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2nd Edition

# Bookkeeping

ALL-IN-ONE

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**Lita Epstein, MBA**  
**John A. Tracy, CPA**



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**by Lita Epstein and John A. Tracy**

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## Bookkeeping All-in-One For Dummies®, 2nd Edition

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# Contents at a Glance

<b>Introduction</b> .....	1
<b>Book 1: Keeping the Books</b> .....	5
CHAPTER 1: Basic Bookkeeping .....	7
CHAPTER 2: Charting the Accounts .....	25
CHAPTER 3: The General Ledger .....	39
CHAPTER 4: Keeping Journals .....	51
CHAPTER 5: Controlling Your Records .....	67
CHAPTER 6: Computer Options for Bookkeeping .....	85
CHAPTER 7: Financial Statements and Accounting Standards .....	95
<b>Book 2: Accounting and Financial Reports</b> .....	119
CHAPTER 1: Financial Report Basics .....	121
CHAPTER 2: Reporting Profit .....	145
CHAPTER 3: Exploring Business Structures .....	167
CHAPTER 4: The Balance Sheet: Assets, Liabilities, and Equity .....	187
CHAPTER 5: The Income Statement .....	203
CHAPTER 6: The Statement of Cash Flows .....	219
CHAPTER 7: Getting a Financial Report Ready .....	233
CHAPTER 8: Accounting Alternatives .....	257
<b>Book 3: Day-to-Day Bookkeeping</b> .....	277
CHAPTER 1: Buying and Tracking Your Purchases .....	279
CHAPTER 2: Counting Your Sales .....	297
CHAPTER 3: Employee Payroll and Benefits .....	325
CHAPTER 4: Employer-Paid Taxes and Government Payroll Reporting .....	345
<b>Book 4: Preparing for Year's End</b> .....	359
CHAPTER 1: Depreciating Your Assets .....	361
CHAPTER 2: Paying and Collecting Interest .....	371
CHAPTER 3: Proving Out the Cash .....	383
CHAPTER 4: Closing the Journals .....	397
CHAPTER 5: Checking Your Accuracy .....	409
CHAPTER 6: Adjusting the Books .....	419

<b>Book 5: Accounting and Managing Your Business</b> .....	431
CHAPTER 1: Managing Profit .....	433
CHAPTER 2: Budgeting. ....	455
CHAPTER 3: Cost Accounting .....	477
CHAPTER 4: Filing and Paying Business Taxes. ....	501
CHAPTER 5: Prepping the Books for a New Accounting Cycle .....	509
<b>Index</b> .....	517



# Table of Contents

<b>INTRODUCTION</b>	1
About This Book	2
Foolish Assumptions	2
Icons Used in This Book	2
Beyond the Book	3
Where to Go From Here	4
<b>BOOK 1: KEEPING THE BOOKS</b>	5
<b>CHAPTER 1: Basic Bookkeeping</b>	7
Bookkeepers: The Record Keepers of the Business World	8
Delving into Bookkeeping Basics	8
Picking your accounting method: cash basis versus accrual	9
Understanding assets, liabilities, and equity	9
Introducing debits and credits	10
Charting your bookkeeping course	10
Recognizing the Importance of an Accurate Paper Trail	10
Maintaining a ledger	11
Keeping journals	11
Instituting internal controls	11
Computerizing	12
Using Bookkeeping's Tools to Manage Daily Finances	12
Maintaining inventory	12
Tracking sales	13
Handling payroll	13
Running Tests for Accuracy	14
Proving out your cash	14
Testing your balance	14
Doing bookkeeping corrections	14
Finally Showing Off Your Financial Success	14
Preparing financial reports	15
Paying taxes	15
Wading through Bookkeeping Lingo	16
Accounts for the balance sheet	16
Accounts for the income statement	17
Other common terms	17
Pedaling through the Accounting Cycle	18
Tackling the Big Decision: Cash-Basis or Accrual Accounting	20
Waiting for funds with cash-basis accounting	20
Recording right away with accrual accounting	21
Seeing Double with Double-Entry Bookkeeping	22
Differentiating Debits and Credits	24

