

s m a r t b r a i n

Computer Training

**BcS Certificate Course**



(A division of **YuRobe**)

**Basic Accounting for Business People  
(using GnuCash)**

# Objective

The purpose of this course is to:

- 1. Establish in your mind the **fundamental principles** of accounting;
- 2. Get a grasp on the **Balance Sheet & Income Statement**;
- 3. Understand the **process of accounting**;
- 4. **Implement** the accounting process on a software package;
- 5. Obtain **insight** into financial statements;
- 6. Use the above to **better manage** your business and to make sound **tax and investment decisions**.

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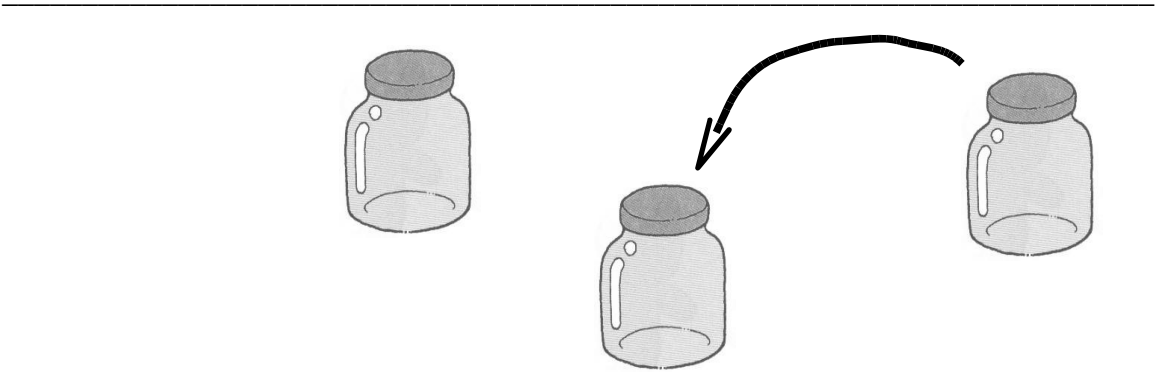
# 1.) Definition of Accounting

**Accounting is to KEEP TRACK of the FLOW OF MONEY.**  
*(Where did it come from & Where did it go to)*

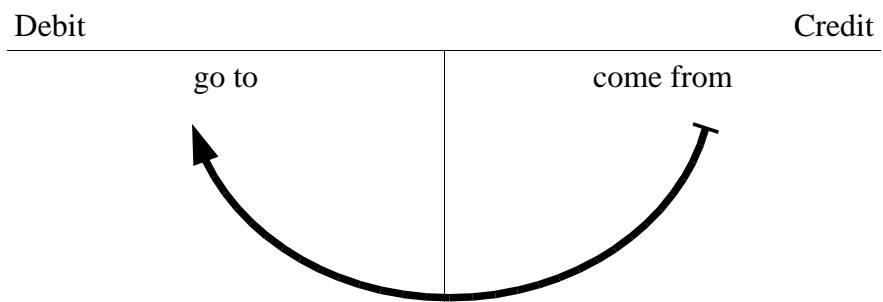


# 2.) Accounts

What is an Account ? \_\_\_\_\_



# 3.) Debit and Credit



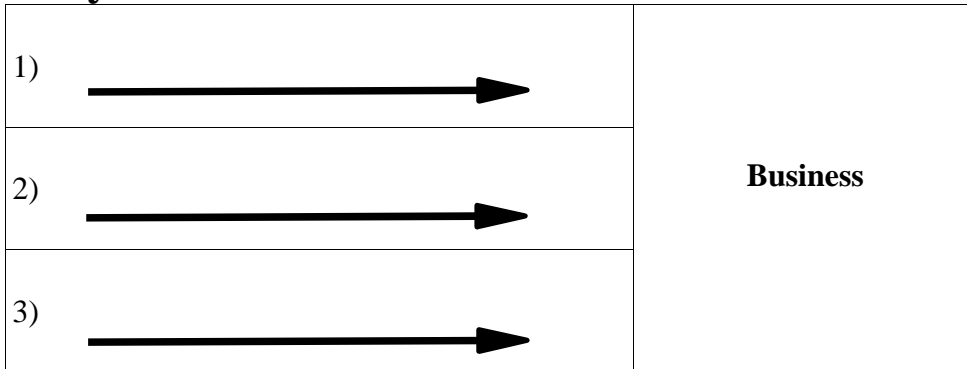
We give \_\_\_\_\_  
where the money came from

and we \_\_\_\_\_  
the account where the money went to.

