For Your Business Success

...The importance of proper bookkeeping

Some loyal readers suggested that after last week’s column on understanding revenues and expenses, I should follow that with some suggestions on the “how” to do the bookkeeping because “many of us CEOs hate it!” My mentoring experience confirms that statement so here are some points about bookkeeping.

Your company’s success hinges on profitability and positive cash flow. Without bookkeeping, you won’t know if you have either. It is vital for your company’s success!

Bookkeeping can be time-consuming, even when you know what you’re doing. But as a business owner, it isn’t something that you can ignore. So what is bookkeeping?

Bookkeeping is the act of recording all of an organization’s financial transactions in chronological order. For example, have you recently purchased a new point of sale system? That has to be recorded in your books along with the amount that you paid. Did you just make a sale? That has to be recorded in your books. To gauge your company’s performance and success, you must track all of the money that is coming in, and all of the money that is going out. You do that with bookkeeping.

Additionally, bookkeeping helps you:

✓ Determine how much money your business has to pay in taxes
✓ Settle a discrepancy in the event of a tax audit
✓ Provide an accurate record of your financial health in order to secure financing

In your books, plan to record revenue, sales, payroll, tax payments you’ve made, and payments you’ve received from vendors and suppliers. The first question to answer is what is the best way to do bookkeeping for your business?

It’s possible to take the do-it-yourself (DIY) bookkeeping route, even if you aren’t a finance whiz. I have seen many start-up businesses use this. But, before you dive in, decide whether you’ll record transactions manually, with a spreadsheet, or using software such as QuickBooks®, Xero or Zoho Books.
Manual bookkeeping: Although most businesses use computer accounting programs, it’s relatively inexpensive to record and calculate your business’s finances by hand. This method can work well for those who are willing to make the time investment. If you choose manual bookkeeping, plan to write down all of your transactions in a bookkeeping journal — a book filled with ruled, columnar worksheets specifically designed to help you document your finances.

These journals are the first book of entry for all of your transactions and do not contain balance information. Just as you would record a day’s events in a personal journal or diary, you’ll write down the day’s financial transactions in your bookkeeping journals. At the end of the day or week, you’ll post these entries into the ledger — the book that lists all of your accounts, credits, debits and balances, and is used to create your company’s financial statements. (refer back to last week’s column for a discussion of the accounts that are important for your business.)

Bookkeeping by spreadsheet: If you’re comfortable using a computer to keep your records, but don’t want to purchase additional accounting software, using a computer spreadsheet program like Microsoft Excel or Google Sheets is a great option. This method is essentially the same as manual bookkeeping. That is you’ll use spreadsheets as journals to record transactions and then transfer data to your ledger spreadsheet — but with added benefits:

- Typing out records, as opposed to writing them by hand, ensures that your numbers are legible, decreasing the chances of making transcription mistakes.
- You can enter formulas into spreadsheet cells that will calculate a sum based on the numbers in other cells.
- Electronic files are more portable than physical folders and binders, and can easily be shared with other members of your team.
- If you ever need to present your information or would like to see a graphic representation of your records, you can turn your data into pie charts or graphs.
- Getting started with an Excel spreadsheet is fairly simple. SCORE and Microsoft® offers several different financial management templates that you can use or adapt for your purposes.

Bookkeeping software: Using software makes it easier to accurately record transactions and manage your cash flow. The streamlined workflow, time-saving automation and convenience that accounting software offers will become especially important as your business grows and your finances become more complex.
When using accounting software, you won’t have to perform the two-step process of entering transactions into journals and then transferring them into the ledger. The program will automatically update the ledger for you.

QuickBooks is one of the most popular software choices for small businesses. But numerous QuickBooks alternatives exist, including Xero, Zoho Books and FreshBooks etc. If you opt for accounting software, you typically get all of the benefits of using a spreadsheet, with additional capabilities:

- Creating and sending professional invoices.
- Tracking employees’ work hours with timesheets.
- Less data entry, with automatic download and categorization of bank and credit card transactions.
- The ability to grant remote access to your books, so you can easily share the information with other team members or your accountant.
- The ability to sync your point-of-sale (POS) system to your books.
- Easily issue check payments or, with QuickBooks, Deluxe eCheck payments.

In summary, bookkeeping is absolutely vital for the success of your small business. Consider how Kelly Olson, CPA and CMA Vice President & Corporate Controller, Deluxe Corp. puts it, “Instead of looking at accounting as a burden, embrace it. Accounting is a key tool that gives you insight into how your business is performing, and enables data-driven decisions.”

Dean L. Swanson
Southeast Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
www.seminnesota.score.org/

*Dean is a volunteer Certified SCORE Mentor and former SCORE Chapter Chair, District Director, and Regional Vice President for the North West Region