Basic Bookkeeping For Small Business Owners

Bookkeeping Basics for Owners

Many small business owners and startup entrepreneurs are great at creating products and services, managing people, and establishing and maintaining customers and suppliers. Many of them however,throw up their hands when it comes to basic bookkeeping. Unfortunately, a small business owner has to wear many hats. As the business owner, if you don’t understand some basic bookkeeping and what information either you or your bookkeeper-accountant should be supplying you with in order to run a successful business you're doomed. You need to know everything about your business’s finances, not just your bank account balance. Why ? Proper information helps you to make good business decisions and plan for the future.

This "mini" tutorial is designed to provide owner's with a basic understanding of bookkeeping and what you need to know to run a successful business. With this knowledge you won't be "snowed" by a an incompetent bookkeeper or accountant and will be able to discuss and understand accounting information with your bookkeeper or accountant.

A kind note from one of my site visitors sums it up nicely.I am a tired and retired small business consultant. The biggest problem I faced was that business owners didn't understand anything about their accounting. The worst part is they were too embarrassed to admit it.

My goal is to **fix this** !

What you as an owner need to know about Bookkeeping !

- Accounts
- Source Documents and Records
- Financial Statements
- Management Reports

What you as an owner don't need to know about Bookkeeping !

Assuming you have a bookkeeper or accountant (internal or external) !

- What Debits and Credits are and how they are used to record transactions.
- What Special Journals are and how they are used to record transactions.
- How to invoice and record Customer Sales Invoices
- How to prepare and record Sales Orders
- How to prepare and record Purchase Orders

- How to record Supplier Invoices
- How to record Cash Receipts and Cash Payments
- How to pay employees - outside payroll services can handle this task at a reasonable price

In other words basically the recording processes.

Lastly, What System - Manual or Computerized ?

This decision should be a no-brainer !

If you have not yet computerized your accounting, you should **seriously consider doing so**. Most of the software being offered has a trial version that you can use to see if it fits your needs. Also, there are now many **free** excellent accounting software solutions being offered.

Many business owners think bookkeeping is a big headache, but if you understand and use the data your bookkeeper or accountant provides, bookkeeping can

be your best friend by helping you to have a successful profitable business.

More Meat On The Bone

For those wanting additional guidance or more in depth explanations, I recommend my So, you want to learn Bookkeeping ! tutorial and my Quick Bookkeeping Insights.

Money Tight ?

Free Help is available ! If you need help with your bookkeeping or just want to run your business more effectively, contact SCORE today to get paired with a mentor !

Bookkeeping Accounts

Bookkeeping Accounts

Bookkeeping accounts are systematic records used to track and manage a business's financial transactions. These accounts categorize financial data into distinct sections, allowing businesses to monitor their income, expenses, assets, liabilities, and equity effectively. The primary purpose of bookkeeping accounts is to ensure that all financial activities are accurately recorded and organized, which facilitates the preparation of financial statements and aids in decision-making processes.

Basic Bookkeeping Accounts for a small business:

Cash: The cash account tracks your receipts and payments. Cash is the lifeblood of a business. Without adequate cash you may not be able to pay your suppliers and employees.

You should track cash using tools such as daily cash reports.

Accounts Receivable: If your company sells products or services and grants credit terms, you have receivables, or money due from customers. This accounts tracks your customer billings and payments. You should track Accounts Receivable using tools such as aging reports.

Inventory: Products held for future sales is future cash waiting to be realized and must be monitored, tracked, and controlled. For many businesses this is one of their largest assets.

This account tracks your inventory purchases and sales. Periodic physical counts of inventory should be made to determine the accuracy of the inventory and any possible discrepancies due to fraud and theft.

Accounts Payable: If your company buys products or services and the supplier grants credit terms, you have payables, or money owed to suppliers. This account tracks your supplier purchases and payments received. You should track Accounts Payable using tools such as aging reports in order to avoid paying suppliers late. Late payments may result in having your credit terms terminated resulting in having to pay in advance or when the product is delivered or the service rendered

Loans Payable: If you borrow money to finance equipment, vehicles, furniture, or other purchases for your business, this account tracks yur balances and payments. You should track you balances and payments in order to maintain a good credit rating for possible future needs.

