

Accounting Literacy

The Abridged Version for a Digital Age and the 21st Century

DRAFT as of 9/1/2021

CAUTION!

This book is a follow-on to our Bookkeeping Literacy book. Reading this without reading that first (or at least reading the summary to that in this book) could be very confusing to those with accounting experience who might wonder what on earth is happening to introductory Accounting Education.

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Introduction and Review

In Bookkeeping Literacy you learned the Art of Bookkeeping revolves around Recording and Categorizing Transactions Accurately in 1 Line Journals (except for the General Journal which is a multi-line journal).

- For recording accuracy, you learned about Statement Reconciliation processes when third party statements existed.
- For transaction categorization accuracy you discovered the Balance Sheet report serves as a cross check mechanism in healthy software

You discovered your 1 line journal data gets converted automatically into two data records in the General Ledger where it can be accessed by the software for two primary reports: 1) The Income Statement (aka the Net Income Statement) and 2) the Balance Sheet (aka the Comparative Net Worth Statement).

You learned there were Two broad categories of Accounting: Tax/Financial Accounting and Managerial/Cost Accounting.

- You understand Tax/Financial Accounting is what we are educating you on first and that's easy to recognize because our first goals are the Income Statement and the Balance Sheet
- You understand that Tax/Financial Accounting is done first and foremost for others like the IRS, Banks or Attorneys with benefits to you as well.
- You understand that Managerial/Cost Accounting, when done, is only done for your own reference

You learned there are 5 "Account Types" in Accounting represented by the Acronym ALEIE:

- Assets, Liabilities, Equity, Income and Expense

You learned the process for bookkeeping (for Tax/Financial Accounting) can initially be summed up via: 1) Review Prior work 2) Record Transactions Accurately 3) Categorize Transactions 4) Review the Income Statement 5) Review the Balance Sheet

And you realized you were able to learn all this with very little effort and no relevant stress.

That's that best part.

You have realized learning like this is just to familiarize yourself with tools that will come in handy so you can get on with the rest of your life with less regular stress can be simple and relaxing.

The Cliff Notes for this Book

Chapter 1 - The Three Slice Pie and the Six Box Model help with Accounting System understanding.

The three slice pie is a crude visual model for thinking about the relationship between payment inflows, payment outflows and accounting systems which may or may not record those transactions. The six box model is an expanded model with the same theory. Payment inflows and outflows are surrounded by Accounting Systems and the model helps delineate “Managerial / Cost Accounting” Systems from “Tax / Financial Accounting” Systems. The list of Subsystems on the right of the 6 Box Model really helps expand the theory into systems that people have likely heard referenced before. The Six Box Model is used by ZAP Accounting Software as a directory for their Template offerings so understanding it is important for navigating that website with greater ease.

Chapter 2 - The Bookkeeping Module discussed in the Bookkeeping Literacy is a part of Box 5 in the 6 Box Model.

Most people are surprised to realize that formal “bookkeeping” for tax and financial accounting is in fact done after the dust has settled on business transactions. The location of Box 5 in this diagram helps reinforce that concept. Single Entry vs Double Entry Accounting subsystems are reviewed. Double Entry accounting systems will have a General Ledger that you “should” have access to for viewing and they will be able to generate a Balance Sheet. Single Entry systems do NOT have a General Ledger and they will not have a Balance Sheet offering.

Chapter 3 - This chapter is only a page and it contains a blown up image of the 6 Box Model and the Accounting Sub System examples. It’s designed to emphasize the need to study and discuss all this information with others until the relationships and boundaries between systems starts to make more sense.

Chapter 4 - 1 Line Journals, The General Journal and the General Ledger are all reviewed again in a single Chapter to help with comparative clarity on what each is and does. The words all are similar but the functions of each of this is quite different and really learning what each does and getting this vocabulary correct is key to long term success.

Chapter 5 - The Chart of Accounts is “list of accounts” that make up the Accounting System. Most who have done transactions categorization prior are familiar with making up “Expense Categories”. A full chart of accounts has those along with a listing of all the accounts related to all 5 of the primary account types (Assets, Liabilities, Equity, Income and Expense). ZAP Accounting Software has defined a 6th Account Type they refer to as ZAP Special, which plays a key role in transparency for future accounting systems. What was previously done with “suspended expense accounts” should be done in an Account with a “ZAP Special Account Type” so that work is properly shown on the Balance Sheet. ZAP Accounting Software has extended their Chart of Accounts list with added information that makes that worksheet a “dashboard” for their accounting system. This may not be the norm in most other Software. Creating a Chart of Accounts from scratch is an option everyone has for each Accounting system they need, but unfortunately if you do it without the help of someone more experienced you can create a lot of confusion for yourself and others who attempt to help you.

Chapter 6 - Using “Creative Strategies” to create a Chart of Accounts really helps with creating a usable and friendly Accounting System. Small Businesses should use the Tax forms they are required to fill out for Tax time for the expense section of their Chart of Accounts. For personal accounting, ZAP

Software offers a unique strategy where your required expenses are listed first and your optional are listed second and within those two groups, you list your items by those with highest expenses to those with lowest.

Chapter 7 - Starting a New Software file for a new or existing company and getting everything configured properly for day to day use can be extremely complex for numerous reasons. This setup complexity is oftentimes used by professionals to scare you into buying their services, when in fact you could do the day to day work easily if you can get a good file setup by yourself or with the help of a professional. Lack of healthy User Understanding, Bloated Software, Software with limited functionality all lead to setup problems. ZAP Accounting Software is EXTREMELY well documented and it's open source, spreadsheet format eliminates a lot of confusion once you learn how it all flows together.

Chapter 8 - If you manage your own software and run into reconciliation problems, if you are using Quickbooks or other equally complex systems, you may have a terrible time finding someone more experienced who's willing to try to help you find errors. This will not make sense until you yourself have a reasonable amount of experience with accounting, you make errors and you try to track them down yourself. Once you realize how hard it can be to find your own errors, especially in systems other than ZAP Accounting Software, you'll realize why others don't want to hop into systems of others at all. That said, ZAP Accounting Software represents a Sea Change with regards to External Support for User Managed files with errors. The relatively simple data flow through the open source spreadsheet removes data corruption as a possible problem and the cross checking systems and drill down systems have been designed to enable quick support from others that is not available in any Database Driven system.

Chapter 9 - Everyone new to Bookkeeping and Accounting in a Digital Age will instantly believe a feature that allows for automated connections to banks is the first feature anyone should look for in a solution when the truth is 180 degrees from that. Many Bookkeepers and CPAs will NOT touch books that have an auto connection to banks. If that connection buprs or farts or if an account is removed by a bank for fraud, trying to square that all up can take 10 times as long as entering all the transactions would have. The risks of the automated systems far outweigh the rewards. Learning how to manually download transactions from your bank and learning how to import them into ZAP or any other software is the key to long term simplification of your bookkeeping process.

Chapter 10 - CPAs have a greater commitment to the IRS than they do their clients. Learning how to work with them in a healthy manner is critical for Small Business Success. The CPA to Client dynamic is not what most people imagine. Study this short chapter to gain greater clarity. A CPA for most is critical to your long term success as they, in many ways represent a type of insurance policy that assure you don't stray too far from the road.

