

ACCOUNTING & BOOKKEEPING ESSENTIALS

Prepared by Bruce N. Director, C.P.A.

SCORE NYC

for New York Public Library

Science, Industry & Business Library (SIBL)

SIBL SEMINAR OUTLINE

- I. 10 Common Causes of Business Failure (slide 1)
- II. Business Plan and Financing
 - a. Sources & Uses of Money (slide 2)
 - b. Cash Flow Statement (12 months) (slide 3)
 - c. Profit & Loss Statement (3 years) (P&L) (slide 4)
 - d. Marketing and Sales Plan
 - e. Breakeven Analysis

SIBL SEMINAR OUTLINE

(continued)

- III. Cash Basis vs. Accrual Basis Accounting (slide 5)
- IV. Balance Sheet (slide 6)
- V. Accounting/Bookkeeping Functions (slides 7,7a,7b)
 - a. Assets
 - b. Liabilities
 - c. Revenue & Expenses

SIBL SEMINAR OUTLINE

(continued)

- VI. Internal Accounting Controls/ Segregation of Duties (slides 8, 8a)
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(In House Vs. Outsource)
- VI. Taxes: Income, Payroll and Sales (slide 10)
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SIBL SEMINAR OUTLINE

(continued)

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- XI. Useful Websites
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10 COMMON CAUSES OF BUSINESS FAILURE

Slide 1

1. Lack of Industry Experience and Knowledge
2. Insufficient Start-up Money
3. Failure to Understand Market and Customers
4. Poor Employee Management Skills
5. Wrong Location

10 COMMON CAUSES OF BUSINESS FAILURE

Slide 1 (continued)

6. Improper Pricing of Product or Service
7. Failure to Understand and React to Competition
8. Incorrect Cash-Flow Estimates (Poor Budgeting)
9. Insufficient Time Devoted to Business
10. Mismanagement of Assets
(Cash, Inventory, Receivables, Fixed Assets)

SUMMARY

SOURCES AND USES OF FUNDS

Slide 2

SOURCES OF FUNDS

Owners Investment	\$ 40,000
Financing Needed	<u>\$ 76,000</u>
TOTAL SOURCES OF FUNDS	\$116,000

USES OF FUNDS

Start-up Costs	\$ 30,000
Beginning Inventory	\$ 15,000
Working Capital up to 8 months	\$ 24,000
Equipment and Supplies	\$ 22,000
Cash Reserve	<u>\$ 25,000</u>
TOTAL USES OF FUNDS	\$116,000

CASH FLOW STATEMENT

Slide 3

CASH FLOW STATEMENT

Slide 3

[illegible]

[illegible]

CASH FLOW STATEMENT

Slide 3 (continued)

CASH FLOW STATEMENT

Slide 3 (continued)

[illegible]

(\$ 000's)	2005	2006	2007
REVENUE	\$ 129.0	\$ 195.0	\$ 250.0
Percentage Increase		51%	28%
COGS (%)	37%	35%	33%
COGS (\$)	\$ (47.7)	\$ (68.3)	\$ (82.5)
GROSS PROFIT	\$ 81.3	\$ 126.8	\$ 167.5
EXPENSES	\$ (79.0)	\$(100.0)	\$ 122.0
Pretax Income	\$ 2.3	\$ 26.8	\$ 45.5
Income Taxes (%)	10%	1.5%	25%
Less: Income Tax (\$)	\$ (0.2)	\$ (4.0)	\$ (11.4)
NET INCOME	\$ 2.0	\$ 22.7	\$ 34.1
Net Income Margin	2%	12%	14%
Repay Loan Principal	\$ (15.2)	\$ (15.2)	\$ (15.2)
Net After Repayment	\$ (13.2)	\$ (7.5)	\$ (18.9)
() = negative cash outflow COGS = cost of goods sold			

CASH BASIS ACCOUNTING VS. ACCRUAL BASIS ACCOUNTING

Slide 5

EVENT	CASH BASIS	ACCRUAL BASIS
1. VENDOR INVOICE RECEIVED IN DEC. 2005 (Paid in Jan. 2006)	2006	2005
2. CLIENT BILLED IN DEC. 2005 (Received cash in Jan. 2006)	2006	2005
3. INVENTORY RECEIVED IN DEC. 2005 (Paid in Jan. 2006)	2006	2005
4. PREPAYMENT RECEIVED IN DEC. 2005 (Services performed in Jan. 2006)	2005	2006

BALANCE SHEET

Slide 6

ASSETS:

Current Assets:

Cash

Accounts Receivable

Inventory

Prepaid Expenses

Total Current Assets

Fixed Assets:

Land

Building

Leasehold Improvements

Furniture & Equipment

Total Fixed Assets

TOTAL ASSETS

LIABILITIES:

