



BOOKKEEPING BASICS FOR ONTARIO SMALL BUSINESSES

Booklet 6



BOOKKEEPING BASICS FOR ONTARIO SMALL BUSINESSES

INSTRUCTION BOOKLET

By

Carmen Wheeler
KATWO Consulting

GEDC Business Centre

www.gedc.ca

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FORWARD

Congratulations on your leap into entrepreneurship! You must be excited to have keenly identified products and/or services needed by consumers and now aim to build a successful business by meeting their needs. Every owner brings a unique set of knowledge and skills to their business, being well prepared for some aspects of running the business and less prepared for others.

With the excitement of starting a new business comes natural feelings of apprehension because starting a business is also daunting, particularly for small business owners who have limited experience, resources, and access to *financially* successful business experts for advice. Early on, new business owners make a critical decision between: (Option 1) exploring reasons for apprehension and actively addressing their business administration development needs or, (Option 2) pushing those pesky feelings aside and moving forward full throttle, perhaps believing “*If you build it, they will come*” and “*everything will either work itself out along the way*” or “*I’ll take care of it later*”. Unfortunately, with 20% of Canadian businesses failing within the first year and approximately 60% failing within the first three years, choosing Option 2 is neither strategic nor wise. Insufficient knowledge and skills to effectively manage the ‘administration’ side of a business to generate sufficient revenue is risky and a source of business failure. Important indicators of the health of a business are found within stories told through its financial records. Financially successful owners strategically use financial records to make informed decisions about their businesses.

Circle back to the earlier critical decision and Option 1. Is your ability to understand and effectively manage financial records causing some apprehension? If so, this booklet can help! If you personally plan to maintain the business’s records, this book provides basic information and instruction for recording financial transactions. Even if you engage a bookkeeper, accountant, or use accounting software, this book will assist you to understand the basics of how your financial records are kept, *which as the business owner you are ultimately responsible for*. As well, it offers some insight on how the financial books can be used to make informed business decisions.

Maintaining finances is often described as being hard, repetitive, and boring. However, this is a matter of perspective. This booklet will show that (1) maintaining financial records doesn’t have to be hard once you understand the basics, (2) yes, tasks can be repetitive; however, besides the old adage that practice makes perfect, enhancing knowledge and skills ultimately reduces overall time spent on finances and contributes to informed decision-making, and (3) the stories financial records disclose about how a business is doing is far from boring – in fact they should be enlightening and motivating! Besides, who better to know everything about a business than its owner?

So, join me as I share the basics of what, where, when, why and how to show the money.

Carmen Wheeler, MBA, LSSMB, RSW

CHAPTER 1 - INTRODUCTION

This introductory booklet is written for small business owners with little to no knowledge of universal methods for keeping business financial records. Although each year there may be changes to tax rules *which business owners need to keep up-to-date on the changes that apply to their business*, the basic principles involved in bookkeeping have remained stable over time. This booklet is accompanied by an online Bookkeeping Guide that illustrates with detail how small business owners can perform basic bookkeeping.

Using this Booklet and Guide

This Booklet and Guide are intended as an entry level reference that are very illustrative as well as, easy to read and follow. Colours are used to identify **accounting terms**, **examples**, **activities/tasks**, **important information**, and **tips**. To promote practical understanding, explanations of accounting terms are provided. If more information is needed, please look up the actual definition of the term in a dictionary. Footnotes located at the bottom of pages provide additional information including links to informative websites. As the instruction in one chapter is built off the instruction provided for in previous chapters, ensure that you spend sufficient time to grasp the instruction before moving on to the next chapter. There will be a point in time when the concepts and processes will click, coming together in sudden realization. This epiphany tends to happen more quickly when reading is not rushed beyond understanding material already read.

The content of the Booklet is designed to provide you with information to consider when setting up your books. It discusses a number of topics which ultimately lead into your development of the Chart of Accounts for your financial books. The end of this Booklet contains a table of contents for the accompanying online Bookkeeping Guide. The chapters on Source Documents, Analyzing Financial Transactions, Journals, and Ledgers are must reads containing detailed illustrations on how to perform daily bookkeeping. The remaining chapters of the Guide cover other topics such as the end of month trial balance, as well as inventory and payroll.

Introduction to Bookkeeping

Small business owners (referred to as owners in this booklet) often perform many roles such as manager, bookkeeper, accountant, sales clerk, etc. Every owner brings a unique set of knowledge and skills to their business, being well prepared for some aspects of the business and less prepared for others. Businesses come in all shapes, sizes and have a wide-range of products and/or services they offer. All these factors influence the level of complexity for managing and operating a business. Unfortunately, it is not possible or practical to cover all scenarios in an introductory booklet. Once having the basics, owners can expand their knowledge as needed for their specific business by engaging other resources such as, the internet (*a library of information at your finger tips but not all information is accurate, check multiple different sources to validate the accuracy of information*), subject-related published books or courses, or professional bookkeepers or accountants when needed. If assistance is needed contact the Greenstone Economic Development Corporation (GEDC).

Accounting Rules

In brief, each jurisdiction around the world has its own rules for business accounting. In Canada, the Accounting Standards Board (AcSB)¹ sets the rules for private business accounting called the Canadian “Generally Accepted Accounting Principles” (GAAP). In an effort to unite with accounting systems around the world, the AcSB decided to converge the Canadian GAAP with international standards,² now known as the International Financial Reporting Standards (IFRS).³ Despite efforts to unite, differences remain between the Canadian GAAP and IFRS. With the exception of publicly traded enterprises, **Canadian businesses must choose whether to follow the Canadian GAAP or the IFRS**. More information about the Canadian GAAP and the IFRS and their differences can be easily accessed through the internet.

The instruction in this booklet is aligned with the Canadian GAAP.

Bookkeepers and Accountants

Bookkeeping is the recordkeeping part of accounting. Bookkeepers perform many activities such as controlling and maintaining documents, recording detailed entries of financial transactions, processing revenues and expenses, issuing payments and payroll, adjusting entries, and summarizing financial transactions among others. Accounting goes beyond bookkeeping. In general, an accountant has the ability to perform all the activities of a bookkeeper and much more (e.g., audits, modelling and projections, provide professional advice, etc.). As an owner, you will need to decide what accounting activities you will do and, what (if any) activities you will hire professional(s) to perform.

Business Financial Books Should Always Be Current

It is *very* important that financial books be kept up-to-date! Postponing bookkeeping can:

- generate frustrating and overwhelming experiences
- increase the risk of loss of information and documents
- increase the risk of errors, time spent locating and fixing errors
- increase the risk of additional expenses
- increase risk of business challenges and failure where there is slow or no detection of critical financial issues requiring immediate action

You may be wondering how often you need to update the financial books? Financial transactions are entered into journals and subledgers daily, specifically on the day they occur. Financial transactions are transferred from some journals to the General Ledger daily and from other journals to the General Ledger monthly, as will be explained in future chapters.

¹ <https://www.frascanada.ca/en/acsb>

² [https://en.wikipedia.org/wiki/Generally_Accepted_Accounting_Principles_\(Canada\)](https://en.wikipedia.org/wiki/Generally_Accepted_Accounting_Principles_(Canada))

³ <https://www.investopedia.com/terms/i/ifrs.asp>

Make a time commitment for ensuring the daily bookkeeping is completed by the end of each day that has financial transactions. For *exceptionally* rare occasion, when it is impossible to meet this commitment, commit to catching up on your books as soon as possible before the earlier of the end of the next business day or the beginning of the weekend. Avoid leaving bookkeeping undone as the risk of errors increases and, do not leave it undone over a weekend. Establish this practice as routine and you and your business will be thankful for it. Consider when financial information is not up-to-date: how and when would you detect any critical financial issues? How could you make ‘informed’ decisions? How would you know if your business is sustainable? If the foregoing reasons are not convincing enough, recognize it will take considerably more time to bring your books up-to-date later than if you kept them current. Do you want to unnecessarily take valuable time away from business activities that earn money, or from your private life? One bad experience bringing unkept books current is typically enough to commit to a bookkeeping schedule and stick to it!

One of the most strategic decisions an owner can make is to use their time and resources wisely

Accurate Records are Critical to Business Success

Consider a financial system to be the central nervous system of the business. Just like the body’s central nervous system is critical to your survival, an accurate financial system is critical to the survival of your business. The central nervous system receives, analyzes, stores, and uses stored information to guide decisions and performance. When critical information is not received in a timely manner, contains errors, or is stored incorrectly, the central nervous system cannot work properly and the business can experience failure(s) and even untimely death.

Not only are accurate financial records required by law, they are also needed to:

- determine appropriate rates of taxation (*you don’t want to be paying too much*)
- compensate any employees (owners are not employees) needed to run your business
- make informed decisions about the operations of your business including, but not limited to:
 - where, when and how the business operates
 - the products/services offered and how much to charge
 - the resources you invest in and/or use to operate your business
 - past, current, and potentially future customers
- access credit, loans, grants, and investors

Successful owners do not leave money, records and decision-making to chance, they use available resources to make strategic decisions for sustainable success

THE IMPORTANCE OF CURRENT & ACCURATE BOOKS CANNOT BE UNDERSTATED!

CHAPTER 2 – PLANNING

Establishing Internal Controls

As Owner, you are ultimately responsible for the financial records and all that goes on in your business. As such, it is important to identify potential risks to your business early on and identify **Internal Controls** (policies and procedures) to lessen those risks.

Examples of Internal Controls:

- Keep personal and business financial records separate. (e.g., business bank account, if you loan funds to the business ensure have a loan document recording the date, amount, and repayment details, etc.)
- Conduct background checks on people you hire that will manage money and inventory
- Regularly review all statements (bank, credit card, loan, etc.) and financial books
- Monitor the in-flow and out-flow of cash. Project monthly revenue and expenses. Are monthly income and expenses stable? Are they close to projections? If not, then why?
- Do not permit the sharing or use of each other's computer passwords
- Limit employee access to personal, confidential, and financial information to only what is needed to perform their respective jobs
- If an electronic cash register is used, require the employee processing the transaction to be signed onto the system
- Monitor cash drawers and credit and debit transactions to ensure balance with sales and returns
- Approve and only permit use of approved suppliers. Require detailed invoices
- Review outgoing payments (watch for duplicate and multiple invoices, invoices from new or unknown suppliers). Review invoices for accuracy
- Review payroll (watch for variations)
- Unless personally managing all finances, don't have one staff perform all finance functions
- Require all cheques/electronic payments be signed/authorized by you before they are sent
- Require payments from petty cash to be authorized and a receipt for the item(s) purchased
- Maintain accurate inventory record, regularly auditing inventory to ensure they match

These are a few examples of Internal Controls to reduce risk of errors and theft; however, there are other potential risks to a business (e.g., insufficient cash flow, overuse of debt, etc.). If something looks off, investigate! If an error, theft, or overuse is discovered, identify a solution including any additional or revised Internal Controls needed to prevent recurrence.

