



# BOOKKEEPING PRACTICES FOR SMALL BUSINESS OWNERS

HOW TO PUT TOGETHER AN ACCURATE, GOOD LOOKING SET OF BOOKS

PAUL ROSENBLUM/NUMEREX SERVICES [NUMEREX@NUMEREXONLINE.COM](mailto:NUMEREX@NUMEREXONLINE.COM)

# HOW TO CHOOSE BOOKKEEPING SOFTWARE

- Desktop Software

- Designed to do manual data entry (even though you can download).
- More customization and filtering and the ability to change fonts.
- Screen to screen is faster.
- If you are doing your own payroll through the software, or downloading from banks, some systems force you to upgrade every two years.
- Collaboration is possible but not as robust as the online systems.

# HOW TO CHOOSE BOOKKEEPING SOFTWARE (CONTINUED)

- Cloud-Based

- Designed to connect to bank accounts and credit card banks to download data and be accepted by the user into the system being used.
- Reporting might not be as robust in terms of numbers of reports or customization unless you pay \$150 - \$200 per month subscription price.
- Less customization and filtering. You would have to export to Excel to get the level of customization that you might want or need.
- Designed for multiple people to be logged in at the same time, so collaboration is much easier.

# SETTING UP A CHART OF ACCOUNTS

- A chart of accounts should have
  - ASSETS
  - LIABILITTIES
  - EQUITY
  - INCOME
  - COST OF GOODS SOLD (For some companies)
  - EXPENSES

# CHART OF ACCOUNTS (CONTINUED)

- *Asset* accounts can be any terminology you want, but the standard ones are
  - Bank accounts (cash)
  - Accounts Receivable
  - Startup Expenses (Assets)
  - Security Deposits
  - Shareholder Loans (in corporations)
  - Loans that you give to other individuals or companies
  - Inventory Value

# CHART OF ACCOUNTS

- *Liabilities should have:*
  - *Accounts Payable*
  - *Sales Tax Payable*
  - *Loans that you have to pay back*
  - *Funding and credit lines*
  - *Credit Cards*

# CHART OF ACCOUNTS

- Equity is made up of
  - Capital Investments from you or others
  - Taking back money that you or others have invested (Draw)
  - Distributions (For Corporations)
  - Retained Earnings

# CHART OF ACCOUNTS

- Income
  - Any terminology and any amount of accounts in bookkeeping is ok, but I wouldn't go crazy. The IRS is interested in one number. The total revenue (income) earned.
    - **\*\*Cash VS Accrual\*\***
      - Cash: Income Collected from customers
      - Accrual: Income Earned but not yet collected
    - Check with your bookkeeper or tax preparer to see if your company is on a cash basis or accrual basis



# CHART OF ACCOUNTS

- **Cost of Good Sold:**
  - These are expenses that are 'directly related to the sale of products or services' including labor (subcontractors in some cases)
- **Expenses:**
  - The best way of knowing what you need as base accounts in expenses is to take a look at the tax form that your tax preparer uses.
    - Schedule C
    - 1120S
    - 1120
  - Then you can add any sub-accounts that you need to get more specific. For example, under Advertising and Promotion, you might want to add 'Website Expenses'.

# SPECIFIC ACCOUNTS

- Sales Tax Payable:
  - NEVER an expense. It's the STATE or COUNTY money that you are collecting on their behalf. Always a liability on your chart of accounts and in your books
- Personal State Taxes or personal IRS taxes are NEVER part of your business books. They are put in as Equity in the same place that you 'Draw out' money that you have invested into the company
- Payroll Taxes (employees or employees/owners in Corp.) are business expenses.
- Corporate STATE taxes and LLC Filing fees (State) are deductible in the books.

# CREDIT CARDS FOR PERSONAL EXPENSES

- If you use a credit card for business AND for personal, the business expenses are booked to the business. The personal expenses are booked to Equity 'Draw' account. The company can pay for the entire credit card statement as long as the personal expenses are in the equity section

# UNDERSTANDING FINANCIAL REPORTS

- Most Common Reports

- Balance Sheet

- Assets, Liabilities, and Equity accounts only are reported here.

- Profit and Loss

- After all adjustments for Assets purchased and depreciated and other adjustments, the Profit and Loss Report will be the bottom line number of your taxable income for the business called a “Net Profit”. After taxes are filed, your Profit and Loss Report should match the bottom line of the tax return.

# MORE COMMON REPORTS

- **Accounts Payable:**
  - All bills entered but not paid by your company to Vendors
- **Accounts Receivable:**
  - All customer invoices created but not paid by Customers
- **Trial Balance**
  - The balance in every account from Assets to Expenses
- **Expenses:** An A-Z report of all expenses to all Vendors, not including what have been included as ASSETS or LIABILITIES.

# BOOKKEEPING PRACTICES

- Consistency, Consistency, Consistency!
  - If you enter website expenses in Advertising and Promotion, enter all website expenses from that moment on in Advertising and Promotion. BE CONSISTENT.
  - Website Development is an ASSET which can be amortized over a period of years since developing a website is something that you can use for years. It's handled differently than monthly maintenance.

