

Bookkeeping Guide for Small Business Owners

How to deal with it like a boss



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Okay, I get it – you went into business because you have a marketable set of skills or know a lot about your industry. Or you are creative and want to share your creations with the world. And maybe you want your professional efforts to be an investment in yourself and not in someone else’s profit-making venture. That’s great – just the fact that you’re reading this tells me you are likely to succeed.

However, the real reason you are reading this is probably because your bookkeeping responsibilities weigh on you or actually freak you out. Not to worry – help is out there, and you CAN do this.

wait, what's "this"??

THIS is your business health – your financial records are the EKG for how you are doing. It’s the snapshot of how your decisions and business actions have come together in the big picture. Whether you are a sole proprietor with an online-only business or the president and CEO of a corporation with multiple employees, your business is represented to banks, tax agencies, prospective buyers, and your divorce attorney through your financial statements.

Like it or not, you, as the business owner, are responsible for the financial health and well-being of your company and that state of health is documented by your bookkeeping. Period.

Don't freak – this is normal. It's part of business ownership, and I'm not telling you that you have to be super good at it – just acknowledge it and own it!

I'm going to go over this in several sections. Take it one at a time, flip to the most important, scan all of them, whatever – use this as a resource guide in your own way. This is not comprehensive and will just give you an overview.

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Business Formation – the Foundation

Let's talk business formation for a minute. How does that affect your bookkeeping? Well, keeping in mind that I am not a CPA nor am I an attorney (and I whine and cry over doing my own tax return), here's a short overview:



Sole proprietorship: this business structure is all about you. The taxes will be paid on what you earn as an individual, and while you will want to keep business income and business expenses separate from your personal expenses and other income, you will pay taxes on the net income you report.



Limited Liability Company (LLC) – single member: this is much the same as a sole proprietorship, but an owner won't be held liable for LLC debts if the LLC runs out of funds. However, if you have personal money all jumbled up in the LLC, you could lose that benefit. I don't want to get into the legal bits and pieces, but check out LegalZoom.com's list of topics. Good information there.



Partnerships: this requires filing a Schedule K-1 with the IRS and with each business partner. There's no taxes to pay with the return, but each partner's share of the income gets passed on to their personal tax returns. Can you see the need for accurate, valid accounting?? You want to pay more tax than necessary because you've got crappy bookkeeping? Nooooo, of course not!



LLC – multiple members: same as a partnership. You need to file a Schedule K-1 and each LLC member will be taxed on their own income from the LLC.



Corporation: this is a separate legal entity that is taxed as such. C-corps and S-corps have different tax impacts to the owners, so talk to your CPA if you have questions. The impact to the bookkeeping is simple – accurate records are taxed accurately.

And that’s a good spot to jump to the next topic: why you need good accounting records. I’ll spare you the longer version and give it to you in bulleted points.

Does My Bookkeeping Really Matter?

There are two basic reasons for good bookkeeping practices: taxes and business operations. You are going to file a tax return for yourself and/or your business and you will pay taxes based on the reported profits. If you are confident you are reporting accurate totals, you can be confident you are not overpaying or underpaying your tax responsibilities. And you are working hard to build your business, so you need solid records for all of your business decisions.

So here are the bulleted points I promised:

- 1) Tax reasons for good accounting
 - Stay out of trouble with the IRS and state agencies
 - File valid tax returns

- Give your tax professional good records so he/she doesn't have to fix a bunch of funky numbers before creating a tax return
- Pay for less tax prep time

2) Business reasons for good accounting

- It is the basis for determining where and how to make adjustments to your processes, products, or systems
- It is the basis for determining how to grow your business
- Knowing what your profit margin is for each product or service
- Understanding how can you increase sales without jacking up costs at the same time
- Know whether you're succeeding or not – are you making a profit, does your cash flow cover costs
- Reporting to the other owners

Let's throw in a quick list of what I mean by business processes and systems:

- Processes include marketing, advertising, delivery, follow-up
- Products include product offerings (what sells well, what doesn't sell well), product development, customer requests/expectations
- Systems include record keeping, customer communication, bill paying, receiving and recording revenue, paying employees, recording and paying taxes, etc.

Basically, your bookkeeping records are the foundation for everything you do in business.

I'm going to say that again.

Bigger.

With a background.

Your bookkeeping records are the foundation for all your business decisions.

