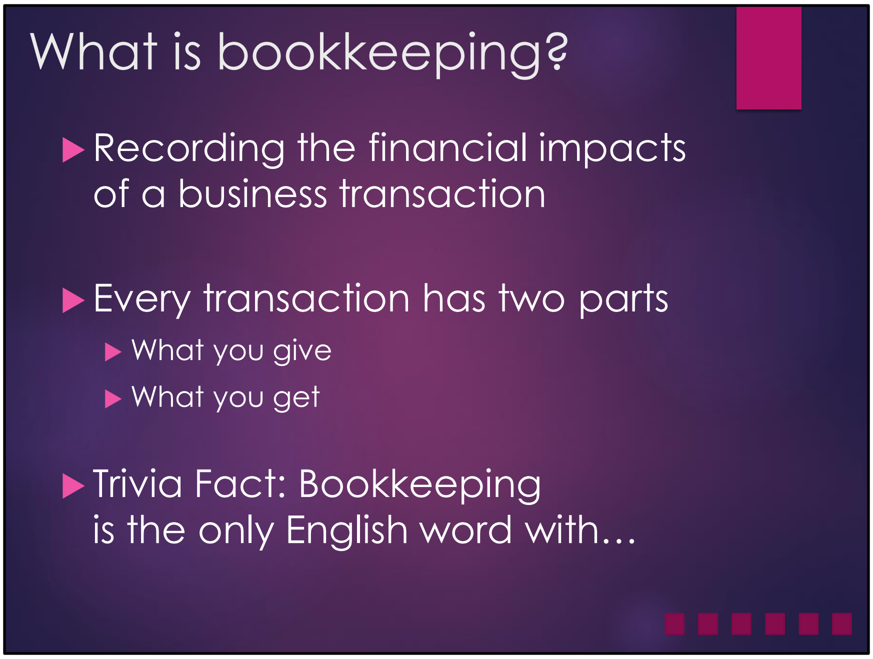
Double-Entry Bookkeeping

A BRIEF OVERVIEW



Financial impact refers to money or things that have a monetary value.
If a transaction involves cash, checks, credit cards, debit cards, or anything else that someone might pay for, it must be recorded by a bookkeeper.

A transaction is an exchange of one thing with monetary value for another thing with monetary value.
FOR EXAMPLE: You buy a t-shirt for $15 cash. You got a shirt worth $15. You gave up cash worth $15.

ANOTHER EXAMPLE: You buy a $15 t-shirt using a credit card. You got a shirt worth $15. You gave a promise to pay $15 later.

Some transactions actually have more than two parts. You buy a $15 t-shirt. You pay $5 now and put $10 on a credit card.
You got a shirt worth $15. You gave up cash worth $5. You also gave a promise to pay $10 later.

Bookkeeping is the only English word with 3 consecutive double letters (except for Bookkeeper).

Bookkeeping 3 Steps

- Read the transaction
- What did you get? Record that account.
- What did you give? Record that account.

- EXAMPLE:
  You borrowed $10 from your friend.
- Get: Cash
  - Account Cash increased $10
- Give: Promise to pay
  - Account Loan Due increased $10

Another Example:
You sold your bike for $50.
You gave up your bike.
You got $50 cash.

Another Example:
You paid your friend $15 to mow your lawn.
You got your lawn mowed.
You gave up cash of $15.

