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hints, tips and guidelines on how to keep your books

The Accounting Environment

This article contains some explanations of concepts, as DIY bookkeepers, you need to understand to do your bookkeeping accurately. It is, after all, an accounting datafile.

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Your Business Numbers in a Nutshell

The Accounting (inc Bookkeeping) Environment – an extremely potted version.

Assets minus Liabilities equals Equity.

This is called the Accounting Equation, and is presented on the Balance Sheet.

The list of current **assets** (bank account balances, other liquid assets) is followed by the assets that will be held longer than 12 months in the Non-Current Assets group. Owned property will sometimes be called Fixed Assets.

The **Balance Sheet** represents the value of the entity (business, company, trust etc). Except in the case of sole traders, it represents a separate legal entity. It is presented as at a particular date.

Liabilities are set out in a similar fashion. Current liabilities (ie short-term situations like accounts payable) are presented first, followed by longer-term arrangements such as loans.

Equity is the name given to the ownership of the entity – either the owner of the business, or the shareholders etc. It is not an area where do-it-yourself bookkeepers would need to go into without direct advice from the accountant.

Profit & Loss Statement reflects the value of the operations of the entity – the revenue earned less the costs involved in earning that revenue which gives the profit or loss for the specific period of time (could be a month, or the financial year).

The accounting principles that are in force on the Profit & Loss are timing, connection of expenses incurred to the revenue earned, the classification of type to name a few. Accrual accounting is involved with some of these concepts, dependent on the reporting basis in use. These concepts are met almost entirely by the bookkeeping processes.

There is another financial statement, the Cash Flow statement. It's not a typical statement and would be prepared by the Accountant if it was necessary. It shows the sources and uses of the money that goes through the entity, divided into operations, financing and investment.

The relationship between the Profit & Loss Statement and the Balance Sheet is that the profit or loss that is shown on the Profit & Loss Statement is found on the Balance Sheet called retained earnings, or current year earnings – or similar.

Double-Entry Bookkeeping.

First written about in the 1400s by Italian money-lenders, and academics such as Luca Pacioli of the 16th Century, double-entry bookkeeping has been the basis of accounting for a very long time. Essentially it means that for every transaction, there is a debit entry and an equal credit entry. This ensures the equilibrium state is always maintained.

In these modern times, the existence of accounting software has lessened the significance perhaps of the double entry, because the software is providing the hidden second side of each transaction. But bookkeepers really must understand the nature of whereabouts the hidden entry has fallen to ensure that entries are in fact correct. This happens by selection of the correct account when classifying the purpose of each individual transaction.

Chart of Accounts

This is the list of all accounts included in the entity's ledger. It is set out into sections for Assets, Liabilities, Equity, Revenue and Expense accounts, usually with a numbering system which also separates and identifies the type of account by number. The typical set of accounts is determined by the business type, tax