

# TOPIC No 7:

## Accounting – Basics for startups Tax reporting



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# Introduction

Starting a new business venture is an exciting and challenging journey. As an entrepreneur, you may focus on various aspects of your startup, such as developing a new product or service, marketing, attracting customers, and sales. However, one crucial area that often gets overlooked is accounting. Accounting plays a vital role in the success and sustainability of any business, especially for startups.

A start up requires a solid accounting system allowing its founders, business leader(s) and investors real-time visibility to an accurate picture of its financial health.

# Agenda (key words/content)

◆ **What is Accounting?**

◆ **Accounting vs Bookkeeping**

◆ **Why Accounting matters**

◆ **Basic Accounting Processes**

◆ **Taxes**

◆ **Financial reporting**

◆ **Tips and Tricks**

◆ **Activities**



# ENT\_YOUTH RESOURCES

- ✓ Guidelines of ENT\_YOUTH
- ✓ SBPPO – ONLINE PLATFORM FOR YOUNG ENTREPRENEURS (<https://ent-youth.eu/>)
- ✓ NEW TOOLS for young entrepreneurs
- ✓ Mentoring and Coaching – guidance through ENT\_YOUTH
- ✓ Extra materials and resources

**First, reflect and answer the questions for yourself!**

What is accounting?

Why should I care about accounting?

Is accounting different from bookkeeping?

Who is managing my business accounting?

Should I hire an accountant?

What is a financial statement ?



# What is Accounting?

Accounting is how your business records, organizes, and understands its financial information. Accounting processes include reporting, summarizing, analyzing, and projecting business transactions using financial statements.

Financial statements provide a concise summary of your financial transactions over a specified accounting period and illustrate your startup's cash flow and operations status, providing an accurate picture of your startup's level of success and financial health.

## Accounting pillars



All the transactions of a business can be broken down into 4 major categories / pillars:

- Assets: items which you paid for and will give you benefit for more than 1 year
- Liabilities : money that you received which you need to pay back at a future point in time
- Expenditure: items which you paid money for
- Income : money that you received which you don't need to pay back. You receive income for services / product you provide.

## Financial statements

Statements where you summarize amounts for Assets, Liabilities, Expenditure and Income is called Financial Statement.

Consists of:

- Balance Sheet : Summary of Asset and Liability
- Profit and Loss account: Summary of Income and Expenditure
- Cash Flow Statement: Summary of cash flow and outflow

Double-entry bookkeeping: every transaction affects two accounts, meaning two entries are made. One account is debited, and the other credited. This mechanism keeps the equation balanced.

## Accountant



## Bookkeeper

- Performing account analysis
- Prepare adjusting entries
- Analyze the cost of operations
- Reviewing financial statements
- Advise business owner during financial decision making
- Assess financial health and make financial forecasts
- Conducting routine audits
- Prepares and files corporate tax returns and provides tax advisory

- Recording and categorize daily payments and expenses
- Send customer invoices and record payments received
- Conduct bank reconciliations every month
- Generate monthly financial statements
- Process payroll
- Prepares the books for the accountant



# Why Accounting Matters For Your Startup

## Accountability

- ✓ People who handle cash in the company, they are responsible for it

## Budgeting

- ✓ Startups need to plan their financial activities and set realistic goals for the future. By preparing budgets and financial projections, entrepreneurs can estimate their expected revenue, expenses, and cash flow.

## Taxation

- ✓ Records must be kept in order to pay taxes

## Financial statements

- ✓ These are reports that summarize the financial performance of a business. These reports indicate the business's economic health

## Annual reports

- ✓ Financial statements are presented to shareholders and potential investors in the form of an annual reports.



