Fair Labour Standards Act (FLSA) - establishes things such as minimum wage rules, overtime pay, child Labour Laws. Requires employers maintain Records of pay + Time. Affects private sector As well as Fed, state, Local Gvmt.

Working "Off-the-Clock" - If a non-exempt employee works outside of work ex answering emails or working on Break. Counts as compensable work. If not paying may violate FLSA

Setting up Tax forms

W4 - Exempt and non exempt fill out to establish Tax withholdings.

W2 - At end of year they Receive W2, reports Annual wages and amount of tax withheld

Form 941 - Business Files Quarterly, Report payroll info on Salaries, wages, tips, Taxes. Pay their portion of Social security or medicare Tax OR

Form 944 - Used for smaller Businesses, Once per year

W9 - Independant Contractors, ~~Does~~ filled out by, does not set up tax withholding Allows Reporting of pay of contractor to IRS. Includes Amount and ID of Recipient.

1099 - Shows total Payments issued, ~~end~~ sent to contractor at end of year, copy to IRS ~~summar~~

Note: Not Legal for Bookkeeper to advise an employee how to ~~fill~~ Complete their Tax forms

W-4 - Employee withholding Certificate, Employee completes and returns it to employer. Ensures taxes are Being held at rate employee chooses. Protects employee/employer

W-2 - Reports employee wages and taxes withheld. Employer is responsible for issueing to employees no later than Jan 31 and copies to IRS

941 - Business Files Quarterly, used to report Payroll to IRS allows Businesses to pay Social Security and medicare taxes for previous Quarter.
944 - Alternative to 941 for small Businesses. Only for employers with Tax Liability of $1k or Less. Once per Year
W-9 - Independant Contractors. Filled out By contractor. Does not set up tax withholdings. Contractors can submit Employer Identification number (EIN) or Social Security number (SNN) as Tax Identification number (TIN)
1099 - Sent to independant contractors who were paid at Least $600 within a calendar year. Employer is responsible to issue this before Jan 31, copy to IRS

Impact of Payroll Transactions - In Accrual Accounting a worker's time is Both an expense and Liability. When they work wages earned are considered an expense, and is recorded as such at that time. Pay earned is also a Liability because it is money the business owes until Payroll is run and wages are paid.

Payroll Cash Flow - Goes to 3 places
1. Money goes through the Business directly to employees as Wages Earned
2. Money goes into a tax payable Account. Stored on Behalf of Employees
3. Money goes into a tax payable Account on Behalf of Business to pay state/Fed Business taxes

Funds held in tax withholdings accounts are remitted (sent) to the government entity at designated intervals. Monthly, Quarterly

Journal entries for Standard employees - Debit wage expense account, Credit Tax payable and Cash

Payroll Tax Expense - Debit Payroll tax expense, Credit FUTA, SUTA, FICA

Payroll Accounts-

Salaries Payable- An account to keep track of wages owed to employees Before deductions have been withheld and Before they have been paid

Employee Vacation Payable- Used to track wages that are paid to employees when they are using their PTO or Vacation pay

Employee Reimbursement Payable- Used to track transactions where employees use their own money to pay for expenses that will be reimbursed

Paying The Boss

Draw- Owner Takes funds from Business holdings for own use
Sole propriatorship, Partnership, LLC

Guaranteed Payment - Partnership or LLC, - Reasonable compensation for role of the partner, Not Subject to tax withholding.

Salary - LLC, C corp, S corp, Non-profit, - Owner is designated as employee, receives reasonable Salary

Distribution/Dividends- Distribution = S corp, Dividend = C corp, Percentage of Business profits

Recorded on:

Balance sheet - Draws, Distributions, Dividends

Income Statement - Guaranteed Payments, Salaries

Recording Owner's payment - Debit appropriate Account, ev Guaranteed Payments, Owner's draw, Credit Cash

Don't withold unless owner is employee

Reporting Equity

Types of Equity – Net Assets = Assets – Liability = Equity

Net Income- Calculated on Balance sheet. Total amount remaining after subtracting All expenses from total revenue. Shown on statement of equity and equity portion of the Balance sheet.

Retained Earnings- From statement of Equity, also on Balance sheet. Is the accumulated net income from previous years minus dividends paid to Shareholders.

Common Stock- Capital received in exchange for Issueing Common stock

Dividend- What a Business pays out to shareholders from Business earnings

Comparing Ownerships

Retained Earnings-

Sole proprietorship- Owner has complete control over Business. Provide capital directly from own equity. Taking out money is done with owner draws. Retained earnings- At end of year accumulated equity (minus withdrawls) - Total profit retained

Partnership- Two or more owners, contribute partner equity. Taking out money is Partner Draw

Retained Earnings- Accumulated equity, after accounting for all income and withdrawls. Total Profit Kept within The Business

Membership Units - LLC - Owners contribute equity as members of the Business, Combining Flexibility and protection. Members can draw funds with Distributions made from profits or Cash. Amount is Based on ~~owner's~~ Member's ownership percentage.

Each member has a capital account that tracks inital contribution, ongoing contributions and withdrawls. Used to maintain member's equity in Business. This equity is called Membership Units or Capital Interests. Ownership Interests, similar to common shares in C corp

Stockholder Equity-

C corperation- Equity is contributed by shareholders in form of cash, property or Services, done for stock.
When Business Issues stock the funds received are called common stock. Shareholders have power to elect and remove directors, and make decisions on major matters
Withdraw Equity- shareholders may receive dividends, when the Business distributes profits to shareholders.
They can also sell their shares to investors or back to corperation. Shareholders may also receive salaries or Bonuses if they are also employees.

