

A stylized illustration of a person with reddish-brown hair, wearing a blue suit jacket, a white shirt, and a pink tie. They are sitting at a yellow desk, looking down at a white document. A laptop is open on the desk to the left. The background is a textured, light brown fabric.

Basic Bookkeeping

For Small and Home Based Business

Benefits of Keeping Records

- All of your records are kept in one place and can easily be found when necessary.
- You know who owes you money and how much they owe you.
- You know how much cash you have at any point in time and can maintain good credit.
- You improve your chances of success. Problems can be caught earlier and addressed before your business is forced to close.
- You keep the tax man happy and away from your door.

Isn't bookkeeping complicated, expensive, and time consuming?

Sometimes it is, but for most small and home based businesses it does not have to be.



If a small business records only a small number of transactions each week then it requires nothing more than a notebook.

We call that notebook a **'journal'**.

Two Journals

Two Journals can track these basic transactions.

1. An Expense Journal can be kept to record purchases paid for immediately or on account and for payments made on your accounts.
2. A Sales Journal records the immediate payments received for sales, sales made on account and payments received on account.

Points to Remember



- All purchases and payments should be made by cheque, not cash. Why? Cheques can be tracked more easily than cash and they are not easily used if stolen. All businesses should have at least one chequing account to track and protect cash balances.
- Transactions need to be identifiable. Dates, cheque number, who the cheque was paid to and what the payment was for must all be recorded. If not, you may pay for the same thing twice.

Sample Transactions

Jim's Grocery and Catering Services Transactions for June

1. June 5, 2003 - Paid co-op in Yellowknife, with cheque # 30, \$200 for groceries and \$107 for vehicle repairs, GST included.
2. 07 June, 2003 - Paid village of Fort Simpson with cheque 31. \$535 was paid for rent, \$214 for telephone, \$321 for power. All payments included GST.
3. 12 June, 2003 - Purchased \$1,000 of groceries and \$535 (incl. GST) of tires from Northern store on account.
4. 15 June, 2003 - Sold \$749 of catering, including GST and \$200 of groceries to North of 60 – Invoice # 49.
5. 23 June, 2003. Sold catering services worth \$600 plus GST to Deh Cho BDC for a conference. (they will pay on the 25th of the month)- Invoice # 50.

Expense Journal

Expense Journal											
Date	Transaction description	Cheque number	Amount Paid	GST Paid	Utilities expense	Rent expense	Electric expense	Payroll expense	Grocery supplies	Vehicle Exp.	On Account

- Enter the date of the transaction.
- Describe the transaction.
- If you are paying immediately:
 - Enter the cheque number.
 - Enter the amount of the cheque in the 'Amount Paid' column.
 - Record the amount, without the GST, under the correct heading.
 - Record the GST paid in the 'GST Paid' column.
- If the purchase is going on account:
 - Record the amount, as a negative number, under the 'On Account' heading, since you owe the money.
 - Enter the amount, without GST, under the correct heading.
 - Record the GST paid in the 'GST Paid' column.

- **When you are ready to pay on the account:**
 - **Record the amount under 'On Account' as a positive number, since you are now paying for the items purchased.**
 - **Record the cheque, date and who it is payable to on the same line.**
 - **Record the amount of the cheque under the 'Amount Paid' heading.**

Before we go any further let's return to Jim's Grocery's transaction list and record his first transaction in the 'Expense' journal.

Date	Transaction description	Cheque number	Amount Paid	GST Paid	Utilities expense	Rent expense	Electric expense	Payroll expense	Grocery supplies	Vehicle Exp.	On Account
5/6/2003	Co-op Yellowknife	30	\$307								
This is as far as we got recording Jim's first transaction. What are we missing?											

- We know Jim 'paid out' \$307 so he recorded that amount in the '**amount**' column.
- We know that he bought \$200 (no GST on food) of groceries so we enter \$200 in the grocery supplies column to the right hand side of the journal.
- Jim also paid \$107 for vehicle repairs so we put \$100 of this amount in the 'vehicle expense' column and \$7 in the GST column. Why do we separate the GST paid amount?
- Now what do you notice about our journal?

