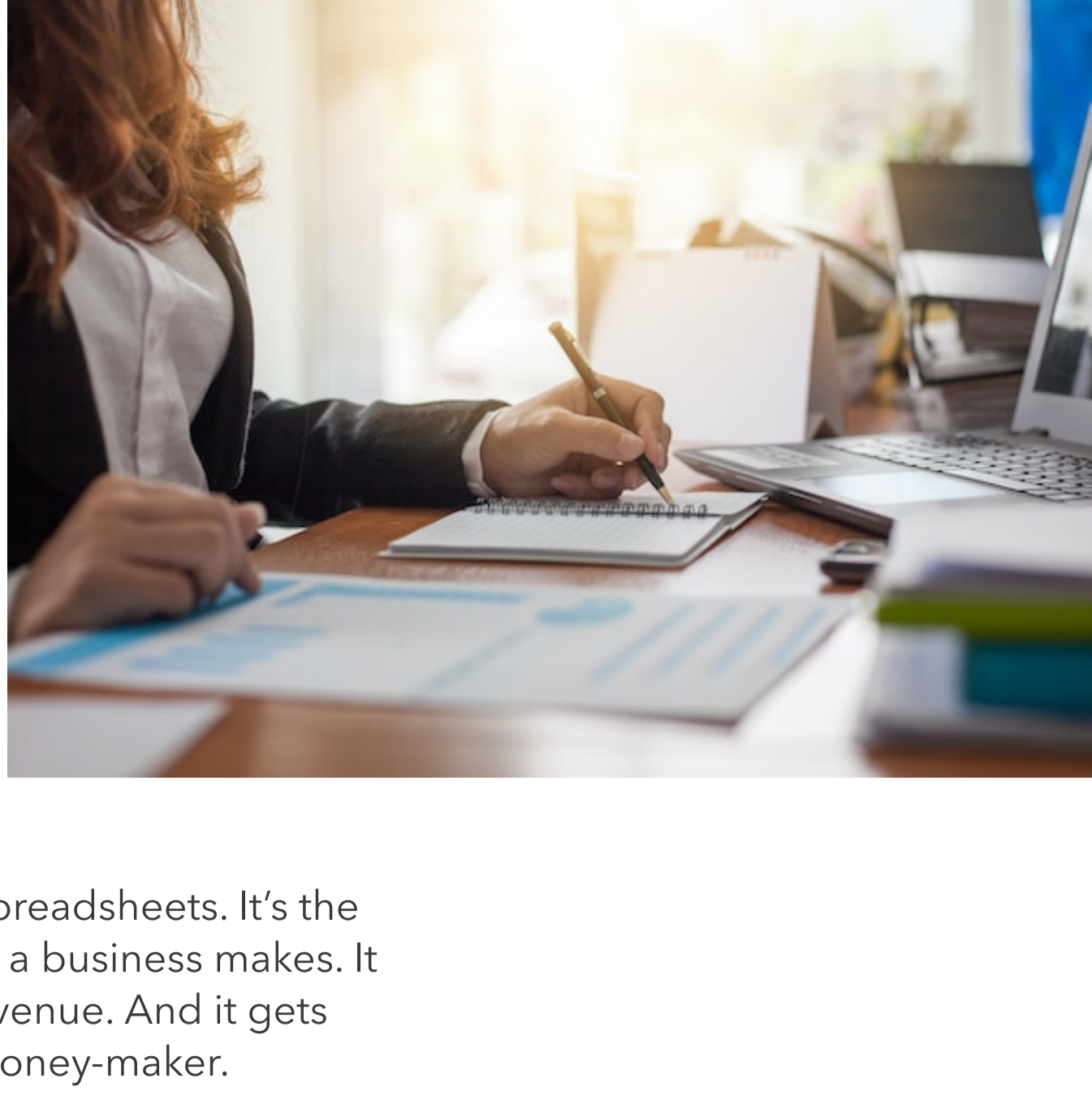


# What is bookkeeping, and why is it important?

By [QuickBooks](#) October 5, 2020



Bookkeeping is so much more than numbers and spreadsheets. It's the meticulous art of recording all financial transactions a business makes. It gives you an in-depth look at your expenses and revenue. And it gets you on the path to transform your business into a money-maker.

