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Small Business Bookkeeping, Accounting & Tax Guide

By Crystalynn Shelton on June 11, 2019

Small business bookkeeping consists of recording your business' daily transactions. This includes sales, expenses, inventory purchases, and liabilities that you incur. If you're first starting out with small business accounting, you will most likely do the books yourself and hand them over each year to a tax professional who will prepare your tax return.

How Small Business Bookkeeping & Accounting Works

Whether you are a service-based business, or you sell products, your small business bookkeeping and accounting needs are the same. Choosing an accounting software, deciding which accounting method to use, establishing a chart of accounts, and understanding how to record transactions are critical to getting off to a good start.

In preparation of managing your small business accounting, there are a few key questions you should ask yourself:

- How you will record your transactions—manually or using accounting software?
- What accounting method works best—should you go with cash basis or are you required to use the accrual accounting method?
- What accounts do you need in your chart of accounts?
- Do you need help in your business and if so, will you hire independent contractors, employees, or both?
- Should you hire a bookkeeper, accountant, tax pro, or do it all yourself?

Small business bookkeeping and accounting can be overwhelming, especially if you don't have an accounting or bookkeeping background. One of the decisions that can be the key to your success is choosing the right accounting software. Next, we will explain when to use accounting software and how to choose the right one for your business.

When to Use Small Business Bookkeeping & Accounting Software

In a perfect world, you would purchase your accounting software and set it up before you make your first sale. The best time to begin using an accounting software is when you have very few transactions to enter, which is typically when you are just starting out. If you plan to do your own books, you need to invest some time upfront to learn how to use your accounting software to properly record transactions.

By using an accounting software from the very beginning, you're setting yourself up for success as your business starts to grow. Not only will you have a good understanding of how to use the accounting software, but you'll also have processes and procedures in place to ensure your books remain accurate and up-to-date as you grow. Keep in mind that considering where you want to go in terms of growth is very important when you choose your accounting software.

How to Choose the Right Accounting Software

Selecting the right accounting software for your business is one of the most important decisions that you will make. To choose an accounting software, you should identify what you need the software to do, make a list of the accounting software products you are considering, and rate each software based on whether they meet or exceed your requirements.

Below are three key steps to choosing the right accounting software for your business:

- Identify your business needs: Make a list of features that you need in order to run your business. For example, create invoices, pay bills, and track inventory.
- Make a list of potential accounting software products: There are a ton of accounting software products on the market. To narrow down the list, we recommend you enlist the help of experts. Ask your tax preparer, CPA, or bookkeeper what accounting software they recommend. I would also suggest asking other small business owners what they use for their bookkeeping.
- Rate each accounting software product: To narrow down your list, you will need to compare and contrast each product based on what your needs are. For example, the cost of the software should be a key factor. Plus, the software should be intuitive so that you can set it up and use it without having an accounting background.

A list of criteria that includes what most small businesses need in an accounting software is below:

- Cost: If the software is going to break the piggy bank, don't buy it. There are a lot of free accounting software products to choose from.
- Setup and ease of use: If you need an accounting degree to use the software, it's not worth it. There are a lot of great, easy to set up accounting software products that require no accounting or bookkeeping background.
- Manage accounts receivable: You should be able to create invoices and track customer payments so that you can stay on top of what customers owe you. If it does not have this capability, I don't recommend you buy the software unless you don't extend credit to customers, which means customers pay you at the time you provide goods and services.
- Manage accounts payable: The software should allow you to enter unpaid bills and apply your payments in the software so you can stay on top of what you owe to suppliers. If not, don't buy it unless you pay most of your bills via the Automated Clearing House (ACH) or automatic payment through debit or credit card.
- Connect bank and credit card accounts: To save time, choose an accounting software that integrates with financial institutions. You should be able to connect

your bank and credit card accounts so that transactions automatically download into the software.