Chapter 11 - Understanding an IRS Audit process is KEY to efficiently doing your bookkeeping and Accounting in a way that best benefits you. Most of you are not as remotely important or relevant to the IRS as you think you are. Nobody will come hunting for you unless you are egregiously out of line. Learn the rules, learn about grey areas. Learn about the risks and rewards of operating in gray area, make prudent choices with acceptable risks, and move on with your Business of Life

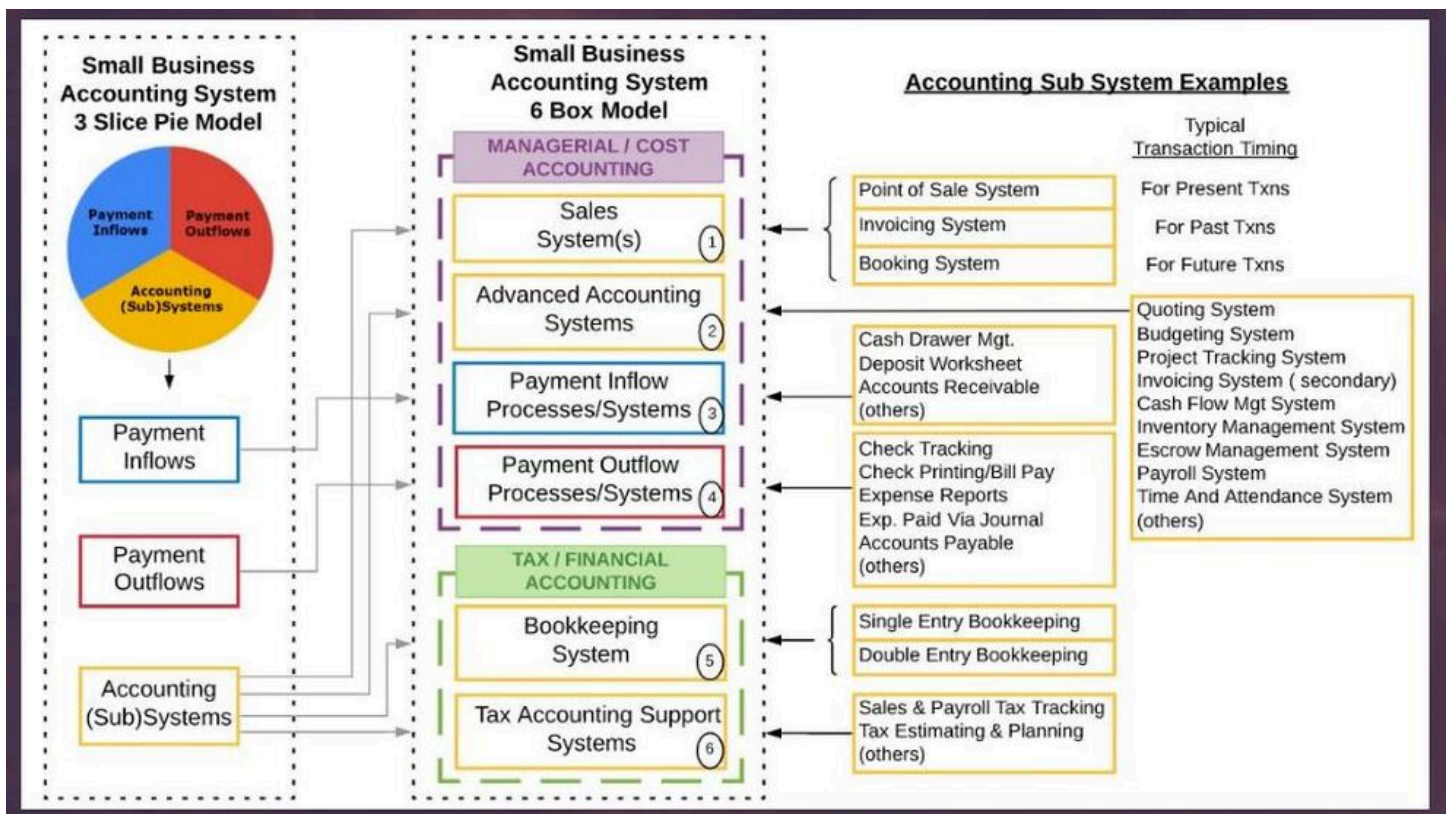
Chapter 12 - Debits and Credits are a system of recording transactions as absolute values which enabled long addition prior to the digital age. Other benefits of debits and credits included an aggregated cross check mechanism and a somewhat “clever” system that enabled easier score keeping. You have to understand Positive and Negative Value accounting to use debits and credits. And it’s in that sense that ZAP Accounting Software really starts to make more sense.

Chapter 13 - Global Accounting Systems are not all the same. This comes as a surprise to many folks. When accounting is broken down into the recording and categorizing of transactions along with some reporting, how much different can it really be? It’s believed the differences are relatively minor, but it’s apparent there are no universal standards right now, which does seem a bit odd. This chapter does not go into differences in detail. It just identifies the situation exists.

Chapter 1: The 3 Slice Pie and the Six Box Model

In Accounting Literacy, we are going to start with a graphic below that helps create an expanded view of Tax/Financial Accounting vs Managerial/Cost Accounting.

- Managerial/Cost Accounting has a purple dotted box around it with boxes 1, 2, 3 and 4 noted
- Tax/Financial Accounting has a green box around it and with boxes 5 and 6 noted
- Bookkeeping as you are being taught initially is all generally contained in Box 5, and we are covering a "double entry system" since we are including a General Ledger, where all your 1 Line Journal Entries are being converted to two records (aka double entry)



The Three Slice Pie

A Small Business Accounting System (or Household Accounting Systems) can be thought of as a three slice pie. They are:

- 1) Payment Inflows - Checks from work or benefits or subsidies. Income from selling illegal goods. Etc....
- 2) Payment Outflows - Rent, Utilities, Groceries, auto related expenses, drug purchased, etc..
- 3) Accounting (Sub)Systems - Tracking of the inflows and outflows (which you may or may NOT use)...

Note: Systems that are a part of other systems are technically “subsystems” but they are often times just referred to as “systems” too. Thus the reference to the “Accounting System” in the diagram name and the Accounting (sub)systems in the diagram.

In layman’s terms...

Money Comes In

Money Goes out

Money Gets tracked coming in and out to some degree or another (or maybe it doesn't)

Small Business Accounting System



The next page has the same diagram with arrows. That may help out.

The Three Slice Pie with Flow Arrows

There are three possible financial flows through a Small Business Accounting system. This model is not a perfect model. It's designed for conversation and thought but the arrows and flow aren't a perfect depiction of the message. The text below is needed to help this make sense.

Follow the arrows marked with a 1 below

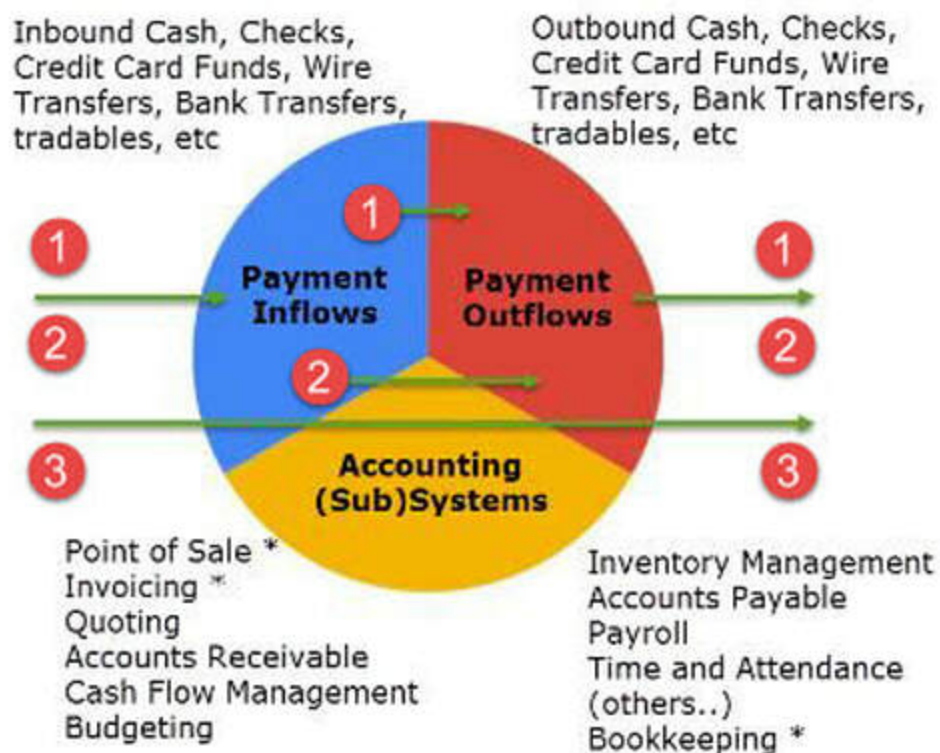
In this flow, the money comes in and goes out and it doesn't touch any accounting (sub)systems. This is a cash business, like small time drug dealing, for example AND no records are being kept at all. .