But what is bookkeeping? And why is it so important? We'll walk you through what you need to know about bookkeeping basics.

## What is bookkeeping?

Bookkeeping is the process of tracking all documentation of any financial transactions that a business entity makes from launch to closure. Business owners or bookkeepers record business activities based on supporting documentation, depending on the accounting principles the company implements. Documents can be bills, receipts, invoices, purchase orders, or other financial reports that indicate a transaction.

You can record transactions by hand in a journal or a Microsoft Excel spreadsheet. But many companies opt to use bookkeeping software to organize their financial histories.

Bookkeepers can log a business's financial transactions using single-entry or double-entry bookkeeping. In single-entry bookkeeping, you report profits and expenses for all expenditures in a cash register. The double-entry method begins with a journal, followed by a ledger, a trial balance, and financial statements.

In short, bookkeeping is just one facet of doing business and keeping good financial records. With well-managed bookkeeping, your business can closely monitor its financial capabilities and journey toward heightened profits, breakthrough growth, and deserved success.

## What is the purpose of bookkeeping?

One of the most frequently asked questions about bookkeeping basics is, "What is the purpose of bookkeeping?" If you're new to business, you may already have a million other things to worry about. Brushing up on your bookkeeping skills may seem like a task for another day. However, there are innumerable benefits to keeping accurate documentation and monitoring your spending and income.

Bookkeeping has two primary objectives:

1. To accurately document all financial transactions that result from business activities using best practices.
2. To determine and analyze the financial outcomes of business activities.

To adequately log all business-related financial transactions, bookkeepers typically require a robust catalog of all transactions and associated costs. They may group transactions into categories like good or service, wage, tax, or another general business operation.

When it's finally time to audit all reported financial transactions, bookkeepers produce reports that give an accurate look into how the company delegated its capital. The two key reports that bookkeepers provide are the [balance sheet](#) and the [income statement](#). Both reports should be easy to comprehend so that all readers can grasp how well the business is doing.

## Why is bookkeeping important?

Whether you're just getting started or a small business owner with a brilliant vision, you'll need to implement some basic bookkeeping techniques. How you organize and document your finances is up to you. You can outsource the work to a [professional bookkeeper](#), or you can do it alone. However you decide, note that you must keep adequate records of business transactions.

It's essential for businesses to devote time and money to keeping accurate financial reports. Ultimately, when you have a balanced bookkeeping system, you can rest assured that you also have an accurate indicator of measurable success. In doing so, businesses of all sizes and ages can make strategic plans and develop realistic objectives.

Additionally, businesses must comply with the IRS's legal regulations and systems that govern their finances. Some of the most common documentation businesses must provide to the federal government include:

- Financial transactions
- Financial statements
- Tax compliance
- Cash flow reports

Accurate and well-maintained bookkeeping sets a strong basis for all levels of compliance.

## What's the difference between bookkeeping and accounting?

Without a firm grasp on bookkeeping basics, it can be easy to confuse terms or use them interchangeably. Bookkeeping and accounting are a perfect example.

[Accounting](#) is the umbrella term for all associated processes tied to recording a business's financial transactions. The goal of accounting is to interpret, categorize, analyze, report, and summarize all financial information accurately. Bookkeeping, on the other hand, is an integral part of the accounting process. It zeroes in on the administrative side of a business's financial history and present.

## What are the types of bookkeeping?

There are two main types of bookkeeping: single-entry bookkeeping and [double-entry bookkeeping](#).

The single-entry method is the preferred method for sole proprietors, small startups, and companies with unfussy or minimal transaction activity. The single-entry system tracks cash sales and expenditures over a period of time. With this bookkeeping process, you must maintain three pieces of documentation.

- Cash sales journal: This is where the business records all revenue.
- Cash disbursements journal: This is where the business records all expenses.
- Bank statements: All journal entries should align with the business's bank statements.

The double-entry framework is more complicated. It's ideal for enterprises with accrued expenses—or expenditures entered into the bookkeeping system on the purchase date rather than payment date.

