Reckon®

ACCOUNTING 101

Introduction to the World of Accounting

Here's all the basics you need to know to get your business finance in order.

Published by Reckon Limited

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Accounting and small business

We are reasonably confident you didn't start your small business with an overwhelming desire to delve into the world of business accounting. We understand that tax, compliance and bookkeeping is not necessarily going to be everybody's forte, so with that in mind we have created this comprehensive, accessible and thorough guide to accounting for small business. Consider this Accounting 101!

Many people start up a small business to pursue their dreams, to do something they enjoy doing and have the freedom and satisfaction of working for themselves. In order for business owners to keep pursuing their dreams the business needs to keep afloat, which means it needs to comply with government regulations and needs to be profitable—or at least make enough to cover costs. Many small businesses do fail however, despite the dreams of their creators. This failure isn't usually because their idea was a bad one, or even due to poor sales, but can often be attributed to poor financial record keeping and poor cash flow management.

Over 60% of small businesses will fail in the first year and most will run at a loss for the first one to two years whilst establishing steady cash flow.

What is accounting?

Accounting itself is the process of collecting, recording, classifying, and summarising business transactions and communicating financial information in reports to users who are interested in the performance of the business.

Why is accounting important in small business?

All businesses need to maintain financial records to produce financial reports for interested parties. Accounting information is useful for internal users, business owners & management, so that they can control costs and set budgets and prices. It is also useful for external users, such as the lenders, creditors, customers, government authorities and even employees to review the performance and stability of the business.

Within a business, a good accounting system and practices are important because they allow:

- Tracking and better management of the business to ensure adequate cash flow, vital for the success of the business.
- Monitor the profit and loss statement to see how profitable the business is, analyse specifically which areas of the business are most profitable and identify when and where peaks and troughs occur.
- Produce reports on the businesses' financial position. This information is necessary to show banks when going for a business loan, or to show potential buyers / investors.
- Make better use of accountant's time—and money—allowing them to spend time helping with business and financial planning, rather than sifting through a shoebox full of receipts.
- Keep track of the businesses' tax obligations. By law, the Australian Tax Office (ATO) requires owners to keep records of all business transactions for five years from the date the tax return is lodged and to fulfil other tax obligations such as collecting and remitting GST. This is

probably one of the most important aspects of accounting; after all, it's no good if the business makes a record profit today if the ATO only goes and shuts it down for tax evasion tomorrow!

Accounting and reporting periods

Businesses divide their accounting year into twelve monthly accounting periods. In Australia, the financial year is from **1 July to 30 June**. It is a good idea if your business' accounting period follows the same dates as the financial year If possible. However as long as there are **12 periods** in a financial year it is viable. For example, some companies in Australia, China and America run their financial year from **1 January to 31 December**.

A **reporting period** is the period of time covered by the financial statements or reports of a business. The reporting period can be monthly, quarterly or annually. Regulatory authorities, such as the Australian Taxation Office requires reports based on a 12-month trading period. The owner would require financial reports regularly so that cash flows and profits or losses can be ascertained and reviewed on a regular basis.

Within the accounting cycle there are several accounting and reporting procedures that need to be carried out. This will include producing monthly/quarterly Business Activity Statements, yearly tax returns, etc. You should consult with your accountant to make sure you are aware of, and fulfilling, all your reporting requirements during your yearly accounting cycle.

What is goods and services tax (GST)?

With the introduction of the Goods and Services Tax (GST), many more businesses now need to maintain accurate records of their sales and purchases for tax purposes. The GST is a broad-based tax on the supply of most goods and services in Australia.

This means that virtually everything you buy and sell will include GST at a rate of 10%. In its simplest form, GST is added to the selling price of goods and services as they pass through the business supply chain, until they are finally consumed.

To avoid the tax cascading and multiplying through the sales process, each registered business is given a rebate of the GST they pay to their suppliers as they sell goods and services to their own customers.

If your business is registered for GST, you can claim back the GST that you pay to your suppliers. This is called **Input Tax Credits**. As most businesses will do this, consumers will bear the cost of the GST. However, the suppliers of the goods and services bear the responsibility to pay GST to the Australian Tax Office (ATO).

Registering for GST

You must register for GST if you have a business with an annual turnover of more than $75,000. You must be registered for GST in order to claim back input tax credits (the GST that your business paid in acquiring supplies).

GST terms

Goods and Services Tax

GST stands for Goods and Services Tax. It is a consumption or value added tax which will be applied at a flat rate of 10% on the sale of most goods and services.

GST-exclusive

The GST exclusive price is the amount on an invoice or purchase order before the GST is applied.

To calculate the applicable GST:

Multiply the GST exclusive price by 0.10. Therefore, if the GST exclusive price is $1,000, the GST applicable is $100 (10% of $1,000).

Equation: GST Exclusive x 0.10
Example: $1,000.00 x 0.10 =$100

GST-inclusive

The GST inclusive price is the amount on an invoice or purchase order including GST.

To calculate the GST included in the price:

Divide the price by 11. Therefore, if the GST inclusive price is $1,100, the amount of GST is $100 ($1,100 divided by 11).

Equation: GST Inclusive / 11
Example: $1,100 / 11 =$100

GST-free supplies

Not all goods and services are subject to GST. If supplies are GST-free, you do not charge GST for them, but you are able to claim input tax credits for the costs involved in getting those supplies to market. GST-free supplies includes:

- most unprocessed food
- most health services
- most educational services
- water and sewerage
- eligible childcare
- religious services
- sale of a business as a going concern
- international postage, etc

Input tax credits

An Input Tax Credit is a rebate or credit of the GST that businesses have paid to purchase taxable supplies, where the taxable supply is used in the business. In order to claim a rebate on the GST your business has paid, you need to retain the tax invoice of the purchase. The tax invoice is a business source document, which will be looked at in greater detail later.