<b>CHAPTER 2:</b>	<b>Charting the Accounts</b> .....	25
	Getting to Know the Chart of Accounts .....	25
	Starting with the Balance-Sheet Accounts .....	27
	Tackling assets .....	28
	Laying out your liabilities .....	31
	Eyeing the equity .....	33
	Tracking the Income-Statement Accounts .....	33
	Recording the money you make .....	34
	Tracking the cost of sales .....	35
	Acknowledging the money you spend .....	35
	Setting Up Your Chart of Accounts .....	37
<b>CHAPTER 3:</b>	<b>The General Ledger</b> .....	39
	Understanding the Eyes and Ears of a Business .....	39
	Developing Entries for the Ledger .....	40
	Posting Entries to the Ledger .....	44
	Adjusting for Ledger Errors .....	48
	Using Computerized Transactions .....	48
<b>CHAPTER 4:</b>	<b>Keeping Journals</b> .....	51
	Establishing a Transaction's Point of Entry .....	51
	When Cash Changes Hands .....	52
	Keeping track of incoming cash .....	52
	Following outgoing cash .....	54
	Managing Sales Like a Pro .....	56
	Keeping Track of Purchases .....	58
	Dealing with Transactions That Don't Fit .....	59
	Posting Journal Information to Accounts .....	62
	Simplifying Your Journaling with Computerized Accounting .....	63
<b>CHAPTER 5:</b>	<b>Controlling Your Records</b> .....	67
	Putting Controls on Your Business's Cash .....	68
	Checking accounts .....	68
	Savings accounts .....	73
	Petty-cash accounts .....	73
	Cash registers .....	74
	Keeping the Right Paperwork .....	76
	Creating a filing system .....	77
	Figuring out what to keep and for how long .....	78
	Protecting Your Business Against Internal Fraud .....	79
	Facing the reality of financial fraud .....	79
	Dividing staff responsibilities .....	81
	Balancing control costs .....	83
	Insuring Your Cash through Employee Bonding .....	84

<b>CHAPTER 6:</b>	<b>Computer Options for Bookkeeping</b>	85
	Surveying Your Software Options	86
	FreshBooks	87
	Sage 50 Pro	87
	QuickBooks Pro	88
	Setting Up Your Computerized Books	89
	Customizing software to match your operations	91
	Converting your manual bookkeeping to a computerized system	92
<b>CHAPTER 7:</b>	<b>Financial Statements and Accounting Standards</b>	95
	Reviewing the Basic Content of Financial Statements	96
	Realizing that form follows function in financial statements	96
	Income statements	98
	Balance sheets	100
	Statement of cash flows	104
	Contrasting Profit and Cash Flow from Profit	107
	Gleaning Key Information from Financial Statements	108
	How's profit performance?	108
	Is there enough cash?	109
	Can you trust financial-statement numbers?	110
	Why no cash distribution from profit?	111
	Keeping in Step with Accounting and Financial Reporting Standards	112
	Recognizing U.S. standards	112
	Getting to know the U.S. standard-setters	114
	Internationalization of accounting standards (maybe, maybe not)	115
	Divorcing public and private companies	116
	Following the rules and bending the rules	116
	<b>BOOK 2: ACCOUNTING AND FINANCIAL REPORTS</b>	119
<b>CHAPTER 1:</b>	<b>Financial Report Basics</b>	121
	Figuring Out Financial Reporting	122
	Preparing the reports	123
	Seeing why financial reporting counts (and who's counting)	123
	Checking Out Types of Reporting	125
	Keeping everyone informed	126
	Following the rules: Government requirements	127
	Going global	127
	Staying within the walls of the company: Internal reporting	129

Introducing the Annual Report . . . . .	129
Breaking down the parts . . . . .	130
Getting to the meat of the matter. . . . .	130
Keeping the number crunchers in line. . . . .	132
Digging Deeper into the Annual Report. . . . .	132
Debunking the letter to shareholders . . . . .	133
Making sense of the corporate message. . . . .	134
Meeting the people in charge . . . . .	135
Finding basic shareholder information . . . . .	135
Getting the skinny from management. . . . .	135
Management as a whole . . . . .	138
Getting guarantees from management. . . . .	139
Bringing the auditors' answers to light. . . . .	139
Summarizing the Financial Data . . . . .	143
Finding the highlights . . . . .	143
Reading the notes . . . . .	143
<b>CHAPTER 2: Reporting Profit. . . . .</b>	<b>145</b>
Introducing Income Statements . . . . .	146
Looking at a product business. . . . .	146
Looking at a service business . . . . .	147
Taking care of some housekeeping details . . . . .	148
Your job: Asking questions. . . . .	150
Finding Profit . . . . .	151
Getting Particular about Assets and Operating Liabilities. . . . .	154
Making sales on credit: Accounts receivable asset. . . . .	155
Selling products: Inventory asset . . . . .	155
Prepaying operating costs: Prepaid expense asset . . . . .	156
Fixed assets: Depreciation expense . . . . .	157
Unpaid expenses: Accounts payable, accrued expenses payable, and income tax payable . . . . .	158
Summing Up the Diverse Financial Effects of Making Profit. . . . .	159
Reporting Extraordinary Gains and Losses . . . . .	160
Correcting Common Misconceptions about Profit. . . . .	163
Importance of Reviewing All Parts of Financial Statements . . . . .	164
<b>CHAPTER 3: Exploring Business Structures. . . . .</b>	<b>167</b>
Flying Solo: Sole Proprietorships. . . . .	168
Keeping taxes personal . . . . .	168
Reviewing requirements for reporting. . . . .	169
Joining Forces: Partnerships . . . . .	170
Partnering up on taxes. . . . .	170
Meeting reporting requirements . . . . .	170

