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3rd Australian Edition

# Bookkeeping Essentials

for  
**dummies**<sup>®</sup>  
A Wiley Brand



Get across the  
bookkeeping basics

—  
Manage GST and  
customer invoicing

—  
Generate financial  
reports

**Veechi Curtis**

*Author of **Small Business  
For Dummies***

**Foreword by Matthew Addison**

*Executive Chair & Director,  
The Institute of Certified Bookkeepers*



# Bookkeeping Essentials

3rd Australian Edition

by Veechi Curtis

for  
**dummies**<sup>®</sup>  
A Wiley Brand

# **Bookkeeping Essentials For Dummies® , 3rd Australian Edition**

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# Foreword

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While reviewing this edition of *Bookkeeping Essentials For Dummies*, I have once again been impressed with how well Veechi has captured the essence of bookkeeping in today's world. While some say bookkeeping doesn't change, what is very obvious (and what Veechi takes care to explain within these pages) is that new technology and changing government regulations constantly drive change in bookkeeping methodologies and practices.

*Bookkeeping Essentials For Dummies* is a must-read, whether you're considering doing the books for your own business, as an employee or whether you're considering bookkeeping as a career. The combination of step-by-step explanations, background information, tips and warnings will help you gain a rapid and accurate understanding of all requirements. Veechi not only explains the basics, introducing essential bookkeeping concepts, but also embraces more complex and advanced bookkeeping topics, including the latest on the rules and regulations involved with working as a BAS Agent.

I first met Veechi Curtis more than fifteen years ago at an MYOB accounting software conference. I was the technical presenter and Veechi was there in her capacity as a bestselling author of numerous accounting software and small business titles. Since then — many years, many conferences and many chats later — it has become obvious to me that Veechi has a passion for sharing her knowledge about bookkeeping and small business in a creative and committed way that always sheds new light on the topics.

I helped found the Institute of Certified Bookkeepers (ICB) in Australia in 2006. ICB is the largest bookkeeping institute in the world and aims to promote and maintain the standards of bookkeeping as a profession. All kinds of people, with different backgrounds, experiences and qualifications, are involved in 'keeping the books'. Although some people seek out bookkeeping as a profession, others end up working as bookkeepers almost by accident — which is fine, but without training, they often lack the skills to do the best job possible.

My vision for ICB is to help bookkeepers find information and resources, and access insurance and quality support. Given ICB's aim to provide bookkeepers with information of the highest quality, I'm very proud to write this foreword for Veechi's book.

Good luck — and happy bookkeeping!

**Matthew Addison**  
**Executive Director, Institute of Certified**  
**Bookkeepers**  
**August 2020**

# Introduction

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Bookkeeping has changed enormously since I first started as a bookkeeper in my late teens, writing up accounts by hand in leather-bound journals in my hometown of Edinburgh, Scotland. Accounting software has replaced handwritten books, emails have largely replaced the postal service, and the ability to add up in one's head is now an anachronistic party trick. However, one thing has stayed the same. A bookkeeper remains a person upon whom most businesses depend.

*Bookkeeping Essentials For Dummies* aims to be a reference for any bookkeeper. Are you wondering about the difference between an asset and a liability, how GST works or how to calculate an employee's take-home pay? Then I hope this book can be your go-to guide. I also talk about the major changes that have occurred in the bookkeeping industry in recent years, such as cloud accounting, browser-based software and bank feeds, and how these changes affect the way you do your day-to-day work.

## ***About This Book***

In this book, I talk about bookkeeping for all sizes of business, both large and small. I cover essential topics such as how to record expenses or raise customer sales, how to balance a bank account, process an employee's pay or apply GST correctly. I also explain the basics of employee payroll, and how to generate financial reports.

Because this is a pocket guide, I don't delve into some of the more complex bookkeeping topics, such as calculating depreciation, working with inventory or

making general journals, topics which fall into a grey area between the responsibilities of a bookkeeper and those of an accountant. If you want to know more about these topics, you may want to get a hold of my 'big' bookkeeping book, *Bookkeeping For Dummies*, 3rd edition.

## ***Foolish Assumptions***

Because I'm so blindingly sensible, I don't make any foolish assumptions about you, dear reader. I don't assume that you have any bookkeeping experience or even that you've worked in a business before (although it's possible, of course, that you're a bookkeeper extraordinaire with 30 years' experience under your belt). All I assume is that you are at least vaguely interested in bookkeeping and the results that the process yields.

## ***Icons Used in This Book***

Throughout this book you find icons in the margins to help you navigate through the text. Here's what these icons mean:



**GST**

You find this icon next to stuff relating to GST or taxation (ah, such fascinating topics).