Date	Transaction description	Cheque number	Amount Paid	GST Paid	Utilities expense	Rent expense	Electric expense	Payroll expense	Grocery supplies	Vehicle Exp.	On Account
5/6/2003	Co-op Yellowknife	30	\$307	7					200	100	
The \$307 inside the 'Cash paid out' column exactly equals all the entries made on the same line in the other columns											

Enter Transaction # 3

Transaction three is another purchase but you are not paying for it immediately. It will be put on account.

12 June/03. Purchased \$1,000 of groceries and \$535 (incl. GST) of tires from Northern store on account.

As we said earlier, we enter the amounts under the correct heading, enter the GST where it belongs and then put the total under the “On account” heading said we are not paying for it at this time.

Date	Transaction description	Cheque number	Amount Paid	GST Paid	Utilities expense	Rent expense	Electric expense	Payroll expense	Grocery supplies	Vehicle Exp.	On Account
5/6/2003	Co-op Yellowknife	30	\$307	7					200	100	
7/6/2003	Village of Fort Simpson	31	\$1,070	70	200	500	300				
12/6/2003	Northern Store			35					1000	500	-1,535

Notice the total of the headings to the right of the ‘Amount Paid’ column now equal the ‘Amount Paid’ column; \$0 in this case. The balance is maintained.

Rules, Rules, Rules

- **Accounting rules require that we record a purchase of materials, that will be used up quickly, as an expense when the purchase is made, whether we pay for it immediately or not.**

- **By continuing to record purchases under the correct headings, even though we did not yet pay for them, we can easily total each expense category for a profit and loss statement at any time.**

- **The GST is also separated for each purchase, whether it is paid or not, since we may have to prepare a GST return before the account is paid and the GST paid on the purchase must be included.**

When a payment is made on the account, it is recorded as shown below. (Don't forget, you may pay only a portion of any account at any one time)

Payment on Account

Date	Transaction description	Cheque number	Amount Paid	GST Paid	Utilities expense	Rent expense	Electric expense	Payroll expense	Grocery supplies	Vehicle Exp.	On Account
5/6/2003	Co-op Yellowknife	30	\$307	7					200	100	
7/6/2003	Village of Fort Simpson	31	1070	70	200	500	300				
12/6/2003	Northern Store			35					1000	500	-1,535
14/6/2003	Northern Store	32	1000								1,000

After making the payment, we can see that remaining amount on account is \$535 (1535 – 1000)

To ensure that all accounts are paid in full and in a timely manner, it is a good idea to maintain a file of all invoices that have not been paid in full. As each payment is made, record the cheque number and amount on the invoice until it is paid in full. Then it should be filed in the appropriate folder.

Sales Journal



When a sale of goods or services is made, it is recorded in a Sales Journal. This journal allows you to total your sales whenever necessary and once again, keep the Tax man happy.

The sales journal looks much the same as your Expense Journal.

There are a couple of exceptions:

- **Cheque numbers are not necessary unless you wish to record the number of the cheque which your customer used to pay you.**
- **The GST column is no longer called GST paid. It is now called GST collected.**
- **One other difference will likely be found when you are operating a business with a great number of sales per day, such as a retail store. In that case you will not enter every sale into the journal. The sales summary for the day, printed from the cash register you use, will be entered instead.**
- **The headings are different as well. Now you simply use the various products, or types of products, you sell as headings. An other category is included to allow you to enter unusual items. The deposit heading is just to allow you to record deposits, the amount deposit and the date.**

The entries for the Sales Journal are similar to those for the Expense Journal.

