

# SMALL BUSINESS: ACCOUNTING 101 TOOL KIT



*Knowing the Basics*



# FONTENOT & ASSOCIATES SOLUTIONS, LLC

*Closing process gaps with actual solutions*



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**Fontenot & Associates Solutions, LLC (FAS)** is a small business company located in Katy, Texas. Terra with an MBA in Accounting, founded Fontenot & Associates Solutions, LLC to help entrepreneurs and business owners streamline operational processes and minimize business risk through the development of key business processes. With 10+ years of accounting and operational experience as a professional in Corporate America, she is passionate about using her skills and knowledge to improve the success rates for entrepreneurs and small business owners.

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## Did You Know?

According to the U.S. Small Business Administration, over half of all small businesses started each year will fail within the first five years. Not understanding the basics of accounting and how to manage the financial transactions within your business may be the result of lack of experience or knowledge.

Surveys have showed 46% of small businesses do not hire an accountant and lack fundamental knowledge when deciding to launch a small business. Fontenot & Associates Solutions, LLC



46%

\*\*Source:Allbsiness.com

## **Small Business Accounting 101**

The initial step into entrepreneurship generally starts with the separation of personal and business funds. This is when an entrepreneur or small business owner have decided to change their passion from a hobby to a business.

Let the truth be told, many small business owners may not qualify for opening a business account and that is okay. This step does not stop the movement of entrepreneurship. The solution is simple, just open a separate personal bank account. One of the justifications for keeping a separate bank account for your business is for clean and accurate bookkeeping.

When deciding on the right bank to for your small business, this tarts with understanding your business needs. Inc. Magazine published an [article](#) that can support with decision making.

Once you have established a separate bank account it then becomes important to start posting your income and expenses. Even if you have an accountant, as a business owner, you still should know the accounting basics such as debits and credits and some accounting terminology.

### **Debit and Credit**

The words “debit” and “credit” have very distinct meanings and a close relationship. Debits and credits balance each other out – if a debit is added to one account, then a credit must be added to an opposite account.

- Debits increase asset or expense accounts and decrease liability or equity accounts.
- Credit do the opposite, it decreases assets and expenses and increase liability and equity.

Now that we have covered the ground level of accounting and why some general ledger accounts and changed with a debit and others with a credit. There are many tips to remembering the difference between a debit and credit but we would like to share one.

**Debit** – All Expenses and Losses (**D**on't **E**at **L**ettuce)

**Credit** – All Incomes and Gains (**C**ome **I**n and **G**o)

### **Accounting Equation**

Taking this a step further means the business owner is ready to put this information into action by understanding the meaning of assets, liabilities and equity.



The equation that is the foundation of double entry accounting, is the accounting equation.

**Asset:** A resource controlled by a business which is of economic use to the business. Examples of assets include land, buildings, inventory, accounts receivable or cash.

**Liability:** The obligation of a business towards its creditors. Common liabilities are accounts payable, salaries payable or taxes payable.

**Equity:** The claim of the owners of the business on the business' assets

It displays that all assets are either financed by borrowing money or paying with the money of the company's shareholders. The accounting equation is a simple way to view the relationship of financial activities across a business. For example,

If a business wishes to purchase a new asset, such as computer equipment that cost \$3,000, the purchase can be made using cash (an asset), with owner equity (earnings or funds) or with a liability (such as borrowed money). If a liability is used for the purchase, the \$3,000 can then be paid off using assets or with the use of a new liability, such as a bank loan.

**Balance Sheet**

To create a balance sheet for your business, the business owner must develop general ledger accounts. Most will be standard general ledge accounts and others may be added based on the industry.

The components of a balance sheet are assets, liabilities which then equal your net worth (Equity). The purpose of company balance sheet is to evaluate the financial position of the

company. The balance sheet is commonly known as the foundation of the entity. An example is below:

<b>Example Company Balance Sheet December 31, 2015</b>			
<u>ASSETS</u>		<u>LIABILITIES</u>	
<b>Current assets</b>		<b>Current liabilities</b>	
Cash	\$ 2,100	Notes payable	\$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
<b>Total current assets</b>	<u>89,000</u>	<b>Total current liabilities</b>	<u>61,000</u>
<b>Investments</b>	<u>36,000</u>	<b>Long-term liabilities</b>	
<b>Property, plant &amp; equipment</b>		Notes payable	20,000
Land	5,500	Bonds payable	400,000
Land improvements	6,500	<b>Total long-term liabilities</b>	<u>420,000</u>
Buildings	180,000	<b>Total liabilities</b>	
Equipment	201,000		<u>481,000</u>
Less: accum depreciation	(56,000)	<b>STOCKHOLDERS' EQUITY</b>	
<b>Prop, plant &amp; equip - net</b>	<u>337,000</u>	Common stock	110,000
<b>Intangible assets</b>		Retained earnings	220,000
Goodwill	105,000	Accum other comprehensive income	9,000
Trade names	200,000	Less: Treasury stock	(50,000)
<b>Total intangible assets</b>	<u>305,000</u>	<b>Total stockholders' equity</b>	<u>289,000</u>
<b>Other assets</b>	<u>3,000</u>	<b>Total liabilities &amp; stockholders' equity</b>	
<b>Total assets</b>	<u>\$ 770,000</u>		<u>\$ 770,000</u>

\*\*Accounting Coach.com

Other examples of sample balance sheets can be found [here](#), or [here](#).

Important to remember, the balance sheet is appropriately named because it must always stay in balance. The overall value of the assets must equal the value of the liabilities plus the value of the equity.

Congratulations – You have taken the first step to learning more about the accounting aspect of your business. Now, it is time to move forward with making process changes and improvements within your business. To discover more about accounting, visit us at [bit.ly/FASbizsolutions](http://bit.ly/FASbizsolutions).