Bookkeeping, the Backbone of your Business

Bookkeeping is truly a matter of keeping track of all of your expenses and your revenues. But it is also a matter of keeping everything classified properly, keeping track of the taxes you collect and owe, and making certain that you know when items are due – both to you and by you. These are some simple steps that a small business can take to solidify their accounting of their organization.

Keep Proof of Expenses

Firstly, you have to make certain that you obtain and keep all of your receipts for business-related expenses. This is crucial. If you do not have the receipts, then the government will not allow the expense. They will consider any expense that cannot be backed up a personal expense, and therefore, taxable income to the owner! It cannot be emphasized enough that you need to back up every one of your expenses with tangible proof that it is for business.

To track the expenses, you need to enter them into your bookkeeping system. Your system can be something on the computer, such as QuickBooks, Simply Accounting, or even a simple Excel spreadsheet system. If you understand the double entry accounting system, then a spreadsheet will be simple for you to use. If you don't, a computerized program is probably better. Of course, this all depends on your computer savvy and understanding of bookkeeping in general, as well as the size of your business. There is no way a $1 million business can get away with a simple spreadsheet program.

Debits and Credits (Costs and Revenues)

There's no point in trying to explain debits and credits, as this concept is often too confusing for most people to understand in a short article. Suffice to say that these concepts usually seem backward to anyone who is first learning them. However, you do need to understand the concept of costs and revenues. Any cost is something that you pay for, without taxes, and any revenue is something that comes into your company, before taxes. Taxes are tracked separately, and go into their own account.

When you purchase something for the business, then you will have to debit it into the correct account. General account classifications include cost of goods sold and general overhead. Cost of Goods Sold include materials, inventory, supplies and direct labor expenses. Overhead includes office expenses, auto expenses, payroll expenses, and any other expense that cannot be directly linked to your sales. Any sales tax you pay will have to be entered against the sales tax account, in order to reduce your sales taxes owing. Remember that if you pay both federal and state/provincial sales tax, these may have to be tracked in two separate accounts as well. The total amount will also have to be credited out of your bank account (this is the negative entry).

Never forget that your bank balance entries must balance with your bank account statement. This is how you can check to see that you haven't missed anything! And always have a separate account for business and personal use. If you have cash transactions, then these will have to be entered into a separate "cash" account, as if it were a bank account. Always keep your receipts to prove the transaction! Remember, with the example above, which is for a manual or spreadsheet system that each entry should balance, as well. This will help you to make sure that you are always correct when you complete your bookkeeping.