Accounting and Bookkeeping For the Business

The heart of financial management for a business is how it does the accounting or bookkeeping. It is common for a small business to struggle with this aspect of the business. Yet, the results of this function (the financial statements) of the business is vital to its future success. Many CEOs start out by doing this themselves. But, as the business grows, a decision has to be made.

Internally prepared financial statements are prepared by the business owner or by an in-house bookkeeper or controller. They are typically prepared monthly and certainly should be prepared at least quarterly. Because they are used internally for operations, they may show no amortization of loans or depreciation of assets, and may or may not be prepared in accordance with GAAP (General Accepted Accounting Practices). Lenders often accept internally prepared financial statements as interim financial statements or, for very small businesses, in place of financial statements compiled by a certified public accountant (CPA).

In many businesses an annual compilation of a company’s financial accounts is prepared by a CPA, an accountant or someone else familiar with GAAP, and is the basis for a tax preparer to complete your company’s tax returns. It reflects how depreciation of equipment and amortization of loans and intangible assets affect the company’s tax liability. Banks and other lenders often require two or three years of compilations.

Decision: In-House vs. Outsourced Bookkeeper: When your company was new, you may have handled all the bookkeeping to keep costs down. As your business grows, consider these options for delegating bookkeeping duties.

BOOKKEEPER: A bookkeeper works inside a company or for a number of companies. Some bookkeepers have experience in all facets of business accounting, while others may specialize in a small niche, such as accounts receivable and collections.

ACCOUNTANT: This term is generally used to describe someone with a higher level of knowledge of accounting principles than a bookkeeper; however, there are no classes or certifications one must pass to be called an accountant.

CPA: These licensed professionals complete extensive college-level training and pass an exam given by one of the 50 state boards of public accountancy. CPAs are held to high ethics and behavior standards, and undergo extensive continuing education annually. They are licensed to handle any tax matters before the IRS, and their work should follow GAAP.

You can handle bookkeeping in-house or outsource it. Having an in-house bookkeeper (either part time or full time) has some advantages:

✓ Your bookkeeper can support your business without other distractions.
✓ He or she becomes familiar with your business and preferences.
An experienced bookkeeper may offer financial and operational advice, in addition to handling your books.

Outsourcing has some advantages, too:

- You may save money by using a bookkeeper connected to or supervised by your CPA.
- Certain accounting programs, such as QuickBooks, allow you to easily and safely share accounting data.
- A bookkeeping firm can give you access to multiple people with different skill sets.

Here is a tip…however you handle bookkeeping, set up these internal controls:

1. Learn basic bookkeeping skills to ensure the accuracy of your bookkeeper.
2. Don’t let the same person who handles cash handle bookkeeping.
3. If you have a cash register, do random checks and set a threshold at which you take action.
4. Use checks and issue invoices in sequential order.
5. Secure all financial documents, online and offline.

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