- Payroll processing: Choose a software that has a payroll component you can turn on when you are ready to hire employees.
- Accept online payments: An accounting software should allow you to accept online payments from customers so that you can get paid faster.
- Prepare key financial statements: At a minimum, you should be able to generate a profit and loss and a balance sheet report so you can stay on top of how your business is doing.
- Live tech support: If you don't plan to hire a bookkeeper, you should choose a plan that allows you to speak with a customer service agent when you need to. However, if you have a bookkeeper, that person may be able to get by with email support or just looking up their questions in the help database.

After narrowing your list of potential accounting software product down to two or three, the next step is to take each of software for a test drive. Depending on the product, you can do this by signing up for a free trial or contacting the company and requesting a live demo to see how the product works.

Choosing the Right Small Business Accounting Method

There are two accounting methods that you can choose from: accrual versus cash basis accounting. Most small businesses start out using the cash basis method and then at some point switch over to accrual. However, there are certain conditions that may require you to use the accrual method of accounting.

You may be required to use accrual basis accounting if one or more of the following apply:

- Your annual gross revenue exceeds five million dollars.
- You keep an inventory of merchandise and your annual gross sales exceed $1 million.
- You have heavy accounts payable and accounts receivable.
- You want to apply for a business loan.

If your business does not meet the above criteria that requires accrual basis accounting, you will most likely use cash basis accounting. Most accounting software will allow you to generate financial reports for each method: accrual and cash basis. While the accounting software will do the work for you, it's still important for you to understand how each method works.

Accrual vs Cash Basis Accounting

As previously mentioned, there are two methods of accounting you can choose from: accrual or cash basis accounting. The primary difference between the two methods boils down the point at which a business recognizes income and expenses. With accrual basis accounting, you'll record your income and expenses as soon as it's earned. Conversely, with cash basis accounting, you'll only record your income and expenses when you receive or spend cash.

The two accounting methods you can choose from are:

Accrual Accounting Method

Under the accrual accounting method, income is recognized as soon as services have been performed or a product has been sold. For example, under the accrual accounting method, if you provide two hours of consulting services to a client, those services count as income once the session is over because you have completed the work. By the same token, under the accrual accounting method, expenses count as soon as you have received services or a product from your vendor.

Cash Basis Accounting Method

Under the cash basis accounting method, income is not recognized until payment has been received for services rendered or products sold. Going back to our consulting example, under the cash basis method, you would not count the two hours of consulting services as income until you have received payment from your customer. Expenses under the cash basis method work the same way: you cannot count something as an expense until you have paid for it.

Single vs Double-entry Bookkeeping

Similar to accounting methods, there are two bookkeeping systems: single entry and double-entry bookkeeping. If you use the accrual accounting method, you are required to use double-entry bookkeeping.

Double-entry bookkeeping is when two entries are made for each transaction. This is what accounting software like QuickBooks does when you record transactions. There is always a debit and a credit recorded for each transaction in a double-entry bookkeeping system. Debits must always equal credits is the foundation of the accounting equation which we will discuss in the next section.

Single-entry bookkeeping is when one entry is made for each transaction. This is very similar to what you do when you record a transaction in your check register. Each time you write a check, you record the entry as a negative amount and when you make a deposit, you enter that as a positive amount.

Setting Up the Small Business Accounting Chart of Accounts

The chart of accounts is a list of accounts used to categorize every financial transaction your business generates. For example, you could have an account called “Consulting Income” to record all your income from consulting services that you provide. Making sure you’ve set up a good chart of accounts from the beginning is important, because it’s the basis of your accounting records.

There are five account types that make up the chart of accounts: assets, liabilities, owner’s equity, income, and expenses. Income and expenses appear on the profit and loss statement and assets, liabilities, and owner’s equity appear on the balance sheet report.

The balance sheet gets its name from a balanced formula, known as the accounting equation:

Assets = Liabilities + Equity

For your books to remain “in balance,” for every change in the left side of the equation (Assets) there is an equal but opposite effect on the right side of the equation (Liabilities + Equity).

The five accounts types that make up the chart of accounts are:

1. Assets

Assets are items that your business has in its possession. For example, money that you have in your bank account, inventory that you have on hand, and equipment that you use in your business (like a computer) are assets. Assets can be found on the balance sheet report.

