



Learn To Buy And Sell At eBay Like The Pros!



Group or One-on-One, Hands-on Auction Buying & Selling, eBay Store & eCommerce Training

Training: eBay & Online Auctions | eBay Stores | Online Store Sales | Consignment Sales | Dropshipping | Fundraising | Estate Sales | Trading Assistant | Liquidators

Accounting 101 For Your Business At eBay

This information as shown here, was presented in its entirety in meetings and workshops held at the *eBay Live 2004* Convention in New Orleans, LA

PLEASE NOTE: All information shown in this document is meant a thought starter only for people thinking of either starting an eBay business, with an existing eBay Business, or similar type of business. 2NicePeople.com, AuctionInstructor.com, nor any person, or firm listed in this document is responsible for your use of any information in this document. This information, and/or parts of it, or all of it, may not apply to your situation, or your business. As always, you should consult with a tax accounting firm, or tax professional.

Learn to buy and sell at eBay like the pros – Get the one-on-one help, training, and support you need – Visit www.AuctionInstructor.com

Mailing Address: 5400 SW College Road, #302, Suite 50, Ocala, FL 34474 | Phone: 352.732.8120 | Fax: 352.867.0722 | eMail: training@auctioninstructor.com

DAVID R. DUNDES, CPA
IRVINE CA

Accounting 101

for your Business on eBay

- Bookkeeping System
- Financial Statements
- Financial Ratios & Indicators

Key reasons for implementing a bookkeeping system:

You are legally responsible for tracking the following for income tax purposes:

- Income
- Expenses
- Assets
- Liabilities
- Provides useful information to manage your business

Bookkeeping System Components

Chart of Accounts: the list of accounts that will be tracked within the general ledger

General Ledger: the main record of the assets, liabilities, owner's equity, income and expenses of your business

Accounts Receivable: Represents amounts owed to your business for goods or services sold on credit

Inventory: the assets produced by a manufacturing business or the assets bought and sold for profit by a wholesaling or retailing business

Fixed Assets: assets that are not bought and sold in the normal course of business but that are purchased for long-term use in the production or sales process

Accounts Payable: your business liability that represents amounts due for goods or services purchased on credit

Payroll

Start-Up Basics

Sample Chart Of Accounts

BALANCE SHEET (Accounts 1-500)	Account #
Assets (1-300)	
Cash (1-50)	
Petty Cash on Hand	11
Cash in Bank—General Bank Account	21
Cash in Bank—Payroll Bank Account	31
Receivables From Others (51-100)	
Notes Receivable	51
Accounts Receivable—Customers	61
Accounts Receivable—Others	71
Inventories (101-150)	
Inventory—Finished Goods for Sale	101
Inventory—Work in Process	111
Inventory—Raw Materials	121
Prepaid Expenses (151-200)	
Prepaid Advertising	151
Prepaid Insurance	161
Prepaid Rent	181
Property and Equipment (201-250)	
Land	201
Buildings	211
Buildings—Allowance for Depreciation	212
Automobiles and Trucks	216
Automobiles and Trucks—Allowance for Depreciation	217
Furniture and Office Equipment	221
Furniture and Office Equipment—Allowance for Depreciation	222
Machinery	226
Machinery—Allowance for Depreciation	227
Leasehold Improvements	246
Leasehold Improvements—Allowance for Amortization	247
Miscellaneous Assets (251-300)	
Organization Expenses (Start-up Costs)	251
Franchise Rights	271
Liabilities (301-450)	
Notes and Amounts Payable to Others (301-350)	
Notes Payable—Short Term	301

This form was copied with permission from Entrepreneur Magazine's Business Start-Up Series, Start-Up Basics. Call 1-800-421-2300 to purchase Entrepreneur Magazine's Start-Up Series manuals.

Sample Chart Of Accounts (cont'd.)

