

Fulfilling the Dream of Independence

Horse-sense advice and Software Tools for starting your own business

Brought to you by Mirror Business Solutions (Pty) Ltd

www.mirrorsa.co.za

January 2012

Mirror MyAccounts Log-on

Mirror MyAccounts Release 2012

4.22	-0.22	10.00%
535.34	-5.22	11.32%
21.23	+9.32	11.56%
20.34	+0.32	10.32%
72.20	-0.21	13.10%
5,322.00	+3.12	10.04%
3.00	-9.33	10.66%
23.03	-3.35	15.29%
255.27	-7.93	15.12%
925.10	+3.03	10.59%
35.23	+0.34	10.93%
4.23	+0.00	11.93%
46.02	-3.23	11.32%
47.35	+3.96	10.32%
74.32	-3.21	10.99%
2.45	-0.32	15.32%
332.45	+9.73	10.02%
56.39	+2.09	11.57%
4.21	+3.03	10.59%
132.09	+0.34	10.93%
33.53	+0.00	11.93%
57.92	+2.23	13.75%
23.33	-2.23	11.32%
532.95	-2.21	10.73%
73.12	+3.96	10.32%
533.22	+1.32	12.12%
2,212.30	-3.21	10.99%
3.00	-0.32	15.32%
53.12	+9.73	10.02%
63.95	+2.09	11.57%
234.22	+9.32	11.56%
2.32	+0.32	10.32%

Database File Currently Connected To:
C:\Mirror\MyAccounts\DemoDB.mdb

Connect To Other File | New | Help

PIN Code

Enter

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Introduction

Mirror Business Solutions is happy to introduce **Mirror MyAccounts** - a compact accounting software package that is ideal for maintaining personal financial records, or for running a chart of accounts for a micro-business.

Mirror MyAccounts is so easy to use that any person with an accounting background will be able to use it within a few minutes.

Mirror MyAccounts is a 100%-free software package that offers practical value. We hope that you will consider Mirror's enterprise software product – Mirror Streamline, should you later require more advanced software tools.

This document is intended for persons who are not yet familiar with accounting and business management principles. We try to present the training material in a lively format that will hold the reader's interest.

We hope you enjoy the story of *Crystal Clear Water Systems*.

You are also welcome to watch the training video: "Fulfilling the Dream of Independence"

1. Value Proposition

After struggling with health issues, John discovered the cleansing and healing value of purified water. Thanks to his improved health and risen energy levels, he is now inspired and he wants to start a new business - installing and maintaining reverse osmosis water purification systems.

John has never before worked in the finance department of any company, so he is a bit unsure about all the statutory requirements to start and operate a company. He decides to call upon an old friend: "Hi Manny, remember I told you I want to start a new business?"

"Hi John. Yes, installing the water purification systems?"

"Yes. I have completed the market study, and I want to start trading as soon as possible. I was hoping we could meet, because I know you have experience in this sort of thing."

"No problem, I can help you with the financial and statutory *administration*, which is actually the easy part. If you are certain that the difficult part - *sales* - will work, then we should meet. You know that *sales* without *proper administration* is asking for trouble - and then all the fun that you are currently experiencing, evaporates rather quickly."

"I understand that both *sales* and *administration* must be in place for a business to be profitable. When can we meet?"

"Tomorrow at the usual place, say at eleven. And bring along your Windows 7 laptop."

"Cool, and thanks! See you then."

2. The devil is in the details

Manny has already poured them coffee by the time John arrives.

"Sorry I'm late," John says as he sits down. He seems irritated.

"Did the cat steal your milk this morning?" Manny asks.

"If only! I was so excited at the prospect of no longer having to go to the water shop every day, waiting in ques and carrying the heavy bottles... I was up last night till past mid-night, struggling with the installation of the water system in my own kitchen. This morning, as I put my feet out of bed, I could at first not understand the wetness beneath my feet. First I thought *the cat* had wettened the carpet again, but then I saw that the water system leaked and flooded the whole house!"

