

✓ Worksheet – Introduction to Accounting

Accounting skills are essential when starting and operating a new business. The *Introduction to Accounting* course described key concepts and principles for Accounting and provided an overview on the different types of financial statements available. Additionally, the course described the Accounting lifecycle. Use this worksheet to document your questions, thoughts, ideas, and action items as they relate to accounting. The questions below follow the topics discussed in the course. You can use the fillable PDF form fields or print the worksheet and write in the space provided.

Accounting is the art of recording, classifying, summarizing, and analyzing the financial events of a business

What is Accounting?

Accounting is important to any business because the financial information allows entrepreneurs to make informed business decisions. Economic events are measured and described by financial processes. Use the table below to list ways your business uses accounting and the different types of users who use the accounting information.

Uses	Users

Table 1 - Business Uses and Users

☑ Worksheet – Introduction to Accounting

Accounting Lifecycle

An accounting period reflects all the financial activity within a given period, such as quarterly and yearly. At the end of each accounting period, the organization must prepare all financial statements so that investors can compare the results of successive time periods.

Use the checklist below to ensure you are following the accounting lifecycle. Mark each box as the steps are completed.

Step One: Analyze Business Transactions. Here, you begin with business transactions, which can include the sale of a product, the purchase of supplies, and rent.

Use the space below to write down recent business transactions and the amount for each.

Step Two: Record Transactions in Journal. Now you will use a journal to enter the recorded business transactions. Make sure you record a debit and credit for each transaction. For example, you would record the rent expense under debit and credit that amount under the Cash account.

Step Three: General Ledger. The business transactions are then posted to the general ledger account that it impacts. A general ledger is a moment by moment record of everything that happens in the business. There will be a general ledger for each account. For example, you would record the rent expense in the Cash Account under the credit column.

Step Four: Unadjusted Trial Balance. At the end of the accounting period you should calculate a trial balance. The trial balance assesses the equality of debits and credits as they are recorded in the general ledger. The preparation of a trial balance is very simple. All you have to do is list the ledger accounts balances.

Step Five: Adjusting Entries. Sometimes the first trial balance calculation may show that the books are not balanced, so you will need to look for errors and then make adjustments. This may include making adjustments to record an expense that may have been incurred but not yet recorded.

☑ Worksheet – Introduction to Accounting

Go through the Trial Balance to ensure the books are balanced. If not, you will need to record adjusting entries. For example, if rent was prepaid for three months you would calculate the total for each month.

Step Six: Adjusted Trial Balance. After adjustments are made, you will need to recalculate the trial balance to include any adjustments made to ensure the accounts are balanced.

Add any adjustments from the trial balance to the Adjusted Trial Balance. For example, since rent was prepaid for three months, you would record the prepaid rent amount for the next two months on one line and then the rent expense for the current month on another line.

Step Seven: Financial Sheets. Once the balances are corrected from the adjusted trial balance, you will then need to prepare the balance sheet and income statement.

Use a Balance Sheet to record your current assets, fixed assets, liabilities, and equity. Refer to the Balance Sheet section for an example.

Use an Income Statement to track your sales and expenses for the accounting period. Refer to the Income Statement section for an example.

Step Eight: Closing Entries. Next, the accounts need to be closed out to avoid having revenue or expenses of another period added to current period. You will need to transfer the balances from temporary accounts to permanent accounts.

Step Nine: Post Closing Trial Balance. The last step is to prepare a post-closing trial balance to ensure that all accounts have been closed properly and to test the equality of debit and credit balances of all the balance sheet accounts.

Record any accounts having non-negative balances after closing entries have been passed and posted. During the post-closing trial balance, it is important to ensure that the debit and credit totals are equal.

☑ Worksheet – Introduction to Accounting

Income and Expenses

Money may flow into a business as cash sales, credit card sales, or other methods. Money may go out of a business when inventory is purchased, bills are paid, etc. Think about how money flows in and out of your business. Using the business transactions from the previous section, record the items that would be categorized as income and expenses in the table below.