Owners Equity: This account tracks the amount an owner (or owners) invest into the business. The owners equity account reflects the amount of money left for the owner once the liabilities are deducted from assets.

Retained Earnings: The Retained Earnings account tracks the company profits that are reinvested in the business and are not paid out as draws or dividends to the owners. Retained earnings represent the total of the money that has been retained since the company started.

Sales: The Sales account tracks all revenue resulting from products and services sold. You should track your sales by products and services and also by customers.

Expenses: Expense accounts track all expenses resulting from business operations. Some major expense accounts are purchases and cost of goods sold and payroll.

Purchases: The Purchases Account tracks any materials, products, or services that you buy for your business. You should track purchases by products and services and also by suppliers.

Payroll Expenses: These accounts track employee salaries and wages, employee deductions, and employer payroll tax expenses as well as the resulting payroll liabilities. Keeping this account accurate and up to date is essential for meeting tax and other government reporting requirements.

Account Categories accounts are organized and grouped in the following major categories:

Balance Sheet Accounts

Assets: Assets are economic resources that have value and can be owned or controlled by an individual, organization, or business entity. Assets can be tangible, such as physical items like property, equipment, and inventory, or intangible, such as investments, intellectual property, and goodwill.

Liabilities: Debts or obligations that a person or company owes to another party. They represent a financial commitment that requires future economic benefits, typically in the form of money, goods, or services, to be transferred from the debtor to the creditor.

Owner's Equity: Owner's equity represents the residual interest in the assets of a business after deducting liabilities. It is essentially what the owner or owners would claim from the business if all assets were liquidated and all debts were paid off.

Income Statement Accounts

Revenue: The total amount of money generated from a company's normal business operations. It represents the income received from the sale of goods or services before any expenses are deducted.

Expenses: Cost incurred by a business or individual in order to generate revenue or maintain operations. It represents an outflow of resources,typically

cash, in exchange for goods or services

that are necessary for conducting business activities.

Equity Accounts

Draws or Dividends

Owner Draws: Withdrawal of funds from a business by owner of a sole proprietorship, partnership, or limited liability company (LLC) for personal use.

Dividends: Portion of a company’s earnings that are distributed to its shareholders as a reward for their investment in the company.

Bookkeeping Documents & Records

Source Documents

Bookkeeping source documents are the original records that provide evidence of a financial transaction. These documents serve as the foundation for recording and tracking financial transactions in the accounting system. They provide detailed information about the transaction, including the date, amount, parties involved, and the nature of the transaction.

A transaction refers to any financial activity or event that involves the exchange or transfer of goods, services, or money between two or more parties. It can be a purchase, sale, payment, receipt, or any other activity that affects the financial position of an individual, organization, or business entity.

Some common examples of bookkeeping source documents include:

- Sales Invoices: These documents are issued to customers when a sale is made. They include details such as the date of the sale, the customer's name and address, the description of the goods or services sold, the quantity, the price, and any applicable taxes or discounts.
- Sales Orders: These documents are prepared by a seller and issued to a customer, confirming the sale of goods or services involved in a

transaction. This document includes essential details about the sale.

- Purchase Invoices: These documents are received from suppliers when a purchase is made. They contain information such as the date of the purchase, the supplier's name and address, the description of the goods or services purchased, the quantity, the price, and any applicable taxes or discounts.
- Purchase Orders**:** These documents are created by a buyer and sent to a seller, detailing the types, quantities, and agreed prices for products or services that the buyer intends to purchase. This document serves as an official request for goods or services and outlines important details such as payment terms, delivery instructions, and item specifications.
- Receipts: Receipts are issued to customers when they make a payment. They include details such as the date of the payment, the customer's name, the amount paid, the payment method, and any reference numbers.
- Bank Checks: A bank check, commonly referred to simply as a check, is a written, dated, and signed instrument that directs a financial institution (the drawee) to pay a specific sum of money to the bearer or designated payee.
- Online Bank Payments: Electronic transfers of funds from one bank account to another via the internet. This process typically involves using a bank's online banking platform or mobile application, allowing customers to conduct various financial transactions without needing to visit a physical branch.
- Bank Statements: Bank statements provide a record of all transactions that occur in a bank account. They include details such as the date, the description of the transaction, the amount, and the balance of the account.

