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**MYOB**  
**Accounting 101**



*For Mac Users*

**Written by:**  
Todd Salkovitz  
*Macintosh Product Manager*  
*MYOB Ltd.*  
2009 USA Edition

Like all small business owners, you went into business with a dream: to sell your unique product or services and make a living for you, your family, and your employees. And, you wanted to use a Mac. As your business grows 'beyond the checkbook,' your record keeping, reporting, and compliance needs will also increase. You have customers to track, suppliers to pay, sales to record, and a full set of accounts to maintain. You probably also have an accountant who is preparing your taxes for you and your growing business.

But now you find yourself spending more time keeping your books than keeping your customers happy. You understand the importance of having accurate books, but you have a lot of demands on your time, so accounting and record keeping never seem to get the time they require. Further, you willingly skipped all those high school and college accounting courses, figuring you weren't "going to be an accountant anyway." Well, surprise! Not only are you an accountant, you are a lawyer, a shipping clerk, a customer service rep and more – all in the pursuit of your dream.

So what can you do to make this work? The first step is to understand what all those accounting terms mean and how they all fit together. At the end of this booklet is a glossary of all the relevant accounting terms that will help you understand the science of accounting. Much like computers, understanding the terminology will help you understand their meaning and their relevance to you and, more importantly, help you analyze and run your small business.

Before we go any further, keep this in mind: **you don't have to be an accountant to run MYOB.** All too often small business owners use this line to shun doing any type of record keeping (and therefore, business management), to their own detriment. The reality is, I'm not a mechanic, but I can drive my car. I'm also not a plumber, but I can fix a running toilet and I'm certainly not a doctor, but I can put a band-aid on my kids' bumps and bruises. All it takes is the will to succeed and the desire to run a successful operation. And that's the bottom line. Will it be easy? I wish I could say yes. Will it be frustrating? I wish I could say no. Will it be invaluable to your business and your long-term success? You bet! While our goal here is to help you understand the basic concepts of accounting, one of the great things about MYOB software is that it does all the debits and credits for you. OK, so I mentioned debits and credits, don't freak out yet, read on...

## ■ Your Daily Life

First, let's start with an overview of how accounting fits into your daily life. Quite simply, every transaction you make results in an entry into your "books." Whether it is a receipt of cash, a sale, a check you've written or a deposit from a customer – every transaction gets recorded in your books at some point. The timeliness and accuracy of when and how you record your transaction directly affects your ability to manage your business and your cash flow. Aside from the obvious compliance issues like payroll or taxes, we 'do' accounting to allow us to see how our business is doing. It helps you record your transactions and interpret their impact using standard reports designed to help manage your operations.

If you think your business is "checkbook-centric," remember that there are plenty of transactions that do not involve cash that should be recorded in your books. Anything that affects the things you own (assets) like repairs or purchases, all require a transaction. Anything that affects what you owe (liabilities) like sales taxes or payroll taxes requires a transaction to be recorded. Anything that affects sales (revenue), like an invoice or a product return needs to be recorded. And, as you no doubt already know, all your supplier bills (expenses) are recorded when paid. Just because cash is not exchanged does not mean there are no entries to record. For example, you might sell items or services on credit. In this example, you record the sales when your invoice is issued, and then subsequently record the cash receipt when your customer pays you.

## ■ Cash vs. Accrual Accounting

Simply put, cash-based accounting recognizes revenue and expenses when cash is received or paid. In our simple example above, your revenue would be recognized when you receive payment from your customer – not when you invoice them. Conversely, expenses would be recognized when cash is disbursed – not when the bill is received. Businesses that start out using a checkbook-centric method of recording cash are basically using a cash-based system.

For some small businesses, a hybrid system works best and can be explained something like this: Revenue is recorded when invoiced so you have the ability to track receivables. Expenses are recorded when bills are paid. In effect, you are using accrual-based accounting for revenue recognition (because you need to track sales and customers accounts) and you use cash-based accounting for recognizing expenses (simply writing a check).

