

BETTER BUSINESS BOOKKEEPING IN 7 EASY STEPS

Whether you're sorting out the financials at a startup or dealing with the books at a more established company, here are seven steps that will make you a better bookkeeper.



Step

1

Separate Personal Expenses from Business Expenses

Starting a business isn't a gradual transition. You need to run it like a business from day one. That includes separating out business expenses to protect your personal assets (including your house) and maximize the value of the business in case you ever decide to sell it.

Really, this comes down to two simple things:

- **Open a business bank account.** It's difficult to convince the IRS that your business finances are separate from your personal finances if you don't actually segregate them. Having a dedicated account in place from the beginning, and using it to document all of your business transactions, is essential.
- **Never use your personal credit card for business expenses.** The same logic applies as the bank account. If you think you'll need to make purchases on credit, get a company credit card.

If you've already launched a business and haven't taken these steps, it's important to do so as soon as possible. Building a wall between your personal finances and your business finances will safeguard your most valuable assets if the business fails. And if your business thrives, having a set of clean, professionally prepared books will make it more attractive to prospective investors. An outsourced bookkeeping services provider can help.

For more on this important topic, see "[Why It's Vital to Keep Personal & Business Expenses Separate.](#)"



Step

2

Use the Cloud

If the idea of moving all your business data to the cloud makes your nervous, try thinking of it in a different way. What it really means is that you're storing your data in a secure location offsite.

The advantages are obvious. The cloud can provide better security — losing a computer, either through theft or a crash, doesn't mean losing your valuable data. The cloud can also yield substantial cost savings because there's no need for onsite servers.

A less obvious advantage is that the cloud allows you to share secure files. Among other things, that enables you to work remotely with an outsourced bookkeeping services provider, which can be both more convenient and less costly. It also means you can track your books in real time. Think of it as checking the pulse of your business.

For more on this topic, see "[Paperless Bookkeeping: It Can Work for Any Business.](#)"



Step 3

Set up a System of Checks and Balances

Proper bookkeeping checks and balances, including built-in redundancies and segregation of duties, serve two main purposes. First, they allow a business owner to verify his or her own work. (A simple miscalculation that makes you think you're in the black, when you're actually in the red, can have disastrous consequences.) Second, checks and balances keep employees honest.

It's especially important that no single employee have access to your company's checking account. That applies even in small businesses that employ family members. The simplest way to help employees avoid temptation is to minimize it. If one person is responsible for paying invoices, another person must be responsible for reviewing them, for example.

Checks and balances are another good argument in favor of outsourced bookkeeping services.

For more on this topic, see "[Fraud Prevention: How to Keep Your Books Secure.](#)"



Step 4

Prioritize Your Reports

Real-time analytics aren't just for industry giants like Amazon and Google. In-depth financial reporting is available for small businesses, too. In particular, you need to keep tabs on these three key reports:

- **Income statement:** Also known as a profit and loss statement, the income statement gives you an instant handle on how your business has been performing over a given period by comparing revenue to expenses. It's a simple, bottom-line review of your bottom line.
- **Balance sheet:** Similar to the income statement, the balance sheet provides a picture of your company's financial health, but with a wide-angle lens. It lists all of your assets, liabilities and equity on a given day to show you where you stand.
- **Cash flow statement:** Think of this as a meter reading. The cash flow statement measures the rate at which cash is coming in versus the rate at which it's going out. And because it factors in the total amount of money that your business has invested to that point, including equipment purchases and inventory, it can be the truest indicator of your financial health. Example: If you had \$10,000 in revenue versus \$5,000 in expenses for a given month, that sounds like healthy cash flow ... until you factor in the \$7,000 in debt you need to pay down against your initial investment.

Small businesses can track these and other key performance indicators (KPIs) through affordable, cloud-based reporting software. Once you learn to identify your business' KPIs, you can more accurately gauge your company's financial health and identify areas of concern and of opportunity. Customizable reporting also allows you to arrange your KPIs to reveal the information that matters most to you. By tracking cash flow in real time, for example, you can tell at a glance whether you're meeting your projections.

