

Accounting from 30,000 Feet.

From 30,000 Feet the Visualization of Accounting.

Here is what I call accounting at 30,000 feet. It is actually going to be the visualization of accounting. When you learn accounting in school, they teach you these books. You read the books and you learn journal entries, but you really don't ever get to see how it works. If you bought an accounting book, It kind of goes over some theory It kind of goes over some theory. It shows you how to do journal entries but they don't show it to you from a visual perspective and that's what they to do here.

I think once you see how the whole thing works, it's going to be, "Ah, it's not as hard as i expected it was going to be," because the reality is that there are only five buckets. There are only five things you need to know. Assets, liabilities, equity, revenue, and expense. Everything has to fit into those five categories, so once you start looking at it from that aspect, it's really not as complicated as you think. Let's show it to you so you can see it from the upper level.

One important note, all of your accounting transactions will fit into these two reports the Profit and Loss and the Balance Sheet. For the balance sheet will only show Assets, Liabilities, and Equity transactions. The Profit and Loss will only show Revenue and Expenses transactions. One accounting transaction can have one side appearing on the profit and loss and the other side hitting the balance sheet. We will show you this in our examples.

Once you see this visually you'll say, "Hey. This isn't as complicated as I thought. Alright, what we have here is a company I created, XYZ Company. It's in Quick Books 2015. There are no transactions in this file yet, so we're going to make them as we go along. The first thing I'm going to do is I'm going to create a report in here called, 'Transaction Detail by Account.' I'm going to customize this a little bit. We want you to see how the debits and credits appear. This report is very close to a General Ledger Report.

So the first thing we're going to do is, we're going to record a sale. We're going to make a deposit and we received from our customer which is "me". It's going to hit the revenue account as consulting income for \$20,000 and at the same time \$20,000 going to your bank account. You have one transaction with 2 sides, and you are about to see how it works.

Here is the deposit:

XYZ Company - QuickBooks Accountant Desktop 2015 - [Make Deposits]

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Deposit To: My Bank Date: 12/18/2016 Memo: Deposit

Click Payments to select customer payments that you have received. List any other amounts to deposit below.

RECEIVED FROM	FROM ACCOUNT	MEMO	CHK NO.	PMT METH.	AMOUNT
Me	Consulting Income				20,000.00
Deposit Subtotal					20,000.00

To get cash back from this deposit, enter the amount below. Indicate the account where you want this money to go, such as your Petty Cash account.

Cash back goes to: [] Cash back memo: [] Cash back amount: []

Deposit Total: 20,000.00

Save & Close Save & New Revert

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So we made a \$20,000 deposit. Now I create a report which shows you both sides of the transaction. Below, is the transaction detailed by account report/general ledger report. You can see there's a deposit to the bank, \$20,000. You can see the income is \$20,000.

XYZ Company - QuickBooks Accountant Desktop 2015 - [Transaction Detail by Account]

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XYZ Company
Transaction Detail by Account
December 18, 2016

Accrual Basis

Type	Date	Num	Adj	Name	Memo	Clr	Split	Debit	Credit	Balance
My Bank										
Deposit	12/18/2016				Deposit	Consulting Inc...		20,000.00		20,000.00
Total My Bank								20,000.00	0.00	20,000.00
Consulting Income										
Deposit	12/18/2016			Me	Deposit	My Bank			20,000.00	-20,000.00
Total Consulting Income								0.00	20,000.00	-20,000.00
TOTAL								20,000.00	20,000.00	0.00