Follow the arrows marked with a 2 below

In this flow there is partial contact with accounting systems. This results in partially auditable accounting records, but it would be impossible to paint a full financial picture from those records.

Follow the arrows marked with a 2 below

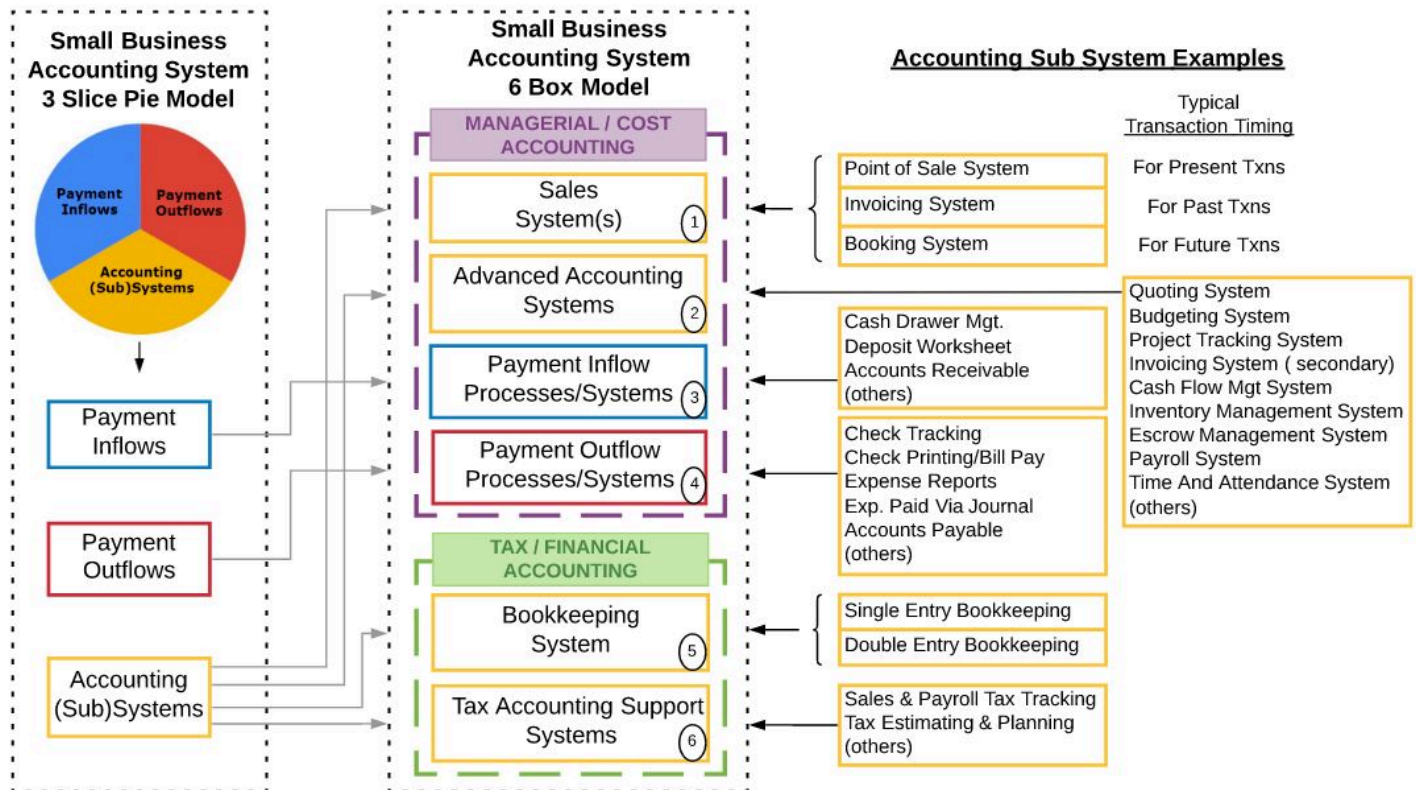
The third flow is a continuous flow that is always in contact with accounting sub systems in some way. This type of system is generally reconcilable in some form at all times.



!! You have to know the rules before you can learn how to break them properly with privacy !!

The Three Slice Pie morphs into the 6 Box Model

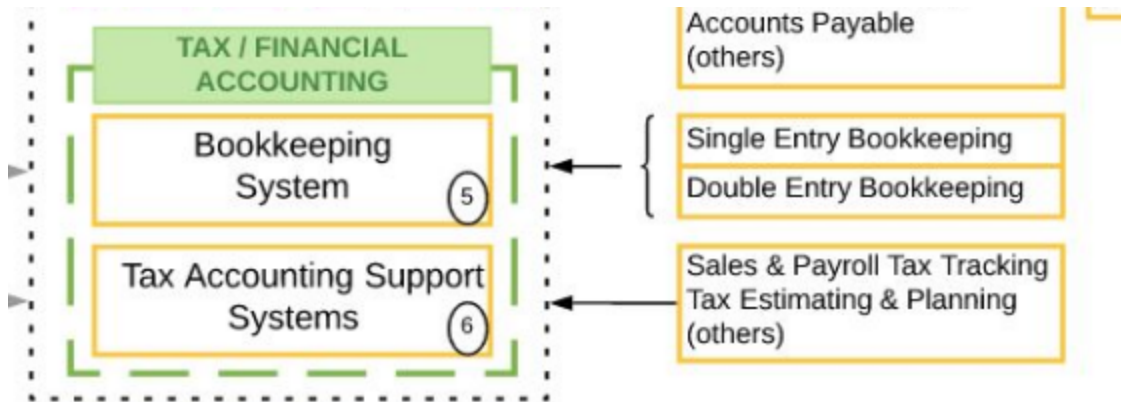
The 3 Slice Pie morphs into the 6 Box Model for greater resolution into Systems, Processes, and Software Modules. Note the separation between Managerial/Cost and Tax/Financial Accounting.



Managerial Accounting, also referred to as Cost Accounting is for yourself. Do it any way you'd like. Tax Accounting, also referred to as Financial Accounting, is done for others and it needs to be done with Generally Accepted Accounting Principles (GAAP).

Chapter 2 : Box 5 - Bookkeeping

Most may find it surprising that Bookkeeping, as we are teaching it and/or defining it formally for the specific act of Tax/Financial Accounting, is so low in the 6 Box Model (Box 5).



Bookkeeping for Tax/Financial Accounting is done in “arrears”, which means it’s done “after the fact”, which means it’s done after transactions have posted at the bank, for those that will post at the bank. (Cash transactions can be recorded immediately).

Q) But what about the idea of tracking transactions between the time they happened and the time they show up at the bank?

A) That is part of your “Cash Flow Management” process, and it is actually part of “Managerial Accounting”. It is not required. It is for your benefit only. It should NOT be done in your Bookkeeping Software because that is for “posted” transactions only (transactions that have “posted” at your bank).

Single Entry vs Double Entry Bookkeeping (Accounting)

Next to Box 5 you will see reference to single entry vs double entry bookkeeping.