Equity Accounts- Retained Earnings, Paid-in capital, Stock
Retained earnings- income and dividend transactions
Paid-in capital- Stock and additional contributions- sharehold

S corperation- Special type of corp with Tax advantages
Suitable for Businesses with one or more owners. Max 100, all must Be US citizens. Issues shares of stock to owners in exchange for capital investement. Has Retained earnings, paid-in capital/shareholders equity, Stock. Distribution is Dividends. Can also Raise funds by selling Stock.

Net Assets - Non-Profits- Do not have shareholders or owners, controled by founders or Board. They don't keep earnings.
No equity. Shown as Net Asset on Balance sheet
Withdrawls or transfers must comply with Legal requirements
When Non-Profit ceases to exist, must transfer all remaining assets to another Tax-exempt org. or Gvmt.
Prohibited: Individuals, Board members, staff, volunteers

Impact of Equity Transactions - Equity Position - equity transactions help owners raise money by selling shares or Bringing in investors. Brings in experienced people who can offer Guidance and connections. Can provide a way to cash-out.

Capital Contributions - Funds or assets owners or investors contribute. Finances operations or growth. Can Be cash, property, equipment.

video Contributing capital impacts ownership stake. Contribution increases owner's equity, Credit capital Account

Owner and Partner Draws - withdrawl of funds or Assets by owners from the business for personal use. Directly impact Equity. Distinct from salary or Wages

Note: Owners need to consult with tax professional or Acct. to understand tax obligations. and properly Report Draws.

Closing out The Year - Some choose to reset capital/ owner's investment by transfering Balance to retained earnings. Simplifies statement by showing only investment or draws made within ~~Current~~ Specific Year.

To close out the year's Books, Need to Reconcille owner's capital or investment accounts and owner draws made in that year on financial statements. OR

The owner's Draw can Be closed by Journaling the Balance to retained earnings, separating draws by year. ensures each year's owner draws are individually displayed on Balance sheet, preventing accumulation of Balance.

Calculating Total Equity - Equity = Assets - Liabilities

Equity Combines investments, retained earnings, and other equity transactions.

Test

Example of non-current Liability: Accounts payable, Mortgage pay, Salaries pay., Unearned Revenue.

Non-current Liabilities - Six month Loan, Quarterly interest, Monthly Lease, Bonds with 5 year Maturity, Employee pension, Sales tax

Q5. 5year Loan @ 6%, equal payments of $966.64, Journal entry after 1st month to record Loan payment. Debit Notes Payable, Credit cash $966 OR Split interest, Debit interest expense 246, debit notes payable 720,

Q6 - Match. ~~B.~~ A. Borrowing money Bank. B. Paying interest on Loan. C. Issueing Common stock with 1. Increases assets, increases Liability, 2. Increases Assets, increase equity 3. Decrease Asset, Decrease equity. A1, B3, C2

Q9 - Glossery - Paystub, Gross Pay, Withholding + Deduction, Payroll, Pay Period, Wage Garnishment Net Pay

Q17 - Calculate Net income + Owner equity. $25k in owner invest adds $10k. withdraws 15k, Revenue of 120k, expense 80k

60k Equity, Net income 40k

Reconcilling Accounts and Examing Financial Statements

Financial Analysis - The Bookkeeper's Role

What is Financial Analysis? — Financial Analysis - reviewing and comparing financial performance over time. Goals: Monitor health and performance, Identify potential risks and opprotunities, Make decisions and plans. Look Back at financial cycle to make sure it's correct, see how well business is doing, identify where to improve

Financial analysis and the accounting equation -
How is the business doing this month from last, what is going

well, where are adjustments or improvments needed

Bookkeeper's Role in Financial Analysis — Ensure everyone has accurate financial data to work from

Bookkeepers Keep accurate financial Records:
Track transactions and reconcile Books, giving owners a complete picture.

Bookkeepers may run reports for clients or accountants
Consult clients for appropriate frequency to run reports.

Bookkeepers need to Be familliar with different financial statem.
~~M~~ Need to ~~Be~~ know where to find answers to questions and understand how statements are connected. Understand how making changes in one area impacts others

Bookkeeper- Responsible for maintaining financial Records or Recording and verifying daily financial Data. Ensure reports are accurate and summarize info for Accountant as well as owners and stakeholders

Accountant- Uses reports and information to Analyze, interpret, and evaluate Financial health. Enables Business to make data-driven decisions. Have degrees, certifications and provide tax advise

Note: May be asked to provide Tax advise, assess health, or analyze Data and offer reccomendations. Refer to Acct.

Detailed Accounting Cycle

Step 2: Record and post transactions-
Reconcile Books.- Verify the data against a trusted source. Compare Books to Bank statements and other source documents to ensure they are accurate and up-to date. Take action to resolve any errors you find.

Step 6 - Prepare financial Statements - Examin financial state.
Understand how all statements work together to create a picture of the business
Look for overall Trends and provide statements to accountants for in-depth analysis
Use statements to compare expenses against Budget
Calculate Ratios to assess health in metrics: Liquidity, profitability, efficiency, solvency

What is Reconcilliation?

