

# keeping the records and preparing **accounts as an entrepreneur**





every  
entrepreneur  
**needs to  
read this**

**M**ost entrepreneurs would rather spend their time developing their product line or growing their client base than developing their accounting skills. Accounting isn't the most glamorous part of setting up or running a business but it is important. Without it, your business will never reach its full potential. A lack of adequate accounting could even create legal problems that could easily have been avoided.

As an entrepreneur you like to conceive an idea, set up a business, and watch it grow. Most likely, maximizing profits is one of your goals. Unfortunately, many businesses lose money which can be avoided by keeping accurate books and records.



These two steps below summarize the components of a company's financial management system



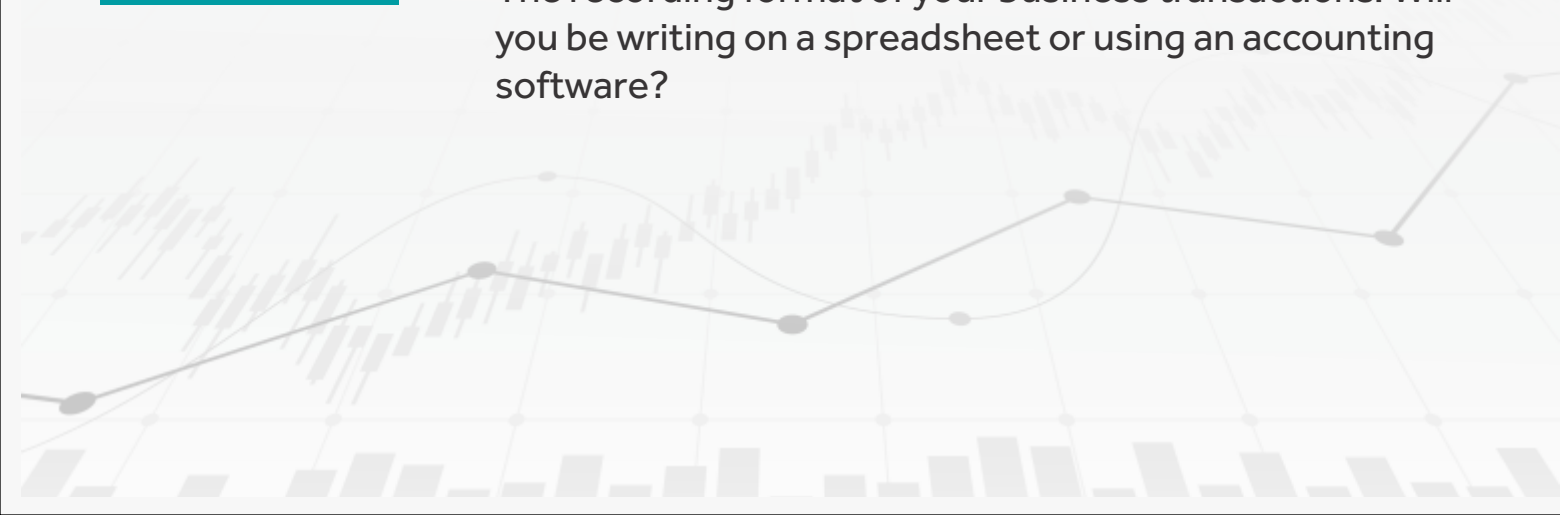
**KEEP YOUR BOOKS:** Record your daily business transactions in a day book.

- The day book will be the primary source of data for later preparation of financial statements. The layout of day books varies according to the needs of a business. Accounting software will make it easier to capture and record business transactions.



**SOMETHINGS YOU NEED TO THINK THROUGH:**

- The organization of all your source documents and the capturing of your business information in a manner which allows you to look back easily on any transactions. An example is the proper recording and filing of your sales invoice.
- The recording format of your business transactions. Will you be writing on a spreadsheet or using an accounting software?





## UNDERSTAND YOUR FINANCIAL STATEMENTS:

You will come across the following **terms** in the financial statement-

- **The income statement** - shows the financial performance (profit or loss) of a business.
- **The balance sheet** - a snapshot of the financial position of a business at a point in time. It shows the assets, liabilities and capital of a business.
- **The trial balance** - a useful starting point in the preparation of the financial statements. Adjustments to the trial balance are normally made before financial statements are prepared, e.g. accruals, prepayments, closing inventory and depreciation.
- **An inventory valuation** – which is necessary for the preparation of financial statements.
- **Depreciation** - the spreading of the cost of non-current assets over a number of years.



# Some **Practical Tips**



- Write out the main expenses in your business. Think about how to group the expenses in categories which might be useful in preparing an income statement.



- Try to think of the best layout of the income statement for your business.



- To familiarize yourself with the annual report of a company, choose four or five companies you find interesting and try to understand their most recent annual reports.



- Have a look at their cash flow statements. See if you can make sense of where cash comes from and what it is used for. Are there any items which concern you? For example, is there a lot of cash flow in from borrowing?

## ***Want to make the best of this article?***

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## **REFERENCES**

Martin Quinn "Book-keeping and Accounts for Entrepreneurs" (2009: Financial Times Press)