Seeking Protection with Limited Liability Companies .....	171
Taking stock of taxes. ....	171
Reviewing reporting requirements. ....	171
Shielding Your Assets: S and C Corporations .....	172
Paying taxes the corporate way .....	173
Getting familiar with reporting requirements. ....	174
Investigating Private Companies. ....	175
Checking out the benefits .....	176
Defining disadvantages .....	176
Figuring out reporting. ....	178
Understanding Public Companies .....	179
Examining the perks .....	179
Looking at the negative side .....	181
Filing and more filing: Government and shareholder reports .....	182
Entering a Whole New World: How a Company Goes from Private to Public .....	185
Teaming up with an investment banker .....	185
Making a public offering .....	186
<b>CHAPTER 4: The Balance Sheet: Assets, Liabilities, and Equity .....</b>	<b>187</b>
Understanding the Balance Equation. ....	188
Introducing the Balance Sheet .....	188
Digging into dates .....	188
Nailing down the numbers. ....	189
Figuring out format .....	190
Ogling Assets .....	192
Current assets .....	192
Long-term assets .....	196
Accumulated depreciation .....	198
Looking at Liabilities .....	199
Current liabilities .....	199
Long-term liabilities. ....	200
Navigating the Equity Maze .....	201
Stock .....	201
Retained earnings .....	202
Capital .....	202
Drawing .....	202
<b>CHAPTER 5: The Income Statement .....</b>	<b>203</b>
Introducing the Income Statement. ....	204
Digging into dates .....	205
Figuring out format .....	205

Delving into the Tricky Business of Revenue . . . . .	208
Defining revenue . . . . .	208
Adjusting sales . . . . .	209
Considering cost of goods sold . . . . .	211
Gauging gross profit . . . . .	211
Acknowledging Expenses . . . . .	212
Sorting Out the Profit and Loss Types . . . . .	214
EBITDA . . . . .	215
Nonoperating income or expense . . . . .	216
Net profit or loss . . . . .	217
Calculating Earnings per Share . . . . .	217
<b>CHAPTER 6: The Statement of Cash Flows . . . . .</b>	<b>219</b>
Digging into the Statement of Cash Flows . . . . .	220
The parts . . . . .	220
The formats . . . . .	221
Checking Out Operating Activities . . . . .	223
Depreciation . . . . .	224
Inventory . . . . .	224
Accounts receivable . . . . .	225
Accounts payable . . . . .	225
The cash flow from activities section, summed up . . . . .	225
Investigating Investing Activities . . . . .	226
Understanding Financing Activities . . . . .	227
Issuing stock . . . . .	227
Buying back stock . . . . .	228
Paying dividends . . . . .	228
Incurring new debt . . . . .	229
Paying off debt . . . . .	229
Recognizing the Special Line Items . . . . .	229
Discontinued operations . . . . .	230
Foreign currency exchange . . . . .	230
Adding It All Up . . . . .	230
<b>CHAPTER 7: Getting a Financial Report Ready . . . . .</b>	<b>233</b>
Recognizing Top Management's Role . . . . .	234
Reviewing the Purposes of Financial Reporting . . . . .	236
Keeping Current with Accounting and Financial Reporting Standards . . . . .	237
Making Sure That Disclosure Is Adequate . . . . .	238
Footnotes: Nettlesome but needed . . . . .	239
Other disclosures in financial reports . . . . .	241