What Do I Need to DO?

So what exactly are good bookkeeping records? They are:

- o Accurate – represent business transactions as they really happened
- o Accessible – can easily provide a CPA/tax professional or an auditor with the information or allow you to look up your historical records
- o Auditable – supported transactions, documented purchases, accurately booked business-related transactions

Now, how do you go about creating those without making yourself bat-shit crazy?

- What do you need to do track your records? A simple check register at a minimum, otherwise your accounting system (Xero, QuickBooks Online, FreshBooks) can be linked to your bank account and your transactions will download automatically. That includes:
 - o Money coming in – deposits, revenue classification (for tax purposes: retail, wholesale, etc.)
 - o Money going out – checks written, debit card transactions, wire transfers, ACH payments, etc.
 - o Investments in your business – owner/member contributions
 - o Money and resources pulled out for yourself – owner/member draws

What else are you monitoring as a business owner?? Well, it will vary with every business but it could include any of or none of the following:

- Cash management
 - Bank deposits
 - Cash in tills
 - Separate bank accounts for business
 - Cash access to employees
 - Unrecorded sales
 - Till balancing
- Debt management
 - Recording loan payments – expense versus repayment
 - Scheduling and paying when bill payments are due
- Handling expenses – how you track the cost of things, services, or support you buy for your business
- Handling revenue – recording retail sales, wholesale sales, out of state sales, etc. The type of sale you make matters for various reasons.
- Profit versus money in the bank – good cash flow management means that you have the funds available to pay your bills when they are due, and profit simply means the difference between cost of sales and your actual sales
- Cost of goods sold – knowing the real cost of what you make or sell

Tools for Success

There are a few basic tools you can use that will help build a foundation for success:

- Month end check list – accounting and bookkeeping is a systematic thing. Do the same thing each month/quarter the same way, and a checklist helps for that. That includes bank reconciliations, credit card reconciliations, loan reconciliations, printing and reviewing financial statements, and the entering a closing date in your accounting system

for protection. And, of course, back-up your data if it's not an online program!

- o Software – choose the right accounting program for you and your business and keep it current.
- o Hiring someone to do it for you – hire the right bookkeeper! This means someone who is qualified and will work with you and your CPA.
- o Filing systems – store your business records with care and in such a way that you can look back easily, find historical data, and produce them someday in the event of an audit.

Conclusion

I don't intend to freak you out or overload you with this information, and you should know that it is in NO way comprehensive or complete. Every business, every business owner is unique, and the way you will handle your business transactions and accounting is unique as well. The processes you will develop need to allow for your own preferences but should still follow standard accounting practices and guidelines. What a good bookkeeper will do for you will vary with what you want him/her to do. But generally speaking the services should include monthly bank, credit card, and loan statement reconciliations. This process proves that your bookkeeping matches outside records – it's important.

Other bookkeeping services may include reviewing financial statements, usually the Profit & Loss (shows income versus expenses and the bottom line results) and the Balance Sheet (gives you asset, debt, and ownership values). Also, depending on your preferences, a bookkeeper might calculate and file your monthly/quarterly/annual excise tax returns, run payroll, calculate and file quarterly and annual payroll reports, issue 1099's and W-2's at the end of the payroll year, and anything that makes your business life easier. This all depends, of course, on your business needs, what you want, and the bookkeeper.

About Leslie

Leslie has been working in accounting longer than she'd like to admit, so let's just say it's something north of 30 years. She holds a Bachelor degree in Business/Communications, a Master of Arts in Organizational Leadership, and a Master of Science in Human Resources. She has a passion for helping small business owners make business decisions and choose strategic action that create organizational strength and build strong business foundations. Her experience covers a wide variety of industries that includes public agencies, property management, retail/wholesale sales, agriculture, professional services, healthcare, and more.

Reference and Resources

- Business formation: LegalZoom.com/knowledge – huge amount of information here.
- Accounting/bookkeeping software:
 - QuickBooks Online, QuickBooks desktop - <https://tinyurl.com/jhum2ef>
 - Xero - <https://www.xero.com/us/>
 - FreshBooks - <https://tinyurl.com/j7j3lxz>
- Washington State Department of Revenue
 - <http://dor.wa.gov/content/doingbusiness/>
- Small Business Administration – tons of good training and information here – <https://tinyurl.com/pccppy5>.