Current Liabilities:

Vendors Payables

Loans and other Borrowings (<1 year)

Deferred Income

Total Current Liabilities

Long Term Liabilities:

Loans and other Borrowings (>1 year)

TOTAL LIABILITIES

OWNERS EQUITY:

Capital Stock Issued

Accumulated Earnings (Deficit)

TOTAL EQUITY

ASSETS = LIABILITIES + OWNERS EQUITY

Accounting/Bookkeeping Functions		Daily	Week	Month	Quarter	Annual
1.	Review Cash Position	X				
2.	Analyze Unpaid Vendor Bills		X			
3.	Update Cash Flow Report		X			
4.	Reconciliation of Bank Statements			X		
5.	Prepare and Send Out Bills		X	X		
6.	Write Checks and Pay Vendors		X			
7.	Review Aged Receivables Report and Send Past Due Statements			X		
8.	Process Payroll (semi-monthly)			X		
9.	Analyze Inventory Status			X		
10.	Analyze Investment Securities Activity			X		
11.	Review Internal Balance Sheet			X		
12.	Review Internal Revenues & Expenses (P&L)			X		
13.	Compare Actual P&L to Budget & Prior Period			X		
				X	X	
14.	Prepare Revised Annual P&L (Rolling Budget)			X	X	
15.	Prepare Payroll Reports and Make Payments					

ACCOUNTING/BOOKKEEPING FUNCTIONS		Daily	Week	Month	Quarter	Annual
16.	Prepare Sales Tax & Make Quarterly Payments			X	X X	
17.	Estimate Income Tax, Make Payments				X	X
18.	Analyze Doubtful Accounts Receivables				X	X
19.	Review Detailed Inventory Schedule					X
20.	Analyze Prepaid Expenses					X
21.	Review Schedule of Property and Equipment					X
22.	Review Accounts Payable/Accrued Expenses					
23.	Review Schedule of Insurance Policies. Reconcile to P&L					X X
24.	Analyze Inventory Write-downs					X
25.	Analyze Other Assets and Other Liabilities					X
26.	Analyze Current/Long-Term Debt					
27.	Prepare IRS Forms W-2 (employee) and Forms 1099 (consultant)					X X
28.	Close Financial Books for the Year					X
29.	Draft Financial Reports (if needed)					X
30.	Draft Tax Returns					

BUDGET REPORT

(Last Day of Reporting Month)

Slide 7b

	MONTH				YEAR-TO-DATE		
	Actual	Budget	Variance \$		Actual	Plan	Variance \$
REVENUE							
Cash Sales			0.00				0.00
Sales on Account			0.00				0.00
Miscellaneous			0.00				0.00
TOTAL REVENUE	0	0	0.00		0	0	0.00
EXPENSES							
Salaries and Wages			0.00				0.00
Payroll Taxes and Fringes			0.00				0.00
Accounting and Legal Fees			0.00				0.00
Occupancy			0.00				0.00
Telephone			0.00				0.00
Postage and Publications			0.00				0.00
Utilities			0.00				0.00
Equipment Rental/maintenance			0.00				0.00
Printing and Publications			0.00				0.00
Travel			0.00				0.00
Marketing and Advertising			0.00				0.00
Interest			0.00				0.00
Depreciation			0.00				0.00
Other Expenses			0.00				0.00
TOTAL EXPENSES	0	0	0.00		0	0	0.00
PRETAX PROFIT AND LOSS	0	0	0.00		0	0	0.00

INTERNAL CONTROLS SEGREGATION OF DUTIES

Slide 8

OWNER

Customers:

- Send Invoices
- Review Accounts Receivable Aging Report
- Send Reminder Invoices to Past-due Customers
- Approve Credits and Discounts

Cash In:

- Open Mail/Receive Cash/Checks
- Complete Deposit Slips

BUSINESS MANAGER/ACCOUNTANT

Customers:

- Prepare and Post Invoices
- Prepare Accounts Receivable Aging Report
- Prepare Reminder Invoices to Past-due Customers
- Prepare Credits and Discounts

Cash In:

- Record Customers Deposits

INTERNAL CONTROLS SEGREGATION OF DUTIES

Slide 8 (continued)

OWNER

Vendors/Cash Out:

Approve Vendors Invoices
Sign Checks

Bank Statements:

Review Bank Statements
Reconciliation
Review Petty Cash
Reconciliation

BUSINESS MANAGER/ACCOUNTANT

Vendors/Cash Out:

Record Vendors Bills to Pay
(accrual basis)
Prepare Checks
Mail Signed Checks

Bank Statements:

Prepare Statements (operating,
payroll, etc.)
Disburse Petty Cash
Prepare Petty Cash Reconciliation