2. Liabilities

Liabilities are the money that your business owes to others. For example, an auto loan on a car you use for business, a mortgage that you have for a warehouse you purchased to store inventory, and sales tax that you have collected from your customers (due to the state) are all liabilities. Like assets, liabilities are listed on the balance sheet report.

3. Owner’s Equity

Equity is everything your business owns. For example, any money an owner invests in their business is considered equity. Retained earnings is also equity, which is the net profit or loss that’s been kept (i.e., retained) in the business since inception. Owner’s equity can be found on the balance sheet report following assets and liabilities.

4. Income

Income is the proceeds you earn from the sale of products or services. For example, plumbing services sold or the sale of five lamps to a customer is income. Income is included on the profit and loss report, also known as the income statement.

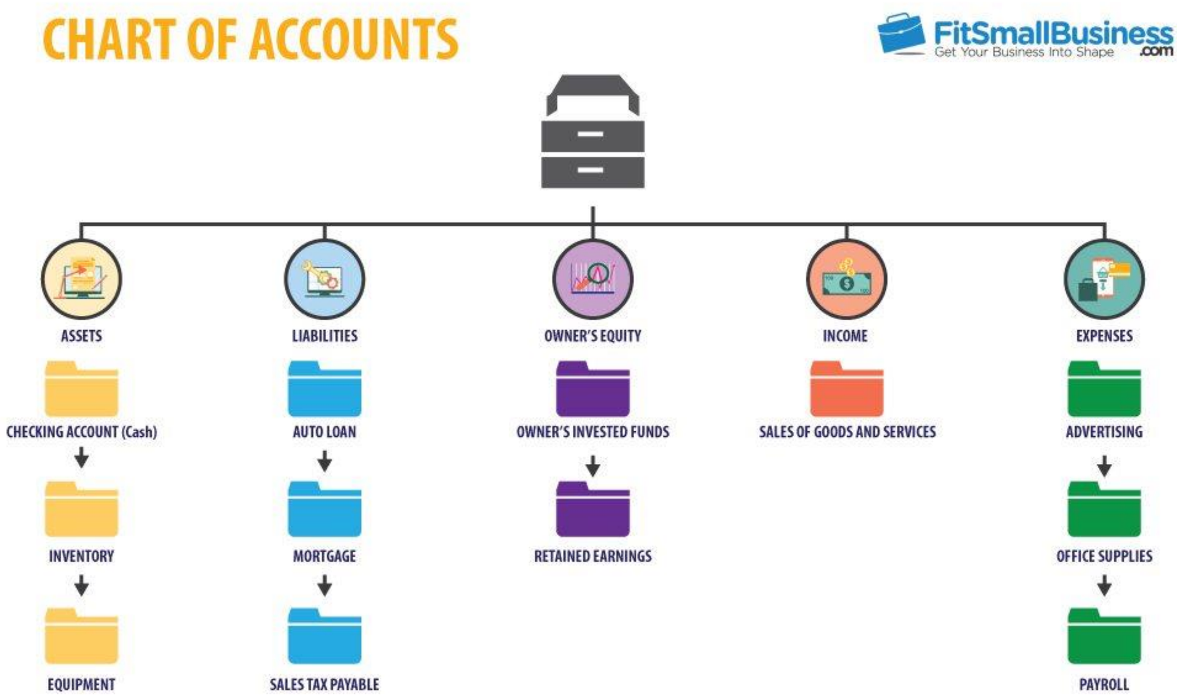
5. Expenses

Expenses are any purchases and payments you make to run your day-to-day business operations. For example, advertising expenses, office supplies, and payroll are all expenses. Expenses are included on the profit and loss report along with income.

Chart of Accounts at a Glance

Below is an illustration of the chart of accounts as a five-drawer filing cabinet. Each account type represents a “drawer” and each account is a virtual “folder” that will fit into one of the five drawers.

The chart of accounts is the backbone of all accounting systems. Without the chart of accounts, you cannot record income, expenses, assets, and other business transactions. When you use accounting software, it will include a default chart of accounts that you can customize for your small business. Once you have a solid chart of accounts, you are ready to start recording small business accounting transactions.