PLAN



ACTION



SOLUTION



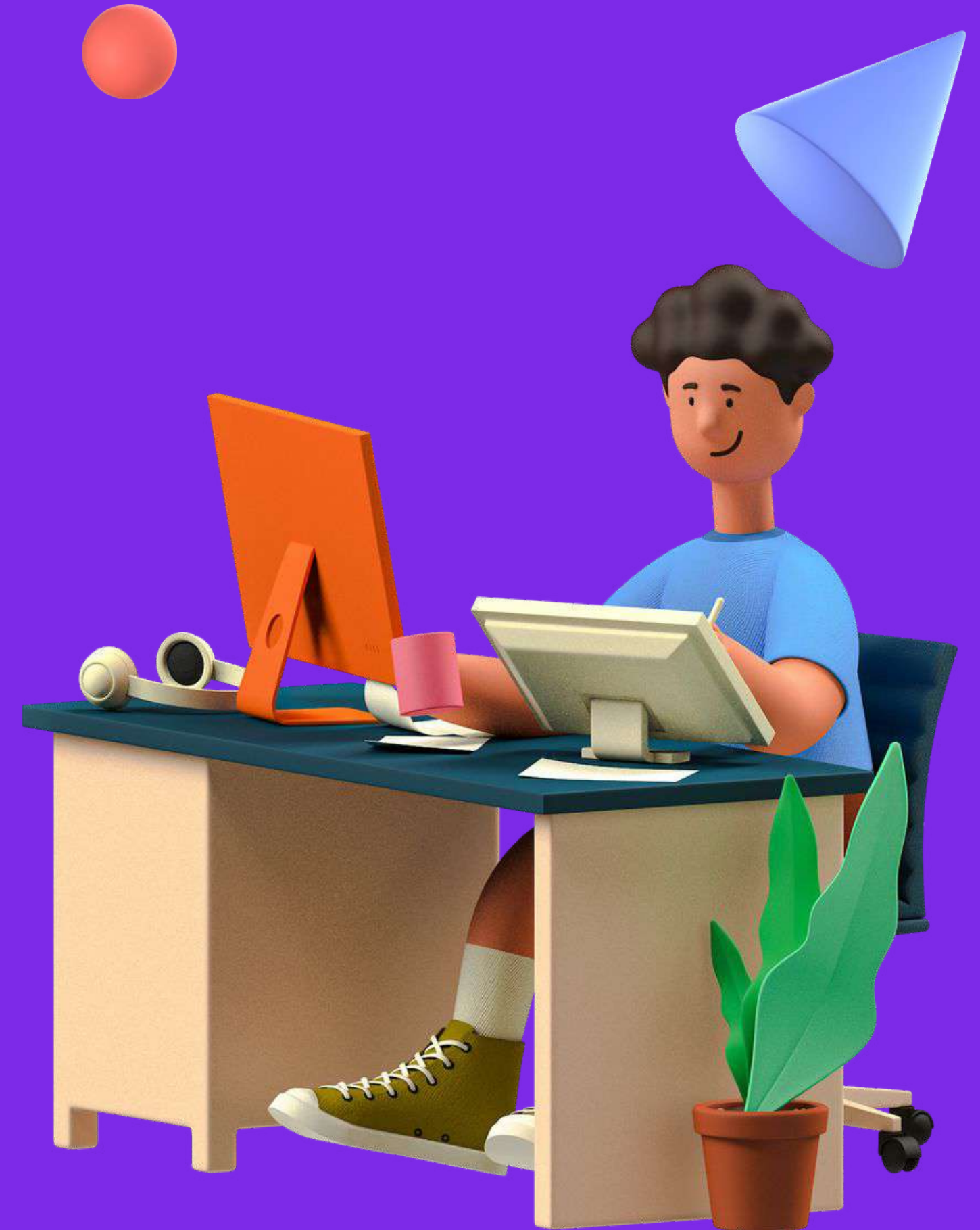
# The Accounting Cycle

**During the accounting period**

- Step 1: Analyze transactions from source documents
- Step 2: Record transactions in a journal
- Step 3: Post from the journal to the ledger
- Step 4: Prepare a trial balance of the ledger

**At the end of The accounting period**

- Step 5: Determine needed adjustments
- Step 6: Prepare a worksheet
- Step 7: Journalize and post adjusting entries
- Step 8: Prepare financial statements
- Step 9: Journalize and post closing entries
- Step 10: Prepare a post-closing trial balance



# 4 Basic Accounting Processes and Tasks

1

## Maintaining accounting software

An accounting software serves as an ultimate business's financial record. Every transaction must be recorded in detail and categorized within the software, which organizes the data to enable accurate reporting and analysis.

