# Understand the basics of accounting and bookkeeping jargon

We demystify common accounting and bookkeeping terms and explain how Xero can help you prepare your accounts. You'll be able to prepare your books for the end of financial year and discuss them with your advisor (that's your accountant or bookkeeper) with confidence.

The information in this guide should be used for general guidance only and you should seek appropriate tax, financial and legal advice as may be appropriate for your particular business needs.

# Chart of accounts

The chart of accounts (COA) is a list of all accounts you can use to record your transactions. It helps you categorise your transactions correctly and group similar accounts together to generate reports about your business.

All transactions in Xero need to be assigned to an account in order for you to be compliant with Inland Revenue and produce meaningful, accurate reports like GST returns.

In Xero, use the default chart of accounts or get your advisor to create a customised chart of accounts that suits your business.

## Components of an account in Xero

- Each account has an account type which Xero uses to determine where the account appears in your financial reports.
- Account types in Xero are arranged in five categories: Assets, Liabilities, Income, Expenses and Equity.
- Each account has an account code of up to 10 characters. You can use any code for an account as long as it's unique. The code is used to group similar or frequently used accounts together in your chart of accounts.
- Every account in Xero must have a name of up to 150 characters. You can choose whether or not to enter a description for the account.
- Each account has a default tax rate. The tax rate determines how Xero treats the transactions for GST purposes.

# Viewing your chart of accounts

To view the chart of accounts, select the **Accounting** menu, then **Advanced**. Under Advanced settings, select **Chart of accounts**. From here you can:

- Click an account name to view or edit its details.

- Click an account YTD balance to view a list of transactions that are coded to that account.

- Add, archive or delete accounts to best suit your business's needs.

**Note:** Accounts with a padlock symbol next to the account name are locked by Xero. This is because they are either a system account or being used for a specific purpose, for example, the account is used in a repeating invoice or a bank rule that has been set up.

# Bank reconciliation

**Bank reconciliation is the way you confirm that all the transactions in your bank accounts are recorded in your business accounting records.**

- Xero works with many banks to transfer data into Xero using bank feeds. Bank(s) send statement data directly to your Xero organisation through a secure online connection. If bank feeds aren't available from your bank, you can manually import bank statement lines into Xero.

- In Xero, transactions are created for invoices, bills, expense claims and other spending.

**Tip:** When details are in your online banking, we refer to them as bank transactions; when they're imported into Xero, we call them bank statement lines.

## How to start reconciling in Xero

During bank reconciliation, you match each bank statement line to an existing transaction in Xero, or create a transaction to reconcile.
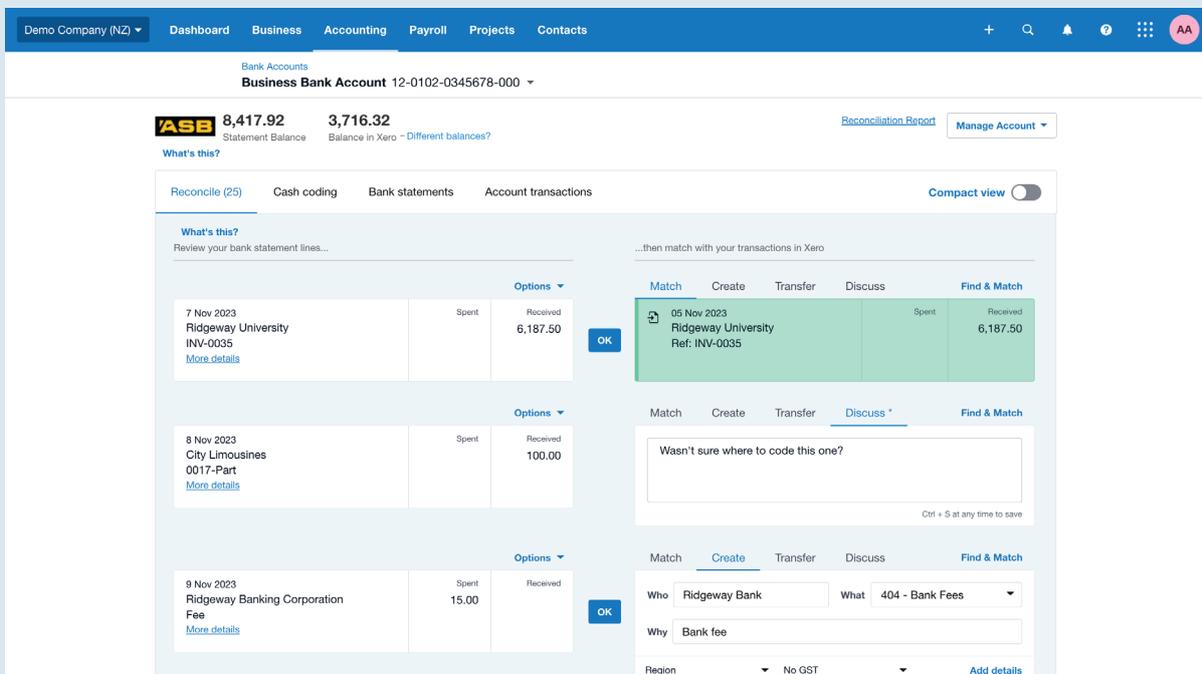
1. Once bank feeds are set up, from the Xero **dashboard**, click **Reconcile [number] items** for the bank account you'd like to reconcile.