Putting a Spin on the Numbers (Short of Cooking the Books) . . . . .	244
Window dressing for fluffing up the cash balance and cash flow . . . . .	244
Sanding the rough edges off the year-to-year profit numbers. . . . .	246
Going Public or Keeping Things Private . . . . .	250
Reports from publicly owned companies . . . . .	251
Reports from private businesses . . . . .	251
Dealing with Information Overload . . . . .	252
Browsing based on your interests . . . . .	253
Recognizing condensed versions . . . . .	253
Using other sources of business information . . . . .	254
Statement of Changes in Owners' Equity. . . . .	254
<b>CHAPTER 8: Accounting Alternatives . . . . .</b>	<b>257</b>
Setting the Stage . . . . .	258
Taking Financial Statements with a Grain of Salt . . . . .	259
Taking an alternative look at the company's financial statements . . . . .	259
Spotting significant differences. . . . .	261
Explaining the Differences . . . . .	262
Accounts receivable and sales revenue . . . . .	263
Inventory and cost of goods sold expense . . . . .	264
Fixed assets and depreciation expense . . . . .	265
Accrued expenses payable, income tax payable, and expenses . . . . .	266
Wrapping things up. . . . .	267
Calculating Cost of Goods Sold Expense and Inventory Cost . . . . .	268
FIFO . . . . .	268
LIFO . . . . .	269
Recording Depreciation Expense . . . . .	272
Scanning Revenue and Expense Horizons. . . . .	275
<b>BOOK 3: DAY-TO-DAY BOOKKEEPING . . . . .</b>	<b>277</b>
<b>CHAPTER 1: Buying and Tracking Your Purchases . . . . .</b>	<b>279</b>
Keeping Track of Inventory . . . . .	280
Entering initial cost . . . . .	281
Managing inventory and its value. . . . .	284
Practice: Working with Inventory and Calculating Cost of Goods Sold . . . . .	289
Buying and Monitoring Supplies. . . . .	292

Staying on Top of Your Bills . . . . .	292
Keeping tasks separate. . . . .	293
Developing a system for accounts payable . . . . .	293
Paying early if it benefits you. . . . .	294
Practice: Calculating Discounts . . . . .	294
Answers to Practice Questions . . . . .	295
<b>CHAPTER 2: Counting Your Sales . . . . .</b>	<b>297</b>
Collecting on Cash Sales. . . . .	297
Discovering the value of sales receipts . . . . .	298
Recording cash transactions in the books . . . . .	300
Practice: Recording Sales . . . . .	301
Selling on Credit. . . . .	303
Deciding whether to offer store credit. . . . .	303
Recording store credit transactions in the books. . . . .	304
Practice: Sales on Store (Direct) Credit. . . . .	308
Proving Out the Cash Register. . . . .	310
Practice: Proving Out . . . . .	311
Tracking Sales Discounts . . . . .	313
Practice: Recording Discounts . . . . .	315
Recording Sales Returns and Allowances . . . . .	317
Practice: Tracking Sales Returns and Allowances . . . . .	318
Monitoring Accounts Receivable. . . . .	319
Practice: Aging Summary . . . . .	320
Accepting Your Losses . . . . .	321
Answers to Practice Questions . . . . .	322
<b>CHAPTER 3: Employee Payroll and Benefits . . . . .</b>	<b>325</b>
Setting the Stage for Staffing: Making Payroll Decisions . . . . .	326
Completing government forms . . . . .	326
Picking pay periods . . . . .	328
Determining wage and salary types . . . . .	329
Collecting Employee Taxes. . . . .	330
Sorting out Social Security tax . . . . .	330
Making sense of Medicare tax . . . . .	331
Figuring out federal withholding tax. . . . .	331
Settling up state and local withholding taxes . . . . .	332
Determining Net Pay. . . . .	332
Practice: Payroll Tax Calculations . . . . .	333
Surveying Your Benefits Options . . . . .	334
Tax-exempt benefits . . . . .	334
Taxable benefits. . . . .	335
Dealing with cafeteria plans. . . . .	336