TASK: Identify potential business risks and develop Internal Controls to reduce/prevent those risks from happening.

Do this task with the help of others. Turn Internal Controls into written policies, then commit to and train employees to consistently follow them.

Designing Your Bookkeeping System

Before proceeding to the design of your bookkeeping system, it is *very* important to understand a **Financial Transaction** has two sides: **something of value is received** (e.g., purchase) **and something of value is given** (e.g., payment). The descriptions “value received” and “value given” are used instead of purchase and payment because there are financial transactions in bookkeeping (e.g., adjusting entries) where the value given and the value received are not a direct purchase or payment activity (e.g., depreciation, lost inventory, etc.). The source of every transaction is called a **Source Document**. Every transaction recorded in the financial books must have one and it must be kept on file⁴. A Source Document is a paper or electronic **document that proves the financial transaction occurred**.

Now let's start designing!

Entry Systems

There are two systems for entering financial transactions, Single-Entry and Double-Entry. As an owner you need to decide which system is the most appropriate, *not necessarily the easiest*, for your business.

Single-Entry System

The simplest system is the **Single-Entry System**, which is similar to keeping a cheque book register for recording deposits and payments as they occur. **Each financial transaction is recorded as a single entry** into an accounting journal called a Cash Book. A **Cash Book** is used to record taxable income and taxable expenses.

Example 2-1: Cash Book

#	Date	Description	Income	Expense	Balance
		BALANCE FORWARD	\$ 4,000.00	\$ 100.00	\$ 3,900.00
50	Mar 1	Rent		1,000.00	2,900.00
51	Mar 8	Supplies		120.25	2,779.75
	Mar 15	Bank Deposit	7,200.00		9,979.75
52	Mar 20	Merchandise		2,000.00	7,979.75
		ENDING BALANCE	\$11,200.00	\$3,220.25	\$7,979.75

⁴ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/keeping-records.html>

The first line is used to bring forward balances from the end of the previous period. Transactions are entered in chronological order by date payment is received or paid including related cheque numbers under the # column. The last line is for entering ending balances for the period. You'll note descriptions are general and items are identified as either income or expense.

Advantages and disadvantages of the Single-Entry System include:

- | | |
|---|--|
| ✓ | ✗ |
| <ul style="list-style-type: none">• very simple• transaction can be recorded manually or using spreadsheet software (e.g., Excel)• provides basic information | <ul style="list-style-type: none">• incomplete system - assets and liabilities missing• greater risk of undetected clerical errors• greater risk of undetected theft or fraud• inadequate information for making financial reports• can be expensive to convert to double entry system if audited by Canada Revenue Agency (CRA) |

If a business has assets and liabilities that require tracking, or requires frequent operational decisions, it is unlikely the single-entry system will meet the needs of the business.

Example 2-2: The Single-Entry System may be all that is needed by a sole Owner/Operator of an uncomplicated service business (e.g., dog walking, handyperson, etc.) where business purchases are immediately paid for and payment by customers is immediately received.

Double-Entry System

Although its origin dates back centuries, the Double-Entry System is considered the modern and scientific method for maintaining balanced accounts. This system is used by businesses of all sizes. As previously mentioned, each financial transaction has two sides: something with financial value is received and something with financial value is given. Where the Single-Entry System focuses on the cash in each transaction, the **Double-Entry System records the receiving and giving components of a transaction** by using at least two **Accounts to record changes in value (i.e., the receiving and giving)** of specific asset, liability, equity, revenue or expense accounts. Without the need for understanding, at this point, the types of accounting books and the specific accounts a business may use, consider the following:

Example 2-3: a business issues a cheque in the amount of \$1,000 for rent of office space. Two Accounts are involved in this transaction: a Cash Account and an Expense Account. A Cash Account is used to record the value given of \$1,000 (this transaction reduces the cash account balance by \$1,000) and an Expense Account is used to record the \$1,000 value received in office space (the transaction increases the expense account balance by \$1,000).

In the **Double-Entry System** the amounts entered in each of the accounts that are used to record a transaction **must equal and balance each other out** as shown below. This **balancing-out** is referred to, in this booklet, as passing the **double-entry test**:

Cash Account	- \$500
Expense Account	<u>+\$500</u>
	0

Advantages and disadvantages of a Double-Entry System include:

- | | |
|---|---|
| √ | × |
| <ul style="list-style-type: none">• is a complete system• clerical errors can be easily detected and fixed• theft/fraud is more easily identified• captures information needed for financial reports• more detailed information about transactions• system meets test for tax audits | <ul style="list-style-type: none">• is more complex as must comply with accounting principles and standards• greater costs if purchasing accounting software or hiring experts so <i>may</i>⁵ be cost prohibitive• bookkeeping requires more time than the Single-Entry System |

When deciding which type of entry system to use, consider the type of business you operate, the types and number of services and products you offer, the assets of your business that require tracking (e.g., equipment, inventory, etc.) and the volume of transactions you will experience in sales and expenses. For example, if your business is small and has no employees, offers one or very few types of services, will not be tracking revenues by type, will receive payments from customers immediately upon completion of the service, and will have few transactions per month, you may decide the Single-Entry System provides you with all the information you need to successfully operate your business at this time. Even when small, the more complex a business is (e.g., sells a variety of products, has inventory, has employees [*an owner is not an employee*], accepts various methods of payment, etc.), the higher the number and types of transactions it has, the greater the likelihood that the Double-Entry System is the appropriate choice for the business. Unequivocal benefits of this system are that it provides information needed for creation of three key financial reports, it provides more detailed information for making informed business decisions, and is easier to convert from manual bookkeeping to accounting software in future if needed.

Although the instruction will be based on the Double-Entry System, this book also contains information that will be of use to owners who choose to use the Single-Entry System.

TASK: Make a Decision. My business will use the _____-entry system.

⁵ See Section: Manual Bookkeeping vs. Accounting Software

Accounting Methods

In Canada, the two methods for recording financial transactions are the Cash Method and the Accrual Method. The **Single-Entry System uses the Cash Method**. Owners using the **Double-Entry System must decide which method to use**.

Cash Method

The **Cash Method** is based on the actual movement of money. Financial **transactions are recorded using the date Cash⁶ is paid** for purchases **or received** for sales. All revenue and expenses are recorded in the business's fiscal year.

Example 2-4: On February 1st office supplies are ordered in the amount of \$100.00. The supplies are delivered with an invoice dated February 3rd for \$100.00. On February 6th a cheque is issued to the supplier for \$100.00. This transaction would be recorded in the financial books on February 6th because it is the date that the cheque was issued for the purchase.

Example 2-5: On February 1st a customer is invoiced for services in the amount of \$500.00. The customer provides two post-dated cheques dated February 2nd and February 15th in the amount of \$250 each. Two transactions would be recorded in your books: one on February 2nd for \$250 and one on February 15th for \$250, being the dates of the cheques to pay for the purchase.

The Cash Method is fairly simple however; it is not without challenges because it is an incomplete system that may require you to develop separate tracking systems. For example, the Cash Method does not provide a system for recording of monies a business owes (i.e., accounts payable) or monies owing to a business by its customers (i.e., accounts receivable) at any given time, and it does not track inventory or other assets beyond general cash flow. As a result, obtaining supplier credit, loans, or investors may be difficult. The Canadian federal government limits types of businesses who can use the Cash Method,⁷ to farmers, fishers, and self-employed commission agents. It also restricts the types of transactions that can be recorded using this method. So, it is possible for a business using the Cash Method to need to adjust transactions for prepaid expenses that extend beyond the fiscal year. In Canada, the many small businesses using the Cash Method tend to be self-employed owner operated businesses that are small and service-based (charge fees for service). They are businesses who require payment on delivery/completion of services, promptly pay their bills, and which do not carry inventory.

Example 2-6: ABC Connections

Dave solely owns and operates ABC Connections which provides copy writing and web design services. ABC can only accept a limited number of projects at any given time. Projects typically

⁶ Cash includes currency coins, bills, cheques, money orders, etc.

⁷ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/small-businesses-self-employed-income/business-income-tax-reporting/accounting-your-earnings.html>

require anywhere from two weeks to four months to complete. For projects taking less than one month, ABC invoices clients when the work is complete. For projects of longer duration, clients are invoiced monthly for work completed to date. Invoices are payable on receipt and ABC usually receives payments from its clients within a week. As a 100% service operation, ABC does not carry inventory. Dave operates ABC out of a small office in his home to minimize business expenses. Typically, ABC has less than 10 transactions a month and Dave promptly pays its bills.

Dave uses the Cash Method for recording ABC's business transactions. He made this decision after considering the amount, types, and timing of typical transactions the business experiences. ABC uses the Double-Entry System because Dave wants to ensure that his books are accurate, that he doesn't lose track of any money owing to ABC, and because he monitors the revenue for each type of service ABC offers (i.e., copywriting and web design). ABC uses an accountant only for occasional tax advice, and for preparing and filing ABC's tax return. When preparing ABC's tax return sometimes the accountant instructs Dave to make adjusting journal entries for prepaid expenses (e.g., insurance) based on accrual method principles.

Separate from his bookkeeping activities, Dave keeps record of the requests (demand) for copywriting and web design services that he has to turn down because of his existing workload. Knowing the demand for each service as well as the revenues from each service can inform Dave's decisions about business growth, need for staff, how to strategically schedule his time between the two services to maximize company revenues, etc.