Manny laughs heartily. "Sorry, old friend. I can't help but laugh when I picture your surprise when you woke up! So, are you still as spirited as you were yesterday?"

"Good question. I'm not sure. I don't know how many unforeseen surprises still await me. I have now learned that you *must* check the water pressure *before* installing the system. If you don't, like in my case, the system may leak past mid-night when the pressure goes up slightly, and *that* is a sure-fire way to damage client relationships!" John takes a sip of his coffee, he sighs deeply and stares out of the window. He seems dismayed.

"But does it work now?" Manny eventually asks.

"Yes. I had to install a pressure reducer," John says sulkily.

"And how do you test the quality of the water that comes out of the system?"

"I have a meter that can read Total Dissolved Solids in parts per million, or ppm. Ppm is an indication of the mass of dissolved salts or minerals in the water. Water starts to taste brackish if the reading goes above two hundred ppm. The purification system reduces the dead-mineral content to less than ten ppm, so the water tastes fantastic, as good as rainwater that fell through unpolluted skies! Mix in fresh apple juice, and you are in heaven! Now you also start to save lots of money because after a while, you prefer clean water to expensive drinks - and often - unhealthy drinks! Your body

flushes cleaner, your energy levels rise, and you should also lose weight. And then you start to take on new challenges!”

“Well, you certainly still have your marketing spirit left intact!” Manny laughs. “Why don’t you just start small to learn the finer details and to limit the risk? You are still working on many assumptions, and there is no better acid test for assumptions than putting them into practice. I tell you what, I will be your first client. I will trade my time and knowledge for your service. How does that sound?”

“The principle sounds good. How would you help me then?” John agrees tentatively.

Manny replies: “Don’t formally register a company yet. First trade in your personal capacity while you are still testing the waters. But be sure to keep proper records of all transactions that pertain to your new venture. Tax is the price we pay for civilization, so profits must be declared on your annual return – and then you need a proper system of record-keeping to substantiate your calculations. Also, should the business expand and you need financing, you would need to convince the bank that you have a viable business. Surely it would help if you can present accurate financial statements. But most importantly, you need it for your own sake so that you can always check your assumptions and have accurate information for planning and management purposes. I will help you to install Mirror MyAccounts, and in the process explain some basic accounting principles to you.

If you can learn how to use MyAccounts, you would have *empowered* yourself to later easily adapt to a more advanced package if so required. Also, MyAccounts is one hundred percent free. No strings attached.”

“I brought my laptop and 3G along. Shall we get started?”

“OK, first browse to www.mirrorsa.co.za and then click on Mirror MyAccount’s installer file. Run the installer to create an icon on the desktop. From the log-on screen, then just click *New Database File*.”

John follows Manny’s instructions, and within a few minutes he has installed the software and set up a new database file that bears his name.

Manny now explains: “Every transaction has to be recorded in terms of the effect it has on your profit, equity, assets and liabilities. Profit is easy to calculate, it is just the difference between your incomes and your expenses. Equity, or your ownership, is the difference between what you have – your assets, and what you owe – your liabilities or your loans. Let us just work through a few examples, then you will understand it better. What transactions have already taken place?”

“I brought the source documents along.” John takes out a file and shows to Manny the invoices he had received from the various suppliers. “The first thing I did, was to buy a test machine and some tools. I paid cash from my piggy bank,”

John says proudly.

“OK, but the first transaction would actually be to acknowledge Mr. Piggy – your initial ownership. How much did you have to start off with?”