Preparing Payroll and Posting It in the Books . . . . .	336
Calculating payroll for hourly employees . . . . .	337
Doling out funds to salaried employees . . . . .	337
Totaling up for commission checks . . . . .	337
Determining base salary plus tips. . . . .	338
Practice: Payroll Preparation . . . . .	339
Finishing the Job . . . . .	340
Depositing Employee Taxes . . . . .	342
Outsourcing Payroll and Benefits Work . . . . .	342
Answers to Practice Questions . . . . .	343
<b>CHAPTER 4: Employer-Paid Taxes and Government</b>	
<b>Payroll Reporting . . . . .</b>	<b>345</b>
Paying Employer Taxes on Social Security and Medicare . . . . .	346
Filing Form 941 . . . . .	346
Knowing how often to file . . . . .	347
Completing Unemployment Reports and Paying	
Unemployment Taxes. . . . .	348
Examining how states calculate the FUTA tax rate. . . . .	349
Calculating FUTA tax . . . . .	350
Filing and paying unemployment taxes to	
state governments . . . . .	351
Practice: Calculating FUTA Tax. . . . .	352
Carrying Workers' Compensation Insurance. . . . .	352
Maintaining Employee Records. . . . .	354
Answers to Practice Questions . . . . .	357
<b>BOOK 4: PREPARING FOR YEAR'S END . . . . .</b>	<b>359</b>
<b>CHAPTER 1: Depreciating Your Assets . . . . .</b>	<b>361</b>
Defining Depreciation . . . . .	362
Knowing what you can and can't depreciate. . . . .	362
Figuring out the useful life of a fixed asset . . . . .	363
Delving into cost basis . . . . .	364
Reducing the Value of Assets. . . . .	364
Straight Line method . . . . .	365
Sum of Years Digits method . . . . .	366
Double Declining Balance method . . . . .	367
Units of Production method . . . . .	367
Tackling Taxes and Depreciation. . . . .	368
Section 179. . . . .	368
MACRS. . . . .	369
Setting Up Depreciation Schedules . . . . .	369
Recording Depreciation Expenses . . . . .	370

<b>CHAPTER 2:</b>	<b>Paying and Collecting Interest</b>	371
	Deciphering Types of Interest	371
	Simple interest	372
	Compound interest	372
	Handling Interest Income	373
	Delving into Loans and Interest Expenses	374
	Short-term debt	375
	Long-term debt	378
<b>CHAPTER 3:</b>	<b>Proving Out the Cash</b>	383
	Why Prove Out the Books?	383
	Making Sure Ending Cash Is Right	384
	Closing the Cash Journals	385
	Finalizing cash receipts	387
	Finalizing cash outlays	391
	Using a Temporary Posting Journal	392
	Reconciling Bank Accounts	392
	Tracking down errors	393
	Using a computerized system	394
	Posting Adjustments and Corrections	396
<b>CHAPTER 4:</b>	<b>Closing the Journals</b>	397
	Prepping to Close: Checking for Accuracy and Tallying Things Up	398
	Paying attention to initial transaction details	398
	Summarizing journal entries	398
	Analyzing summary results	401
	Planning for cash flow	402
	Posting to the General Ledger	403
	Checking Out Computerized Journal Records	404
<b>CHAPTER 5:</b>	<b>Checking Your Accuracy</b>	409
	Working with a Trial Balance	409
	Creating a trial balance	410
	Dealing with trial-balance errors	412
	Testing Your Balance with Computerized Accounting Systems	413
	Developing a Financial Statement Worksheet	415
	Replacing Worksheets with Computerized Reports	417
<b>CHAPTER 6:</b>	<b>Adjusting the Books</b>	419
	Adjusting All the Right Areas	419
	Depreciating assets	420
	Allocating prepaid expenses	422
	Counting inventory	422

Allowing for bad debts . . . . .	423
Recognizing unpaid salaries and wages. . . . .	426
Testing an Adjusted Trial Balance . . . . .	427
Changing Your Chart of Accounts . . . . .	428

## **BOOK 5: ACCOUNTING AND MANAGING YOUR BUSINESS . . . . . 431**

### **CHAPTER 1: Managing Profit . . . . . 433**

Helping Managers: The Fourth Vital Task of Accounting. . . . .	434
Following the organizational structure. . . . .	435
Centering on profit centers . . . . .	435
Internal Profit Reporting. . . . .	436
Designing internal profit (P&L) reports . . . . .	437
Reporting operating expenses . . . . .	438
Presenting a Profit Analysis Template . . . . .	439
Separating variable and fixed expenses . . . . .	440
Stopping at operating earnings. . . . .	442
Focusing on margin: the catalyst of profit . . . . .	442
Answering Critical Profit Questions . . . . .	443
How did you make profit? . . . . .	444
How did you increase profit? . . . . .	445
Taking a Closer Look at the Lines in the Profit Template . . . . .	446
Sales volume . . . . .	446
Sales revenue. . . . .	447
Cost of goods sold . . . . .	447
Variable operating expenses . . . . .	448
Fixed operating expenses . . . . .	448
Using the Profit Template for Decision-Making Analysis. . . . .	450
Tucking Away Some Valuable Lessons. . . . .	451
Recognize the leverage effect caused by fixed operating expenses. . . . .	451
Don't underestimate the impact of small changes in sale price. . . . .	452
Know your options for improving profit . . . . .	452
Closing with a Boozy Example. . . . .	454

