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1. What is bookkeeping?

The Basics

Bookkeeping involves recording, storing, and referencing all day-to-day financial transactions of your business. These financial transactions include all of the money coming into (sale of products or services) and going out of (rent, salaries, inventory, supplies, etc.) your business.

Each transaction is written down or typed electronically into a ledger book. This list of all the daily transactions is important and ensures a detailed record is kept so that you may use the information to create financial statements that help to show the health of your business. The records are also used to report your tax information to the government by law. Because of this, it is very important to keep accurate and daily records of all business transactions.

Tell Me More

All financial transactions are recorded daily into the ledger and should have a document that describes the transaction such as a receipt of sales, invoice, payment to supplier or bank. These documents create a record for each transaction that can be traced back and verified during an audit or review. Bookkeeping follows guidelines set forth by the Afghanistan Revenue Department, Ministry of Finance (mof.gov.af).

The ledger transactions are all organized into groups called the chart of accounts where the financial information is used to create financial statements such as the balance sheet, income statement, and cash flow statement. These statements help to show the financial health of your business.

Typical business activities captured in a bookkeeping ledger are:

- The sale of a product or service income
- Deposits to the bank account
- Payments for purchases of supplies or services
- Any other type of operating costs

Bookkeeping can also record accounts receivable (money not yet received from a customer you have already sold your product or service) and accounts payable (money owed by a company to its creditors), payroll (wages paid to workers of a company), along with asset (anything of value owned by a company) purchases such as furniture, computers, and equipment and most importantly, it is used to record and track owner's equity.

Bookkeeping is generally based on either a cash basis or accrual basis form of reporting. The basis of accounting is determined by Department of Revenue, Ministry of Finance. According to Article 37, Corporations and Limited Liability Companies must report on an Accrual Basis of accounting while other businesses will use the Cash Basis method of accounting.

The Accrual Basis method of accounting recognizes revenue (income from sales of goods or services) when the sales is made (i.e., when the good or services are provided) and expenses (money paid out by your business) when the cost is incurred (i.e., when a company uses a good or service). Cash Basis method of accounting records revenues when cash is collected from a customer and records expenses when the expense is paid. For example, assume that you sell 200 mobile phone sets to a retailer, who will pay you three months later. In accrual-based accounting, you will record the revenue now because you sold the mobile phones. In cash-based accounting, you will record the revenue when you receive the payment in three months.

There are numerous bookkeeping software packages (e.g., QuickBooks, Zoho Books) and websites for additional information (e.g., Beginner-bookkeeping.com). Companies alternatively use Microsoft Excel for book-keeping purposes.

Glossary Terms from this Section

Balance Sheet - A statement of the assets, liabilities, and capital of a business.

Cash Flow Statement - A financial document showing the money that is flowing into your business and the money flowing out of your business.

Chart of Accounts - Organizational chart showing every account from the ledger.

Financial Statements - A formal record of financial activities in a business.

Income Statement - Reports the company's financial performance over a specific accounting period.

Invoices - A list of things or services provided and the amount of money to be paid.

Ledger - A collection of financial accounts.

Owner's Equity - The owner's investment in the business.

Receipts - A copy of the transaction that is given to the customer when they have paid and a copy is kept by the business.

For More Information Related to this Topic See

- What is a ledger? *11. Bookkeeping*
- What is a chart of accounts? *11. Bookkeeping*
- How does bookkeeping help financial management? *11. Bookkeeping*
- What are financial statements and why do I need to use them? *12. Financial Management*
- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*

2.
Why should I keep detailed records?

The Basics

Detailed record keeping produces an audit trail of transactions for balancing your ledger accounts. The resulting financial reports will help you manage your business by clearly reflecting what activities are making money and what activities cost money. Keeping detailed records will also help you to judge if your business is doing well financially or if there may be financial trouble in the future.

For example, consider Farida Kakar who started a bakery a year ago. She was new in the market and launched fresh products every month. Farida had very basic records of her revenue, but lacked breakdown of revenues based on products. She was not happy with her bakery's revenue, even though the store received large numbers of customers. After consultation with an accountant friend, she realized that some products were selling well and others were not. Her friend told Farida that her book-keeping was too simple and did not record how much revenue each product generated. She improved her bookkeeping and closed products that were not selling. As you see, proper bookkeeping that meets your needs will help you run your business smartly and profitably.

Tell Me More

To run a successful business, accurate and timely financial information is a requirement. Here are some of the reasons why you need to keep detailed financial records:

- Monitor the success or failure of your business. It can be hard to know how your business is doing without a clear financial picture. Are you making money? Are sales increasing? Are expenses going out more than sales coming in? Which expenses are too high based on your level of sales?

- Provide the information you need to make decisions. Evaluating your financial condition should be a part of every business decision you make. Without accurate records and financial information, it may be hard for you to know the financial impact of your choices. Should you hire another salesperson? How much will another production employee cost? Is a particular product or service profitable?

- Obtain other sources of capital. If your business has reached the point where you need to take a partner, any potential partner will want to be familiar with the financial health of your business. If you need capital and think about partnering with an outside investor, you will likely need to produce a lot of financial information. Suppliers and other creditors may ask to see certain financial records. This information can be produced by an outside accountant, but is based on your day-to-day recordkeeping.

- Budgeting. All businesses should use a budget for planning purposes. A budget will help your business by predicting your cash needs and helping you control spending money. If you are looking for other sources of capital, an investor will probably want to see your budget as a sign that your business is organized and stable. You must have solid financial information to prepare a meaningful budget.

- Prepare your income tax. You must file a tax return and pay taxes. With good records, preparing a tax return will be easier and more able to do it on time. If an accountant prepares your taxes, proper record keeping will help them to more easily prepare and submit your tax return.

- Distributing profits. If your business is a partnership, you will need good records to determine the correct amount of profits to distribute to each partner. If you are operating as a corporation, you must determine the company profits that you will be paying out as dividends to the shareholders.

Glossary Terms from this Section

Budget - An estimate of income and expenses for a set period of time.

Capital - The money needed to start and operate a business.

Dividends - A portion of a company's earnings given to shareholders.

Expenses - Money paid out of the business to pay for an item or service.

Investors - An individual or company who gives money with the expectation of financial return.

Ledger - A ledger is a complete record of financial transactions over the life of a company.

Profit - Any positive amount of money left over after subtracting expenses from revenue (income).

Shareholder's Equity - The value of a company, or the amount that would be returned to shareholders if all the company's assets were liquidated and all its debts repaid.

For More Information Related to this Topic See

- What is bookkeeping? *11. Bookkeeping*
- What is a ledger? *11. Bookkeeping*
- How does bookkeeping help financial management? *11. Bookkeeping*
- How often should I do bookkeeping? *11. Bookkeeping*
- How do I make sure the money in my business is handled carefully? *11. Bookkeeping*

3.
What is a ledger?

The Basics

Ledgers are simply transaction sheets (or a computer file), listing the company's financial transactions. The main bookkeeping ledger is the general ledger, which is a permanent summary of all the individual financial transactions by date. The general ledger can also be broken down into the chart of accounts subsidiary ledgers that are recorded separately and show the beginning and ending balance of each account. Account summaries show the transaction activity for a period of time as well as the current account balance. The ledger serves as the authoritative source of data for building a company's financial accounting reports such as the balance sheet and income statement.

Tell Me More

The ledgers are the primary documentation sources, commonly referred to as "The Books." Every financial transaction is recorded into three common kinds of ledgers:

- General ledger records all of a company's individual financial transactions by date.
- Sales ledger, which deals mostly with the accounts receivable account. This ledger consists of the records of the financial transactions made by customers to the business.
- Purchase ledger is the record of the purchasing transactions a company does; it corresponds with the accounts payable account.

For every debit recorded in a ledger, there must be a corresponding credit so that the debits equal the credits in the grand totals. For example, if you purchase a computer for your office, you need to debit (increase) your assets and credit (decrease) your cash or bank account. This way you will have a balance in your accounts and realize a clear picture of your business's standing.

From the general ledger, the individual debit (money deducted from an account) and credits (money added to an account) are recorded to the subsidiary ledgers. There are subsidiary ledgers for each balance sheet and income item listed in the chart of accounts. These ledgers maintain a running balance of each account item. At the end of the period (e.g., monthly, quarterly or annually), adjusting entries are recorded to reflect unrecorded financial events. After the financial statements are prepared, the subsidiary ledgers for the income statement items and dividends are reset to zero.

Here are some examples of account summaries in the form of T-accounts.

(AFN)	Cash on Hand		Balance
	Debits (AFN)	Credits (AFN)	(AFN)
10-Sawr-1397			430,000
13-Sawr-1397	300,000	84,000	646,000
20-Sawr-1397	417,000		1,063,000
25-Sawr-1397	90,000		1,153,000

(AFN)	Cash on Hand		Balance
	Debits (AFN)	Credits (AFN)	(AFN)
5-Sawr-1397			1,544,000
8-Sawr-1397		700,000	844,000
12-Sawr-1397		90,000	754,000

(AFN)	Cash on Hand		Balance
	Debits (AFN)	Credits (AFN)	(AFN)
11-Sawr-1397			122,400
15-Sawr-1397		84,960	207,360
23-Sawr-1397	84,960		122,400

(AFN)	Cash on Hand		Balance
	Debits (AFN)	Credits (AFN)	(AFN)
1-Sawr-1397	302,000		470,000
11-Sawr-1397	420,000		890,000
15-Sawr-1397		302,000	588,000
19-Sawr-1397		420,000	168,000

With progress of computers and software, the need for maintaining physical books is no longer needed. Once the general ledger entries are recorded, the bookkeeping software will automatically record the transactions to the correct subsidiary ledgers. Electronic accounting systems usually provide user guidance and error checking. This helps ensure transactions impact the correct accounts.