- Payroll Records: Payroll records include documents such as timesheets, pay stubs, and payroll registers. They provide information about employee wages, deductions, and taxes withheld.
- Cash Register Tapes: Cash register tapes are used to record sales made at a point of sale. They include details such as the date, the items sold, the quantity, the price, and the total amount.
- Contracts and Agreements: Contracts and agreements are legal documents that outline the terms and conditions of a transaction or business arrangement. They provide evidence of the rights and obligations of the parties involved.

Each type of source document contains critical information such as dates, amounts, parties involved, and descriptions of the transactions

Source documents play several key roles in bookkeeping and accounting:

- Evidence of Transactions: They provide tangible proof that a financial event occurred, which is vital for both internal record-keeping and external audits.
- Audit Trail: Source documents create an audit trail that auditors can follow to verify the accuracy and legitimacy of financial statements.
- Facilitating Reconciliation: They assist in reconciling accounts by providing detailed information about each transaction, ensuring that recorded amounts match actual cash flows.

It is important to keep these documents organized and retained for a certain period of time for reference, auditing, and compliance purposes. While traditionally kept in physical form, many organizations now utilize digital

formats due to advancements in technology. Digital copies must be complete, legible, and accurate representations of the originals to be considered valid under regulations set forth by tax authorities like the IRS in the United States or the CRA in Canada.

These are just a few examples of bookkeeping source documents. The specific documents used may vary depending on the nature of the business and the industry.

Bookkeeping Records

Chart of Accounts: The Chart Of Accounts is a listing of all the individual accounts in the general ledger that contains the account's name, a brief description of the account, and optional other identifiers (codes) or a coded account number assigned to aid in recording, classifying, summarizing, and reporting transactions. Your accounting system is built around this skeleton list of account names called the chart of accounts and is organized by the types of major accounts. The accounts you set up are tailored for your particular type of business.

General Ledger: The General Ledger is the central record-keeping system that contains all the financial transactions of a business. It includes accounts for assets, liabilities, equity, revenue, and expenses. Entries from the Journals are summarized and posted to the General Ledger.

Accounts Receivable Ledger: This ledger tracks the amounts owed to the business by its customers for goods or services provided on credit. It includes individual customer accounts and records transactions such as sales, payments, and adjustments.

Accounts Payable Ledger: This ledger tracks the amounts owed by the business to its suppliers for goods or services received on credit. It includes individual supplier

accounts and records transactions such as purchases, payments, and adjustments.

Inventory Records: Inventory records track the quantity and value of the goods held by the business for sale. It includes information such as the description of the items, quantity on hand, cost, and selling price.

Payroll Records: Payroll records track employee wages, deductions, and taxes withheld. They include information such as timesheets, pay stubs, payroll registers, and payroll tax reports.

Types of Journals:

- The Cash Receipts Journal is a special journal that is used to record all receipts of cash.
- The Sales Journal is a special journal where sales of services and merchandise made on account (business's customer is allowed to charge purchases) are recorded.
- The Cash Disbursements Journal is a special journal that is used to record all cash that is paid out by a business except for payroll.
- The Purchases Journal is a special journal that is used to record all purchases and various expenses and other charges from suppliers that

a business has an open account with (supplier allows the business to charge purchases).