### **CHAPTER 2: Budgeting . . . . . 455**

Exploring the Reasons for Budgeting. . . . .	456
Modeling reasons for budgeting. . . . .	457
Planning reasons for budgeting . . . . .	459
Control reasons for budgeting . . . . .	459
Recognizing Additional Benefits of Budgeting . . . . .	461
Deciding Whether Budgeting Is Worth Its Costs. . . . .	462

Realizing That Not Everyone Budgets. . . . .	464
Avoiding budgeting . . . . .	464
Relying on internal accounting reports . . . . .	464
Watching Budgeting in Action . . . . .	467
Developing your profit improvement strategy and profit budget . . . . .	468
Budgeting cash flow for the coming year . . . . .	470
Considering Capital Expenditures and Other Cash Needs . . . . .	472
Using Computer Accounting to Make Budgeting More Effective . . . . .	474
<b>CHAPTER 3: Cost Accounting. . . . .</b>	<b>477</b>
Looking Down the Road to the Destination of Costs . . . . .	478
Are Costs Really That Important? . . . . .	480
Becoming More Familiar with Costs. . . . .	483
Direct versus indirect costs . . . . .	483
Fixed versus variable costs. . . . .	484
Relevant versus irrelevant costs . . . . .	485
Actual, budgeted, and standard costs . . . . .	486
Product versus period costs . . . . .	487
Assembling the Product Cost of Manufacturers. . . . .	487
Minding manufacturing costs . . . . .	488
Classifying costs properly. . . . .	489
Calculating product cost. . . . .	490
Examining fixed manufacturing costs and production capacity. . . . .	492
Puffing Profit by Excessive Production. . . . .	495
Shifting fixed manufacturing costs to the future . . . . .	496
Cranking up production output. . . . .	497
Being careful when production output is out of kilter with sales volume . . . . .	498
<b>CHAPTER 4: Filing and Paying Business Taxes . . . . .</b>	<b>501</b>
Finding the Right Business Type . . . . .	501
Sole proprietorship . . . . .	502
Partnership. . . . .	502
Limited liability companies (LLCs). . . . .	503
Corporations . . . . .	503
Tackling Tax Reporting for Sole Proprietors . . . . .	504
Filing Tax Forms for Partnerships . . . . .	505
Paying Corporate Taxes . . . . .	506
Reporting for an S corporation . . . . .	506
Reporting for a C corporation . . . . .	507
Taking Care of Sales Tax Obligations . . . . .	507

<b>CHAPTER 5:</b>	<b>Prepping the Books for a New Accounting Cycle</b>	509
	Finalizing the General Ledger	510
	Zeroing out income statement accounts	510
	Carrying over balance-sheet accounts	511
	Conducting Special Year-End Bookkeeping Tasks	511
	Checking customer accounts	513
	Assessing vendor accounts	513
	Deleting accounts	514
	Starting the Cycle Anew	514
<b>INDEX</b>		517



# Introduction

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**W**elcome to *Bookkeeping All-In-One For Dummies*, 2nd Edition! This book is a compendium of great *Dummies* content, covering soup to nuts on bookkeeping with a good portion of accounting coverage as well.

The term *bookkeeper* may generate images of a mild-mannered person quietly, or even meekly, poring over columns of figures under a green banker's lamp somewhere in a corner. In reality, the bookkeeper is vitally important and wields a tremendous amount of power within a company. Information tracked in the books helps business owners make key decisions involving sales planning and product offerings, and enables them to manage many other financial aspects of their business.

If it weren't for the hard work of bookkeepers, companies wouldn't have a clue about what happens with their financial transactions. Without accurate financial accounting, a company owner wouldn't know how many sales were made, how much cash was collected, or how much cash was paid for the products sold to customers during the year. He also wouldn't know how much cash was paid to employees or how much cash was spent on other business needs throughout the year. In other words, yes, he'd be clueless.

The creation and maintenance of financial records is also important to those who work with the business, such as investors, financial institutions, and employees. People both inside (managers, owners, and employees) and outside the business (investors, lenders, and government agencies) all depend on the bookkeeper's accurate recording of financial transactions.