Input taxed supplies

This is a supply that the seller cannot charge GST on and also cannot claim any GST incurred in relation to that supply. There are input taxed sales and input taxed purchases. Input taxed sales are things like:

- financial supplies eg lending money or providing credit for a fee
- residential rent (if you own a residential property which you rent out and pay for things like plumbing, etc. You pay GST on these purchases/services but cannot claim the GST back.)
- Sales of residential premises (but not new homes)
- Food supplied by school tuckshops and canteens
- Fundraising events by charities
- Coin-operated devices
- some supplies of precious metals.

Input taxed purchases are expenses related to any input taxed sales. Unlike GST-free supplies, you are not entitled to claim input tax credits for the costs involved in getting those supplies to market.

Business transactions not subject to GST

Any transaction that does not involve the supply of goods and services is not subject to GST. Some transactions not subject to GST include:

- Wages, salaries, commissions, bonuses paid to employees
- Superannuation contributions
- Customer & Supplier payments on invoice
- Loan repayments
- Drawings of cash by owners for personal use
- Payment of taxes such as GST, fringe benefits tax

Tax codes

Working in Reckon products you can use a simplified tax code list or a complex list **[link to the ATO site for full directory]** You simply got to the tax code list option and you can edit / delete the list. This must be set up at the beginning of using the file and financial period or it could cause calculation problems on the BAS. The BAS form pulls the figures into the labels by tax code so it's extremely important to remember to use tax codes to calculate the correct tax amounts and rates. Adjusting the tax calculated should only ever be done for rounding purposes.

Business activity statements (BAS)

The Business Activity Statement (BAS) is a tax reporting requirement for businesses issued by the ATO on either a monthly or quarterly basis. It's used for reporting and paying Goods and Services Tax (GST), Pay As You Go (PAYG) Instalments, PAYG Withholding Tax and other tax obligations. When you register for GST, the ATO will automatically send you a BAS when it is time to lodge.

All businesses registered for GST are required to lodge a BAS by the due date.

Due dates for lodging and paying your BAS

The due date for lodging and paying is displayed on your Business Activity Statement (BAS). If the due date is on a weekend or public holiday, you can lodge your form and pay on the next business day.

Monthly reporting

The due date for your monthly BAS is usually on the 21st day of the following month. If the due date is on a weekend or public holiday, you can lodge your form and make any payment due on the next business day.

Quarterly reporting

Quarter	Due date
1 - July, August and September	28 October
2 - October, November and December	28 February
3 - January, February and March	28 April
4 - April, May and June	28 July

If a business chooses to lodge their BAS electronically, they may be eligible for a two week extension. If they use a tax agent, they may be eligible for 4 week extension.

How to complete your BAS

Client's BAS reports can be completed via their Reckon software or by producing the required reports for the figures to be entered onto a manual or computerised BAS form. Reckon currently offer a classroom based training course BAS and Company Reporting using Reckon Accounts.

How to lodge your BAS

Online

You can lodge online: through the ATO's Business Portal External Link directly from your business software if it is enabled for Standard Business Reporting (SBR) using the ATO online services for individuals External Link. You will need a myGov account linked to the ATO.

By phone (for 'nil' business activity statements only)

Phone 13 72 26 to lodge monthly or quarterly business activity statements (BAS) with nothing to report at any label. You can call this automated service 24 hours a day, seven days a week.

By mail

Post your original, completed business activity statement with your cheque using the pre-addressed envelope provided in your BAS package.

Tax Agent

If you use a tax agent, they will prepare and lodge the BAS for the business behalf electronically.

How to pay your BAS

You can pay your Business Activity Statement (BAS) by BPAY, direct credit, direct debit, mail or in person at Australia Post. Payment must be made by the due date.

PAYG withholding & PAYG instalments

PAYG Withholding

PAYG Withholding is generally tax withheld from employees' salaries or wages. PAYG Withholding is paid either quarterly or monthly depending on the amount withheld and may be reported on the same form (BAS) as your GST. The figures commonly reported are W1 Gross Wages & W2 Amount Withheld.

When to report & pay the PAYG Withholding

- Withhold $25,000 or less per year, report & pay quarterly on the BAS with your GST.
- Withhold $25,001 to $1 million per year, report & pay monthly with an IAS.

If your GST is quarterly but PAYG Withholding is monthly, then you will receive Instalment Activity Statements to report the monthly figures for W1 & W2. For example, you will receive and IAS to report W1 & W2 for July & August but the September W1 & W2 will be reported on the BAS with the GST for the quarter. These IAS's are due for payment by the 21st day of the following month.

PAYG Instalments

PAYG instalments is a system for making payments each quarter towards your expected income tax obligation on your business and investment income for the current financial year. Only Sole traders and Company pay PAYG Instalments as they pay income tax. Partnerships and trusts don't have PAYG Instalments as the tax is paid by the taxpayer declaring their share of income.

Companies and sole traders will pay PAYG Instalments on the same form as their GST (BAS) but individuals involved with partnerships and trusts will receive their own Instalment Activity Statement (IAS). These IAS's are due for payment by the 28th day of the following month.

Accrual and cash-based accounting

There are two methods of accounting for GST: a **cash basis** and a **non-cash basis (accruals)**. The method you use will affect when you must report GST. Businesses with an aggregated turnover (your businesses' turnover and the turnover of closely associated entities) of less than $10 million, or who use cash accounting for income tax, can use either method. Most larger businesses must use the non-cash method.