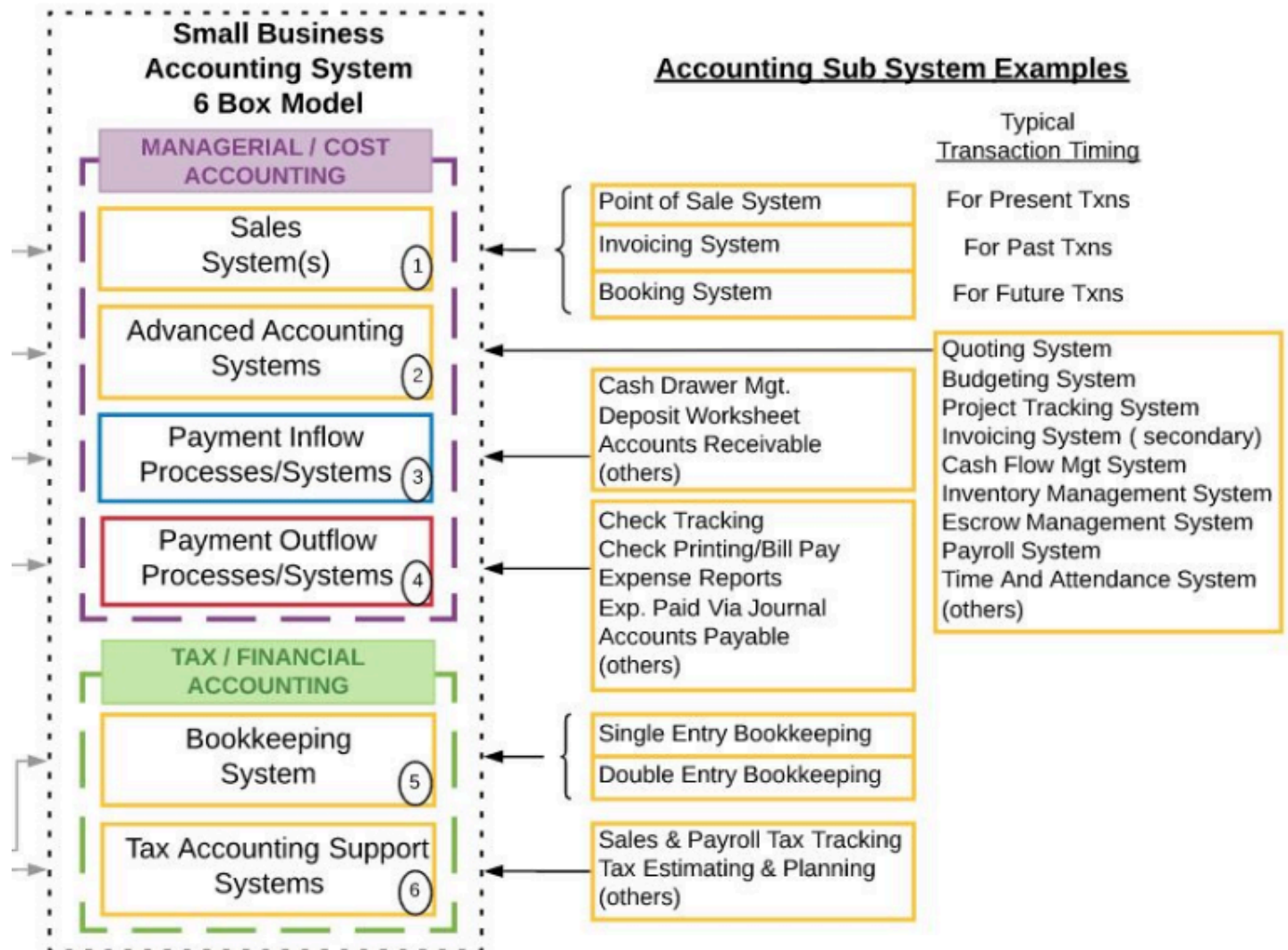
Single entry bookkeeping is when one record is created for a transaction and double entry bookkeeping is when two records are created for a transaction.

In the bookkeeping process we have described, you are actually doing single entry bookkeeping with the 1 line journals, but because you are doing it in ZAP Accounting Software, where these transactions are automatically projected into a General Ledger, you are in fact doing “double entry accounting” without having to do the more detailed work yourself.

Double Entry Accounting only exists if a General Ledger exists. If a General Ledger does not Exist, the system being used is NOT a Double Entry Accounting system.

Chapter 3 : Boxes 1 through 6 (a time for Thought and Conversation)

If you zoom out a little, and take in the entire 6 box model, with the accounting subsystem examples next to them you should be able to realize you are probably more familiar with accounting systems than you might have first realized. Or at very least, with this diagram and this list, you can kind of figure out how some systems you can think about might be categorized.



Chapter 4 : 1 Line Journals, The General Journal & the General Ledger

This chapter is being presented to provide you with a single place to help remind you of the roles and relationships between 1 Line Journals, The General Journal and the General Ledger. This is the place you'll learn the most about the General Journal in our curriculum.

1 Line Journals

A dedicated journal for each Checking, Savings or Credit card you want to track. You may also have an "informal" catch-all 1 line journal if you aren't tracking items in individual journals.

	A	B	C	D	E	G	H	I	J
7	Chk6677_				01/27/2017 >> \$36,178.33 271 transactions	John Doe Acupuncture			
8						Row Count:	ON	Running Bal:	ON
9	Post Date	Payor/Payee/Description	Amount	s	Acct2	Comment	txnID	Acct1	Row#
11									
13	1/4/2016	Monthly Fee for Business Fundamentals	-\$16.00		10_ Commissions and fees			1	Chk6677_ 13
14	1/4/2016	Herbs R Us	-\$418.63		36_ COGs-Resell Items			2	Chk6677_ 14
15	1/8/2016	Check 3449	-\$475.00		20b_ Rent - not equipment	Bob Smith, Landlord		3	Chk6677_ 15
16	1/11/2016	Check 3462	-\$1,200.00		20b_ Rent - not equipment	Stephanie's Properties		4	Chk6677_ 16

	A	B	C	D	E	G	H	I	J	K	L
7	ExpPaidVia				Current Balance: 12/06/2016 >> \$83.88	John Doe Acupuncture				Optional	
8						Row Count:	ON	Running Bal:	OFF		
9	Post Date	Payor/Payee/Description	Amount	s	Acct2	Comment	txnID	Acct1	Row#		Paid Via...
11											
14	1/5/2016	GOOGLE *Google Storage 8!	\$1.99		18_ Office Expenses			2	ExpPaidVia	14	personalCC
15	2/2/2016	GOOGLE *SVCSAPPS_johnl	\$5.00		18_ Office Expenses			3	ExpPaidVia	15	personalCC
16	2/6/2016	GOOGLE *Google Storage 8!	\$1.99		18_ Office Expenses			4	ExpPaidVia	16	personalCC
17	3/2/2016	GOOGLE *SVCSAPPS_johnl	\$5.00		18_ Office Expenses			5	ExpPaidVia	17	personalCC

The General Journal

It is in fact a "formal" catch all Journal for transactions that do not have dedicated journals. It is referred to as a "two line" or "multiline Journal" because each single transaction has to be entered with two (or more) lines of data just like you've seen transpire automatically in the General Ledger.

The reason two (or more) lines are needed is because you need to assign two different categories for each of the records since the journal itself is not associated with any single category (account).

	A	B	C	D	G	H	I	J	K	L	M	N	O
6	General Journal								JOHN DOE ACUPUNCTURE				
7	Next Journal Entry		2						Row Count:	ON	Debits/Credits:	OFF	
8	Post Date	Description	Account	Signed Amount	Acct Type	s	ZID	Comments	Journal Entry Id	Journal Ref	Row#	Link	
10													
11	12/3/2018	Inv Adju	Inventory	2500	Asset				1	GeneralJournal	11	view	
12	12/3/2018	Inv Adju	36_ COGs-Resell Items	-2200	COGS	s		NUTRITION	1	GeneralJournal	12	view	
13	12/3/2018	Inv Adju	36_ COGs-Resell Items	-300	COGS	s		HERBS	1	GeneralJournal	13	view	

This Journal is most relevant in small business for making “adjusting entries” to prior transactions entered. We are not going to get into this in detail in our literature. It is covered extensively in the ZAP Accounting software literature, but here’s an example that is common.

When items are purchased for resale with a check, they are recorded in the checking journal as “cost of goods sold”. That assumption means they were purchased and sold without ever being in inventory even though they went and sat on a shelf. It assumes they never sat on an inventory shelf for a moment. It’s just a shortcut for recording transactions.