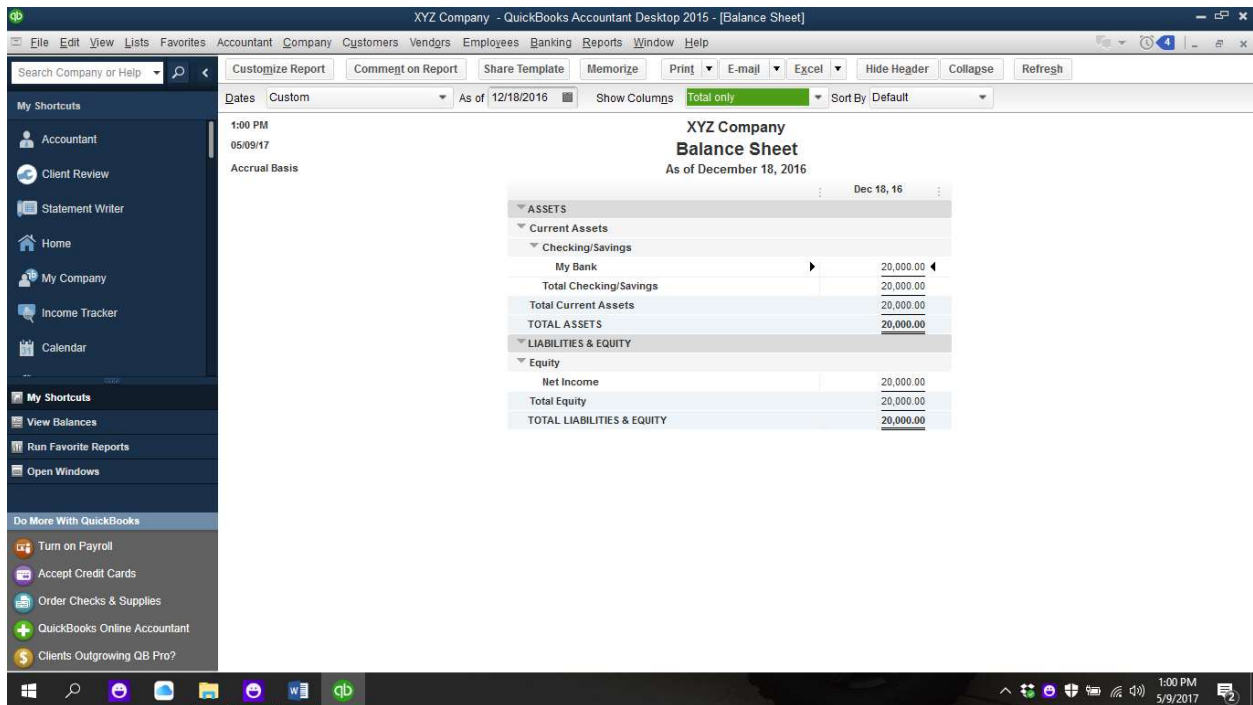
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So now, we will show you how it impacts the financial statements. So, we create a profit and loss statement, and you can see the consulting income of \$20,000. There are no expenses yet, so your net income is \$20,000.

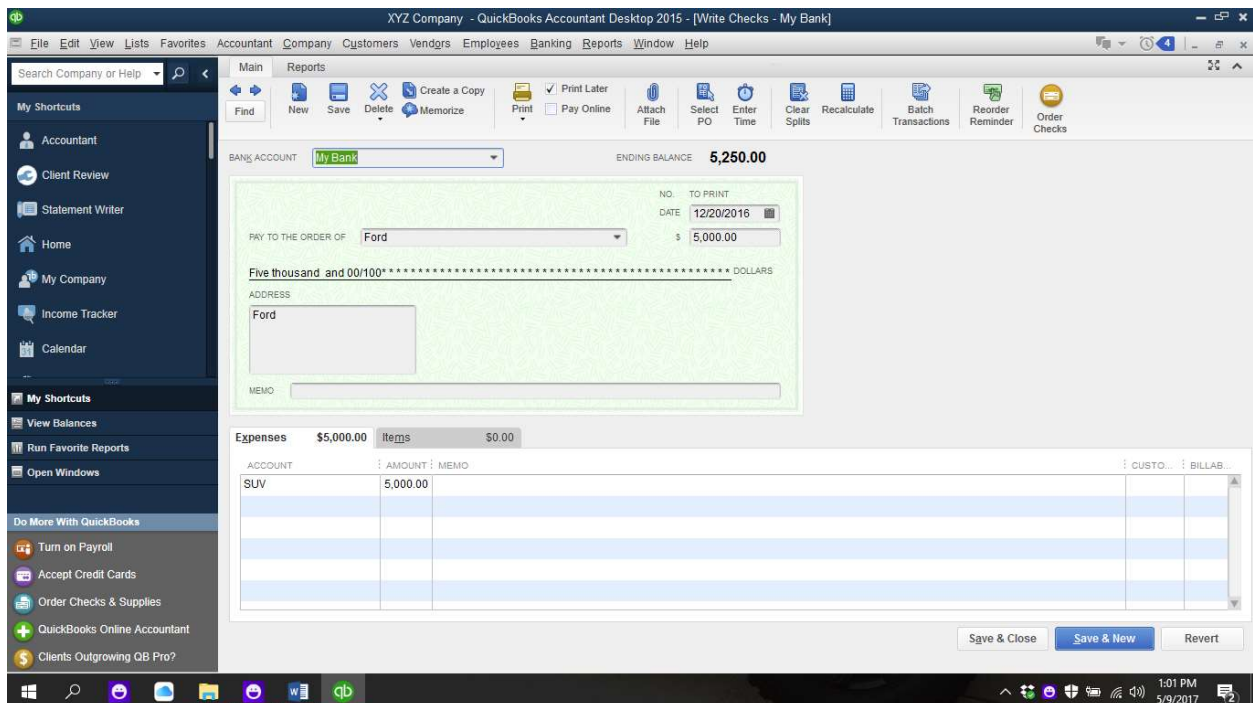
The screenshot displays the QuickBooks interface for XYZ Company. The main window shows a Profit & Loss statement for the period ending December 18, 2016. The statement is based on a Cash Basis. The data is as follows:

