



Bookkeeping Basics for Small Business Owners

botkeeper

Businesses of all sizes engage in bookkeeping activities, and it's a vital function to keep your business financially stable and in compliance with regulations and tax law. It's the cornerstone of continuity but one that's not as exciting as marketing or sales. No business can survive without this key endeavor.

As a small business owner, you might start out doing your bookkeeping then hire someone internally or outsource it as your business grows. The more complex the ownership of the business, the more likely you'll need professional help from the moment you start your business.

■ What is Bookkeeping?

So, what is bookkeeping, who does it, and what do you need to know? In its simplest definition, bookkeeping is the act of keeping records on the financial activities of a business, whether for-profit or charitable. Sole proprietorships, partnerships, LLC, and corporations must all engage in bookkeeping.

Bookkeepers track, store, and retrieve financial records and transactions. This key role records all money that comes in or out of a company as well as the obligation to pay money or the right to collect money. You must record every financial activity in the books of your company.



A bookkeeper's most common financial transactions include:

- Invoicing services or goods sold to customers
- Registering payments for outstanding invoices
- Recording invoices owed to suppliers, contractors, etc.
- Issuing payments to suppliers, contractors, etc.
- Tracking and recording employee payroll activity
- Paying employees and recording payroll taxes
- Reconciling bank statements
- Track activities and prepare financial reports
- Make annual entries such as depreciation, bad debt write off, etc.
- Supply information to the accountant or CPA

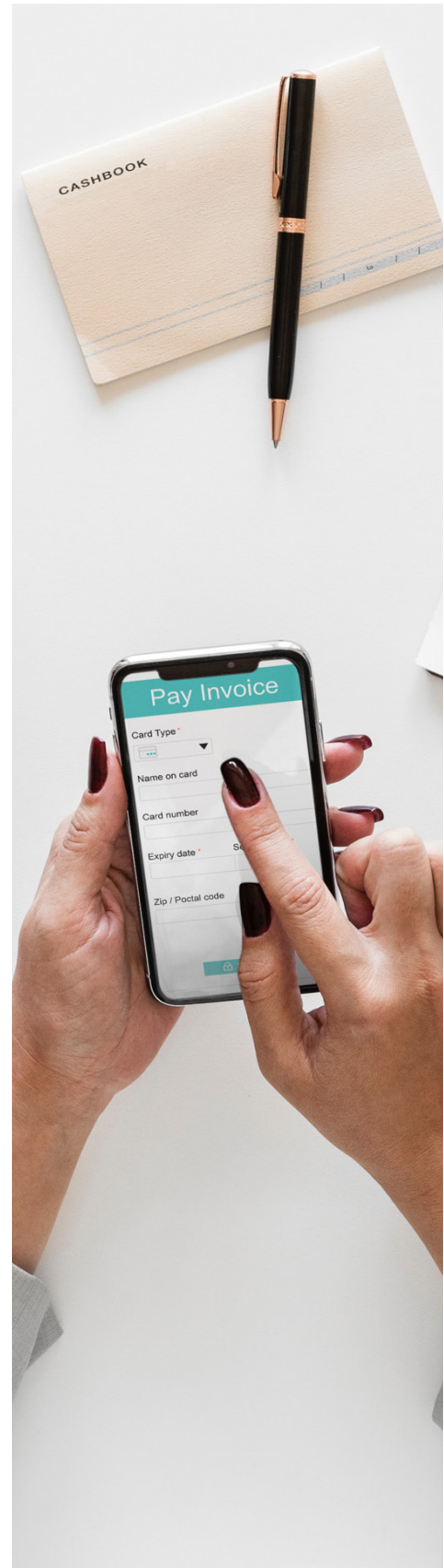
Bookkeeping vs. Accounting

Some people use the words bookkeeping and accounting interchangeably, but they are distinctly different in job function, education, and expertise. Bookkeepers might not have specific training in finance. They may have some college (or none) or a two-year degree rather than a Bachelor's. Anyone can function as a bookkeeper if they can develop the skills and experience. Accountants are different. Someone using the title "accountant" is typically expected to have a **four-year degree in accounting** or finance.

Beyond that, a CPA (certified public accountant) has additional education, certification, and credentials. You will likely need a CPA to work with your business at some point. They file taxes, annual reports, handle audits (internal and external), and engage in strategic planning.

Bookkeeping is a transactional role that's largely administrative. Bookkeepers record the financial transactions in the bookkeeping or accounting system. Accounting tends to be more subjective where the professional engages in insight and analysis based on the transactions of bookkeeping.