Recording Small Business Accounting Transactions

Once you have established your chart of accounts, you are ready to record transactions in your accounting software. The four main transactions you will record are sales income, expenses, inventory purchases, and liabilities. If you use a small business accounting software, you’ll record all of these transactions using the software that you chose.

The four main small business accounting transactions you will record for your business are:

1. Sales Income

Every business generates sales by offering a service like catering or selling a product like clothing. There are two types of sales: cash sales and credit sales. The primary difference between the two is based on when you receive payment from your customer. During a cash sale, the sale and the payment occur at the same time, whereas sales made on credit are paid sometime in the future.

Below are a couple of examples of cash and credit sales:

Cash Sale Example

Let's say a customer comes into your store to purchase a pair of jeans. The customer pays you for the jeans and leaves the store. This is considered a cash sale because both the sale and the payment occurred simultaneously.

Credit Sale Example

Let's say a therapist has a one-hour session with a customer and sends them a bill for the session. The therapist has provided the services and expects to be paid sometime in the future based on agreed-upon payment terms with the customer.

If you are on the accrual basis accounting method, you will need to keep track of what your customers owe you in your accounting software, also known as your accounts receivable balance. In the next section, we will share some tips on how to manage your accounts receivable. If you use the cash basis of accounting, you'll also want to keep track of what your customers owe you, but you'll probably do this using a spreadsheet, as it won't be tracked in your small business accounting software.

2. Expenses

As the old adage goes, you've got to spend money to make money. With that said, every business generates a variety of expenses. In small business accounting, there are two basic types of expenses. The first are recurring expenses, which are expenses you pay on a regular basis. The second are non-recurring expenses, which are those expenses you only pay one time or occasionally.

The two expense categories are:

- Recurring: Expenses that you pay on a regular basis like utilities and rent. You might have those payments automatically deducted from your bank account each month.
- Non-recurring (unexpected expenses): These are unexpected expenses, like repairs on a car that you use for business. You might pay for those with a check or debit card.

Depending on the small business accounting method you choose (cash or accrual), you'll either record the expenses when you pay them with cash (cash method) or you'll record the expenses as soon as they're incurred (accrual method). When you record expenses as soon as they're incurred, you will record an expense and a liability. The expense will show up on your income statement, and the amount you owe your supplier or service provider will show up as accounts payable in the liability section of your balance sheet.

Let's look at two examples of expenses recorded using the cash and accrual small business accounting methods:

Recording Cash Basis Expenses

Let's say your small business gets a utility bill. If you use the cash basis of accounting, you'll hold onto the bill and will only record the expense in your small business accounting software when you pay the bill with cash. When you pay the bill, you'll record the utility expense, which will be reported on your income statement. You'll also reduce the amount of cash you have on hand by the same amount, which is reflected on your balance sheet.

Recording Accrual Basis Expenses

Let's use the same utility bill example. If you use the accrual basis of accounting, you'll record the utility expense in your accounting system as soon as you get the bill. When you record the expense, an accounts payable record will also be added for the amount you owe to the liability section of your balance sheet. Once the bill is paid, your cash on hand will be reduced and the accounts payable record will be eliminated.

3. Inventory Purchases

If you sell products, then you want to make sure that you keep track of your inventory purchases, cost, and quantities. In general, you should create a purchase order and send it to your supplier when placing orders. Once you receive the product at your warehouse, it should be verified.

Once you verify all product was received, enter the bill you received from your supplier and pay for the goods before the due date. Behind the scenes, your accounting software will increase inventory and the accounts payable (A/P) account when you enter the bill. Once the bill is paid, your bank balance will be reduced by the payment and the A/P balance will be reduced. You can see the impact on inventory and A/P on your balance sheet report.

4. Liabilities

Liabilities reflect the amount of money you owe other parties. This includes any debt you've taken out with lenders, such as credit cards and small business loans. It also includes things like accounts payable and payroll expenses. The primary difference between liabilities and expenses is if you were to go out of business tomorrow, you would no longer have to pay expenses, whereas you will owe a liability until it is paid in full.