XYZ Company	
Profit & Loss	
December 18, 2016	
Ordinary Income/Expense	
Income	
Consulting Income	20,000.00
Total Income	20,000.00
Net Ordinary Income	20,000.00
Net Income	20,000.00

Next, we will go to the balance sheet; you're going to see now that there is \$20,000 in the bank and your net income equity section now is 20,000; which is the profit from the profit and loss statement. So the deposit hits the balance sheet cash account for \$20,000 and also the profit loss statement for \$20,000 in revenue. The balance sheet shows \$20,000 in cash which is an asset and \$20,000 in equity as net income.

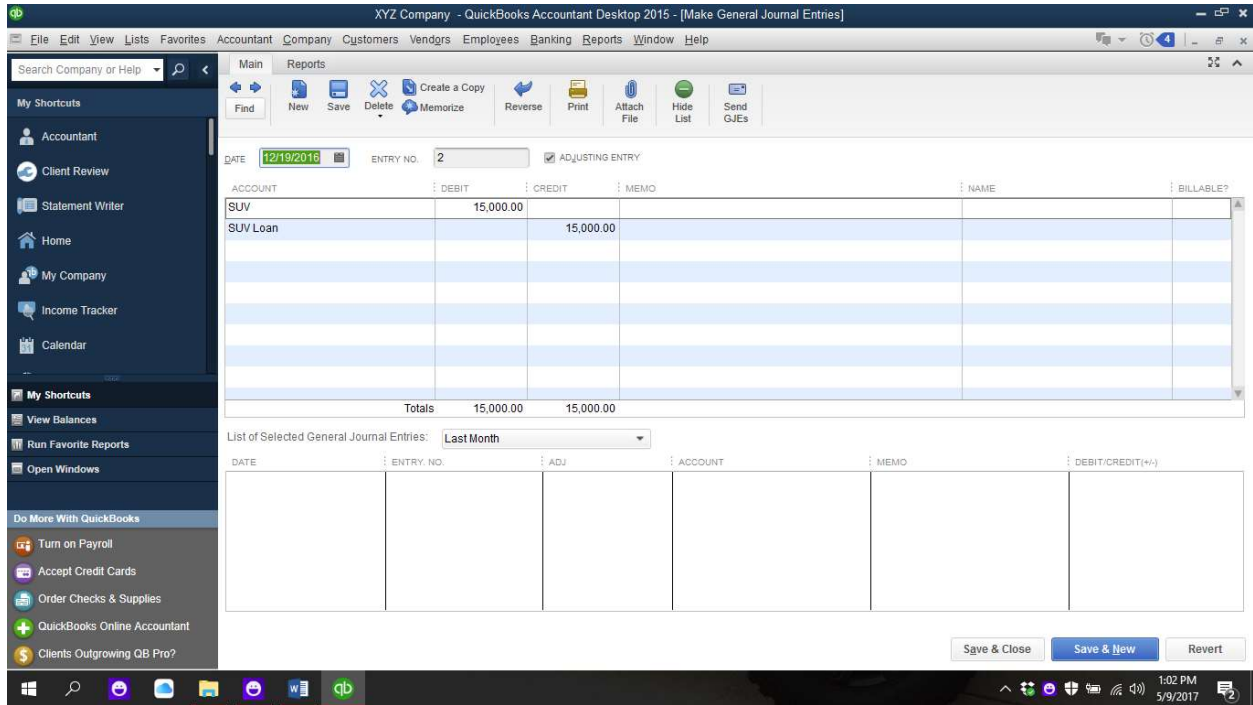


Next, let's create a new transaction and purchase a SUV. We're going to go to banking, and we are going to write a check and the vendor is Ford, and we're going to put down \$5,000 on this SUV and we put it to the SUV account which is a Fixed Asset Account.



Here is your \$5,000 check to Ford. And we code the checks \$5,000 to your fixed asset SUV account. However, we bought the SUV for \$20,000, and we took a \$15,000 loan. The check recorded the down payment now we have to record the \$15,000 loan. We need to do a journal

entry to add \$15,000 to the truck account, and we need to add \$15,000 to the SUV loan account, which is a liability. Below is a picture of recording the loan for the SUV with a journal entry.



From our chart from the 5 Buckets of accounting which shows how to increase or decrease an account. To add to the SUV asset account we must debit the asset account and to increase the liability loan account we must credit it.