- **Enter the date of the transaction.**
- **Describe the transaction.**
- **If payment is received immediately:**
 - **Enter the amount of the cheque in the 'Amount' column.**
 - **Record the amount, without the GST, under the correct heading.**
 - **Record the GST collected in the 'GST Collected' column.**
- **If the purchase is going on account:**
 - **Record the amount, as a negative number, under the 'On Account' heading.**
 - **Enter the amount, without GST, under the correct heading.**
 - **Record the GST collected in the 'GST Collected' column.**
- **When you receive payment on the account:**
 - **Record the amount under 'On Account' as a positive number.**
 - **Record the date and who the payment is from.**
 - **Record the amount of the cheque under the 'amount' heading.**

Transaction # 4

Sold \$749 of catering, including GST, and \$200 of groceries,.

As we noted earlier, some of the information was missing from the data recorded. It turns out that the items were sold to the Deh Ch BDC on June 18, 2003.

Date	Transaction description	Invoice number	Cash Paid In	GST collected	Sales Catering	Sales Grocery	Other	Deposits	On Account
18/6/03	Catering: 25 dinners to DCBDC; groceries for lunches	49	\$949	\$49	\$700	\$200			
	The dinners and the lunches are recorded on the same invoice (bill)		GST + Catering + Groceries = Total						
<p>Notice that the right hand columns represent the regular activities for which Jim receives cash. He mainly sells catering services and groceries, but sometimes he receives cash from other sources.</p>									

Transaction # 6

25 June/03. The Deh Cho BDC paid \$500 on its account.

Date	Transaction description	Invoice number	Cash Paid In	GST received	Sales Catering	Sales Grocery	Other	Deposits	On Account
18/6/03	Catering: 25 dinners to DCBDC; groceries for lunches;received loan	49	\$949	\$49	\$700	\$200			
	The dinners and the lunches are recorded on the same invoice (bill)								
23/6/03	Catering Services - Deh Cho BDC	50		\$42	\$600				-\$ 642
25/6/2003	Payment on account - Deh Cho BDC	50	\$500						\$ 500

Points to Remember

- **If there are multiple sales to one particular customer and they are not paid immediately, a record of each customer's purchases on account should be kept. This allows you to keep a running total of how much is owed by each customer and makes it easier to issue statements and follow up for payment when necessary. This can be done using an index card and a small card file.**
- **When payments are made on the customer's account, this is also recorded on the card.**
- **Entries on such a card may look as follows:**

Deh Cho BDC		Balance
Feb 12/03	Charged \$1,800	\$4,965
Mar 26/03	Paid \$3,500	\$1,465
Apr 20/03	Charged \$900	\$2,365
May 01/03	Paid \$2,000	\$365
June 23/03	Charged \$642	\$1,007
June 30/03	Paid \$500	\$507

- **Unpaid invoices should be kept in a file marked 'Unpaid Invoices' until they are paid and then filed appropriately.**
- **Always assign a unique invoice number to each invoice. This will help ensure you can easily record which invoices have been recorded, paid and remain unpaid.**

Now record the rest of Jim's transactions in the proper journals

- 25 June 03 paid on account to Northern \$1,200.
- 25 June 03 paid telephone bill \$267 (including GST)
- 25 June 03 received payment on account from GNWT for 16 June catering, \$1,000 – inv. # 42.
- 25 June 03 sold \$400 plus GST of catering on account to Chamber of Commerce
- 27 June 03 sold \$350 of groceries on account to Bill Budd.
- 28 June 03 purchased at John's Esso on account vehicle repairs and gasoline for \$240 plus GST
- 28 June 03 received \$2,000 payment from Deh Cho BDC – invoice # 39.
- 29 June 03 received a \$200 plus GST electric bill for month of June, but Jim did not pay the bill.

End of Month!

- Time to total all the accounts. Why you ask?
- If you total the accounts from the two journals you can easily construct a Profit & Loss statement. The statement, when combined with the changes in and status of your cash account, will give you a good idea of how your business is doing.
- The statements can be compiled on a monthly basis and a Year-to-Date basis. Jim's statements follow.