For a company using physical books to do their bookkeeping, you will need to start with a general ledger. You can then make a subsidiary ledger for each account such as Bank Account, Accounts Receivable, Inventory, Office Furniture and Office Machines, etc. It's common among smaller businesses, such as shopkeepers, to use a manual bookkeeping system in the form of a notebook. This is good for basics, but cannot provide reasonable summaries and aggregated numbers for further analysis. As an example, note the experience of Farzana and her brother who experienced a loss in their business due to insufficient book keeping. Many buyers owned them money but Farzana did not have proper record of all due amounts. One reason was that their bookkeeping system did not have summary of accounts and same buyers had borrowed multiples times. For a computer system, it is easy to generate reports and summaries. For a manual system, you will need to manually add everything.

You should create a ledger for each balance sheet-liability account, for instance, Accounts Payable, Salary Tax Withholding, and Loans. Balance sheet-equity accounts include Owner's Capital Contributions, Retained Earnings, and Dividends ledgers.

In addition to the balance sheet subsidiary ledgers, there are the income statement accounts. For each product or service that your company provides, there is an income statement related Sale of Product or Service ledger. Other Income Statement ledgers include Costs of Goods Sold (COGS) which may consist of Material, Supplies and Direct Labor involved in manufacturing or accounts related to expenses such as: Transportation and Delivery, Rents, or Utilities.

You can keep a ledger for any specific cost that you want to track and understand how it is affecting your business.

Glossary Terms from this Section

Accounts Payable - Money owed by a company to its creditors.

Accounts Receivable - Money expected from your customers.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Chart of Accounts - A listing of all accounts used in the general ledger of an organization to aggregate information into an entity's financial statements.

Dividends - A portion of a company's earnings given to shareholders.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Retained Earnings - Profit that has been drawn out and reinvested in the business.

Subsidiary Ledgers - A ledger designed for the storage of specific types of accounting transactions.

For More Information Related to this Topic See

- What is a chart of accounts? *11. Bookkeeping*
- How does bookkeeping help financial management? *11. Bookkeeping*
- How do I make sure the money in my business is handled carefully? *11. Bookkeeping*
- What are accounts payable and accounts receivable? *11. Bookkeeping*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*
- How can I use a Profit and Loss statement to learn which part of my business is more profitable? *12. Financial Management*

Additional Tools Available

Accounts Payable Ledger Template

Accounts Receivable Ledger Template

Cash Flow Ledger Template

General Ledger Template

Payroll Ledger Template

4.
What is a chart of accounts?

The Basics

A chart of accounts is a list of all accounts a company has identified and available for recording transactions in its general ledger. A company can tailor its chart of accounts to best suit its needs, by simply adding or removing accounts as needed.

The accounts are typically ordered with the balance sheets accounts initially (i.e., assets, liabilities and equities) followed by the income statement accounts (i.e., revenues, gains, expenses and losses).

Each account in the chart of accounts is assigned a name and number to make it easily identified. Account numbers are often five or more digits in length with each digit representing a division of the company, the department, the type of account, etc.

Tell Me More

Below are the most common chart of accounts including an explanation of the account to assist in the selecting which entry is most appropriate to the account. Each account is assigned a number and account name. The first digit of the number can signify if the account is a liability, asset, etc. For example, if the first digit is a "1" it is an asset, if the first digit is a "3" it is a revenue account, etc. The "To Increase" column indicates whether a debit or credit will increase the amount in the account.

Balance Sheet

Asset Accounts

No.	Account Title	To Increase	Description or Explanation of Account
101	Cash	Debit	Checking account balance, checks received from customers but not yet deposited.
120	Accounts Receivable	Debit	Amounts owed to the company for services performed or products sold but not yet paid for.
140	Inventory	Debit	Cost of inventory purchased but has not yet been sold.
150	Supplies	Debit	Cost of supplies not yet been used.
170	Land	Debit	Cost to acquire and prepare land for the company.
175	Buildings	Debit	Cost to purchase or construct buildings for the company.
180	Equipment	Debit	Cost to purchase equipment for the company.

Liability Accounts

No.	Account Title	To Increase	Description or Explanation of Account
210	Notes Payable	Credit	Amount due on loans such as loans from banks.
215	Accounts Payable	Credit	Amount owed to suppliers who provide goods or services but did not require immediate payment in cash.
220	Wages Payable	Credit	Amount owed to employees for hours worked but not yet paid.
240	Unearned Revenues	Credit	Amounts received in advance of delivering goods or services. When they are provided, this liability decreases.
250	Mortgage Loan Payable	Credit	A formal loan that involves a lien on real estate until the loan is repaid.

Owners' Equity Accounts

No.	Account Title	To Increase	Description/Explanation of Account
290	Fatima, Capital	Credit	Amount the owner invested in the company plus company earnings not withdrawn by the owner.
295	Fatima, Drawing	Debit	Amount the owner has withdrawn for personal use during the current accounting year. At the end of the year, the amount in this account will be transferred into Fatima, Capital (account 290).

Income Statement

Operating Revenue Accounts

No.	Account Title	To Increase	Description/Explanation of Account
310	Service Revenues	Credit	Amounts earned from providing services or products to customers. When a service or product is provided on credit, both this account and Accounts Receivable will increase. When provided for immediate cash, both this account and Cash will increase.

Operating Expense Accounts

No.	Account Title	To Increase	Description/Explanation of Account
500	Salaries Expenses	Debit	Expenses for employees which normally receive a fixed, regular amount.
510	Wages Expenses	Debit	Expenses for non-salaried employees usually at an hourly rate of pay.
540	Supplies Expenses	Debit	Cost of supplies used.
560	Rent Expense	Debit	Cost of rented facilities.
570	Utilities Expense	Debit	Cost for electricity, heat, water, etc.
610	Advertising Expense	Debit	Costs for ads, promotions, or other selling expenses.
750	Depreciation Expense	Debit	Cost of long-term assets allocated to expense.

Non-Operating Revenues and Expenses, Gains, and Losses

No.	Account Title	To Increase	Description/Explanation of Account
810	Interest Revenues	Credit	Interest and dividends earned on bank accounts, investments, or notes receivable. Increased when the interest is earned and cash is also increased.
910	Gain on Sale of Assets	Credit	Amount gained when a company sells one of its assets for more than what was paid.
960	Loss on Sale of Assets	Debit	Amount lost when a company sells one of its assets for less than what was paid.

It is expected that a company will expand and/or modify these sample charts of accounts so that the specific needs of the company are met. You may add more accounts or delete accounts that are never used as needed.

To aid in financial performance comparability over a number of periods, it is best to begin with sufficiently large number of accounts so that you are not constantly adding new accounts. By having the same accounts, you are better able to effectively evaluate your business performance.

Glossary Terms from this Section

Assets - Anything of value that your business owns.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Equity - The value of shares or ownership of a part of a company.

Expenses - Money paid out of the business to pay for an item or service.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Liabilities - Anything that your business owes to others.

Lien - A form of security interest granted over a property to secure the payment of a debt.

Revenue - Money coming into the business usually from the sale of goods or services.

For More Information Related to this Topic See

- What is a ledger? *11. Bookkeeping*
- What are financial statements and why do I need to use them? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*
- How can I use a Profit and Loss statement to learn which part of my business is more profitable? *12. Financial Management*

5.
How do I manage cash?

The Basics

Managing your company's cash is essential to a successful business, especially for early startup companies. If you are unable to pay your bills as they come due, your business will fail. Managing your cash will help you have enough cash available to make your required payments when needed.

Most businesses collect cash as payment for the goods and services they sell which are tracked in a bookkeeping system. Cash includes paper money, coins, and checks. Creating sales receipts through a cash register, debit card machine, or by hand, is the first step to being able to track incoming and outgoing cash. A receipt is proof that a transaction happened and gives information such as time, place, price, and item bought. The receipt is then referenced at a later time as a record of the transaction.

To manage your cash in your own bookkeeping system, you need to know what are your sources of cash (e.g., customer payments) and what are your uses of cash (e.g., operating costs, rent, utilities, taxes, etc.). Next, you need to determine when you are expected to receive the cash and when the cash payments are due. With this information, you can track the money coming into your business and the money going out.

Tell Me More

Cash management is the process of monitoring, analyzing and optimizing your cash receipts minus your cash payments. To monitor your cash, you will need to build a cash flow forecast, which is a cash management budget. The budget must be updated regularly.

To analyze your cash flow, determine the amount and timing of the cash coming into your business. Also examine how long it takes your customers to pay you. You want to collect from your customers as quickly as possible. To reduce the length of time it takes your customers to pay, you want to invoice (i.e., bill) your customer more often and require payment in 30 days. You can entice your customers to pay you sooner by offering a small discount for prompt payment. There are businesses that struggle with cash management because they aggressively spend when they have cash in hand, but face difficulty paying their bills most of the time. This is related to inappropriate cash management and lack of cash management budgeting. When you have cash in your business, think of the upcoming months that you will need the cash before you receive additional payments. A Cash Flow Budget Worksheet is provided in the Tools section to help you analyze your own cash flow.