Refresh your report. Refresh your report. Now, you move over here, and you can see the \$20,000 deposit. Your check for \$5,000 to Ford, which is also hitting your SUV, asset, Truck account and then that's your balance for \$15,000 which is also the same amount for the loan. Everything ties

out. Everything ties out to the \$20,000.

XYZ Company
Transaction Detail by Account
December 19 - 20, 2016

Type	Date	Num	Adj	Name	Memo	Clr	Split	Debit	Credit	Balance
My Bank										
Check	12/20/2016			Ford			SUV		5,000.00	-5,000.00
Total My Bank								0.00	5,000.00	-5,000.00
SUV										
General Journal	12/19/2016	2	✓				SUV Loan	15,000.00		15,000.00
Check	12/20/2016			Ford			My Bank	5,000.00		20,000.00
Total SUV								20,000.00	0.00	20,000.00
SUV Loan										
General Journal	12/19/2016	2	✓				SUV		15,000.00	-15,000.00
Total SUV Loan								0.00	15,000.00	-15,000.00
TOTAL								20,000.00	20,000.00	0.00

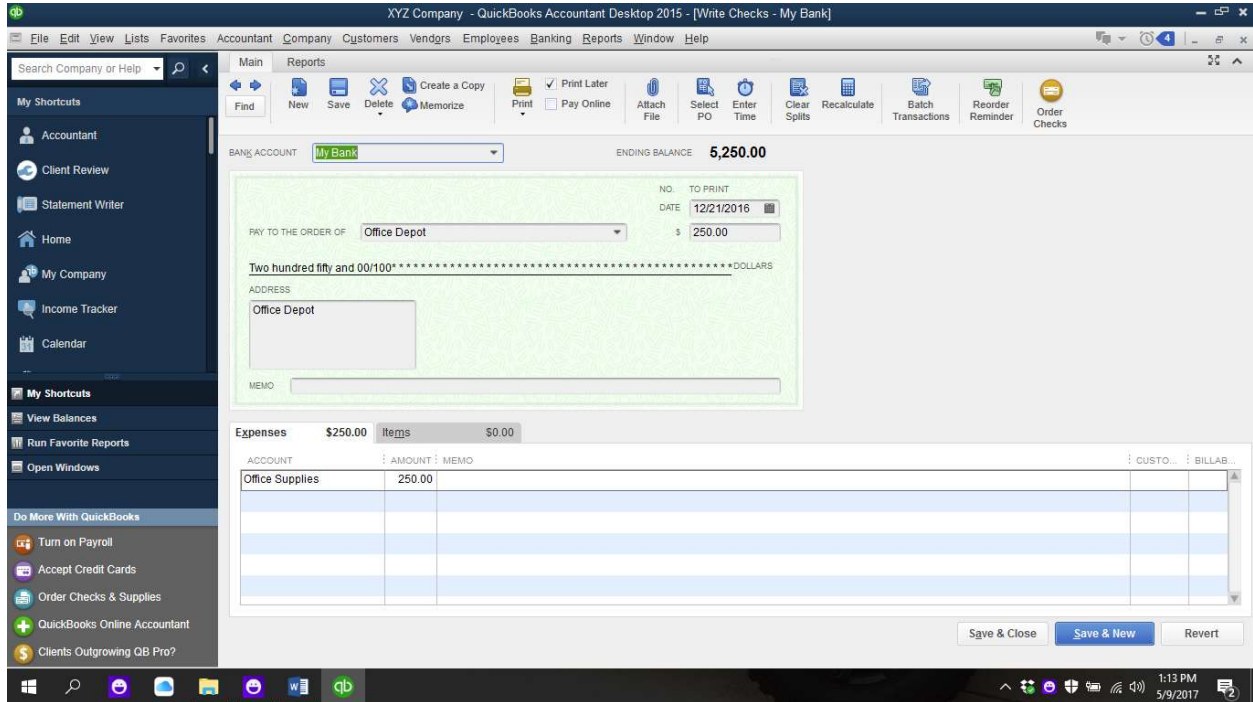
We come over here and look at the balance sheet. Let me refresh it. You have \$15,000 now on your checking account because you deposited 20,000 and spent 5,000 for the asset.

XYZ Company
Balance Sheet
As of December 20, 2016

	Dec 20, 16
ASSETS	
Current Assets	
Checking/Savings	
My Bank	15,000.00
Total Checking/Savings	15,000.00
Total Current Assets	15,000.00
Fixed Assets	
SUV	20,000.00
Total Fixed Assets	20,000.00
TOTAL ASSETS	35,000.00
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
SUV Loan	15,000.00
Total Long Term Liabilities	15,000.00
Total Liabilities	15,000.00
Equity	
Net Income	20,000.00
Total Equity	20,000.00
TOTAL LIABILITIES & EQUITY	35,000.00

Your SUV is now \$20,000. Your loan is 15,000 and your net income is still \$20,000 because that \$5,000 check is not an expense, it's an asset so it goes to the asset side of the balance sheet. Same thing with the loans, not an expense, it's a liability.