At the end of the month, quarter or year, inventory is taken. Whatever is left of inventory is actually “adjusted out of ‘cost of goods sold’ account ” (an expense category) and “adjusted into ‘inventory’” an asset account.

Why didn’t they just enter it as “inventory” when purchased and then adjust to “goods sold”? Well, if the inventory turned over multiple times, they could not assess that from a final inventory count. They would need sales records for that. With this system no sales records are really required. Pretty clever, eh?

The idea of commerce as a “game” comes in handy again here. Shortcuts are used to keep the score keeping easy when purchasing inventory, but then there has to be a way to correct portions of those as needed and the General Journal is the journal where adjustments for accuracy are made.

The General Ledger

The General Ledger is where all 1 line journal entries and General Journal Entries are aggregated for the purposes of creating a single datatable that can be used (queried) for all reporting needs. Reminder: You will NEVER directly enter anything into the General Ledger. This all happens by itself.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
7	General Ledger										JOHN DOE ACUPUNCTURE			
8											Column Counter: ON	Debits/Credits: ON		
11	Post Date	Description Payor/Payee	Account	Signed Value	Debit	Credit	AcctType	s	ZID	Comments	TxnId	Journal	Row#	Link
12	1243	1243	1242	1242	620	622	1243	2	2	166	1243	1243		1243
13														
14														
35	1/4/2016	ROUND TABLE PIZZA	CC8899_	14.16		14.16	Liability				5	CC8899_	17	view
36	1/4/2016	ROUND TABLE PIZZA	24b_ Meals and Entertai	14.16	14.16		Expense				5	CC8899_	17	view
37	1/5/2016	GOOGLE *Google Storage ExpPaidVia		1.99		1.99	Liability				2	ExpPaid\	14	view
38	1/5/2016	GOOGLE *Google Storage 18_ Office Expenses		1.99	1.99		Expense				2	ExpPaid\	14	view
39	1/5/2016	TLG*PRIVGRD52XXX23J	CC8899_	14.99		14.99	Liability				6	CC8899_	18	view
40	1/5/2016	TLG*PRIVGRD52XXX23J	18_ Office Expenses	14.99	14.99		Expense				6	CC8899_	18	view
41	1/7/2016	Amazon.com	CC8899_	6.46		6.46	Liability				7	CC8899_	19	view
42	1/7/2016	Amazon.com	18_ Office Expenses	6.46	6.46		Expense				7	CC8899_	19	view
43	1/8/2016	Check 3449	Chk6677_	-475.00		475.00	Asset			Bob Smith,	3	Chk6677	15	view
44	1/8/2016	Check 3449	20b_ Rent - not equipme	475.00	475.00		Expense			Bob Smith,	3	Chk6677	15	view
45	1/8/2016	PURCHASE *FINANCE C	CC8899_	68.11		68.11	Liability				8	CC8899_	20	view
46	1/8/2016	PURCHASE *FINANCE C	16b_ interest not mortga	68.11	68.11		Expense				8	CC8899_	20	view

The Master Diagram for Data Flow

This diagram may make for a good reference for you.

This is a technical diagram that shows the real flow of Data in the ZAP Accounting Software Bookkeeping Module. The item to note is that your 1 line journals go through an intermediate table called a txnAggregator before projecting into the General Ledger. This is required to get the data prepared for the 1 row to two row conversion.

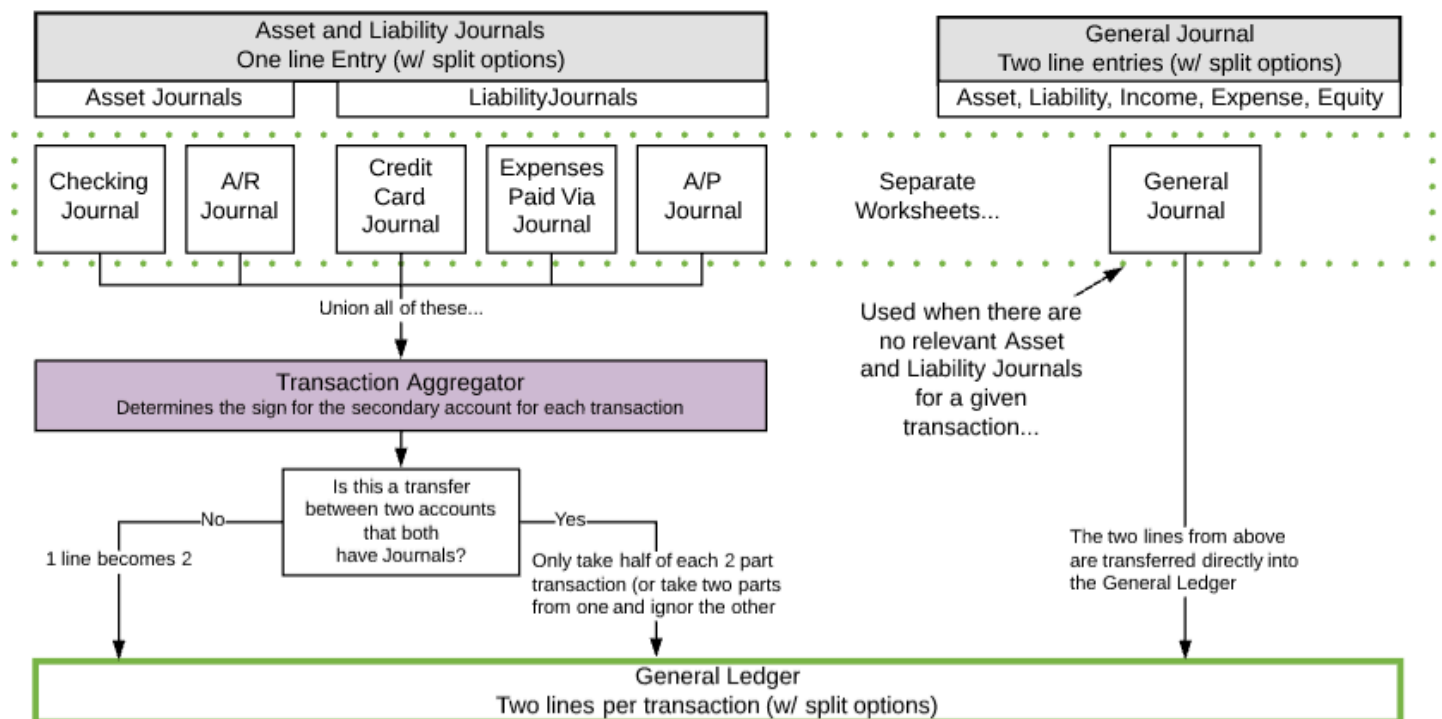
Your General Journal entries are just projected straight into the General Ledger since they are already two line (or multi-line) records.

This is NOT part of “accounting education” per say. This is part of software documentation but it actually should help with understanding how the Journals and the General Ledger are (or should be) related in any digital program.

ZAP Accounting Software

Box 5 - Bookkeeping Module

Journals to General Ledger Flow



Chapter 5: Chart of Accounts - Part 1

The “Chart of Accounts” is the list of all accounts in an accounting system.

From a “Game” perspective, and a view of the General Ledger only, it’s a list of all the categories that might apply to the records in the General Ledger.

Each Account in a Chart of Accounts will have an “Account Name” (or Account Label) and an “Account Type” associated with it.

Five Account Types

Remember, there are only FIVE account types in Accountnig. (ALEIE) Assets, Liabilities, Equity, Income and Expense.

You may see more, like “Cost of Goods Sold”, but all others are just “sub accounts” of the five key account types. Cost of Goods sold should really be noted as “Expense>Cost of Goods Sold” or something comparable.

ZAP Special (the 6th Account Type)

That said, ZAP Accounting software is introducing to the world a “sixth” account type they refer to as “ZAP Special”.

In Digital Accounting systems there are times when information needs to be added to a system or adjustments need to be made that were never really “categorized” in manual bookkeeping and accounting.