Bookkeepers must be detailed-oriented, enjoy working with numbers, and meticulous about accurately entering those numbers in the books. They must be vigilant about keeping a paper trail and filing all needed backup information about the financial transactions entered into the books. And they must be knowledgeable about all aspects of money as it percolates through a business and how to organize and present that information so that it's useful to everyone involved in the business, including outside interests and the Internal Revenue Service.

That's where this book comes in.

# About This Book

Within this book, you may note that some web addresses break across two lines of text. If you're reading this book in print and want to visit one of these web pages, simply key in the web address exactly as it's noted in the text, pretending that the line break doesn't exist. If you're reading this as an e-book, you've got it easy; tap the web address to be taken directly to the web page.

Some figures herein use QuickBooks Pro. Because it's the most popular financial accounting software, some chapters show you some of its advanced features where appropriate.

## Foolish Assumptions

The book makes some key assumptions about who you are and why you've picked up this book. Much of the book assumes that you are

- » A business owner or manager who wants to know the ins and outs of doing the books and what's contained in financial records. You have a good understanding of business and its terminology but little or no knowledge of bookkeeping and accounting.
- » A person who does bookkeeping or plans to do bookkeeping for a small business and needs to know more about how to set up and keep the books. You have some basic knowledge of business terminology but don't know much about bookkeeping, accounting, or creating and maintaining financial records.
- » A staff person in a small business who's just been asked to take over the company's bookkeeping duties. You need to know more about how transactions are entered into the books, how to prove out transactions to make sure that you're making entries correctly and accurately, and how to prepare financial reports by using the data you collect.

## Icons Used in This Book

*For Dummies* books use little pictures called *icons* to flag certain chunks of text that you shouldn't want to miss or are free to skip. Here are the icons used in this book and what they mean:





TIP

Look to this icon for ideas on how to improve your bookkeeping processes and use the information in the books to manage your business.



REMEMBER

This icon marks anything you'd do well to recall about bookkeeping after you finish reading this book.



WARNING

This icon points out any aspect of bookkeeping that comes with dangers or perils that may hurt the accuracy of your entries or the way in which you use your financial information in the future. I also use this icon to mark certain things that can get you into trouble with the government, your lenders, your vendors, your employees, or your investors.



TECHNICAL  
STUFF

This icon points out material that may be interesting if you really want to know a little more but isn't crucial to understanding the concept at hand. You can safely skip material with this icon, if you like.



REMEMBER

When you see this icon, you have the chance to put your new-found knowledge to use. Practice your bookkeeping skills with real-world questions and story problems.



EXAMPLE

When you see this icon, you can review how to do key bookkeeping calculations.

## Beyond the Book

In addition to the material in the print or e-book you're reading right now, this book comes with some access-anywhere goodies on the web. Check out the free Cheat Sheet at <https://www.dummies.com/cheatsheet/bookkeepingaio> for some handy, bite-size bookkeeping info, including the three elements of bookkeeping that must be kept in balance, definitions of the balance sheet and income statement, and the differences between the four types of business structures.

This book includes some extras that wouldn't fit between the covers, like the bonus content on a DVD. Check out [www.dummies.com/business/accounting](http://www.dummies.com/business/accounting) to read articles on the most important accounts bookkeepers keep, ways to manage cash using your books, tips on reading financial reports, and signs that a company is in trouble.

# Where to Go From Here

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Feel free to start anywhere you like. You can use the table of contents or index to zoom in on any topic you're particularly interested in.

If you need the basics, or if you're a little rusty and want to refresh your knowledge of bookkeeping, start with Book 1. For the nuts and bolts of accounting and financial reports, drop into Book 2. If you already know the basics and terminology of bookkeeping and are ready for some practical advice on day-to-day activities, you might start with Book 3. If you're heading toward the end of the year and need to start wrapping things up, check out Book 4. If you're a manager, Book 5 was written with you in mind.

Wherever you begin, best of luck on your bookkeeping journey!