Okay. Now, we're going to come in here and we're going to write another check. We bought some office supplies from Office Depot for \$250. The expense is to office supplies.



Now you can see, there's your \$20,000 deposit. There's your \$5,000 truck payment or down payment. There's your \$250 office supplies. There's your truck for 20,000. There's your loan for 15,000. Your income and your expense. Look at your general ledger report on next page.

XYZ Company - QuickBooks Accountant Desktop 2015 - [Transaction Detail by Account]

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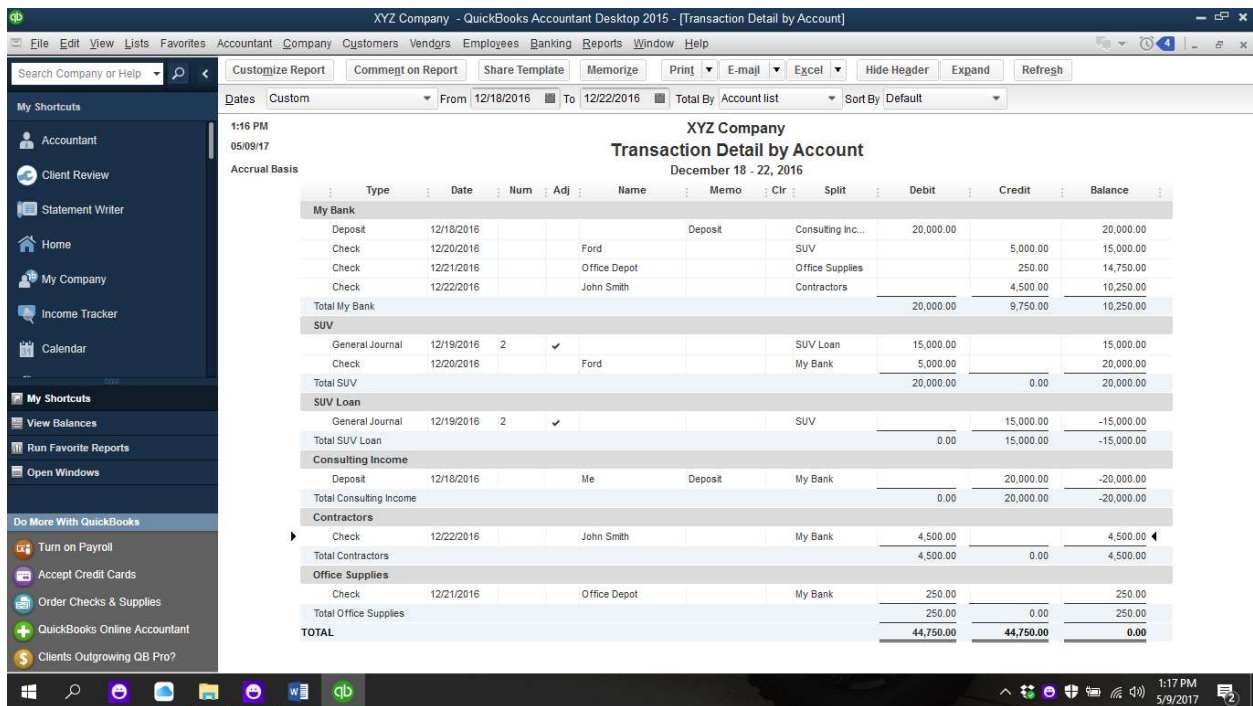
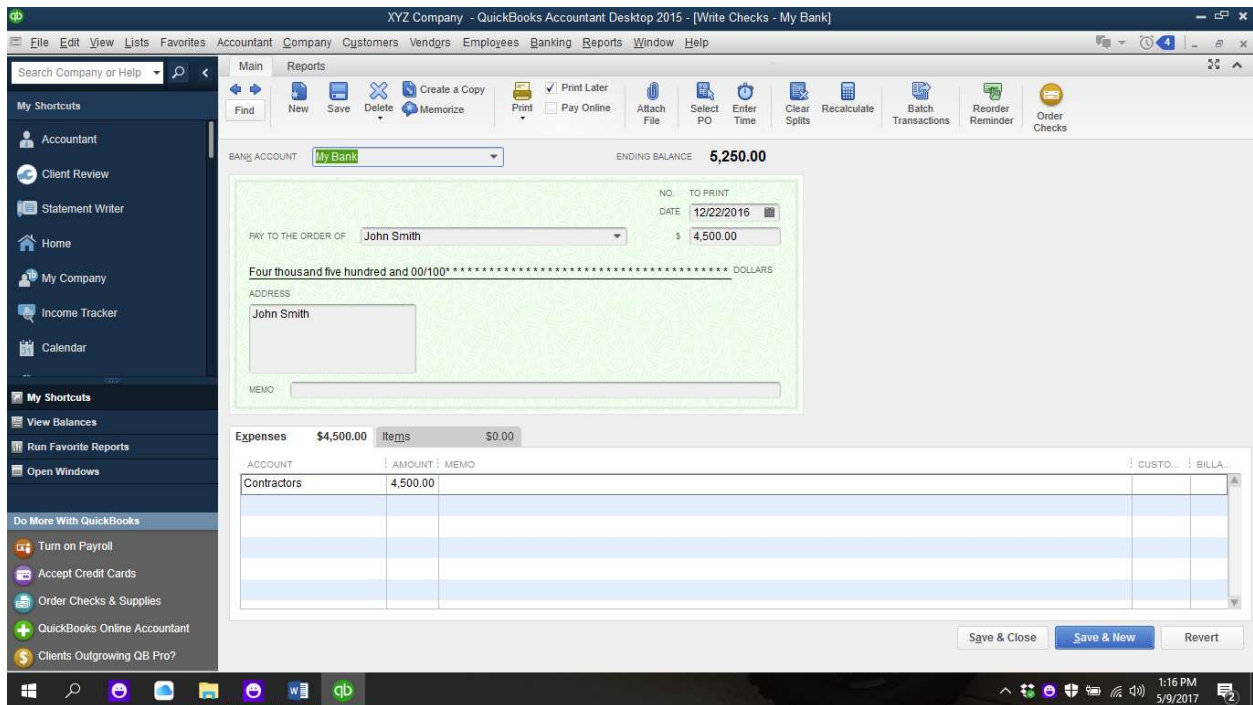
XYZ Company
Transaction Detail by Account
December 18 - 21, 2016