In the past, the lack of up-to-date financial information forced business owners to make critical decisions based on little more than gut instinct. With today's reporting software, you can instead make those decisions based on hard data. And depending on how deeply you want to dive into your data, an outsourced bookkeeping services provider can help.

For more on this topic, see "[3 Key Financial Reports to Manage Your Business](#)" and "[Fathom Software Helps You Be More Proactive with Financials.](#)"



Step 5

Sharpen Your Forecasting Skills

Charting your KPIs not only gives you a clear indication of where your business stands today, but also puts you in better position to move it forward tomorrow. If you find that sales always drop off in the last week of the month, for instance, you can adjust your forecast (and allocate your resources) accordingly.

Budget forecasting has long been a necessity in business, of course. What's different now is that more sophisticated reporting software allows you to start with a more accurate budget forecast — and then update it as needed based on real-time data. Not taking advantage of today's tools to fine-tune your budget forecast would be like trying to forecast the weather without ever looking at Doppler radar.

By marrying a detailed analysis of your company's finances with a broader look at economic and industry trends, you can better position yourself to take advantage of opportunities as they arise or take a more conservative approach as conditions warrant.

For more on this topic, see [“Why Budgeting and Forecasting Are Vital for Your Business.”](#)



Step 6

Stick to a Schedule

Not all bookkeeping deadlines are the same. Some tasks need to be completed each day, some each week, some each month, some each quarter and others once a year. Here's the breakdown.

- **Daily tasks:** Keeping up with invoicing, bank balances and deposits is vital, particularly in businesses that have a large number of cash transactions each day. Delaying any of these activities can increase the chance for errors and interrupt your cash flow. In addition, updating the general ledger daily ensures you'll have a detailed financial history in place in the event of an audit. For the same reason, it's also important that you back up your data each day — another good reason to use the cloud.
- **Weekly tasks:** Basically, the weekly report verifies that your daily reports have been error-free and that your bank statements are accurate. It also allows you to follow up on any accounts receivable or payable that are overdue. In addition, the weekly deadline is a good reminder to run your payroll. (This can be done biweekly if that's how your payroll is structured.)
- **Monthly tasks:** The end of each month is a good opportunity to reconcile your accounts and verify your balances as well as generate reports that can provide insight on whether your margins are in line with your projections.
- **Quarterly tasks:** Most businesses must pay a variety of quarterly taxes, including sales and payroll taxes. Meeting these deadlines will help you avoid penalties, and possibly an audit. They also mark a good time to review benefit and insurance plans, and to take inventory if you move a lot of stock.
- **Yearly tasks:** If you've kept up with all your other deadlines, then closing the books at year's end should be relatively painless. At this time, also be sure to organize your tax documents and review your budget projections. And if you have an accountant or bookkeeping services provider, meet with them right around now. Don't wait until tax time.

For more on this topic, see our [Bookkeeping Services Best Practices](#) series and blog post, [“How to Nail that Month-end Close.”](#)



Step 7

Seek Expert Advice

If keeping up with the bookkeeping at a small business sounds like a lot of work, that's because it is. Once they grasp how much time is involved in doing the books properly, many business owners decide to outsource the job to a professional rather than do it themselves.

The advantages are clear. Outsourcing can help you:

- Free your time so you can concentrate on growing your business.
- Avoid burdening employees with bookkeeping tasks that might not suit them.
- Save money by eliminating the need for a full-time bookkeeper on staff.
- Have a scalable solution at your disposal as your business grows.
- Tighten security by transferring your data to the cloud.
- Leverage greater reporting depth and insights into how your business is actually functioning in real time.
- Avoid costly mistakes that can cripple your business financially or invite unwanted attention from the IRS.

In fact, the advantages of outsourced bookkeeping services are so numerous and obvious, it's a wonder any business owner would choose not to use them.

For more on this topic, see "[Spending Too Much on Bookkeeping? Outsourcing Is the Answer](#)" or [visit our homepage](#).

About Supporting Strategies

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