Depending on the size of your business, industry, and how you're incorporated, you might need all three financial specialists – a bookkeeper, an accountant, and a CPA. But if you're just starting out, you'll often begin with a bookkeeper and only engage a CPA for tax filings.



Bad Things Can Happen If You Don't Keep Your Books Current

If you're running your business and don't have a bookkeeper or aren't doing the books yourself, you might wind up in trouble. Some business owners live off their checkbooks or business credit cards, paying bills, purchasing, and collecting cash without keeping a record of the transactions.

Throwing receipts into a bin and planning to catch up on the books later is no way to go. Your books should be kept current on no less than a weekly basis. If you don't keep current with the bookkeeping, you might suffer some of these negative consequences:



Tax issues

Running a company means you'll have federal and state income taxes, self-employment or employment taxes, and possibly sales and use taxes. Income tax filings are on a monthly, quarterly, or annual basis depending on your revenue and payroll taxes are due more often. Miss a deadline and you can expect fines and penalties.

Lingering errors

Mistakes happen in business, and they're easier to fix the sooner you notice them. You might have underbilled a client, or they might have underpaid. Your bank might have double charged you or not credited a deposit properly. If you're not current on your books and bank reconciliations, it might be too late when you notice to fix the mistakes.

Turned down for financing

To get a business loan or line of credit, you must be able to demonstrate your company's stability. For a small business, that means providing the lender with your income tax returns, financial statements, and records to prove your monthly revenue, expenses, and net income. Without these critical statements, approval isn't likely.

Planning problems

Without accurate and current financial information, you won't know how well your business is doing, what areas are most profitable, and to best plan. Monthly reporting of results helps keep you on track. If you let your bookkeeping pile up, you won't know if you're operating at a profit and how you could be doing better.

How to Do Bookkeeping in 6 Basic Steps

If you're a business owner asking yourself, "Do I need a bookkeeper?" The answer is yes. But you can be that bookkeeper, or you could turn to someone you trust to help you out with the task. You don't need to run out and buy bookkeeping for dummies. Just follow these six steps.

1

Choose how to keep the books

Running a company means you'll have federal and state income taxes, self-employment or employment taxes, and possibly sales and use taxes. Income tax filings are on a monthly, quarterly, or annual basis depending on your revenue and payroll taxes are due more often. Miss a deadline and you can expect fines and penalties.

2

Decide on cash or accrual basis

Cash basis means you only record transactions when you take in cash-in-hand or pay out cash for expenses. **Accrual basis** means you record invoices and track accounts receivable. You record bills owing to vendors as accounts receivable. You accrue transactions for which you're waiting to get/send the cash. Accrual is standard for businesses with lines of credit and receivables.

3

Set up your accounting system

Every accounting system needs to be properly set-up. Most accounting programs are intuitive and guide you through the process- Quickbooks Online and Xero are two great options! At a minimum, you need to set up your bank account, a sales account, and expense accounts by category. You may be able to choose a template company that's like yours depending on your bookkeeping software.

4

Start logging activities

The best bookkeeping habit is to log activity daily. When you make a sale, record it, and issue an invoice (if needed). When you spend money, record that. By tracking frequently, you shouldn't fall behind and create a crisis. Record every check you write and every bill you owe. At a minimum, even the smallest of businesses should have weekly bookkeeping activity.

5

Maintain records

After you record an invoice, expense, or sale, don't toss the documentation. You might be audited and need to present the receipt or proof of the transaction. If your receipts are digital, be sure to make a cloud backup. Check with your tax prepare or CPA to find out if there's anything else you need to be accumulating in your records to satisfy their reporting requirements.

6

File taxes on-time

If you have employees, you'll have payroll taxes, and those must be filed promptly along with monthly or quarterly reports. Income taxes demand quarterly estimates in most cases. For payroll taxes, you might want to engage an outside payroll company, so that they will handle your payroll taxes since these are complex. A CPA is a smart bet for filing quarterly and annual tax statements.

Sound complicated? Consider a simpler solution:

For business owners that don't want the hassle of starting a bookkeeping system from scratch, there are lots of solutions out there. Most programs still require a significant amount of data entry to manage, but there are new programs that tap artificial intelligence (AI) tools to **streamline the process**. Some AI-based systems extract your financial data and process your transactions for you.

Your time as a business owner is better spent growing your business. Automated bookkeeping frees your time to focus on what's important.