2. In the **Reconcile** tab, view the statement lines shown on the left, and choose how you'll reconcile the transaction.
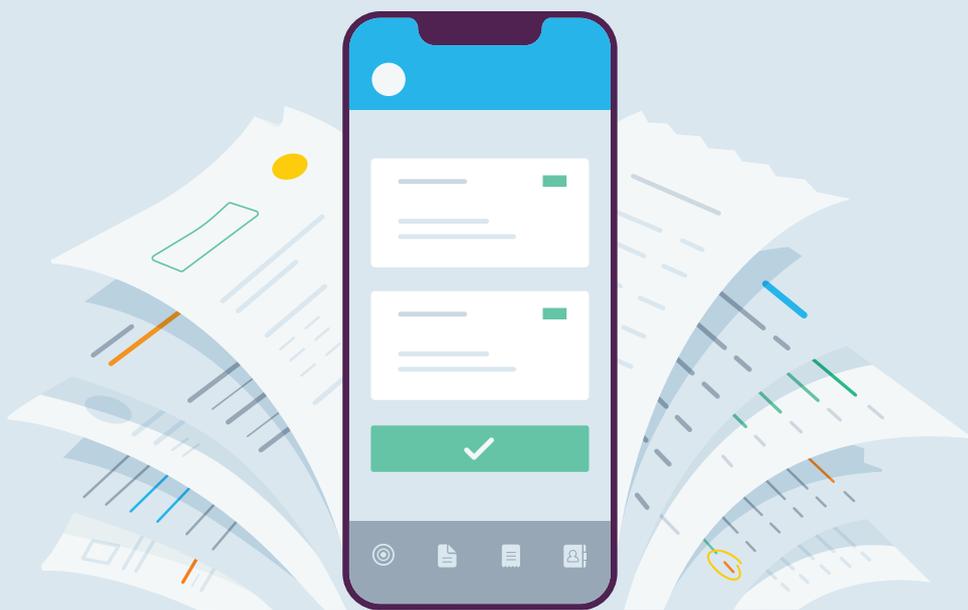
# Ways to reconcile a bank statement line with a transaction

For each individual bank statement line on the **Reconcile** tab, you can:

- **Match** it to an existing transaction in Xero, such as an invoice or bill, using **Find & Match.**

- **Accept** a transaction suggested by Xero based on a previously reconciled transaction or by a bank rule you've set up, by clicking **OK.**

- **Create** a new transaction, such as a spend or receive money transaction, and code the amount to an account code; or create a **Transfer** money transaction to record moving funds to another business bank account.

- **Leave** a comment for your advisor if you're unsure how a bank statement line should be reconciled, by adding a note for them in the **Discuss** tab.

# Financial reports

## Profit and Loss (P&L)

The Profit and Loss (or P&L report) shows you how your business has performed during a certain period. It's also known as a trading report. It takes all of your income, cost of goods sold (COGS), and expenses and summarises them to give you either a profit or a loss figure for the period.

Select the **Accounting** menu, then **Reports**. You can select the **Profit and Loss** report from your favourites, under the Financial statements section, or use the search option.