For example, utilities and payroll are expenses that you can stop paying by contacting the utility company to disconnect service and laying off employees. However, if you have an outstanding business loan or line of credit, you would still owe the bank that money until it has been paid back.

Managing Accounts Receivable & Accounts Payable

If you use the accrual accounting method, you will need to manage accounts receivable and accounts payable balances. As mentioned previously, accounts receivable is the amount due to you from customers you're allowing to pay on credit. On the other hand, accounts payable represents any unpaid bills that you need to pay. It's important to stay on top of accounts receivable (A/R) and accounts payable (A/P) to maintain a positive cash flow and keep a strong credit rating.

Below we have included our recommendations on how to manage accounts receivable and accounts payable:

How to Manage Accounts Receivable

The best way to manage outstanding A/R balances is to generate an A/R aging report from your accounting software and review it weekly. The A/R aging report includes a list of unpaid customer invoices categorized into five primary groups (current, one to 30 days past due, 31 to 60 days past due, 61 to 90 days past due, and over 90 days past due).

In reviewing the A/R aging report, you should take the following actions for each invoice group:

- Current: Since these invoices are not due yet, you can take a proactive approach by sending a reminder to your customer that their invoice is coming due. Invoicing software like FreshBooks allows you to create automatic reminders.
- One to 30 days past due: If you have already sent the customer a reminder, give them a call to see if they received it and when you can expect to receive payment.
- 31 to 60 days past due: Call these customers on a weekly basis until you receive an expected payment date or they agree to make payment arrangements if they can't pay the invoice in full.
- 61 to 90 days past due: Customers with invoices older than 60 days should be put on hold. You should no longer provide goods and services until they have paid their account in full or made payment arrangements with you.
- Over 90 days past due: Customers who have invoices over 90 days past due and have made no effort to make payment arrangements should no longer be a customer. You need to close their account and write it off as bad debt, which is a tax write-off.

Reviewing the A/R aging report is the key to staying on top of the money your customers owe you. Review this report weekly and follow up with customers by sending reminders for invoices coming due or past due. Similar to staying on top of accounts receivable, it is equally important to stay on top of the money owed to vendor suppliers, commonly referred to as accounts payable.

How to Manage Accounts Payable

The best way to stay on top of what you owe to vendor suppliers is to run an A/P aging report in your accounting software and review it on a weekly basis. The A/P aging report includes a list of unpaid vendor bills categorized into five primary groups (current, one to 30 days past due, 31 to 60 days past due, 61 to 90 days past due, and over 90 days past due).

Similar to the A/R aging report, you should review your A/P aging report on a weekly basis and determine what bills are coming due in the next seven to 10 days. Prepare checks or create ACH payments for the bills coming due and be sure to pay them before the due date. This will ensure that you maintain a good credit rating with your suppliers so you can continue to place orders on credit.

Considering Your Small Business Bookkeeping Payroll Needs

When considering your small business accounting payroll needs, the first step is to consider if you're going to hire employees or use independent contractors. Next, determine if you have the internal expertise to handle your payroll needs and what payroll functionality your small business accounting software includes. Lastly, even if you have the staff on hand, you should determine if it makes more sense from a cost and liability perspective to outsource your small business bookkeeping activity.

The three things you should consider as it relates to your small business bookkeeping payroll needs are:

1. Whether You'll Hire Employees or Independent Contractors

Many small businesses hire independent contractors until they can afford to hire an employee. When you hire an independent contractor, you are not required to pay benefits or deduct payroll taxes from their pay. However, you are required to track payments made to independent contractors. At the end of the year, if total payments are $600 or more, you must provide each contractor with a Form 1099 and report this information to the IRS.

When you hire employees, you are subject to payroll taxes and extensive state and federal reporting not required for independent contractors. In addition, you must manage tax withholdings and ensure deductions for benefits are accurate for each employee's paycheck. Instead of Form 1099, you will provide employees with a W-2 form at the end of the year. If your accounting software does not allow you to add payroll processing, you may want to consider hiring a payroll service.