Accounting for GST on a cash basis

Businesses with an aggregated turnover (of less than $10 million), can choose to account for their GST using the cash accounting method. Accounting on a cash basis means you account for GST on the Business Activity Statement (BAS) for sales and purchases that money is received or paid for in this period.

The advantage of the cash accounting method is that the money flowing through your business is better aligned with your activity statement liabilities, so it's easier to manage your cash flow. You can use the cash accounting method if any of the following applies:

- you are a small business entity – that is, an individual, partnership, trust or company with an aggregated turnover of less than $10 million
- you are not carrying on a business but your enterprise's 'GST turnover' is $2 million or less
- you account for income tax on a cash basis
- you run a kind of enterprise we have agreed can account for GST on a cash basis regardless of your GST turnover, that is
- a government school
- an endorsed charitable institution or trustee of an endorsed charitable fund
- a gift-deductible entity (unless it operates a fund, authority or institution that can receive tax-deductible gifts or contributions).

If you do not fit into any of the above categories, you can ask to be allowed to account for GST on a cash basis.

Sales

You account for the GST collected on the sales actually receive payment for during the reporting period. If you receive only part payment for a sale in a reporting period, you only account for the GST in the part of the payment you received.

Purchases

You must have a tax invoice before you can claim a GST credit, except for purchases costing $82.50 or less. It is to your advantage to claim your GST credits in the reporting period in which you make the purchases they relate to, but you are not obliged to.

You have four years to claim credits. If you pay only part of the cost of a business purchase in a reporting period, you claim only the GST credit for the part of the cost you paid.

Accounting for GST on a non-cash basis (accrual)

Most larger businesses must use the non-cash accounting method. Small businesses can choose to use either the cash method or the non-cash method. Using the non-cash method means you account for GST on the Business Activity Statement (BAS) that covers the period in which you issued the tax invoice or received any payment (for a sale) or received the invoice from your supplier or made any payment (for a purchase).

Sales

You account for the GST collected on the sales you make in the reporting period in which you issue a tax invoice or receive full or part payment, whichever happens first. This means that if you receive a payment before issuing the tax invoice, you must include the GST amount in the reporting period in which the payment happened, even if it is not the period you issue the invoice.

Purchases

You must have a tax invoice for a purchase before you can claim a GST credit. It is to your advantage to claim your GST credits in the reporting period in which you either receive the tax invoice from your supplier or make some payment (whichever comes first) – but you are not obliged to. You have four years to claim credits.

Account classifications

Businesses need to keep records of all financial transactions in order to keep track of the performance and financial state of their business. To be able to effectively analyse the financial position of a business, businesses need to set up and use a bookkeeping system to group, record and summarise these transactions.

In bookkeeping systems, items and financial transactions are grouped into classifications such as income and expenses or assets and liabilities. Financial data resulting from recorded transactions are used to produce two important reports: the **Balance Sheet** and the **Profit & Loss Statement**.

Balance Sheet Accounts

- Assets
- Liabilities
- Owner's Equity

Profit and Loss Statement Accounts

- Income / Revenue
- Expenses
- Cost of Sales / Goods

Chart of accounts

Within each account classification, such as income, there are several accounts against which transactions are recorded. These accounts allow businesses to break down business transactions into greater detail. For example, a retail business may have several different accounts against which the sale of different groups of items might be recorded, such as Sales - Dine In, or Sales - Take Out.

Accounts form the building blocks of any bookkeeping system. Accounts are records of all bookkeeping entries relating to a particular item. For example, the wages account includes all payments of wages. The **General Ledger** contains all the accounts and the bookkeeping entries.
To help group accounts, many Charts of Accounts use a numerical prefix coding system. This system assigns a prefix number to each category (assets, liabilities, owners' equity, revenue and expenses) in the general ledger.

The Accounting equation

The accounting equation shows the relationship between assets, liabilities and owners' equity, which is the basis of the statement of financial position (balance sheet). In simple terms, the accounting equation can be expressed as:

What the business owns = what the business owes + what the business is worth.

The accounting equation is summarised as:

Assets = Liabilities + Owners' Equity (A = L + OE)

The accounting equation can also be written in different mathematical forms:

Owners' Equity = Assets – Liabilities (OE = A – L)

Liabilities = Assets – Owners' Equity (L = A – OE)

For example, if John Smith commences an electrical business with $50 000 cash, the accounting equation would be as shown below**:**

$50,000 (Assets) = NIL (Liabilities) + $50,000 (Owner's Equity)

The accounting equation is one of the most important basic principles in accounting and is fundamental to all the rules of accounting that you will study in this course. Remember that the accounting equation **must always balance**.

Rules of double-entry accounting

The double entry system is based on the principles that:

- every transaction affects at least two accounts
- debits must always equal credits
- debits are always shown on the left and credits on the right.

The following table summarises how, for each account group, a debit or credit affects the accounts.

Debit (DR)	GROUP	Credit (CR)
Increases	ASSETS	Decreases
Increases	EXPENSES	Decreases
Decreases	OWNERS' EQUITY	Increases
Decreases	LIABILITIES	Increases
Decreases	REVENUE	Increases

The concept of debits and credits and how they relate to accounts is often a difficult one to grasp. Another way of looking at this is by looking at what the normal state of each account group—that is, whether an account group is normally in debit or credit balance. If we accept the rule that an increase follows the normal state of the account group, while a decrease is the opposite, then all we need to remember is whether an account group is normally in debit or credit balance.

Account Type	Normal balance state	Increase	Decrease
Asset	Debit	↑ increase = debit	↓ decrease = credit
Expense	Debit	↑ increase = debit	↓ decrease = credit
Liabilities	Credit	↑ increase = credit	↓ decrease = debit
Owners' Equity	Credit	↑ increase = credit	↓ decrease = debit
Revenue	Credit	↑ increase = credit	↓ decrease = debit

Debits and Credits: Example

Consider the payment of a $100 electricity bill. Two accounts are affected by this payment. The bank account (asset) has decreased by $100, and the electricity account (expense) (this expense account has increased by $100. As you can see, this double-entry system reflects where the money came from and where it went.