What is Reconcilliation

- Reconcilliation - Quality Assurance process to ensure records are correct and Balanced. Compare the records to Bank statements and other source documents to ensure everything is accurate and up-to-date. Source docs should match the Books

Benefits of reconcilliation: Accurate Books for tax filing, Realistic view of financial state, Identify and record errors, Investigate Fraud, Manage accounts Receivable/Payable, Track Cash Flow
Note: Reconcilliation won't stop fraud, but will allow you to spot discrepencies so you know fraud happened

Steps of Reconciliation

Gather Source documents - Verify they are most up-to date and include all needed information, ex Transactions, Beginning Balance, Ending Balance
· Enter all Transactions up to reconcilliation date
Compare the transactions Listed in the source documents to the Books - Compare starting and ending account Balances and individual Transactions

(go Line By Line to match Books with source documents)
·Look for discrepencies (inconsistencies Between Book and source documents)

Make any adjustments needed and mark reconciliation as Complete- Research any Unreconciled items and delete or correct inaccurate transactions.
·If you cannot find Error and the amount is Less than the threshhold of client you can make the adjustment to the Reconciliation Adjustment Account. If it is greater than threshold you keep searching until you find it

Video- The point of reconciliation is to tie transactions In the Books to an outside document that Verifies that the transaction happened.
Bookkeepers are responsible for reconciling cash accounts, chequeins, Savings, money market, Credit Card
ex Post All credit card transactions, then double check that the Balance at the end of each statement matches what the Credit card company says.
Reconcile somethings every month. ex Loan with Amortization Schedule. Not Some things - ex Stock trades or other investments. Accountant Annually.

Types of Reconciliation - Video- Reconciling Bank accounts, Invoices
Reconciling Bank accounts - ensure Business records match Bank's records accurately. Every month Businesses receive Bank statements, Lists Deposits, withdrawls, Cheques. Check starting and ending Balances. Match every transaction in Books Deposit slips and Cancelled cheques. If any discrep-ancies Trace the error to its source and correct

it in the records. Once all Are resolved and records match consider the account Reconciled.

Reconciling invoices - Ensure invoices issued by a Business match corresponding payments received. Maintains accurate accounts receivable and track outstanding Balances. No external entity sending statement to reconcile against. Instead: Accounts Receivable Report - Report of all open invoices that have not been paid. Then Check closing Balance against Records. Identify Discrepencies; overpayments, Underpayments, Duplicate payments

Level of Detail -

Summary Level - Compare the closing Balance of Accounts and verify they are correctly Balanced.

- Is an overview, Look at the starting and ending Balances for the month to ensure accounts are reporting Correctly
- Not used for every Account, But simplifies tasks with many transactions. ex Reconciling Aggregated Payroll Expenses

Transactional Level - Compare Books Line By Line to a source document to verify each transaction. Common for new Bookkeeper.

Video - Transactional Level allows you to identify errors at a Granular Level. Steps - Gather transactional Data: Invoices, Recipts, Purchase Orders, Bank statements

Match: Transaction Dates, Amounts, Descriptions, other

Can reconcile Automated with digital Records

Identify: Duplicate entries, Missing transactions, Incorrect Amounts.

Error Identified: Investigate Root Cause: Reach out to Stakeholders, ex Customers, Vendors, Internal Departments

Audit Trail: Document All reconciled transactions, Ensure all are supported by Evidence. eg Recipts, Invoices

Reasons: Strengthen Internal Controls, Mitigate Risk, Ensure Accuracy of Reporting, Facilitates compliance with Regulatory Requirements, Builds Trust with stakeholders.

Note: Transactional Reconciliation is Time consuming. Manage Source Documents well and set aside enough time to go through them all

When Do You Reconcile?

Continiously throuhout the year including monthly, Quarterly, reporting and annual filing.

Video Perpetually - Every day when you verify online Banking information, or when you input information

Monthy - Any Bank or Credit card statement, Print Accounts receivable and Payable reports

Quarterly or Annual - Income Tax, reported or Filed Quarter-ly or Annual. Some Large Businesses Estimate monthly then reconcile Quarterly or Annually

Reconcillation Source Docs.

Source Documents

External - Statements from an outside source (Bank or credit card statements.

Internal - Sales Recipts, Invoices, Inventory Counts or Reports that are printed from the Books.

Common Documents - External

Business chequing statements and deposit slips - Compare the transactions in the statement to the Businesses internal Records. Review Bank statements, Deposit slips and cancelled cheques.

Credit Card Statements - Compare with Recipts. Make sure the Billed amount in the statement matches actual payments. If any Errors Report to Credit Card Company

Inventory Counts- Compare the physical count of goods a Business holds in its inventory with the corrospondin recorded Valuation in The Balance sheet. ex Print Inventory List, Conduct Physical Count and reconcile against Physical Count

Common internal Source documents

Invoices for sales or Services Rendered By The Business- Compare outstandins Balances with Accounts Receivable. Ensure the amounts entered match outstandins amount.

Sales receipts or Invoices for Items purchased- Compare vendor statements or invoices with Accounts Payable. Verify the amounts charsed by Vendors received are accurate.

Purchase Orders- Compare Purchase orders to the Balance sheet.

Cash- Compare physical amount of cash in safe or Petty Cash to recorded amount in Books

Source Documents Required information

Name- Name of Businesses or Individuals involved

Reference Number- ex Bank Account or Customer Number

Transaction Details- Date, Description, amount

Summary Totals- Total Debits and Credits (or deposit/withdraw) made to the account in the statement Period.

Note: May Be from perspective of Bank, so reversed of you

Note: If any of this information is missins the document is Inadequate for reconciliation.

