows and outflows of your business from operations and investing and financing activity

**I would recommend using a month-to-month report rather than an annual view such as this example.

Statement of Cash Flows	12/31/2020
For the year ended:	
Cash Flow from Operations	
Net Income	(92,550) *
<i>Additions to Cash</i>	
Depreciation	
Decrease in Accounts Receivable	
Increase in Accounts Payable	37,550
<i>Subtractions from Cash</i>	
Increase in Accounts Receivable	(5,000)
Decrease in Accounts Payable	
Increase in Inventory	(2,000)
Net Cash from Operations:	(62,000)
Cash Flow from Investing	
Purchase of Equipment	-
Cash Flow from Financing	
Notes Payable	50,000
Relief of PPP Loan	
Net Cash from Financing	50,000
Net Cash Inflow/(Outflow)	(12,000)

*Start with Net Income which is a noncash number

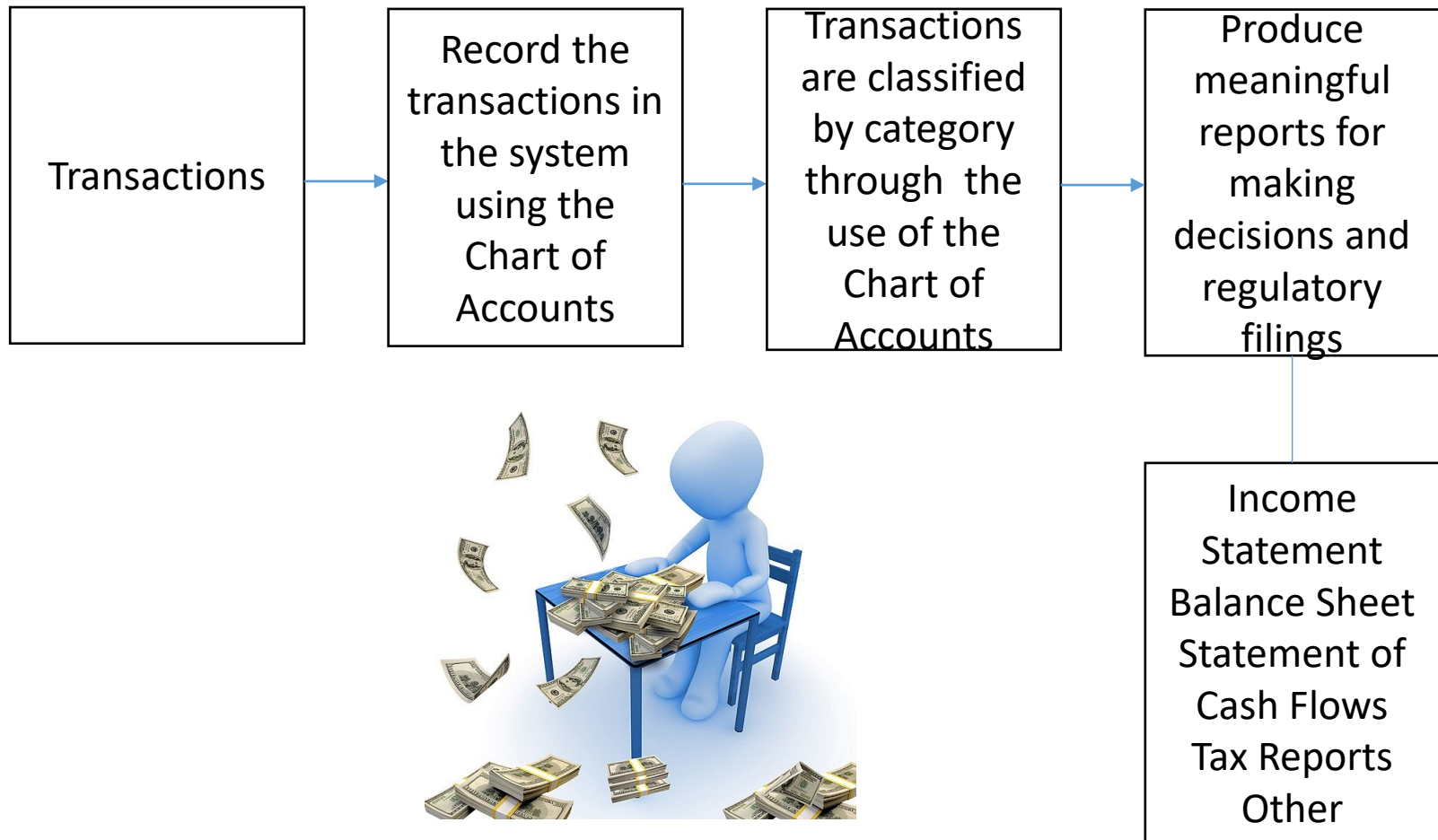
Definitions, Terms and Reports (cont.)

Other Reports:

- Budgets
- AR Aging
- AP Aging
- P&L by Customer
- Sales by Product/Service
- Inventory
- Tax Returns

[30 Basic Accounting Terms, Acronyms and Abbreviations](#)

The Flow of Information and the Accounting Cycle



Summary: Best Practices

- Make sure to have a basic understanding of accounting.
- Find and USE an accounting system that fits your business's needs
- Keep an updated checking account and make sure it is reconciled each month.
- Consider hiring an Accountant/Bookkeeper
- Keep a record of all money received and all expenses paid out.
- Keep accurate employee and payroll records

Summary: Best Practices (cont.)

- Open a business bank account and keep your business and personal finances separate.
- Be vigilant of your Cash Flow.
- Collect Money from client quickly.
- Spend your money slowly.
- Limit how much money you have tied up in inventory. Manage your inventory.

Washington SBDC Locations



A legend box containing logos for the partner organizations and the SBDC network. The logos are arranged in a grid. The top row includes the 'AMERICA'S SBDC WASHINGTON' logo (blue star), Washington State University (red shield), Economic Alliance (black square with red 'E'), and Green River College (green mountain). The second row includes Highline College (orange square), South Puget Sound (yellow square), and Western Washington University (blue square). The third row includes the 'Washington SBDC Network Headquarters' logo (blue star), OneRedmond (red circle), and the Center for Inclusive Entrepreneurship (green circle). The bottom row includes the logo for the University of Washington (blue square).

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The Washington SBDC network, hosted by Washington State University, is an accredited member of America's SBDC. Funded in part through a cooperative agreement with the U.S. Small Business Administration, institutions of higher education, economic development organizations and other public and private funding partners.

Reasonable accommodations for persons with disabilities will be made if requested at least two weeks in advance. Email or phone the Washington SBDC.