In the example of the $100 electricity bill payment, the bank account is an asset account which normally has a debit balance. Therefore, the decrease (which is opposite to the normal state) in the bank account is considered a credit, while the increase (which is its normal state) in the electricity account is considered a debit.

Account Type	Account	Amount	Debit/Credit
Asset	Cash at Bank	$100	Credit
Expense	Electricity	$100	Debit

As you can see, the payment of the electricity bill has affected two accounts, is a debit entry of $100 (increasing this expense account) and a credit entry of $100 (decreasing this asset account).

Business transactions in the accounting system

When a business commences trading, business transactions—buying and selling activities—take place. The business records these transactions in their accounting system and the summary results are shown in the financial statements. In this unit, we will illustrate how each of the transactions affect a businesses' **Statement of Financial Position** and **Statement of Financial Performance**.

Transactions affecting the Statement of Financial Position and the accounting equation

In the 'Accounting equation' we learned that the accounting equation is expressed as Assets = Liabilities + Owner's Equity. This means that the sum of the business assets will always be equal to the total sources from which those assets came – liabilities and owners' equity. Transactions result in changes in assets, liabilities and owners' equity. Even though the elements of the accounting equation change as a result of the transactions, the basic equality of the accounting equation remains unchanged.

Transactions affecting the Statement of Financial Performance

Once a business commences it will start earning revenue, primarily from the sale of trading stock or services, and it will incur expenses. When revenue is matched with expenses, a profit or loss occurs. These items can now be added to the accounting equation as Assets = Liabilities + Owner's Equity + Revenue – Expenses.

Assets, liabilities and owners' equity (balance sheet)

Accounts that reflect what a business owns and how much they owe to external parties are known as **assets** and **liabilities** respectively.

Assets

Assets are items of value owned by the business. Examples of such assets include;

- Cash at the bank
- Motor vehicles
- Stock on hand
- Premises and land
- Accounts receivable (money owed to you by your debtors)

Liabilities

Liabilities are obligations or debts a business is required to pay to external parties. Examples of liabilities include;

- Bank overdrafts
- Credit cards
- Loans and Hire purchases
- GST that you have collected
- PAYG Withholding payable
- Superannuation payable
- Accounts payable (money you owe your creditors)

Owners' equity

Owners' equity accounts show the net worth of the owner's share in the business. Examples of owners' equity accounts include:

- Capital Introduced (Money put into the business from personal sources)
- Drawings (Money withdrawn or used for personal use)
- Share of profit
- Dividends Paid to share holders

Statement of financial position (balance sheet)

The Statement of Financial Position is a report that combines the asset and liability accounts to show the business' net worth, called **Owners' Equity**.

The balances of the assets, liabilities and owner's equity accounts are listed in this report. The following Statement of Financial Position illustrates the value of the assets, liabilities and owners' equity of a business. Notice that net assets equals owners' equity.

Balance sheet

Meenix Logistics Pty Ltd

For the year ending 30 June 2017, accrual basis

ACCOUNT NAME		BALANCE
ASSETS		
CURRENT ASSETS		
Bank - Warehousing		$22,000.00
Bank - Savings		$6,500.00
Bank - Everyday		$53,228.80
Accounts Receivable		$2,423.00
	TOTAL CURRENT ASSETS	**$84,151.80**
	TOTAL ASSETS	**$84,151.80**
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		$2,960.23
Super Payable		$5,066.66
Payroll Payable		$37,845.35
GST Payable		-
GST Collected		$11,986.67
GST Paid		-$4,137.00
Total GST Payable		$7,849.67
Payroll Liabilities		-
PAYG Withholding Payable		$11,511.00
Total Payroll Liabilities		$11,511.00
	TOTAL CURRENT LIABILITIES	**$65,232.91**
	TOTAL LIABILITIES	**$65,232.91**
	NET ASSETS	**$18,918.89**
EQUITY		
Retained Earnings Surplus/(Accumulated Losses)		-$54,509.83
Current year earnings		$73,428.72
	TOTAL EQUITY	**$18,918.89**

Revenue / income and expenses (profit and loss)

A business exists to make money, however to generate this money, there will be some costs. In the accounting system, accounts that reflect revenue are called **income** and accounts that reflect costs are called **expenses**. Most people operate businesses for the purpose of making profits. For trading businesses, this is achieved by buying and selling of stock. Calculating net profit or loss for a specific period shows how successful the business has been in trading. The formula for this calculation is:

Net profit/loss = income less expenses

Income (Revenue)

Income (revenue) is defined as amounts earned by the business from the sale of goods to customers, or the provision of services to customers for cash or credit. For example, when Frank's business sells reams of photocopying paper, it will earn revenue.

Expenses (Indirect Costs)

Expenses are defined as the costs incurred whilst generating revenue. For example Frank pays the telephone bills for the business; this is classed as an expense necessary to operate the business. Some of these costs could include;

- Electricity bill
- Telephone bill
- Wages and salaries
- Rent on premises paid
- Staff amenities
- Stationery

Cost of Sales (Direct Costs)

Costs directly associated with producing a product that you sell. Some of these expenses could include;

- Direct labour
- Raw materials
- Freight
- Stock items

Statement of financial performance (profit and loss statement)

The Statement of Financial Performance is a report that compares the revenue earned with the expenses incurred in generating sales over a period of time. The balances of the income and expenses accounts are shown on the **Profit and Loss statement**.