Double-entry bookkeeping is common in accounting software programs like QuickBooks. With this type of bookkeeping, bookkeepers record transactions under expense or income. Then they create a second entry to classify the transaction on the appropriate account. The following documents comprise double-entry bookkeeping:

- Journal entries
- General ledgers
- Inventory
- Cashbooks
- Accounts payable
- Accounts receivable
- Loans
- Payroll

You can manage your bookkeeping manually with pen and paper or digitally with online bookkeeping software. Whether you're a small business or a large corporation, choose a method that will lead to the most accurate and organized data.

## What are good bookkeeping practices?

Now that you've got a firm grasp on the basics of bookkeeping, let's take a deeper dive into how to practice good bookkeeping. There's no one-size-fits-all answer to efficient bookkeeping, but there are universal standards. The following three bookkeeping practices can help you stay on top of your business finances.

### 1. Consider a phased approach

Trying to juggle too many things at once only works to put your organization in danger. If you're looking to convert from manual bookkeeping to digital, consider a staggered approach. Overhauling all at once can be overwhelming and discouraging, so it's best to take it slow and make meaningful and intentional shifts.

Those baby steps can help you manage your organization on a new and improved system. Small steps also give everyone time to familiarize themselves with the new bookkeeping software.

### 2. Keep your general ledger current

A general ledger is a collection of transactions that classify and store all records associated with a company's financial transactions. The general ledger includes balance sheet accounts (liabilities, equity, assets) and income statement accounts (revenue, expenditure, gains, losses).

Under the double-entry structure, every business transaction will affect two or more general ledger accounts. General ledger accounts include:

- Asset accounts such as cash, accounts receivable, investments, land, equipment, and inventory.
- Liability accounts such as accounts payable, accrued expenses payable, customer deposits, and notes payable.
- Stockholders' [equity accounts](#) such as common stock, treasury stock, and retained earnings.

Your general ledger should be up to date, so your bookkeeping software must provide functionality that you can navigate easily. QuickBooks is an excellent option for novice and seasoned digital bookkeepers.

### 3. Plan for taxes throughout the year

Whether it's updating your books or keeping in contact with your tax advisor, maintain your business's financial records and expenses. When it's time to file taxes with the IRS, you can be well prepared. Without any hiccups or last-minute scrambles, you'll be able to enter tax season confidently.

## Should I do my own bookkeeping?

It can be difficult to figure out whether or not you should do your own bookkeeping. Ultimately, your decision will come down to two key factors: expertise and time.

## Do you have the expertise?

How does your accounting and bookkeeping experience size up? You may be hoping for the best and have a few college courses in your back pocket. Or maybe you're relying on your knowledge of bookkeeping basics. Even with these tools, you may not have the expertise you need.

If you're unfamiliar with local and federal tax codes, doing your own bookkeeping may prove challenging. If you have in-depth tax and financial knowledge beyond the bookkeeping basics, you may be able to get the job done.

## Do you have the time?

Bookkeeping can be time-consuming and tedious. If you're a new business owner, you're likely already spread thin. You might be trying to determine which bank account is best for your business and the difference between debits and credits, in addition to the many record-keeping habits you need to manage. Adding bookkeeping to the mix may overwhelm you.

But if you have the time to dedicate to updating your books regularly, doing your own bookkeeping may be feasible.

If you're like so many modern business owners, the odds are that you didn't become one so that you could practice professional-grade bookkeeping. Outsourcing the work to a seasoned bookkeeper can allow you to focus on your business plan and growth.

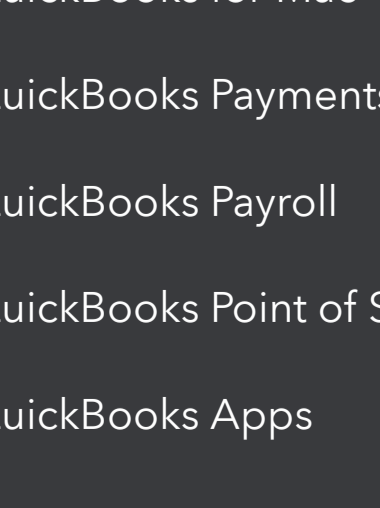
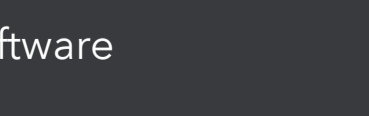
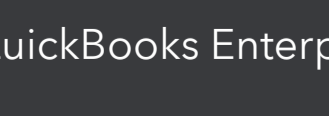
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Take routine bookkeeping off your never-ending to-do list with the help of a QuickBooks-certified professional. A [QuickBooks Live Bookkeeper](#) can help ensure that your business's books close every month, and you're primed for tax season. Our experts—CPAs and QuickBooks ProAdvisors—average 15 years of experience working with small businesses across industries.