2. When You Can Handle Payroll Internally

If your accounting software includes payroll processing, you should consider keeping payroll in-house. Ideally, you can get assistance from your payroll software provider to ensure payroll is set up right before you start processing payroll checks. In my experience, running payroll will be as easy as entering the hours worked and paid time off for each employee, and the software will do the calculations for you.

If your accounting software does not include payroll processing, consider purchasing a payroll software like Gusto. Similar to your accounting software, Gusto will calculate payroll checks, allow you to pay employees via check or direct deposit, and pay and file your payroll taxes electronically.

3. When Payroll Outsourcing Is Better

As your business grows, you may find that you need help with onboarding employees and managing benefits such as health insurance and 401(k) plans. This is when you should consider outsourcing payroll to a professional employer organization (PEO) that can take on both the HR and payroll aspects of your business.

Many small business owners are not familiar with how to manage payroll and will need to hire an expert. While you can do your own payroll, make sure you use a payroll software that will automatically calculate paychecks and payroll taxes.

Preparing Your Small Business Accounting Financial Statements

Financial statements help you to get the pulse of your business. You need to generate a profit and loss and a balance sheet report. The profit and loss will tell you how much money you’ve made and the balance sheet report will tell you what your business is worth. You need to prepare these reports so that you can effectively manage your business by keeping track of your income, expenses, A/P, A/R, and cash on hand.

The two key financial statements that you should review regularly are:

1. Profit & Loss Statement

The profit and loss statement (also referred to as the P&L or income statement) provides a summary of your revenue minus expenses for a specific period of time, such as a month, a quarter, or a year. It provides your bottom line net profit (positive number) or net loss (negative number). It is important for you to know whether or not you are making money or losing money.

By reviewing the profit and loss statement, you will gain insight into how much revenue you have generated for all of the products and services that you sell. It will also show you where your money is going in terms of expenses. If you review this report monthly and look at each month side by side, you will notice trends that can help you to make decisions about your business.

Below is a sample profit and loss report from QuickBooks for a fictitious company:

Paul's Plumbing Co.

PROFIT AND LOSS

January 1 - September 29, 2016

	TOTAL
Income	
Sales	2,234.00
Services	4,025.00
Total Income	**$6,259.00**
Cost of Goods Sold	
Cost of Goods Sold	750.00
Supplies & Materials - COGS	1,000.00
Total Cost of Goods Sold	**$1,750.00**
Gross Profit	**$4,509.00**
Expenses	
Advertising	8.47
Bank Charges	50.00
Job Materials	2,750.00
Total Expenses	**$2,808.47**
Net Operating Income	**$1,700.53**
Other Income	
Other Income	500.00
Total Other Income	**$500.00**
Net Other Income	**$500.00**
Net Income	**$2,200.53**

2. Balance Sheet

The balance sheet is a report of the assets, liabilities, and owner's equity for your business.

It shows you how much cash you have on hand, what other parties owe you (accounts receivable), how much inventory you have on hand, what you owe other people (liabilities), and how much your business is worth on paper. It's important to have this information so you can determine if you will have enough cash to meet your current obligations.

Below is a sample balance sheet report from QuickBooks for a fictitious company:

Paul's Plumbing Co.
BALANCE SHEET
As of September 29, 2016

	TOTAL
ASSETS	
Current Assets	
Bank Accounts	
Bank of America Checking	3,076.72
Bank of America Checking, 9876	4,050.00
Bank of America Checking, x6789	4,000.00
Bank of America Savings, x5643	2,250.00
Petty Cash	175.00
Wells Fargo Checking, 1234	375.00
Total Bank Accounts	$13,926.72
Other current assets	
Inventory Asset	2,000.00
Undeposited Funds	2,050.00
Total Other current assets	$4,050.00
Total Current Assets	$17,976.72
TOTAL ASSETS	$17,976.72
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
Bank of America Visa, x7421	4,100.00
Wells Fargo Credit Card	7,220.20
Total Credit Cards	$11,320.20
Total Current Liabilities	$11,320.20
Total Liabilities	$11,320.20
Equity	
Opening Balance Equity	3,955.99
Retained Earnings	
Net Income	2,700.53
Total Equity	$6,656.52
TOTAL LIABILITIES AND EQUITY	$17,976.72

Reviewing your small business accounting financial statements will help you to stay informed of whether or not your business is profitable. Up-to-date financial statements can help expedite a loan application and provide a potential investor with the information they need to determine if they want to invest in your company. Finally, tax time is a lot less stressful when you can quickly produce financial statements for your tax professional.