What all bookkeepers and accountants did was they created a “suspended expense account” that was used to bury these types of transactions. There are massive problems with the use of these accounts when trying to keep a balance sheet in balance and valid as the tool for cross-checking that it was always meant to be.

By creating a 6th account type instead of using a suspended expense account, the data dumped into this account can be more easily included on a Balance Sheet and transparency can finally be achieved for digital accounting in ways that has no existed prior to this adjustment.

	A	B
1	Chart of Accounts	
2	Account Info	
5	Account Name	Account Type
6		
7	Chk6677_	Asset
8	Chk0002_	Asset
9	Inventory	Asset
10	CC8899_	Liability
11	CC0002_	Liability
12	ExpPaidVia	Liability
13	Due to JD	Liability
14	Paid In Equity-JD	Equity
15	Owner Draw-JD	Equity
16	01_ Gross Receipts or Sales	Income
17	02_ Returns or Allowances	Income
18	08_ Advertising	Expense
19	09_ Car and truck expenses	Expense
20	10_ Commissions and fees	Expense
21	11_ Contract labor	Expense
22	12_ Depletion	Expense
23	13_ Depreciation	Expense
24	14_ Employee bene programs	Expense
25	15_ Insurance (other than health)	Expense
26	16a_ Interest mortgage	Expense
27	16b_ Interest not mortgage	Expense
28	17_ Legal and Professional ser	Expense
29	18_ Office Expenses	Expense
30	19_ Pension and Profit sharing	Expense
31	20a_ Rent - equipment	Expense
32	20b_ Rent - not equipment	Expense
33	21_ Repairs and Maintenance	Expense
34	22_ Supplies (not COGs)	Expense
35	23_ Taxes and licenses	Expense
36	24a_ Travel	Expense
37	24b_ Meals and Entertainment	Expense
38	25_ Utilities	Expense
39	26_ Wages	Expense
40	27a_ Other Expenses	Expense
41	36_ COGs-Resell Items	COGS
42	37_ COGs-Labor Cost	COGS
43	38_ COGs-Materials and Supp	COGS
44	39_ COGs-Other Costs	COGS
45	39_ COGs-Other-Subcontracto	COGS
46	39_ COGs-Other-Equipment R	COGS
47	99_ reimbursable	Expense
48	99_ expenseToBeCategorized	Expense
49	99_ opening_balance	ZAPSpecial
50	99_ ZAPSpecial_transfer	ZAPSpecial
51	99_ ZAPSpecial_adjust	ZAPSpecial
52	99_ ZAPSpecial_exclude	ZAPSpecial

For most, we just progressed way past something that you will be able to understand on your first or second read. Just keep your eyes and ears open when it comes time to reiving the Balance Sheet. You will notice a “ZAP Special” account listed in the incremental part of the Balance Sheet and you will see this used in “open balance” records first and once you put those two bits of information together you will get a glimpse of what these are about and why they were necessary for creating more transparent digital accounting systems.

Chart of Accounts as a Dashboard

ZAP Accounting Software decided to extend their Chart of Accounts table to turn it into a “dashboard” for their software. This is not typical in all Accounting Software. This was a software design choice that makes their system more compact than a lot of other systems.

	A	B	H	I	J	K	L	M	N	O	P	Q	R	S	T	
1	Chart of Accounts													John Doe Acupuncture		
2	Account Info		Bank Statments		Journal Info via the General Ledger		Journal info via Txn Aggregator									
5	Account Name	Account Type	Goto Journal	Last Stmt Date	Last Stmt End Balance	Txn Count	Un- Cat	Current Balance	Last Txn Date	Txn Count	Un- Cat	Current Balance*	Last Txn Date	Comments		
6									-				-			
7	Chk6677_	Asset	view	1/31/2017	\$36,178.33	271	1	\$36,178.33	1/27/2017	271	1	36,178.33	1/27/2017			
8	Chk0002_	Asset	view			0	0	\$0.00	--	0	0	0.00	--			
9	Inventory	Asset														
10	CC8899_	Liability	view	1/9/2017	\$12,072.31	337	0	\$12,072.31	1/7/2017	337	0	12,072.31	1/7/2017			
11	CC0002_	Liability	view			0	0	\$0.00	--	0	0	0.00	--			
12	ExpPaidVia	Liability	view			25	0	\$83.88	12/6/2016	25	0	83.88	12/6/2016	Company expenses paid with non-company		
13	Due to JD	Liability														
14	Paid In Equity-JD	Equity														
15	Owner Draw-JD	Equity														
16	01_ Gross Receipts or Sales	Income						\$155,500.60				155,500.60				
17	02_ Returns or Allowances	Income						-\$931.20				-931.20				
18	08_ Advertising	Expense						\$0.00				0.00				
19	09_ Car and truck expenses	Expense						\$0.00				0.00				
20	10_ Commissions and fees	Expense														
21	11_ Contract labor	Expense														

Creating a Chart of Accounts from Scratch creates an opportunity for Confusion

One of the most confusing aspects of setting up an Accounting System for a novice comes when the instructors tell the students they can “make up” whatever accounts they want in the Chart of Accounts. A blank look typically comes across everyone’s face because they don’t know where to start.

Assets - You will have one account for each Savings and Checking Account. That’s where you start. You may end up having accounts for goods with value, but you’ll learn more about that later.

Liabilities - You will have one for each credit card or loan you have outstanding. You should also have one for referred to as a “Due to OwnerX” account for each owner of the business. That allows the owner to lend money to the business with the expectation he or she may take that money out later tax free. Start there. You will learn more about Due to Accounts later.

Equity - You will have a “Paid in Equity” for each owner of the business. This often times will only have the very first deposit the owner made into the business to start it up and that amount might only be a token amount of money like \$10 or \$100. NOTE: This is a bit dogmatic. There is more dialogue on this at ZAP Accounting Software.

Income - Many of you will only have one income account. Others will want to track the nature of the income. A very smart strategy for small business owners is to use the exact categories required by the IRS for your company.

Expenses - A very smart strategy for small business owners is to use the exact categories required by the IRS for your business type. If you are doing this for personal accounting creating a list that works for you but doesn't have a lot of overlap and is not too long is the key to creating a system that is enjoyable to use versus one that you confuse yourself with.

Takeaway: There is typically too much freedom and a a lot more nuance to setting up a Chart of Accoutns from scratch that works. If you are setting up an accounting system, try to find a Chart of Accounts used by someone else that seems to work well and copy it to get going. Then make small changes until you get it to teh something that works for you.

Chapter 6: Chart of Accounts - Part 2 - Strategies

Small Business

Alluded to in Chapter 5, there is a very good strategy that should be considered for Small Businesses.

Use the tax form you have to fill out for you IRS reporting to define the income and expense section of the chart of accounts. Use the line numbers from that form and the names from that form.

This will dramatically simplify your bookkeeping for Tax Accounting.

If there is not enough delineation in expenses you can add some with some systems suggested by ZAP Accounting software or you can create a second set of books with an entirely different chart of accounts for your own use. The idea of creating a second set of books may sound daunting or burdensome, but its is not at all in practice. It is in fact easier than over complicating a single file.

Personal Accounting

ZAP accounting software provides a sample chart of Accounts for personal accounting that is extremely unique. Each expense account starts out with a 'required or optional notation and you order the items required first, then optional and in the order of the generally largest expense item to the smallest. This is worth reviewing and considering .

Coming up with good "strategies" to keep Charts of Accounts as short as possible with as little overlap in "accounts" (categories) as possible is key to your bookkeeping and accounting success.

Chapter 7: The FIRST HARDEST part - Software Starts..

Here's a secret that you need to know most now.

Starting up a new software file for a new company, an existing company or the tracking of your own household finances in any software system is the HARDEST part of Bookkeeping and Accounting these days.

Doing the work after a file is properly setup is truly a matter of a tiny amount of education. 30 minutes or less and likely more like 10 minutes or less if you have become literate first.

Why is starting a new software file so difficult?

There are actually numerous reasons we'll cover below...

Why do you need to understand this completely now vs later?