Timing of source Documents- Some documents are generated

on a regular Basis and summarize multiple transactions
Others, Like receipts come one at a time [Bookkeeping-Source-Documents-AND-The-Balance-sheet.PDF]

Where Source Documents fit on a Balance Sheet -
Assets
Cash - Bank statement, Cheques, Recipts, Lock Box
Accounts Recievable - Invoices waiting for Payment, Sales Orders
Accumulated Depreciation - Depreciation Schedule

Liabilities
Accounts Payable - Purchase orders, Packing Slips, Bills
Credit Cards - Credit Card Statements
Payroll Liabilities - Payroll Records, Payroll Tax filings

Equity - Owner's equity and Retained earnings are discussed with the owner, Not Reconciled with Source Document

Managing Source Documents - Make a system to organize Documents. Capture, Record, and organize source documents all month long, don't wait for reconciliation. Use digital Tools, Like cloud based document managment software.

Photocopies are acceptable : IF they are Legible and contain all information provided in the original.

Categorize - Assign tags to each document based on nature or Purpose ex Sales invoice, Vendor Bill

Gathering Source Documents - Ask for digital
App - Have the client use a document collector to capture and store digital versions

Email- Have client email source documents, or upload to a cloud Based shared file location

Upload- Have clients upload directly to accounting software

Note: Some may have "Shoe Box of recipts". Digitize whenever possible.

Consequences of missing documentation

1. No way to reconcile discrepancies on the Balance sheet so your Books will be inaccurate
2. No Backup Documents for IRS/Tax authorities
3. No Backup documents for financial activities that are recorded in the Books
4. No proof for IRS incase of an Audit

Video Best Practices

Record the information from the source document ASAP

File that document according to Best Practices

Document Control System

- Set a naming convention for all digitized files
- Re-number before filing. Some may send a photograph with random name. Re-Name
- Maintain Access List and chain of custody system
- Follow mandates for how long documents must be kept

1. Digitize, - Photo or scan then give file a name
2. Store- Store where you can find it again when you need
3. Keep it- For the required amount of Time

Reconciling Accounts

Preparing A Bank Reconciliation - Types of documents to prepare - Source documents - Original records that prove a specific transaction took place. Bookkeeping Records - The entries in accounting software or general Ledger.

Book Balance - The Ledger Balance at a certain date.

Recurring Expenses

Bank Service charges - Fees imposed by the Bank. ex Account maintanince, Transaction processing, overdraft protection. ~~Rad~~ Recorded as debit entry to Expense - Bank Service Charges

Interest Revenue - Income earned from interest-Bearing Bank accounts, Loans, Investments. Credit Represents increase to Revenue - Interest Revenue Account

Reconciling Bank Accounts - Step 1: Gather Source Documents, inc. Bank statements and deposit slips

Step 2: Compare the transactions, Compare Bank starting and end Balances WITH Balances in the General Ledger or Accounting Software. THEN compare transactions in the general Ledger/ Accounting Software with Bank statements.
Finally: Check for all outgoing/Incoming funds Including Outstanding Cheques, deposits, in transit or Returned checques for Insufficient Funds (NSF)

Step 3: Make adjustments to fix errors. The cleared Balance should now match.

Step 4: Close the accounting period

Video - Some transactions haven't cleared the Bank Watch out for transactions which may have cleared in one place but not another. Lag time Between when a transaction is initiated and when it is finalized on the statement. Outstanding - Cheques written over the previous weeks which have not Been cashed or cleared as of closing date. In-Transit- Deposit funds that don't clear by closing date.

What to do? Don't void or move accounts. Just wait for them to appear on next reconciliation. Affects accounts:

If client paid with uncleared cheques actual Balances for accounts payable and cash are higher.

If client deposited payment for services, Not cleared, actual Balances for Accounts Receivable and cash are lower.

Non-Sufficient Cheques - (NSF) "Bounced", Checque not paid because issuer did not have enough money.

What to do? Debit Accounts Receivable, credit Bank account.

If there is a fee debit Bank fees, credit Bank account

Finding Reconciliation Errors

video - Make sure to check what hasn't cleared. Tip being recorded later than Base Fare, Check for old transactions, investigate.

Errors

Error of Omission - Entry (transaction) is missing

Data Entry Error - The amount was written incorrectly or under incorrect account

Error of Principle in accounting - Entry is made to wrong type of account

Error of Commission - Made to wrong customer or item, correct type of account

Error of original Entry - numbers were flip-floped

Complete Reversal of Entries - Correct Amount posted to correct Accounts but debit/credits are reversed.

Rounding Error - Numbers were rounded but shouldn't be

~~Two or more errors cancel out - Compens~~

Compensating Error - Two or more errors cancel eachother out

Suspense Account: Errors in trial Balance can be temporarily resolved by Allocating the difference to a suspense account. A clearing account that holds the discrepency. At a later stage a suspense Account Reconciliation is performed to identify and correct the errors causing the imbalance.

Troubleshooting Reconciliation Errors - Video

Tip 1: Verify you are working with the right Account

Tip 2: Look for transactions the bank has recorded but you haven't. ex ATM transactions, Special Fees, Automatic withdrawls, direct Deposits

Tip 3: Look for reversed transactions, Transactions entered Backwards. Look for a transaction that is half the irreconcilable difference. ex $200 dif, Look for $100

Tip 4: Look for a transaction that is equal to the difference. May have incorrectly marked as cleared or uncleared or may be a duplicate entry

Tip 5: Check for transposed numbers, two digits switched

Tip 6: Ask someone to check your work, extra set of eyes. Can ask Bank to assist

Tip 7: Look for multiple errors, if account can't be Balanced

Bookkeeping - Tips_to_help_Find_Errors.PDF

Fixing Reconciliation Errors -

Methods of Correcting Error

1. Reverse the incorrect entry and create a new journal entry to accurately record the transaction
2. Make a single Journal Entry that, when combined with the original entry corrects the error

Note: Include memo or note to indicate entry is correcting an error.