Analyze your cash expenses. Do what you can do to reduce your cash out flows. For example, consider repairing your equipment instead of replacing it, consider leasing instead of buying. If you do buy, consider buying used equipment, or bartering with your suppliers instead of paying cash.

Maintaining a separation of the business' cash from your personal accounts is necessary. You do not want to mix your business and personal finances. While it is important that you pay yourself, combining your business and personal accounts will keep you from understanding how much cash your business generates. You should also make sure your family members that work in your company respect the separation of business and personal cash.

Lastly, you need to have a cash reserve. Even with all the planning and analysis, unexpected events occur in which you will need cash. Having a cash reserve will allow you to continue to operate normally. Typically, a healthy business has enough cash to cover expenses of 3 months if no additional cash is received from customers. As a principle, you should keep enough cash to cover at least 3 months.

At the end of each month, you should reconcile your bank account and bookkeeping transactions made of the past month for any outstanding transactions or errors that may be present. These errors could be the result of misplacing a sales receipt, expense receipt, or an error on the part of the bank.

Glossary Terms from this Section

Budget - An estimate of income and expenses for a set period of time.

Operating Costs (OPEX) - The day-to-day ongoing expenses of running your business.

For More Information Related to this Topic See

- How do I use a bank statement? *11. Bookkeeping*
- How do I record revenue? *11. Bookkeeping*
- How do I record costs? *11. Bookkeeping*
- How do I make sure the money in my business is handled carefully? *11. Bookkeeping*
- How do I track sales? *11. Bookkeeping*
- What is a budget and how do I use one? *10. Budgeting*

Additional Tools Available

Cash Flow Budget Worksheet

Cash Flow Ledger Template

6.
How do I use a bank statement?

The Basics

Bank statements are an important business document. They are provided by your bank and reflect all transactions that have occurred within your current or savings accounts. Bank statements are used to reconcile the balance in your check book to the balance shown by the bank statement. When properly used to reconcile the two records, the bank statements represent a "Proof of Cash".

The purpose of reconciling the balance is to locate any differences between the two versions, and to update your records to match those of the bank, as well as to spot any errors made by the bank. Bank statements are critical business records and are typically required to obtain loans or lines of credit. They are used in audit and in business evaluations.

Tell Me More

The bank statement reconciliation process involves comparing the bank statement balance and the balance of your company's general ledger account. Then you must determine the reasons, if any, for the difference between the two amounts. Common reasons there may be a difference are: checks that have not yet cleared the bank, bank service charges or fees, or errors in entering the amounts in the company's ledger.

The transactions recorded to your ledgers should contain each deposit to the general checking account as well as each check issued, electronic funds transfer, wire transfer, or debit card transaction into or out of the account. The ledger should also record credit card transactions into or out of the account and any other type of entry that was recorded by the bank.

The bank statement should be reconciled to balance the checking account ledger. This ledger should always have a positive (debit) balance otherwise your account could be overdrawn with the bank which could result in very large fees deducted from your account by the bank.

The "debit" and "credit" terminology used by banks to refer to account balances and transactions have the exact opposite meaning of the "credit" and "debit" terminology used by businesses. The banks will "credit" your account with deposits and "debit" your account for withdrawals. This is exactly opposite of the meaning of debits and credits as used by businesses. Don't get confused when discussing your accounts with your banker.

Professional businesses prefer to make and receive payments through their bank account(s). The reason is that bank statements show transactions as they occur and serve as a strong evidence for audit purposes. If you have partners, bank statements can serve as an additional evidence of financial reporting. When you use your bank account for financial transactions, you build a history of your business that banks and lenders can see if you decide to apply for a loan. Remember, however, that bank transactions, such as paying salaries through bank accounts, takes longer that if you pay in cash. You need to manage expectations of your staff, suppliers, and partners accordingly and leave sufficient time for yourself to complete documentation and allow the transfer to happen.

Another good way to make payments is to use checks. When you open a bank account, your relationship manager asks you if you wish to order a check book. Do it. Your business will need it in cases of immediate cash requirements. However, it is common in Afghanistan to make payments in cash. You will find yourself receiving constant requests for cash payments. For smaller amounts, i.e. less than 10,000 AFN, cash is fine. For larger amounts, you will avoid the risk of loss or theft as well as logistical complications if you pay by check or through bank transfers.

Glossary Terms from this Section

Bank Statement - A monthly bank report showing every deposit, check, and balance of a savings or checking account.

Current Account (Checking Account) - An agreement with a bank that allows money to be put into the account and the writing of checks to pay for expenses.

Ledger - A ledger is a complete record of financial transactions over the life of a company.

For More Information Related to this Topic See

- What is a checking or current account and how do I use it? *12. Financial Management*
- What is a ledger? *11. Bookkeeping*

Additional Tools Available

Bank Register

General Ledger Template

7.
What are credit and debit cards?

The Basics

Credit cards are a line of credit extended by a bank, merchant or lending institution issued to a person or business. The card should be used for making purchases in advance of actually having physical cash to do so. Credit card companies often charge interest or fees on the money owed if the balance is not paid at the end of the month. The interest rates or fees are typically high and are considered a revolving line of credit that can be used again after paying the balance due.

Debit cards offer the convenience of a credit card but work differently. They are a type of card also issued by your bank that when used to make a purchase automatically draws funds from your general checking account instead of issuing credit. As debit card transactions can take a few days for the money to be transferred out of your account, it is important to keep a running balance of your checking account.

Tell Me More

Credit card purchases should typically be reported in your ledger as a (Credit) to the credit card company, since it is a liability. The offsetting entry (Debit) would go to your ledger for operating expenses. When this credit card is paid from the general checking account, the checking account then is credited and the credit card liability account is debited. These entries reduce the credit card liability and reduce the cash in the bank.

Credit cards are typically issued to the holder with a specific line of credit amount. Most cards run on a 30-day billing cycle meaning you must make at least the minimum payment before the next billing cycle. If you do not pay the credit card balance in full, there are typically large interest fees computed on the remaining balance at the next billing cycle. Your payment history also affects your ability to qualify for credit cards in the future. For example, some banks in Afghanistan, such as Afghanistan International Bank (AIB), offers credit cards to their qualified account holders with varying limits to the amount the credit card holder can spend in any given month. The bank looks at applicants' cash flow, credit history, occupation, and source of income to ensure the applicant is credit worthy.

Also, your business can accept credit card payments from your customers. Usually this is set up at your bank and requires a processing machine or other digital equipment. Most banks take a fee for this service.

Debit card transactions should also be recorded in your checking account ledger with a Credit entry, reducing the amount of available funds in your checking account. The offsetting entry would be a debit to cost of goods sold or the appropriate expense ledger.

You must have the available funds in your checking account to use a debit card. These transactions will appear on your Monthly Bank Statement for which you will reconcile to the ledger at that time.

Glossary Terms from this Section

Cost of Goods Sold (COGS) - Direct costs of the goods sold by a company.

Credit - The trust and opportunity to pay for things you purchase at a later date.

Debit Card - Uses money from a checking account.

Ledger - A ledger is a complete record of financial transactions over the life of a company.

Liabilities - Anything that your business owes to others.

For More Information Related to this Topic See

- What is a ledger? *11. Bookkeeping*
- How do I use a bank statement? *11. Bookkeeping*
- How do I make sure the money in my business is handled carefully? *11. Bookkeeping*

8.
How do I record revenue?

The Basics

Revenue is money from the sale of goods or services associated with the main operations of a business before any costs or expenses are deducted. Payment can be made prior to, at the same time or after you have provided the goods and/or services.

Bookkeeping is done in one of two methods. Cash Basis means that you record income in your bookkeeping ledger when the funds are received. Accrual Basis means that you record income in your ledger at the time a sale is completed, even though the money may not yet be received. This can happen if a customer or supplier agrees to pay the money before a certain amount of time but receives the product or service right away.

Tell Me More

Cash basis method can include credit cards, electronic funds transfer, wire transfers or whatever has been deposited and recorded in your general checking account ledger with a Debit balance. The offsetting Credit entry is recorded to the appropriate ledger such as Income (Sale or Service), Owner's Equity, or a liability ledger such as a loan. Income, Equity and Liabilities are Credit balance accounts. Only persons not formed as a corporation or LLC can use the cash basis method of accounting.

Accrual basis includes both Accounts Receivable and Accounts Payable.

An unpaid invoice for a customer should be recorded as a Debit entry to an Asset account usually as Accounts Receivable. The offsetting entry is recorded to the Income Statement ledger as a Sale or Service income which is a Credit entry.

When payment is received from a customer for this open invoice, the payment is recorded in the ledger Asset: checking account ledger to reflect the deposit (Debit) and to the Asset: Accounts Receivable ledger as a credit entry to decrease the Accounts Receivable.