2

## Reconciling bank accounts

Bank account reconciliation is an essential accounting process for a start up. Typically done once you receive your bank statement at the end of each month, this task involves comparing the bank's transactions and balances with your recorded business transactions and balances. This process allows you to catch any errors from your or the bank's record keeping.



# 4 Basic Accounting Processes and Tasks

3

## Preparing financial statements

A profit and loss statement: summarizes the expenses, revenue, cost of sales, and gross margin that a company incurred during a specified accounting period.

A balance sheet: provides a snapshot of what company owes and owns, such as liabilities, assets, and shareholder's equity.

A cash flow statement: summarizes the amount of cash and cash equivalents coming in and out of a business

## Financial planning and analysis

4

A sound business plan that includes meaningful financial projections is one of the most significant contributors to a startup's success. Financial planning and analysis (FP&A) go beyond the record-keeping and financial reporting of accounting by analyzing your business's financial statements and other financial and operational data.



# TAXES

Even in early stages, you will need to be mindful of tax considerations

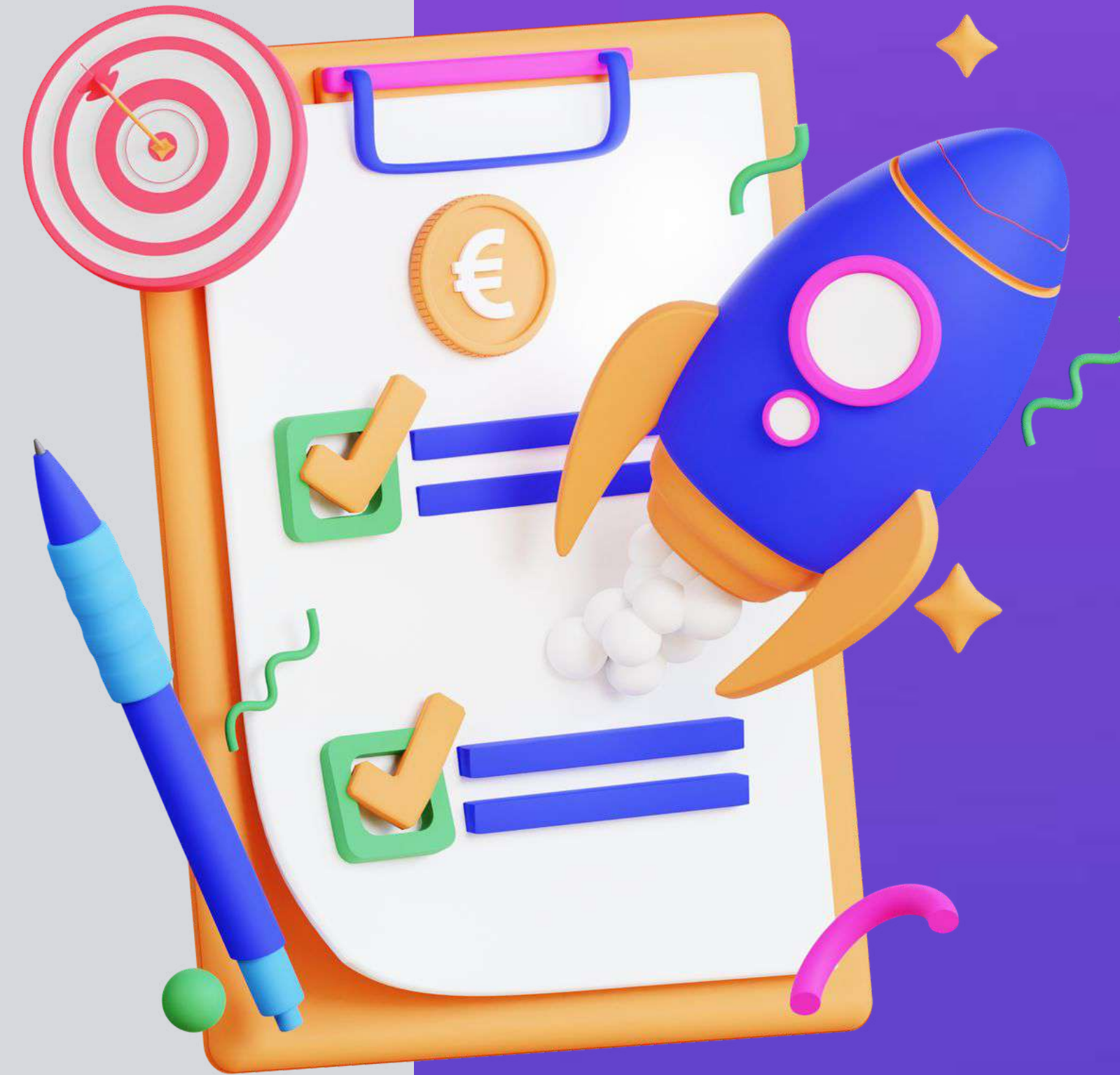
- Select correct legal entity for your company
- Understand federal, state and city tax obligations; regional fees and registrations
- Separate business and personal finances
- Deduct business expenses
- Pay quarterly taxes
- Stay on top of payroll taxes