If you're new to accounting reports, this is a great one to start with and review regularly to get an idea of how your business is doing.

# Balance sheet (BS)

The Balance Sheet (or BS report) takes into account all assets and liabilities, and provides the business's net financial position at a given point in time. It's also known as a Statement of Financial Position.

Select the **Accounting** menu, then **Reports**. You can select the **Balance Sheet** report from your favourites, under the Financial statements section, or use the search option.

This report is important as it's a legal requirement for businesses to ensure they are in a position to pay their debts when they fall due. In New Zealand, companies must pass a solvency test, which means that they have enough value in assets (things they own) to cover their liabilities (things they owe).

Reports
**Balance Sheet**

🎓 Tips and tricks ⭐

**Date:** End of last financial year | **Compare with**
31 Mar 2023 ▼ | None ▼ | ▼ Filter | ⋮ More | Update

**Balance Sheet**

Demo Company (NZ)
As at 31 March 2023

|  | 31 Mar 2023 |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Accounts Receivable | 500.00 |
| **Total Current Assets** | **500.00** |
| **Total Assets** | **500.00** |
| **Liabilities** | |
| **Current Liabilities** | |
| Accounts Payable | 476.79 |
| Business Bank Account | 3,298.82 |
| GST | (963.59) |
| Historical Adjustment | 4,130.98 |
| **Total Current Liabilities** | **6,943.00** |
| **Total Liabilities** | **6,943.00** |
| **Net Assets** | **(6,443.00)** |
| **Equity** | |
| Current Year Earnings | (5,898.54) |
| Retained Earnings | (544.46) |
| **Total Equity** | **(6,443.00)** |

Edit layout | Insert content ▼ | 🔵 Compact view | Save as ▼ | Export ▼

# Tip: Customising the content

- Update the **report settings** along the top of any report to make any changes, such as updating the date range or comparing with previous periods, then click **Update**.

- Use **Common formats** (on the side panel) for comparative insights between periods.

- For further customisation to the report, click the **Edit layout** button in the bottom left corner.

# Aged Receivables

Use the Aged Receivables Summary report to view the amount each customer owes you, and how long the amount has been outstanding.

Select the **Accounting** menu, then **Reports**. You can select the **Aged Receivables Summary** report from the Payables and receivables section, or use the search option.

**Tip:** Run the Aged Receivables Detail report for a more detailed view.

Reports
**Aged Receivables Summary**                                          ☁ Tips and tricks ★

| | | | | |
|---|---|---|---|---|
| **Date:** End of this month | **Ageing Periods** | **Ageing By** | **Columns** | |
| 30 Nov 2023 | 4 periods of 1 Month | Due Date | 3 columns selected | |

**Grouping/Summarising**
None          ▼          ▼ Filter                          ⋮ More   **Update**

**Aged Receivables Summary**                                      🔖 Reorder columns

Demo Company (NZ)
As at 30 November 2023
Ageing by due date

| Contact | Current | < 1 Month | 1 Month | 2 Months | 3 Months | Older | Total |
|---|---|---|---|---|---|---|---|
| Basket Case | - | 914.55 | - | - | - | - | 914.55 |
| Bayside Club | - | 3,434.00 | - | - | - | - | 3,434.00 |
| Boom FM | 1,623.75 | - | - | - | - | - | 1,623.75 |
| City Limousines | - | 650.00 | 269.95 | 250.00 | - | - | 1,169.95 |
| DIISR - Small Business Services | 4,200.00 | - | 270.63 | - | - | - | 4,470.63 |
| Marine Systems | - | 396.00 | - | - | - | - | 396.00 |
| Ridgeway University | - | 6,187.50 | - | - | - | - | 6,187.50 |
| **Total** | **5,823.75** | **11,582.05** | **540.58** | **250.00** | **-** | **-** | **18,196.38** |
| **Percentage of total** | **32.00%** | **63.65%** | **2.97%** | **1.37%** | **-** | **-** | **100.00%** |

Insert content ▼   ⬤ Compact view          Showing items 1-9 of 9          Save as ▼   Export ▼

# Aged Payables

Use the Aged Payables Summary report to view the amounts you owe based on the age of the transactions. The total amount listed includes all outstanding bills, credit notes, expense claims and overpayments.