In the Statement of Financial Performance below, notice that the Total Revenue less the Total Expenses has resulted in a Net Profit (or Position). This is because the amount of revenue generated by the business has exceeded the amount of expenses incurred in the current financial period. If the opposite scenario occurs where the business incurs greater expenses than revenue, the business would be running at a loss.

Profit and loss

Meenix Logistics Pty Ltd

For the year ending 30 June 2017, accrual basis

ACCOUNT		AMOUNT
INCOME		
Warehousing Services		$41,502.73
Logistics Services		$21,807.27
Transport Services		$57,092.28
Interest Received		$23.87
	TOTAL INCOME	**$120,426.15**
	GROSS PROFIT	**$120,426.15**
EXPENSES		
Shipping Charges		$3,236.36
Bank Charges		$15.00
Insurance - General		$2,695.67
Insurance - Public Liability		$895.45
Motor Vehicle Expenses		-
MV Fuel and Oil		$134.00
Total Motor Vehicle Expenses		$134.00
Payroll Expenses		-
Superannuation		$475.00
Salaries & Wages		$5,000.00
Total Payroll Expenses		$5,475.00
Rent		$30,000.00
Telephone & Fax Charges & Internet		$236.36
Travel Expenses		-
Meals		$27.27
Total Travel Expenses		$27.27
Truck Expenses		-
Truck - Fuel & Oil		$1,046.68
Truck - Registration		$1,557.27
Truck - Insurance		$1,618.39
Truck - Repairs & Maintenance		$59.98
Total Truck Expenses		$4,282.32
	TOTAL EXPENSES	**$46,997.43**
	NET POSITION	**$73,428.72**

If a business makes a profit the owners' equity (net value of the business) increases. If a business makes a loss the owners' equity (the net value of the business) decreases.

General ledger

Each business transaction results in an increase or a decrease in one or more of the account groups — **assets**, **liabilities**, **owners' equity**, **revenues** or **expenses**. The effects of transactions can be viewed by preparing the **Profit & Loss Statement** as well as the **Balance Sheet**, and by progressively changing these reports as transactions occur. However, the volume of transactions generated in a business would make this a very tedious and impractical method of recording transactions. To overcome this problem, businesses use the ledger which is a more convenient method for recording business transactions.

Transactions that are common or the same are recorded in their own account in the ledger. For example, all sales transactions would be recorded in the sales account. All the accounts maintained by a business to enable preparation of the financial statements are collectively called the general ledger.

Account enquiry

Meenix Logistics Pty Ltd

Transport Services for 1 July 2016 to 30 June 2017, accrual basis

DATE	TYPE	NUMBER	CONTACT	TAX CODE		AMOUNT
TRANSPORT SERVICES (Code: 4-4010, Type: Income)						
					Opening balance	$0.00
01 Jul 2016	Invoice	INV0002	Hume Logistics	GST		$7,954.55
14 Jul 2016	Invoice	INV0001	Delta Transport	GST		$5,909.09
20 Jul 2016	Invoice	INV0003	RBT Holdings	GST		$5,990.00
01 Aug 2016	Invoice	INV0004	SCE Logistics	GST		$1,329.55
01 Aug 2016	Invoice	INV0007	RBT Holdings	GST		$5,909.09
30 Aug 2016	Invoice	INV0005	Hume Logistics	GST		$10,000.00
30 Sep 2016	Journal	00020	-	GST		$20,000.00
					CLOSING BALANCE	**$57,092.28**

Account Enquiry

To see the transactions that are included in a particular account, you can run a general ledger or account enquiry report.

Calculating the balance of an account

As each transaction is entered into the general ledger we are also able to maintain a **running balance**. How you calculate the balance of an account depends on what type of account it is and whether it is normally in a debit or credit balance.

Trial balance

The double-entry accounting system requires, for every transaction, equal dollar amounts of debits and credits to be recorded in the accounts. The equality of debits and credits posted to the ledger accounts is verified by preparing a **trial balance** – a list of the accounts in the order in which they appear in the general ledger with their current balances.

Trial balance

Meenix Logistics Pty Ltd

For the year ending 30 June 2017, accrual basis

ACCOUNT CODE	ACCOUNT NAME	ACCOUNT TYPE	DEBIT	CREDIT
-	Logistics Services	Income	-	$21,807.27
4-4010	Transport Services	Income	-	$57,092.28
-	Warehousing Services	Income	-	$41,502.73
4-5010	Interest Received	Income	-	$23.87
6-0070	Bank Charges	Expense	$15.00	-
6-0400	Insurance - General	Expense	$2,695.67	-
6-0410	Insurance - Public Liability	Expense	$895.45	-
6-0500	Motor Vehicle Expenses	Expense	-	-
6-0501	MV Fuel and Oil	Expense	$134.00	-
6-0600	Payroll Expenses	Expense	-	-
6-0607	Superannuation	Expense	$475.00	-
6-0611	Salaries & Wages	Expense	$5,000.00	-
6-0570	Rent	Expense	$30,000.00	-
-	Shipping Charges	Expense	$3,236.36	-
6-0680	Telephone & Fax Charges & Internet	Expense	$236.36	-
-	Travel Expenses	Expense	-	-
-	Meals	Expense	$27.27	-
6-0700	Truck Expenses	Expense	-	-
6-0701	Truck - Fuel & Oil	Expense	$1,046.68	-
6-0703	Truck - Registration	Expense	$1,557.27	-
6-0702	Truck - Insurance	Expense	$1,618.39	-
6-0704	Truck - Repairs & Maintenance	Expense	$59.98	-
-	Bank - Warehousing	Current asset	$22,000.00	-
-	Bank - Savings	Current asset	$6,500.00	-
-	Bank - Everyday	Current asset	$53,228.80	-
1-1210	Accounts Receivable	Current asset	$2,423.00	-
2-1100	Accounts Payable	Current liability	-	$2,960.23
-	Super Payable	Current liability	-	$5,066.66
-	Payroll Payable	Current liability	-	$37,845.35
2-1150	GST Payable	Current liability	-	-
2-1155	GST Collected	Current liability	-	$11,986.67
2-1160	GST Paid	Current liability	$4,137.00	-
2-1200	Payroll Liabilities	Current liability	-	-
2-1220	PAYG Withholding Payable	Current liability	-	$11,511.00
3-1000	Retained Earnings Surplus/(Accumulated Losses)	Equity	$54,509.83	-
		TOTAL	**$189,796.06**	**$189,796.06**

