

Business and Bookkeeping for Beginners

This is aimed at anybody who has no or very little knowledge of business. I will be starting at the very beginning of understanding and explain I will basics, in fact I assume you have no prior knowledge whatsoever. The notes are designed to provide explanations in the simplest manner possible.

I will provide a progressive level of understanding starting at Primary Level.

Primary Level

What is a business?

A business buys things and sells things; that's as simple as I can state it. It often amuses me when I client says "come out of my business and look at it, so you can understand it". Well I've been doing this long enough I know what a business does; the simple fact is it will buy things and sell things. Yes there are complications; it may employ staff to assist it in this process of buying and selling or it may have to build things that it's going to sell.

When I say buys things, it could be that the business buys **goods** that it is going to resell.



For example: a hardware store buys goods from their suppliers and places them on the shelves and waits for a customer to buy them.

Other things a business may buy to resell may include parts for repair work that the business undertakes.



For Example : a motor mechanic will buy spare parts and oil etc. that they use to repair the motor vehicles for their customers. In the case of the motor mechanic they may do the work themselves or may employ the mechanics to do the repair work.

Other things a business may sell are **services**; which usually means its employees will carry out some form of work for the customer.



For Example: A hairdresser will cut/style your hair for a fee.

A more complex business is a manufacturing business. This is one where they buy raw materials from suppliers, employ staff and use machinery to build a complex product which they sell to a customer.



For Example: engine manufacturing.

The Profit Motive

The object of a business is to make a profit; this is achieved by selling things at a higher price than they cost. There is no future in selling things for a loss; that is, when you sell something for less than you paid for it.

I know some people would find a business making a profit is an obscene idea, but the reverse is true. Consider if a business continually makes a loss, eventually it will run out of money and not be able to pay its expenses which could include not being able to pay wages to its employees or pay suppliers. This is substantially more damaging than making a profit, as suppliers and employees will be out of pocket through no fault of their own; this is not the way to run a business.

In my opinion a business has an obligation to make a profit, that way everyone gets paid, the customer gets the products or services for the price they were willing to pay, the suppliers and employees are paid, the business owners gets paid; everyone is happy!

The profit motive is only a wrong when a business engages in profit gouging or exerting undue pressure on customers or suppliers to earn a larger profit or making excessive profits well above an adequate return on capital employed. That's enough of me on my soapbox!

Even a household must make a profit!

In a household situation the wages received are your income and the household bills are your expenses. You



need to carefully budget how you will spend the wages so that you have sufficient money to pay all bills eg food, electricity, gas, water & council rates, health care, school fees, motor vehicle running costs etc. If you have been successful running the household budget you will have some money left over (Profit) to go on a holiday. Compare this to a company; when a company makes a profit they will pay a dividend to the owners or shareholders.

A simple business example

A very simple business would be to sell books on e-Bay. Firstly you need to buy some books cheaply, then sell them for a higher price. You may be able to buy the books cheaply at a charity book sale or garage sale, where you can select popular books that you believe will sell easily. You will list them all on e-Bay at a certain selling price, you would offer local pick-up or postage to their address for an additional price.



Let's say a customer buys one of the books, for the full price including delivery.

So what other components of the sale?

They will pay the selling price plus the postage charge that you have specified on e-Bay.

The selling price plus the postage will be your income.

Your expenses will include:

- The cost of the book
- The cost of the postage charge
- The E-bay selling fees

If the total income is greater than your expenses then you have made a profit on the sale. That's Business!!

For example: let's say we sold the book for \$12.00 and we charged \$3.00 for postage. Our total income will be \$15.00

The book costs \$1.00, postage cost was \$3.00 and e-bay selling fees \$1.00. Our total expenses will be \$5.00. This will provide you with a profit on the sale of \$10.00; fantastic!

Now I know some people will say we had to drive our car to buy the books and again to the post office to mail them, yes that is true. These are an additional expense in running the business as a whole; we will examine this in more detail later.

A single sale does not make a business

What defines a business is the ability to conduct buying and selling regularly, maintaining a high number of sales.

In our example where we sold one book for a profit of \$10.00, which is fine for one sale but a business needs to do this many times a week, maybe 100 times a week! This will provide a profit of \$1,000 per week; now we are talking about a serious business that will generate a reasonable income for the owner.

What is a successful business?

As you may have guessed the key to a successful business is being able to consistently buy and sell at a profit while maintaining a high number of sales. That is, we need to be able to sell our products or services a number of times each week and do this for most of the year, let's say 50 weeks per year; the owner will take 2 weeks holidays. This is generous as many business owners will not be able to take time off!

Consistency, as stated above, is the key! Thus a seasonal business will not be as successful. For example a business that is located by the seaside and deals with children on holidays, it will only be busy during summer holidays and to a lesser extend during spring & autumn school holidays. Such a business would need to diversify into offering something to adults and attract weekend trippers and overseas tourists to the location. We will look at these ideas later.

What is Bookkeeping?

It is simply recording all business financial transactions in a bookkeeping system. That is, to record the sales a business makes to its customers and the bills it pays to suppliers.

The reason this is done is, so we know if the business has made a profit or a loss. The Profit and Loss Report can be calculated via the bookkeeping entries or if using a computerised bookkeeping system such as MYOB it can be easily printed.

It is important to remember that every financial transaction made in the business must be recorded in the Bookkeeping system.