Accounts & Account Types

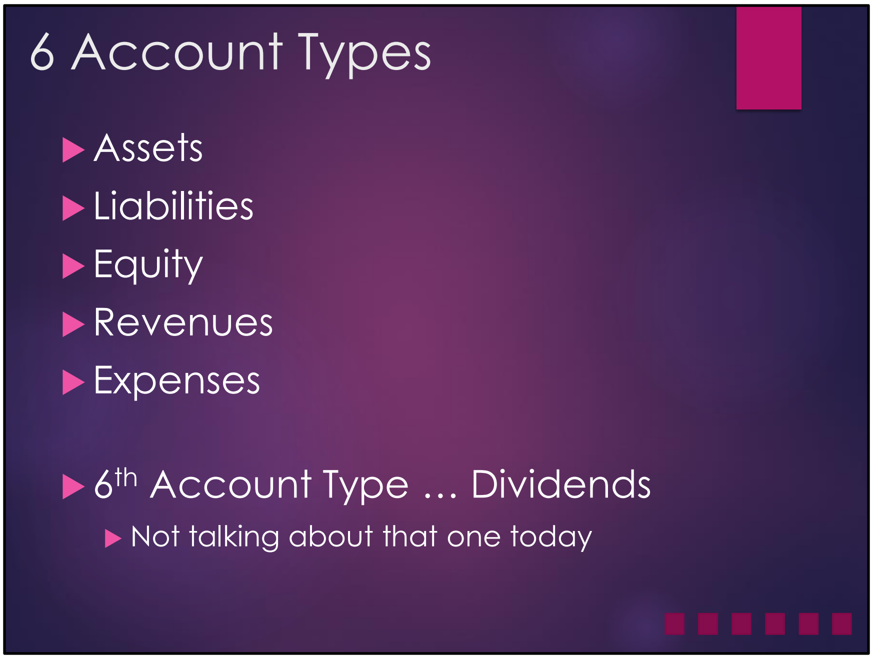
What is an Account?

- Summary of similar financial effects

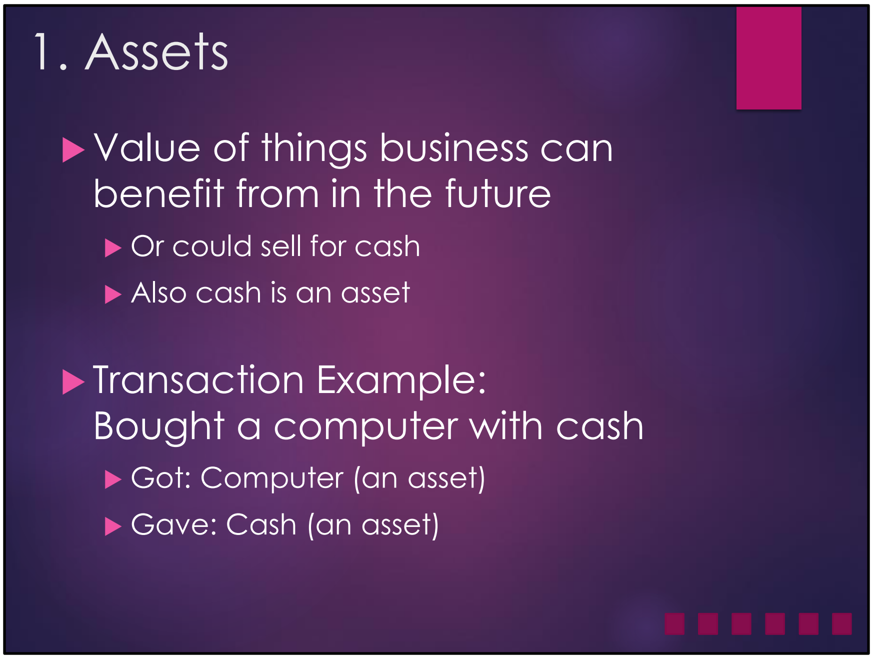
- EXAMPLE: Cash Account
  - Started the day with $5
  - Borrowed $10 from friend [now I have $15]
  - Bought lunch for $8 [now I have $7]
  - Earned $2 for chores [now I have $9]

- Businesses use 100s of accounts
  - But there are 6 TYPES of accounts

Another Example:
LOAN PAYABLE
You borrow $10 from your friend [now you owe $10]
You repay your friend $6 the next day [now you owe $4]
You repay your friend $4 the next week [now you owe $0]