- The Sales Return & Allowances Journal is a special journal that is used to record the returns and allowances of merchandise sold on account.
- The Purchase Returns & Allowances Journal is a special journal that is used to record the returns and allowances of merchandise purchased on account.
- The Payroll Journal is a special journal that is used to record and summarize salaries and wages paid to employees and the deductions for taxes and other authorized employee withholding amounts (not discussed in this tutorial).
- The General Journal is the record used to record unusual or infrequent types of transactions. Type of entries normally made in the general journal are depreciation entries, correcting entries, and adjusting and closing entries.

These are just a few examples of common bookkeeping records. The specific records used may vary depending on the nature and size of the business. It is important to maintain accurate

and organized records to ensure proper financial management and compliance with legal and regulatory requirements.

Financial Statements

What Are Financial Statements?

Financial statements are formal records that provide a summary of the financial activities and position of a business, organization, or individual.They are essential tools for understanding the financial health of an entity and are used by various stakeholders, including investors, creditors, management, and regulatory agencies.

Types of Financial Statements

There are four primary types of financial statements that businesses typically prepare:

Balance Sheet: This statement provides a snapshot of a company's assets, liabilities, and owner's equity at a specific point in time. It follows the accounting equation: Assets = Liabilities + Owner's Equity. The balance sheet helps stakeholders assess the liquidity and solvency of the company.

Income Statement: Also known as the profit and loss statement, this report summarizes revenues and expenses over a specific period (usually quarterly or annually). It shows how much money a company earned (revenues) versus how

much it spent (expenses), resulting in net income or loss for that period. This statement is crucial for evaluating profitability.

Cash Flow Statement: This statement tracks the flow of cash in and out of a business over a specific period. It is divided into three sections: operating activities (cash generated from core business operations), investing activities (cash used for investments in long-term assets), and financing activities (cash flows related to borrowing and equity transactions). The cash flow statement provides insights into how well a company manages its cash position.

Statement of Changes in Equity: This document outlines changes in owner's equity over time, including additional investments, profits or losses, draws and dividends paid, and any other comprehensive income items. It connects the income statement to the balance sheet by showing how profits are reinvested or distributed to owners.

Purpose of Financial Statements

The main purpose of financial statements is to provide relevant information that can help stakeholders make informed decisions regarding investment opportunities,creditworthiness, operational performance, and compliance with regulations. They serve as critical tools for analyzing trends over time and comparing performance against industry benchmarks.

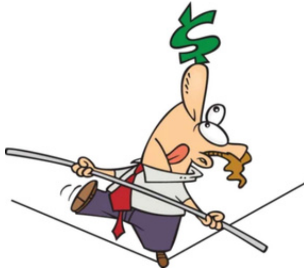
Limitations of Financial Statements

While financial statements offer valuable insights into an organization’s financial condition, they also have limitations. They may not capture all aspects of

business performance or future potential due to factors such as accounting policies, estimates made by management, or external economic conditions. Additionally, they rely on historical data which may not always predict future performance accurately.

In summary, financial statements are essential documents that summarize an entity's financial status at specific points in time or over defined periods. They play a vital role in decision-making processes for various stakeholders.

Balance Sheet



What Is a Balance Sheet?

A balance sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time. It details the company's assets, liabilities, and owner's equity, allowing stakeholders to assess the company's financial health and capital structure.

Importance of a Balance Sheet

Balance sheets are crucial for various stakeholders: Investors use them to evaluate a company's financial stability and make informed investment decisions. Lenders assess balance sheets to determine creditworthiness before granting loans. Company management analyzes balance sheets to make strategic decisions regarding operations and financing.

Key Components of a Balance Sheet

Assets: This section lists everything the company owns that has value.

Assets are typically divided into two categories:

Current Assets: These are assets expected to be converted into cash within one year.

Examples include:

- Cash and Cash Equivalents: Liquid assets that can be readily used for transactions.
- Accounts Receivable: Money owed to the business by customers for goods or services delivered.
- Inventory: Goods available for sale or raw materials used in production.
- Prepaid Expenses: Payments made in advance for services or goods to be received in the future.

