


■ Accounting Basics For Business Owners

Presented by: Chris King – Managing Partner



A Little More About Me

- Family
- Moved to Ascension Parish 24 years ago
- Started NLS is 2013
- Ministry Background
- NLS Mission

About The Presentation

- Not the Equivalent of an Accounting Degree!
- Highlighting Info Based on my Experience
- Handouts – Bold Letters
- Ask Questions / Participate

Why Is Accounting Important?

- It's How You Make **Informed Decisions**
- Proper Accounting Saves **Tax Dollars**
- It Provides A Foundation For **Strategic Planning**
- Accurate Data For **Government Compliance**
- Financial Statements **Justify Value**

Small Business and The Economy

- Over 99% of 28.7 million US firms are **small businesses**
- Only **20%** of the **99%** employ people
- Small Business is 44% of US **Economic Activity**
- Think of the impact on the nation if we all fired on all cylinders

Principles For Small Business Accounting

**(Not All But
Critical Ones)**

- **Going Concern**
- **Entity**
- **Historical Cost**
- **Materiality**
- **Matching**

Cash vs. Accrual

- Cash Basis
 - Revenues and Expenses Recorded As **Cash** Moves
- Accrual Basis
 - Revenues Recognized When **Earned**
 - Expenses Recognized When **Incurred**

Basic Financial Statements

- The **Balance Sheet** Is A Snapshot In Time
- The **Income Statement** Covers A Period Of Time
- **Profit and Loss** (P&L) / A Synonym for Income Statement
- The **Statement of Cash Flows** Shows Where Cash Went Over A Period Of Time.

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Balance Sheet

- What You **Have** (Cash, Receivables, Assets)
- What You **Owe** (Liabilities)
- What's **Left Over** (Equity, Contributions, Draws)
- The Income Statement or P&L – Expansion of **Equity Section** on Balance Sheet

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**Example Company
 Balance Sheet
 December 31, 2018**

ASSETS

Current assets	
Cash	\$ 2,100
Petty cash	100
Temporary investments	10,000
Accounts receivable - net	40,500
Inventory	31,000
Supplies	3,800
Prepaid insurance	1,500
Total current assets	<u>89,000</u>
Investments	<u>36,000</u>
Property, plant & equipment	
Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accum depreciation	(56,000)
Prop, plant & equip - net	<u>337,000</u>
Intangible assets	
Goodwill	105,000
Trade names	<u>200,000</u>
Total intangible assets	<u>305,000</u>
Other assets	<u>3,000</u>
Total assets	<u>\$ 770,000</u>

LIABILITIES

Current liabilities	
Notes payable	\$ 5,000
Accounts payable	35,900
Wages payable	8,500
Interest payable	2,900
Taxes payable	6,100
Warranty liability	1,100
Unearned revenues	1,500
Total current liabilities	<u>61,000</u>
Long-term liabilities	
Notes payable	20,000
Bonds payable	<u>400,000</u>
Total long-term liabilities	<u>420,000</u>
Total liabilities	<u>481,000</u>

STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	(50,000)
Total stockholders' equity	<u>289,000</u>
Total liabilities & stockholders' equity	<u>\$ 770,000</u>

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Income Statement / Profit and Loss

- What You **Billed** Your Customers (Revenue)
- What You Spent on **Direct Costs** (Cost Of Goods Sold / COGS)
- What You Spent On **Overhead** (Fixed Expenses)
- Other Income and Other Expenses – Outside of **Normal Operations**

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INCOME STATEMENT

For the Years Ending December 31, 2017

REVENUES:

Sales Revenue	\$500,000
Other Revenue	\$0
(Less Sales Returns & Allowances	0
TOTAL REVENUES	\$500,000

Cost of Goods Sold	150,000
GROSS PROFIT	\$350,000

EXPENSES:

Accounting	\$2,500
Advertising	25,000
Amortization	0
Bad Debt	1,000
Depreciation	50,000
Employee Payroll Tax	15,000
Employee Wages	100,000
Entertainment	0
Insurance	2,000
Interest Expense	12,000
Miscellaneous	5,000
Rent	24,000
Software	0
Telephone	2,500
Utilities	7,000
Web Hosting	500
Vehicle Expense	12,000
-	0
-	0
-	0
-	0
TOTAL EXPENSES	\$258,500

NET INCOME BEFORE TAXES	\$91,500
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What:

Just Happened?

Is Happening?

Is Going to Happen?