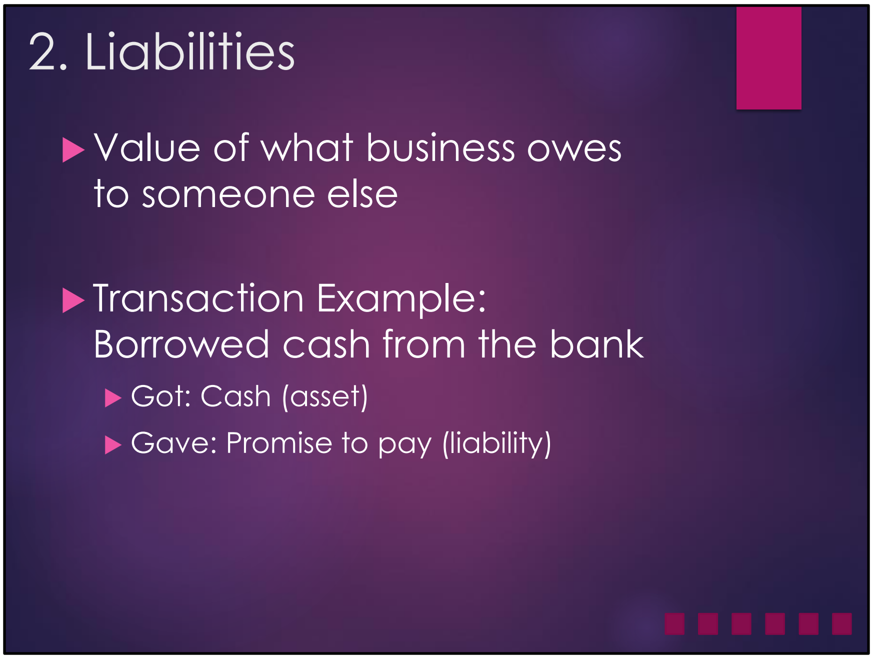


They are listed here, but discussed individually on the next few slides.



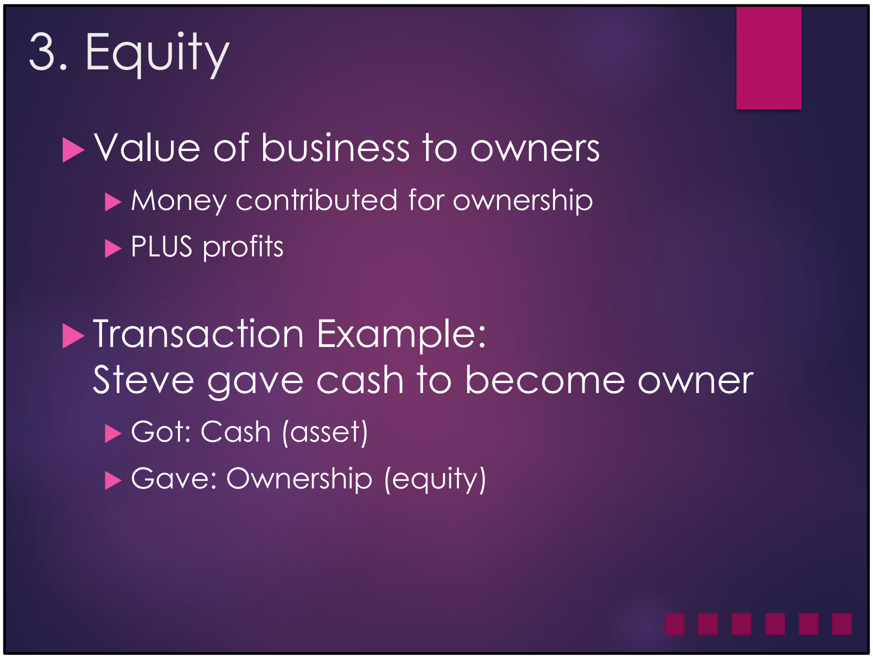
Examples of simple assets:
Cash
Building
Car
Airplane
Computer
Furniture