**REMEMBER**

Tie a knot in your hankie, pin an egg-timer to your shirt but, whatever you do, don't forget these little nuggets.



TIP

This icon points the way to doing your job better, faster and smarter.



WARNING

A pitfall for the unwary. Read these warnings carefully (then you can't say no-one told you ...).

## ***Where to Go from Here***

*Bookkeeping Essentials For Dummies* isn't a gripping novel to be read from cover to cover. This book is designed (all 13 bite-sized chunks) so you can pick it up at any point and just start reading.

If you're new to business and trying to set up a bookkeeping system from scratch, I recommend you read [Chapters 1](#) to [3](#) before doing much else. If you're trying to figure out how best to organise paperwork and record sales and expenses, then [Chapters 4](#) to [6](#) are made for you. [Chapters 7](#) to [9](#) provide a reference for more technical stuff, such as understanding GST, working with payroll or reconciling bank accounts. And finally, [Chapters 10](#) and [11](#) deal with the topics of financial reports and starting a new financial year, while [Chapter 12](#) provides some guidance about starting your own bookkeeping business and [Chapter 13](#) provides tips for those with the need for speed.

# Chapter 1

## Getting Started

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### IN THIS CHAPTER

- » **Choosing accounting software**
  - » **Matching bookkeeping systems to the game in hand**
  - » **Understanding GST, working with payroll, and reconciling accounts**
  - » **Settling into a certain mindset**
  - » **Deciding whether you need to get more training**
- 

In some ways, bookkeeping is like cooking up a fine meal. The process of washing and chopping and steaming and frying isn't much to write home about. What makes everything worthwhile is the outcome: The hot taste in your mouth, the warm feeling in your belly. A good bottle of red simply adds to the fun.

In the same way, adding up receipts and paying bills aren't the most exciting activities in the world. What brings the buzz to bookkeeping are the results: An organised office, cash in the bank and a set of financial reports that help a business succeed. After all, without a Profit & Loss report, how does a business know how it's doing? And without a Balance Sheet, how can a business owner gauge their personal worth?

In this chapter, I explore the qualities of a good bookkeeper: Not just someone who can record transactions accurately, but also someone who cares about the financial statements that they generate. This



chapter also considers what kind of training you require in order to become a bookkeeper, and what skills you may need to develop.

## *Deciding What Software to Use*

Probably the first thing that a bookkeeper (or business owner, if you're doing your own books) needs to decide is what software to use. In this book, I assume you're going to use accounting software, as opposed to recording your business transactions in a handwritten ledger or a spreadsheet. I make this assumption because accounting software is significantly more efficient than any other option, and part of my role in writing this book is to help you do your books as easily as possible.

If you don't already have accounting software, you will need to decide what product is going to work best for you and your business.



**TIP** I explain the pros and cons of different kinds of accounting software in [Chapter 2](#). However, one tip I do have is this: Whatever software you choose, ensure this software has bank feeds capability. I explain more about bank feeds in [Chapters 2](#) and [5](#) but, put simply, bank feeds are a feature that can save up to 90 per cent of data-entry time, and provide a significant efficiency boost for most businesses.

# *Designing a System to Fit You*

After you have chosen your accounting software, you're ready to set up a bookkeeping system that works in harmony with your business. The first step is to customise your accounts list (often also called your chart of accounts) so that this list reflects the activities of your business. The process sounds simple — and indeed it is — and an hour or two spent customising your accounts is one of the most productive ways you can spend your time. I talk about accounts customisation in [Chapter 3](#).

With your accounts list looking spick and span, you're ready to start entering transactions.

## *Getting organised*

Accounting and bookkeeping involve so many different bills, receipts and statements that I used to think when I finally left this world for a better place, I'd be buried under a mountain of paper. Fortunately, the paperless office is slowly becoming a reality. However, this still doesn't mean you don't need to be super organised about your business recordkeeping.

What you want to create is a system that is efficient, but still complies with the law. On the one hand, storing invoices and receipts in electronic format only can mean less handling of papers; on the other hand, you need to create a system where you can locate a receipt or invoice for every transaction for up to seven years after you lodge a tax return.



TIP

I provide lots of tips for getting your paperwork in order in [Chapter 4](#). However, probably one of my biggest tips — and a tip that’s so important that I want to say it right at the beginning of this book — is to ensure that business and personal bank accounts are kept separate. Combining business and personal transactions in the one bank account consumes hours of unnecessary bookkeeping time, causes confusion and can ultimately lead to mistakes. No matter how small the business, open a business bank account and devote this account to business transactions only.

