



How to Keep Track of Business Expenses

Congratulations on your business! Below we provide you with suggestions on how to keep track of your business expenses and why they are so important.

Businesses that track their expenses have more insight into their financial position. As a result, they are more confident about their future business success. As you get started in business, a separate business bank account may seem like the least of your worries. However, businesses may find that the line between their personal expenses and business expenses is pretty blurry. Come tax time, no one wants to be digging for proof of business expenses among grocery and clothing receipts.

For this reason, we recommend clear records. Be sure to use your business accounts for all business purchases. Here are some suggestions:

We recommend you open:

- A separate bank account for your business finances
- Maybe a business savings account
- And a good idea would be a business credit card...
 - It also pays to put your business expenses on a credit card. Some credit cards offer cash back on purchases. Others let you collect and redeem points for flights and hotels. Forbes has a list of some of the best business credit cards. But rewards aren't the only reason to use a business credit card. It also logs your expenses as a digital transaction that goes through your business bank account, so there's a record in your bank statement and a receipt.
- Also, using a dedicated line of credit may be beneficial for your business.

Store Receipts Properly

Both paper receipts and digital receipts need to be filed and recorded to ensure your bookkeeping is accurate and you get the deductions you are owed at tax time.

Paper Receipts

If you can avoid paper receipts by using your business credit card, do it. It's harder to track expenses that are paid for in cash. You really need to be vigilant about keeping and filing paper receipts.

Without the receipts as evidence, it will be more difficult to include them as tax deductions.

Here are some strategies to keep paper receipts for your small business expenses organized:

Keep a separate compartment in your wallet, or bag for business paper receipts. If you can't commit to filing your receipts daily, set aside time on a weekly basis to put those receipts away. And be sure to add this task as a recurring appointment on your calendar.



Use file folders. At the beginning of the year, make one for each month and file your receipts accordingly. Use either a filing cabinet or an accordion folder. Tracking receipts will be so much easier with a dedicated filing folder for each category.

Use binders. Buy plastic sleeves and label them by month or category. If you have lots of receipts, organizing them by category may make it easier to track expenses come tax time.

Digitize receipts. An app that allows you to scan and store receipts using your mobile device keeps your receipts stored safely and can feed them automatically into your accounting software.

Don't forget to write on your receipt what the purpose of the purchase was. A receipt for a \$10 sandwich six months ago won't tell you much unless you write down that it was bought during lunch with a specific client. This turns a random receipt into proof of a business expense.

It's a good idea to keep a detailed business calendar as a backup, whether on paper or in Google or Outlook. Then you can look back and see who you had lunch with on June 2 of the previous year.

Remember, the IRS requires business owners to keep their receipts for at least 3 years, along with any other supporting documentation like bank statements.

Digital Receipts

There are many receipt scanner apps that make it easier to store business expense receipts digitally. Plus, if you scan your business expense receipts, you don't need paper backups.

The "FreshBooks" app has a feature that lets you easily photograph and store receipts in the cloud, while automatically adding the expense to your books. This makes it one of the best expense tracker apps out there because you don't need to waste time individually inputting the amount.

You'll also want to track your mileage if you use a vehicle for business purposes. Businesses can claim mileage as a deduction on their taxes.

A business expense tracker app shows you exactly where your money is going and how much you need to budget.

Choose an Expense-Tracking Method

Spreadsheet Option:

New businesses usually start out using spreadsheets for expenses, since it's free and familiar. Some small business owners continue to use spreadsheets for a longer term, just because they prefer them.

That said, as your business grows—and your number of expenses grows as a result—a more sophisticated tracking method is going to save you time and help you avoid mistakes. (That usually means some kind of accounting software, which is covered below.)



If you opt to use a spreadsheet, you will be manually recording your expenses. You will need to make your own categories and sort them into specific columns. If you have access to either Excel or Google Sheets, this should be fairly easy to do. *(See provided Expense Sheet to create categories in your spreadsheet program.)*

Accounting Software or Monthly Bookkeeping Option:

Feel free to ask us which accounting software we recommend for your business.

If you prefer to take this task of recordkeeping off your back and focusing on your business, we would be delighted to manage your monthly books starting at as little as \$100/month.

Benefits of Keeping Track of Business Expenses:

- **Organized books:** Accurate financial statements mean you're ready for anything—tax time, an IRS audit, or applying for finance.
- **Clarity about where you're spending money in your business.** This means you can more easily assess where business expenses can be reduced to improve your cash flow.
- **Tax savings:** Many small business expenses are tax deductible and can reduce your taxable income. When your expenses have been tracked diligently, you have evidence to support any claim for tax deductions, right there in your financial records when the tax season comes around.
- **Better financial planning:** By looking at your expenses and running reports to spot trends like overspending, you can adjust and plan accordingly.
- **Spot fraud:** When you have an eye on your expenses, it's easier to root out any financial fraud.

Save Time and Money with Better Expense Tracking

When you manage your business expenses efficiently, you can identify cost savings, get the correct expense deductions, and boost overall income. As your business grows, it's important to keep a close eye on how much you're spending and how it's affecting your profitability.

Lopez & Company as your Partner

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Congratulations again, we wish you prosperity, and look forward to assisting you as your business grows!

Cordially,

Ernest Lopez, Public Accountant
Lopez & Company Accountants and Advisors, LLC