Managing Your Small Business Taxes

As a small business owner, you will be subject to several taxes depending on the type of products and services you sell, your business structure, and whether or not you hire employees or independent contractors. These include income tax, sales tax, self-employment tax, and payroll taxes.

The four primary taxes small businesses may be subject to are:

1. Income Taxes

The income taxes that your business is subject to are tied to the organizational structure of your business. There are five main types of business structures: sole proprietor, partnership, limited liability company (LLC), S corporation (S-corp), and C corporation (C-corp). The structure that you choose will determine your tax liability and how you report your business income and expenses to the IRS.

The five types of business structures and the taxes they are generally subject to are:

- Sole proprietorship: A business that has one owner is considered to be a sole proprietor. In general, sole proprietors must pay income tax on all business earnings, and they are subject to self-employment tax.
- Partnership: A business that has more than one owner is a partnership. The income earned by the partnership is split up among the partners and reported on their personal tax returns as income.
- Limited liability company (LLC): An LLC is a business structure that provides business owners more protection from the business' lawsuits and debts, but the requirements vary by state. LLCs can be organized as either an S corporation or a partnership, and so the amount of your income taxes and the process you'll follow to report your taxes match the organizational structure you choose.
- S corporation: An S-corp is a smaller corporation than a C-corp. It has the same legal requirements and protection as a C-corp, but they differ when it comes to tax treatment.
- C corporation: A C-corp is considered a separate legal entity for tax purposes. The biggest disadvantage of having your business structured as a C-corp is that profits are taxed twice. The corporation is taxed on any profit that the business makes, and the stockholders are taxed on any dividends received.

Many small businesses start out as sole proprietors and as their business grows, they may switch to an LLC or S-corp. It's important to consult with a CPA or tax professional to assist you with deciding which organizational structure makes the most sense for your business.

2. Sales Taxes

If you sell products, then you should be collecting sales tax from your customers. Sales tax rates vary by county and city. If you sell products in multiple locations, then you have to keep track of all of the taxes collected and pay those taxes to the appropriate government entity when they are due. QuickBooks allows you to easily track sales tax collected by county and city.

Before you start selling products and collecting sales tax in any state, you must file an application to collect and report sales tax in each state that you plan to do so. To learn more about state and local tax requirements, check out the Federation of Tax Administrators.

3. Self-employment Taxes

Self-employment taxes are paid by someone who is self-employed. Self-employment taxes cover Social Security and Medicare contributions that would normally be withheld from a paycheck for wage earners. If you have net earnings of $400 or more in self-employment income, then you must pay self-employment tax. This includes, but is not limited to, the following entities:

- Sole proprietors
- Partners in a partnership
- Members of an LLC
- Independent contractors

Self-employment taxes are due four times a year: April 15, July 15, October 15, and January 15. To report self-employment taxes, you need to complete IRS Schedule SE.

4. Payroll Taxes

If you have employees, you are required to make payroll tax deposits and file payroll tax forms to meet both federal and state requirements. There are also other employer payroll requirements, such as gathering I-9 forms and adhering to labor laws. As discussed previously, you should purchase an accounting software that includes payroll processing or use a payroll services company like Gusto, which will take care of filing the required state and federal forms.

That wraps up the four key small business taxes that you need to be aware of. As a business owner, you may be overwhelmed with the amount of responsibility you have. It might be in your best interest to hire a small business bookkeeping, accounting, or tax professional who can take on the responsibility of keeping your books and filing your taxes.

When to Hire a Small Business Bookkeeping, Accounting, or Tax Professional

You should hire a small business bookkeeping, accounting, or tax professional when you can no longer manage the day-to-day financial transactions for your business. If you are constantly paying bills late or not getting paid on time from customers, you need to hire someone who can manage these bookkeeping tasks for you.