Accrual Method

In the **Accrual Method** income and expense transactions are *always* recorded using the Double-Entry System. **Balanced transactions are recorded in the period in which they occur**, not necessarily the actual date that money is paid or received. Without going into specific details on how each transaction is recorded at this time, consider the following examples:

Example 2-7: On February 1st office supplies are ordered in the amount of \$100.00. The supplier delivers the supplies together with an invoice for \$100.00 dated February 3rd. On February 26th a cheque is issued to the supplier for \$100.00. The transaction would be dated February 3rd as an accounts payable transaction using the date of the invoice for the supplies ordered. The invoice is the source document for the transaction. On February 26th a separate transaction would be recorded for the payment on accounts payable, using the date of the cheque which is the source document for that transaction.

Example 2-8: On February 1st Tires R Us receives an order from a tow truck company for two tires that cost a total of \$700.00. The tires are shipped the next day together with the invoice. Tires R Us records the order transaction in its books using the February 2nd date on the invoice as an accounts receivable transaction. The invoice is the source document. When payment is received it will be a separate transaction.

Example 2-9: On January 20th, Tires R Us pays its annual business insurance premium of \$1,200.00 covering the period February 1st of this year through January 31st of next year. Its fiscal year is January 1st through December 31st. The payment of \$1,200.00 is posted to a prepaid expense account using the January 20th date on the cheque. In this case, 1/12 (i.e., \$100.00) of the total premium of \$1,200.00 accrues (accumulates) for each of the 12 months the insurance was purchased. On the last day of each month an adjusting entry is recorded to move \$100.00 from the prepaid expense asset account to the insurance expense account.

Although we have not yet reached the point of instruction specific to entering balanced transactions, the gist here is that the Accrual Method is the most modern and scientific method of accounting and is the one most used by businesses in North American, if not the world. This method provides a more accurate representation of the current financial accounting of a business. Accounting software uses this method.

TASK: Research further if needed and Make a Decision. My business will use the _____ Method for bookkeeping.

The instruction in this booklet will be based on the Accrual Method of bookkeeping using the Double-Entry System.

When using the instruction in this Booklet and accompanying online Bookkeeping Guide, **owners who choose the Cash Method using the Double-Entry system need to keep mindful to replace the date used for the transaction in an example with the date money is paid out or received as applicable.**

As transactions **in the Cash Method** are recorded on the date the money is received (revenue) or paid (expenses), **accounts for Accounts Receivable and Accounts Payable are not used.** The expectation with the Cash Method is that all invoices are paid on receipt by customers and by the business. When invoices and bills are not paid promptly in the Cash Method, it is necessary to track money owing to the business or bills to be paid by the business outside of and in addition to the Double-Entry bookkeeping system. Consequently, the Accounts Payable and Accounts Receivable Accounts only apply to the Accrual Method and Double-Entry System. Unless otherwise stated, besides needing to change the dates in examples, the instruction provided on the Double-Entry System can typically be applied to the Cash Method.

Fiscal Year

One internal control required is to establish a consistent business fiscal year for reporting and tax purposes. A fiscal year may but does not have to be the same as a calendar year (i.e., January 1st to December 31st) but it should include 365 consecutive days.

TASK: Make a Decision. The fiscal year for my business is:

_____ to _____
(month) (date) (month) (date)

Manual Bookkeeping vs. Accounting Software

When choosing an accounting system, decisions made by small business owners tend to fall into one of three categories:

Basic Systems range from the adoption a simple bookkeeping system using physical columnar accounting books purchased from stationery stores through to use of basic electronic columnar sheets. The need for physical books can be eliminated through the use of electronic software (e.g., Excel, Word, etc.). Owners with basic computer skills can create templates of the columnar sheets found in physical journals and ledgers. These templates are used to manually enter transactions which is “saved as” an electronic file within a folder that represents the accounting book (e.g., journal, ledger, etc.).

Intermediate Systems range from programmed spreadsheets which automatically transfer information from one bookkeeping record to another and perform mathematical calculations through basic to intermediate level accounting software possessing limited functionality. Limited functionality means an electronic-based solutions does not have the capability to perform all of the bookkeeping tasks required by the business; for example, may not have the capability of performing invoicing, payroll, etc. Consequently, unless additional specific software is purchased to perform these tasks, some components of a Basic bookkeeping system will need to be maintained.

Advanced Systems include accounting software that has the technological capability to meet all of the operational needs of bookkeeping in the short, mid and long-term. Some owners choose advanced systems right from the start of their business because they project rapid growth in their business, a higher number of transactions, or complex transactions that they believe justify the higher expense for the software. Sometimes some owners choose to purchase user-friendly accounting software simply because it is preprogrammed with bookkeeping procedures and automatically performs much of the work in the background. They may place greater value on the time they perceived will be saved doing bookkeeping than on the cost to purchase an advanced system.

While the instruction in this booklet is for manual bookkeeping using basic systems, the purpose of this section is to introduce options available to you when deciding on an accounting system that is right for your business. Manual bookkeeping tends to be very time consuming and complicated for complex businesses and fast-growing businesses which may make the options of accounting software or contracting bookkeeping services potentially more feasible.

Accounting software uses the Accrual Method with the Double-Entry System working behind the scene. If you wish to invest in accounting software to manage your business's finances, there are numerous ones to choose from. When purchasing accounting software do your research to ensure the software meets the bookkeeping needs of your business and is sustainable. Consider elements such as:

- does the software have history and a good reputation in the market?
- the total costs involved to purchase and maintain that software. Does it have an annual subscription fee? How much does it cost for upgrades?
- based on history, how often will upgrades be needed when the software version is no longer supported by the company who made or distributed it?

As a start to your research, you may wish to read an informative blog on accounting software used by small businesses (see footnote⁸).

For small businesses on a tight budget, another option may be “free” internet Cloud-based (Cloud) accounting software that is relatively user friendly (e.g., Wave in Canada). For small businesses that do not have funds to purchase accounting software or subscribe to full-fee Cloud accounting software, or accounting software exceeds the needs of the business, using “free” Cloud accounting software can be an efficient and effective choice for bookkeeping. It is important to research to confirm:

- the free Cloud accounting software is appropriate for Canadian businesses
- if it performs the bookkeeping tasks needed by your business, and
- the details of the free offering.

The part of the “free” Cloud software that tends to be free is access to basic functions such as entry of income, expenses and other fundamental transactions and generating financial reports, which may be all that your business needs. Companies offering free Cloud accounting software make their revenue by charging for functions (tasks) that are not included in the free access such as invoicing, accounts receivable, accounts payable, and payroll. To reduce expenses, for-fee functions and/or other bookkeeping tasks can be performed manually in addition to using the free functions in the Cloud accounting software.

For small businesses, free Cloud accounting software may be an appropriate accounting solution when starting out with the ability to later purchase access to the for-fee components as the

⁸ <https://www.taxory.com/blog/accounting-software-for-small-business/#:~:text=Intuit's%20QuickBooks%20Online%20is%20the,you%20can%20access%20all%20features.>

business and its income grows. At some point in the future, business operations may grow in complexity to a point when purchasing more comprehensive accounting software, purchasing a subscription to comprehensive accounting software, contracting professional bookkeeping services, or hiring a bookkeeper makes more financial sense. In the meantime, for new and existing small businesses, using free Cloud accounting software can be a real timesaver depending on how it is used. However, risks to using free Cloud accounting software should be considered prior to making a decision, such as what happens if it is suddenly no longer available or is no longer free? Are you able to download financial records (which should be done regularly as backup)? How confidential are your business records? Is their customer support and is it free?

If at some point you decide to use free Cloud accounting software, owners can make the switch but keep maintaining their manual books as well until they are confident in the software. Consideration needs to be given to additional time spent on duplicate work of entering the same financial transactions into two systems and the risk of errors being made during the process. When all entries are accurately recorded, the time spent on the duplication of work may be offset by the time saved in the automated work being performed in the background in the production of financial reports. When switching over to a new system, the peace of mind alone of knowing that your manual books are being maintained during the trial transition period may be worth the extra time spent.

The list below contains options for bookkeeping from starting with the least expensive to the most expensive. Each option has advantages and disadvantages. For example, the advantage of a manual system is that not only is it the least expensive in respect to purchasing costs, all bookkeeping tasks can be performed manually. The greatest disadvantage of a manual system is the time required to perform all bookkeeping tasks. Advantages and disadvantages of the remaining options can be researched using the internet to help in your decision-making.

1. manual books – requires purchase of columnar accounting books from stationery stores (more information to come).
2. free Cloud Based accounting software with additional manual books – requires a computer, internet access and possibly the purchase of manual books if needed (e.g., for inventory records, payroll, accounts receivable, etc.)
3. computer spreadsheets (e.g., Microsoft Excel) – requires a computer and spreadsheet software whether purchased directly or accessed through the internet (i.e., Cloud based spreadsheet software)
4. free Cloud Based accounting applications with additional spreadsheets if necessary – requires computer, internet, and spreadsheet software
5. accounting software – requires the purchase of accounting software, funds for maintaining and updating the software or purchase of subscriptions to use Cloud accounting software. It also requires a computer, internet access, and accounting software.

CHAPTER 3 – THE CHART OF ACCOUNTS

The first step in bookkeeping is to create a list of the different types of Accounts your business will use and record them into a Chart of Accounts. A **Chart of Accounts** is your **guide for entering transactions into your financial books**. If you have an accountant, they may have already set up the Chart of Accounts for your business. *If so, you are encouraged to keep reading to better understand why and how it was created.*

A **Chart of Account (COA)** is used to organize all the types of Accounts that your business will use. Recall that an **Account** is a **record of a specific asset, liability, equity, revenue or expense**, which are explained below. How you determine and organize your Accounts within the COA will influence your ability to access information. The COA contains Account Names with designated unique Account Numbers that must be assigned to one of five **Account Groups** (categories) appearing in the order presented below. Each of the Asset and Liabilities Account Groups are further broken into two groups, Current and Long-term.