More complicated assets (may not want to discuss all of these):
Investment you own in another company (stocks)
Patent or a Copyright, which is the legal right to sell an idea
Payments you made ahead of time like prepaid rent (rent you'll benefit from in the future)



Example of simple Liabilities:
Bills payable (bill for something you already got/used)
Loans payable

Examples of complicated liabilities (optional):
Customer deposits (customer pay you in advance and you OWE them, either what they paid for or their money back)



This account type is related to who owns the business and what that business is worth to them.
An owner of a company can be a person or another company.
If a company has just 1 owner, it is called a sole-proprietorship.
If a company has multiple owners, it is called a partnership or a corporation.

Equity comes from two sources:
(1) Owner give the business money (or another asset) so they can be an owner.
This is called contributed equity.

(2) If the business is profitable, equity grows.
This is why people want to own business. They think that equity will grow.
Grown equity is called Retained Earnings.

Pause to think

- Assets = everything we own
- Liabilities = everything we owe
- Equity = what is left belongs to owners

- Assets = Liabilities + Equity
  - The Accounting Equation
- $10,000 in Assets
- Owe $4,000 (that's liabilities)
- What is Equity?

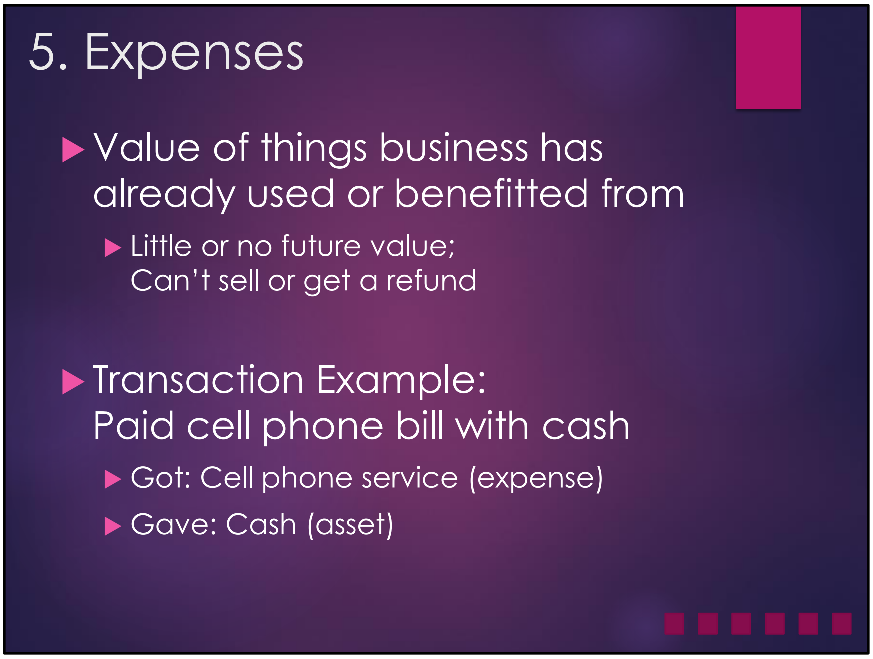
If you have $25, but you owe your friend $10, your EQUITY in that $25 is just $15. It is the part left over after you pay your liabilities (or debts).

Companies earn revenues by providing either a product or a service to their customers.

Can you think of some SERVICE companies?
Hair salon
Auto mechanic
Gardner
Plumber
Accountant
Lawyer
Doctor

Can you think of some PRODUCT companies?
Grocery stores (Kroger, Walmart)
Clothing stores (The Gap, Dillards)
Restaurants (McDonalds, Olive Garden)
Car Dealership (Ford, Nissan, Toyota, Tesla)

Some companies provide both.



Expenses are like things you don't have anymore because you used then or benefitted from them.
They are the cost of doing business.

SIMPLE EXAMPLES:
Salaries of your employees
Rent on your building
Utilities for your building (water, electricity, phone, internet)
Advertising for your business