Sub-ledgers can be a great analytical tool for recording your accounts receivable. A sub-ledger for each customer can provide you with the capability to view and monitor what the outstanding balance is for each customer. When you invoice a specific customer for a product or service, list the total amount owed to you as Balance Due. On your general ledger, the amount is a credit entry to your revenue account (income) and the debit will record to the main Accounts Receivable account. Then an additional debit entry is recorded to the Accounts Receivable sub-ledger account for Customer A. When Customer A makes a payment, the debit will record to your Checking Account and the Credit will record to your main Accounts Receivable account. An additional credit entry will then be recorded to the Accounts Receivable sub-ledger account for Customer A which will decrease the total balance due from that customer until it reaches zero. At that time, the account for that customer is considered paid in full.

For example, when you make a sale to a retail store owner, Ahmad Masoud, you will need to record the revenue in a number of steps. First, you will increase (Debit) your Accounts Receivable and increase (Credit) your Income at the same time. You can record the transaction to the name of Ahmad Masoud as a sub-ledger to make sure your accounting system can combine any other future receivables from Ahmad Masoud. When he makes the actual payment at a later time, record a payment on his sub-ledger toward his account which decreases the total amount Ahmad owes you. Do this for each subsequent payment Ahmad pays you until his balanced owed to you is at zero. See the example below.

Date	Invoice Number	Name	Total Amount Owed	Due Date	Balance Left	Payment 1	Payment 2
1-Jawza-1397	12345	Ahmad Masoud	35,000 AFN	15-Saratan-1397	10,000 AFN	10,000 AFN	15,000 AFN

Remember that in Afghanistan you are required to pay taxes when the income occurs (i.e. when you invoice your customer) and not when you receive the actual cash.

The balance of all your Customer sub-ledgers should be equal to the balance of your main Accounts Receivable ledger.

For Accrual Basis accounting, expenses are recorded in the ledgers as a debit when the expense is incurred, usually at the time you receive a bill from a vendor or supplier. The offsetting credit is to a liability ledger such as Accounts Payable.

Later, when the bill is paid, the checking account ledger is credited to record the amount of the check, and the liability account ledger is debited to reduce the liability.

Glossary Terms from this Section

Accounts Payable - Money owed by a company to its creditors.

Accounts Receivable - Money expected from your customers.

Accrual Basis of Accounting - When a company records revenue on the income statement as the expense occurs, not when the cash is paid.

Cash Basis of Accounting - When a company does not record revenues until the cash is received and records expenses when the expense is paid.

Expenses - Money paid out of the business to pay for an item or service.

Ledger - A ledger is a complete record of financial transactions over the life of a company.

Revenue - Money coming into the business usually from the sale of goods or services.

For More Information Related to this Topic See

- What is revenue and how do I know mine? *12. Financial Management*
- What is a ledger? *11. Bookkeeping*
- What are accounts payable and accounts receivable? *11. Bookkeeping*

Additional Tools Available

Accounts Receivable Ledger

Cash Flow Ledger Template

General Ledger Template

9.
How do I record costs?

The Basics

Tracking the costs of doing business is an integral part of bookkeeping. Costs should be accounted for in detail as they provide a substantial picture of how much capital it takes to run your business. Costs are expenses you incur to operate your business. There is also startup costs incurred when setting up a business. Startup costs can consist of marketing, rent, supplies, employee wages, and equipment such as furniture, copiers, computers, or machinery for production or manufacturing. Set up costs and costs to purchase equipment differ from operating costs and follow separate bookkeeping rules.

Accounts payable represent money owed by a business to its suppliers and can also include amounts owed to employees. Payroll expenses are one of the biggest expenses of a company and can include salary paid to employees, vacation paid, employee benefits, or insurance.

Tell Me More

Operating costs are expenses associated with the maintenance and administration of a business on a day-to-day basis. The operating cost is usually reflected on a company's income statement. Operating costs can include many components of operating a business including: marketing costs, travel expenses, supplies, rent, utilities, and salary and wages.

Cost of Goods Sold are expenses (debits) in acquiring or making your product or service. These costs are usually direct expenses of the manufacturing, processing or other operations involved in making the product. These costs are those that are directly tied to the production of the products or service, such as the cost of labor, materials, and manufacturing overhead. For example, when you buy raw material i.e. milk, to process and produce dairy products, a major component of your Cost of Goods Sold would be milk that you collect from your community. Any other direct transportation cost, labor cost, and processing material will also constitute your Cost of Goods Sold.

Operating costs and cost of goods sold are recorded on the Income Statement ledgers as a (Debit) entry. The offsetting ledger entry (Credit) will be either in the general checking account (Cash Basis) or Accounts Payable (also a Credit) if you used the Accrual Basis method of accounting for these Accounts Payable expenses.

Capital Costs are fixed assets used in a business that are typically recorded as debit entries on the balance sheet. The cost of those assets is expensed to the Income Statement over a prescribed period of time based on the type of asset. The periodic expensing of these costs is referred to as depreciation. When cash is used to purchase an asset, the credit is recorded against the cash account. When borrowed funds are used to acquire the asset, the credit is recorded as a liability.

A Vendor invoice for a product or service is recorded in your ledger as a Credit to the main Accounts Payable and a Debit to the appropriate expense. When you pay the vendor, you will then record a Credit to your bank checking account and a Debit to your main Accounts Payable.

Glossary Terms from this Section

Accounts Payable - Money owed by a company to its creditors.

Accrual Basis of Accounting - When a company records revenue on the income statement as the expense occurs, not when the cash is paid.

Assets - Anything of value that your business owns.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Cash Basis of Accounting - When a company does not record revenues until the cash is received and records expenses when the expense is paid.

Depreciate - Lose value over time.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Operating Costs (OPEX) - The day-to-day ongoing expenses of running your business.

For More Information Related to this Topic See

- Why should I keep detailed records? *11. Bookkeeping*
- What is a ledger? *11. Bookkeeping*
- What is depreciation and how do I keep track of it? *11. Bookkeeping*
- What are accounts payable and accounts receivable? *11. Bookkeeping*
- What is the difference between operating costs and capital investment? *12. Financial Management*
- What are fixed and variable costs? *12. Financial Management*
- How can I manage my costs and expenses? *12. Financial Management*

Additional Tools Available

Accounts Payable Ledger

Cash Flow Ledger Template

General Ledger Template

10.
How do I account for loans?

The Basics

Loans are liabilities that are recorded on the balance sheet as a "Credit" entry. Recording a loan in bookkeeping often involves showing the loan has been received, paying for the interest over time and the return of the original loan amount at maturity. It is useful to the business owner to distinguish the types of loans based on the nature of the loan and the relationship to the creditor who issues the loan.

Loans should also be divided between long-term and short-term durations. Loans that are expected to be repaid within twelve months should be identified as short-term loans. To do this, it is necessary to divide a long-term loan into two parts. One part represents the amounts due within twelve months and is recorded as short-term and the other part is recorded as a long-term debt.

Accounts Payable are forms of loans that are short-term and should be separately identified on the balance sheet.

Owners, as well as those who issue the loans, use the short-term debt to help monitor the financial well-being of a business. This is done by comparing all the short-term, or "current" debts to the current assets of the business. Current assets are generally defined as cash and accounts receivable.

Tell Me More

Loans can be from yourself, a private party, investor, or a banking institution. When a business takes out a loan, it incurs either a current liability if the loan is a short-term loan payable, or a long-term liability if the loan is a long-term debt. The business then receives the loan amount in cash. To record the transaction, enter a debit (increase) to the cash account to record the cash receipt and a credit (increase) to a related loan liability account for the outstanding loan.

Lenders charge interest on their loans on a periodic basis such as monthly or twice a year, and interest or fees are paid out based on payment schedules. When recording a loan, you must add the interest expense on the same periodic basis even if the interest is not currently due. The added interest is taken from the interest expense account and a credit is added to a current liability account under interest payable for the pending interest payment liability.

Interest payments sometimes are made after the interest is added together and recorded. Making an interest payment does not incur interest expense again. To record an interest or fee payment, you will enter a debit to the account of interest payable to remove the pending interest payment liability and credit the cash account for the amount of interest paid.

An "unamortized" loan means that during the life of the loan, the borrower is only paying the interest fees to the lender. It is only when the loan is complete (also referred to as a loan reaching maturity) that the borrower pays the original amount of the loan principle in one big payment. To record the final loan payment of the principle amount, debit the loan account to remove the loan liability from your books, and credit the cash account for the payment.

For an amortized loan, payments are made over time to cover both interest expense and the reduction of the loan principal. To record a periodic loan payment, first apply the payment toward interest expense and then debit the remaining amount to the loan account to reduce its outstanding balance. The cash account is credited to record the cash payment.

In case of Sharia-compliant loans, you will need special accounting arrangements depending on the specifications of the loan product. The nature and details of Sharia-compliant loans differ based on the use of the loans. One major characteristics of these loans is that they do not bear an interest rate. For example, if you borrow based on a Murabaha product, you will need to repay the actual loan amount along with a markup that is usually a set amount that you agree to in the agreement. Usually this type of transaction is recorded as one loan payable amount and you will make repayments based on an agreed schedule.

Glossary Terms from this Section

Accounts Payable - Money owed by a company to its creditors.

Accounts Receivable - Money expected from your customers.

Assets - Anything of value that your business owns.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Current Liabilities - Anything owed that needs to be paid in less than a year.

Interest - Money paid regularly at a specific rate for the opportunity of borrowing money.

Loan - Money borrowed from an individual or bank that is expected to be paid back over a certain timeframe with added interest.

