



## **Bookkeeping Guidelines**

The importance of keeping adequate records cannot be stressed too much. Without financial records, you cannot determine how well your business is doing or where it is going.

US Small Business Administration

Be forward thinking. Doing your bookkeeping every week keeps you moving forward and facilitates a growing business.

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### **Cash vs. Accrual**

- Cash: record sales when payment is received, and record expenses when they are paid
- Accrual: record sales when you invoice, record bills when they are dated

I find you should run your business on an accrual basis, and your accountant is likely going to file your taxes based on a cash basis. QuickBooks allows you to switch back and forth in your reports. Handy!

### **Success Bookkeeping Habits**

- Get an EIN from the IRS / do not use your SS#
- Use your business computer for business use only. This computer should have Internet access. I have seen many tragedies that could have been avoided simply by having separate computers for business and home.
- Backup your stuff... backup your stuff... backup your stuff!
- Keep the bookkeeper's area neat and organized. Create a folder or "in-box" for bookkeeper, and put all business related mail and papers in it until bookkeeper's next visit
- Use a payroll service. Do not get caught in the payroll-tax-trap by not using the money for something else – and then not having the money to pay the taxes when they are due! Using a payroll service will avoid this common mistake.
- Use separate credit cards and bank accounts for business and personal use
- Use company checks and credit cards to pay all business expenses. Avoid using your ATM card – this will protect your cash flow.
- If infusing cash into the business – do it via deposits to the bank account, and NOT by paying any business expenses with personal funds.
- Owner's Draw should not be spending via the company bank accounts or credit cards – owner distributions should be made via company check for even amounts (\$500, \$1,000, etc.)

- Sales tax: make sure you keep exceptionally good records on total sales, non-taxable sales, taxable sales. Pay sales tax on time!
- Business expenses should never be paid in cash except in an emergency. Keep cash receipts in a special folder for your bookkeeper to record
- Use your business address for all mail. Having essential business papers in 2 places slows your bookkeeper down.
- Specify duties: have concise, written job descriptions – and follow them. Many bookkeeping mishaps are created by someone just trying to “help out”. Transactions get missed and/or duplicated, and the books become muddled.
- Properly reconcile bank statements, credit card statements and loan statements. Print reconciliation reports and attach to statements.
- Try to get “two sets of eyes” on every transaction
  - approve bills prior to letting the bookkeeper pay them - put your initials at the top of the bill
  - sign your own checks – do not give check signing ability to the bookkeeper
  - review the bank statement and credit card statements prior to giving them to the bookkeeper

### **Employee vs. Sub-Contractor?**

- Properly classify employees: **These 3 things must be true to consider someone a 1099 contractor:**
  1. The individual is free from control and direction in connection with the performance of a service; and
  2. The service is performed outside the usual course of your business; and
  3. The individual is customarily engaged in, and independently providing this service
- **For example:** a plumber outsources some work to another plumber who owns his own plumbing business, paying him for the number of hours it takes, and supervising the work for quality. He is considered an employee and goes on payroll because it violates question #2.
- **For example:** a plumber outsources some work to a carpenter who owns his own business, and asks him to repair a wall after a pipe burst. He pays him fixed fee for the job, and does not supervise the carpentry staff . The carpenter is considered a subcontractor because 1,2 and 3 are all true.
- All subcontractors should carry their own Worker’s Compensation Insurance – or you will pay the premium on their wages/payments or YOU will pay an additional premium on your Worker’s Comp. policy.

### **Paper Trail**

- Going paperless: get professional advice on document names and filing procedures prior to going paperless. You will need many of these documents for your accountant and tax forms. How much time will it take you to retrieve what you need?
- Leave a proper audit trail. If you don’t think you could easily recreate your company’s finances for last year, then you are probably not leaving enough of a paper trail.

- Keep all receipts. If it was paid by personal check, cash, or personal credit card write this on the top of the receipt – you will need to keep these separate to get the tax deduction.
- Meals: keep meals receipts and write on top who you had the meal with and why.
- Receivables: keep a copy of every invoice, and a record of payments made. File alphabetically per client name.
- Payables: keep a copy of every bill you pay, and the check that paid it. File alphabetically by vendor name.
- Keep all pages of your bank statements and credit card statements. File alphabetically by bank and credit card name.
- Keep only this year’s records handy. Box and store prior years.

### **Things your bookkeeper will need**

- Bank statements back to January of current year (or the business start date)
- Credit card statements to January of current year (or the business start date)
- Accurate records of what all deposits consist of:
  - Retail: department totals / cash totals / credit card type totals / daily sales / owner’s equity deposits / loan deposits
  - Other: Customer payments / cash and check totals / owner’s equity deposits / loan deposits
- Accurate records of retainers and up-front deposits
- Listing of all loans, lines of credit, auto loans, owner investment
- Accurate records of all checks written
- Box of Pendaflex folders
- Box of 3<sup>rd</sup> cut manila file folders
- All payroll data to January of current year (or the business start date)
- Employee names, addresses, W-4 on file
- Sub-contractor names, mailing addresses, W-9 on file, tax ID numbers, copies of their Worker’s Compensation and/or Business Liability Insurance binders
- Accurate records of all payroll tax deposits
- Accurate records of all sales tax deposits
- Receipts of cash purchases or out of pocket expenses
- File cabinet dedicated to bookkeeping / accounting

### **Small Business Bookkeeping Software**

- QuickBooks Pro works for all types of businesses \$199.00
- Peachtree \$299.00
- MYOB \$299.00
- **Avoid:**
  - Putting it all on spreadsheets
  - QuickBooks on-line version
  - Quicken
  - Microsoft Money
  - QuickBooks Simple Start
  - QuickBooks for Home & Business

### **Are you running your business or is it running you?**

- Know your business breakeven per week/month
- If you build a profitable business you can get a bank loan, get investors, and move your business forward all the time. If you are continually trying not to show any profit you are not creating a successful, profitable, strong business. Working with a good CP A will help you find the right balance.
- Review your books with your CPA 2x/year they will have important tax strategies for you prior to year-end.
- Are you reviewing your numbers every month? Are you on budget?
- Cash in the bank does not equal cash in your pocket to spend! Watch cash flow.
- Outsource the things you do not do well, go do what you do best!
- Select professional advisors that make sense – ask the Enterprise Center, your attorney, and other successful business owners who they use, and why. Try and choose local advisors that other people around you have used, and they trust.