

Small Business Accounting Tips

10 Ways to Help Make Your Small Business Accounting Easier



Eric Beepat, CPA

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Accounting is important...and I am not just saying that because I am an Accountant. The Merriam-Webster dictionary has the definition of accounting as “the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results.” Small business owners must have a system to evaluate the financial performance or results of their businesses to make informed business decisions.

Managing your accounting means keeping track of business expenses and evaluating financial reports. As fellow small business owner, I know the constraint of time. Us small business owners wear many hats, so read on for 10 tips to help make your accounting easier.

1. Track and Organize All Business Expense Receipts

We have all heard this one before. The hardest part here is keeping consistent. I assist a small business owner that keeps all receipts in an envelope each month. Sure, that’s “old school” but it works for this business owner. Having all expenses are tracked and organized is the key here.

Luckily, with technology we have apps that can be used to upload or photograph receipts to automatically record it. The simplicity of the process allows you to stay on track.

Tracking your business expenses provides for better insight into your business and also makes tax time a lot simpler as many expenses can be claimed as write offs. Tracking them on a regular basis helps ensure that you are not missing potential deductions. When it comes to taxes, more deductions usually can never hurt!

2. Implement an Invoicing System

Invoicing is the first step to get paid. Let me repeat that. Invoicing is the first step to getting PAID. It is really an important process in your business, so you want to be sure that it is quick and accurate. Invoicing can be done manually, but in this day and age that is just not efficient. Filling out client details, creating an itemized list, adding taxes and making the calculations takes time. Valuable time that most business owners do not have. With today's technology, choosing the right software is invaluable to get your invoicing process reliable and fast. After all, invoicing and ultimately getting payment is how us small businesses owners keep the lights on.

3. Create a Payroll System

If your business has employees, payroll is necessary. It important that you pay your employees correctly because payroll mistakes are often messy, complicated, and could impact taxes.

Small business owners have two options for payroll. Find a payroll software and do payroll in-house or hire another company to handle everything. The choice usually is made on the comfort level of the individual small business owner with their particular software, free time for payroll activities by the owner, and knowledge of payroll laws and regulations.

The goal here is to find a payroll system and a method of running payroll that that is an easy, repeatable process. Missing payroll dates will not give you brownie points with your staff. Compliance, human resource activities, and processing payroll are all components of a small business and the process should be easily performed or outsourced.

4. Review Periodic P&L Statements

Profit or Loss. That is what you end up with at the end of the year. However, the end of the year should not be the time to find out! If you are only paying attention to your P&L statement annually, then you could possibly be in for big surprise. Don' be that small business owner!

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Many factors in the economy causes spikes and dips in sales. We have seen a few recently that has really upended some small businesses. Things like seasonal sales can be prepared for in advance, there are many factors that small business owners cannot control. Reviewing a current P&L statement allows you to quickly get a view of the health of your business to make informed decisions when you need to.

Your P&L statement should include revenue, cost of goods sold, operating expenses, operating income, gross margin and net profit. These are all numbers a small business owner needs to know at all times.

5. Increase Your Gross Margins by tracking COGS

Gross margin is your businesses net sales revenue minus its cost of goods sold (COGS). COGS applies to both physical products and services, so it applies to every small business out there. Knowing what COGS plays an important role in your product or service prices. Every business owner should be tracking and working to lower their COGS.

Managing the books for a business needs to also focus on increasing profits. After all, profits keeps the lights on. Profits can increase by raising prices, but that is not always feasible. So, reducing costs is another way. As your business grows and you are selling more, there is always room to negotiate or figure out ways to lower costs.

6. Collect Applicable Taxes

Most businesses are required to pay Sales tax. Forty-five states and Washington D.C. all have sales tax. State laws vary pretty significantly in terms of which products and services are subject to sales taxes.

Most accounting software makes it easy for small business owners to apply and collect the correct sales tax based on the location of its customer. After you collect them, you will have to submit your sales tax return to the state, along with the actual payments you've collected from customers. Due dates for filing sales tax vary based on which state or states you are doing business in. Remember to find out your state's deadlines, and stick to them.

7. Review Monthly Records to Ensure Accuracy

This one goes in line with what I saying regarding reviewing your P&L frequently. The more frequent you review your records and cross-check them against each other, the less likely you are to have issues.

Putting off the creation and review of monthly records, results in more issues at year end, which is a difficult time for many. Most small businesses file quarterly taxes, so reviewing your records monthly with a deeper look quarterly will ensure accurate financial records. A little extra time spent up front can prevent a tough time at year end.

8. Know Your Tax Obligations

As a business owner you made the choice of deciding what form of business entity to establish. The type of entity your business is organized as largely determines what the tax consequences will be. C corporations, S corporations, partnerships, and sole proprietorships each have certain business advantages and disadvantages and are taxed differently. A limited liability company (LLC) can elect whether it will be taxed as a C corporation, S corporation, partnership, or, if it has only one member, a sole proprietorship. A sole proprietorship is disregarded as an entity for tax purposes, and all property of the business is owned by the sole proprietor.

It is important to do some research or talk to a professional when setting up a business. It is one item that you want to get right because it sets everything up. You do not want to set up an entity and then realize that it is not the most advantageous for your business and have to pay additional fees to change it.

9. Operate from a Separate Business Bank Account and Credit Card

Best practice is to never mix personal and business expenses. A business bank and business credit card account, should be opened even if your business is just a side hustle.

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A business credit card may help you build stronger business credit, but like any other credit card, you have to pay your bill on time. A strong business credit profile helps your borrower profile and will help you qualify for small business loans with favorable rates.

A business bank account just makes sense. If you use it in conjunction with your business credit card for business needs you can get a good idea of the money that is flowing in and out of your business. It's always a good idea to keep every business-related expense separate. Completing periodic reconciliations between your records and bank/credit card statements will ensure that any unusual transactions are identified and researched.

10. Always Look for Ways to Improve Cash Flow

Lack of cash is one of the biggest reasons small businesses fail. Cash flow is the money that is flowing in and out of your business. You definitely want more flowing in than out! Part of your accounting process should include optimizing your cash flow.

Let's not confuse cash and profits. It's possible for your business to make a profit, but have zero cash. Profit is an accounting concept, cash is what you have in the bank. You can have assets, like accounts receivable but if you can't collect it, you won't have cash.

Here are some ways to better manage your cash flow to avoid a cash flow emergency:

- **Control inventory:** Inventory ties up cash. Being aware of your sale patterns and tracking inventory helps you estimate your needs better.
- **Collect receivables:** Set up a collections schedule, using an accounts receivable aging report. If you have slow-paying clients, consider giving them a shorter time gap for payments, such as going from 30-days to 15-days for invoices to be due. Always follow up on non-payers and be sure to send invoices timely.
- **Fire Unprofitable Relationships.** Decide when it's time to get rid of a relationship with clients that do not pay.

Final Thoughts

These are easy but effective tips to help your small business finances in order. Preparation and organization is important when you are a business, and your business accounting is no different.

Implementing processes early on will help you get organized and avoid accounting nightmares down the road. If you need assistance in getting your accounting to be an insight into your business and not just a burden, contact me at eric@beepatcpa.com or 646-318-7930.

Also, check out my website and blog at www.beepatcpa.com for more tips related to small businesses and tax and accounting matters.

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Eric Beepat, CPA is the founder and principal of BeepatCPA, a small CPA firm in Hudson County and Burlington County, NJ. He is a Certified Public Accountant with over 17 years of professional accounting, audit, tax and advisory experience. If you are interested in a free consultation, you can reach him at 646-318-7930 or eric@beepatcpa.com