Professional CPA's and Bookkeeping Companies know this and less scrupulous ones use this to "scare you away from" doing your own bookkeeping.

Don't let the setup process scare you away. It's a one time process. It may be a little difficult but pay for help if needed and then do your own bookkeeping until you know how to do it by heart. If at that point it makes sense to sub it out, you are knowledgeable enough to manage the work of others.

Software Starts are the most difficult part of Accounting and Bookkeeping these days because...

User Understanding

- If you don't understand the five primary account types and apply those to your accounts properly, that will cause problems.
- If you don't realize how important it is to create a simple and manageable Chart of Accounts with little account overlap, that will cause major problems
- If you didn't realize you MUST use the post dates for the transactions as opposed to the transaction dates for aggregated reconciliation and Balance Sheet cross checking benefits that is a MASSIVE problem
- If you weren't starting with a new company with zero transactions or the full and complete account history for each account, there are TRICKS you must know about to enter partial historical data properly so as to get what you need without throwing the cross checking systems off balance from day one. NOTE: The ZAP Special Account type was created to address this

The Market Leading Double Entry Software, "Quickbooks" offered by Intuit is Bloated and encourages Managerial Account first, instead of Tax/Financial Accounting and that causes huge confusion

- The software itself is "bloated". It has too many minor features that most don't need and it's hard to figure out what is needed for basic use.

- The software uses terminology related to vendors and customers that is Managerial Accounting related and it creates massive confusion for many who don't have those types of business stakeholders or those who realize that information is not desirable in the books for a solution that is strictly for Tax Accounting solution.

A lot of Software seems to have been designed NOT to compete with the “market leader”, Intuit

Intuit, the creator of Quickbooks, owns 80-90% of the marketplace in a clear, monopolistic fashion. They have held this position since the mid 1990s with no push back from commercial regulators.

Most vendors realized competing against them head-to-head for the consumer market was fruitless. In an effort to differentiate themselves, they tried to do things that were wonky or they tried to omit pieces and parts that would be common to double entry accounting systems.

Doing so they created lesser systems that were easy to setup if your scenario fit, but if it didn't, they got confusing or unusable quickly.

A lot of Software is not Double Entry Accounting Software

The majority of the vendors out there use to feel you didn't have the capacity to understand things like debits, credits, the General Journal or the General Ledger, so they created shortcut systems for easier use.

Some created “digital check book registers” without debits and a credits at all, but also without a General Ledger or the other Account types critical for full and proper bookkeeping for a small business.

Without all the proper pieces in play on the front end and/or the backend, the users invariably ran into simple situations that they realized the software couldn't handle and they instantly had to try to figure out or use suggested “work arounds” that would not be required in a fully functional package.

The ZAP Accounting Software Bookkeeping Template Setup has many Steps, but it is EXTREMELY WELL DOCUMENTED...

ZAP Accounting Software's Bookkeeping Template was initially designed for an easier setup with only one google sheet template that was fully self contained. Their current solution requires the download of that template along with a separate scripting module file that needs to be connected to it through a simple but many step process.

They chose to do this because that separate scripting file contains universal scripts that apply to many of their accounting templates, and using a single “scripting library” like this is the proper and efficient way to manage that type of universal code.

Beyond that unusual part of the setup process, you will likely find ZAP Accounting Software's Bookkeeping Template to be the easiest of all the full double entry software programs to configure. This is due to 1) the design itself and 2) the level of documentation and support provided by the vendor for free.

Chapter 8: The SECOND HARDEST PART - Troubleshooting Reconciliation and Trial Balance Errors in Software managed by others

For those that figure out they can save money by paying for setup support and then running their own books, congratulations.

However, if ever comes the time where you get something out of balance and you can't find the problem yourself in Systems other than ZAP Accounting Software, good luck with finding any CPA or Bookkeeper who will be willing to help out without telling you they will just take your data and start over with all the categorization.

Does this sound odd to you?

It may if you haven't had the experience yourself, and if you don't understand just how difficult and troublesome corrupt data can be to find in database driven systems.

The ZAP Accounting Software Bookkeeping Template represents a Sea Change in External Support for User Managed Files with errors

ZAP Accounting Software's Bookkeeping Template was specifically designed to enable a level of collaborative support that can not be found in any other systems at this time.

This benefit is the result of MANY, SIGNIFICANT differences between ZAP :

1. The selection of spreadsheet platform instead of a database platform
2. The use of Aggregated Reconciliation as is done by IRS Auditors and CPAs for rapid assessments of income and expenses
3. The reimagination of an Income Statement to include owner draws as a side report.
4. The reimbursement of the Income Statement to include a drop down that quickly toggles between that a cash flow statement and an all accounts statement for quick and easy comparative understanding.
5. The creation of a 6th Account Type
6. The reimagination of a Balance Sheet to include the the 6th Account Type
7. The reimagination of a Balance Sheet to show all detailed items in teh comparative section as opposed to summary information
8. The reimagination of the Balance Sheet that exposes the start and end dates for the comparative section as part of every line item
9. The reimagination of the Balance Sheet with very fast step through process for finding mibalances and the drill down process to view the details with a single click and no major screen refreshes.
10. And more...

This OLD, MANUAL ART of bookkeeping needed to be totally rethought for the digital age.

The idea that databases were the right platform vs spreadsheets for individuals and small businesses was a fallacy, but it was the only platform that allowed for “profitable solutions”.

The ZAP Accounting Software Solution is truly unique in more than just a few ways with long term benefits for both users and those who support them that create a truly new playing field for collaboration.

Chapter 9: The THIRD HARDEST PART - Understanding why automated downloads are NOT ideal...

In the Digital Age, it only makes sense to take advantage of fully automated downloads.

If these systems were so good, why is it that most professional Bookkeepers and CPAs manually enter data?

There are two major problems with fully automated download systems:

1. Technology Burps - Technology is not perfect. It burps. When these burbs happen with Accounting data, recovering with a database driven software system can take hours or days. In rare cases, if it's not caught right away and happens a few times, you may have to go back and start over for a given account or a given file. In the long run, the risk due to this is not worth it to Bookkeepers or CPAs.
2. Compromised Accounts - When Credit Cards and Checking accounts are compromised, there are various ways that banks change that information. Sometimes account numbers change on the front end but the back end is the same account. Other times they change the accounts entirely. Once the account is removed from your visible access, the feeds stop and sometimes all the data you wanted or needed was not complete.

Manual Download and Import

There is at least one, and likely several videos on youtube where Quickbooks Centric Bookkeepers and CPAs talk about manually downloading your data in Comma Separated Value Format (spreadsheet format) for entry into Quickbooks.

Q) If you professionals are going to suggest doing that, why not just keep going in spreadsheets and drop the more expensive more complex database systems to start with?

A) Until ZAP Accounting Software, there was not full double entry solution in Spreadsheets to continue on with...

You are at the crest of a new frontier. The smooth and sexy looking stuff has been shown to be more costly and more problematic than the free spreadsheet systems.

Chapter 10: The Proper Way to Work with a CPA

Legal and Professionally, CPAs have a greater commitment to the IRS than they do to paying clients.

CPAs are NOT individuals you want to ask questions to about cheating on your taxes. CPAs are really an Agent for the IRS who makes money by helping you try to minimize your taxable income within the very complex set of rules that define the US Tax code.

It is our opinion that anyone with a small business or a complex household should work with an “affordable” and “sincere” CPA for their Tax Filing needs. For a single simple business and simple return that service can start around \$400 for the year/return.

If you present your Income Statement and your Balance Sheet to a CPA without any glaring problems or errors the CPAs job is to convert that information into reporting for your Taxes and inform you of your tax burden or refund due.

The CPA's job is NOT to audit you or review your books item by item.

This is both good and bad. Take it for what it's worth.

If you cheat profusely but your Income Statement and Balance sheet look okay.

If and when an audit comes, do NOT expect your CPA to stand up for you because he/she prepared your taxes. They did not do your books. They were not aware of what you did under the hood and most will, with good reason, allow you to be run over by the bus.