The total debits must equal the total credits in a trial balance. When the trial balance is not in balance, use the following checklist to locate the errors:

- Check the accuracy of the trial balance totals by adding the columns again.
- Compare the balances listed in the trial balance with the ledger accounts to verify that all account balances were included and recorded in their correct debit or credit column.
- Verify the additions and subtractions in the accounts.
- Check for amounts that may be transcribed incorrectly.

Business and source documents

Business documents are prepared whenever financial transactions occur. These documents record all relevant details about transactions and usually become the source of an entry in the accounting records.

Every time a transaction takes place, a business document must be completed to:

- provide written evidence that a transaction occurred
- keep a record of the transaction details
- provide transaction details to be recorded in the accounting records
- provide an efficient means of communicating transaction details to other departments in the business, and to external parties.

Source documents

Source documents are completed when a transaction occurs with an outside party. These provide the source of information for updating the accounting records.

Commonly used source documents in business include;

- Sales Invoices
- Receipts/cash register tapes (CRTs)
- Cheque butts
- Purchase Invoices
- Adjustment Notes
- Internal memorandum (memo)

If using a manual accounting system you will need to retain copies of all source documents. If you are using a computerised accounting system such as Reckon Accounts or Reckon One, you won't need to retain hard copies of the source documents you send that have originated from your company file, because you are retaining electronic copies.

However, it is recommended that you always print the bank reconciliation report at the time the **reconciliation** is performed, as a hard copy may help resolve any out of balances that occur in subsequent periods. You do need to keep any hard copies of source documents that you receive, such as invoices and receipts that we will explain in the following paragraphs.

Source document: Sales invoice (tax invoice)

When a customer (debtor) purchases goods/ services on account, the supplier (creditor) needs to issue a tax invoice. The invoice is the source document that results from a credit sale. The invoice shows the debtor what has been purchased, how much is owed and when it has to be paid.

A tax invoice is sent to a customer requesting payment for goods or services supplied on credit. GST registered businesses must have a tax invoice to claim the GST paid for goods and services (called **Input Tax Credit**) for acquisitions or purchases with a GST inclusive value of more than $82.50.

<u>If registered suppliers are asked to provide a tax invoice, they have to do so within 28 days of the request from the purchaser.</u>

A tax invoice is not required if the GST inclusive value of the supply is $82.50 or less. However, registered businesses should have some documentary evidence to support all input tax credit claims, such as purchase orders, cheque butts and bank statements.