INTERNAL CONTROLS SEGREGATION OF DUTIES

Slide 8a

OWNER

Employees:

Sign Employee Contracts

Approve Employee Time
Sheets

Distribute Payroll Checks

Investment Securities:

Approve Securities
Transactions

Review Securities Report

BUSINESS MANAGER/ACCOUNTANT

Employees:

Prepare Payroll Sheets and Payroll
Journals

Record Payroll Payments

Investment Securities:

Post Securities Transactions

Prepare Securities Reports

INTERNAL CONTROLS SEGREGATION OF DUTIES

Slide 8a (continued)

OWNER

Insurance:

Review Insurance Reports

Financial Reports/Budgets:

Give Inputs and Review
Annual Budget

Review Monthly Financial
Reports

Give Inputs and Review P&L
Estimates

BUSINESS MANAGER/ACCOUNTANT

Insurance:

Prepare Insurance Reports

Financial Reports/Budgets:

Post Entries to General Ledger

Prepare Annual Budget With
Owner Inputs

Prepare Financial Reports:
(P&L, balance sheets, cash flow)

Prepare Revised Annual P&L
Estimates
with Owner Inputs

PAYROLL PROCESSING

(In-house vs. outsourcing)

Slide 9

GROSS PAYMENTS

1. Salary: Per Hour/Day/Week/Month, etc.
2. Other: Commissions, Overtime, Bonus, Reimbursements, etc.

WITHHOLDINGS (W/H) AND OTHER DEDUCTIONS

1. Federal, State, City Income Tax W/H
(Marital Status, Number of Dependents, Age)
2. Social Security and Medicaid W/H
3. Federal and State Unemployment W/H
4. Medical Insurance W/H
5. Dental Insurance W/H
6. Pension W/H
7. Loan on Pension Repayments W/H
8. Health Care (Flex Compensation) W/H

PAYROLL PROCESSING

(In-house vs. outsourcing)

Slide 9 (continued)

PAYROLL PAYMENTS AND REPORTS

1. Deposits (Income Tax W/H, Social Security, Unemployment, Etc.
2. Monthly/Quarterly/Annual Payroll Reports (IRS & NYS)
3. Annual Payroll Reports to Employees (Form W-2)

BUSINESS STRUCTURE CHART

(Internal Revenue Service - www.irs.gov)

	Sole Proprietorship	Partnership	Corporation	S Corporation	Limited Liability Co. (LLC)
Basic Tax Forms and Schedules	Form 1040 (Schedule C) (Schedule F) (Schedule SE)	Form 1065 (Schedule K-1) Individual Partners Form 1040 (Schedule E)	Form 1120 Form 1120-A	Form 1120S (Schedule K-1)	Form 1040 (Sch.C), (Sch. E) (Sch. F), (Sch. SE) -or- Form 1065 -or- Form 1120
Estimated Tax Payments	Form 1040-ES	Form 1040-ES	Form 1120-W	Form 1120-W	Form 1120-W -or- Form 1040-ES
Employment Taxes	Form 941 Form 940 Or Form 940-EZ	Same as sole proprietorship	Same as sole proprietorship	Same as Sole proprietorship	Same as sole proprietorship
Helpful Publications And Instructions	Publication 334	Publication 541	Publication 542	Instructions 1120S (Schedule K-1) Instructions 2553	Form 8832 Instruction 1040 (Sch. C),(Sch. SE) Instruction1065 (Schedule K-1) Instruction 1120

1. File a separate schedule for each business 2. Do not use if you deposit taxes electronically 3. Various other schedules may be needed

BUSINESS RECORDS LIST OF MAJOR FILES

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BUSINESS RECORD	FILE
Vendors Invoices	Alphabetically
Customers Files	Alphabetically
Bank Statements, Cancelled Checks, Deposit Slips	By Month
Payroll Reports and Tax Payments	By Month By Quarter
Employee File	Alphabetically
Insurance Files	Alphabetically
Financial and Tax Reports	By Year
Permanent Files	Alphabetically

USEFUL WEBSITES

Slide 12

- **<http://smallbiz.nypl.org>**
(NY Public Library): business and research resources, workshops, electronic resources
- **www.sba.gov**
(U.S. Small Business Administration): financing programs, small business services
- **www.score.org**
(SCORE): business counseling, business plan development services, local offices
- **www.biz.brooklynpubliclibrary.org**
(Brooklyn Public Library): business and research resources

USEFUL WEBSITES

Slide 12 (continued)

- **www.dos.state.ny.us**
(NYS Dept. of State): register or search for NYS corporations, state regulations
- **www.nyc.gov**
(NYC Government): permits, regulations, small business services
- **www.annualcreditreport.com**
(Free Annual Credit Reports)
- **www.myfico.com**
(FICO Scores)