Current Maturities of Long-Term Debt	302
Accounts Payable (Trade Bills Due)	311
Sales Tax Payable	321
FICA Tax Withheld	331
Federal Income Taxes Withheld	332
State Income Taxes Withheld	333
Expenses Owed to Others (351-400)	
Accrued Wages	351
Accrued Interest	361
Accrued FUTA	371
Accrued State Unemployment Tax	372
Accrued Federal Income Taxes	391
Accrued State Income Taxes	392
Long-Term Obligations (401-450)	
Notes Payable—Long Term	401
Mortgages Payable	411
Deferred Taxes	421
Stockholder's Equity (451-500)	
Paid in Capital (Owner's Investment in Business)	451
Capital Stock (Stock Issued)	461
Owner Draws (Cash Taken Out by Owner Other Than Salary)	481
Retained Earnings (Cumulative Profits Not Expended)	491
INCOME STATEMENT (Accounts 501-999)	Account #
Sales and Other Income (501-550)	
Sales of Merchandise	501
Sales Returns and Allowances	502
Cash Discounts Allowed (To Customers)	503
Miscellaneous Income	541
Cost of Goods Sold (551-600)	
Cost of Merchandise Sold	551
Freight Expense	561
Business Operating Expenses (601-700)	
Wages	601
Supplies	611
Rental of Equipment	621

This form was copied with permission from Entrepreneur Magazine's Business Start-Up Series, Start-Up Basics. Call 1-800-421-2300 to purchase Entrepreneur Magazine's Start-Up Series manuals.

Sample Chart Of Accounts (cont'd.)

Repairs to Equipment	631
Truck Maintenance	641
Selling Expenses (701-750)	
Advertising	701
Automobile Expenses—Sales Force	711
Commissions	721
Entertainment	731
Administrative Expenses (751-800)	
Salaries	751
Office Supplies	761
Postage	762
Telephone	763
Dues and Subscriptions	764
Insurance	771
Automobile Expenses	781
Professional Services (Attorney and CPA)	786
Bad Debts (Uncollectible Accounts Receivable)	791
Interest	796
Miscellaneous Expenses (801-850)	
Building Expenses (851-900)	
Rent	851
Building Repairs	861
Utilities	871
Depreciation (901-950)	
Depreciation—Buildings	911
Depreciation—Automobiles	916
Depreciation—Furniture and Office Equipment	921
Depreciation—Machinery	926
Depreciation—Leasehold Improvements	946
Taxes (951-999)	
FICA	951
FUTA	952
Real Estate Taxes	961
Federal Income Taxes	991
State Income Taxes	992

Source: American Institute of Certified Public Accountants

This form was copied with permission from Entrepreneur Magazine's Business Start-Up Series, Start-Up Basics. Call 1-800-421-2300 to purchase Entrepreneur Magazine's Start-Up Series manuals.

Financial Statements

•Purpose & Value

- Provide an accurate & objective picture of your business
 - a) Financial health of your business
 - b) Financial performance of your business
- Essential management tool for both short term and long term planning and decisions
- Essential for income tax planning and preparation

•Types

- Balance Sheet
- Income Statement
- Statement of Cash Flows

•Interpretation & Understanding

- Each item on your financial statements tells you something about your business
 - a) How much money you are making (or losing)
 - b) How/where you are making the money
 - c) Where the money goes

Balance Sheet

ABC Clothing Inc.

	Year 1	Year 2
Assets:		
Current Assets:		
Cash	\$10,000	\$20,000
Accounts Receivable	82,000	144,000
Inventory	185,000	230,000
Prepaid Expenses	5,000	5,000
Total Current Assets	282,000	399,000
Fixed Assets:		
Land	0	0
Buildings	0	0
Equipment	150,000	120,000
Accumulated Depreciation	-30,000	-30,000
Total Fixed Assets	120,000	90,000
Intangibles	0	0
Other Assets	10,000	11,000
Total Assets	412,000	500,000
Liabilities & Equity:		
Current Liabilities:		
Notes Payable/Short Term	60,000	42,400
Current Maturities of Long-Term Debt	30,000	30,000
Accounts Payable	82,000	86,000
Accrued Expenses	7,900	13,500
Taxes Payable	0	0
Stockholder Loans	0	0
Total Current Liabilities	179,900	171,900
Long-Term Debt	120,000	90,000
Total Liabilities	299,900	261,900
Stockholders' Equity:		
Common Stock	75,000	75,000
Paid-in-capital	0	0
Retained Earnings	37,100	163,100
Total Stockholders' Equity	112,100	238,100
Total Liabilities & Equity	\$412,000	\$500,000

This form was copied with permission from Entrepreneur Magazine's Business Start-Up Series, Start-Up Basics.

Income Statement

ABC Clothing Inc.

	Year 1	Year 2
Sales	\$1,000,000	\$1,500,000
Cost of Goods Sold	-750,000	-1,050,000
Gross Profit	250,000	450,000
Operating Expenses	-200,000	-275,000
Operating Profit	50,000	175,000
Other Income and Expenses	3,000	5,000
Net Profit Before Taxes	53,000	180,000
Income Taxes	-15,900	-54,000
NET PROFIT AFTER TAXES	\$37,100	\$126,000

This form was copied with permission from Entrepreneur Magazine's Business Start-Up Series, Start-Up Basics.