# 4.) Flow of Money

Money flows from 3 categories into a business.

**3 ways --->>>> in**



Some of the **inflows** the business have to give back again. Which are these ?

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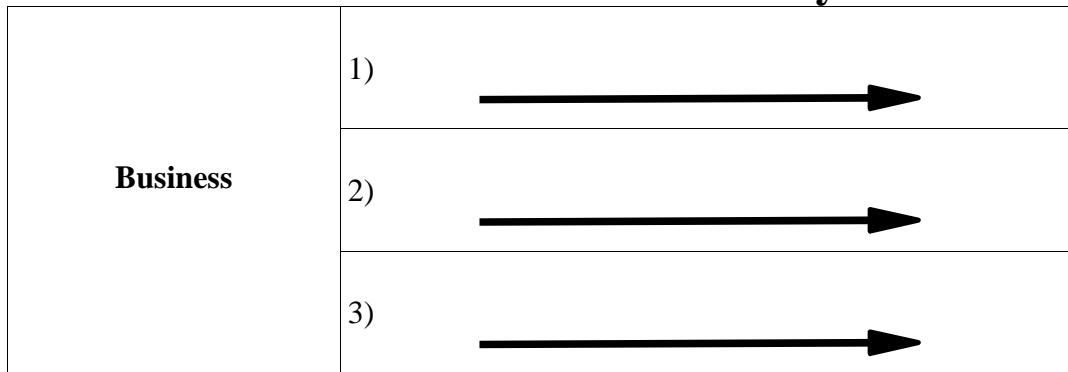
Some of the **inflows** the business don't have to give back - the business has earned it. Which are these ?

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Money flows in 3 categories out of a business.

**3 ways --->>>> out**



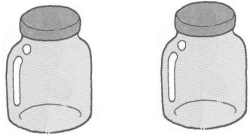

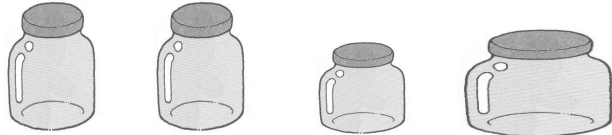
Some of the **outflows** the business can get back again. Which are these ?

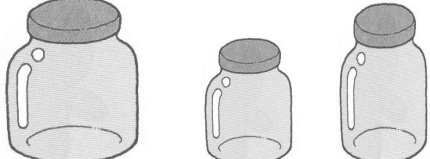
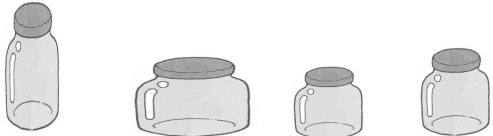
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Some of the **outflows** are gone forever. Which are these ?

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# 5.) The 5 basic Categories

