BOOKKEEPING BASICS FOR YOUR SMALL BUSINESS

HONEST ACCOUNTING GROUP
ORGANIZE, ANALYZE, MAXIMIZE™

CORNERSTONE TO A SUCCESSFUL AND PROFITABLE BUSINESS

O

Organize:

A well-organized bookkeeping system is the cornerstone of business success. With an accurate and up-to-date system, you'll save time, reduce costs, and improve business performance over the long run. For example, a business with streamlined bookkeeping can quickly generate accurate financial reports for securing loans or investments.

A

Analyze:

Financial analysis is key to shaping tomorrow's business goals. Analyzing your records gives you deeper insights into the financial status of your business, improving decision-making, profitability, and cash flow.

M

Maximize:

Every transaction in your business provides valuable data. With proper bookkeeping, you'll be able to review this data to make decisions that will ensure your business remains healthy, profitable, and on a growth path.

"If you can't measure it, you can't improve it."

Enoch Garcia

CEO/SENIOR QB PROADVISOR

Double Entry Bookkeeping:

Bookkeeping relies on the double-entry system, where every financial transaction is recorded as both a debit and a credit. This ensures your books stay balanced and accurate.

Key Equation:
Assets = Liabilities + Equity

This is the foundation of double-entry bookkeeping. It applies to every transaction your business makes.

Example:

If you purchase equipment for $1,000, you would:
- Debit the Equipment account (increasing your assets).
- Credit the Cash/Bank account (decreasing your cash).

Debit (Left)	Credit (Right)
Equipment $1,000	Cash $1,000

Understanding this process helps maintain accuracy across your books.

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Source Documents:

Every transaction requires a source document—whether it's a contract, invoice, or receipt. These provide the necessary details for recordkeeping and act as proof of the transaction.

Examples of Source Documents:

- Sales Invoices
- Purchase Receipts
- Contracts
- Bank Statements
- Credit Card Statements

Managing Documents:

Using accounting software like QuickBooks or Xero allows you to scan and attach these documents directly to transactions for easy reference.

Best Practice Tip:

Maintain both physical and digital copies of all critical documents for at least 7 years to comply with tax requirements.

End of Period Procedures (Monthly, Quarterly, Annual)

At the close of each period—whether it's monthly, quarterly, or annually—certain procedures help finalize your records. These steps ensure accuracy and consistency in your financial reports.

Common Adjustments:

- Accruals for expenses incurred but not yet paid.
- Prepayments for expenses paid in advance.
- Depreciation of fixed assets over time.
- Deferred Revenue for payments received but not yet earned.

Checklist:

- Reconcile all accounts.
- Adjust for depreciation.
- Review and approve financial reports.
- Lock accounting periods to prevent changes.

MONTH-END PROCEDURES:

Completing monthly tasks helps maintain clean and up-to-date financial records. Here's a detailed breakdown of essential tasks:

Tasks:

1. Reconcile Bank and Credit Card Accounts: Match your accounting records with bank and credit card statements to ensure everything balances.
2. Review Accounts Receivable and Payable: Follow up with overdue clients and pay bills on time to avoid late fees.
3. Process Payroll: Verify employee hours, process payroll, and ensure payroll taxes are correctly calculated.
4. Check Inventory Levels: Reconcile inventory records and adjust for discrepancies.
5. Review Financial Reports: Generate and analyze Profit & Loss (P&L), Balance Sheet, and Cash Flow statements.

Automation Tips:

Set up automated reconciliations and recurring payments using accounting software to save time each month.

Task Timeline:

- 1st to 5th of the Month: Complete bank reconciliations.
- 5th to 10th of the Month: Review financial reports and accounts receivable/payable.

YEAR-END PROCEDURES:

Year-end tasks help prepare for the new fiscal year and ensure compliance with tax requirements. Completing these steps will allow your business to enter the new year with a clean slate.

Steps:

- Perform an Inventory Count: Physically count inventory and adjust records to account for losses or discrepancies.
- Provide Information to Your Accountant: Prepare financial documents (bank statements, invoices, etc.) for your accountant to complete tax filings.
- Make Year-End Adjustments: Record adjustments like bad debts, deferred revenue, and accrued expenses.
- Back Up Your Accounting Data: Create secure backups of your accounting files to ensure no data is lost during the transition to the new year.
- Tax-Saving Strategies: Contribute to retirement accounts or take advantage of bonus depreciation to reduce your tax liability.

Example:
If your business purchased new equipment at the end of the year, you might apply depreciation to reduce your taxable income.

END OF PAYROLL YEAR PROCEDURES:

Closing the payroll year requires careful review to ensure compliance and accurate reporting for tax purposes.

Key Tasks:

1. Run Final Payroll: Ensure all wages, taxes, and benefits for the year are accurately processed.
2. Distribute Year-End Forms: Prepare and distribute W-2s to employees and 1099s to contractors.
3. Update Payroll Settings: Install any software updates, adjust tax tables, and verify benefits and deductions for the new year.

Common Payroll Errors:

- Incorrect tax withholdings
- Missed deductions or benefits contributions

Best Practice:
Run a trial payroll before submitting your final payroll to catch any potential issues early.

COMPILE THE ADJUSTED TRIAL BALANCE & CLOSE THE BOOKS:

Closing your books for the year ensures that your financial records are ready for tax filings and accurate reporting in the new year.

Steps to Compile the Trial Balance:

- List all general ledger account balances.
- Make adjustments (accruals, prepayments, etc.).
- Ensure that debits equal credits for all accounts.

Closing Temporary Accounts:

- Close Revenue Accounts: Debit revenue accounts to zero them out, and credit the Income Summary account.
- Close Expense Accounts: Credit expense accounts to bring them to zero, and debit the Income Summary account.
- Transfer to Retained Earnings: Transfer the final balance in the Income Summary to Retained Earnings.

Pro Tip:

- Use accounting software features to automate much of the closing process, reducing the chance of human error.

CONCLUSION

By following the steps outlined in this guide, you'll develop a comprehensive bookkeeping system that keeps your financial records organized and accurate. This will allow you to make informed decisions, remain compliant with tax requirements, and set your business up for future growth.