



13 Accounting Tips

For Small Businesses to Keep the Books Balanced

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Accounting plays a vital role in businesses of every size, but often becomes a low priority for small business owners, specifically, as they juggle all the other responsibilities of managing and maintaining day-to-day operations. However, accounting should never be treated as an afterthought.

Maintaining balanced books can help **financially forecast** months into the future and alert you to potential financial gaps. The right accounting insight could even help you save your business in case things get tough.

Accounting often gets put on the back burner for small businesses because it's tedious and intimidating. **40% of small business owners** feel that financial management is the most difficult part of operating a business. When accounting mistakes occur, it can halt the growth of your small business and put you on shaky ground.

We've rounded up the best accounting tips to avoid common mistakes that could have a detrimental impact on your business. Once you're operating with clean books, you'll reap the benefits that come with it.

1. Pay Close Attention to Receivables

Getting paid is an exciting part of running a business, but managing receivables isn't quite as much fun. When an invoice is issued, you should record a receivable, meaning you log that a customer owes you money. By checking this listing you are able to easily see if a customer has an outstanding balance.

When the customer pays you, the amount should be applied to their invoice, and it should be marked as paid. However, when you are trying to keep up with a lot of orders, this is easier said than done and the task is often put off. If customer deposits are not reconciled, you are left with customer deposits in your revenue account and a report of your receivables that don't match when tax time rolls around.

The consequences here are that you waste hours updating your listing, you can overpay on your tax return, and you will have high debts. It's important to prioritize **keeping track of your transactions** as they happen. Apply your customer's payments monthly — it can save you tons of time on invoicing (and money) in the long run.

2. Keep a Pulse on Your Cash Flow

When it comes to small business accounting tips, education is everything. The more you understand the numbers in front of you, the greater your odds are at managing them well.

As you perform weekly and monthly financial reviews, consider producing a **cash flow statement**. These statements give you a broader understanding of cash movement within (and outside) of your company. A cash flow statement essentially monitors income direction. It also includes the element of time, enabling you to visualize payment cycles and seasonal expenses.

Cash flow statements can give you the knowledge you need to anticipate expenses and more appropriately allocate income. They are also useful when building financial trajectories.

You don't have to generate a cash flow statement, however, in order to understand monetary motion. Simply using the right technology can help you get a holistic **vision of how cash is functioning** in your business model.

If you choose to **automate your bookkeeping services**, for example, you'll be able to easily visualize metrics and data about cash movement.

3. Log Expense Receipts

Unfortunately, it is a common mistake for small business owners to not save copies of their expense reports. This can result in a wide range of tax, accounting, and cash flow issues.

If you have ever looked at your bank statement and seen a charge for a hundred dollars and had no idea what it was, then you are familiar with the problems that come with poor record keeping.

One way you can solve this problem is by saving a receipt of every purchase that your business makes. It may seem like a lot of work but there are a few accounting tips to make it easier.

The first is to use one credit card to pay for all business expenses. Keep track of your receipts by having a designated location for them, such as a spot in your car or on your desk. Or, better yet, **snap a picture of your receipt** on your phone instantly! These tricks keep you organized so you can file for taxes on time.

People are always asking questions about where to draw the business expense when they ask for accounting advice. If you want to know what you should claim/expense, see if they fall into these categories:

- › **Out of town/Travel expenses:** If you've had to travel for business, the money you've spent on a plane ticket should be claimed. If you spend a lot of time on the road, you could be writing off the miles on your car. Along with gas expenses.
- › **Home office expenses:** If you've spent money on a computer or other office supplies, you can write them off on your taxes.
- › **Entertainment and meals:** If you paid for drinks with a client or a nice dinner, include that in your expense report.
- › **Gifts:** These can be related to entertainment and meals, but not always. If you go to an event or meal with a business prospect, that would be entertainment and meals. If the prospect went on their own, that's a gift.

Expense reports can make a huge difference during tax time. Ensure your employees know the importance of saving receipts and itemizing expenses when they're out so that you'll have accurate records come tax season.

4. Record Cash Expenses

When you are an entrepreneur it is crucial that you track all the expenses related to your business. These costs can be subtracted from the amount of your total income when it comes time to do taxes.

This will give you a more accurate sense of your overall profitability for the year. It is easy to look past expenses paid for in cash. Ask for a receipt from your vendor or log the expense immediately to ensure that it makes it on the books.

5. Know the Difference Between Invoices and Receipts

Mixing up invoices and receipts is an all-too-common way for small business owners to mess up their books. A simple piece of accounting advice to follow is to know the difference between the two.

An invoice is a bill that's sent to customers after they've received your services. Think of invoices as detailed bills that should outline everything the customer has received from your company. An invoice reminds customers that they owe you money. They're helpful for speeding up cash flow, keeping financial records, and ensuring that you're getting paid.

A receipt is proof that a transaction happened. It's what you give your customers after a transaction is complete.