Profit & Loss Statement

Jim's Grocery & Catering Services



Sales		
Catering Sales	1,700.00	
Grocery Sales	550.00	
Other	-	
Total Revenue		\$ 2,250
Expenses		
Utilities	450.00	
Electric	500.00	
Payroll	-	
Vehicle Expenses	840.00	
Rent	500.00	
Grocery	1,200.00	
Total Expenses		\$ 3,490
Net Income		-\$ 1,240



As can be seen from the statement, the business lost \$1,240 this month.

Cash Flow Statement



Cash Flow Statement							
Beginning Balance		\$ 3,200	(assumption, would normally come from records)				
Cash In (this month)	4,877						
Cash Out (this month)	3,844						
Ending Cash Balance		\$ 4,233					

This statement shows that our cash balance at the end of the month is higher than it was at the beginning by \$1,033.

How is that possible?



It is possible because we collected money from sales that occurred before June. The total cash collected in June exceeded that paid out.

GST Information

GST returns are prepared monthly, quarterly or yearly.

The journals collect the information we need for the GST return as well.

GST paid is subtracted from GST collected and the difference is remitted to Revenue Canada. If the difference is negative, Revenue Canada will send you the difference.

GST Claim			
GST Paid this month		\$	160
GST collected this month		\$	119
GST receivable (payable)		\$	41

Also notice that the GST collected and paid during the month is based on the sales and expenses that took place in the month, not just those that were paid for.

Petty Cash

- Petty Cash allows you to make exceptions to the “Pay only by cheque” rule. Companies usually keep \$100 to \$200 cash on hand for small everyday type expenses.
- Expenses might include coffee, stamps, snacks or other small expenses. Petty Cash is not to be used to pay larger expenses.
- The process used to maintain your Petty Cash is fairly simple. Keep the receipts. When the funds are almost used and need to be replenished, simply add them up. Add the total to the amount remaining in the Petty Cash. The grand total should be equal to the starting balance of the Petty Cash fund. If not, receipts are missing or a mistake was made.
- To replenish the Petty Cash, simply write a cheque for an amount = the starting balance – the funds remaining and place the amount on your expense journal as with any other expense. The GST paid in this manner can also be claimed as part of your total GST paid so do not forget to record it as well.

Petty Cash Example

Petty Cash		
Beginning Balance	\$ 100.00	
Receipts		GST
TJs grocery	5.79	0.38
Canada Post	10.00	0.65
North of 60	25.00	1.64
Northern Store	15.00	0.98
TJs Grocery	12.50	0.82
Canada Post	17.89	1.17
Northern Store	10.00	0.65
Total	\$ 96.18	\$ 6.29
Cash remaining	3.00	
Grand Total	99.18	(96.18 + 3.00)
Over / Under	0.82	(100 - 99.18)
(receipt missing for \$0.82)		

What about Cash Balances?

- Maintaining an accurate cash balance is probably one of the most important aspects of running a successful business. If you are not sure of your balance you may bounce cheques, which can upset suppliers, employees and other businesses you deal with on a daily business.
- Unfortunately, the journals discussed above do not maintain that balance. One records money collected and the other records money spent. They are independent it would seem. Ahh... but the cash in the bank is affected by both.
- To be sure that we can pay the bills we say we are going to pay, we must be sure of the balance.
- This can be done in a number of ways. Daily deposits and the cheques written can be recorded in a 'Bank Account' General Ledger – a separate sheet. A second method, which can work for small businesses and with very little effort is to record the information on the cheque stub.

		0040	
Date			
To			
Re			
GST Amount		GST #	
Balance Forward			
This Cheque			
Deposit			
Other			
Balance			

The top portion of the cheque stub records the date, who the cheque was written to, what it was used to pay for, and the amount of GST included in the payment.

The bottom portion allows you to enter the balance forward from the previous cheque, the amount of this cheque, any deposits made since the last cheque, any other transactions that might affect your cash balance and then allows you to enter the new balance in your account. The correct balance is always known.