## ***Keeping track of expenses and supplier bills***

In [Chapter 5](#), I talk about tracking expenses, supplier bills and supplier payments. This work usually forms the guts of a bookkeeper’s daily or weekly tasks.

I explain in [Chapter 5](#) that the kind of bookkeeping processes you use for a micro business with no employees and not many sales is very different from the processes for a large business with lots of employees, complex inventory and multiple locations.

For smaller businesses, the biggest single step you can take to make bookkeeping efficient is to enable bank feeds. Although bank feeds can’t automate transactions such as raising customer invoices, processing employee payroll or paying suppliers, the automatic import of transactions from your bank accounts makes recording expenses and reconciling bank accounts quick, easy and reliable. ([Chapters 2](#) and [5](#) talk more about working with bank feeds.)

With larger businesses, I recommend you focus on establishing a rhythm of what happens when. How often do you need to enter supplier invoices, pay bills or generate reports?

My main tip for bookkeepers is to set a schedule for bill payments, and then stick to it. For example, if you have weekly accounts, set one day per week where you settle these bills. If you have monthly accounts, set aside one day per month (usually a day that falls between the 20th and the last day of the month). Avoid paying bills in dribs and drabs and invest time in negotiating payment terms with your suppliers.

## ***Recording money in***

Unless you're also the business owner, most bookkeepers aren't responsible for recording sales invoices — this task tends to fall to somebody else in the business. However, bookkeepers are usually responsible for recording customer payments, matching customer payments against invoices, and chasing customers for overdue amounts. I talk about this process in [Chapter 6](#).

In [Chapter 6](#), I also explain how to allocate other kinds of deposits that don't relate to invoices, such as owner contributions, refunds and proceeds from bank loans. Bookkeepers often find these kinds of transactions quite tricky, and so I try to provide you with a reference of exactly how to allocate each kind of transaction.

## ***Getting Technical***

If you're new to business and bookkeeping, you will find there's a heap to learn. When do you charge GST and when is something GST-free? How do you know how much tax to deduct from an employee's wages? And what is this arcane activity known as reconciling bank accounts?

## ***Understanding GST***

Registering for GST is optional if your turnover is less than \$75,000 a year. If you think that your business, or the business that you're working for, is going to exceed this annual turnover threshold and isn't yet registered for GST, then I suggest you speak to the accountant quick smart.



**GST**

Of course, complying with the law in terms of GST is much more involved than simply registering. You need to get down on scintillating topics such as what's taxable, and what's not; the key elements of a Tax Invoice; and how often to submit GST reports.

If you've never done any bookkeeping before, and you're planning to do the books for your own business, probably my strongest word of advice is to force yourself to read all of [Chapter 7](#) (the chapter in this book that deals with GST) from start to finish. Scarcely the most exciting way to spend a couple of hours, but I guarantee you that your time will not be wasted. In addition, do ask your accountant or a qualified bookkeeper to check your first couple of Business Activity Statements — this way, you can be sure your tax codes and systems are configured correctly, right from the start.

## ***Working with payroll***

Whether you're a business owner doing your own books or a bookkeeper doing the books for someone else, bear in mind that as soon as a business takes on an employee, the real fun begins. Government paperwork starts pouring through the door like owl-delivered invitations to Harry Potter.

As a bookkeeper or payroll officer, the scope of your job very much depends on the size of the business and the number of employees. At its simplest, a bookkeeper's role is sometimes to record a couple of pay transactions per week, maybe checking tax deductions or calculating monthly superannuation. But at its most complex, a payroll officer may be in charge of the payroll for a couple of hundred employees, and have to be familiar with minimum pay rates, Fair Work obligations, convoluted leave calculations, termination pay and much more.

If you're new to bookkeeping, you may find things such as PAYG tax, superannuation and workers compensation to be quite daunting. Take heart — in [Chapter 8](#), I try to provide you with a step-by-step reference for everything you need to know in order to process your first pay.



**REMEMBER** My main advice is to be aware that as soon as a business takes on employees, it takes on a series of legal obligations at the same time. As a bookkeeper, your job is to wise up to these legal obligations and not underestimate what's involved. The moment you feel out of your depth, seek some assistance or in-house training, or get some support for further study.

Also, do be vigilant about reporting deadlines. Lodging pay records and making payments for things such as Pay as You Go (PAYG) tax and superannuation is a serious business — after all, you're acting as a kind of caretaker for your employees' funds — and the penalties for late lodgement or payment can be quite punitive. Not only that, but if you fall into a habit of lagging behind with paying these liabilities, you can also quickly end up with cashflow difficulties.