In the end, your accountant will make the necessary adjustments in order to prepare and file your tax returns. They will take your hybrid system and adjust it to reflect cash-based or accrual-based numbers. What that means is that they adjust your 'accrued' balances back to zero as if the transactions never happened. If you have an accounts

receivable balance reflecting \$2,500 in sales you've not been paid for, your accountant will make an adjustment to reduce accounts receivable by \$2,500 and reduce sales by the same amount, as if it never happened. In the world of cash-based accounting, technically, those sales aren't recorded until cash changes hands. The same idea applies to accounts payable (by adjusting the amounts posted to each asset or expense, for example).

For companies that use accrual accounting, their system can be explained something like this: An invoice is generated for goods and services, increasing sales and creating an accounts receivable record. When the customer pays you another transaction is recorded increasing your cash balance and reducing their receivable to zero. The same idea works when recording expenses: an invoice is received and recorded by tracking what expense was incurred and creating an accounts payable record. When you pay your supplier another transaction is recorded, a check, which reduces cash and reduces your payable.

In MYOB terms, the scenario above would be explained like this: An invoice is generated for goods and services, crediting sales and debiting accounts receivable. When the customer pays you another transaction is recorded increasing your cash balance and reducing their receivable to zero. The same idea works when recording expenses: An invoice is received and recorded by tracking what expense was incurred and creating an accounts payable record. When you pay your supplier, another transaction is recorded – a check – which reduces cash and reduces your payable.

## ■ The Golden Rules of Accounting

Lets discuss the Golden Rules of Accounting. They are:

- 1.) Debits ALWAYS EQUAL Credits
- 2.) Increases DO NOT NECESSARILY EQUAL Decreases
- 3.) Assets - Liabilities = Owner's Equity (The accounting equation!)

Don't let the words debits and credits scare you. They simply refer to the left side and right side of a 'T Account', a graphical representation of the amounts recorded into an account (see the examples below). Every transaction recorded into MYOB is posted to your accounts as a combination of debits and credits; we do all the work for you. For an individual transaction, total debits always equal total credits. A check written to pay rent is an increase to Rent Expense (a debit) and a decrease to Cash (a credit).

## ■ Chart of Accounts

The chart of accounts, or Accounts List, is a list of categories into which all your accounting transactions will be recorded. In your MYOB software they are defined by a five-digit number and account name: A one-digit prefix designates what type of account it is (and where it will be displayed on your financial statements), followed by a four-digit main account number. With MYOB software, you have complete control over your account numbers and their names.

Here is a table that will help you understand what this means and how it applies to your business.

	ACCOUNT NUMBER	ACCOUNT TYPE	INCREASE	DECREASE
<b>Balance Sheet</b> (As of a 'point of time')	1-xxxx	Assets	DEBIT	CREDIT
	2-xxxx	Liabilities	CREDIT	DEBIT
	3-xxxx	Owner's Equity	CREDIT	DEBIT
<b>Profit and Loss</b> (For a 'period of time')	4-xxxx	Income	CREDIT	DEBIT
	5-xxxx	Cost of Sales	DEBIT	CREDIT
	6-xxxx	Expenses	DEBIT	CREDIT
	8-xxxx	Other Income	CREDIT	DEBIT
	9-xxxx	Other Expenses	DEBIT	CREDIT

*There are some exceptions, but these are dealt with in the full user documents you received with your software.*

Here's how each account type actually relates to *your* business.

### ■ **Assets**

An asset is anything you own in your business. They are the things in your office, your computers, your vehicles, your receivables owed by customers and your cash on hand. Everything you own is considered an asset of the business. Assets are used to generate revenue and purchase other assets. For example, when you buy a new computer, you use one asset (cash) in exchange for another asset (equipment).

### ■ **Liabilities**

Your liabilities are the things you owe, like sales taxes received from sales but not yet paid to the state, or loans payable to your bank. Another example is your credit cards – unless you pay your balance off every month, the money you owe to your credit card company is considered a liability on your books. Liabilities represent claims against your assets.