Examining Financial Statements

What area of an income statement can indicate a good marketing strategy But doesn't mean Business is profitable?
Revenue

Ripple Effect of Statements - Costs can ripple through statements ex Air freshner inventory, Previous supply $100/6x, New $150/6x, Causes increase in Cost of Goods sold. Affects Income statement, Affects Balance sheet

Video - Statements are connected

Balance Sheet: Assets, Liability, Equity: Retained earnings,

Income statement: Income, COGS, Gross Profit, Expenses, Net operating income, Net income

Statement of Cash Flows: Net income, Money Going out, Cash investments, Cash at end

Tracking Against The Budget - What is Budgeting? Aiding Businesses in making informed decisions. Budgeting involves creating realistic figures. A systematic way to track spending each month

Budgeting - Created with client input. Outline of Revenue, expenses, Profits over a period of time. ex Monthly, Qu, Annu
Allows: Allocate Resources, Set financial Goals, Evaluate financial Performance, Make informed decisions

Assigns a purpose to every dollar a Business Earns

Includes: Average order Revenue, Product orders per month, Billable hours for service work, Average payroll costs, Material Expenses, Rent, Mortgage, Utilities. Other ex Marketing, Advertising

Budget Variance - Difference Between projected variance and actual Performance. Reasons: Evaluation, identify cash flow/Spending issues Overspending, Forecasting, future ~~Bu~~ Spending, predict Cashflow, Understand how much income is needed to cover expenses and Payroll

Creating a Budget - A forecast or prediction of what Budget should look like. Based on historical Reports and projations
ex Take Data from previous month's expenses and use as Basis for next month. OR Average previous year's spending and use monthly as Budget.

How: Accounting Software, use template to aid.
Spreadsheet: (Excel) then merge into a file with income statements and compare line by line

Analyzing Business Performance

Get Started Liquidity, Efficiency, Solvency, Profitability. Assess health of Business. Compare: Performance accross its history, to others in sector or industry, Performance with its Goals, to industry Standards

Analyzing the Balance Sheet - Ratios: Showcase two or more numbers taken from financial statements. The Industry Averages, Ratios of other Businesses. Previous years Ratios. Planned ratio threshholds for Current & Future years

Used to Analyze Metrics:

Liquidity - the ability to pay down current Liabilities, expressed as Ratio or Percentage

Efficiency - How effectivly a Business is doing something over a period of time

Solvency - Ability to pay Long term debt

Insolvency - Measures when a Business is at-Risk of Being unable to pay debts as they Become due

Balance Sheet Metrics -

~~Cur~~ Liquidity - Current Ratio / Cash Ratio

Efficiency - Accounts Payable/Receivable Turnover ratio

Solvency - Debt to Equity, Debt to asset

Current Ratio -

$$\boxed{\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}}$$

- If greater than 1, Healthy
- Less than 1, Trouble meeting Short Term obligations

Video - Current Ratio is Liquidity Ratio that measures ability to meet short term obligations. Used by banks for Loan eleigability ex Vehical Loan
Current Assets: Cash, AR, Inventory, other cash under 1 year
Current Liabilities, Due within 1 year ex AP, Short-Term Loans, Accrued expenses
Improve Current Ratio: Increase current Assets, Reduce current Liabilities, or Both. ex Increase Sales, optimize inventory, negotiate better payment terms, refinance short debt

Cash Ratio -

$$\boxed{\text{Cash Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}}$$

- Shows how well a Business can meet immediate demands from its most Liquid assets
- If Greater than 1 - Has Sufficient Liquid assets to meet current obligations, Less Than 1 - Might have difficulty.

Liquidity - Accounts payable Turnover Ratio

$$\boxed{\text{A/P turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average A/P}}}$$

Represents How many times a Business pays off its accounts Payable during a period. Shows how efficient a Business is at paying ~~B~~-Debts.

Multiplies

$\boxed{\text{Average Accounts Payable} = (\text{Beginning} + \text{Ending AP})/2}$

Higher ratio means AP obligations are met more quickly

NOTE- Always compare Ratio to Businesses in similar Industry. Industries have different payment practices and Financial structures.

$\boxed{365 / \text{A/P Turnover Ratio} = \text{\# Times per year Vendors Get Paid}}$

Accounts Receivable Turnover Ratio-

$$\boxed{\text{A/R turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average A/R}}}$$

Measures Businesses effectiveness in collecting money Customers owe

$\boxed{\text{Average Accounts Receivable} = (\text{Beginning} + \text{Ending AR})/2}$

What Does it All mean? Low A/R Turnover Ratio suggests it takes Longer to collect Debts, means higher risk of Bad Debt, cash flow problems.