Maybe you're trying to determine the best accounting system for your business, learn how to read a cash flow statement, or create a chart of accounts. In every case, QuickBooks can guide you down the right path.

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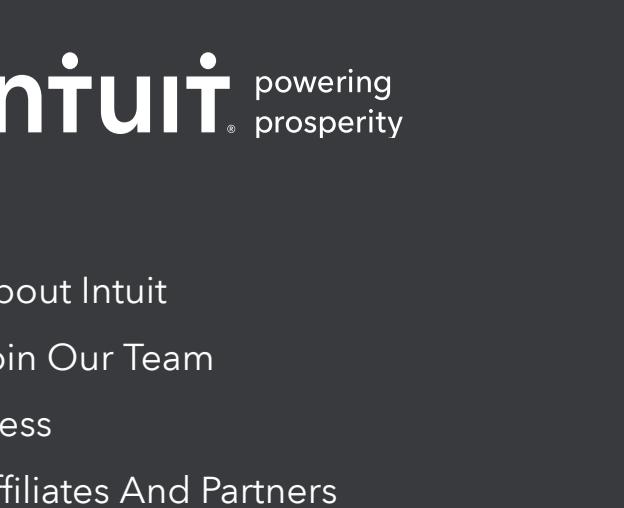
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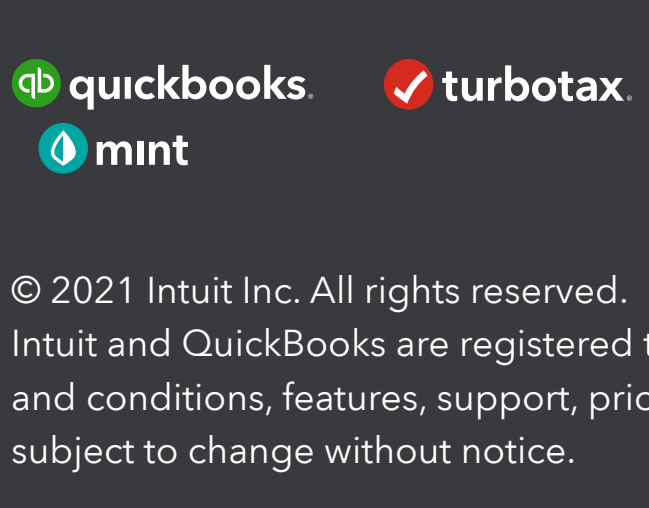
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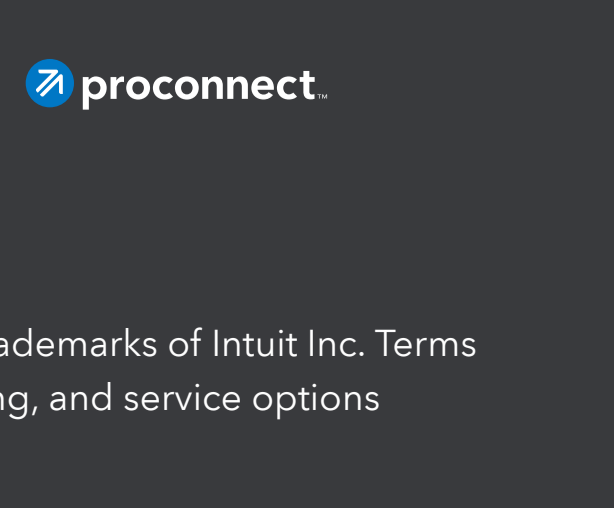
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