### ■ **Owner's Equity**

The difference between the value of your assets and the total of your liabilities is the value of your company. As the Accounting Equation states:  $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$ . Depending on the type of taxable entity you created when you first formed your company, the Owner's Equity section of your Chart of Accounts and Balance Sheet may have another name.

### ■ **Revenue**

The revenue of your company is the total amount of proceeds generated for providing goods and services to your customers. This is typically the total amount of the invoices that you generated for your customers.

### ■ **Cost of Sales**

Cost of Sales (or Purchases) refers to the total value of the goods and services that were sold to your customers. Typically, this refers to items-based businesses that buy inventory for resale, or a manufacturer who builds items for resale. Total revenue less cost of goods sold equals your gross profit.

### ■ **Expenses**

Expenses are the costs you incur to run your business, whether they are fixed costs (independent of how much business activity you have, like rent) or variable costs (directly related to how much business activity you have, like shipping).

## ■ T Accounts and Double-Entry Accounting

T accounts are a graphical representation of debits (left side) and credits (right side) in a specific General Ledger account. Double-entry accounting means that every transaction has at least one debit and one corresponding credit. The total debits always equal the total credits.

<b>Account Name (x-xxxx)</b>	
debits	credits
debits	credits
debits	credits
debits	credits

**NOTE:** When your bank says that they are **crediting** your account, they are referring to an entry on **THEIR** books.

Your money in the bank is a liability to the bank; therefore, when they **credit** your account, they are increasing their liability to you on their books.

Below is a series of typical accounting transactions and their affect on the appropriate General Ledger accounts. The next page shows the financial statements resulting from these entries. This example assumes cash-based accounting is being used.

### ■ Examples (Part 1):

There is an initial \$5,000 cash investment by the owner.

- 1.) You buy a desk at the office supply store and pay \$250 cash
- 2.) You buy a new computer for \$1,000 with your company credit card\*
- 3.) You buy 10 Widgets for inventory at \$150 each and pay on COD
- 4.) You sell 4 Widgets from inventory for \$250 each on Net 30 terms
- 5.) You pay your monthly rent of \$800
- 6.) You pay your credit card company for your new computer
- 7.) Your customer pays for the Widgets they purchased
- 8.) You sell 3 Widgets for \$300 each, cash
- 9.) You buy 10 Widgets for inventory at \$150 each and pay on COD
- 10.) You sell 3 widgets for \$350 each and take a \$500 deposit

\* Using MYOB FirstEdge or BusinessBasics, no transaction is recorded until the bill is paid. (With MYOB AccountEdge and Premiere Accounting a purchase can be recorded showing a \$1,000 liability in Accounts Payable.)

<b>Cash (1-xxxx)</b>				<b>Sales (4-xxxx)</b>	
	\$5,000	1.)	\$250		4.) \$1,000
7.)	\$1,000	3.)	\$1,500		8.) \$900
8.)	\$900	5.)	\$800		10.) \$1,050
10.)	\$500	6.)	\$1,000		
		9.)	\$1,500		
<b>Accounts Receivable (1-xxx)</b>				<b>COGS (5-xxxx)</b>	
4.)	\$1,000	7.)	\$1,000	4.)	\$600
10.)	\$550			8.)	\$450
				10.)	\$450
<b>Inventory (1-xxxx)</b>				<b>Office Expense (6-xxxx)</b>	
3.)	\$1,500	4.)	\$600	1.)	\$250
9.)	\$1,500	8.)	\$450	6.)	\$1,000
		10.)	\$450		
<b>Owner's Equity (3-xxxx)</b>				<b>Rent (6-xxxx)</b>	
			\$5,000	5.)	\$800

## ■ Financial Statements

The primary financial statements of any business include the Balance Sheet and the Profit and Loss. Together, they represent the total financial picture of your business. They must be reviewed as a set because collectively they tell you about your business, both in the short term and the long term.

### ■ The Balance Sheet

The Balance Sheet, one of the primary financial statements, is a reflection of your total assets, less total liabilities and the difference, or owner's equity. The balance sheet reflects a 'point in time' in the life of the business; for example, you could produce a Balance Sheet as of December 31, 2009 that would reflect all the account balances "as of" that date - a point in time. For example, you would see the balance of your assets, liabilities and owner's equity accounts on December 31st.