1. **Assets**
 - includes **tangible** (physical) and **intangible** (non-physical) **items of value owned by your business** (e.g., *Tangible Assets*: cash, inventory, equipment, land, buildings, etc.; *Intangible Assets*: patents, copyrights, franchises, etc.)
 - a) **Current Assets** includes all **Asset Accounts** that are **expected to be used in a year** (e.g., cash, accounts receivable, inventory)
 - b) **Long-Term Assets** includes all **Asset Accounts with value or use that exceeds a year** (e.g., land, buildings, furniture, equipment, investments, etc.)
2. **Liabilities**
 - includes **financial obligations owed** by your company (e.g., loans, line of credit, mortgages, credit card balances, money owed to suppliers, etc.)
 - a) **Current Liabilities** includes all **Liability Accounts** that are **expected to be paid in a year** (e.g., current year's mortgage payments, accounts payable, sales taxes payable, income taxes payable, etc.)
 - b) **Long-Term Liabilities** includes all **Liability Accounts** that are **expected to take more than a year to pay** (e.g., long-term loans, capital leases, deferred taxes, etc.)
3. **Equity (Capital Equity or Capital)** represents a **business's net worth** calculated as follows:
Equity = Assets – Liabilities. (e.g., Owner investment, Owner withdrawal, etc.)

4. Revenue represents the **funds received for goods and/or services sold** by your company **not including taxes**. Revenue increases your company's equity (e.g., fees for service, sales of goods; interest earned, miscellaneous income, etc.)

5. Expenses represents the **cost your business incurs for activities that generate revenue**. Expenses decrease your company's equity (e.g., rent, telephone, office supplies, bank fees, wages, etc.)

Example 3-1: Account Groups

CHART OF ACCOUNTS

ASSETS	REVENUE
Current Assets	
Long-Term Assets	
LIABILITIES	EXPENSES
Current Liabilities	
Long-Term Liabilities	
EQUITY	

Transactions for related items can be recorded into generalized accounts to reduce the number of accounts and complexity of the bookkeeping system. As well, once assigned to an Account Group, generalized accounts can be broken down into a sub-group of smaller accounts to access more financial information about specific types of transactions. At this point do not worry if you are unfamiliar with the examples of accounts provided in the above explanation, or confused regarding grouping of accounts or sub-grouping as they will be explained in time. However, you need to quickly become familiar with the five Account Groups: **ASSETS, LIABILITIES, EQUITY, REVENUE and EXPENSES** in that order.

The main message here is that the **COA** is **used to organize the accounts that a business uses by groups and sometimes sub-groups**. Each account is given a unique name and a unique number. The number of accounts within a COA depends on the complexity of the business and types of transactions expected. The COA is the business's guideline for recording transactions into its books.

Example 3-2: COA Structure & Organization

CHART OF ACCOUNTS

ASSETS (1000 – 1999)	REVENUE (4000 – 4999)
1000 Cash Account	4000 Revenue - Service
1010 (Account Name)	4010 Revenue – Sales
	4020 (Account Name)
LIABILITIES (2000 – 2999)	EXPENSES (5000 – 5999)
2000 (Account Name)	5000 (Account Name)
2010 (Account Name)	5010 (Account Name)
	5020
	5030
EQUITY (3000 – 3999)	5040
3000 (Account Name)	5110
3010 (Account Name)	

Observe the following criteria in the example COA above:

- Each name of the five types of Account Groups is capitalized and listed in the required order (i.e., ASSETS, LIABILITIES, EQUITY, REVENUE, EXPENSES)
- Each type of Account Group is *permanently* designated a separate range of account numbers shown in brackets (e.g., 1000 – 1999 for ASSETS, 2000-2999 for LIABILITIES, etc.)
- Each Account (e.g., Cash Account) organized within an Account Group (e.g., ASSETS) is listed directly below the Account Group name
- While it may be helpful to locate Accounts more quickly, Account names do not have to be listed in alphabetical order (e.g., 4000 Revenue - Service is above 4010 Revenue – Sales)
- Each Account is *permanently* designated a unique number (e.g., 1000 to Cash Account) from the range of account numbers assigned to the Account Group (e.g., ASSETS 1000 – 1999) to which the Account belongs
- Accounts are always organized by Account Numbers in ascending (rising) numerical order
- Gaps between Account Numbers are left in the event more Accounts need to be added in future

When initially creating the COA, sometimes businesses prefer the accounts used more frequently be assigned numbers that place them earlier in the list of Accounts within their respective Account Group. Other businesses prefer, where permitted, to alphabetize account names within an Account Group before numbering them. Specific instructions on alphabetizing accounts within an Account Group are included within an exercise yet to be introduced.

TASK: Decision. Accounts will be organized: _____
Alphabetically/ By Frequency

If you are feeling a bit anxious, do not worry as the 10-Step Exercise located in Appendix 1 is available to take you step-by-step through the process of building your COA. Examples are provided to help you make decisions on what accounts are needed for your business; to illustrate the level of account information detail needed for business planning and decision-making; as well as how to assign unique numbers and organize your accounts within the COA you create for your business. Continue reading until you are directed to Appendix 1 for completion of the exercise.

Accounts, Grouping, and Sub-Grouping

The number of Accounts included in your COA will depend on factors such as the complexity of your business, types of transactions your business will experience, how payments will be received and made, and the level of detail of information needed for operations and making other key business decisions. The way in which accounts are organized within your COA will influence your ability to access detailed information. *Breaking down and sub-grouping accounts is performed when more detailed information is needed.*

For example, earlier it was identified that in the COA each of the Assets and Liabilities Account Groups are broken down into sub-groups based on Current and Long-Term use. Within each Account Group, their respective Current Accounts are listed before their Long-Term Accounts, for ease of financial reporting purposes. Thereafter, the sub-grouping of accounts is based on your need to access detailed information about running your business. Unfortunately, the more accounts a business has the more complex its bookkeeping system becomes. Therefore, when building your COA, when possible, you will also want to *reduce the number of accounts through grouping of similar transactions into a generalized account where details are not needed* for operations or key decision-making. For example, sometimes it is better to group a set of expenses such as the purchase of paper, pens, file folders, and other items needed to administer the business into one account called Office Supplies instead of having a separate account for each type of office supply.

Remember: All instruction is now based on the Accrual Method. Those using the Cash Method will need to appropriately adjust dates in examples with the Bookkeeping Guide as instructed (p.15).

For ease of learning and instruction, at this point assume that HST is not charged on sales or paid on purchases in the examples provided.

Accounts

Two sides to Every Transaction: Value Given and Value Received

Creating a COA starts with determining the accounts the business will need to record the different types of money transactions that will be experienced. When identifying accounts keep mindful that a financial transaction always has two sides of value – one side that gives value and one side that receives value as previously explained. For each transaction there **must** be at least two accounts, one that receives value and one that gives value.

When HST is paid on purchases or charged on sales the transaction requires the use of three Accounts. HST will be covered later.

Example 3-3: Company A invoices Company B for training services. Company B has 30 days to pay the invoice.

The two value sides to this transaction are money to be received (value received) and sales (value given through provision of training services). In accounting, making a sale is a method of generating revenue. The two accounts needed to record this transaction are **Accounts Receivable** to enter the value (*e.g., payment to be received from Company B*) and **Revenue – Sales** to enter the value given (*e.g., value of training services provided*) to Company B.

At this point you may be wondering what an Accounts Receivable account is and why is it needed when the money will be deposited into the bank upon receipt. So shouldn't the account be called Bank Account? The answer is "No". If you were to enter the transaction into your Bank Account, your books would show that the business has more money in the bank than it actually has which increases risk of overspending and incurring NSF (non-sufficient funds) bank charges. If payments are not received at the point of sale, an **Accounts Receivable** Account is needed to keep record of **monies** to be received by (**owing to**) **your business**.

Example 3-4: Breaking down a Generalized Revenue account into Separate Revenue accounts

If Company A offers more than one kind of service (*e.g., consulting and training*) it may want to track revenue from each of the services offered. The number of services offered is a key business decision. Instead of a generalized Revenue account, Company A could have two **REVENUE** accounts, one called Revenue – Consulting and another called Revenue – Training. It would use the Revenue – Training account to record the fees charged for training services and the Revenue – Consulting account to record fees charged for consulting services. If the owner does not wish to track revenue from each service, it could have one Revenue – Services account.

Confusion can be avoided by using Revenue – Sales (or just Sales) to record revenue from the sale of products and Revenue – Services (or just Services) to record revenue from the sale of services.

Example 3-5: Two weeks later Company A receives full electronic payment from Company B for the training services invoiced in Example 3-3.

This transaction is recorded separately from the invoicing/sales transaction in the example 3-3. What are the two value sides to this payment transaction? In this transaction the payment is transferred directly into the company's bank account (value received). Where does the value given come from? It comes from the Accounts Receivable account. The payment transaction would reduce the balance owing in the Accounts Receivable account by the amount paid and increase the balance in the company's bank account by the same amount. Therefore, the two accounts involved in this transaction are **Accounts Receivable** and **Bank Account**.

At this point you may be thinking the double-entry system is complex and creating the COA is going to be challenging. Be assured these thoughts are normal. Keep reading and following instructions, and the basics of bookkeeping should make sense to you before the end of this book.

The level of difficulty and time needed to create the COA depend on the complexity of the business. For example, creating a COA for a shoe repair business operated out of the home garage of a sole owner/operator who accepts only cash payments will take less time and have a simpler COA than a business that has two corner stores owned by two partners, employees, and that carries and sells inventory provided by different suppliers, and accepts payments in more ways than by cash. Generally speaking, the more complex the business operations, the more different types of transactions it will experience and the more accounts the business will need. This is one reason why complex businesses choose to use accounting software. However, owners still have to create the business's COA within the software.

Creation of a COA may come easier to some owners with some business experience than it does for owners who are totally new to running a business. For owners who wish to be assisted step-by-step in the creation of their Chart of Accounts, please turn to Appendix 1 for a comprehensive 10-Step Exercise that will not only help you build your COA, it will help you develop good practice for starting analysis of financial transactions, demonstrate how to develop your COA into a tool that facilitates strategic decision-making, and will help broaden the way that you think about your business overall. The 10-Step exercise breaks the process of creating your COA into smaller, more easily understood and managed tasks. Establish a mindset of curiosity about your business. This exercise can help you be prepared for types of transactions that may have initially been overlooked.

For owners who possess enough knowledge to complete their business COA without step-by-step instruction, please complete the task below.