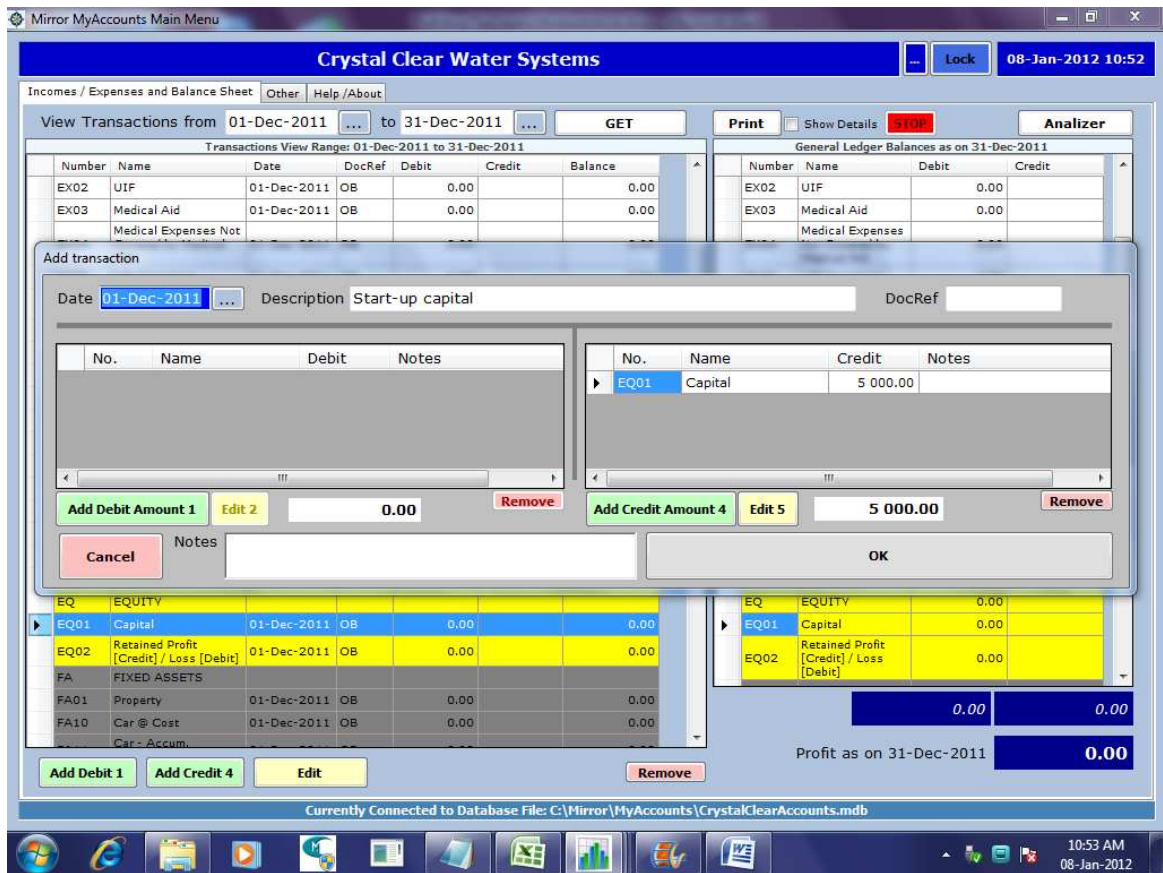
“Five thousand rand,” John replies.

“OK. For the *initial ownership* transaction, your equity increases, becomes more, and your assets also increase, being your purse which can be regarded as an asset. A system of debits and credits was devised to ensure that transactions are recorded accurately, and the rule is always that for any transaction, **the total debits must equal the total credits**. If you can just remember that your assets increase with a debit amount, and that your income and equity increase with a credit amount, then the rest falls into place.”

John frowns. Manny tries to ease his mind: “Let us just load the initial ownership transaction on MyAccounts, then you will see how the logic falls into place. Go to the yellow accounts – EQUITY, and then select the EQ01 Capital Account.”

Manny scrolls down the list of general ledger accounts until the cursor stands on the capital account.

“Now click the ‘Add Credit’ button. Provide a date, a description and amount, and then press ‘OK - Proceed’.” John does as guided, and this is what he sees now:



“If you know the one leg of the transaction, it is fairly easy to figure out the rest. Since all debits must equal all credits, you now have to add a debit leg, or legs, to complete the transaction.”