Accrual Basis

Type	Date	Num	Adj	Name	Memo	Clr	Split	Debit	Credit	Balance
My Bank										
Deposit	12/18/2016				Consulting Inc...			20,000.00		20,000.00
Check	12/20/2016			Ford			SUV		5,000.00	15,000.00
Check	12/21/2016			Office Depot			Office Supplies		250.00	14,750.00
Total My Bank								20,000.00	5,250.00	14,750.00
SUV										
General Journal	12/19/2016	2	✓				SUV Loan	15,000.00		15,000.00
Check	12/20/2016			Ford			My Bank	5,000.00		20,000.00
Total SUV								20,000.00	0.00	20,000.00
SUV Loan										
General Journal	12/19/2016	2	✓				SUV		15,000.00	-15,000.00
Total SUV Loan								0.00	15,000.00	-15,000.00
Consulting Income										
Deposit	12/18/2016			Me	Deposit		My Bank		20,000.00	-20,000.00
Total Consulting Income								0.00	20,000.00	-20,000.00
Office Supplies										
Check	12/21/2016			Office Depot			My Bank	250.00		250.00
Total Office Supplies								250.00	0.00	250.00
TOTAL								40,250.00	40,250.00	0.00

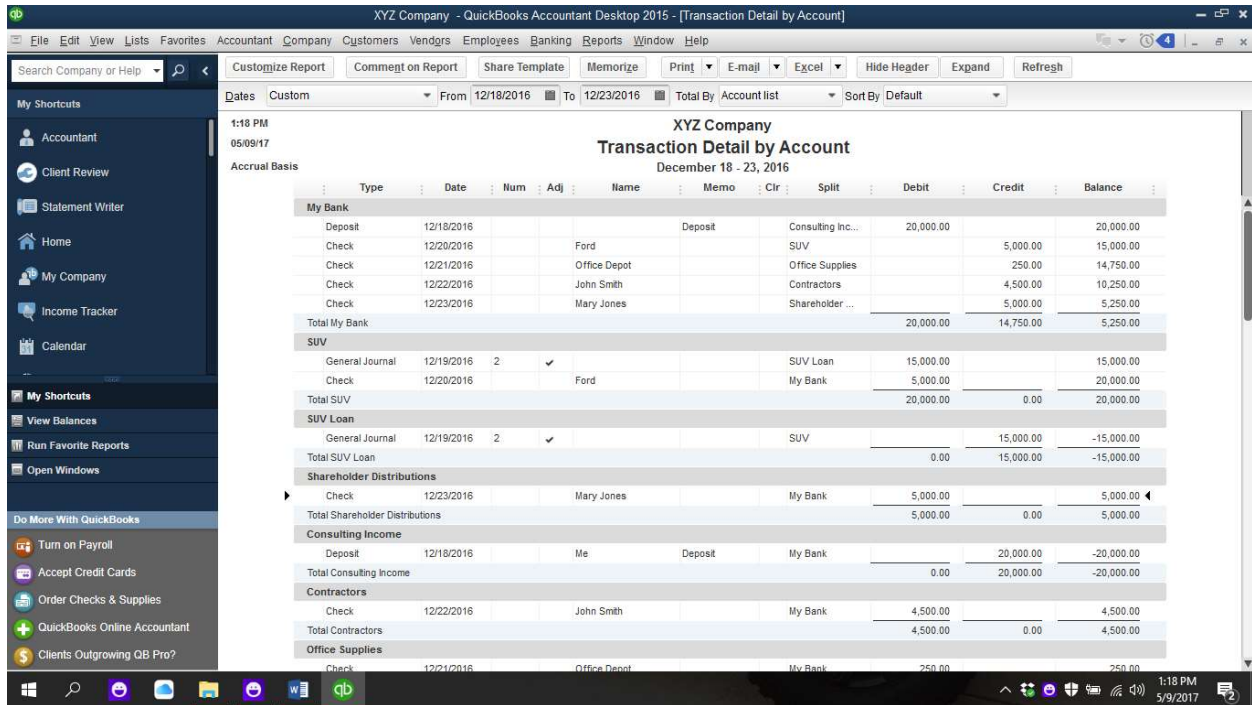
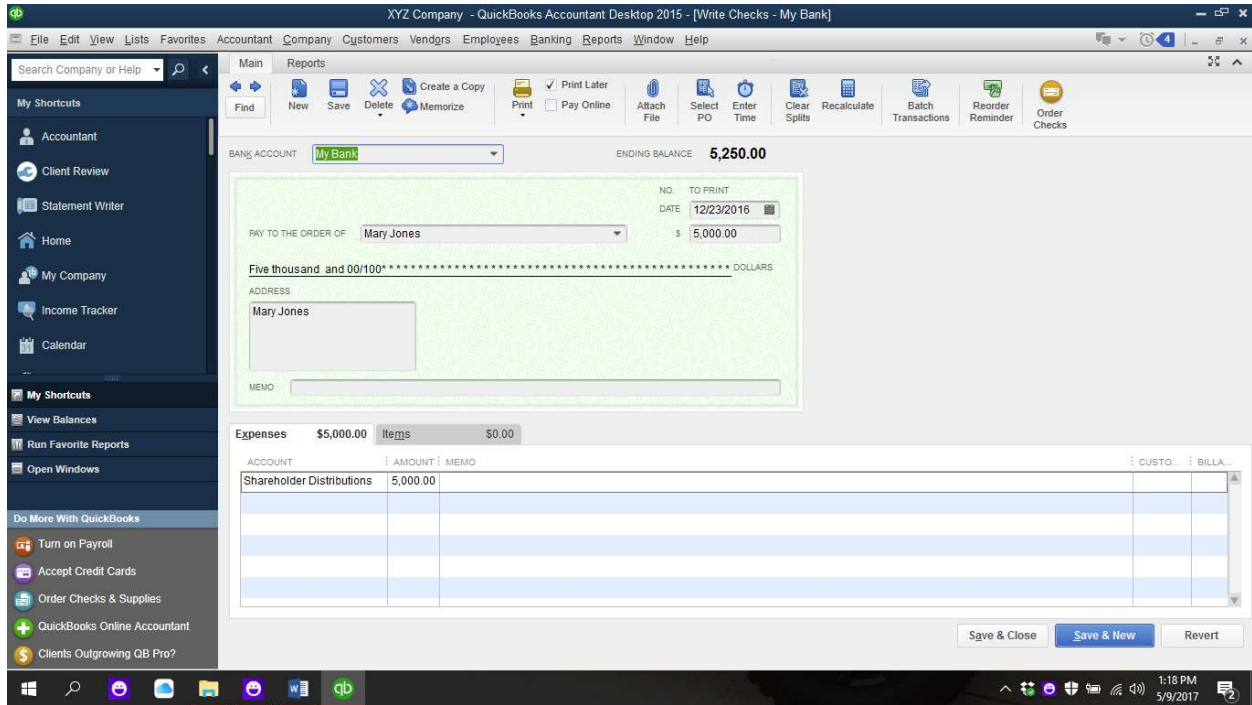
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We've hit four out of the five buckets. We're going to do one more expense. We're going to go banking, write checks and we're going to write it to John Smith. He's our vendor. We're going to pay him \$4,500, and we're going to hit it to the contractor account, which is an expense account. He's an independent contractor. Hit save and close. Now, now you can see your original revenue \$20,000. You spent \$5,000 on the truck down payment, \$250 in office supplies, \$4,500 in John Smith, which is labor. Here's your SUV for 20,000. Your SUV loan. Your consulting income. Your expense of John Smith and your expense of Office Depot.



