



SMALL BUSINESS BOOKKEEPING: DO'S AND DON'TS

Bookkeeping is essential for a small business owner. Tracking your finances and business transactions may seem difficult, but there are some easy steps to keep your books up to date efficiently. Take a look at these tips for some bookkeeping best practices.



What is Bookkeeping?

Bookkeeping is the process of recording financial transactions for your business. While it is part of the overall accounting process, there are a few key differences (be sure to reference our accounting tip sheet).

Some common aspects of bookkeeping include:



**Tracking Assets
and Liabilities**



**Reconciling all
bank accounts**



**Keeping an
up-to-date ledger**



Key Rules you Should Follow when Bookkeeping for your Small Business

1. Keep backups of all financial records

It's important for your business to keep detailed records of your books, especially in the case that you are audited or need to show financial records.

2. Set up an internal bookkeeping process

While many small business owners hire external services to keep track of their books, it's important to ensure that you have an internal bookkeeping process to review your records and keep yourself up to date.

3. Review financial records monthly

Small businesses oftentimes have lots of cash going in and out. With transactions adding up, operationalize your finances by conducting monthly reviews.

4. Keep business and personal expenses separate

It's normal to mix business and personal expenses on a daily basis, so when keeping clean financial records, it's important not to commingle business and personal expenses by having separate banking accounts.



Common Mistakes to Avoid when Bookkeeping

Many small business owners may have experience in their industries, but not small business finance. This can lead to common mistakes when it comes to maintaining accurate records. Here are some best practices for managing your finances:

1. Properly classify employees

You can have different staff classifications, such as employees and contractors. It's important to identify each staff member properly to maintain the accuracy of your financial books.

2. Maintain proper record keeping for all transactions

Bonuses, sales tax, petty cash, sources of income/expenses are not always considered when tracking cash flow. Set up a process to track even small transactions for accuracy.

3. Keep track of separate business and personal bank accounts

Many business owners juggle between their personal and business bank accounts, and often self-finance to fund the business in the early stages. Create a system where you deposit a standard monthly amount into your business checking account, rather than several ad hoc transfers. Consider coding these transfers as 'Owner's Investment' to record these transactions so you can balance your small business finances accurately.

4. Maintain backups of your records

Not having sufficient backups can lead to issues and discrepancies in your bookkeeping, especially if you need to review records from weeks, months, or even years ago.



Bookkeeping on a Budget

Small businesses can struggle with deciding how much money to invest in maintaining their books. Therefore, it's important to know the best way to maintain structure and save money. Below are some things to consider when trying to identify the cost-effective options for your bookkeeping:

1. Consider your bookkeeping business needs

Some businesses require more attention to their books and have more financial transactions. Examine the kind of financial statements your business deals and determine how much you need to spend on bookkeeping.

2. Look into part-time vs full-time bookkeeper

Using a part-time bookkeeper can be cheaper and a sufficient option depending on your business. Many service providers offer tiered packages based on your volume and level of need.

3. Consider using a bookkeeping software to keep track of your finances

Bookkeeping software is an easy way to keep track of your finances yourself. It can be helpful in the early stages of your business to learn key aspects yourself before hiring a service provider.

Additional Information

For more information and resources, check out the Small Business Resource Center for the 50+ at smallbizrc.org.