### ■ The Profit and Loss Statement (or Income Statement)

The Profit and Loss, also one of the primary financial statements, is a reflection of your total revenue generated, less the cost of items sold (which equals your Gross Profit), less your operating expenses (which equals your Net Income or Loss). The profit and loss reflects results for a 'period of time': the net income or loss for a specific period of time, for example, January 1, 2009 to December 31, 2009.



<b>ABC Inc. Balance Sheet June 30, 2009</b>	
<b>Assets</b>	
Cash	\$2,350
Accounts Receivable	\$550
Inventory	<u>\$1,500</u>
<b>Total Assets</b>	<u>\$4,400</u>
<b>Liabilities</b>	
	\$ 0
<b>Equity</b>	
Owners Investment	\$5,000
Current Year Earnings	<u>(\$600)</u>
<b>Total Equity</b>	\$4,400
<b>Total Liabilities and Equity</b>	<u>\$4,400</u>

<b>ABC Inc. Profit and Loss Statement January 1, 2009 to June 30, 2009</b>	
<b>Revenue</b>	
Sales	\$2,950
COGS	<u>(\$1,500)</u>
Gross Profit	\$1,450
<b>Expenses</b>	
Office Expense	\$1,250
Rent	<u>\$800</u>
<b>Total Expenses</b>	\$2,050
<b>Net Income/(Loss)</b>	<u>(\$600)</u>

The Equity section of your Balance Sheet includes an account called "Current Year Earnings" which represents the year to date net income or loss of your business. The life to date history of profit and losses for your business is recorded into the Retained Earnings account. At the close of every year, the Current Year Earnings accounting is rolled into (closed) the Retained Earnings account. In our example above, our business is brand new, so the loss for the year is presented on the Balance Sheet as a reduction of Equity in the Current Year Earnings account. If the next financial year produces a \$2000 profit, the

Retained Earnings account will reflect the balance of \$1,400 (a \$600 loss plus a \$2,000 profit), the cumulative balance. Each year, your Profit and Loss information is closed into your Retained Earnings account, which is how the Balance Sheet and the Profit and Loss report are tied together.

Again, it is important to remember, that a Balance Sheet represents a point in time (as of June 30), while a Profit and Loss represents a period of time (January 1 to June 30).

Now let's add some additional entries to the mix that include more 'advanced' issues, like accounts receivable and payable, depreciation, inventory and payroll.

### ■ Examples (Part 2):

Remember, there is a \$5,000 initial investment by the owner.

- 11.) You buy office furniture and receive Net 30 Day terms for \$1,900
- 12.) You buy a new server and 3 workstations, receive Net 60 Day terms, total investment - \$7,500
- 13.) You record your first month's depreciation on your new hardware\*
- 14.) You buy 1000 Widgets for inventory at \$150 each and receive 2% 10, Net 30 terms
- 15.) You ship an order for 400 Widgets at \$300 each and get a 50% deposit, plus you collect 6% sales tax
- 16.) You pay your monthly rent of \$800
- 17.) You pay your employee (salary of \$1,000, less; \$150 in Federal taxes, \$77 in FICA and Medicare, \$70 in State and Local taxes)
- 18.) You make your 941 deposit (Federal and FICA/Medicare) at your bank
- 19.) You sell 500 widgets for \$325 on COD
- 20.) You pay for the 1,000 Widgets and take the 2% discount

\* Just for the purpose of this example, we are going to depreciate our new hardware over 3 years, using straight-line depreciation (divided evenly over 36 months). The provisions of Internal Revenue Code Section 179 allow a sole proprietor, partnership or corporation to fully expense tangible property in the year it is purchased, currently up to \$100,000. Tangible eligible property includes;

- Machinery and equipment
- Furniture and fixtures
- Most storage facilities
- Single-purpose agricultural or horticultural structures

The definition of eligible section 179 property was expanded by the 2003 legislative changes to include off-the-shelf computer software. Previously, it had to be written off over three years.