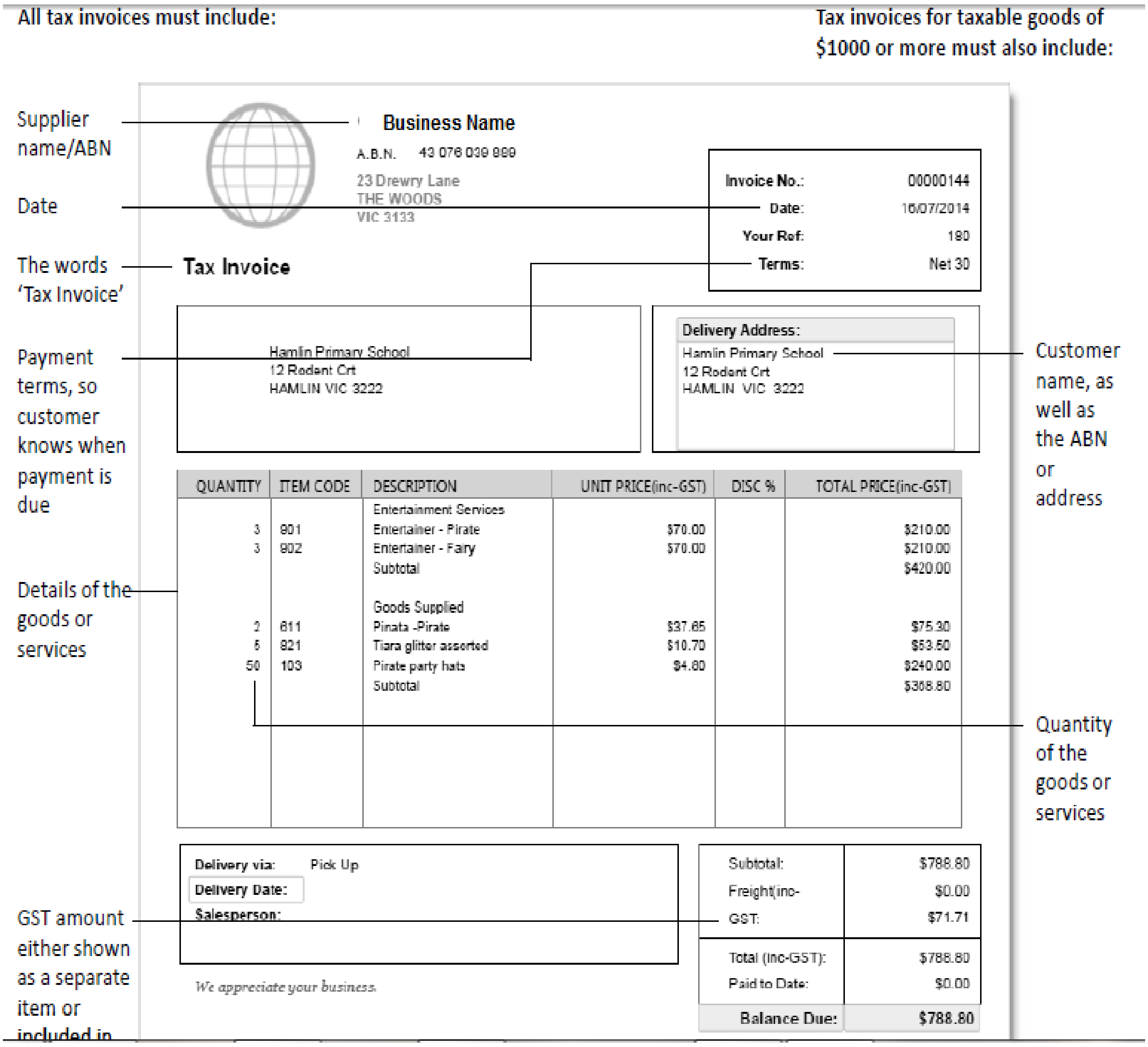
Preparation of a tax invoice

A tax invoice is prepared after the delivery of goods to, or performance of service for, the customer. Customer purchase orders and delivery dockets can be used to prepare the tax invoice. A tax invoice must include several elements.

What you need to include depends on the value of the invoiced goods or services. If the invoice is for taxable goods of $1,000 or more, you need to include more information on the invoice. The following is an example of a tax invoice for more than $1,000.

Example of a Tax Invoice

To the left of the invoice is a description of the type of information required on all tax invoices, and to the right, the information required on an invoice of $1,000 or more.



Business Name
A.B.N. 43 076 039 889
23 Drewry Lane
THE WOODS
VIC 3133

Invoice No.:	00000144
Date:	16/07/2014
Your Ref:	180
Terms:	Net 30

Tax Invoice

Hamlin Primary School
12 Rodent Crt
HAMLIN VIC 3222

Delivery Address:
Hamlin Primary School
12 Rodent Crt
HAMLIN VIC 3222

QUANTITY	ITEM CODE	DESCRIPTION	UNIT PRICE(inc-GST)	DISC %	TOTAL PRICE(inc-GST)
		Entertainment Services			
3	801	Entertainer - Pirate	$70.00		$210.00
3	802	Entertainer - Fairy	$70.00		$210.00
		Subtotal			$420.00
		Goods Supplied			
2	611	Pinata -Pirate	$37.65		$75.30
5	821	Tiara glitter assorted	$10.70		$53.50
50	103	Pirate party hats	$4.80		$240.00
		Subtotal			$368.80

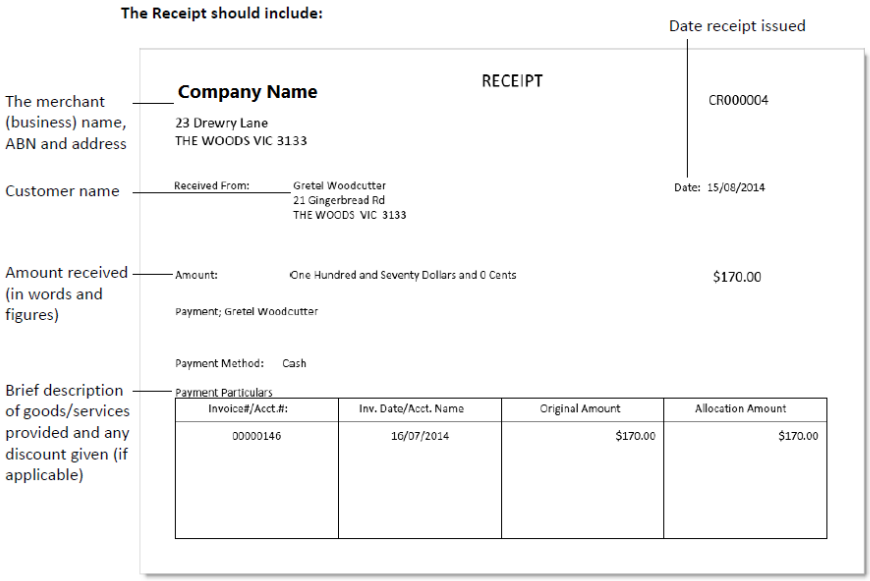
Delivery via: Pick Up
Delivery Date:
Salesperson:

We appreciate your business.

Subtotal:	$788.80
Freight(inc-	$0.00
GST:	$71.71
Total (inc-GST):	$788.80
Paid to Date:	$0.00
Balance Due:	$788.80