<b>Equity</b>		<b>Balance Sheet</b>
<b>Liabilities</b>		
<b>Assets</b>		

<b>Income</b>		<b>Income Statement</b>
<b>Expense</b>		



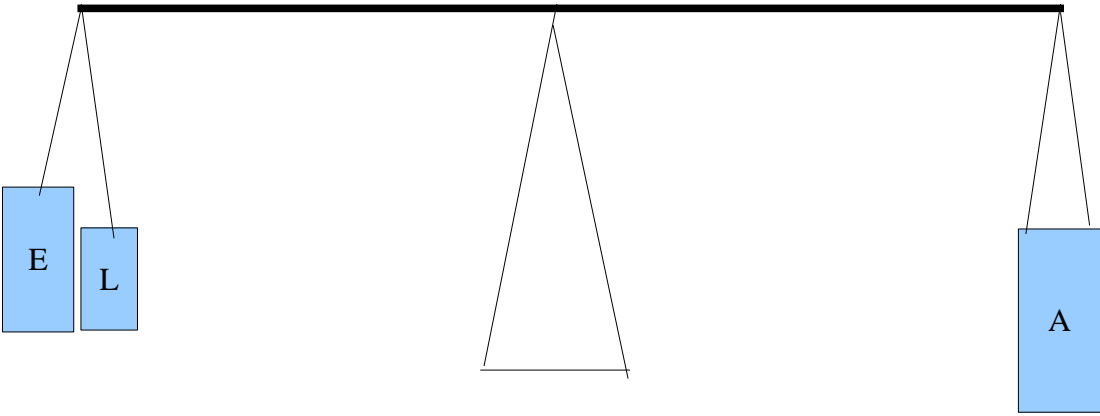
**3ways --->>>> in**

**3 ways --->>>> out**

<b>Owner's Deposit</b> <i>(have to pay it back again)</i>	<b>Equity</b>	<b>Assets</b>	<b>Buy Stock &amp; Equipment</b> <i>(can get the money back again)</i>
<b>Get Loans</b> <i>(have to pay it back again)</i>	<b>Liability</b>		<b>Pay Back Loans &amp; Equity</b>
<b>Earn Income</b> <i>(business has earned it)</i>	<b>Income</b>	<b>Expense</b>	<b>Expenses</b> for generating income <i>(can NOT get the money back again)</i>

# 6.) Balance Sheet

*(a snapshot of the balance of interest)*



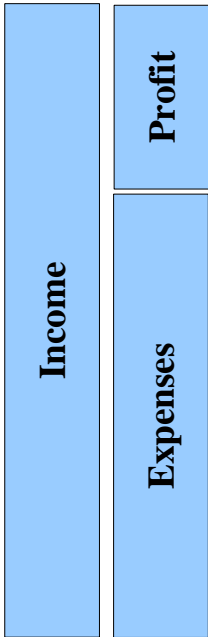
**Equity + Liabilities = Assets**

*All the Assets was bought either with money we got from the Owners or with borrowed money.*



# 7.) Income Statement

*(history of the success of trading)*



***Income - Expenses = Profit***

## 8.) Typical Layout of Financial Statements:

### Balance Sheet

<b>Capital Employed</b>		<b>100</b>
<i>Owners</i>	60	
<i>Loans</i>	40	

<b>Employment of Capital</b>		<b>100</b>
<u>Fixed Assets</u>		55
<i>Equipment</i>	25	
<i>Buildings</i>	30	
<u>Net Current Assets</u>		45
<b>Current Assets</b>	<b>60</b>	
<i>Stock</i>	30	
<i>Bank</i>	10	
<i>Debtors</i>	20	
<b>Current Liabilities</b>	<b>15</b>	
<i>Creditors</i>	15	

### Income Statement

	<b>Sales</b>	10
<i>minus</i>	Cost Of Sales	6
<i>equal to</i>	Gross Profit	4

<i>minus</i>	<b>Expenses</b>	3
	Rent	1
	Salaries	1
	Other	1
<i>equal to</i>	<b>Net Profit</b>	1

### Cash Flow Statement

Total Cash In	XXXXXXXX
#####	
#####	
Total Cash Out	XXXXXXXX
#####	
#####	
Balance	XXXXXXXX

(Draw the balance sheet scale and the income statement bars on the left of the statements.)

## 9.) Generic Process:

1. Where did the money come from ?
2. Which category is applicable ? (equity, liability, asset, income, expense)
3. Is there an account for this ?
  
4. Where did the money go to ?
5. Which category is applicable ? (equity, liability, asset, income, expense)
6. Is there an account for this ?