Select the **Accounting** menu, then **Reports**. You can select the **Aged Payables Summary** report from the Payables and receivables section, or use the search option.

**Tip:** Run the **Aged Payables Detail** report for a more detailed view.

Reports
**Aged Payables Summary**                                          ☁ Tips and tricks ★

| | | | | |
|---|---|---|---|---|
| **Date:** End of this month | **Ageing Periods** | **Ageing By** | **Columns** | |
| 30 Nov 2023 | 4 periods of 1 Month | Due Date | 3 columns selected | |

**Grouping/Summarising**
Group by Document Type   ▼ Filter                          ⋮ More   **Update**

**Aged Payables Summary**                                      🔖 Reorder columns

Demo Company (NZ)
As at 30 November 2023
Ageing by due date

| Contact | Current | < 1 Month | 1 Month | 2 Months | 3 Months | Older | Total |
|---|---|---|---|---|---|---|---|
| **Aged Payables** | | | | | | | |
| ABC Furniture | - | 1,150.00 | - | - | - | - | 1,150.00 |
| Anjanca Amin | - | 476.79 | - | - | - | - | 476.79 |
| Bayside Club | - | 130.00 | - | - | - | - | 130.00 |
| Bayside Wholesale | - | 840.00 | - | - | - | - | 840.00 |
| Capital Cab Co | 242.00 | - | - | - | - | - | 242.00 |
| Central Copiers | - | - | - | 163.56 | - | - | 163.56 |
| Net Connect | - | 54.13 | - | - | - | - | 54.13 |
| PowerDirect | - | 108.60 | - | - | - | - | 108.60 |
| Swanston Security | - | 59.54 | - | - | - | - | 59.54 |
| Xero | - | 56.35 | - | - | - | - | 56.35 |
| Young Bros Transport | - | 125.03 | - | - | - | - | 125.03 |
| **Total Aged Payables** | **242.00** | **3,000.44** | **-** | **163.56** | **-** | **-** | **3,406.00** |
| **Expense Claims** | | | | | | | |
| Anjanca Amin | - | 115.95 | - | - | - | - | 115.95 |
| **Total Expense Claims** | **-** | **115.95** | **-** | **-** | **-** | **-** | **115.95** |
| **Total** | **242.00** | **3,116.39** | **-** | **163.56** | **-** | **-** | **3,521.95** |
| **Percentage of total** | **6.87%** | **88.48%** | **-** | **4.64%** | **-** | **-** | **100.00%** |

Insert content ▼   ⬤ Compact view          Showing items 1-18 of 18          Save as ▼   Export ▼

# Tip: Adding contact details to reports

If you want to see contact details on the report, select **Columns** and choose **Contact, Email, Mobile and Primary Person**. Click **Update** to apply the changes to the report.

This makes it easy to find customer contact details, for example, if you're waiting on payment for an invoice and want to follow up.

# Taxes

## GST Return

Goods and Services Tax (GST) is a tax added to or included in the price of most goods and services. Inland Revenue has rules about registering for GST, along with different GST periods and the method or basis you use for calculating GST. Please talk to your advisor for advice about what's best for your business.

GST is an end-user tax, which means that businesses who are GST registered are required to charge GST on the goods and services they sell. However, those businesses can also claim GST on purchases and expenses they incur while running their business.

Your GST return shows the GST you've collected from sales, less the GST you've paid on purchases. The difference is what needs to be paid to the Inland Revenue (or the amount you'll be refunded if GST on purchases exceeded GST on sales) once the return is filed. Any GST due is generally paid when the report is filed, which can be done directly from Xero.

## Running a GST Return

To run a GST return in Xero:

1. From the **Accounting** menu, select **Reports**.
2. Under Taxes and balances, select **GST Return**. You can also select it from your Favourites or use the search option.
3. Enter your GST details if you haven't already. If you're unsure of your GST details, check your myIR portal or reach out to your advisor.
4. Click **Save**.

# Income tax

Income tax is the amount of tax payable or refundable on the income received, after taking into account deductions. Different entities, such as sole traders or companies, are taxed at different rates. Most businesses get an advisor to prepare their income tax return, to ensure it's prepared correctly. Get in touch with a Xero-certified advisor if you need help preparing an income tax return.