Alright, we have one more transaction we want to carry out. Banking. Write checks and we're going to pay to the owner, who is Mary Jones. She's going to take out \$5,000 for herself. We're going to hit that to the shareholder distribution account which is an equity account. Save and close. Refresh. Alright, so back to the top again. We've got \$20,000 bank deposit which was our

consulting income, \$5,000 to the truck, Office Depot, \$250, office supplies. Labor to John Smith for \$4,500. Withdraw from the owner, \$5,000. There's your truck, your truck loan.



Notice the check for Mary Jones, the owner, went to shareholder distributions. This is an equity account. It is how she pulls out her money.. The important thing about this is you'll see this does

not affect the profit and loss. We'll see that in a minute here. Consulting income is 20,000 with the expense of \$4,500. Office supplies are \$250. So now, let's go over here and look at the profit and loss statement.

XYZ Company - QuickBooks Accountant Desktop 2015 - [Profit & Loss]

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 Cash Basis

XYZ Company
Profit & Loss
 December 18 - 23, 2016

Ordinary Income/Expense		Dec 18 - 23, 16
Income		
Consulting Income		20,000.00
Total Income		20,000.00
Expense		
Contractors		4,500.00
Office Supplies		250.00
Total Expense		4,750.00
Net Ordinary Income		15,250.00
Net Income		15,250.00

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You have consulting income at \$20,000, contractor expense of \$4,500, and office supplies at \$250. There is no check to Mary Jones, so your net income is \$15,250. We'll flip over here and look at the balance sheet. You can see your bank account was originally \$20,000 and we spent all this money, so we're now at \$5,250. Your SUV's 20,000 your loan. Under the equity section; shareholder distributions of \$5,000.

XYZ Company - QuickBooks Accountant Desktop 2015 - [Balance Sheet]

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Accrual Basis

As of 12/23/2016 Show Columns Total only Sort By: Default

XYZ Company
Balance Sheet
As of December 23, 2016

	Dec 23, 16
ASSETS	
Current Assets	
Checking/Savings	
My Bank	5,250.00
Total Checking/Savings	5,250.00
Total Current Assets	5,250.00
Fixed Assets	
SUV	20,000.00
Total Fixed Assets	20,000.00
TOTAL ASSETS	25,250.00
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
SUV Loan	15,000.00
Total Long Term Liabilities	15,000.00
Total Liabilities	15,000.00
Equity	
Shareholder Distributions	-5,000.00
Net Income	15,250.00
Total Equity	10,250.00
TOTAL LIABILITIES & EQUITY	25,250.00

This is a complete visual of the accounting, and you got to see how all these transactions inter-linked and how they looked visually. If you go back again to the transaction detail account, this is every single transaction you made. Every side has two sides. Everything balances, and this shows you every single transaction. Now, if you look at this Transaction Detail by Account Report or a General Ledger Report every single week, you can see what went in, what went out, where it went to and to make sure the transaction is in the right category. To go through this every week it is going to take you about five to ten minutes, and this is going to tell you where every nickel that came in and where every nickel that went out, went.

If you look at this report, you will have your finger on the pulse of your business. This report is very simple, yet very powerful. It tells you here's your deposits. Here are your expenses and withdrawals. You bought a truck. There's the part that was cash, that's the part that was the loan. You took out \$5,000 as for yourself. There's your revenue, and there are your expenses. Notice the way this report is laid out. This is laid out just like your chart of accounts where you have your assets first; your cash, your SUV, then your liabilities; your loan here for your truck, then equity, then income, and finally your expenses. It is always laid out this way. It doesn't change. It is the same order as your chart of accounts.

This is the entire visualization of your business accounting. You can see how source transactions impact your accounts and then how they impact your profit and loss statement and your balance sheet. All of these reports, profit and loss, balance sheet, and statement of cash flow is all derived from your detail accounting. I really hope this helps. Please review this chapter several times.

This is the most complicated thing that we're going to go over, but it is important you understand how accounting flows. Hopefully, with you seeing how everything is impacted and the visualization of it, it makes it easy for you to understand how it all works. It's not any more

complicated than this. I know we covered a lot here because I made sure we hit all five buckets; assets, liabilities, equity, revenue, and expenses. Everything has to hit those five buckets.

Once you understand there are only five things to classify a transaction, that's it. It's not any harder than that and this is your main report that you need to look at every single week. If you look at this report every single week, you're going to know everything there about the accounting side and finance side of your business. I hope this helps. If you have any questions on this one here, reach out to me. Email me, call me, send me a message and we'll help you through it. If you're having trouble, review this chapter several times. Seeing how the parts interact, I think it's really going to help you out a lot.