Non-Current Assets: These are long-term investments that cannot be easily converted into cash within one year. Examples include property, plant, equipment (PP&E), long-term investments, and intangible assets like patents or goodwill.

Examples include:

- Property, Plant, and Equipment (PP&E): Tangible fixed assets such as buildings, machinery, and vehicles used in operations.
- Intangible Assets: Non-physical assets like patents, trademarks, copyrights, and goodwill that provide competitive advantages.
- Long-Term Investments: Investments held for more than one year, such as stocks or bonds of other companies.

Key Characteristics of Assets:

Ownership: An asset must be owned or controlled by the entity. Ownership implies that the entity has rights to use the resource and derive benefits from it.

Future Economic Benefits: An asset is expected to generate cash flow, reduce expenses, or provide other economic advantages in the future.

Liabilities: Amounts a company owes to outside parties.

Liabilities are typically divided into two categories:

Current Liabilities: Obligations due within one year..

Examples include:

- Accounts payable: Money owed to suppliers for goods and services received.
- Short-term loans: Loans that need to be repaid within a year.
- Accrued expenses: Expenses incurred but not yet paid, such as wages payable and interest payable.
- Deferred revenue: Payments received in advance for goods or services that have not yet been delivered.

Long-Term Liabilities: Obligations due beyond one year, including long-term debt and deferred tax liabilities.

Examples include:

- Long-term debt: Loans and financial obligations that are due after more than one year, such as mortgages and bonds payable.
- Deferred tax liabilities: Taxes owed in the future based on income earned in the present.
- Pension obligations: Future payments owed to employees upon retirement.

Owner's Equity: This represents the owners' claim on the company's assets after all liabilities have been deducted.

Owner's equity includes several components:

- Initial Investment: The money invested by the owner when starting or funding the business.
- Retained Earnings: Profits that have been reinvested into the business rather than distributed to owners or shareholders.
- Dividends and Withdrawals: Any money taken out of the business by the owner reduces owner's equity.
- Additional Contributions: Any further investments made by the owner increase owner's equity.

Types of Business Structures and Their Impact on Owner's Equity

The term "owner's equity" is typically used for sole proprietorships. In corporations or LLCs (Limited Liability Companies), this term may be referred to as shareholder's or stockholder's equity.

Each structure affects how equity is represented:

In a **sole proprietorship,** owner's equity reflects direct ownership and is straightforward.

In a **partnership or LLC**, each partner or member has an equity share based on their contributions and profit-sharing agreements.

In a **corporation**, shareholder equity consists of stocks held by shareholders along with retained earnings.

In summary, a balance sheet is an essential tool for understanding a company's financial position at any given moment.

Income Statement

What Is an Income Statement?

An income statement is a financial report that summarizes a company's revenues, expenses, gains, and losses over a specific period of time. It is also known as the profit and loss (P&L) statement or the statement of revenue and expense. The primary purpose of an income statement is to provide insights into a company's operational performance, efficiency in management, and profitability relative to industry peers.

Importance of an Income Statement

Income statements serve multiple purposes for various stakeholders:

- Investors use them to assess profitability and make informed investment decisions.
- Management teams analyze them to evaluate operational efficiency and identify areas for improvement.
- Creditors review them to gauge a company's ability to generate cash flow for debt repayment.

Types of Income Statements

Income statements can be presented in two main formats:

Single-Step Income Statement: This format simplifies calculations by summing total revenues and gains before subtracting total expenses and losses in one step.

Multi-Step Income Statement: This more detailed format separates operating revenues and expenses from non-operating items, allowing for a clearer view of different levels of profitability within the business.

Key Components of an Income Statement

Revenue: This represents the total amount of money generated by a company from its normal business operations, primarily through the sale of goods and services over a specified period, such as a quarter or year. It represents the gross income before any expenses are deducted and is often referred to as the "top line" on an income statement.

Revenue is categorized as:

Operating Revenue: This is derived from a company's core business activities. For example, a retail store earns operating revenue from selling products.

