

Accounting Practices Needed When Starting a Business

Every small business needs to account by law for the profit or loss that it makes over time. Not only is this valuable information for the business owner, but such accounting is required in order for the business to be able to report that information to the appropriate tax authority in its locale.

Furthermore, many small business owners prefer to keep their attention on running and building their business, rather than on accounting practices. Nevertheless, the importance of establishing and maintaining sound basic accounting practices cannot be overemphasized to make sure that the business is performing in a financially desirable way.

Basic Accounting Record Keeping

One of the most important accounting practices needed when starting a business consists of keeping accurate records about how the business is doing financially over time. The three primary types of record keeping that are typically used in small businesses consist of:

Journals

These are the original books of entry that can be updated by just about anyone with basic record keeping skills. Journals can be used to keep track of such things as payroll payments to employees, sales receipts generated when products are sold, bank deposits and withdrawals, and purchases made by the business. Journal totals are posted to the General Ledger, while each entry will be posted to the relevant Subsidiary Ledger.

Subsidiary Ledgers

These are books kept for analysis purposes that usually contain account records in greater detail. Subsidiary ledgers might include such information as: accounts receivable, accounts payable, payroll data, and financial information about jobs that are currently in progress or are in the process of being billed for.

The General Ledger

This is the final book of entry that is typically maintained by an experienced accountant or bookkeeper. The General Ledger for a business is maintained from the point that the business is started until it closes its doors. This single key ledger is typically updated on a monthly basis with the totals from each journal into the corresponding General Ledger accounts and is used to create financial statements. A separate page in the General Ledger is kept for each individual account.

The General Ledger Balance Sheet

An important end result of effective accounting record keeping using Journals, Subsidiary Ledgers and a General Ledger is commonly known as the company's Balance Sheet. The balance referred to in this key statement of a business's assets and liabilities is achieved in double entry book keeping systems because total debits must equal total credits for the company.

The General Ledger's Balance Sheet has four main sections, and each section in the General Ledger is then totaled as part of a company's basic accounting practices. Specifically, the sections include and keep track of:

Assets — also known as debits

Liabilities — also known as credits

Capital — includes investments and earnings

Accruals — include depreciation and uncollectable debts

In terms of the General Ledger Balance Sheet, the balance refers to the fact that the assets that a business has or owns must equal the sum of its debits, or what the company owes with respect to its liabilities, its accruals, and its capital.

Basically, the Balance Sheet provides very helpful information for any investor or tax authority that wishes to assess the financial success of the business that it pertains to