For example: if we buy some stationery from Officeworks, that purchase must be recorded.

Consider this; If we bought a packet of biros from Officeworks on Monday,

than on Tuesday we bought ink cartridges for our printer from Officeworks and on Wednesday we bought a box of A4 paper. We would need to enter 3 transactions into our bookkeeping system. Whereas if we had planned our stationery needs; then all these purchases could have been made in 1 visit to Officeworks and only 1 transaction would be entered into our bookkeeping system.

The message is; the bookkeeping process can be made quick & easy or it can be made unnecessarily time consuming, I always look for quicker & easier methods.

Some business owners wrongly believe they do the bookkeeping so the Income Tax and GST can be calculated for the Taxation Office. However the main reason should be to assist the business owner in managing their business. That is, to understand the financial aspects of their business and make informed decisions; sadly using financial reports to assist in managing a business is often over looked, resulting in missed opportunities.

Shoe Box full of Receipts



The idea of storing your receipts in a shoe box and taking them to your Tax Accountant at the end of the Financial Year is a thing of the past; they do not have the time to work from sketchy records. If they do they will charge a fortune to do the work!

Even using a spreadsheet for bookkeeping is only a stop gap improvement on the shoe box, as the key to bookkeeping is being able to reconcile all of your transactions to your Bank Statement. We will discuss this in more detail later.

Computerise the Bookkeeping Function; MYOB

We use a bookkeeping computer system, such as MYOB, to assist in recording our business transactions.

How is this recorded MYOB?

MYOB has different sections or Command Centres to record different types of transactions. The benefit of using such a system is it is intuitive, easy to learn and great efficiencies can be achieved, if used correctly; hence the need for some training.

Command Centres in MYOB AccountRight Plus;



Let's discuss some of the Command centres in MYOB

Sales

The Sales command centre allows sales invoices to be entered and recorded. Once recorded the invoice can be printed or emailed to the customer.



In business a sale does not necessarily result in the receipt of payment immediately, the customer may be given time to pay for the sales invoice. Hence the need for the Sales command centre; which allows the sale to be recorded with or without immediate payment from the customer. A report can be printed showing the amount owed to us by our customers or we can look at the Sales Register and view unpaid invoices.

When the customer pays the invoice, this is also recorded in the Sales command centre. One of the great benefits of using a computerised system is we will know which customers have not paid their sales invoice.

When the customer does pay the invoice the money will be received and deposited into the business bank account and the invoice will be recorded as paid.

Purchases

The Purchases command centre allows bills received from our suppliers for goods we have purchased to be entered and recorded. We can also pay for the goods in this command centre. As discussed above when we buy goods from our suppliers they may allow us to pay for them at a later date. One of the great benefits of using a computerised system is we will know which bills have not been paid. A report can be printed showing this or we can look at the Purchases Register and view unpaid bills.

Banking

The Banking command centre is used to record deposits and withdrawals from the business bank account. Note this does not directly connect to the actual bank account; it merely records the transactions which have been processed by the bank.

Once the bookkeeper has entered all transactions into MYOB a reconciliation of the Bank account can be completed. The idea of bank reconciliation is to make sure all entries in your bank account have been entered into your MYOB bookkeeping system; this is one of the ultimate objectives of bookkeeping. This is something your Tax Accountant will depend upon, without it your Income Tax Return cannot be produced!

Accounts List

When we use the above command centres to record sales, purchases and banking etc. we can view the accumulation of these transactions in the **Accounts List** command. That is; the Accounts List section allows us to view the total dollar amount which has been allocated to each account. When we enter a transaction, such as a Sale, it will be allocated to an Income account in the Accounts List. We may have a number of

Income accounts which are used to record different types of income eg Sale of Parts, Sale for Repairs, Rental Income etc.

Similarly when we purchase goods from our suppliers the bills will be allocated to an expense account in our bookkeeping system. Eg. A motor mechanic will purchase parts which are used in the repairs to the customer's motor vehicles; these purchases will be allocated to an expense account such as Cost of Parts account. Other expenses such as rent, telephone, stationery will also be allocated to their respective accounts.

The Accounts List can be thought of as a large data base of accounts, each account is used to collect like transactions so that reports can be easily printed eg Profit & Loss report or Balance Sheet report.

Example of a Profit & Loss report for a company called Clearwater, which sells water coolers and water for the coolers etc.

| Clearwater Pty Ltd | | | |
|------------------------------------|--|---------------------|----------------|
| Profit & Loss Statement | | | |
| | | October 2014 | |
| Income | | | |
| Sales - Water | | \$5,000 | |
| Sales - Rental of Coolers | | \$2,000 | |
| Sales - Water Cooler Equipment | | \$8,000 | |
| Total Income | | \$15,000 | |
| Expenses | | | |
| Purchases - Water | | \$2,500 | |
| Purchases - Water Coolers | | \$4,000 | |
| Sub-Contractors | | \$2,200 | |
| Advertising | | \$800 | |
| Stationery | | \$400 | |
| Car Expenses | | \$800 | |
| Insurance | | \$1,000 | |
| Office Rental | | \$1,500 | |
| Telephone | | \$300 | |
| Total Expenses | | \$13,500 | |
| Net Profit / (Loss) | | | \$1,500 |

The figures for this report are extracted from our Accounts List in MYOB

To Be Continued