TASK: Create the COA for your business referring to the structure, organization and content of the COA provided in Example 3-6 as a guide.

Example 3-6: A2Z Consulting Chart of Accounts

A2Z CONSULTING

CHART OF ACCOUNTS

ASSETS	1000 - 1999	REVENUE	4000 - 4999
<i>Current Assets</i>		4010 Revenue - Training	
1000 Bank Account Subgrouped (Do Not Use)		4020 Revenue - Consulting	
1011 Cash Account		4030 Revenue - Interest	
1012 Retainer Account		4040 Service Refunds <i>Contra</i>	
1020 Money in Transit		4999 Miscellaneous Revenue	
1030 Accounts Receivable			
1035 Allowance for Doubtful Accounts <i>Contra</i>			
1040 Prepaid Expenses			
<i>Long-Term Assets</i>		EXPENSES	5000 - 5999
1510 Computer Equipment		5010 Advertising	
1511 Accumulated Depreciation Computer <i>Contra</i>		5020 Bad Debts	
1520 Office Furniture & Equipment		5030 Business License/Fees	
1521 Accumulated Depreciation Office F & E <i>Contra</i>		5040 Credit Card Fees	
		5050 Depreciation Expense	
		5060 Income Tax Expense	
		5070 Insurance - Professional	
		5080 Interest & Bank/Clearinghouse Fees	
		5090 Meals & Entertainment	
		5100 Office Expenses	
		5200 Office Supplies	
		5300 Professional Fees	
		5310 Profession Membership Fees	
		5320 Subcontractor Fees	
		5330 Travel	
		5999 Miscellaneous Expenses	
LIABILITIES	2000 - 2999		
<i>Current Liabilities</i>			
2010 Accounts Payable			
2020 HST Charged on Sales			
2040 HST Paid on Purchases <i>Contra</i>			
2050 Prepaid Sales / Deposits			
2060 Loan Payments - Current Year			
<i>Long-Term Liabilities</i>			
2500 Loan - Bank			
EQUITY	3000 - 3999		
3000 Owner's Contribution			
3010 Owner's Drawings (Withdrawals) <i>Contra</i>			
3020 Retained Earnings - Previous Year			
3030 Current Period Earnings			
3999 Income Summary Account			

Congratulations on Creating your Chart of Accounts!

Proceed to the accompanying online Bookkeeping Guide at <http://www.gedc.ca/gedc-booklet-series> for detailed technical instruction on developing and maintaining your financial books. The general content of the Bookkeeping Guide is provided below for your quick reference to the topics covered.

BOOKKEEPING GUIDE

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Closing Remarks

Completion of instruction on Trial Balance in the accompanying Bookkeeping Guide brings us to the half-way point in the accounting cycle and concludes the instruction in this release of Bookkeeping Basics for Ontario Small Businesses. I hope that you have found the information and instruction helpful in understanding the basics of bookkeeping up to the Trial Balance and when doing bookkeeping for your business. Your motivation, patience, effort and determination in learning and performing bookkeeping is admirable.


Wishing you success in all your business endeavours!

Carmen

APPENDIX 1 - 10 Step Exercise: Creating the Chart of Accounts (COA)

TASK: Exercise preparation.

Tools Needed: A pen, lined paper, a yellow and a blue highlighter, and clear tape. If a computer with word processing or spreadsheet software is available and you have basic computer skills to set up a table, you may find it easier to carry-out this multi-step exercise using a computer.

Setup the page horizontally  as a table with columns as shown below:

Transaction				

If using pen and lined paper, create a larger spreadsheet by taping the short sides of the two pages together ensuring the lines on each page match up. Create additional pages as needed.

Transaction					

The more accounts in the COA, the more complex bookkeeping becomes. The challenge is to keep the number of accounts to a minimum while still having the accounts you need to quickly obtain information needed for making critical or frequent operation decisions.

TASK: 10 – Step Activity: Building Your Chart of Accounts

The following activity is designed to achieve the following goal and key objectives:

Goal: Enhance your knowledge of accounts and develop transaction analysis skills

- Objectives:
- Increase your ability to identify different financial transactions
 - Increase your ability to start analyzing financial transactions
 - Increase familiarity with different types of accounts and their structures
 - Increase your familiarity with the double-entry system
 - Increase your understanding of the relationship between your financial books and planning and decision-making

Deliverable: A customized COA that will guide the recording of all financial transactions in the financial management of your business

Tips:

- *If your business has already been set up, use existing bills, receipts, credit card and bank statements to help you*
- *If using pen and paper, leave blank lines after completing each of the first three steps in case other transactions come to mind that have not already been written down. For those using an electronic table, you should not need to print in the exercise so run a continuous sheet and insert rows when necessary - frequently save so you do not lose your work*
- **Write only one transaction per line**
- *Leave a margin between the furthest column to the right and the edge of the page*
- *Read the “purpose” of all 10 Steps before starting Step 1 to understand the process of the exercise. Doing so will help you from unnecessarily adding complexity to a Step*
- *Read the entire Step section including examples before starting each Step task. Doing so will increase understanding and save you time*
- *Record a separate transaction to reflect each way that payment is received by the business (e.g., for merchandise or services sold) and each way that a payment is paid by the business (e.g., cheque, credit card, bank transfer, etc.) for purchases it makes*
- *Optional - Engage the assistance of others. Use this exercise as a way to help older children and significant others learn about business finance and some of the activities involved in running a business. Also helps others understand your time commitments.*

STEP 1 Purpose: identify activities required to legally and physically set up your business that involves money transactions.

Consider all the activities needed to physically set up your business and list each related money transaction on a separate line under the heading “*Setting up Business*”. *It is the recording of the activity related financial transactions that is important, not whether or not the transaction is listed under the right business stage heading. The purpose of the headings in Steps 1 through 3 is to focus and generate thoughts.* Duplication of transactions will occur and be dealt with later. Do not move onto Step 2 until you have run out of transactions.

Example A4-1: Setting Up Business

Transaction				
<i>Setting Up Business</i>				
Business registration fee				
Deposit to open bank account				
Purchased office furniture				
Purchased insurance				

<i>Continue listing ...</i>				
-----------------------------	--	--	--	--

STEP 2 Purpose: identify activities required to set up operations of the business that involves money transactions.

Consider all the activities needed to set up the operations of the business (*before its doors can open to customers*) and list each related money transaction on a separate line under the heading “*Setting up Operations*”. Do not move onto Step 3 until you have run out of transactions.

Example A4-2: Setting Up Operations

Transaction				
<i>Setting Up Operations</i>				
Purchased computer equipment				
Purchased computer software				
Purchased office supplies				
Purchased inventory				
<i>Continue listing ...</i>				

If your business will maintain inventory for manufacturing, please read Appendix 3 – Inventory for some additional information about types of accounts that may be needed.

STEP 3 Purpose: identify activities required to run the business that involves money transactions.

Consider all the activities needed on an ongoing basis to run the business and list each related money transaction on a separate line under the heading “*Running the Business*”. Note from the example how detailed this list can become, capturing methods of receiving and making payments. Do not move onto Step 4 until you have run out of transactions.

Example A4-3 Running the Business

Transaction				
<i>Running the Business</i>				
Pay rent/mortgage				
Business credit card purchases				
Pay business credit card				
Pay HST on purchases				
Sale of services				
Sale of products				
Charge HST on sales				
Receive point-of-sale payments				
Receive credit card payments				
Send HST to government				

Sales refunds				
Withdraw money for Owner				
<i>Continue listing ...</i>				

If your business has employees (an owner is not an employee) instead of listing the many related transactions for paying staff and remitting payments simply include each of the Account Names in the last column as shown in the example below. If your business has money transactions related to other staff benefits (e.g., RRSP, Health Care Plan, etc.) identify them in the transaction column under Running Business.

Example A4-3 Cont.: Running the Business

Transaction				Account Name
Running the Business				
				Payroll Payable
				Vacation Payable
				EI Payable
				CPP Payable
				Payroll Income Tax Payable
				Wages & Salaries Expense
				EI Expense
				CPP Expense
				WCB Expense
RRSP Contribution				

STEP 4 Purpose: identify ‘value given’ and ‘value received’ for each item listed in the Transaction column of the list created in Steps 1 through 3.

Update the column headings of your table as shown below:

Transaction	Value Given	Value Received		
-------------	-------------	----------------	--	--

For each type of transaction on your list, identify both value sides of the transaction, that is, the side that **gives value** and the side that **receives value**. Confused? Re-read Two Sides to Every Transaction – Value Given and Value Received (p. 22) and Analyzing Financial Transactions in the Bookkeeping Guide.

Example A4-4: A deposit is made to open a business bank account listed under *Setting Up Business*. Where did the money come from to open up the bank account? For this example, we’ll assume the money came from the owner. The two value sides of this transaction are a loan from the owner (value given) and the deposit into the bank account (value received).

Transaction	Value Given	Value Received		
opened bank account	owner loan	bank account		

Example A4-5: Sales is listed under *Running Business*. As mentioned earlier, when the business makes a sale, it is referred to as revenue. **Revenue** is used to represent the value given to customers. This may be confusing as it is the customer who receives the value of the services and products. However, consider that a business can have many cash paying customers and how cumbersome it would be to maintain a COA with accounts named for each customer of the business. What are the two value sides of this sales example transaction? Value is given through sales revenue by virtue of the products sold. Value is received in the bank when payment is made directly (e.g., debit card) into the bank account. *The value received (and related Account name) changes depending on how payments are made.*

Transaction	Value Given	Value Received		
sales	sales revenue	bank account		

What if the business doesn't get paid at the point (time) of sale, when a customer is invoiced for the purchase and there is no money to put in the bank? We don't want to lose track of the money owed to the company, so another account will be needed to record the value received.

Transaction	Value Given	Value Received		
Sales on account	sales revenue	Payment to be received from Customer		

What if the customer gives a cheque that won't be deposited right away and there is no money to put in the bank? We don't want to lose track of the money, so another account will be needed to record the value received.

Transaction	Value Given	Value Received		
Sales on account	sales revenue	Cheque to be deposited		

Proceed with identifying the two value sides for each transaction identified in Steps 1 through 3. The headings of Setting Up Business, Setting Up Operations, and Running Business have no further purpose in the remainder of this exercise.