As your business grows, you may need someone who can help analyze your financial statements to help you decide whether or not to expand your service or product line. This is when you would hire an accountant. Finally, you should always have access to a tax professional even if you do your own taxes. Tax professionals stay on top of the tax laws and can ensure that you maximize your tax deductions while at the same time minimizing your tax bill.

A few tips and additional information to help you determine when to hire a bookkeeper, accountant, or tax professional are:

When to Hire a Bookkeeper

You should hire a bookkeeper if you find that you are consistently making late payments to vendor suppliers or you have customer invoices that are not getting paid on time. To maintain good credit with your vendor suppliers, you need someone who can enter your bills and review your A/P balances on a weekly basis to ensure timely payments are made.

In addition, you must stay on top of your outstanding A/R balances by reviewing your A/R aging report and contacting customers who are delinquent. A bookkeeping service can manage these tasks for you so that you can focus on growing your business. When looking for the right bookkeeper, you should hire a certified bookkeeper so that you can be confident they have the knowledge and skill set to do the job.

When to Hire an Accountant

If you are looking to expand your business by adding a new product or service, or if you are wrestling with whether or not to drop an existing product or service, you may want to consult with an accountant. An accountant will review and analyze every aspect of your financials to give you key insights into the financial health of your business and the impact adding or removing a product or service will have on your bottom line.

If you plan to apply for a business loan or line of credit, you will need accrual-based financial statements. In this situation, I recommend that you hire a licensed certified public account (CPA) to prepare these financial statements for you. The CPA can also act as a liaison by assisting you with responding to questions your bank or financial institution may have related to the financial statements.

When to Hire a Tax Professional

Every small business should consider hiring a tax professional on day one. While I realize there are tax software programs that you can use to save money and do your own taxes, there's nothing like being able to discuss your personal tax situation with a professional. Tax professionals can help to ensure you are taking all of the tax deductions you are eligible for, which will ensure you don't pay more than your fair share in taxes.

If it's not in your budget to hire a tax professional, use a tax software like TurboTax to do your taxes. However, if you decide to switch business structures or you find that you need to change your accounting method, consult with a tax professional first. They can inform you of the tax implications these changes can have on your business and help you make the right decision.

Frequently Asked Questions (FAQs) About Small Business Bookkeeping & Accounting

The most frequently asked questions about small business bookkeeping and accounting basics are:

How do you keep books for a small business?

Keeping the books for a small business requires keeping track of sales, expenses, inventory purchases, and liabilities for your business. You will use an accounting software to record these transactions in one place. When it's time to file your tax return, you can generate financial statements or give your accountant access to your books.

How much does a bookkeeper cost for a small business?

According to the Bureau of Labor Statistics (BLS), the average bookkeeper salary is $18.87 per hour. Of course this will vary based on geographical location, education level, and work experience. On top of salary, you will be required to make payroll tax payments, purchase workers' comp insurance, provide health insurance, and other benefits.

If you choose to hire a freelance bookkeeper, you are not required to pay benefits since they are considered to be an independent contractor and not an employee. According to a survey published by ZipRecruiter, the average national rate for a freelance bookkeeper is $23 per hour.

What is the best software for small business bookkeeping?

QuickBooks is the accounting software we recommend for small business bookkeeping. It's affordable and user-friendly. Plus, it includes the ability to manage accounts payable and accounts receivable. As a bonus, most accountants use the program or are familiar with it. Plans start at $20 per month and take only a few minutes to sign up.

ROCO NOTE: A QuickBooks account **is included** with our Bookkeeping Service Packages.

Bottom Line

Now that you know what's involved with managing your small business accounting, it's time for you to make some decisions. To recap, you need to decide which accounting software you're going to use, determine what method of accounting is required for your business, decide if you need to hire employees or contractors, and if one of those people will be a bookkeeper.

The sooner these decisions are made, the sooner you can start recording your income and expenses. Before long, you will be able to run financial reports to see how well your business is doing. Having access to reliable financial statements can open the door to having potential investors and the ability to apply for a business loan or line of credit so you can grow your business.