Non-operating Revenue: This includes income generated from secondary sources that are not part of the primary business operations, such as interest earned on investments or proceeds from asset sales.

Gross Revenue vs. Net Revenue: Gross revenue refers to the total sales without deductions, while net revenue accounts for discounts, returns, and allowances.

Importance of Revenue in Financial Analysis

Revenue is a critical metric for assessing a company's financial health and performance. It serves as an indicator for investors and analysts regarding growth potential and operational efficiency. A consistent increase in revenue often correlates with positive market sentiment and can influence stock prices significantly.

In summary, revenue is essential for sustaining business operations and funding various activities such as employee salaries, inventory purchases, and investments in growth initiatives.

Expenses: Any cost incurred by the company to generate revenue and that contributes to a company's overall cost of doing business. This includes all expenditures that are necessary for maintaining normal operations and generating income.

According to the accrual principle in accounting, expenses are recognized when they are incurred, not necessarily when they are paid. This means that even if a payment has not yet been made, if the service or product has been received, it should still be recorded as an expense.

Expenses can be categorized into several types:

Operating vs. Non-Operating Expenses

Operating Expenses: These are costs associated with the core activities of the business, such as salaries, rent, utilities, and cost of goods sold.

Non-Operating Expenses: These include costs that arise from peripheral activities, such as interest expenses or losses from investments.

Fixed vs. Variable Expenses

Fixed Expenses: These costs remain constant regardless of production levels or sales volume (e.g., rent).

Variable Expenses: These fluctuate based on production levels or sales volume (e.g., cost of goods sold).

Capital Expenditures vs. Operating Expenses

Capital Expenditures (CapEx): These are significant purchases that provide long-term benefits and are recorded as assets on the balance sheet (e.g., machinery).

Operating Expenses: In contrast, these are short-term costs that flow through the income statement and reduce net income.

Prepaid Expenses

Prepaid expenses refer to payments made in advance for services or products expected to be received in future periods (e.g., insurance premiums).

Importance of Tracking Expenses

Tracking expenses is vital for businesses because it allows them to manage their budgets effectively and ensure profitability. By monitoring both fixed and variable expenses, companies can identify areas where they may need to cut

costs or invest more resources to enhance revenue generation. Additionally, understanding which expenses are tax-deductible can help businesses reduce their taxable income and overall tax burden. Common deductible expenses include employee wages, rent, utilities, advertising costs, and depreciation.

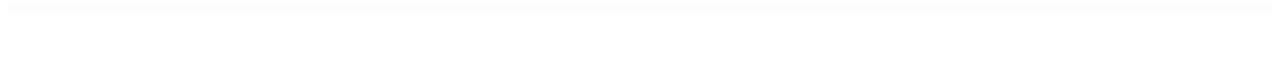
In summary, expenses play a critical role in determining a company's financial health and operational efficiency. Proper management and reporting of these costs enable businesses to make informed decisions regarding budgeting and resource allocation.

Gains: Gains refer to the net money made from transactions outside of normal business operations, such as selling long-term assets.

Losses: Losses represent costs associated with unusual or one-time events that negatively impact profitability.

In summary, an income statement is crucial for understanding a company's financial health over time, revealing insights about its operations, profitability, and overall performance.

Income Statement Video



Cash Flow Statement

What Is a Cash Flow Statement?

A cash flow statement (CFS) is a financial statement that provides aggregate data regarding all cash inflows that a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during a given period. The CFS is crucial for understanding the liquidity position of a company, as it shows how well the company generates cash to meet its obligations.

By analyzing the CFS alongside other financial statements like the balance sheet and income statement, stakeholders can gain a comprehensive view of a company's performance over time.

Importance of Cash Flow Statements

The CFS is essential for various stakeholders including investors, creditors, and management because it offers insights into the company's financial health. Unlike the income statement, which can be influenced by accounting practices like accruals, the CFS focuses solely on actual cash transactions. This makes it easier to assess whether a company can generate sufficient cash to sustain its operations and fund future growth.