Income	Expenses

Table 2 - Income and Expenses

Financial Statements

Balance Sheet

The Balance Sheet is a snapshot of your business. It outlines the financial condition of your business at a specific point in time and provides a financial perspective by highlighting what you own, and what you owe to other parties. Use the example Balance Sheet below to record your current assets, fixed assets, liabilities, and equity used in step seven in the *Accounting Life Cycle* section.

Assets	Liabilities & Equity
Current Assets	Liabilities
Fixed Assets	Equity
Total	

Table 3 - Balance Sheet

✓ Worksheet – Introduction to Accounting

Income Statement

The income statement is used to track sales and expenses during a particular period. It is sometimes called a Profit and Loss (P&L) statement and tells you if your business is profitable or not. The resulting difference between your income and your expenses is called your net profit. Use the example Income Statement below to track your sales and expenses used in step seven in the *Accounting Life Cycle* section.

Categories	End of Period
Sales	
Cost of Sales	
Gross Margin	
Business Expenses	
Total Expenses	
Net Profit	

Table 4 - Income Statement

Worksheet – Introduction to Accounting

Cash Flow Statement

A cash flow statement is the financial document that presents where the money is coming from and how it is being spent. In its simplest form, a cash flow statement is presented as follows: beginning cash balance, plus cash inflows, minus cash outflows, equals ending cash balance. Use the example Cash Flow Statement below to track how your cash is flowing for the accounting period.

Activity	Value
Operating Activities	
<i>Net Cash Flow from Operating Activities</i>	
Financing Activities	
<i>Net Cash Flow from Financing Activities</i>	
Investing Activities	
<i>Net Cash Flow from Investing Activities</i>	
Cash Flow Total	

Table 5 - Cash Flow Statement

☑ Worksheet – Introduction to Accounting

Accounting Resources

After completing the Accounting Lifecycle checklist think about if this is something you want to do or if you want to have someone else do. As discussed in the course, there are several options for handling your accounting responsibilities. In the space below write down your pros and cons for using each option.

	Do it Yourself	Hire an Accountant	Outsource
<i>Pros</i>			
<i>Cons</i>			

Table 6 - Resources Pros and Cons

✓ Worksheet – Introduction to Accounting

Resources:

This worksheet is intended to help you document your ideas and possible solutions to common challenges small businesses face daily. You are not alone! If you would like talk to someone about your business, the SBA has a broad network of skilled counselors and business development specialists waiting to help your business start, grow, and succeed. Below is a short description of our resource partners:

There are more than 1,000 **Small Business Development Centers (SBDCs)** located around the country. SBDCs provide management assistance to current and prospective small business owners.

- **SCORE** is a powerful source of free and confidential small business advice to help build your business. More than 10,000 SCORE volunteers are available to share their experience in lessons learned in small business.
- **Women’s Business Centers (WBCs)** assist women and men in achieving their dreams by helping them start and run successful businesses. Over 90 WBCs are located around the country.
- The **SBA** has over 60 **District Offices** located throughout the country to help you start and grow your business.
- The **SBA Learning Center** provides self-paced training courses, videos, worksheets, and checklists designed by business development specialists and educators to help entrepreneurs learn about business ownership. Courses provide introductory and intermediate entrepreneurship education.
- The SBA’s **Office of Women’s Business Ownership (OWBO)** serves as an advocate for women-owned businesses. The office oversees a nationwide network of 110 Women’s Business Centers that provide business training, counseling and mentoring geared specifically to women, especially those who are socially and economically disadvantaged. The program is a public-private partnership with locally based nonprofits.
- The **Veterans Business Outreach Program (VBOP)** provides entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans owning or considering starting a small business. The SBA has 15 organizations participating in this cooperative agreement and serving as Veterans Business Outreach Centers (VBOC).
- **Procurement Technical Assistance Centers (PTACs)** provide local, in-person counseling and training services for small business owners. They provide technical assistance to businesses that want to sell products and services to federal, state, and/or local governments. PTAC services are available either free of charge, or at a nominal cost. PTACs are part of the Procurement Technical Assistance Program, which is administered by the Defense Logistics Agency.

☑ Worksheet – Introduction to Accounting

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