

# THE ACCOUNTING PROCESS: A SIMPLE RECORDING OF TRANSACTIONS

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■ Accounting systems are designed to control a company's financial transactions. They change with the organization's size and age.

If you are already in business, you should have at least a simple accounting system set up. But as your business grows, so should it. The simple system presented here can be accomplished in a few minutes each day.

**The basics**—Any business should have a separate company bank account. To try to run your business out of your personal checking account is often dangerous. At some point, you or someone else will be required to separate the information. This can be a long and involved process.

Record every transaction involving a bank deposit or withdrawal, and what each transaction is and why you made it. Dates, amounts, and with whom the transaction was made are also important. Cross reference every invoice and payment to the check number, and maintain these slips in a file by check number. The more description, the better.

As a minimum, you should be able to determine the amount of each transaction and the amount of the sales tax collected. At the end of the day, you should record information on a simple columnar sheet of paper called the monthly sales journal. It should have at least five columns: gross cash collected, sales, sales tax, cash payments (made straight out of the till for miscellaneous expenses), and bank deposits.

Now for a simple cross-check. Sales plus sales tax will equal gross cash collected, will equal bank deposits plus cash payments. Balance these five columns each day, and total them at month's end. You may consider a sixth column, which would be used for the differences in till count, commonly called cash-over/short.

Using this simple recording method, along with your check stubs and monthly bank statement, will give you the very basics of an accounting system.

All of your source documents (receipts, invoices, etc.) are the back-up support for

|            |        |     |      |         |         |
|------------|--------|-----|------|---------|---------|
| Sale       | 314-   |     |      |         | 2073.31 |
| Tax        | 21-    |     |      |         | 2084.31 |
| Sale       | 278-   |     |      |         | 2362.31 |
| Tax        | 18 50  | 432 | 21   |         | 2380.81 |
| Payroll    |        |     | 8 63 |         | 1948.60 |
| Insurance  |        |     |      |         | 1939.97 |
| Payable    |        |     |      | 1021 47 | 918.50  |
| Receivable | 407 -  |     |      | 3 31    | 915.19  |
|            | 255 89 |     |      |         | 1322.19 |
|            |        |     |      |         | 1519.08 |

these accounting records. Place receipts in a brown manilla envelope for each month. Keep your cash paid-outs in a separate file. Finally, collect and organize your complete bank statement (cancelled checks included) in an envelope clearly marked with the appropriate date. This takes care of your paperwork.

**The first employee**—The above system assumes that you are operating the business by yourself. When you hire your first employee, the fun really starts!

Our government is very fussy about payroll management. Before hiring your first employee, you must register as an employer, during which you will be provided with the required government forms. Get someone with payroll experience to help you through the maze of paperwork.

Good payroll books are available at your local business supply store. They all have a place to record the hours, rate, gross pay, and other deductions and incomes for each employee. They also have a section for statutory deductions (pension, taxes, etc.).

This book, along with government tax tables, will allow you to calculate the net pay. Remember that government reporting is fairly strict in this area. Make sure your records allow the periodic reporting of totals and employee information.

**Two accounts**—*Accounts payable* are outstanding invoices for materials and services received but not yet paid for. Keep these invoices in an accordion file with different slots for each day of the month. Once you have approved payment of an invoice, determine the due date and place it into the slot matching the payment date. When you are ready to write checks, pull the relevant dates. At the end of the

month, sort all of the invoices as to type of expense, total each of the types, and run a grand total for all of the payables.

*Accounts receivable* work in a similar fashion. Sort daily invoices by customer and file in an alphabetical folder. At the end of each month, total the invoices for each customer and list all receivables by customer. Do this on a columnar pad so that, in addition to the total, you can also create subtotals for the length of time outstanding. Usually, this is done in 30-day intervals.

**Statements**—Now you have the basic information necessary to put together a financial statement.

Write down your total sales from the sales record prepared earlier. This is your gross revenue for the month. Next, list your categories of expenses, using check stubs and accounts payable listings. Group together similar expenses, and try to keep the number of classifications low. Add any other charges from your bank statement and add your employer share of payroll taxes. The sum should be your total expenses for the month.

The difference between expenses and revenue will be a rough estimate of net income. Be cautious about this number. To be complete, it must also take into account other non-cash entries such as inventory, taxes and depreciation, which can have a major effect on the bottom line. Take the monthly totals for all classifications and add them to the year-to-date amounts from last month. This will give you a new year-to-date picture of your operation.

Each record should be completed as it occurs. Taking a few moments each day will greatly increase the accuracy of your records and make it easier to understand your financial information.

You might also periodically engage professional help. But this basic system will allow you to maintain control and will likely reduce the fees charged by an outside accountant.

—Dan Sautner is chairman of Padgett Business Services, Athens, Ga. This is the fourth in a series of articles he is writing for LM that addresses small business accounting.