Key Components of a Cash Flow Statement

The cash flow statement is typically divided into three main sections:

Cash Flows from Operating Activities (CFO): This section details the cash generated or used in the company's core business operations. It includes cash receipts from sales of goods and services, payments to suppliers, salaries paid to employees, and other operating expenses.

Cash Flows from Investing Activities (CFI): This part reflects cash transactions related to the acquisition or disposal of long-term assets, such as property, equipment, or investments in securities. Cash spent on purchasing fixed assets is considered an outflow, while cash received from selling these assets is an inflow.

Cash Flows from Financing Activities (CFF): This section provides insights into how a company finances its operations through debt and equity. It includes cash received from invested or borrowed funds, as well as cash paid out in draws or dividends.

In summary, a cash flow statement is vital for assessing a company's liquidity and operational efficiency by detailing all incoming and outgoing cash flows across operating, investing, and financing activities.

Equity (Capital) Statement

What is an Owner’s Equity Statement?

An owner’s equity statement, also known as a statement of changes in owner’s equity or statement of retained earnings, is a financial document that summarizes the changes in the owner’s equity of a business over a specific accounting period. This statement provides insights into how various factors such as profits, losses, investments, and withdrawals have affected the overall equity held by the owner.

Importance of Owner's Equity Statement

The owner’s equity statement serves several purposes:

- It allows owners and stakeholders to evaluate business performance over time.
- It aids potential investors in assessing financial health before making investment decisions.
- Lenders review this statement to determine creditworthiness and assess risk.
- Management uses it for internal planning regarding reinvestment strategies or distributions to owners.

Key Components of an Owner’s Equity Statement:

Beginning Owner’s Equity: This represents the equity amount at the start of the accounting period, reflecting the owner’s interest in the business after all liabilities have been subtracted from total assets.

Contributed Capital: This includes any additional investments made by the owner during the accounting period, which increases owner’s equity.

Net Income or Loss: The profit or loss of the business after all expenses are deducted from revenues. Net income contributes positively to owner’s equity.

A net loss contributes negatively to owner's equity.

Owner’s Withdrawals (Drawings or Dividends): Any amounts taken out of the business by the owner for personal (drawing) use or paid to stockholders as dividends during the accounting period reduce owner’s equity.

Ending Owner’s Equity: This is calculated by taking beginning owner’s equity, adding contributed capital and net income, and subtracting any withdrawals or losses incurred during the period.

The formula to calculate ending owner’s equity can be summarized as follows:

Ending Owner’s Equity = Beginning Owner’s Equity + Contributed Capital + Net Income − Owner’s Withdrawals (Draws or Dividends).

In summary, an owner’s equity statement is crucial for understanding how various transactions affect an owner’s stake in a business, providing transparency and insight into financial performance over a specified time frame.

Bookkeeping Reports

Management Reports

In addition to your Financial Statements, you need to understand and use additional reports to manage your small business. These reports are normally prepared and discussed with your bookkeeper or accountant. Nowadays, good bookkeeping software provides many of these reports.

Other Financial Reports

- Budgets are financial plans that outline an organization's expected revenues and expenditures over a specific period, typically a fiscal year. They serve as a crucial tool for both planning and controlling financial resources within an organization. By establishing a budget, management can set financial targets, allocate resources effectively, and monitor performance against these targets.

- Cash Forecasts estimate casts cash inflows and outflows over a specific period, ensuring that the organization has sufficient cash to meet its obligations.

- Break-even analysis is a financial calculation used to determine the level of sales necessary for a business to cover its fixed and variable

costs. It identifies the break-even point, which is the point at which total revenues equal total costs, resulting in neither profit nor loss. This analysis is crucial for businesses as it helps them understand how many units they need to sell or how much revenue they need to generate to avoid losing money.

- Financial Ratios are quantitative measures (fractions) derived from a company's financial statements, such as the balance sheet, income statement, and cash flow statement. These ratios are used to evaluate various aspects of a company's performance and financial health, including its profitability, liquidity, efficiency, and solvency. By comparing different line items within these financial statements, owners, analysts, and investors can gain insights into how well a company is managing its resources and obligations.