If depreciation scares you, just ask your accountant how it should appear on your monthly financial statements and what monthly General Journal Entries you should be recording. Then, set them up as Recurring Journal Entry's in your Accounts Command Center in MYOB.

<b>Cash (1-xxxx)</b>	
7.) \$1,000	1.) \$250
8.) \$900	3.) \$1,500
10.) \$500	5.) \$800
15.) \$67,200	6.) \$1,000
19.) \$162,500	9.) \$1,500
	16.) \$800
	17.) \$703
	18.) \$304
	20.) \$147,000

<b>Accts Receivable (1-xxxx)</b>	
4.) \$1,000	7.) \$1,000
10.) \$550	
15.) \$60,000	

<b>Inventory (1-xxxx)</b>	
3.) \$1,500	4.) \$600
9.) \$1,500	8.) \$450
14.) \$150,000	10.) \$450
	15.) \$60,000
	19.) \$75,000

<b>Office Furniture (1-xxxx)</b>	
11.) \$1,900	

<b>Office Equipment (1-xxxx)</b>	
12.) \$7,500	

<b>Accumulated Depreciation - Office Furn &amp; Equip (1-xxxx)</b>	
	13.) \$208

<b>Accts Payable (2-xxxx)</b>	
20.) \$150,000	11.) \$1,900
	12.) \$7,500
	14.) \$150,000

<b>Sales Tax Payable (2-xxxx)</b>	
	15.) \$7,200

<b>Federal Income Taxes Payable (2-xxxx)</b>	
18.) \$150	17.) \$150

<b>FICA &amp; Medicare Taxes Payable (2-xxxx)</b>	
18.) \$154	17.) \$77
	17.) ** \$77

<b>State and Local Taxes Payable (2-xxxx)</b>	
	17.) \$70

\*\* This additional entry for \$77 represents the employers' matching of the FICA/Medicare liability that is withheld from an employees paycheck. This expense is paid as part of your '941' deposit.

<b>Sales (4-xxxx)</b>	
4.)	\$1,000
8.)	\$900
10.)	\$1,050
15.)	\$120,000
19.)	\$162,500

<b>COGS (5-xxxx)</b>	
4.)	\$600
8.)	\$450
10.)	\$450
15.)	\$60,000
19.)	\$75,000

<b>Purchase Discounts (5-xxxx)</b>	
20.)	\$3,000

<b>Salary (6-xxxx)</b>	
17.)	\$1,000

<b>Office Exp (6-xxxx)</b>	
1.)	\$250
6.)	\$1,000

<b>Rent Exp (6-xxxx)</b>	
5.)	\$800
16.)	\$800

<b>Employer Payroll Tax Exp (6-xxxx)</b>	
17.)	\$77

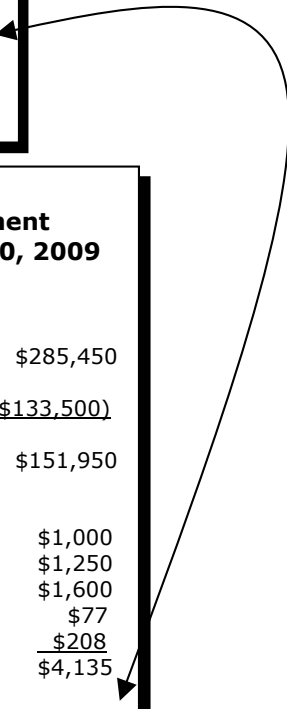
<b>Depreciation Exp (6-xxxx)</b>	
13.)	\$208