### **Start GnuCash and Create the 5 basic top level accounts:**

equity, liability, asset, income, expense

### **Record the following transactions:**

#### Taxi Business:

1. You the owner, are beginning with a Taxi service. You take R 30 000 of your savings and open up a banking account for the business.
2. You borrow another R 40 000 from Motorfin
3. You buy a second hand taxi for R 60 000.
4. You put in R 200 worth of fuel.
5. You take 10 people to Sun City (they pay you R 120 each).
6. You pay the first payment of R 900 on the taxi (R 600 on interest and R 300 on loan capital).

#### Retail Business (Cafe)

1. You the owner, are beginning with a Cafe. You take R 5000 of your savings and open up a banking account for the business.
2. Your Uncle Tom lends you another R 5000.
3. We buy some sweets from Metro to the value of R 6000.
4. We buy a cash register and some display cabinets fro R 3000.
5. During the first month we sell sweets to the value of R 7200 (our mark-up is 50%).
6. Expenses for the first month are: rent R 900, telephone R 150, electricity R 300.
7. We repay Uncle Tom R 500 on the loan.

#### Questions:

Why is source documents important ? :

What type of business has to be audited ? \_\_\_\_\_

What is the principle of double entry ? \_\_\_\_\_

we account for where the money \_\_\_\_\_ and where it \_\_\_\_\_

What is the "Snapshot of the balance of interests" ? : \_\_\_\_\_

What is the "History of the success of trading" ? : \_\_\_\_\_

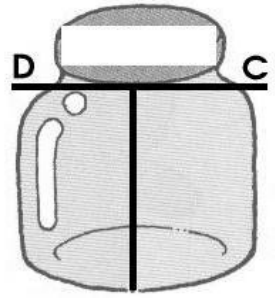
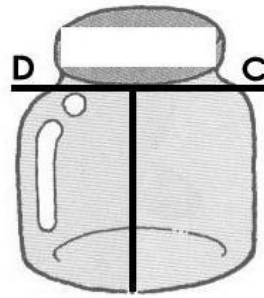
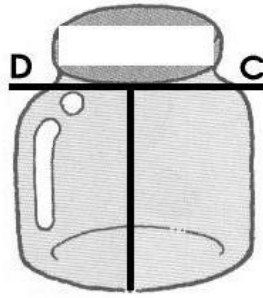
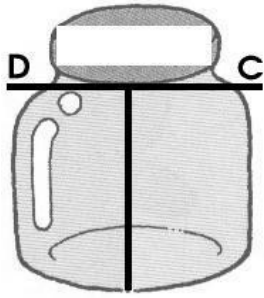
Is VAT an income or an expense ? : \_\_\_\_\_

Do the following two transactions:

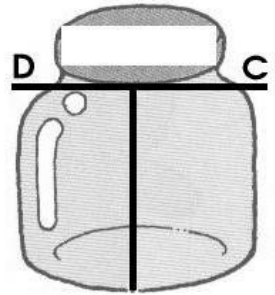
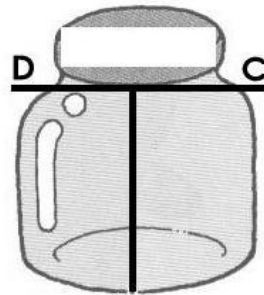
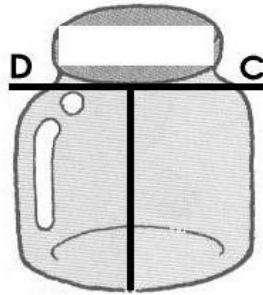
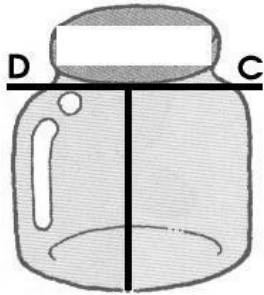
1. The owner eats R 100 worth of sweets.
2. The mice eat R 100 worth of sweets.



