



*Brookside Bookkeeping
Services*

Bookkeeping Tips

Time Savers / Stress Reducers

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Bookkeeping Tips

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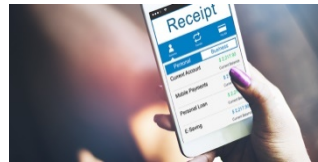
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Track and keep your receipts for business expenses

If you don't fancy yourself as very organized, simply get a box or folder to store all the receipts. You, your bookkeeper, or your CPA can sort through them later as long as you have them!



If you tend more to the technical side, there are many apps for your phone and/or computer to let you scan in or photograph your receipts. With either method, periodically get them to your bookkeeper to get them recorded or record them yourself.



It is very important to make sure you have documentation for your expenses. The IRS will deny any or all of them if not documented properly.

- **For office expenses:** The expense must be both “ordinary and necessary” as it relates to your business. Keep your receipt or invoice and make sure to separate out or note any expenses that are personal.
- **For meals and entertainment:** Note the date and time of the event, amount, place, business purpose (very important), name of everyone attending, and the relationship of the individual(s) (i.e. customer, client, potential customer, employee, etc.)
- **Business Travel:** Business travel is deductible, but only the part of the expense that is yours (not family that joins you for a day). Keep the receipts for your airline tickets, taxis and public transportation, parking, tolls, lodging, as well as your cleaning and laundry expenses.
- **Advertising/Marketing:** Costs for your logo and branding design, promotional material production, and business cards/pamphlets are deductible or at least a large percentage of their cost so keep all the receipts/invoices.

By keeping all the records organized, you can be prepared to take all deductions you are allowed and set just in case there is an audit.

Keep Personal and Business Finances Separate

It is a lot easier to keep accurate records if your accounts are totally separate. Have a business credit card and pay the business bills with your business checking account or use a business debit card.



You will save a lot of time and money by keeping all accounts for your business separate. If you are paying a bookkeeper to keep track of all your business expenses, having a business credit/debit card(s) will save them time and you money. Using a credit and/or debit card rather than cash makes the record keeping easier and faster as well. Plus, a lot of cash purchases are a potential red flag to the IRS that could increase your chances for an audit.

Be sure to keep all receipts for your business purchases whether paid with cash or with a credit/debit card.



Set aside money for taxes

Setting aside a little money each week or even once a month to go towards paying your taxes will help you when it comes times to pay taxes.



Whether or pay taxes annually or quarterly, having a separate savings account set aside for this is the easiest method. Then, each week or on a specific day of the month or at some specified time, put some money into that account that will be used specifically for your tax payments and only that. It can just be a random amount or a set percentage of earnings or flat dollar amount. It is probably better to do a percentage or flat dollar amount. If you have been in business more than a year, you can use the previous year or average of previous years to gauge the amount you need to have saved up. If you have had changes (i.e. new employees, large purchases of equipment, major change in rent, large change in how much business you are doing, etc.) you could check with your bookkeeper or CPA to get an estimate.

It could be a good idea to mark it on your calendar or set a reminder on your computer so you can develop the habit of when you want to squirrel away that money.



Having the money set aside might keep you from having to cut back at tax time or it could even help you avoid the need for taking out a loan when it comes time to pay your taxes even if you don't have the entire tax due amount saved up before the deadline.

Avoid using cash for purchases

Using cash makes it more difficult to keep track of spending. Let me say that again, using cash makes it more difficult to keep track of spending. No matter how small the purchases are, the cost will add up over time and you will likely not even realize it.



It is easier to lose track of write-offs if there is no receipt to record and document the purchases. The more cash purchases you have the bigger the potential red flag to the IRS, increasing your chances for an audit.



It is convenient and handy to have a small amount of petty cash available for last minute, unanticipated, minor expenditures. These generally do not exceed \$50 or so, and are for such things as taxi fares, postage, small office supplies. Be sure to have a petty cash book and attach all receipts with details (date, item purchased, who made the purchase, etc.) Every penny in and out of the petty cash fund should be accounted for.

By using a credit or debit card there is a paper trail to help document how much and where the money was spent. It just makes tracking the expenses much easier than using cash. Whether it is on purpose or accidental; there is less of a chance for spending the \$ inappropriately when there is a paper trail.



Track the miles you drive for your business or for volunteer activities.

The IRS sets a mileage rate each year that covers your gas, maintenance for your car, and general wear. Keeping track of these miles can save you money on your taxes. You can do this yourself or hand the information about the miles driven over to your bookkeeper or CPA and let them handle it from there.



Keep in mind that you cannot deduct miles and gas on your taxes. You must choose either mileage or the actual expense method of deduction. You or your bookkeeper or CPA can determine which deduction saves you the most money.

There are two ways to track the miles driven for work, either a paper method (log book of some sort) or electronically (phone/computer app). For those who prefer a paperless or technical method there are many apps that can help you in tracking your mileage. If you prefer the less technical method, simply keep a log book in your vehicle.



Either method is fine and gives you a way to get the totals to your bookkeeper or CPA for the year. Just be sure to track the business miles only for your business expenses. Also track miles driven for doing any volunteer activities and keep them separate from business/personal miles.