In the event of an Audit, having a CPA who you have a personal relationship is key. You NEVER want to be working with the IRS directly. You should always have a CPA as your agent, and preferably one who has some level of experience with the IRS.

If you ever find a time when you are having problems with the IRS and your CPA does not seem to be providing adequate and reasonable agency for you, seek out other CPAs.

Chapter 11: Understanding an IRS Audit

The chances of you being audited are likely far lower than you think if you “try to do things generally by the book”.

Most simply aren't that important to the IRS and most don't offer the IRS enough money making potential to make investigating you make sense financially.

The idea that an auditor is going to want to see every receipt and get an explanation for every transaction if you “tried to do things generally by the book” is severely flawed.

An Auditor can not tell if many goods you say were purchased for a business were legitimate, and they aren't going to chase you for that unless you are amazingly egregious.

An Auditor can not tell if all your meals were really business meals, and they aren't going to chase you for that unless you are amazingly egregious.

First and foremost, Auditors are looking for an amazing level of egregiousness and for most that starts with a basic and interesting aggregated check of business checking account statements (assuming you have dedicated accounts).

Step 1 - Use 12 months checking account statements for initial review.

1. Add up all deposits for each month and assume those were all income.
2. Add up all withdrawals (purchases, transfers to pay off credit cards and owner draws) and assume they are all expenses (even though owner draws are not)
3. Subtract theoretical expenses from theoretical income and that is the first swing at a ball park estimate for taxable income before statutory deductions.

IF YOU PASS THIS TEST, the chances of the auditor diggin deeper are slim. It would only be because you have one of about 20 defined expense categories grossly out of whack as compared to their view on industry standards.

IF YOU USE ZAP ACCOUNTING SOFTWARE, THE STATEMENTS WORKSHEET REQUIRES THE EXACT SAME DATA AN AUDITOR WOULD USE FOR STEP 1 OF YOUR AUDIT. IF THAT IS ALL IN BALANCE AND YOUR BALANCE SHEET IS IN BALANCE, AND YOU HAVEN'T GONE OVERBOARD TO A FULLY ILLOGICAL LEVEL ON ANY GIVEN EXPENSE ITEM, YOU ARE LIKELY GOING TO BE JUST FINE...

Understanding how inventory needs to be accounted for is an item that is important to handle properly. That is represented on your tax return and that is an item that does not get handled properly by many. An inquiry by an auditor into those records could turn up problems, so just learn the proper way to handle that too.

Chapter 12: Debits and Credits

The Debits and Credits system is a way to use “absolute values” only when recording numbers from transactions.

As with most words in the current accounting vocabulary these are confusing. This would have been easier if the words had been something like “quirks” and “quarks” or “bees” and “cees”.

The problems with these terms alone is that we are more used to hearing these terms associated with a “credit card” and a “debit card” and the mind wants to associate a one to one with those when in fact both cards incur both debits and credits depending on which way money is flowing. Likewise the term Debit is close to Debt, but there is ZERO correlation between the two. The confusing vocabulary simply sucks and it's hard to fathom this confusion happened naturally. .

Confusing vocabulary aside, there were several benefits of a system with absolute values and two columns prior to computers.

1. Long Addition - without negative values expressed in teh same column as positive, long addition could be used on both columns and then totals could be subtracted from each other with simple subtraction. It made the math easy.
2. Clever Scorekeeping System - When you buy office supplies with a credit card, the balance on the card goes up (a credit) and the office supply account is a “debit” for the amount purchased. When you buy office supplies ith a debit card, the balance in the checking account goes down (a credit) and the office supply account is a “debit”. Humm... independent of whether an Asset or Liability account is used which have opposing effects on their respective account balances, an increase in office supplies is always a debit. And if I ever wanted to know how much I spent on office supplies I could just look at all debits for office supplies no matter which form or payment was made...
3. Aggregated Crosschecking System - When different journals fed into different ledgers and T Accounts, information was dispersed across different paper records. In such cases a cursory check for total debits or total credits in one area should have matched a cursory check of those in others with out a line by line audit.

In the Digital Age, when Debits and Credits are omitted from data entry, especially when learning bookkeeping and accounting the Educational process is 1/10th as difficult. It just makes sense to leave them out. The interesting part comes about when you can see exactly what they do and how they work on the back end of open sourced software and you realize with software, most needing basic or intermediate accounting systems can likey go without them on the front end but still benefit from full double entry accounting (with or without them) on the back end , and that's where the world of Accounting really starts to shift due to technology.

A comparison to show the Absolute Value System of Debits and Credits vs a Positive-Negative Value System

In the case of a credit card, if a transaction increases the balance on the card (a purchase) that is considered a “credit” transaction and the amount is recorded as a POSITIVE CREDIT. If an item purchased with a credit card is returned, the credit card balance goes down. That negative transaction as it relates to the balance of the card is recorded as a POSITIVE DEBIT.

Credit Card Example

Debits and Credits				Positive/Negative Values		
	Credit	Debit	Balance		Amount	Balance
Starting Balance	100		100		100	100
Purchase	20		120		20	120
Purchase	10		130		10	130
Return		5	125		-5	125
Total	130	5			125	

Total Credits - Total Debits = Running Balance
130 - 5 = 125

No CrossChecking System
other than a running balance

NOTE: The fact that Credit is associated with a Credit Card increase is arbitrary. It's just the way the system was designed. It could have been all reversed 180 degrees and it would all still work the same. "Credit" in this situation is just a word with no association with "having credit".

A Table for Debits and Credits

Everyone new to Accounting with Debits and Credits will use some type of memory tool or table for cross referencing increases or decreases of an account with the term debit or credit.

For "me", my memory cornerstone starts with one set of facts:

- I remember that a credit card is a type of Liability Account (one of the 5 core account types)
- An increase to that account, which is a purchase, is a "credit" as opposed to a "debit".
- Whatever items were purchased are categorized as an expense of some sort, and they are recorded as a "credit" because for each single transaction there are two records, and each set of records has offsetting debits and credits.
- I remember that all liabilities will behave this way. I remember that all expenses will behave this way.
- I remember that all Assets are the opposite of Liabilities. An increase to an asset account is a "debit" vs a credit and a decrease is a credit













With this bulleted mind map above, which admittedly takes a bit to remember if you aren't used to any of this, I can fill out this table from scratch each time if I don't have it handy.

TIP: Keep the table below handy and you don't have to remember anything...

The SIGN in the table represents the effect the transaction has on the account balance, so in fact to use Debits and Credits you have to DO positive / negative value analysis first and then convert it...

Account Type	Debit	Credit
Asset (Checking, for Example)	+	-
Liability (Credit Card, for example)	-	+
Equity (Paid in Equity for example)	-	+
Income (Revenues from sales for example)	-	+
Expense Office supplies for example (& COGs -- items purchase for resale for example)	+	-

Here is a table from another resource that conveys the same information...

Assets		Liabilities	
			
Debit for Increases +	Credit for Decreases -	Debit for Decreases -	Credit for Increases +
Owner Investment		Revenues	
			
Debit for Decreases -	Credit for Increases +	Debit for Decreases -	Credit for Increases +
AccountingForDummies.net			
Expenses		Owner Withdrawal	
			
Debit for Increases +	Credit for Decreases -	Debit for Increases +	Credit for Decreases -

For clarity. When using a digital system setup for Positive and Negative values that has debits and credits on the back end you can choose to learn this information with a lot less stress.

Chapter 13: Global Accounting Systems Vary (!?)

This may come as a bit of a surprise to some people. If Bookkeeping is only recording and categorizing transactions, along with generating reports that seem relevant and logical, it would stand that it should be a universal system, yes?

What could be different? This is a self study for those who are interested. We don't even know for sure at this time, we just find it interesting that there seemingly is no universal standard for something that seemingly should have had one a long time ago.

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Generally accepted accounting principles, formally designated in the United States as GAAP, vary from country-to-country, and **no** universally accepted accounting recording and publishing system currently exists.

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