## ***Reconcile often, reconcile well***

Reconciling bank accounts is one of the core tasks for any bookkeeper (and a process that I talk about in much more detail in [Chapter 9](#)). Put simply, a bank reconciliation is when you match everything that's on your bank statement against everything in your books, double-checking that your work is correct.

Always reconcile the main business account before chasing customers for money, generating activity statements or generating management reports. For small- to medium-sized businesses, this means you probably reconcile accounts once every week or fortnight; for micro businesses, once a month probably does just fine.

## ***Developing an Attitude***

Over the years, I've worked with and taught lots of bookkeepers: Young and old, qualified and unqualified. Some were scarily cocky, others achingly unsure, a few startlingly beautiful and many more rather careworn.

So what separates a good bookkeeper from a bad bookkeeper? Being young and beautiful doesn't help much, that's for sure (at least not with bookkeeping). Qualifications help, but aren't the whole story either. Nay, I reckon what separates the wheat from the chaff is attitude.

A good bookkeeper cares when something doesn't balance, and gets upset when receipts and invoices go missing. A bookkeeper cares that the financial statements make sense, and feels responsible when it comes to getting customers to pay on time. A good bookkeeper, in other words, is worth their weight in gold.



## ***Convince yourself this stuff matters***

If you're already a bona fide, serious bookkeeper, you probably know that doing the books is a vital activity and that without the services you provide, the world would probably grind to a halt. Or, maybe you're not a bookkeeper at all, but the owner of a small business skim-reading these pages as quickly as possible. You want to get your books done with a minimum of fuss, and maximum speed. You hate messing around with receipts, despise filing and feel ill at the very thought of tax returns. That's okay! In the end, the 'work' of bookkeeping actually works for you.



**REMEMBER** Think of bookkeeping as a means to an end.

Whatever your dreams, whether they're to own your home outright, put the family business back on its feet or sail around the world in a 30-foot yacht, nothing much is going to happen if you don't keep good tabs on your finances. And guess what? You can't keep tabs on your finances unless you do your books.

## ***Quit counting sheep***

Am I preaching to the converted with all this chat about the importance of bookkeeping? Maybe you're someone who knows what it means to lie awake at night counting sheep, worrying that the sheep don't balance.

To you, I have a slightly different message. In this book, I encourage you to cast away your magnifying glass and grab a telescope instead. Sure, you've mastered the fine detail, but now you're ready to move ahead and start looking at financial statements. Is the business making a



profit? How does this year compare to last year? Is the business growing at a steady rate?

Surprisingly, I find a lot of bookkeepers don't give a second thought to financial reports. Even business owners sometimes get so preoccupied generating sales and paying bills that the only measure of profitability becomes how much is left in the bank account.

Don't miss out on the fun. As a bookkeeper, spend the time to read through Profit & Loss reports and Balance Sheets. You can help the owner understand what's going on in their business, and chances are when you read these reports, you can spot any mistakes you've made. As a business owner, these financial reports are the reward for all your bookkeeping efforts.

Want to know more? Skip ahead to [Chapter 10](#), which gives the lowdown on both Balance Sheets and Profit & Loss reports.

### ***Do your job well***

Whether you're a professional bookkeeper or a business owner, you almost certainly want to get this bookkeeping lark over with as swiftly as possible. The stumbling block is figuring out how not to overcomplicate things. I'm often taken aback at how much time people take to do their books, wasting hours checking and double-checking, shuffling paper from one place to another.



TIP

I'm not suggesting compromising quality in order to get a job done quickly, but I am suggesting you put efficient systems in place, right from the word 'go'. As you read this book, I give you my hard-won advice on the best way to approach a task. As you read, ask yourself, 'Am I doing this task in the most efficient way?', 'Can I streamline processes by taking advantage of new technology?' and 'Can I avoid entering things twice?'

## *Getting Skilled Up*

I'm often asked by business owners, 'Do I need to complete a bookkeeping course?' For most small businesses, I reply that the answer depends, but a course isn't always necessary. You may need help from your accountant, and some guidance from handy references like this one, but with a bit of patience, you should be able to master the basics.

On the other hand, if you're a bookkeeper who works for more than one business, you need to be a whole lot more versatile. Not only will you probably need to register as a BAS Agent, but your client or employer also expects you to be the expert and is unlikely to tolerate a long and slow learning curve. You'll almost certainly want to devote some time to formal study.

The line between a professional bookkeeper and an accountant gets a little blurred at times. An experienced, well-trained bookkeeper often takes on some of the work that usually falls to the accountant to complete, in the same way as an accountant picks up loose ends if