# Employee PAYE tax

Employees earning a wage or salary are taxed directly from their pay. This is known as PAYE (Pay As You Earn). If you employ staff, you're responsible for deducting and paying PAYE income tax on your employees' behalf. Each pay period you need to calculate and deduct PAYE tax. Then, each pay day, you send Inland Revenue the pay details for your employees.

Use Xero Payroll to process payroll and directly submit a payday file to Inland Revenue when posting a pay run.

# Glossary

**Advisor:** An accountant or bookkeeper who you've engaged their services to help with managing the financial needs and requirements of your business.

**Accounts payable:** Refers to the bills you need to pay. They're sometimes called payables, trade creditors or AP. (In Xero we refer to purchases and bills).

**Accounts receivable:** Are invoices owed to you by customers. They're sometimes called receivables, trade debtors, or AR. (In Xero we refer to sales and invoices).

**Bank reconciliation:** When you compare and match your accounting record of transactions against that of your bank, you're carrying out a bank reconciliation. The entries in Xero should match up with the bank records.

**Batch payment:** Use batch payments to bundle multiple bills into one payment transaction. A batch payment file enables you to download a file to upload to your online banking site and approve, saving you time by paying multiple bills at once.

**Bill:**  A document from a supplier that outlines the amount you have to pay for a product or service that is purchased. Also referred to as a supplier/purchase invoice.

**Chart of accounts (COA):** A list of all the accounts that forms the basis of transactional coding and double-entry bookkeeping. It helps categorise transactions into assets, liabilities, income, expenses and equity. Accounts are also called general ledger codes.

The account categories under which all business transactions fall are:
- **Income:** Money received (mostly from sales)
- **Expenses:** Money paid
- **Assets:** Things the business has bought and owns (or part owns), inventory, and money owed to the business (accounts receivable)
- **Liabilities:** Amounts the business owes in unpaid bills (accounts payable), taxes, wages, or loans
- **Owner/shareholder equity:** The balance of the money introduced and withdrawn by the owner or shareholders

**Credit note:**  A document issued by a seller when a buyer cancels an order or returns faulty goods (and the seller agrees to give them a credit).

**Cost of sales:** Represents all the costs that go into providing a service or product to a customer. It may also be called cost of goods sold (COGS).

**Direct costs:** Expenses that are directly linked to the goods or services a business sells. They're the opposite of indirect costs. For most small businesses, a direct cost is also the cost of goods sold (COGS) or cost of sales (COS).

**Financial reports:** Otherwise known as financial statements. There are many financial reports but two of the main ones are:

- **Profit and loss (P&L):** A financial report that shows how much your business has spent and earned over a period of time. It also shows whether you've made a profit or a loss over that time.
- **Balance sheet (BS):** A financial report that summarises the financial state of a business at a point in time. It provides an overview of the value of a business's assets, liabilities, and owner's equity.

**Gross profit:** The money that remains after paying for the things you sold to customers.

**Invoice:** A document that charges a customer for goods or services you've provided. It's also referred to as a sales invoice, but the customer may refer to it as their bill.

**Journal entry:** The name given to any record made in the accounts.

**Ledger:** The place where business transactions are recorded and categorised.

**Net profit:** The money you get to keep after all expenses and taxes are paid.

**Purchase order:** A document sent from a customer to a supplier, indicating the items, quantities, and agreed prices for products or services they'd like to purchase.

**Quote:** A document given to a customer that shows the price you would charge for a job or service.

**Receipt:** A document issued from a business to a customer that confirms they have received payment for goods or services.

**Remittance advice:** A proof of payment document that is sent from a customer to a supplier.

**Statement:** A document that outlines the transactions that took place during a particular period between a buyer and a seller. In Xero there are two types to choose from:

- **Activity statement**, which shows all activity for that customer within a date range.
- **Outstanding statement**, which shows only what's owed by the customer at a certain date.

**Taxes:** Businesses generally have to file three main types of tax returns:

- **GST** (Goods and Services Tax): This is a tax that you may have to add to your prices. The government expects you to collect that cash on their behalf and send it their way at set times.
- **Income tax:** This is calculated as a proportion of your profits.
- **PAYE** (Pay as You Earn) tax: You're expected to withhold income tax from your employees' wages and hand it over to IRD.

For more accounting and bookkeeping terms and to demystify accounting jargon, see the **accounting glossary.**