John adds a debit transaction against CA02 Purse, and he OKs the transaction.

Manny remarks: “You will see that Capital now has a credit balance, and Purse, your asset, has a debit balance. If you understand the following, you should never again struggle with accounting.” Manny writes down the following:

Income + CREDIT - DEBIT

Expense + DEBIT - CREDIT

Equity + CREDIT - DEBIT

Asset + DEBIT - CREDIT

Loan + CREDIT - DEBIT

“An income account increases with a credit, and decreases with a debit. So, when you sell something, you would credit the sales account, and debit your asset. So, if the client paid you cash, which asset account would you credit?”

“Why a credit, I thought you said the *asset* account would be *debited*? Are you trying to confuse me here!?”

Manny laughs: “I was just checking to see if you were paying attention, because if you are not, you are wasting my time, and then I have to re-explain, and then you would have to install *another* water system in my house to make up for the consulting fees!”

John smiles and replies: “Sir, I would debit the Purse account if the client pays me cash, and if he paid directly into my bank account, I would have debited the bank account.”

Manny seems delighted. “Great! Then the following should also be logical to your current understanding:

“An expense account increases with a debit, and decreases with a credit. So, when you buy something that is a direct

expense, you would debit the expense account, and credit your asset account. For instance, if you buy stationery and pay via your bank account, you would debit the stationery expense account, and credit the bank account. Bank became less.”

“Yes, it makes sense,” John replies. “Just check me on this example: When I buy stock, I would debit the stock account, the asset, and I would credit bank. When I later sell the stock and the client pays into my bank account, I would credit the sales account, the income, and I would debit bank, the asset. I also need to decrease my stock, because it has been sold. So I would credit stock, and debit an expense account called cost of sales.”

Manny smiles. “You are a good student!”

John closes his laptop and he also smiles. “So when would be a convenient time for the water system installation?”

3. Value for Value

The next morning John arrives at Manny's house with the water system. John does the installation while Manny makes them some coffee.

"How did it go with the capturing of your transactions?" Manny asks.

"I worked through all the source documents. I was hoping you could double-check my capturing," John says. He points to the file he brought along.

Manny takes the file and opens it. The source documents are neatly filed in chronological order, and the following print-outs were produced by Mirror MyAccounts:

General Ledger Balances as on 05-Dec-2011

Number	Name	Debit	Credit
IN	INCOMES	0.00	
IN01	Salary	0.00	
IN02	Interest Received	0.00	
IN20	Other Income	0.00	
EX	EXPENSES	1 995.00	
EX01	SARS - PAYE	0.00	
EX02	UIF	0.00	
EX03	Medical Aid	0.00	
EX04	Medical Expenses Not Covered by Medical Aid	0.00	
EX05	Life Insurance	0.00	
EX09	Household and Car Insurance	0.00	
EX20	Essential Food	0.00	
EX21	Clothing	0.00	
EX22	School Fees	0.00	
EX30	Cell Phones	0.00	
EX31	Internet	0.00	
EX40	Water	0.00	
EX41	Electricity	0.00	
EX42	Municipal Taxes	0.00	
EX60	Sundry Expenses	695.00	
EX70	Entertainment	0.00	
EX71	Donations	0.00	
EX80	Marketing	1 300.00	
EQ	EQUITY		3 700.00
EQ01	Capital		3 700.00
EQ02	Retained Profit [Credit] / Loss [Debit]	0.00	
FA	FIXED ASSETS	0.00	
FA01	Property	0.00	
FA10	Car @ Cost	0.00	
FA11	Car - Accum. Depreciation	0.00	
FA20	Household Goods @ Cost	0.00	
FA21	Household Goods - Accum. Depreciation	0.00	
LA	LONG-TERM ASSETS	0.00	
LA01	Investment	0.00	
CA	CURRENT ASSETS	1 705.00	
CA01	Bank Account	0.00	
CA02	Purse	1 705.00	
CA03	Debtors	0.00	
CA10	Stock	0.00	
LL	LONG-TERM LOANS	0.00	
LL01	Bond on House	0.00	
CL	CURRENT LOANS	0.00	
CL01	Short-term loan	0.00	