# FINANCIAL REPORTING

Financial statements reveal important insights

- Financial statements
  - Profit and loss
  - Cash flow statements
  - Balance sheet
- Cash burn reporting
- Budget vs actual reporting



# TIPS AND TRICKS



Set up a low-cost, accrual-based accounting structure that can grow with you



Open business banking account



Separate personal and business expenses



Keep records of receipts and invoices



Be mindful of tax obligations



Collect payments



Build financial infrastructure



Clarify funding objectives



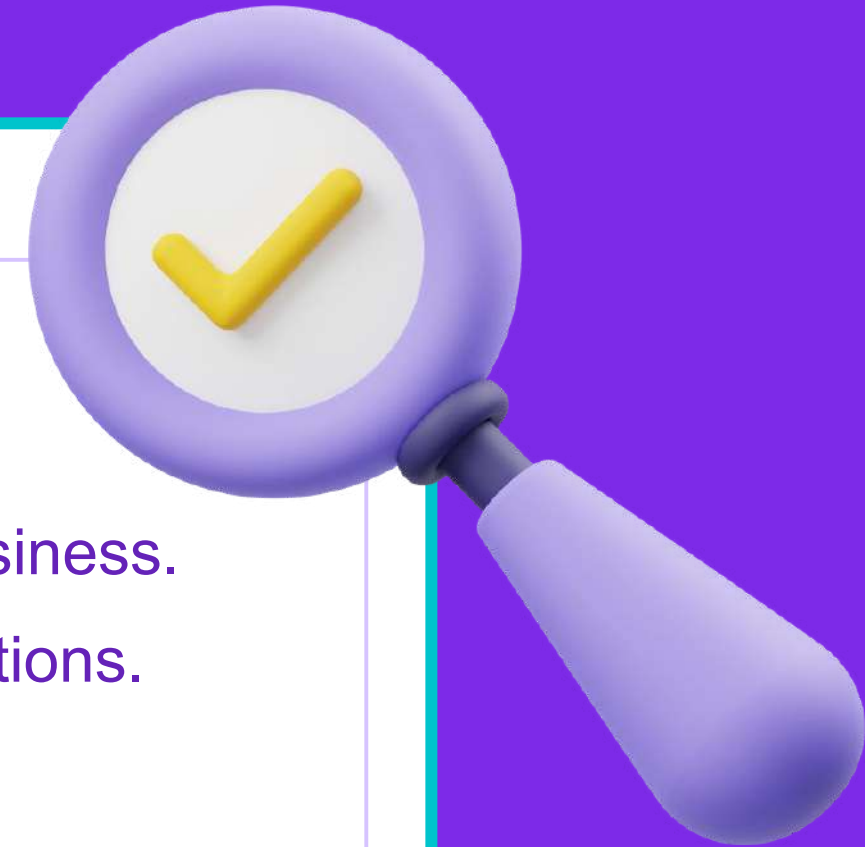
Manage cash-flow



Hire professionals to help your company become GAAP compliant (Generally Accepted Accounting Principals)



# Accounting terms matching quiz



a. Expenses

b. Revenues

c. Liabilities

d. Chart of Accounts

e. Drawing

f. Owner's Equity

g. Assets

h. Double entry  
system

i. Account

j. Transaction

\_\_\_\_\_ 1. Properties used in the operation of business.