STEP 5 Purpose of this step is to identify Account Names by reviewing the value given and the value received for each transaction.

First, name the last two column headings as follows:

Transaction	Value Given	Value Received	Account Name	Account Name
-------------	-------------	----------------	--------------	--------------

Examples from STEP 4 will be used again to illustrate how you will use the value given and value received for each transaction to identify the accounts for the COA.

Example A4-6: deposit to open business bank account. The two sides of this transaction were identified as a loan from the owner (value given) and the deposit into the bank account (value received). To record this transaction one account is needed for each side of the transaction. Therefore, we would create two accounts as shown in the table below:

Transaction	Value Given	Value Received	Account Name	Account Name
opened bank account	Loan from owner	bank account	Owner's Contribution	Bank Account

You may be wondering why name the account Owner's Contribution instead of simply Loan or Loan – Owner? This is because a business may experience other types of loans such as a bank loan which would be named Loan – Bank. As well, any funds provided by the owner directly affect the **net worth (Equity) of the company**. In addition to a start-up loan from the owner, from time to time the business may not have funds available for a purchase needed by the company and the owner may personally pay for it. Instead of having a number of similar types of accounts, the **Owner's Contribution Account** is a generalized account used to record **transactions where the owner contributes personal money to the business**. As mentioned earlier, a generalized account has the effect of reducing the total number of accounts and the complexity of the bookkeeping system.

Example A4-7: Sales. The two value sides of the transaction were identified as sales revenue giving the value of products sold and the bank account receiving the value of the payment. The two accounts needed to record the two sides of this transaction would be Revenue – Sales and Bank Account.

Transaction	Value Given	Value Received	Account Name	Account Name
sales	sales revenue	bank account	Revenue – Sales	Bank Account

What if the business doesn't get paid at the time of the sale, the customer is invoiced so there is no money to put in the bank? For this transaction we identified in STEP 4 that value given is through sales revenue and the value received is through the payment to be received from the customer. Two accounts are needed to record both sides of the transaction: Revenue – Sales and Accounts Receivable.

Transaction	Value Given	Value Received	Account Name	Account Name
Sales on account	sales revenue	Payment to be received	Revenue - Sales	Accounts Receivable

An **Accounts Receivable** account is used to track the **monies owing to the business** from its customers. Similarly, instead of having an account name for each person or company the business owes money to, an **Accounts Payable** account is used to record and track **monies owed by the business**. Exception: when business credit cards are used to purchase items or services for the business (e.g., Visa) create a business card payable account (e.g., Visa Card Payable).

Example A4-8: If you sell products you will have to buy merchandise to sell (e.g., inventory). As a retailer, you will likely set up accounts with your suppliers so that you can order on account and pay later. You may have listed a purchasing inventory transaction twice in your list, under Setting up Operations and under Running the Business. The value received side of the transaction is the products received. The value given is the payment you will make to the supplier. As a business may have many people or companies it pays money to, an Accounts Payable account is used to track monies owed by a business.

Transaction	Value Given	Value Received	Account Name	Account Name
Buying Inventory	Payment to be made	Products for inventory	Accounts Payable	Inventory

Example A4-9: The business may need to **reimburse** others for items paid out of pocket **or to pay for low value items** needed on occasion (e.g., postage stamps). It decides to keep some of the business's money on hand for this purpose and sets up a Petty Cash fund. A **Petty Cash** account is needed to record transactions. If Petty Cash is giving value, what is the side of the transaction receiving value? The value received is postage stamps. Is knowing the value of what you pay for each purchase of postage stamps going to impact key decisions about your business? Not likely. As mentioned earlier, transactions for items needed for the office such as postage stamps, paper, etc. are almost always grouped and recorded to a generalized account called **Office Supplies**, which is used to record transactions involving office **items used to administer the business**.

Transaction	Value Given	Value Received	Account	Account
-------------	-------------	----------------	---------	---------

			Name	Name
Reimbursing small out of pocket purchases	Money	Postage Stamps	Petty Cash	Office Supplies

Grouping

Being able to group items together by using generalized accounts simplifies the COA. In deciding whether or not to include an item from a transaction into a generalized account ask yourself the following question:

Is knowing the value of what is received or paid for (item) going to influence key business planning and decision-making?

If the answer is “no” and where possible (i.e., there are items that can be logically grouped together without using the word “Miscellaneous”) assign a generalized account name such as identified in the case of Office Supplies. If an item doesn’t have other items like it (e.g., Meals & Entertainment, Land, Investments, etc.), then a separate account will need to be created for each. If the answer is “yes” then a separate account is needed in order to access financial information about that time.

Whenever possible avoid using Miscellaneous Accounts – Accountants and the CRA do not like them! If a Miscellaneous Account(s) (e.g., Revenue – Miscellaneous or Expense – Miscellaneous) is needed (and it may be for an occasional unusual transaction), it would be rare for many transactions to be entered to such an account(s) each year.

Without going through an extensive list of tax-related constraints (e.g., capital cost allowances) which rates can be searched on the CRA website,⁹ understand that there are items with special tax rules requiring the creation of separate accounts. Typically, for small businesses these include: Meals & Entertainment, as well as Office Furniture and Equipment (typically grouped together), Vehicle(s), Building(s), Machinery, and Computer Equipment because these are assets that depreciate in value over their lifetime at different rates. If the business will pay for the cost of meals and entertainment (e.g., lunch meetings with a client) it will need a Meals and Entertainment Account. If the business purchases furniture and/or equipment, a vehicle(s), building(s), machinery, or computer equipment, it will need an Account for each type of asset and an Accumulated Depreciation account for each of these Asset Accounts. Write the depreciation accounts in the right margin of your list as illustrated in the example below.

⁹ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/sole-proprietorships-partnerships/report-business-income-expenses/claiming-capital-cost-allowance/classes-depreciable-property.html>

Example A4-10: A Visa Credit Card was used to pay for each item.

Transaction	Value Given	Value Received	Account Name	Account Name	
Food for Meetings	Money	Food	Visa Card Payable	Meals and Entertainment	
Purchase desk	Money	Furniture	Visa Card Payable	Office Furniture & Equipment	Accumulated Depreciation – Office Furniture & Equipment
Purchase Computer	Money	Computer	Visa Card Payable	Computer Equipment	Accumulated Depreciation – Computer Equipment

To help with the task of naming accounts, a checklist of typical accounts that a small business may use is provided on page 36. As you go through STEP 5 you may identify accounts needed that are not on the checklist. Ensure to create logical, self-explanatory names for those accounts.

Tip: If types of items will be grouped into a generalized account, ensure to make note of what types of transactions the account will be used for and attach the note to your COA when it is finished. Create names for all the accounts needed in the Account Name columns on your list. Do not mark the checklist at this time.

STEP 6 Purpose: is to consolidate your list into one checklist

Your list should now be filled with two columns of Account Names (*and possibly some depreciation accounts in the margin*).

- A. Go through your list and strike out all duplications so that each Account Name appears only once on your list.
- B. Next, referring to your accounts list and using the checklist (p.36) place a check mark **beside** each of the Account Names that appear on your list. If you see an Account Name on the checklist that your business needs but that you have not yet identified (e.g., Money in Transit – an account used to track cheques received or paid that have not yet been processed by the bank) place a check mark beside it. If you have Account Names specific to your business that are not included on the checklist provided, write them in under the heading OTHERS. Do not place a check mark in the boxes to the left of the accounts names you’ve added under OTHERS. Instead, for each Account Name review each of the Account Groups (i.e., Assets, Liabilities, Equity, Revenue, Expenses) on pages 17 and 18 (*look up definitions if needed and/or search the internet for examples*)

and using the box to the left enter an **A, L, E, R,** or **E** to identify what the Account Group each account belongs to. Next, for any Asset and Liability accounts added, determine if they are current or long-term. Highlight current asset and current liability accounts using a yellow highlighter, and long-term asset and long-term liability accounts using a blue highlighter. Ensure to also identify an Accumulated Depreciation account for any long-term asset with value that diminishes over the lifetime of the asset. Use a separate piece of paper to extend the checklist if needed.

If your business only has one bank account from which you pay for all business purchases using business cash, cheque or debit card and to which you deposit cash and debit card payments you will likely only need a Cash Account. Alternatively, if making and receiving payments is more complicated and/or you have more than one bank account you need to separately list each type of cash account (e.g., Bank – Chequing, Bank – Savings, Petty Cash) and place a check mark beside each account.

You will note there are check marks already placed on the checklist beside the different types of Equity Accounts listed below the heading EQUITY. This is because your business will need these accounts if it is a sole proprietorship. If it is a partnership or corporation, different and more accounts will be needed. As well, your business will need a temporary equity account called Income Summary Account for closing out transactions at the end of each year.

- A **partnership** requires a contribution account and a withdrawal account for each owner. Change the Owner Contribution into a sub-grouped account (Do Not Use) creating a sub-group of owner contribution accounts for each partner (i.e., Partner’s Name – Contribution). Each partner should have an Account Name with a unique Account Number from the range of account numbers assigned to the EQUITY Group Account. Repeat this sub-grouping process with the Owner Drawings Account ensuring that there is a designated account for each partner (Partner Name) – Drawings.

Example A4-11: Partnership – Two Owners

√	Owners’ Contribution (Sub-Grouped)
√	Partner A – Owner’s Contribution
√	Partner B – Owner’s Contribution
√	Owners’ Drawings (Sub-Grouped)
√	Partner A – Owner’s Drawings
√	Partner B – Owner’s Drawings
√	Retained Earnings – Previous Year
√	Current Period Earnings

- For a **corporation** an account is needed for each type of share (e.g., Common Shares, Preferred Shares) issued by the Company, and an account named Dividends Paid to Shareholders. The check marks on the checklist beside the Owner – Contribution and

Owner – Withdrawal accounts should be removed. **Exception:** if you are the sole owner of an incorporated small business, you may wish to keep the Owner’s Contribution and Owner’s Withdrawals account for recording contributions and withdrawals that are not related to the issuance of shares or payment of dividends.

