Small Business Bookkeeping Knowledge Assessment

1. When you pay a vendor invoice (already entered the system), which accounts are affected?
   - Answer: a. Cash and accounts payable

2. What is the usual balance for an expenses account?
   - Answer: a. Debit

3. How do you categorize a loan that has principal and interest payments?
   - Answer: b. Categorize it between notes payable and interest

4. What is accounts receivable?
   - Answer: Accounts receivable is the amount of money that a company expects to receive from its customers in exchange for goods or services provided. It is an asset on the balance sheet.

5. What is accounts payable?
   - Answer: Accounts payable is the amount of money that a company owes to its suppliers or vendors for goods or services received but not yet paid for. It is a liability on the balance sheet.

6. What does cash basis mean?
   - Answer: Cash basis accounting is an accounting method where transactions are recorded when cash is received or paid out. It does not consider accounts receivable or accounts payable and is typically used by small businesses for simplicity.

7. How do you ensure that the profit and loss statement is accurate, considering both the income statement and the balance sheet?
   - Answer: Ensuring the accuracy of the profit and loss statement involves reconciling both the income statement (profit and loss) and the balance sheet. This includes reviewing revenue and expense transactions on the income statement, verifying that they align with corresponding entries on the balance sheet, and conducting regular reconciliations to identify and resolve any discrepancies between the two financial statements. Additionally, a thorough examination of all accounts on the balance sheet is essential to confirm that the financial statements are accurate and complete.

8. Is inventory an asset, liability, or cost of goods?
   - Answer: Inventory is considered an asset on the balance sheet until it is sold, at which point its cost becomes part of the cost of goods sold (COGS) on the income statement.

9. What happens if you credit a liability account?
   - Answer: Entering a credit to a liability account increases the liability's balance. It typically means that the company owes less than it did before the credit entry.

10. Are employer payroll taxes a liability or expense?
- Answer: Employer payroll taxes are typically considered an expense for the company because they represent the cost of employing workers. These expenses include taxes like Social Security, Medicare, and unemployment taxes that the employer is responsible for paying.