**ABC Inc.  
Balance Sheet  
June 30, 2009**

<b>Assets</b>	
Cash	\$83,243
Accounts Receivable	\$60,550
Inventory	\$16,500
Office Furniture	\$1,900
Office Equipment	\$7,500
Accum. Depr – Off Equip	<u>(\$208)</u>
<b>Total Assets</b>	<b><u>\$169,485</u></b>
<b>Liabilities</b>	
Accounts Payable	\$9,400
Sales Tax Payable	\$7,200
Federal Inc Taxes Payable	0
FICA & Medicare Taxes Payable	0
State and Local Taxes Payable	\$70
<b>Total Liabilities</b>	<b><u>\$16,670</u></b>
<b>Equity</b>	
Owners Investment	\$5,000
Current Year Earnings	<u>\$147,815</u>
Total Equity	\$152,815
<b>Total Liabilities and Equity</b>	<b><u>\$169,485</u></b>

**ABC Inc.  
Profit and Loss Statement  
January 1, 2009 to June 30, 2009**

<b>Revenue</b>	
Sales	\$285,450
COGS	\$136,500
Less: Purch Disc	<u>\$3,000</u>
	<u>(\$133,500)</u>
<b>Gross Profit</b>	<b>\$151,950</b>
<b>Expenses</b>	
Salary	\$1,000
Office Expense	\$1,250
Rent	\$1,600
Employer PR Tax Expense	\$77
Depreciation Expense	<u>\$208</u>
Total Expenses	\$4,135
<b>Net Income/(Loss)</b>	<b><u>\$147,815</u></b>



## ■ Perform an “MYOB Self-Check”

A list of 5 things you can do to perform a “self-check”

### **Check AR and AP vs. the details**

Run an Accounts Receivable (and Accounts Payable) Reconciliation Report, which will compare your outstanding accounts receivable and accounts payable, detailed by customer and supplier, to the balance in your accounts receivable account (1-xxxx) and your accounts payable account (2-xxxx).

### **Is cash reconciled?**

MYOB makes reconciling your cash and checking accounts really easy and you should be doing this monthly. If not, take the time to organize this, with the help of your bookkeeper, accountant or an MYOB Certified Consultant (see below).

### **Is your Balance Sheet complete and accurate?**

Print a Balance Sheet as of right now. Look at each account and ask yourself three simple questions:

Do I have all my assets listed here?

Do I have backup for each of these accounts?

Is the ownership section of the report correct?

### **Have you closed your books?**

Have you gone through the process to Start a New Financial Year? MYOB allows you to have 26 open periods, by the end of the 26<sup>th</sup> period, you’ll have to close a year, by selecting Start a New Year under the File menu in MYOB.

### **Are your records up to date and backed up?**

This is the single most valuable piece of advice in this entire document. It is imperative that you keep your records up to date by entering all the relevant transactions when they happen. And, of course, you want to backup daily, weekly, monthly, quarterly, annually and after critical tasks, such as closing the payroll year.

## ■ Other Sources of Information

### **Speak to your Accountant**

Ask them what they need from you in order to complete work on your accounts on a quarterly and annual basis - from financial reports to your tax return. Ask them specifically what reports they want, what backup data they want, in what format, and how often.

### **Work with an MYOB Certified Consultant**

If you need on-site assistance with all issues related to MYOB consider working with an MYOB Certified Consultant. These are small business experts that can provide services and support beyond what MYOB can offer over the phone or online. See the Directory in your box of software, under the Help menu in MYOB or on our web site.

### **Get information from the IRS**

The IRS has a great deal of resources on their web site, every small business person should have the web site bookmarked at: <http://www.irs.gov/>. Once there, select information for: Business, then information for: Small Bus/Self-Employed. They have excellent content on numerous topics of importance to you and your small business.

### **Access our Software Support tools**

There are numerous Support Options for all MYOB clients including telephone, email, web support, training classes, webinars as well as tax tables and product updates and upgrades – simply put – it is the best investment you can make in your business.

### **What Software Support can and can't help you with**

There will be issues that our Software Support reps won't be able to help you with. They include tax issues, networking issues and accounting help. While we will do our best to help you get the most out of MYOB products and services, these topics are better handled by your outside advisors who specialize in these specific areas.

## ■ Terminology

**Accounts Payable:** Money or other obligations owed to creditors for services and materials, a Liability on the Balance Sheet.

**Accounts Receivable:** Money or other obligations due for services rendered or items sold on terms, an Asset on the Balance Sheet.