Solvency- Debt to Equity Ratio -

$$\boxed{\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}}$$

Measures Risk owner is Bearing VS External Creditors

What does it mean? Industry-specific. Below 1 is Safe, 2 or Higher is Risky

Too high - May not Be able to pay debtors

Too Low - Relying too much on equity to finance, could be costly and inefficient

Solvency: Debt to asset Ratio

percentage of assets that are financed from creditors

$$\boxed{\text{Debt to asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}}$$

What Does it Mean? Below 1.0 is Safe, Above 2.0 is Risky

Comparative Income Statement Analysis

Comparative - Two types, Horizontal and vertical

Horizontal Analysis - Also called Trend Analysis, allows for determining trends over time. ex Seasonal Trends

Vertical Analysis - Helps dig into what percentage of line items are helping or hurting the financials the most within a single point of time

Horizontal Analysis - (of the income statement) - involves comparing data of a business over multiple periods.

Purpose - identify trends, patterns, and changes of financial performance.

Dollar Amount analysis - Comparing actual ~~&~~ Dollar values of statements over time. ex Total revenue over several years. Can spot growth or decline of line items

Percentage Analysis - Calculates percentage change Between two periods. Shows Growth/Decline Rate of statement Items ex Revenue, expenses, Net income

Note: Horizontal Analysis is not enough to fully understand financial Health. Combine with other analysis techniques and Qualitative factors

$$\boxed{\text{Percent Change} = \frac{(\$\text{Value Recent Period} - \$\text{Value Older Period})}{\$\text{Value of older Period}} \times 100}$$

Vertical Analysis - Proportionally analyzing statement at a specific point in time. Each line of a ~~financial~~ Income statement is expressed as a percentage of the Base Amount

Base Amount - Gross sales or Revenue

Benefits -

Keeps it simple - Shows items as percentages making it easier to understand the relationships

Helps set Goals or limits - allows owners to set percentage goals or limits. ex If gross profits fall below a threshold, might discontinue an item.

Provides Uses Metrics - offers metrics to compare Businesses within same industry, size or scales

Income Statement Ratios - Profitability - Measure of financial gain, what percent-age of Revenue is Retained as profit. Difference between money earned and money spent.

How to assess profitability -

Gross Profit Margin - The measure of profitability

Operating Profit Margin - The measure of how much a Business makes on a dollar after paying expenses and overhead, But Before paying interest or Tax

Net Profit Margin - The measure of the percentage of profit a Business Produces from its Total Revenue

Gross Profit Margins - Percentage of revenue retained after deducting Cost of Goods Sold (COGS) reveals how effectivly a Business generates profits from its core operations. Can Be used to compare with other Businesses

- Indicates if Business needs to lower COGS or Raise prices to stay competitive.

Higher - Doing a good Job controlling production costs and earning more profit per sale. Shows efficiency in production and ability to charge higher prices or Manage costs well

Lower - Might Be having difficulties controling production costs or facing competition with lower prices. Could mean inefficiencies in supply chain or Higher input costs

$$\boxed{\text{Gross Profit Margin} = \frac{\text{Sales Revenue} - \text{COGS}}{\text{Sales Revenue}}}$$

High production Costs - Good Margin is 40-60%
Low production Costs - Good Margin is 70%
Note: Doesn't include other operating costs, ex Sales, Admin. Only partial view of profitability.

Operating Profit Margin - Measures how much a Business makes on a dollar after expenses and overhead ex Wages, Materials. Before interest or tax

What does it mean? Higher means company is effectivly managing operating costs and generating strong profits, from primary operations

ex Small Business may have higher Margin compared to Larger due to reduced overhead and more focused operations. Newer Companies may have lower, Because they invest heavily in growth

Industries

Technology and Software - High Value, Low operating cost, May have higher operating profit Margins
Good is 15% - 20%

Retail and Manufacturing - Tighter profit Margins
Ranges Between 5% - 10%

Automotive Industries - Sensitive to economic cycles, Margins may fluctuate. May Be judged based on ability to manage costs during downturns and capitalize on opprotunities during upswings

$$\text{Operating Profit Margin} = \frac{\text{Operating Earnings (Pre-Tax)}}{\text{Sales Revenue}}$$

Increase Operating profit - Raise Prices, Lower COGS, Lower operating expenses and overhead.

Net Profit Margin - Percentage of profit a Business earns from its total Revenue. Shows how much net income they keep from each dollar of sales after paying for operating expenses, interest, tax

Higher - More profit is generated from every $ of sales
Good - Above 10%, Competitive 2-5%

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales Revenue}}$$

What does it Mean? or Earn $1, keep $0.29 as profit

Note: In some small Businesses only owners incur taxes. Net and operating profit Margins would Be the same

Analyzing Statement of Cashflows - Calculate a Business's Solvency -

Cash flow Coverage Ratio - Amount of cash available to pay interest on debt

Current Liability Coverage Ratio - or Current Cash-Debt ratio, looks at the ability to pay current obligations

Cash flow Margin Ratio - Indicates how well the Business converts sales into cash

Operations Cash Flow -

Positive - Indicates core operations are generating Cash, Good sign of financial health

Negative - Indicates struggle to generate sufficient cash from day-to-day operations, cause for concern

Investing Activities -

Positive - Indicates Business is investing in Long-Term assets ex New equipment, Business expansion, shows Growth

Negative - Selling assets or divesting from operations, cause for concearn. Analyze reasons for negative cash flow, and assess impact on future prospects

Financing Activities -

Positive - Suggests Business is Raising capital through debt or equity financing, Could be sign of growth or expansion

Negative - Repaying Debt or returning capital to share-holders. Can provide insight into capital structure and ability to manage financial obligations

Cash flow coverage Ratio - How much cash a Business has to cover interest expense on debt. Used by Banks + Creditors to assess risk of being unable to repay loans.