Cash Flow Statement

ABC Clothing Inc.

	Year 1	Year 2
Cash Flow From Operating Activities*:		
Cash received from customers	\$918,000	\$1,438,000
Interest received	3,000	5,000
Cash paid to suppliers for inventory	(853,000)	(1,091,000)
Cash paid to employees	(80,000)	(120,000)
Cash paid for other operating expenses	(69,300)	(104,400)
Interest paid	(17,800)	(15,000)
Taxes paid	(15,900)	(54,000)
Net cash provided (used) by operating activities	(\$115,000)	\$58,600
Cash Flow From Investing Activities:		
Additions to property, plant and equipment	(150,000)	0
Increase/decrease in other assets	(10,000)	(1,000)
Other investing activities	0	0
Net cash provided (used) by investing activities	(\$160,000)	(\$1,000)
Cash Flow From Financing Activities:		
Sales of common stock	75,000	0
Increase (decrease) in short-term loans (includes current maturities of long-term debt)	90,000	(17,600)
Additions to long-term loans	120,000	0
Reductions of long-term loans	0	(30,000)
Dividends paid	0	0
Net cash provided (used) by financing activities	\$285,000	(\$47,600)
Increase (decrease) in cash	10,000	10,000

This form was copied with permission from Entrepreneur Magazine's Business Start-Up Series, Start-Up Basics.

Cash Flow Statement

* Calculations as follow:

Cash received from customers =	Sales	-	Increase in accounts receivable
		+	Decrease in accounts receivable
		+	Increase in deferred revenue
		-	Decrease in deferred revenue
Cash paid to suppliers for inventory =	Cost of Goods Sold	+	Increase in inventory
		-	Decrease in inventory
		-	Increase in accounts payable
		+	Decrease in accounts payable
Cash paid to employees	Salary Expense	-	Increase in accrued salarie payable
		+	Decrease in accrued salaries payable
Cash paid for other operating expenses =	Other Operating Expenses	-	Depreciation and amortization
		+	Increase in prepaid expenses
		-	Decrease in prepaid expenses
		-	Increase in accrued operating expenses
		+	Decrease in accrued operating expenses
Interest received =	Interest Revenue	-	Increase in interest receivable
		+	Decrease in interest receivable
Interest paid =	Interest Expenses	-	Increase in accrued interest payable
		+	Decrease in accrued interest payable
Taxes paid =	Tax Expenses	-	Increase in deferred tax liability
		+	Decrease in deferred tax liability
		-	Decrease in deferred tax asset
		+	Increase in deferred tax asset
		-	Increase in accrued taxes payable
		+	Decrease in accrued taxes payable
		-	Decrease in prepaid tax
		+	Increase in prepaid tax

This form was copied with permission from Entrepreneur Magazine's Business Start-up Series, Start-Up Basics.

FINANCIAL RATIOS & INDICATORS

Gross Profit (Contribution Margin) Ratio

Formula:

Contribution Margin Ratio = Contribution Margin *divided by* Net Revenues

Note: Generally the Contribution Margin is the difference between the selling price of your product or service and the direct costs associated with producing & delivering your product or service.

Example:

Selling price of product	\$100.00
Direct cost of the product	<u>\$ 75.00</u>
Gross profit	\$ 25.00

Contribution Margin = .25
(\$25 *divided by* \$100 = .25)

Break-even Point

Break-even point is the amount of revenues required for your business to "break-even".

Formula:

Break-even Revenues = Fixed Expenses *divided by* Contribution Margin Ratio

Example:

Fixed expenses per month equal \$5,000
Contribution Margin Ratio is .25

Therefore the break-even revenues would be \$20,000 per month.
(5,000 *divided by* .25 = \$20,000)

Current Ratio

Formula:

Current Ratio = Current Assets *divided by* Current Liabilities

Debt to Net Worth Ratio

Formula:

Debt to Net Worth Ratio = Total Debt *divided by* Stockholders (Owners) Equity

Inventory Turnover

Formula:

Inventory Turnover = Cost of Goods Sold *divided by* *Average Inventory

*Average Inventory

Formula:

(Inventory at the beginning of period *plus* Inventory at end of period) *divided by* 2