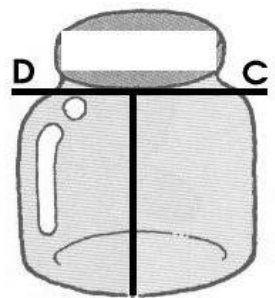
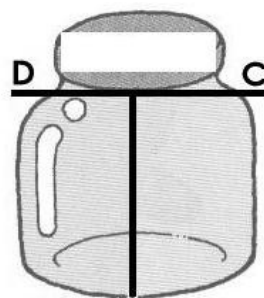
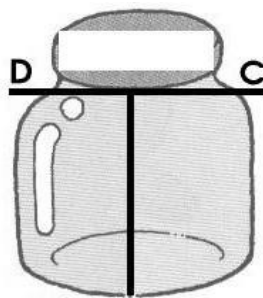
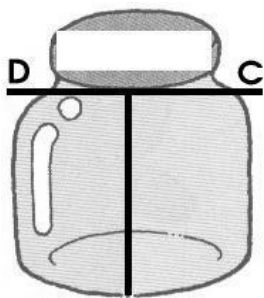
**Equity**



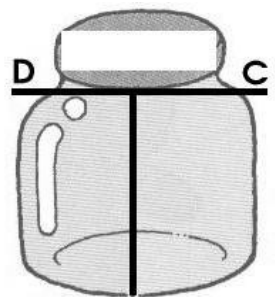
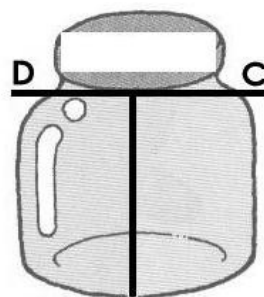
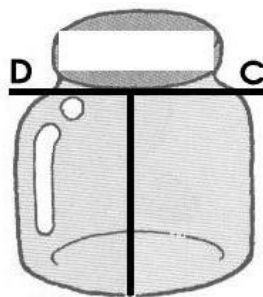
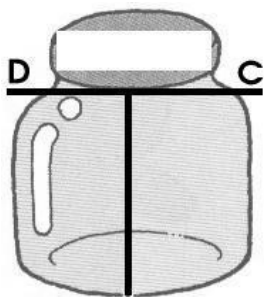
**Liability**



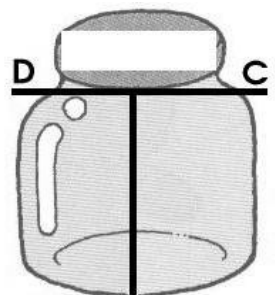
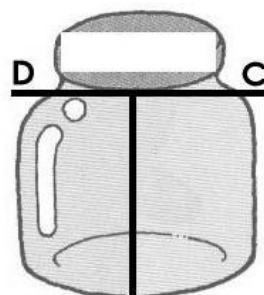
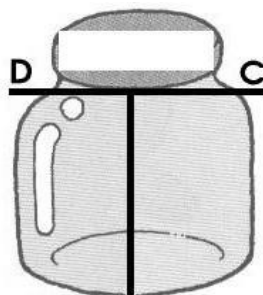
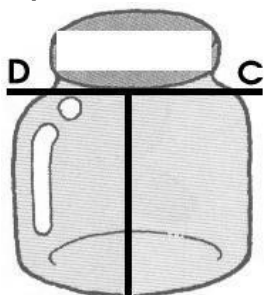
**Assets**



**Income**



**Expense**



## 10.) Application

### **Ratios**

What is meant by the following:

Liquidity Ratios (Current Ratio)

Asset Management (Inventory Turnover Ratio)

Debt Management Ratios (Debt Ratio = *total debts / total assets.*)

Profitability Ratios (Profit Margin on Sales) (Return on Assets) (Return on Equity)

Market Value ratios (Price per Earnings P/E)

### **Industry Benchmarks**

In your type of business, what are the 3 **main financial parameters** that determines the success of the business ?

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What can you do to measure and manage these ?

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### **Tax Planning**

Where (on what) are the following taxes payable:

Income Tax: \_\_\_\_\_

VAT: \_\_\_\_\_

District Council Levy: \_\_\_\_\_

Skills Development: \_\_\_\_\_

Other: \_\_\_\_\_

How can you minimize the amount of tax that you have to pay ?

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