Long-Term Liabilities - Anything owed that needs to be paid in more than a year.

For More Information Related to this Topic See

- What is a ledger? *11. Bookkeeping*
- How do I record costs? *11. Bookkeeping*
- What are accounts payable and accounts receivable? *11. Bookkeeping*
- What are financial statements and why do I need to use them? *12. Financial Management*
- What are liabilities? *12. Financial Management*
- What are loans and interest and how do I manage them? *12. Financial Management*

Additional Tools Available

Accounts Payable Ledger

11.
How do I account for equity?

The Basics

Equity is a measurement of the owners' investment in the business. Simply stated, equity is defined as the difference between the total assets minus the total liabilities of a business. The amount of investment that you have made to start your business, is your equity in the business. The amounts you borrowed from family or friends, are liabilities.

The equity account is the most important account on the Balance Sheet. The equity of a business will generally reflect how healthy the business is at the end of an accounting period. Equity is generally represented on the balance sheet such as owner's equity, common stock, or retained earnings. Increases in equity are recorded as credits and recorded on the right side of the ledger. Decreases in equity are recorded as debits and are recorded on the left side of the ledger.

An example of a journal entry for owner's equity account: A business has two owners and one owner wants to invest an additional 200,000 AFN in the business. The journal entry in your ledger would show an increase in cash of 200,000 AFN as a debt in the asset account and an increase of owner's equity of 200,000 AFN is shown as a credit.

Tell Me More

Assets are a key component of equity. It is important to note that the assets that help measure equity are stated at their costs, not at what they may be worth. The real value of the assets could differ significantly from their costs. They may be worth more, or less than what was paid to acquire them. Inventory is a good example of an Asset that is hopefully worth more than what it cost to purchase or produce.

In almost all situations, the actual cost is always reflected on the balance sheet of a business as opposed to the value of an asset. This "historical" cost is an important standard that creates a stable and recognizable tool for measuring the progress of a business.

Many times, a business is started with property contributed by the owner. This property could be furniture, machinery, or other tools and equipment the owner had acquired over the years before deciding to go into business.

Property contributed by the owner should be recorded on the books as a debit for the Asset on balance sheet or as an expense on the income statement, and offset as a credit to Owner's Equity. The value assigned to the asset or expense and credited to the owner will be based on the rules issued by the Afghanistan Revenue Department (ARD), Ministry of Finance.

In some cases, the value may be the lower of: 1) the original cost paid by the owner, or 2) the fair market value at the time the property is transferred into the business. Once the proper value has been determined, a debit is made to the balance sheet account "Fixed Assets" or to the income statement as "Small Tools" or "Supplies", and the offsetting credit increases Owner's Equity.

Start Up Costs

Most businesses have startup costs. This could include research and market analysis, legal and consulting fees and various government fees. These costs are usually paid by the owner from personal funds long before a business bank account has been opened. These startup costs should be recorded into your Balance Sheet ledger as a (Credit) to your Equity account with the offset (Debit) entry to the Income Statement Expense account such as Business Licenses and Fees.

Before commencement of actual business activity, there are usually additional costs to acquire machinery, equipment, supplies and materials. When these costs are paid for from the personal funds of the owner, they should be recorded either to a Balance Sheet Asset account or an expense account on the Income Statement ledger (both as a Debit) with the offset to Owner's Equity account ledger Balance Sheet-Equity (Credit). The amount recorded in this case would be the actual amount paid.

Glossary Terms from this Section

Assets - Anything of value that your business owns.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Equity - The company assets that the owner owns.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Ledger - A ledger is a complete record of financial transactions over the life of a company.

Liabilities - Anything that your business owes to others.

Retained Earnings - Profit that has been drawn out and reinvested in the business.

For More Information Related to this Topic See

- What is a ledger? *11. Bookkeeping*
- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- What are assets? *12. Financial Management*
- What are liabilities? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*

12.
What is depreciation and how do I keep track of it?

The Basics

Assets such as machinery, vehicles, computers, furniture, or equipment that is used in the conduct of a business will eventually decline in value, wear out, and will need to be replaced or discarded. Businesses need a way of recording this loss in their records.

The decline of this value is identified on your accounting books as depreciation. Each asset is categorized and assigned a useful life for purposes of measuring depreciation.

The rate of decline in value varies by the type of asset, its durability, and its functionality. Because these factors differ between business activities, the rate of decline is measured by a standard adopted by all businesses that provide for a consistent measuring tool across most industries. In Afghanistan, such standards are not established yet, but the Ministry of Finance allows for businesses to use various periods to depreciate their assets. The soonest an asset can be fully depreciated is two years, however.

Depreciation is calculated based on the historical value of an item and its likely lifespan, as opposed to the cost of replacing it now. Not all assets depreciate. Items predicted to last a year or less are not eligible for depreciation. Only asset owners can claim depreciation. Leases on assets you don't own such as building or vehicles are not allowed to depreciate.

Tell Me More

Depreciation is an expense that recognizes the diminishing value of an asset. Supplies are not depreciated because they are considered to be used within a single year and are expensed during that year. Land can't be depreciated because it isn't used up or worn out. It doesn't lose its value.

The period of time that an asset's value diminishes for depreciation purposes is determined by formal guidelines that all businesses must follow. This time period is referred to as an asset's "Useful Life". These guidelines are set by the Afghanistan Revenue Department, Ministry of Finance and reflected in the published Income Tax Laws.

Businesses record depreciation by debiting the depreciation expense accounts of their income statements and crediting the accrued depreciation accounts. As assets continue to depreciate, the accumulated depreciation balance will rise until it is equal to the purchase value of the asset. When the asset cost is zero, businesses can stop recording depreciation. You stop depreciating a business asset when you either sell that asset or it has reached the end of its useful life.

The Income Tax Laws limit the amount of depreciation that can be recognized when a loss is recorded on the books. When recording depreciation on income tax returns, it's important to follow all local and country tax laws. In Afghanistan, lifespan for depreciable assets are as follows:

- Four years for buildings
- Two years for other depreciable assets

The amount of depreciation in each year is set to be equal. Recording an operating loss resulting from depreciation expenses is allowed under the Income Tax Law of Afghanistan. Refer to the Income Tax Law of Afghanistan for further information.

Glossary Terms from this Section

Assets - Anything of value that your business owns.

Depreciation - The rate of decline of a tangible asset over time.

Expenses - Money paid out of the business to pay for an item or service.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

For More Information Related to this Topic See

- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- What are assets? *12. Financial Management*
- What are liabilities? *12. Financial Management*

Additional Tools Available

Depreciation Schedule Template

13.
How do I manage payroll?

The Basics

Payroll is a list of a business' employees and the amount of money they are to be paid. It is a financial record of the total amount of paid wages and salaries, bonuses, pay for time not worked such as holidays, vacation, and sick time paid by a business to its employees. Payroll can also mean the record of total earnings of all employees for a company in a fiscal year.

Some employees are paid a salary, the same amount every payday while others are paid by the day based on the number of days worked. Salaried employees are usually paid once a month, while daily employees may be paid every day or every week.

After the employee's pay is calculated, a business must withhold taxes such as Salary Withholding Tax from each paycheck. A business may also deduct other amounts from the paycheck such as a lunch allowance or transportation if that's how the employee's contract is structured. A business must calculate and set aside amounts deducted from the employee's pay, to be paid later such as taxes or other employer's contribution.

In accordance with Chapter IX article 58 any person employing two or more employees in any month of a taxable year (measured by the first day of Hamal and ending on the last day of Hoot) are required to withhold taxes from the employees' pay. Every employee is supposed to have a work permit and a Tax Identification Number (TIN). When you withhold taxes from your employees' salaries, you must pay the withheld amount to Ministry of Finance within 10 days after the end of each month. If you fail to report your wages and pay the applicable tax amounts, you will face penalties for late payments. Remember that even if in a certain month you do not pay wages or if your business is startup, you are still required by the income tax law to submit a report to the government of your salaries. In Afghanistan, the Ministry of Finance requires a TIN for all businesses and employees of a company. You will pay the withheld salary taxes to the individual TINs of your employees.

Tell Me More

Managing payroll includes record keeping. Each employee has a separate record showing the amounts paid each period, deductions, and withholdings and can be useful for creating end of year reports.

There are a few methods for managing payroll. One is to use a payroll accountant to take care of the entire process for you. While convenient, it can also be expensive. Alternatively, you can use payroll software or develop a payroll format in Microsoft Excel. It is inexpensive and automates a lot of the payroll process. The last method is to do the payroll by hand. This may be the best option for businesses with a low number of employees while letting an outside vendor manage payroll may be best suited for businesses with a large number of employees.

To do payroll by hand, first create a Payroll Ledger for each employee. You can calculate wages based on the hourly wage for each employee times the number of hours worked to arrive at a gross wage. The hours worked should be recorded on each employee on a daily basis. An employee can also be paid a fixed salary per each pay period also known as gross wages which can also include bonuses.

Payroll deductions are amounts withheld from an employee's pay by their employer. Common deductions are dues for insurance benefits, retirement plans, and government taxes (i.e. contractor tax withholding).

You will need to make the following entries to your Payroll Ledger.

