Liabilities: The debts owed by the business.

Net Profit or Loss: Gross profit minus total operating expenses.

Operating Expenses: All selling and administrative expenses required to run the company.

Owner's Equity: The total investments of the business minus total liabilities.

How CED can help you improve your Financial Management Skills

i. Business Counselling and Advice

ii. Management Audits

iii. Assistance in establishing and maintaining record keeping systems

iv. Inventory Management

v. Training in Financial Management

(a) Basic Record Keeping

(b) Quickbooks Pro

(Basic and Advanced)

(c) Costing and Pricing

(d) Financial Statement Analysis, Budgeting and Forecasting for Busi ness Planning

vi. One Book Records on sale

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BUSINESS GUIDE NO. 7

Financial Management: Accounting and Bookkeeping

"Developing the local economy, one business at a time"

Accounting and bookkeeping

Accounting is a discipline that provides relevant information to decision-makers. It is the act of recording, summarizing and interpreting financial information. Accounting is classified under two main headings:

i. Financial Accounting

ii. Managerial Accounting

Bookkeeping is the recording aspect of accounting. It is the act of keeping a systematic account of financial transactions.

The Value of Accounting and Bookkeeping to your Business

- As a requirement for obtaining capital from financial institutions.
- Aids in filing accurate tax returns, and cases of bankruptcy.
- Needed to promote internal efficiency.
- Important for the preparation of asset schedule for insurance purposes.
- To keep a running record of revenue, expenses and bank balances.

Features of an Effective Accounting System

i. Simple

ii. Flexible

iii. Ability to provide a record of transactions

iv. Presents a true and fair picture of invested resources.

Some Basic Tools for Tracking Revenue and Expenses

i. A business bank account

ii. Cheques and cheque stubs records

iii. Journal

iv. Legder

v. Sales summaries

vi. Chart of accounts

Recording Accounting Information

i. Select accounting data from their respective source documents.

Ii. Record information in the ***Journal*** or books of original, or your ***One Book*** if you are using the One-Book Accounting System.

These books contain three important details:

- The date of the transaction

- The accounts affected by the transactions

- The amount of the transaction

Each journal contains ***Ledgers***. Ledgers are divided into a left-hand or *Debt Side* and a right-hand or *Credit Side*.

Types of Journals

i. General Journal: This is the main journal used to record transactions.

ii. Subsidiary Journals: These record one type of transaction. Types of Subsidiary Journals are:

(a) Sales Journal

(b) Purchase Journal

(c) Cash Book

Posting Transactions

- First post transactions in the journal.
- Then post transaction to various ledger accounts.

Some Terms you should know

Accounts Payable: Money which the business owes.

Accounts Receivable: Money which is owed to the business.

Asset: A tangible or intangible item that has value.

Balance Sheet: A summary of what the business owes, owns and its net worth.

Cash Flows: The actual movement of cash within a business.

Capital: Money, buildings, land and equipment used for the business.

Financial Statement: Summary of a business financial performance for a period of time.

Gross Profit: Revenue minus the cost of goods sold.

Income Statement: Reveals sales, expenses and profit or loss.