3 700.00 3 700.00

Loss as on 05-Dec-2011

1 995.00

Transactions View Range: 01-Dec-2011 to 05-Dec-2011

No.	Name	Date	Doc Ref	Debit	Credit	Balance
IN	INCOMES					
IN01	Salary	01-Dec-11	OB	0.00		0.00
IN02	Interest Received	01-Dec-11	OB	0.00		0.00
IN20	Other Income	01-Dec-11	OB	0.00		0.00
EX	EXPENSES					
EX01	SARS - PAYE	01-Dec-11	OB	0.00		0.00
EX02	UIF	01-Dec-11	OB	0.00		0.00
EX03	Medical Aid	01-Dec-11	OB	0.00		0.00
EX04	Medical Expenses Not Covered by Medical Aid	01-Dec-11	OB	0.00		0.00
EX05	Life Insurance	01-Dec-11	OB	0.00		0.00
EX09	Household and Car Insurance	01-Dec-11	OB	0.00		0.00
EX20	Essential Food	01-Dec-11	OB	0.00		0.00
EX21	Clothing	01-Dec-11	OB	0.00		0.00
EX22	School Fees	01-Dec-11	OB	0.00		0.00
EX30	Cell Phones	01-Dec-11	OB	0.00		0.00
EX31	Internet	01-Dec-11	OB	0.00		0.00
EX40	Water	01-Dec-11	OB	0.00		0.00
EX41	Electricity	01-Dec-11	OB	0.00		0.00
EX42	Municipal Taxes	01-Dec-11	OB	0.00		0.00
EX60	Sundry Expenses	01-Dec-11	OB	0.00		0.00
	Tools	03-Dec-11	42544	695.00		695.00
EX70	Entertainment	01-Dec-11	OB	0.00		0.00
EX71	Donations	01-Dec-11	OB	0.00		0.00
EX80	Marketing	01-Dec-11	OB	0.00		0.00
	Promotional installation for Manny	05-Dec-11	1001	1 300.00		1 300.00
EQ	EQUITY					
EQ01	Capital	01-Dec-11	OB	0.00		0.00
	Start-up capital	01-Dec-11			5 000.00	-5 000.00
	Installed first system for own use	02-Dec-11		1 300.00		-3 700.00
EQ02	Retained Profit [Credit] / Loss [Debit]	01-Dec-11	OB	0.00		0.00
FA	FIXED ASSETS					
FA01	Property	01-Dec-11	OB	0.00		0.00
FA10	Car @ Cost	01-Dec-11	OB	0.00		0.00
FA11	Car - Accum. Depreciation	01-Dec-11	OB	0.00		0.00
FA20	Household Goods @ Cost	01-Dec-11	OB	0.00		0.00
FA21	Household Goods - Accum. Depreciation	01-Dec-11	OB	0.00		0.00
LA	LONG-TERM ASSETS					
LA01	Investment	01-Dec-11	OB	0.00		0.00
CA	CURRENT ASSETS					
CA01	Bank Account	01-Dec-11	OB	0.00		0.00
CA02	Purse	01-Dec-11	OB	0.00		0.00
	Start-up capital	01-Dec-11		5 000.00		5 000.00
	First system	02-Dec-11	3001		1 300.00	3 700.00
	Tools	03-Dec-11	42544		695.00	3 005.00
	Bought system for Manny	04-Dec-11	3040		1 300.00	1 705.00
CA03	Debtors	01-Dec-11	OB	0.00		0.00
CA10	Stock	01-Dec-11	OB	0.00		0.00
	First system	02-Dec-11	3001	1 300.00		1 300.00
	Installed first system for own use	02-Dec-11			1 300.00	0.00
	Bought system for Manny	04-Dec-11	3040	1 300.00		1 300.00
	Promotional installation for Manny	05-Dec-11	1001		1 300.00	0.00
LL	LONG-TERM LOANS					
LL01	Bond on House	01-Dec-11	OB	0.00		0.00
CL	CURRENT LOANS					
CL01	Short-term loan	01-Dec-11	OB	0.00		0.00