- A Business Plan is a formal document that outlines a company's goals and the strategies it will employ to achieve those goals. It serves multiple purposes, particularly for startups and established businesses alike.

Other Management Reports

- Daily Cash Report - Daily

A Daily Cash Report is a financial document that provides a detailed overview of a business's cash position on a daily basis. It tracks the inflows and outflows of cash, allowing business owners and finance teams to understand their liquidity status at any given time. This report is crucial

for effective cash management, as it helps identify trends in cash flow, ensuring that the business can meet its financial obligations.

- Accounts Receivable Aging Report - Weekly or As Needed

An Accounts Receivable Aging Report is a financial document that categorizes a company’s outstanding invoices based on the length of time they have been unpaid. This report is essential for assessing the effectiveness of a company’s credit and collection processes, as it provides insights into which customers are late in their payments and how long those payments have been overdue.

- Accounts Payable Aging Report - Weekly or As Needed

An accounts payable aging report is a crucial accounting document that provides a summary of the outstanding bills and invoices a business owes to its suppliers or vendors. This report categorizes these amounts based on their due dates, allowing businesses to manage their cash flow effectively and ensure timely payments

- Open Sales Orders - Weekly or As Needed

An Open Sales Order Report is a specialized report used in sales and inventory management systems to track and manage open sales orders within a business. This report provides detailed insights into the status of sales orders that have been created but not yet fully processed or completed.

- Open Purchase Orders - Weekly or As Needed

An Open Purchase Order Report is a document that provides a detailed summary of all outstanding or open purchase orders that a company has with its suppliers. It includes information about the purchase orders that have been issued but have not yet been fulfilled or received.

- Equipment Report - Monthly

An Equipment Report is a comprehensive document that systematically records and assesses the condition, performance, and availability of equipment within an organization. It serves as a critical tool for monitoring the health and functionality of machinery, ensuring that all assets are maintained effectively to support operational efficiency.

- Inventory Status Report - Weekly or As Needed

An Inventory Status Report is a detailed document that provides an overview of the current state of a business's inventory at a specific point in time. The purpose of an inventory status report is to facilitate effective inventory management by providing insights into stock levels and helping businesses make informed decisions regarding purchasing, sales forecasting, and overall operational efficiency. By regularly reviewing this report, businesses can ensure they maintain optimal inventory levels, reduce carrying costs, and improve customer satisfaction by minimizing out-of-stock situations.

- Sales By Products and Services Report - Monthly or As Needed

A Sales by Product Report is a comprehensive management tool that provides detailed insights into the sales performance of various products within a specific time frame. This report typically includes key financial metrics and sales data, allowing managers to analyze trends, variances, and overall product performance.

- Sales By Customers Report - Monthly or As Needed

The Sales by Customer Report is a comprehensive document that provides an overview of sales transactions categorized by individual customers over a specified time period. This report is crucial for businesses as it allows them to analyze customer purchasing behavior, assess the performance of different customer segments, and make informed decisions regarding sales strategies and customer relationship management.

- Purchases By Products and Services Report - Monthly or As Needed

The Purchases by Product and Services Report is a financial report that provides detailed insights into the purchases made for various products or services within a specified date range. This report typically includes information such as the quantity purchased, total cost incurred, and may also categorize purchases by vendor or product type. It is designed to help businesses analyze their purchasing patterns, manage inventory effectively, and assess supplier relationships.

- Purchase By Supplier Report - Monthly or As Needed

The Purchases by Supplier Report is a financial document that provides a comprehensive overview of the purchasing activities conducted with various suppliers over a specified period. This report is essential for businesses to analyze and manage their purchasing volume, allowing them to make informed decisions regarding supplier relationships and procurement strategies.

Note: The reports listed above are some of the common reports needed and used by small businesses. Good bookkeeping software provides an option for you to create your own custom reports.