\_\_\_\_\_ 2. Claims by creditors to the property (assets) of a business.

\_\_\_\_\_ 3. Owner's rights and claims to the property (assets) of a business.

\_\_\_\_\_ 4. Increases to owner's equity resulting from business operations.

\_\_\_\_\_ 5. A code of listing of all the accounts in the general ledger.

\_\_\_\_\_ 6. Decreases to owner's equity resulting from owner's withdrawals.

\_\_\_\_\_ 7. A financial event recorded in the books of a business.

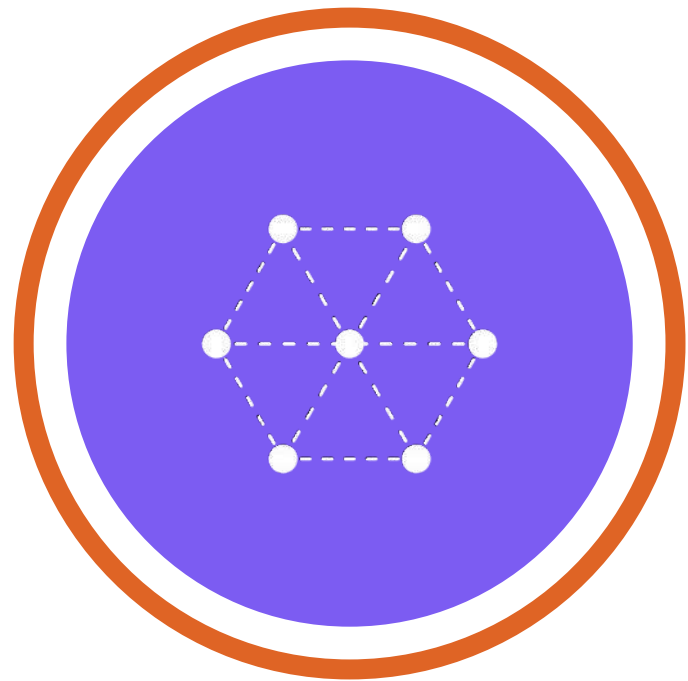
\_\_\_\_\_ 8. Every transaction is recorded in at least two places (accounts).

\_\_\_\_\_ 9. Record for each asset, liability, revenue, and expense.

\_\_\_\_\_ 10. The costs of operating a business and always decreases owner's  
equity

## Let's Practice!

# The steps that you can do first



Choose your  
Business  
entity



Open a  
Business Bank  
account



Choose an accounting  
system (Manual, Automated  
or an Enterprise Resource  
Planning /ERP)



Keep track of all your  
expenses



# CONCLUSION

1. Whether you need an accountant or a bookkeeper comes down to what your business needs most at its current stage.
2. If it's about staying on top of regular financial transactions and maintaining comprehensive records, a bookkeeper may be the right fit. However, should you need someone capable of providing a more in-depth analysis of your financial health and advice on financial strategy, an accountant could be the way to go.
3. If you need a combination of these aspects, look for an innovative solution that provides real-time financial insights, expert recommendations from financial controllers and automated bookkeeping. Access to up-to-date financial information provides greater visibility into your business operations. Also, it can significantly influence the effectiveness of your decisions and help you persuade stakeholders and investors of your stability.



# Your next Startup Accounting Steps

1. Learn the laws that apply to your business type, especially tax regulations. Not following them correctly can have severe penalties on the startup.
2. Set reminders for tax deadlines, so you have enough time to fill in the tax returns.
3. Get cloud-based accounting software to automate the process.
4. Create and stick to budgets, to know exactly where your cash goes.
5. Set financial goals and regularly analyze whether you're on the right track towards them.
6. Keep and hold on to all of your receipts and invoices. Keeping copies of transactions helps you balance your books more easily.
7. Don't pay any personal expenses with your business checking account. It will be recorded in your accounting as an owner's withdrawal.
8. Create a separate folder specifically for any legal agreements or financial statements of the startup (such as contracts, receipts, invoices).



# Any Question