Example A4-12: Corporation

√	Common Shares
√	Preferred Shares
√	Dividends Paid to Shareholders
√	Retained Earnings – Previous Year
√	Current Period Earnings

Example A4-13: Sole Owner Corporation

√	Owner’s Contribution
√	Owner’s Drawings
√	Common Shares
√	Preferred Shares
√	Dividends to Shareholder
√	Retained Earnings – Previous Year
√	Current Period Endings

CHECKLIST

ASSETS		REVENUE	
	Cash Account		Revenue - Merchandise
	Bank - Chequing		Revenue - Services
	Bank - Savings		Revenue - Interest
	Petty Cash		Sales Returns
	Money in Transit (Cash/cheques not yet processed by bank)		Service Refunds
	Accounts Receivable	EXPENSES	
	Allowance for Doubtful Debts		Adjustment - Write Off
	Inventory		Advertising
	Prepaid Expenses & Deposits		Bad Debts
	Payroll Advances		Business License/Fees
	Building		Cost of Goods Sold
	Accum. Depreciation - Building		Courier
	Computer Equipment		Credit Card Fees
	Accum. Depreciation - Computer Equip.		Depreciation Expense
	Land		Freight Expense
	Office Furniture & Equipment		Insurance
	Accum. Depreciation - Office Furniture & Equipment		Interest, Bank/Clearinghouse Fees
	Machinery		Inventory Carrying Costs
	Accum. Depreciation - Machinery		Inventory Purchases
	Vehicle		Meals & Entertainment
	Accum. Depreciation - Vehicle		Office Expenses
LIABILITIES			Office Supplies
	Accounts Payable (bills you pay except payroll)		Professional Fees (legal, accounting)
	Credit Card Payable		Property Taxes
	HST Charged on Sales		Rent
	HST Paid on Purchases		Repairs
	Prepaid Sales/Deposits		Subcontractor Service Fees
	Payroll Income Tax Payable		Travel
	CPP Payable		Vehicle Expenses
	EI Payable		Wages & Salaries
	WSIB Payable		CPP Expense
	Loan - Bank Payments - Current Year		EI Expense
	Mortgage Payments - Current Year		WSIB Expense
	Loan - Bank	OTHERS	
	Mortgage		Payroll Bank Account
EQUITY			Payroll Payable
√	Owner's Contribution (Capital)		
√	Owner's Drawings (withdrawals)		
√	Retained Earnings - Previous Year		
√	Current Period Earnings		
√	Income Summary Account (temporary equity acct)		

STEP 7 Purpose: assign a range of numbers to each of the five Account Group categories.

Choose one of the two typical sets of Account Number ranges shown in bracket in the example below. Instruction will continue using Set One as it is the set typically used in accounting software, which will make conversion to accounting software easier in future if desired.

Example A4-14: Account Ranges

<i>SET ONE</i>	<i>or</i>	<i>SET TWO</i>
ASSETS (1000 – 1999)	or	ASSETS (100 – 199)
LIABILITIES (2000 – 2999)	or	LIABILITIES (200 – 299)
EQUITY (3000 – 3999)	or	EQUITY (300 – 399)
REVENUE (4000 – 4999)	or	REVENUE (400 – 499)
EXPENSES (5000 – 5999)	or	EXPENSES (500 – 599)

Sub-Grouping

STEP 8 Purpose: Review your checklist of accounts for Sub-Grouping.

Before finalizing your list of accounts and numbering them you are going to identify if any accounts need to be classified into a **Sub-group**. Ask yourself:

*Is knowing the value of what is received or paid for (item)
going to influence key business planning and decision-making?*

If the answer is “yes” that **more detailed information** is needed to make key decisions about your business or the operations of your business, you will **break a generalized account down into a sub-group of smaller accounts**. The smaller accounts become a **sub-group** under the original account to achieve this purpose. The original **account that is broken down is referred to as the Parent** of the sub-grouped accounts.

Example A4-15: Sub-grouping Vehicle Expenses

Vehicle Expenses Sub-Grouped (Do Not Use) [Parent Account of Vehicle Expenses]

- Vehicle – Fuel
- Vehicle – Insurance
- Vehicle – Parking
- Vehicle – Maintenance
- Vehicle – Repairs
- Vehicle – Registration

Review each of your accounts, determine which (if any) need to be sub-grouped, and then update your checklist of accounts for sub-grouped accounts. Ensure to read this whole section before starting the task. Note, account numbers are included within the following example only to assist your understanding of sub-grouping, organizing accounts, and how financial accounts can be organized for drawing information needed for making business decisions. Assignment of account numbers will be covered later.

Example A4-16: Vehicle Expense Account

If a business has one vehicle, the owner may just want one account named Vehicle Expense where all the expenses for the vehicle would be recorded. However, if the business has more than one vehicle and if knowing detailed vehicle expense information is important to key operational decisions of the business (e.g., a courier business) the owner may want to create a sub-group of specific accounts under a parent Vehicle Expense account. The Vehicle Expense account is broken down by identifying a specific account for each type of vehicle expense the business will experience, such as: Vehicle – Fuel, Vehicle – Insurance, Vehicle – Parking, Vehicle – Maintenance, Vehicle – Repairs, and Vehicle Registration as shown in the preceding example. Setting up this sub-group of accounts will allow the owner to track, monitor, and report on the total cost of each type of vehicle expense.

The Vehicle Expense account (e.g., 5110) is broken down and a separate account is created for each type of vehicle expense experienced by the business. These accounts are listed under the parent Vehicle Expense account as a sub-group. Each of the sub-grouped accounts would be assigned unique numbers which are listed in ascending order (e.g., 5111 Vehicle – Fuel; 5120 Vehicle - Insurance, 5121 Vehicle - Parking, etc.). When needed, accounts within these sub-grouped accounts (e.g., 5111 Vehicle – Fuel) can be further sub-grouped to create accounts for each type of item (e.g., fuel that is being purchased for company vehicles) as illustrated in blue.

The Expenses section of the Chart of Accounts for the business in this example would appear as follows:

EXPENSES (5000 – 5999)	<i>[Account Group and range of assigned Account Numbers]</i>
5110 Vehicle Expenses Sub-Grouped (Do Not Use)	<i>[Parent Account of Vehicle Expenses]</i>
5111 Vehicle – Fuel Sub-Grouped (Do Not Use)	<i>[Parent Account of Vehicle-Fuel Expenses]</i>
5112 Fuel - Gasoline	
5113 Fuel - Diesel	
5114 Fuel - Propane	
5120 Vehicle – Insurance	
5121 Vehicle – Parking	
5122 Vehicle – Maintenance	
5123 Vehicle – Repairs	
5124 Vehicle – Registration	

5150 Utilities

Observe,

1. Account Numbers 5115 through 5119 were not assigned and there is a gap in the numbering between 5124 Vehicle-Registration and the next expense account listed 5150 Utilities. To improve the organization of accounts, gaps between assigned account numbers can be left in case more accounts need to be added in the future.

2. The words “(Do Not Use)” were entered beside the parent Account 5110 Vehicle Expense Sub-Grouped and the parent account 5111 Vehicle – Fuel Sub-Grouped. This is because all the expense transactions expected for each of these two accounts have been listed within their respective sub-grouped accounts. *Use the words “(Do Not Use)” as a reminder when bookkeeping not to enter any expenses transactions under a parent account that has been broken down into separate accounts.*

From this example we can tell the owner wants to be able to readily access more detailed information about the business’s vehicle expenses, in particular how much is being spent on fuel, insurance, parking, maintenance, repairs, and registration. Further, that instead of knowing the total of how much is being spent on fuel; this owner wants to know how much is being spent on each type of fuel that the business’s fleet of vehicles uses. All fuel expense transactions should only be recorded to one of the three sub-grouped Accounts (i.e., 5112, 5113, or 5114) according to the type of gas purchased. Other types of vehicle expense transactions for the fleet should be entered into one of the remaining accounts (i.e., 5120, 5121, 5122, 5123 or 5124) as applicable to each transaction.

Detailed Account Information Informs Decision-making

From the above Vehicle Expense example, we can infer the owner wants to know how much funds are being spent on each type of fuel used by the company’s vehicles. This owner can use the fuel information, and information from the other Vehicle Expense accounts as needed, to make decisions concerning the purchase and use of vehicles for the business.

Example A4-17: If diesel operated vehicles are consistently costing more to fuel, maintain, and repair than gasoline or propane fueled vehicles, the owner may decide to sell the diesel vehicles and replace them with gasoline and/or propane fueled vehicles to reduce expenses.

If the business has only one vehicle or has a fleet of vehicles that uses one type of fuel, the Fuel Account would not be sub-grouped into separate accounts. All fuel would be expensed to Account 5111 Vehicle – Fuel and the Accounts numbered 5112 through 5114 shown in Example A1-16 would not be included in the business’s COA.

Example A4-18: when reviewing the Vehicle – Repairs account the owner sees the total cost of repairs is increasing more than expected. In an effort to lower expenses the owner may decide to explore alternatives such as (a) purchasing mechanic services through another qualified mechanic who charges a lower fee per hour or (b) if it is more financially efficient to hire a mechanic on staff or (c) increase fees to cover the increasing costs (e.g., increasing the amount of delivery fees). Had payments for vehicle repairs been lumped together with other vehicle expenses under a general Vehicle Expense account, the owner would not readily have access to the total amount spent on vehicle repairs. Review of all previous cash disbursement transactions would have to occur for each of the repair expenses to be identified and totalled.

Example A4-19: At ABC Connections Dave is tracking the revenue for each of the two services (copywriting, web design) offered. He creates two revenue accounts called Revenue – Copywriting, Revenue – Web Design and assigns them unique account numbers. Dave watches the revenue from each source and uses this information together with other information he collects on demand to make decisions about whether to continue to offer two types of services (i.e., a decision about the business), or how he allots his time between the two services offered (i.e., a decision about operations) in order to maximize revenue for the business. *Create separate Revenue accounts, do not Sub-Group them under a parent Revenue Account.*

While easier access to more detailed information is the benefit of more accounts, as mentioned earlier, unfortunately the bookkeeping system becomes increasingly complex as accounts are added. *Refrain from creating sub-grouped accounts when detailed information is not critical to key business activities or decision-making.*

Example A4-20: Creating separate accounts or a sub-group of accounts to track expenses for different types of office supplies would not only needlessly increases the bookkeeping time and complexity; overall this level of detail is unlikely to inform decision-making any better than had all the transactions been recorded in an appropriately named generalized Account called Office Supplies. Small businesses are on a budget and they tend to buy office supplies as needed, and many owners watch for sales when making purchases. Having information about the total amount spent on office supplies available from one Office Supplies Expense Account is usually sufficient to make operational decisions about budgeting for office supplies.