# GOOD BOOKKEEPING PRACTICES

- Even though most accounting/bookkeeping software allows you to leave a vendor field empty, it's NOT recommended. If you don't fill in the vendor field, you lose a half a dozen (or more) Vendor based reports that are sorted by Vendor name.
- The check numbers and the 'Reference' numbers are also important, as software allow you to sort reports by check number or reference number. If my reference number is ZELLE in 250 transactions, then I can get a report only showing the ZELLE transactions. The more fields that you can fill in, the more reporting capabilities you will have.

# GOOD BOOKKEEPING PRACTICES

- Petty Cash
  - If you spend CASH on business expenses, keep an Excel spreadsheet on the date, vendor, amount, and what was purchased so that the bookkeeper can enter all of those transactions in the accounting software. If you take out \$500 from an ATM, it's considered PETTY CASH (Cash ASSET) until you spend it. Create a BANK account asset for that purpose.



# BOOKKEEPING IN SINGLE OR MULTIPLE MEMBER LLC'S

- In a single member LLC, the owner's personal money is always put through an Equity Capital Account, and when they take it back (or the company pays for a personal expense for the owner) it's booked as an 'Owners Draw'.
- The owner of a Sole Proprietorship or Single Member LLC does not get a payroll under any circumstances. It is always a 'draw' Equity.
- Employees (not the owner), can receive regular taxable payroll. (Expense)

## MULTI-MEMBER LLC OR LLP'S

- Partnerships (More than one person on the LLC paperwork) can not be on payroll. However, there is another way of taking money out of the company.
- In that case, you can set up a 'Guaranteed Payment' expense account for the owner(s) or investors who actually work at the company every day. Once or twice a month, they can transfer money to themselves instead of a taxable payroll. The value is deducted from the profit of the company as an expense, and taxes roll over to the owner (investor) personal taxes through a K1.

# S CORPORATIONS

- The owner(s) of an S Corporation are also employees of their own company. So, they receive payroll like anyone else. No Guaranteed Payments, no 1099 subcontractor payments, **ONLY** payroll.
- If you don't want to give yourself a weekly or monthly payroll, you can take money as you need it out of the company and transfer it into your personal bank account. These are **SHAREHOLDER DISTRIBUTIONS** (in the Equity Section). You should set up a different distribution account for every year.

# S CORPORATIONS

- The Distributions are then converted into a payroll at the end of the year, and your company can pay payroll tax just once per year.

# SUBCONTRACTORS

- Make sure to tag all individuals who sell your company a service (labor) as a subcontractor and eligible for a 1099 (all software lets you do this, in different ways). Make sure you get a W9 form before you pay them. They get a 1099 NEC in Jan. of the next calendar year if you paid them \$600.00 or more. The W9 form will give all information about that vendor. Corporations do not get a 1099 unless they are for legal services.
- Exception: If you pay by Credit card or the 'Business' PayPal.
- **Make sure you set them up and get W9 forms from everyone who you pay before you pay them.**

# TAXES/GOOD BOOKKEEPING PRACTICES

- Very inter-related. The more you know about taxes, the better your bookkeeping will be. I don't expect a business owner to be a bookkeeper or an accountant, but it's your responsibility to know the basics about this or hire a tax professional or a bookkeeper who will communicate to you what you need to know and what they need to know from you (and stay after you until it's done)

# ROLES OF BOOKKEEPERS, EA'S, ACCOUNTANTS, AND CPA'S

- Bookkeepers, Accountants and CPA's and EA's disagree about this all the time!
  - Up to the tax payer (YOU) to figure out what you want or need.
  - By definition: A Bookkeeper is someone who enters all financial transactions into an organized accounting methodology (these days, accounting software)
  - By definition: A EA (enrolled agent) is a person who has earned the privilege of representing taxpayers before the Internal Revenue Service by either passing a three-part comprehensive IRS test covering individual and business tax returns, or through experience as a former IRS employee.
  - By definition: An Accountant is a person whose profession is inspecting and auditing personal or commercial accounts for tax purposes.
  - By definition: A CPA is an accountant who has met the requirements of a state law and has been granted a certificate. They have a higher level of education than an Accountant. However, it doesn't mean that a CPA has more knowledge or will do a more accurate tax return than an Accountant.

## IN CLOSING:

- Setting up a good Chart of Accounts and being very consistent on how you use each account and using the accounts in the correct way is the trick to creating accurate books. Enter as much information on each transaction as you can, as this will give you more complete reports at the end of the year (or at any other time)
- Eventually, as your business grows, you will need a bookkeeper --- but until that happens, you should do your own bookkeeping with a consultant to check the books every few months to make sure you are on the right track.



# THANK YOU FOR COMING! Q&A! TIME!

- Paul Rosenblum
- Numerex Services
- [Numerex@numerexonline.com](mailto:Numerex@numerexonline.com)
- Business Phone: 646-762-2599