Corresponding to each employee every pay period, record the check/cash payment date, check number, gross pay, and total deductions including taxes. The difference between gross pay and all deductions will be the employee's net pay. Account for the net pay amount of the check or cash in your general ledger as an expense. This should be done for each check/cash payment that is issued to employees. You can then use this information to help reconcile your bank statement. See the example below.

Employee Name	Date	Check #	Gross Pay	Total Deductions	Taxes Withheld	Net Pay
Employee 1	10/1/2017	1	$1,000.00	$125.00	$175.00	$700.00
Employee 2	10/1/2017	2	$821.00	$75.00	$136.00	$610.00

Remember that you can also pay your employees' salaries through bank transfer from your business account to their respective individual accounts. This works best when you have a larger number of employees and for higher amounts of salaries.

An employer is required by law to withhold certain percentages of an employee's paycheck to pay required tax withholdings and must report withholdings to government agencies. Taxes are critical to payroll accounting. Account for the Payroll taxes as per the income tax law of Afghanistan. All Afghan nationals are subject to wage withholding tax with the following rates:

- 0% of 0-5,000 AFN of monthly salary
- 2% of 5,001 AFN – 12,500 AFN of monthly salary
- 10% of 12,501 AFN – 100,000 AFN of monthly salary
- And 20% of 100,000 + portion of monthly salary

The withholding taxes are due with a detail report to the Ministry of Finance within ten days after the end of the month in which such tax has been deducted. Be sure to set up a file for each employee when they are first hired. The file should contain all the necessary information to complete the filing reports at the end of each month and at the end of the year. This will include full name, mailing address, TIN, and other contact information as needed.

Glossary Terms from this Section

Check - A special paper used to pay for expenses from a bank checking account.

Vendors - People or organizations that provide products or services used to operate a business.

For More Information Related to this Topic See

- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- What are liabilities? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*
- What is a ledger? *11. Bookkeeping*
- How do I record costs? *11. Bookkeeping*
- What are accounts payable and accounts receivable? *11. Bookkeeping*

Additional Tools Available

Payroll Ledger Template

14.
What are accounts payable and accounts receivable?

The Basics

Accounts payable (AP) is money owed by a business to its creditors. When a business orders and receives goods or services before paying for them, the business is buying them "on account" or "on credit". The supplier of the good or service is called a creditor. The supplier's bill will be recorded by the business as a liability in the Accounts Payable account.

For bookkeeping, that amount is put on your Balance Sheet-Liability ledger for recording all outstanding vendor invoices still owed for products or services already received by you and your company.

Accounts receivable (AR) is the money that a company has a right to receive because it had provided customers with goods or services. An account receivable is documented by an invoice, which should be issued to your customer when you are billing them. The invoice shows the goods or services sold to the customer, the amount owed to you, and when they are supposed to pay you.

Accounts receivable are reported as a current asset on your Balance Sheet-Asset ledger and records all outstanding customer invoices for products or services already delivered and owed to you and your company. Accounts receivables are a debit balance account.

Both accounts payable and accounts receivable are considered part of an Accrual Basis method of accounting. Afghan Corporations and Limited Liability Companies are required to report income tax on an Accrual Basis method.

Tell Me More

Accounts payable are specific outstanding vendor invoices recorded into your ledger by date, invoice number and amount. There should be a separate ledger for each vendor as some vendors may require payment faster than others based on their terms of sale to you. This ensures a running balance of how much is owed to each specific vendor at any specific time. This entry is a (Credit) to accounts payable, with the offset ledger entry of a (Debit) to the cost of goods sold if your business is in a manufacturing or processing type of industry, or expenses if your business is in a service type of industry.

When payment is made for this outstanding vendor invoice, a check is issued from the general checking account ledger with a (Credit) entry that reduces cash and the offset to the Accounts Payable Vendor ledger (Debit) reducing the liability account balance.

Accounts Receivables reflect specific outstanding customer invoices recorded into your ledger by date, invoice number and amount. There should be a separate ledger for each customer as well. This way you have a running balance of how much is owed to you by each specific customer at any specific time. This entry to the accounts receivable ledger is a (Debit) with the offset ledger entry to your Income Statement-Income account product or service (Credit).

It is common to issue an invoice to your customer at the time the good or service is provided. When payment is made on this outstanding customer invoice, the payment from your customer should be deposited into the general checking ledger being a (Debit) entry to increase cash and the offset to the Balance Sheet-Accounts Receivable-Customer ledger (Credit) reducing the account balance owed to you.

Glossary Terms from this Section

Accrual Basis of Accounting - When a company records revenue on the income statement as the expense occurs, not when the cash is paid.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Cost of Goods Sold (COGS) - Direct costs of the goods sold by a company.

Current Assets - Those assets that will be used up in a year or less and easily sold for cash.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Invoices - A list of things or services provided and the amount of money to be paid.

Liabilities - Anything that your business owes to others.

For More Information Related to this Topic See

- Why should I keep detailed records? *11. Bookkeeping*
- What is a ledger? *11. Bookkeeping*
- How do I account for loans? *11. Bookkeeping*
- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- What are assets? *12. Financial Management*
- What are liabilities? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*

Additional Tools Available

Invoice Template

15.
How often should I do bookkeeping?

The Basics

How often you do bookkeeping depends on the frequency and volume of activity in your business. There are several accounting tasks that are typically done daily to maintain and keep financial records updated. These usually include balancing and updating bank accounts to make sure that all payments and deposits have been reported accurately. It also includes deciding which payments need to be sent out, submitting the payments, and recording them in the financial ledger. Lastly, it includes receiving payments from clients or customers.

When there are daily activities taking place, multiple entries will be required to ledgers such as Sales, Accounts Receivable, Accounts Payable, Bank Deposits, Purchases and Payroll. It is important to record these transactions as soon as possible after they have occurred.

Activities that should be done monthly are reconciling your business bank or checking account, reviewing and following up on any outstanding account receivables, reviewing and processing payroll payments, and reviewing your profit and loss statement (Income Statement) as well as your Balance Sheet.

Annually, you should also be reporting your employee earnings to the relevant small, medium, or large taxpayers' office in the Ministry of Finance and creating end of year financial reports that summarize how your business has been performing.

Tell Me More

Daily Activities
Record every transaction such as billing customers, receiving cash from customers, or paying vendors. You can record transactions by hand or in Excel sheets but another option is to use accounting software like QuickBooks.

Weekly Activities
Keep copies of all invoices sent out, all cash receipts from cash or check deposits and all cash payments from cash and checks. Begin file system to keep track of all vendors for easy access. Also, create a payroll file and a bank statement file sorted out by month. A common habit of early business owners is to keep all paper receipts in a box and try to decipher them at tax time. Unless you have a very small volume of transactions, it is better to have separate files for different types of receipts that are kept organized as they come in.

Review and pay any bills from vendors that are due. Track your accounts payable and have funds set aside to pay your suppliers on time to avoid any late fees. Keep copies of invoices that are sent and received.

Monthly Activities
Balance your Business Checkbook and Reconcile your bank account using your bank statements. This makes it easier to find and correct any errors or omission by you or by the bank.

For outstanding accounts receivables, the beginning of the month is a good time review and send out reminders of invoice statements to customers and anyone else who owes you money.

Process or review payroll to ensure consistent disbursement of payroll to your employees. You can also review any payroll tax requirements.

Review your profit. Your profit and loss statement (Income Statement), tells you how much you earned and how much you spent. Compare it with your budget every month to see how your actual numbers to your planned numbers may be different and where you may be spending too much or not enough.

Annual Activities
Report the annual earnings of your employees to the appropriate tax authority. Create and review end of year financial reports based on your bookkeeping records. Accounting software such as QuickBooks is recommended to make this process easier and more understandable. A key activity at the end of each year is report your year's financial activity to the government in the form of the annual tax returns (Ezharnama). This is a mandatory activity and your bookkeeping throughout the year will ensure you're ready to submit your annual tax reports.

Glossary Terms from this Section

Accounts Payable - Money owed by a company to its creditors.

Accounts Receivable - Money expected from your customers.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Ledger - A ledger is a complete record of financial transactions over the life of a company.

Payroll - Total money paid to workers, self or others.

Vendors - People or organizations that provide products or services used to operate a business.

For More Information Related to this Topic See

- What is a ledger? *11. Bookkeeping*
- What are accounts payable and accounts receivable? *11. Bookkeeping*
- How does bookkeeping help financial management? *11. Bookkeeping*
- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*

Additional Tools Available

Receipt Template

16. How does bookkeeping help financial management?

The Basics

Basic financial management starts with good recording keeping. Accurate financial records will help you answer some important questions regarding your business, such as: Are you making money, or losing it? Is your business on a solid financial foundation? Is there potential financial trouble lurking ahead?

Bookkeeping processes and records financial transactions such as expenses, payroll, income and taxes after they have already occurred. It organizes these transactions into financial reports that are key to financial management as they are important in bringing together several key pieces of financial information about your business. These financial reports combine data from your bookkeeping records and sculpt it into a shape that shows you the big picture of your business.

If you keep good records and have an organized bookkeeping system, an accountant can help you produce more accurate financial statements and/or tax returns.

Tell Me More

The two major financial reports informed by bookkeepers are the Income Statement and Balance Sheet. The income statement reports a company's financial performance by giving a summary of the revenues minus expenses which equal either a profit or loss over a given period of time. The balance sheet summarizes a company's assets, liabilities, and equity.