“OK, the first transaction was Mr. Piggy: credit Capital and debit Purse with five thousand rand.

“The second transaction was the purchase of your first system for R1300. So you debited Stock, and you credited Purse. I see you then credited stock, and debited your equity, because you are drawing stock out of the business for personal use. Good, that is correct.

“The third transaction was the purchase of some tools. If you were a big business, you would probably indicate this as fixed assets, but for your purposes, I would deem it as an expense. Oh, I see, that *is* what you did: You debited an expense account, and credited purse with R695.

“The fourth transaction is the purchase of one more unit, again at R1300. So you debited Stock, and you credited Purse.

“Oh, and the fifth transaction is an invoice at zero rand, made out to myself! And you recorded it as a debit against Marketing, and a credit against Stock, at the cost price of the inventory. Well done. As you see, once you understand the underlying debit-credit mechanism, the recording part is easy. You just have to figure out the nature and purpose of the transaction.”

John has completed the installation, and he pours two glasses of crystal clear water.

Manny tastes the water and is delighted. “I thank you, Sir. May you have many more happy clients! But then, you may not really want what you wish for.”

John frowns: “Why do you say that?”

“Once your business grows and you have to appoint people, a whole lot of legal requirements come into play. Then you have to register at CIPC, at SARS and UIF and various other statutory bodies. It is best to appoint a tax consultant for all these interactions. But it remains a cumbersome administration, and the costs thereof can quickly bite into your profits and also into the fun you may be having. I wish South Africa could switch over to a simple economic activity tax, similar to what Singapore has. Who knows, shall we keep on dreaming of happier days in South Africa, or should we seek it somewhere else?”

“Hope keeps the spirit alive. You keep on hoping that South Africa will be freed from complex tax laws, and I will keep on hoping that all my future installations run as smoothly as this one!”

John has finished his water and starts to pack his tools. “I’m off to pick up some marketing brochures. Thanks for all your help, my friend. Keep well and see you soon again.”

4. Year-End

A few months later John calls Manny again: “Hi Manny, do you mind to quickly assist me with the year-end transaction on Mirror MyAccounts. And then I have to print reports for my tax consultant.”

“Hi John. No problem, it is really straight-forward: Go to ‘Other’ on the main menu, and then ‘Global Settings’. Can you confirm that ‘Current Financial Year-End Date’ is on 29-Feb-2012?”

“Yip.”

“OK. Now just press OK, and then ‘Year-End Transaction’. Mirror MyAccounts will add a transaction to zero out the income and expense accounts to the retained profit account.”

John makes the few clicks, and he is done. “I know where to print the reports, so I won’t keep you longer. Thanks Manny.”

“No rush, my friend. So what is new?”

“I recently installed Mirror Streamline and played around on the demo company. It is very similar to MyAccounts.”

“Yes, MyAccounts was copied from Streamline and then simplified to the bone. So MyAccounts and Streamline share the same type of ergonomical interface, and the keyboard short-cuts for quickly selecting items in a list, or for quickly

inputting dates, are similar. You may find Streamline's help files and training videos useful."

"At the current growth rate, I will shortly need a more formal system that allows for multiple users, invoices, debtor accounts, creditors and explicit stock control."

"That is fantastic news! What did you say earlier: Hope keeps the spirit alive!"

"And also busy! I have to attend to another installation in a few minutes. Keep well!"

"Keep well."