$$\boxed{\text{Cash Flow Coverage} = \frac{\text{Cash Flow from Operations}}{\text{Total Debt}}}$$

What does it mean? Less than 1, fewer funds than amount needed to pay off current Liabilities. Smaller Business might need to refinance loans or restructure operations to generate more cash flow

Current Liability Coverage Ratio - OR Current cash-Debt Ratio, Looks at the ability to pay current obligations
°Used By investors to judge liquidity of an entity. Tells them if it generates enough cash From operations to continue Business

$$\boxed{\text{Current Liability Coverage} = \frac{\text{Net Cash From operations}}{\text{Average Current Liabilities}}}$$

What does it mean? Higher the Better, greater than 1, has enough cash to pay off current Liabilities, Negative number is a danger sign they are not generating enough cash from operations. Investigate Why

Cash flow Margin Ratio -
Video - Percentage of cash flow generated by a Business relative to its total Sales Revenue. Shows how effectivley a Business converts sales into cash. Higher the percentage, more cash available from sales. Above 50% offically creating operating cash Negative, Losing Money.
Ratio - Indicates How well Business converts sales to cash. Requires Numbers from 2 statements: Operating cash flow is on statement of cash flow, Net sales are on income statement

$$\boxed{\text{Cash Flow margin} = \frac{\text{Operating Activity Cash Flow}}{\text{Net Sales}}}$$

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What does it mean - Above 50% offically creating operating cash from sales. Negative, No profit and losing money

Book Keeping - Types_of_Accounting_Ratios.PDF

Practice Test 90.47%

- Which accounts are Bookeepers responsible for reconciling montly? Cash accounts, Credit card accounts, Loans
- Which are source documents? Jounal Entry, [Checque, Invoice, Receipt]
- Which documents would you use to match cash sales in cash register Report with deposits in Bank statement [Deposit slips] Reciepts, Bank statement, Cash register report
- Bank statement - $1,385, as of Aug 31, Accounting Records show a Balance of $2,500 as of Aug 31, 3 deposits in transit totaling $1,500, not yet reflected in Bank statement, Two ~~uncleared~~ outstanding Cheques not yet cleared totaling $400. Servic charge of $25 and Interest income of $10, not yet recorded in accounting records [$2,485] $2,500, $2490, $2,475
- How does the income statement affect equity on Balance Sheet? [Adjusts Equity by amount of Retained earnings] Does not Affect, [Decreases equity By net Loss] [Increases Equity By net income]
- Horizontal analysis and vertical, 40%, 50%, [60%], 70%
Net sales $150k, COGS $90k, Gross profit $60k Current year
- Accrual, Sold $10k on credit, COGS $6,000, Increase cash flow, [Decreases cash]

Exam: 50 minute, 40 question, 70% to pass

Notes for exam

Revenue - Income earned through Business, gross income or Sales

Economic Entity Assumption - Business is distinct from owners

Conservation assumption - If unsure err on side of caution ex understate income, ~~overstate~~ don't record potental profits but do record potental Losses

Consistency principle - once you adopt a method for recording stick with it.

Montary Unit Assumption - uses one currency, value remains constant over time. ex Purchasing Uk equipment, use USD

Accounting cycle

1. Collect and Analyze transactions, gather supporting documents.
2. Record and post transactions + Reconcile. - Post Summery entries to general Ledger, Reconcile with Bank records
3. Prepare unadjusted Trial Balance, Verify Credits and Debits are Balanced.
4. Prepare adjusting entries - From CPA, Depreciation Accruals, Defferals, Depreciation
5. Prepare adjusted Trial Balance -
6. Prepare financial statements, Income, Balance sheet, Equity, Cash flow

$\boxed{\text{CARP PUPA PAPF}}$

Reconciliation - $\boxed{\text{GCADAD}}$

1. Gather Documents
2. Compare entries
3. Check for accuracy
4. Identify Discrepencies
5. Make adjustments
6. Reconcile + Document

Cash Basis - Revenue and expenses are recognized when payment is Received

Modified Cash Basis - Track Revenue via Accrual but expenses when paid. ex Catering event as Receivable, supplies on credit. Not used for official Records, only tracking. Exception: If they have pre-paid expense accounts, N/A

Adjustments:

Deferal - Remove transactions that Belong in a different time period. ADVANCE PAYMENT, ex Unused purchased equipment

Accrual - Future pay or expense, ~~Unpaid~~ Jobs which have not yet received payment for, Unpaid Wages

Tax adjustments - Depreciation (spread out Cost)

Property, Plant and equipment:

Tangible - Vehicals, Equipment, Land. Land does not Depreciate.

Intangible - Copyrights, Patants, Domain name, Trade mark Goodwill

Onboard New Asset:

1. Identify Asset Type
2. Check for existing Account
3. Add the account
4. Record the Asset

Leases -

Operating Lease - No intention of taking ownership.

Capital Lease - Ownership transfers at end of lease

Receipt Requirements - Business info, The purchase, Taxes, Total, Payment Method

Invoice Requirements - Business/Customer info, Invoice number, The Purchase, Taxes, Discount, Balance Due, Terms (payment + Warrenty)

Promisory Note - A legal document with Promise to pay by a certain Date. Reasons: Intercompany Loans, Convert -ing overdue payments.

Includes: Borrower/Lender Address, Maturity Date, Sum, Payment Schedvel, Interest Rate. How it is calculated, Prepayment Process Overdue interest, Default, waivers and the governing Laws.