Transactions And Mechanics

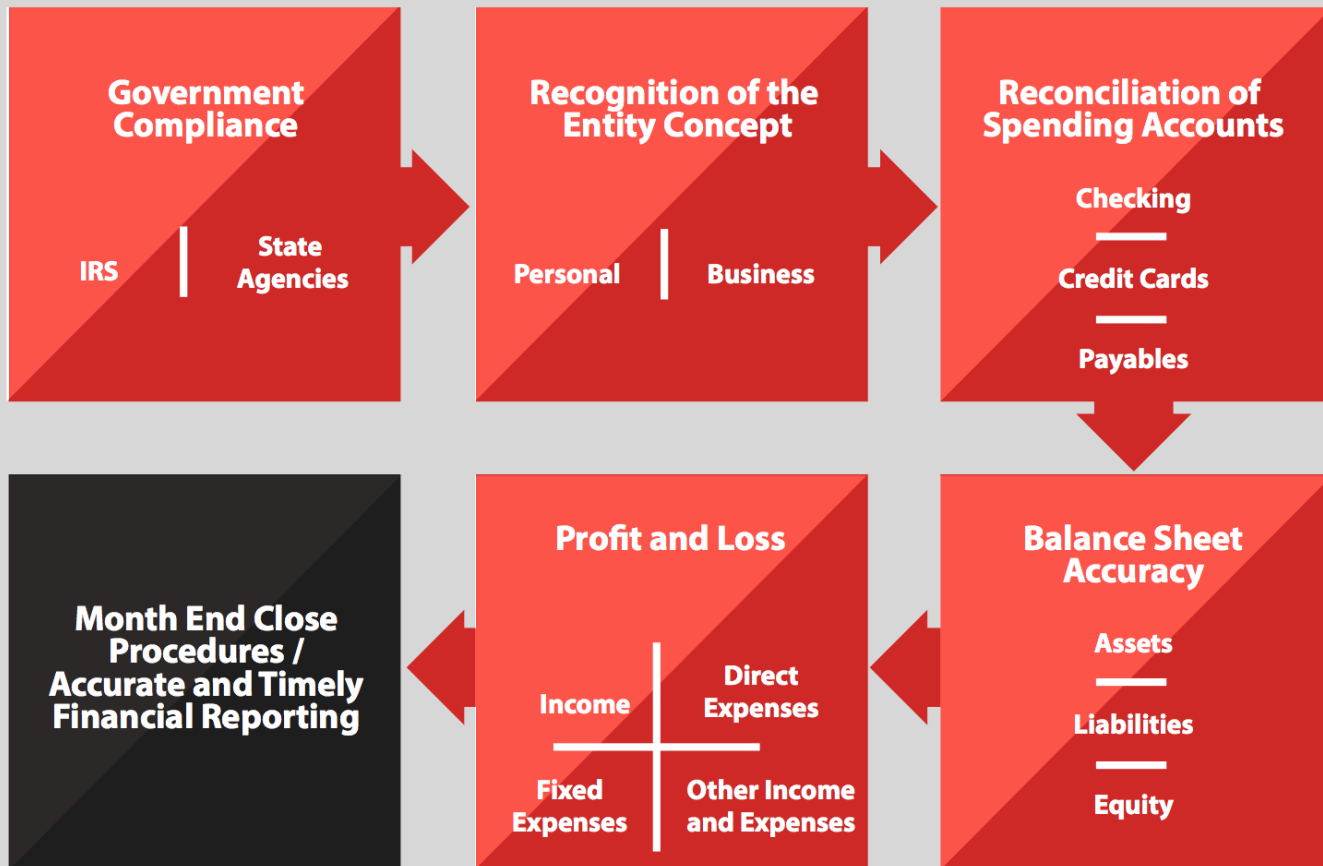
- Every Transaction Is At Least **Dual Entry**
- Debits Increase **Assets, COGS, Expenses**
- Credits Increase **Liabilities, Equity, Revenue**
- Bank vs Business Debits / Credits

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Fixed Assets

- Depreciation – Spreading **Cost** Of An Asset Over Time
- Amortization - Spreading Cost Of An **Intangible Asset** Over Time
- Large Purchases Get **Capitalized** As A Fixed Asset – Materiality Threshold
- Choose: **Tax** vs. **Book** Depreciation / Amortization

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In Closing: Different Perspectives

- CPA: Tax but not always business
- Attorney: Tax, Estate, Business
- Trusted Advisors
- Executives
- An Ounce Of Prevention > A Pound Of Cure

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**If you think it's expensive to hire
a professional to do the job, wait
until you hire an amateur.**

Red Adair