# 1

## **Keeping the Books**

# Contents at a Glance

<b>CHAPTER 1: Basic Bookkeeping</b>	7
Bookkeepers: The Record Keepers of the Business World	8
Delving into Bookkeeping Basics	8
Recognizing the Importance of an Accurate Paper Trail	10
Using Bookkeeping's Tools to Manage Daily Finances	12
Running Tests for Accuracy	14
Finally Showing Off Your Financial Success	14
Wading through Bookkeeping Lingo	16
Pedaling through the Accounting Cycle	18
Tackling the Big Decision: Cash-Basis or Accrual Accounting	20
Seeing Double with Double-Entry Bookkeeping	22
Differentiating Debits and Credits	24
<b>CHAPTER 2: Charting the Accounts</b>	25
Getting to Know the Chart of Accounts	25
Starting with the Balance-Sheet Accounts	27
Tracking the Income-Statement Accounts	33
Setting Up Your Chart of Accounts	37
<b>CHAPTER 3: The General Ledger</b>	39
Understanding the Eyes and Ears of a Business	39
Developing Entries for the Ledger	40
Posting Entries to the Ledger	44
Adjusting for Ledger Errors	48
Using Computerized Transactions	48
<b>CHAPTER 4: Keeping Journals</b>	51
Establishing a Transaction's Point of Entry	51
When Cash Changes Hands	52
Managing Sales Like a Pro	56
Keeping Track of Purchases	58
Dealing with Transactions That Don't Fit	59
Posting Journal Information to Accounts	62
Simplifying Your Journaling with Computerized Accounting	63
<b>CHAPTER 5: Controlling Your Records</b>	67
Putting Controls on Your Business's Cash	68
Keeping the Right Paperwork	76
Protecting Your Business Against Internal Fraud	79
Insuring Your Cash through Employee Bonding	84
<b>CHAPTER 6: Computer Options for Bookkeeping</b>	85
Surveying Your Software Options	86
Setting Up Your Computerized Books	89
<b>CHAPTER 7: Financial Statements and Accounting Standards</b>	95
Reviewing the Basic Content of Financial Statements	96
Contrasting Profit and Cash Flow from Profit	107
Gleaning Key Information from Financial Statements	108
Keeping in Step with Accounting and Financial Reporting Standards	112

#### IN THIS CHAPTER

- » Introducing how to keep the books
- » Managing daily business finances
- » Keeping business records
- » Navigating the accounting cycle
- » Choosing between cash-basis and accrual accounting
- » Deciphering double-entry bookkeeping

## Chapter 1

# Basic Bookkeeping

**T**his chapter provides an overview of a bookkeeper's work. If you're just starting a business, you may be your own bookkeeper for a while until you can afford to hire one, so think of this chapter as your to-do list.

All businesses need to keep track of their financial transactions; that's why bookkeeping and bookkeepers are so important. Without accurate records, how can you tell whether your business is making a profit or taking a loss? This chapter also covers the key parts of bookkeeping by introducing you to the language of bookkeeping, familiarizing you with how bookkeepers manage the accounting cycle and showing you how to understand the most difficult type of bookkeeping: double-entry.

*Bookkeeping*, the methodical way in which businesses track their financial transactions, is rooted in accounting. *Accounting* is the total structure of records and procedures used to record, classify, and report information about a business's financial transactions. Bookkeeping involves the recording of that financial information into the accounting system while adhering to solid accounting principles.

# Bookkeepers: The Record Keepers of the Business World

Bookkeepers are the ones who toil day in and day out to ensure that transactions are accurately recorded. Bookkeepers need to be very detail-oriented and love to work with numbers because numbers and the accounts they go into are just about all these people see all day. A bookkeeper isn't required to be a certified public accountant (CPA).

Many small-business people who are just starting their businesses serve as their own bookkeepers until the business is large enough to hire someone dedicated to keeping the books. Few small businesses have accountants on staff to check the books and prepare official financial reports; instead, they have bookkeepers on staff who serve as the outside accountants' eyes and ears. Most businesses do seek an accountant with a CPA certification to set up and review accounting processes, prepare financial reports, oversee the work of a bookkeeper, and file taxes.

In many small businesses today, a bookkeeper enters the business transactions daily while working inside the company. At the end of each month or quarter, the bookkeeper sends summary reports to the accountant, who then checks the transactions for accuracy and prepares financial statements.

In most cases, the accounting system is initially set up with the help of an accountant to ensure that it uses solid accounting principles. That accountant periodically stops by the office and reviews the system to make sure that transactions are being handled properly.



WARNING

Accurate financial reports are the only way you can know how your business is doing. These reports are developed from the information that you, as the bookkeeper, enter into your accounting system. If that information isn't accurate, your financial reports are meaningless. As the adage goes, "Garbage in, garbage out."

## Delving into Bookkeeping Basics

If you don't carefully plan your bookkeeping operation and figure out exactly how and what financial detail you want to track, you'll have absolutely no way to measure the success (or failure, unfortunately) of your business efforts.

Bookkeeping, when done properly, gives you an excellent gauge of how well you're doing financially. It also provides you lots of information throughout the