Source document: Receipts

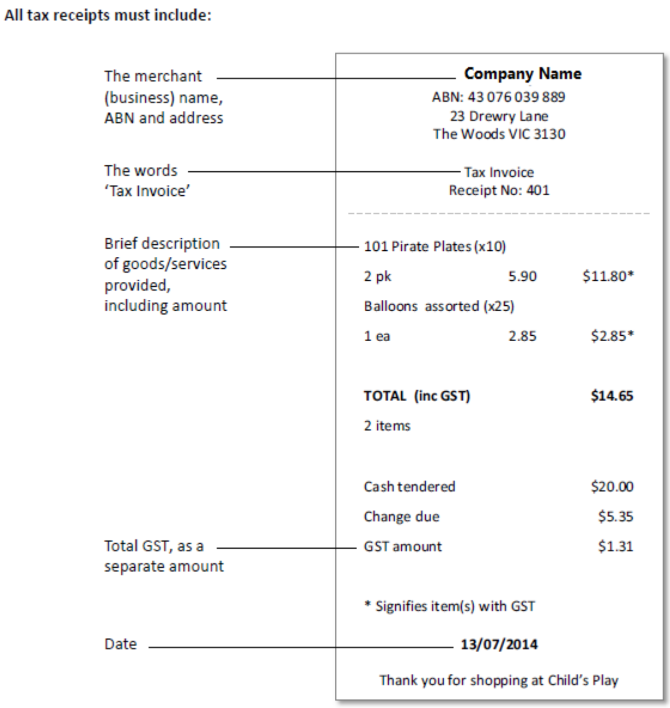
A receipt is used to acknowledge the cash received from a customer for payment of goods or services. Many businesses do not issue a receipt unless specifically requested by the customer. The following is an example of a receipt



Tax receipts

Unless the customer originally purchased the goods on account and was issued a tax invoice, they must be given a tax receipt.

An example of this would be in a retail store that deals in cash transactions (as opposed to account transactions). In this example the customer would be given a receipt, usually generated by the cash register. As in this type of transaction the customer would not be issued a tax invoice, the receipt needs to act as the tax invoice and contain the same type of information.



Record keeping

The most important reason for keeping good records is that it's a legal requirement for you to do so. By law, the ATO requires you to keep business records. Under **tax law**, your records must:

- explain all transactions
- be in writing
- be in English
- be kept for five years (although some records need to be kept longer).

There are penalties for not maintaining the required records and for not keeping them for five years.

Types of records you need to keep

As we have already seen, all business transactions result in, or are preceded by, a source document. We have looked at a few examples of common source documents, however each business is different and this may not cover all the source documents your business needs to keep.

Recording your transactions in a computer system does not mean you can throw away your source documents! You need to keep these documents for the period set out by the ATO.

As a record of your business transactions, you should also keep your bookkeeping journals and ledgers, or your computerised accounting data file for **five years** (or seven if your business is a company).

Keeping electronic records secure

If you keep electronic records such as computerised accounting data files, or scanned source documents, you must be able to demonstrate that the records kept on your computer system are secure and accurate. This includes having:

- control over access to your computer, for example, through the use of passwords
- control over incoming and outgoing information
- control over processing of information (in Reckon through the use of passwords and the audit trail feature and roles)
- back-up copies of computer files and programs and the ability to recover records if your computer system fails.

It is important when you back up your electronic records that they are backed up on a secure medium and the backup is kept in a secure location, preferably in at least two locations with one being off site.

Filing your paper records

As keeping source documents is not only useful to the operations of your business, but is a **legal requirement**, your business should have an effective system for filing these documents. What system you choose to use is up to you, the only important requirement is that you must be able to quickly find what you are looking for. After **one financial year**, you can archive your records, however you will still need to be able to access these records quickly if required.

End of period checklist

Before preparing and lodging your BAS, you should perform a series of checks and tasks that ensure your data is accurate and up to date.

The below checklist contains tasks that you should be completing for each reporting period.

Step	What to Do	Frequency
Step 1	Reconcile your accounts receivable	Daily or weekly
Step 2	Reconcile your accounts payable	Daily or weekly
Step 3	Reconcile your bank account / credit card accounts	Weekly
Step 4	Reconcile your inventory	Weekly
Step 5	Reconcile payroll (Super / PAYG)	Monthly
Step 6	Reconcile GST	Monthly
Step 7	Review Standard reports to look for figures that seem out of the ordinary or unexpected	Monthly
Step 9	Complete your BAS	Monthly or Quarterly (frequency of your BAS reporting)
Step 10	Pay the ATO	Monthly or Quarterly (frequency of your BAS reporting)
Step 11	Pay superannuation	Monthly or Quarterly (Statutory is quarterly but monthly is good for Cashflow)
Step 12	Lock the period that has been finalised	Monthly or Quarterly
Step 13	Provide your financial information to your accountant	End of Year
Step 14	Enter any adjustments / journals	End of Year
Step 15	Lock the period that has been finalised	After end of year processes

It is essential that prior to submitting your BAS, or finalising your end of period reporting, that you review your company file for accuracy.

Acronyms / abbreviations

ABN	Australian Business Number
ABR	Australian Business Register
ACCC	Australian Competition and Consumer Commission
ACN	Australian Company Number
APRA	Australian Prudential Regulatory Authority
ASIC	Australian Securities Investment Commission
ATO	Australian Tax Office
BAS	Business Activity Statement
CGT	Capital Gains Tax
FBT	Fringe Benefits Tax
GIC	General Interest Charge
GJ	General Journal
GL	General Ledger
GST	Goods and Services Tax
HECS	Higher Education Contribution Scheme
HELP	Higher Education Loan Program
IAS	Instalment Activity Statement
P&L	Profit & Loss Statement
PAYG	Pay As You Go
PAYGI	Pay As You Go Instalment
PAYGW	Pay As You Go Withholding
RBA	Reserve Bank of Australia
SBR	Standard Business Reporting
SFSS	Student Financial Supplement Scheme
SGC	Superannuation Guarantee Contribution
SME	Small and Medium Enterprises
SMSF	Self Managed Superannuation Fund
SSL	Student Start Up Loan
STP	Single Touch Payroll
SUPER	Superannuation
TFN	Tax File Number

ACCOUNTING 101 GRADUATION

You've completed our complimentary Accounting 101 guide designed to demystify the world of accounting and provide clarity and illumination as to how it works.

If you require further information on accounting, advisors or running a small business, please contact us through our website at www.reckon.com.

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