Mixing up receipts and invoices can make accounting a nightmare. If you can't tell what's completed and what's in progress, you're going to run into a lot of trouble when you're trying to balance your books.

6. Keep Personal vs. Business Accounts Distinct

A lot of small business owners use some personal funds to keep things running for the first few months. There's nothing wrong with dipping into personal funds, but using your personal bank account for business can be troublesome.

Having a separate bank account for business needs makes it easy for you and your accountant or bookkeeper to see how money is being spent. If you choose to use your personal account for business purposes, you could be overlooking important business transactions.

Moving forward, make sure that you properly distinguish your business and personal finances. This may mean simply setting up separate credit cards and checking accounts associated with both. Be very mindful of spending decisions, ensuring that only business accounts are used for business-related costs. The same goes for your personal account.

We recommend relying solely on credit cards for all business transactions. This is because credit card statements provide you with an automatic and easy way to keep track of expenses.

Cash payments can be easy to overlook; many business owners struggle to stay on top of receipt management. Neglected cash payments can lead to inaccuracy in cash flow management reports and poor forecasting.

7. Hire a Professional to Handle Your Taxes

Many people try to save money by doing their taxes themselves. In reality, if you don't **hire a tax professional**, not having access to their accounting expertise can cost your business a lot of money down the road.

It is possible that you could miss a deduction you qualify for or underpay your bill, leading to penalties. If you spend the money for a professional, they know what they are doing and will use accounting tips to put you in the best financial situation.

They will be up-to-date on the ever-changing tax laws and can plan ahead for tax hikes that may be coming your way in the near future.

8. Maintain Clear Communication with Your Accountant

When you work with other professionals like accountants or bookkeepers to manage your books, you might find the jargon they use confusing. It is important that you let them know if you don't understand the terms they are using. You are a small business owner, not a financial professional. You have no reason to be up-to-date on the latest technical terminology being used in the financial industry.

You need to see your accountant and tax professionals as part of your team. They should be watching your back and giving you accounting tips that you can bank on.

9. Understand Double-Entry Bookkeeping

Most businesses these days are using **accounting software** rather than physical books, but the accounting tips behind double-entry still apply. The basic idea is that whenever you make a purchase for your business, you record not only the expense but also what was gained from the transaction.

For example, if you bought a pair of shoes for ten dollars then you would write down negative ten dollars on your balance sheet. But under double-entry bookkeeping, you would also write plus ten for inventory gain.

Unless the money you spend has truly been lost, this style of bookkeeping will be the best way to represent where your money is going and allow you to make the best decisions for your business.

10. Chart Your Accounts

For the most well-rounded picture of your business, you need to have multiple accounts. Each key aspect of your business should have a space for logging its transactions and the balance of the account should be adjusted accordingly.

Some of the most important accounts to keep track of are:

- › Account Receivable (money customers owe you)
- › Accounts Payable (money you owe someone else)
- › Sales (your revenue)
- › Purchases (supplies)
- › Payroll Expenses
- › Owners' Equity (The money you and other owners put into the business)
- › Retained Earnings (your profits)

Those who are more detail-oriented can go even further into splitting their accounts into sub-accounts to keep track of individual transactions or product purchases.

11. Prepare Financial Statements

In previous accounting tips, we have looked at the different kinds of financial statements a business prepares. Some examples of this are the balance sheet, income statement, and cash flow statement.

On a monthly or quarterly basis, you should prepare each of these financial reports because they will help you analyze the health of your business from different angles. The balance sheet shows a snapshot of your business' assets, liabilities, and equity at a specific moment in time. The income statement, on the other hand, shows the income and expenses that took place over a defined period, as well as your business' "bottom line." And the cash flow statement allows you to see how your cash balances have changed over a period.

If you were a publicly traded company, you would be required to produce financial statements on a quarterly or annual basis for your investors. Since you (probably) don't have this requirement, it is up to you to decide how often this kind of report should be made for your business.

12. Look to the Future

When you compile a monthly financial report, use it to help anticipate your business's financial trajectory. This could simply involve identifying upcoming costs, such as tax payments or legal fees. It may incorporate more nuanced plans for company expansion, including budgeting for new hires and higher rent.

Forecasting in this way can enable you to effectively utilize existing assets. It can also help you confidently plan for other significant milestones in your business's evolution. Forecast effectively by analyzing your financial data on a monthly basis. Data-backed analysis can ensure smart investment moves.

13. Leverage Technology

In practice, trying to keep accurate accounts is a complex process. As your business grows, this process becomes even more stressful. A single transaction you make can involve multiple entries into several of your different accounts. When there are hundreds of these kinds of transactions, it can be overwhelming to try to keep a record.

That is where the **help of technology** comes in. Accounting systems are much easier to use than recording every transaction your business makes into physical ledgers the way things used to be done.

If you decide to use software for your accounting needs, make sure you still keep a copy of all of your receipts, either physically or digitally. This way, you can go back and verify everything if you see any discrepancies when you go to balance your books.

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