For 2017 the rates are:

- 53.5 cents/mile for business miles driven (down from 54 cents for 2016)
- 17 cents/mile for medical or moving purposes (down from 19 cents for 2016)
- 14 cents/mile driven in service of charitable organizations (unchanged)

Record all deposits correctly.

Keep track of where all money deposited came from. This is very important. You need to have documented in some way if deposits are sales, reimbursements, refunds, bank loan, sale of equipment, insurance claim, or your own investment in the business, etc.



By tracking exactly where your deposit monies came from, you can reduce your taxable income and save on your taxes. If, for any reason, the IRS questions the deposits and you do not have proper proof of where the money came from, they could decide to consider all deposits as sales income. Needless to say, this could really hurt your bottom line.



Keep a copy of all sales invoices and any documentation as to where or who the money came from. Your bottom line will appreciate it.



Categorize your employees correctly.

Just because you don't pay a fixed salary to someone, it doesn't mean they are considered independent contractors.



There are certain criteria that decide whether or not a person is considered an employee or if that person is actually considered an independent contractor. The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done.

The earnings of a person who is working as an independent contractor are subject to Self-Employment Tax. The earnings of an employee may be subject to FICA (Social Security tax and Medicare) and income tax withholding.



Speak to your bookkeeper or accountant if you have any question about how to categorize someone providing work or services for you.

Claim all your deductions and credits.

You should absolutely claim every penny of tax deductions and tax credits to which you are eligible for, even if they make you more likely to get audited. Just be sure you're being 100% truthful and are prepared to back up your claims with actual receipts and records. The more money you save on your taxes, the more money that goes into your wallet.



The records must be kept to prove your eligibility for each deduction and/or credit and your bookkeeper (whether that is yourself or someone else) can help keep all that organized and ready for your accountant.



Save time and money by keeping track of your invoices

Review the status of your invoices regularly. Late and unpaid bills can hurt your cash flow and you have already done the work so you deserve payment. Have a plan for clients/customers who are 30, 60, and 90 days late. Many companies charge a late fee and/or interest on the overdue balance.



All late payments are essentially interest fee loans and if you don't have a plan and that will hurt your cash flow and the bottom line. Check in monthly on your Accounts Receivable and follow-up on overdue invoices or make sure you let your bookkeeper know you would like them to check that and let you know when invoices are not paid.

Again, have a plan to call the client/customer or send a follow-up late notice invoice with the late payment charges included. Be consistent with your late fees and/or interest rate charges or whatever your plan is. Late penalties should be printed on your invoices when you send them out initially. If you change your late fee policy, simply send out a letter to current customers letting them know of the policy change so everyone is informed.

Interest

Type	Date	Description	Total	
Interest	03/05/2014	Interest on overdue invoice #25	\$2.77	✕
Interest	04/04/2014	Interest on overdue invoice #25	\$1.38	✕
Interest Total:			\$4.15	
			Invoice Subtotal:	\$263.00
			Discount:	25.0 %
			PST	\$13.13
			GST	\$0.00
			Interest Total:	\$4.15
			Invoice Total:	\$214.53

You can always make exceptions to the 'rule' for customers who have previously been timely in paying invoices or you know have special one-time special circumstances.



Cash bonuses are subject to taxes and maybe overtime calculations

ALL Cash bonuses are taxable and may need to be included in the calculation of overtime pay.

There are basically two kinds of bonuses, discretionary and nondiscretionary. Discretionary bonuses are excludable from overtime calculations where non-discretionary bonuses are not.

To be discretionary, the bonus amount and timing must be decided on by the employer. They cannot be required by any contract, agreement, promise, or given in a pattern that makes them expected by the employee. In other words, a discretionary bonus must be a complete surprise to the employee. The only exception is a holiday bonus, even if it is expected each year.



Nondiscretionary bonuses are required under contract, agreement, promise (implied or specifically expressed in some way). For example, “If you work an extra shift during the holidays you will get a bonus”, “If production is up next quarter all workers will get a bonus”, “For each new client...”, signing bonuses, bonus for cancelling employment. All of these are subject to taxes and should be included in overtime wage calculations.



Cash bonuses (even gift cards) are considered wages and are included in FITW, FICA, FUTA and applicable local and state payroll taxes.



Examples of overtime wage calculations: John makes \$20/hour and works 45 hours one week and gets a \$50 bonus.

Non-discretionary Calculation (bonus due to contract agreement):

Normal Pay: $\$20 \times 45 \text{ hrs} + \$50 \text{ bonus} = \$950$ straight-time pay
Regular rate of pay per hour including bonus = $\$950 / 45 \text{ hrs} = \21.11
Overtime Pay: $\$21.11 \times 5 \text{ O.T. hours} \times \frac{1}{2}(\text{overtime rate}) = \52.78
Gross Pay = $\$950$ straight-time pay + $\$52.78$ overtime pay + $\$50$ bonus = **\$1,052.78**

Discretionary Calculation (bonus just because the employer is thankful to John for extra work):

Regular Pay with bonus: $\$20 \times 45\text{hrs} + \$50 \text{ bonus} = \$950$
Overtime Pay: $\$20 \times 5\text{hr} \times \frac{1}{2} (\text{O.T. rate}) = \50
Gross Pay = $\$950 + \$50 \text{ O.T} + \$50 \text{ bonus} = \1050.00