The Balance Sheet provides a continuous report of assets and liabilities at any given time. The more current the information, the more meaningful it is. It shows how much your business owns and how much it owes and is a picture of the company's value at a given moment.

Monitoring the balance sheet accounts allow you to track important accounts such as cash, inventory, money owed to you and other assets, and to compare them to liabilities.

The purpose of the balance sheet is to show your company's financial position along with displaying what your business owns and owes. By analyzing the balance sheet reports over time, you can improve cash flow and profitability. When your business is properly managed and profitable, the success of your business increases. A balance sheet will also help you discuss the health of your business with your partners and have a good sense of your partners' equity and stake in the company.

The Income Statement, also known a profit and loss statement (P&L) shows a company's revenues, expenses, gains, losses and net income for a specified period of time such as a year. Proper bookkeeping accounts for the amounts reported for revenue from sales or investment income, and operating expenses incurred while providing your business's product or service.

At the end of the specific reporting period, usually end of year, any gains or loss from subtracting expenses from revenue is transferred to the equity account and all the revenue and expense accounts on the Income Statement are reset to zero in preparation for recording the next year's activity.

Bookkeeping is critical to ensuring accurate tracking and reporting of a company's financial position.

Glossary Terms from this Section

Assets - Anything of value that your business owns.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Equity - The company assets that the owner owns.

Expenses - Money paid out of the business to pay for an item or service.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Liabilities - Anything that your business owes to others.

Profit - Any positive amount of money left over after subtracting expenses from revenue (income).

Revenue - Money coming into the business usually from the sale of goods or services.

For More Information Related to this Topic See

- What is bookkeeping? *11. Bookkeeping*
- Why should I keep detailed records? *11. Bookkeeping*
- What is a ledger? *11. Bookkeeping*
- What are financial statements and why do I need to use them? *12. Financial Management*
- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*

17.
How do I know if I need an accountant?

The Basics

The need for an accountant is based on your knowledge and experience of establishing and running your business and keeping your books balanced and in good order. When you are first starting out it is usually a good idea to have an accountant help organize your books and records and make sure you are in compliance with the taxing agencies.

Many small business owners start off doing their own bookkeeping but there may be a point when you need to bring in someone who is has more knowledge or expertise in bookkeeping and/or accounting. An accounting professional can perform tasks more efficiently, meet regulation and law requirements, and convert accounting data into useful information that can help you focus your time on your business.

Tell Me More

It is important to know the difference of abilities and roles between a bookkeeper and an accountant. Bookkeepers do most of the day to day accounting transactions and handle any issues that may arise. Most bookkeepers are able to manage accounts receivable (sending out invoices and collecting payments), accounts payable (making payments for business expenses), monitor and report on available cash, perform bank reconciliations, and run payroll. Advanced bookkeepers can also do routine journal entries, end of the month journal entries, and prepare financial statements.

Often a bookkeeper's skills and experience vary where some may have more accounting knowledge and others don't. When tasks are needed beyond a bookkeeper's ability, an accountant can be hired to assist temporarily, periodically, or on a more long term basis. Since accountants are often much more expensive to use than bookkeepers, you should utilize them for specific tasks that are beyond you or your bookkeeper's ability.

An accountant can provide you with guidance as to how to best form your business when first launching your idea. An accountant usually has the knowledge and experience of dealing with the different types of government agencies and their requirement for registration or licensing needed to establish a business. Accountants can identify more complex issues, perform a review to help in gaining a loan, file your business tax return, advise you on tax planning, and offer strategic financial advice.

If you have experienced rapid growth of your business, serve more customers that you need to keep track of, want to hire more employees, or use more suppliers, an accountant can help you with the paperwork and systems needed to manage the expanded work load.

If you are selling more than usual, but do not see a higher profit in return, an accountant can look at your costs and point out areas that may need to be adjusted or cut down to help your business be more profitable.

Accountants can also help you expand your business into other locations by ensuring you are compliant with any government laws, regulations, and tax-reporting requirements. They can also guide you through and manage any auditing of your business that may be done by the government or authorities.

Bookkeepers and accountants are accustomed to working together to help business owners succeed. As your business grows and its needs change, using accountants for specific issues in combination with your own bookkeeping skills or a dedicated bookkeeper will help you keep track of and manage the finances of your business to maximize its value and effectiveness.

Glossary Terms from this Section

Accountants - Someone whose job is to keep the financial records of a business or person.

Audit - An official inspection of an individual or a business' accounts, typically by an independent party.

Bookkeeping - Keeping track of financial activities in a business.

Journal - A detailed account that records all the financial transactions of a business.

Payroll - Total money paid to workers, self or others.

Profit - Any positive amount of money left over after subtracting expenses from revenue (income).

For More Information Related to this Topic See

- Why should I keep detailed records? *11. Bookkeeping*
- How often should I do bookkeeping? *11. Bookkeeping*
- How does bookkeeping help financial management? *11. Bookkeeping*
- How do I make sure the money in my business is handled carefully? *11. Bookkeeping*
- What are financial statements and why do I need to use them? *12. Financial Management*
- Where can I get help to create and maintain my financial statements? *12. Financial Management*

18.
How do I make sure the money in my business is handled carefully?

The Basics

It is very important to establish safeguards to make sure the money in your business is handled securely. The best way to handle the money of your business is to collect and pay it out yourself, but as your business grows you will likely hand off much of these responsibilities to a dedicated employee or group of people.

To help securely handle the money in your business by others, the key is to limit the opportunities for fraud and embezzlement. This can best be achieved by implementing specific procedures involved in the daily cash in and out of your business. The implementation of these procedures is referred to as Internal Control. An internal control review examines how your accounting system functions, who responsible for what accounting task, and how these responsibilities may be modified for better protection against embezzlement.

Tell Me More

You may not recognize there is a problem or money being taken from your business until you accidentally discover a discrepancy or the theft becomes so large that the embezzler cannot hide their actions. You can proactively prevent your employees or contractors from finding and exploiting a gap in your accounting or way you handle cash by recognizing any weaknesses exposed by your internal control review.

Internal control reviews typically consist of a few main activities. One is to review and document all significant transactions. These are usually ones that most impact your financial statements and are typically the highest Afghani amounts. Second is to select a sample of transactions from the ones identified as significant and make sure that it follows the correct process you have set in place for your accounting system. For example, if you select a cash payout transaction, trace it from beginning to end starting with the request, approval process, documentation, record in accounts payable, issuance of payment, ending with the amount clearing the bank and appearing on the bank statement. Lastly, the internal control review results should be discussed with others in management and a plan to fix any issues is created and carried out.

Separation of duties and control measures are important aspects of good internal control. An example of good internal control is requiring your signature or co-signature for payments to vendors.

If another person is handling or has access to any cash activities there should be a procedure established for someone else to verify or authorize the expense or cash transaction. For example, if customers typically send their payments to you by mail, the person that opens the mail should not be the same person that makes the bank deposit.

The more separation of duties, the more internal control and the less opportunity for fraud. Small businesses with few employees lack the opportunity for separation of duties and therefore added attention to these issues should be required. Rotating employees into different job functions can help limit opportunities for fraud and embezzlement. Mandatory vacations or time off also give an opportunity for someone else to take over job responsibilities.

It is important to make sure all sales get properly reported. Sales invoices should be preprinted with sequential numbers and each invoice saved and documented. All pages of any voided invoices should be kept on file and not destroyed.

Another way to make sure the money in your business is handled carefully is to always reconcile your monthly bank statement to your checking account. Your checking account ledger should reflect each deposit to the bank and each cash out or check written. By reconciling your bank statement, you will make sure that transactions did not get missed or that unauthorized transactions are not occurring.

Glossary Terms from this Section

Accounts Payable - Money owed by a company to its creditors.

Embezzlement - Theft or misappropriation of funds placed in one's trust or belonging to one's employer.

Financial Statements - Formal records of the financial activities of a business that includes a balance sheet, income statement, and cash flow statement.

Fraud - Deception intended to result in financial or personal gain.

Invoices - A list of things or services provided and the amount of money to be paid.

Ledger - A ledger is a complete record of financial transactions over the life of a company.

Vendors - People or organizations that provide products or services used to operate a business.

For More Information Related to this Topic See

- Why should I keep detailed records? *11. Bookkeeping*
- How do I know if I need an accountant? *11. Bookkeeping*
- What are financial statements and why do I need to use them? *12. Financial Management*
- What are the best ways to handle transactions including cash payments? *12. Financial Management*
- What do I do if I discover one of my employees has acted unethically? *13. Business Ethics*
- I have an ethical dilemma. How do I decide and implement the best steps forward? *13. Business Ethics*
- How can unethical behavior affect my business? *13. Business Ethics*

Additional Tools Available

Invoice Template

Receipt Template

19.
How do I keep track of my inventory and why is it important?

The Basics

Inventory is one of the basis of your business. Next to money, it is the single most important asset on your balance sheet. Inventory is potential income and also potential loss if you don't sell it. Some businesses may think tracking inventory can be a waste of time, but it can be a very useful tool once put into use. For example, it is useful to know if you are selling a lot of one type of product, but losing money by not selling another type of product. Managing inventory also ensures you do not keep certain products for too long and find opportunities to clear your inventory on discounted prices as opposed to keeping the inventory in your premises and incur unnecessary warehouse and storage costs.