Most small business COAs will include expense accounts with a generalized account named Office Supplies (e.g., for ink, paper, file folders, paper clips, etc.) and Office Expenses (e.g., for utilities, telephone, subscriptions, etc.). If you are unsure of whether an item is a supply or an expense, search the internet if available for examples.

STEP 9 Purpose: finalize your list of Accounts

Now that you have finished identifying all generalized accounts and account sub-groups needed for your business, in this Step you will proceed with making your COA using your final checklist produced at the end of STEP 8.

Using a pen and 3 sheets of paper, two of which are cut in half. Use the full sheet for expenses.

a) write each Account Group Name and Assigned Number Range (from Step 7) at the top of each page as shown below:

Example A4-21: Layout Preparation

ASSETS 1000-1999	LIABILITIES 2000-2999	EQUITY 3000-3999	REVENUE 4000-4999	EXPENSES 5000-5999

b) For each Account Group list all the Accounts and Account Sub-Groups from the full checklist you created in Step 8. Be careful not to miss any accounts that you have identified and ensure to leave space to the left of each Account Name.

Remember,

- i) For the **Asset and Liability Account Groups**, ensure to **always list Current Accounts** Sub-Groups (i.e., yellow highlighted Accounts) **before Long-Term Accounts** (i.e., blue highlighted Accounts)
- ii) The **Accumulated Depreciation Account** should be **listed directly below its related Long-Term Asset**
- iii) The HST Paid on Purchases Account should always follow the HST Charged on Sales Account as both of these accounts are used to file HST with the CRA
- iv) Keep Liability payroll related accounts listed together and the Expense payroll related accounts listed together

Example A4-22: Layout

ASSETS 1000-1999	LIABILITIES 2000-2999	EQUITY 3000-3999	REVENUE 4000-4999	EXPENSES 5000-5999
Current Assets	Current Liabilities	Account Name	Account Name	Account Name
Account Name	Account Name	Account Name	Account Name	Account Name
Account Name	Account Name	Account Name	Account Name	Account Name
Account Name	Account Name	Account Name	Account Name	Account Name
Long-Term Assets	Long-Term Liabilities			Account Name
Account Name	Account Name			Account Name
Account Name	Account Name			Account Name

Accounts do not have to be listed alphabetically. However, while maintaining all the requirements identified in the steps above, writing accounts in alphabetical order may help to locate them more easily. Instead of listing alphabetically, some people prefer to list accounts placing those expected to be used more frequently before those to be used less frequently.

OPTIONAL TASK: If you would like to alphabetize your accounts do the following:

- i) Alphabetize accounts under Current Assets
- ii) Alphabetize Asset accounts under Long-Term Assets keeping the Accumulated Depreciation Account directly beneath the Long-Term Asset to which it relates
- iii) Alphabetize accounts under Current Liabilities
- iv) Alphabetize accounts under Long-Term Liabilities and see vii) below
- v) Alphabetize accounts listed under each of the Equity and the Revenue accounts. *Leave the Income Summary account at the bottom of your list of EQUITY accounts*
- vi) Alphabetize accounts listed under Expenses ensuring to keep sub-grouped accounts together which can then be listed alphabetically within the sub-group as shown below and see vii) below

Example A4-23: Alphabetize within Sub-Group

EXPENSES (5000 – 5999)

Vehicle Expenses Sub-Grouped (Do Not Use) [*Parent Account of Vehicle Expenses*]

Vehicle – Fuel Sub-Grouped (Do Not Use) [*Parent Account of Vehicle-Fuel Expenses*]

Fuel – Diesel

Fuel – Gasoline

Fuel - Propane

Vehicle – Insurance

Vehicle – Maintenance

Vehicle – Parking

Vehicle – Registration

Vehicle – Repairs

- vii) If you have employees, also keep all your payroll related liability accounts together and all your wage and salary expense accounts together, alphabetizing the accounts that are listed below them as shown below:

Example A4-24: Keep Payroll Accounts Together and Alphabetize within

LIABILITIES (3000 – 3999)

Current Liabilities

... other accounts listed alphabetically

Payroll Income Tax Payable

CPP Payable

EI Payable

WSIB Payable

EXPENSES (5000-5999)

... other accounts listed alphabetically

Wages & Salaries

CPP Expense

EI Expense

WSIB Expense

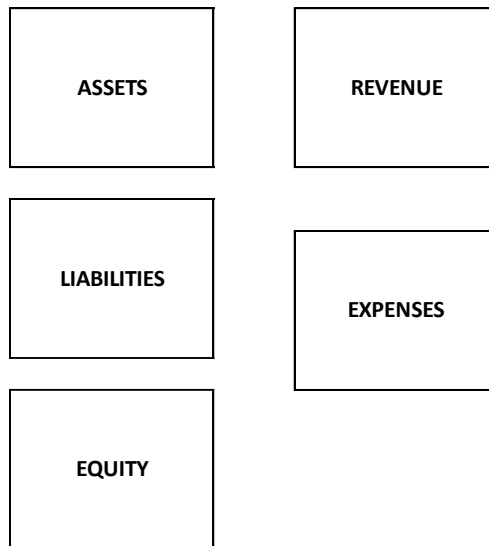
STEP 10 Purpose: Assign a unique number to each account from the range of account numbers designated to its Group Account.

A) Using the account number ranges for each Account Group (e.g., ASSETS, LIABILITIES, EQUITY, REVENUE, and EXPENSES), assign numbers to each of your accounts listed in chronological order, ensuring to leave some gaps between numbers in the event that more accounts are added in future. *While increments of 10 were typically used in Example 38 below, assigning numbers in increments of 20 is usually enough of a gap for any future accounts needed. Leave a gap of 100 between the account numbers for Office Expenses and Office Supplies to help differentiate and reduce typographical errors. .*

Example A4-25: Numbering Accounts

ASSETS	1000 - 1999	LIABILITIES	2000 - 2999	EQUITY	3000 - 3999	REVENUE	4000 - 4999	EXPENSES	5000 - 5999
Current Assets		Current Liabilities		3010	Account Name	4010	Account Name	5010	Account Name
1010	Account Name	2010	Account Name	3020	Account Name	4020	Account Name	5020	Account Name
1020	Account Name	2020	Account Name	...	...	4030	Account Name	5030	Account Name
...	...	...	...			4040	Account Name	5040	Account Name
Long-Term Assets		Long-Term Liabilities				4050	Account Name	5050	Account Name
1510	Account Name	2510	Account Name					5060	Account Name
1520	Account Name	2520	Account Name					5070	Account Name
...	...	...	...					5080	Account Name
							

B) Once all the unique numbering is done (*an Account Number should never be assigned to more than one Account Name*) arrange your five pages on a flat surface as shown below:



C) Take a new page and title it **CHART OF ACCOUNTS**

D) Very carefully, transfer all your business’s information from your five pages as laid out in B) above onto your CHART OF ACCOUNTS page so it fits on one page.

Once done, with the exception of the “Contra” markings, your COA should appear similar to the one from Example 3-6 below:

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CHART OF ACCOUNTS

ASSETS	1000 - 1999	REVENUE	4000 - 4999
<i>Current Assets</i>		4010 Revenue - Training	
1000 Bank Account Subgrouped	(Do Not Use)	4020 Revenue - Consulting	
1011 Cash Account		4030 Revenue - Interest	
1012 Retainer Account		4040 Service Refunds	<i>Contra</i>
1020 Money in Transit		4999 Miscellaneous Revenue	
1030 Accounts Receivable			
1035 Allowance for Doubtful Accounts	<i>Contra</i>		
1040 Prepaid Expenses			
<i>Long-Term Assets</i>		EXPENSES	5000 - 5999
1510 Computer Equipment		5010 Advertising	
1511 Accumulated Depreciation Computer	<i>Contra</i>	5020 Bad Debts	
1520 Office Furniture & Equipment		5030 Business License/Fees	
1521 Accumulated Depreciation Office E & F	<i>Contra</i>	5040 Credit Card Fees	
		5050 Depreciation Expense	
LIABILITIES	2000 - 2999	5060 Income Tax Expense	
<i>Current Liabilities</i>		5070 Insurance - Professional	
2010 Accounts Payable		5080 Interest & Bank/Clearinghouse Fees	
2020 HST Charged on Sales		5090 Meals & Entertainment	
2040 HST Paid on Purchases	<i>Contra</i>	5100 Office Expenses	
2050 Prepaid Sales / Deposits		5200 Office Supplies	
2060 Loan Payments - Current Year		5300 Professional Fees	
<i>Long-Term Liabilities</i>		5310 Profession Membership Fees	
2500 Loan - Bank		5320 Subcontractor Fees	
		5330 Travel	
EQUITY	3000 - 3999	5999 Miscellaneous Expenses	
3000 Owner's Contribution			
3010 Owner's Drawings (Withdrawals)	<i>Contra</i>		
3020 Retained Earnings - Previous Year			
3030 Current Period Earnings			
3999 Income Summary Account			

Congratulations on Creating your Chart of Accounts!

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Canada Revenue Agency	https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll.html
Employment Ontario	https://www.ontario.ca/page/employment-ontario
Government of Ontario – Employment Standards	https://www.ontario.ca/document/your-guide-employment-standards-act-0
Investopedia	https://www.investopedia.com/terms/i/ifrs.asp
Ontario E-Laws	https://www.ontario.ca/laws
Ontario Labour Relations Board	http://www.olrb.gov.on.ca/
Service Canada	https://www.canada.ca/en/employment-social-development/corporate/portfolio/service-canada.html
Taxory Accounting**	https://www.taxory.com/accounting-software-for-small-business/#:~:text=Intuit's%20QuickBooks%20Online%20is%20the,you%20can%20access%20all%20features
Wikipedia	https://en.wikipedia.org/wiki/Generally_Accepted_Accounting_Principles_(Canada)

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