**Accrual Based Accounting:** Represents a method of recording accounting transactions when they occur, whether or not cash has changed hands.

**Accrued Liabilities:** Represents expenses that are incurred prior to being paid. For example, salaries earned by your employees and paid in a subsequent month are accrued as a liability until they are paid.

**Accrued Revenue:** Represents revenue that is earned and recorded but not yet received in the form of cash.

**Asset:** The things a company owns, seen on the Balance Sheet and represented as 1-xxxx accounts in your Chart of Accounts.

**Balance Sheet:** The primary financial statement that shows detailed assets, liabilities and equity at a point in time.

**Cash Based Accounting:** Represents a method of recording accounting transactions most easily described as accounting for cash transactions. Entries do not affect your financial statements until cash changes hands. In this environment, you do not track receivables and payables. Cash received is recorded as income when received and expenses are recorded when paid.

**Chart of Accounts:** A list of categories or accounts where transactions are recorded, also known as your Accounts List.

**Cost of Goods Sold (COGS):** Represents the cost of items or services sold to customers. These costs are kept in the Inventory asset account (1-xxxx) until they are sold. Then they are passed over to the COGS (5-xxxx) account. Seen on the Profit and Loss and represented as 3-xxxx accounts in your Chart of Accounts.

**Credit:** A credit is the right hand side of an account, represented in T-Account format on the previous page.

**Current Year Earnings:** This account represents year to date earnings, not yet recorded into the Retained Earnings account.

**Debit:** A debit is the left hand side of an account, represented in T-Account format on the previous page.



**Deferred Revenue:** Represents income received, but not yet earned. This is typically a liability account.

**Double Entry Accounting:** MYOB products follow the convention of Double Entry Accounting. Every accounting transaction is comprised of debits that equal credits.

**Equity (Capital):** The owner's interest in the business, which is the total assets minus the total liabilities of a company, seen on the balance sheet and represented as 3-xxxx accounts in your Chart of Accounts.

**Expenses:** Costs incurred in the business used to generate revenue, seen on the Profit and Loss report and represented in your Chart of Accounts as 6-xxxx accounts.

**General Ledger:** An accounting record where all of your accounts are maintained. In MYOB products, when you enter any transaction, the General Ledger accounts are automatically updated.

**Gross Profit:** Represents your revenue from sales of inventory or services, less Cost of Goods Sold, before overhead expenses.

**Journals:** Account ledgers where entries are recorded. MYOB products have General, Disbursements, Receipts, Sales, Purchases, and Purchases journals. Every transaction creates a corresponding set of debit and credit entries in a specific journal.

**Liability:** The things a company owes in cash or other resources, represented as 2-xxxx in your Chart of Accounts. These are claims against assets.

**Net Profit/Loss:** Total Income minus Total Expenses.

**Operating Profit:** Profit before Other Income is added and Other Expenses are subtracted.

**Overhead Expenses:** Represents the expenses of a business independent of how much revenue is generated. Can also be considered Fixed Costs, things like rent, salaries, and utilities.

**Profit and Loss Statement (or Income Statement):** The primary financial statement that shows detailed revenues and expenses for a period of time.

**Prepaid Expenses:** Represents expenses that are paid in advance of incurring them. For example, you might pay a year's worth of insurance and accrue 1/12 of it each month. This is typically an asset account.

**Retained Earnings:** Represents the cumulative net income or loss of a business since its inception. When you Start a New Year in MYOB products, the program automatically transfers your year-end income or (Current Year's Earnings) loss to this account. This is called the closing entry.

**Start a New Year:** The process in MYOB products that closes a financial year, transfers your Current Years Earnings to Retained Earnings and prepares the accounts for a new year. All Income and Expense accounts are 'zeroed out' to start the new year.

**Subsidiary Ledgers:** Customer and supplier balances that equal the amount of the Accounts Receivable and Accounts Payable General Ledger accounts.

**Trial Balance:** A list of all your General Ledger accounts and their current balances.

**Disclaimer:**

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