Businesses often depend on inventory to operate or fill client orders. Inventory is a major asset that helps a business with tasks such as planning and staying within budget. Thus your business should view keeping accurate inventory records as a major management tool that has a lot of benefits.

Tell Me More

Related to bookkeeping, inventory relates to two accounts to track inventory for your business.

Purchases are where you record the actual purchase of goods to be sold. This account is used to calculate the cost of goods sold, which is an item on the income statement.

Inventory is where you track the value of inventory on hand. This value is shown on the balance sheet as an asset in a line item called Inventory. A business typically tracks physical inventory on hand using one of two methods.

Periodic Inventory
This method involves conducting a physical count of the inventory in your store and in your warehouse. This count can be done daily, monthly, yearly, or for any other period that best matches your business needs. Some stores close for all or part of a day when they count inventory.

Perpetual Inventory
This method involves adjusting inventory counts as each sale is made. You must manage your inventory using a computerized system of accounting linked to your point of sale, usually your cash register. It is a good idea to occasionally do a physical count of inventory to be sure the numbers in your computer system match the actual count of physical inventory you have on hand. Theft, damage, or loss of inventory are not entered in your computer system automatically, so any losses will not show up until you physically count your inventory.

You need to calculate the Cost of Goods Sold in order to calculate the profit made to prepare your income statement. The period of time could be for a month, quarter, or a year.

To calculate the Cost of Goods Sold, determine how much inventory you sold. Start with the amount of inventory you have at the beginning of the month (called Beginning Inventory), as recorded in your Inventory account, and add the amount sold that you recorded in the Purchases account, to find the Goods Available for Sale. Then subtract the Inventory you have on hand at the end of the month, which can be done by counting your remaining inventory.

Beginning Inventory + Purchases = Goods available for sale – Ending inventory = Items sold

For example, if you started the period with 500,00 AFN worth of mobile phones to sell, and purchased 1,000,000

AFN worth of new phones in preparation for the new year, you had 1,500,000 AFN worth of inventory of available for sale. When you check your inventory and find that you have 200,00 AFN worth of mobile phones, it means you have sold 1,300,000 AFN worth of mobile phones. You can perform similar assessment based on the number of units i.e.:

200 Phones (Beginning Inventory) + 400 Phones (Purchases) = 600 Phones (Available for sale) – 100 Phones (currently in stock) = 500 phones sold

After finding the number of items sold, compare that number to the actual number of items sold during that accounting period, which is based on sales numbers collected throughout the month. In the example above, you should go back to your store and check if you really have 100 phones remaining. You may have a problem if the numbers do not match. If you find a mistake, it could be in the inventory count, or items may be unaccounted for because they have been misplaced, damaged, stolen, or discarded.

Inventory sitting on shelves or in a warehouse is reflected on the balance sheet at the price paid for the goods. With few exceptions, the values reflected on the balance sheet represent the actual cost paid for the assets. At times, the price paid for inventory includes other costs such as shipping. In a manufacturing company, sometimes the inventory figures include labor, raw material, and supplies.

Keep in mind that the values reflected for inventory typically reflect the costs paid for the items. At the end of the year it is important to count your inventory and determine the cost of the inventory on hand. Customarily, the cost of unsold inventory cannot be deducted as an expense until it is sold. This rule assures there is a proper matching of the revenue generated by the goods being sold and the deduction for the costs of those goods. The ending inventory will appear on the balance sheet as an asset, reflecting the costs.

The market value of the inventory can be substantially higher than the cost. Sometimes, in poor market conditions, inventory can decrease in value. When the decrease results in a value less that what you paid for those goods, you are allowed to report the inventory at the lower value. Reporting the inventory at a lower value than what was paid for the goods results in a write down that gets deducted as part of the cost of goods sold for the year of the write down.

Normally the value of inventory is much higher than the cost which is why it is important to carefully account for all the goods you have purchased. Theft of inventory can become an expensive loss to your business. By carefully monitoring the cost of goods sold along with a careful count of inventory on hand, you can determine if inventory items are disappearing.

It is not always practical to take a full inventory count throughout the year. For simplicity purposes, the purchases of goods for resale are sometimes recorded directly to the income statement as an expense. At the end of the year, when an inventory count has taken place, the cost of goods still on hand is subtracted from the income statement and added to the balance sheet as inventory. This is accomplished by crediting the income statement expense account and debiting the balance sheet account for inventory, resulting in a change to the net profit or loss for the period.

Glossary Terms from this Section

Assets - Anything of value that your business owns.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Cost of Goods Sold (COGS) - Direct costs of the goods sold by a company.

Income - All the money that comes into your business from sales, service or loans.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Profit - Any positive amount of money left over after subtracting expenses from revenue (income).

Revenue - Money coming into the business usually from the sale of goods or services.

For More Information Related to this Topic See

- Why should I keep detailed records? *11. Bookkeeping*
- What is inventory and how do I best manage my inventory? *5. Operation and Project Management*
- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- What are assets? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*
- What is profit and how do I determine mine? *12. Financial Management*

Additional Tools Available

Inventory Report Template

20.
How do I track sales?

The Basics

It is important to design an accounting system that allows you to track the sale transaction from the point of sale until the money is received from the customer. Sometimes this cycle can take months to complete.

Most businesses collect cash as payment for the goods or services they sell. Cash receipts include more than just notes. Checks and credit/debit cards are also considered cash sales. Electronic transactions i.e. wire transfers or customer's credit or debit cards, deposit the amount directly to your business's bank account usually within seconds or at least that same day.

The most common way to track sales is through sales receipts generated at the point of sale with the customer. The receipts can be given by your cash register, your credit/debit card machine, or written by hand. Receipts show the date, location, amount collected, type of product, and quality.

Store credit purchases are not considered cash payments as they are offered to customers directly by your business rather than through a third party such as a bank or loan. When a sale is made through extending credit, an invoice is given to the customer (and a copy kept for your business) with an agreement to pay the amount within a specified number of days and usually includes interest or fees. The invoiced amounts are tracked under your accounts receivable (money expected from your customers) ledger.

Tell Me More

It is critical that each sale gets properly recorded and the transactions documented through receipts or invoices. The documentation will allow you to track the goods leaving the company, the sale being reported, and the customer's account to be monitored until it is paid. Based on the income tax law of Afghanistan, you need to pay Business Receipts Tax (BRT) on your gross sales. It's important that you accurately keep track of and document your sales so as to ensure you can justify your sales to the Ministry of Finance officials during an audit.

For a high-volume retail sales company, a Point of Sale (POS) system is good way to track your sales. A Point of Sale system can be as simple as a cash register tape or a sequentially numbered receipt book that is used to record each sale that is then printed out in summary form at the end of each day. Or it can be a sophisticated electronic software system tied into your cash register or bar code reader. In addition to sales, a high-end POS system can keep track of inventory on a real time basis and alert you when more inventory needs to be purchased.

For each sale, it must be entered manually or via electronic software into your Cash Receipts journal. When a cash sale is made, a cash debit is recorded to your cash account for the increase in cash and is shown on the balance sheet. Sale revenue is credited to account for the increase in your income on the income statement. Any sales tax is added in the Sales Tax Collected liability account on your balance sheet.

If a sale is made on credit, the amount is debited and recorded to your receivables account. Sale revenue is credited to account for the increase in your income on the income statement. Once the amount is received from the customer, debit the amount to your cash account and credit the amount to your receivables account.

If you give your customers discounts for fast payment of goods or services, this discount should be shown as a reduction of revenues.

Your Chart of Accounts (a listing of all accounts used) can include more detailed Sales accounts to track the types of income you want to record, whether it be service or product.

For example: you may make Product Type A, Product Type B, and Product Type C.

Each type can be specified in detail in your chart of accounts as an Income item. This will give you a greater picture of the amount of sales for each type of item.

Or you can detail your sales activity in your Accounts Receivable sub-ledgers by Customer.

For example: Customer A buys only Product Type A and Product Type B.

When recording the sale in the Customer sub-ledger, you can detail the amount of sales for each type of Product. These Customer Sub-Ledgers can be used in either accrual basis or cash basis method of bookkeeping.

Glossary Terms from this Section

Accrual Basis - When a company records revenue on the income statement as the expense occurs, not when the cash is paid.

Balance Sheet - A financial document that shows how much you have in your business and how much you owe at a given time.

Cash Basis - When a company does not record revenues until the cash is received and records expenses when the expense is paid.

Credit - The trust and opportunity to pay for things you purchase at a later date.

Income Statement - A financial document showing the difference in revenue (income) and expenses.

Invoices - A list of things or services provided and the amount of money to be paid.

Journal - A detailed account that records all the financial transactions of a business.

Receipts - A copy of the transaction that is given to the customer when they have paid and a copy is kept by the business.

For More Information Related to this Topic See

- Why should I keep detailed records? *11. Bookkeeping*
- What is a ledger? *11. Bookkeeping*
- What is a chart of accounts? *11. Bookkeeping*
- How do I manage cash? *11. Bookkeeping*
- How do I record revenue? *11. Bookkeeping*
- What are the best ways to handle transactions including cash payments? *12. Financial Management*
- What are Income Statements (Profit and Loss Statements) and how do I use them? *12. Financial Management*
- Why do I need a balance sheet and how do I create one? *12. Financial Management*

Additional Tools Available

Receipt Template

Tools