Bad Debt:

1. Accounts Receivable 2. Accounts Receivable Aging report
3. Doubtful Account 4. Accounts Uncollectable

Bad Debt Expenses - Can be reported on income statement

How to write off:

Direct Write off - Add Debt as expense, Does not follow Matching Principle

Allowance - An estimate, applied periodically

Inventory Types - Raw materials, work in progress, finished goods, merchandise

Not included in COGS: Rent, Marketing, Advertising, Utilities

Inventory Valuation -

First-in, First-Out - First items purchased are first items Sold.

Last-in, First Out - Most Recently purchased items are the first sold

Average cost Method - AVCO - Add price of all Items and dividing it by total quantity.

Tracking - Perpetual and periodic

At least once per year

COGS Formula = \$Initial Inventory + \$Purchases - \$remaining

Inventory Error:
Assets are overstated - Inflates asset value, causes over reporting of Assets. Causes Equity to be overstated Lower COGS is overstatement of equity.
Understated - Assets are understated, Lower Assets means Lower equity.

Depreciation:
Book Value - Historical cost minus Depreciation
Depreciation Expense - The amount An asset has been depreciated in a period
Accumulated Depreciation - Total depreciation over time, a Contra Asset Account - Offsets related Asset account to measure Accumulated depreciation

Methods:
Straight Line depreciation - Same amount of Depreciation expense is recorded each period
Accelerated Depreciation - Depreciated at higher rate at Beginning of Life. ex (2/5) x Principal
Units of Production - How much the asset is used each year, Actual uses ÷ Service Life

Disposition - At end of life, Sold, removed, Disposed
Zero the Account - Net effect on Balance should be zero.
No Book Value - 1. Record and zero Account 2. Entry to Other income to record Gain or Loss
Salvage - Remaining Book value at end of life
Gain: Debit Cash, Credit Accumulated Depreciation,

Credit Other Income. Loss: Debit Cash, Debit other Expenses, Credit Accumulated Depreciation

Bookkeeping Basics Practice Exam

Q4. Increase to Account Payable, How will affect Equity?
Decrease Equity

Q5. ~~$10~~ 10k machine Purchase, $2,000 cash, $8k credit
Assets +10k, Equity +10k | Assets +8k, Liability +8k
Assets +2k, Liabilities +8k | Assets -2k, Liabilities +8k

Q14. Cause to issue Negative going Concern
High Debt-to-Equity Ratio

Q19. Services to 50 at $200/ea, 40 paid by June 30, 10 are scheduled to pay on July 10, Sold $5k cash, $3k expenses on June 30, Bought $2k on credit due July 15
- Modified cash Basis. ~~Revenue $8,000~~
Revenue $13k, Expense $3k

Q20. Main Purpose of adjusting process
- ☑ To correct errors and misstatements that result from inaccurate Records or faulty Assumptions
- ☑ To Record transactions that have not been entered
- ☑ To Record changes in Liabilities and assets that occur as a result of time or activity

Q21. How would you post Adjusting entries
Create New entries in reference to original

Business Structure-
Sole Proprietorship- Unlimited Liability, Taxed as personal income.
Partnership- Owned by Two or more, Unlimited Liability, taxed as personal Income
Limited Liability Company- Owners not personally Liable.

C corperation- Owned by Share holders, Owners not Liable
S corperation- Up to 1000 share holders, all must be US citizens
Non Profit Corperation- Founded by one or more, No single person owns it. Public Organizations. Board of directors; No Liability

Loans-
Mortgage- Used to purchase Land or structure, Secured by property. (collateral)
Commercial Loans- Debt based funding, Secured or Unsecured
Working Capital Loan- Used to finance day-to-day operations, Manage Cash flow, cover operation, Growth opprotunities

Amortization - Gradually Reduces the Value of a Loan Regular payments that include principal and interest
Amortization Schedule- Provided by lenders. Outlines payment schedule

Tax withholdings
Taxable Wages- Excludes contributions to health plan Savings
FICA- Federal Insurance Contributions act
FUTA- Federal unemployment Tax Act - Employer
SUTA- State Unemployment tax act - Employer
SDI- State disibilities Insurance - Employers
Garnishments- Child Support, Unpaid taxes, Credit card debt, Defaulted Student Loans, Medical Bills Court Fees

Types of Workers
Employee- May be eligable for Benefits. Medical Insurance, Business is required to withhold
Independant Contractor- Independent from benefits, They =

pay their own Taxes self employeed. No with holdings.

FLSA - Fair Labour Standards Act - Minimium wage rules, overtime pay, child Labour, Employers must keep record of pay + Time

Forms

W-4, Employee withholdins certificate, how much
W-2, Reports Employee Earnings and Taxes withheld
Give to employee no later than Jan 31
941 - Business Files Quarterly, Report Payroll + Pay SS, Medicare Taxes
944 - Aternative to 941, Only tax Liability less than $1000, Filed Annually
W9 - Filled out By independant Contractors, Does not withhold, Can use EIN - Employer ID, TIN, or SNN
1099 - Sent to IRS and Independant contractors paid at least $600

Payroll Accounts - Salaries Payables Vacation payable, Reimbursment Payable.

Paying The Boss
Draw - Sole, Partnership, LLC
Guaranteed Payment - Partnership or LLC, No withholding
Salary - LLC, S-Corp, C-corp, Non-profit
Distribution - S corp
Dividend - C corp

Recorded on:
Balance Sheet - Draws, Distribution, Dividends,
Income Statement - Guaranteed Payment, Salaries