



Bookkeeping for small businesses

eBook / Blogpost

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Get the hang of bookkeeping.

Welcome to this comprehensive guide on small business bookkeeping. This guide aims to provide you with the necessary knowledge and practical steps to successfully set up and manage your company's books. We will break down complex accounting concepts and give you step-by-step instructions for entering common transactions.

Meet the authors.

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Step 1

The basics

What is bookkeeping?

Bookkeeping is the collection of data from various sources and entering it into your company's accounting system—but there's more to it than just data entry.

Bookkeeping involves keeping track of income, expenses, assets, liability, and equity. These figures are compiled into financial statements to give you a complete picture of your company's financial health.

Bookkeeping vs. accounting

Bookkeeping and accounting are closely related, but distinct disciplines within the financial management of a business. While they're interconnected, they serve different purposes and involve different levels of analysis and interpretation.

Bookkeeping is the process of recording and organizing financial transactions in a systematic manner.

Accounting, on the other hand, encompasses a broader scope and involves interpreting, analyzing, and summarizing the financial information generated through bookkeeping. It goes beyond the recording of transactions and delves into the deeper analysis of financial data to provide insights and support decision-making.

Why bookkeeping is important

Bookkeeping is essential to your business's health for several reasons:

Manage your finances

Bookkeeping provides small business owners with accurate and up-to-date financial records that allow them to effectively manage their finances. By tracking income, expenses, and cash flow, owners can make informed decisions regarding budgeting, pricing, cost management, and investments.

Why bookkeeping is important

Comply with tax regulations

Bookkeeping ensures that businesses meet their tax obligations. By maintaining organized and accurate financial records, businesses can calculate and report their income accurately, claim eligible deductions, and fulfill their tax filing requirements. This helps avoid penalties, audits, and legal issues related to improper tax reporting.

Evaluate performance

Bookkeeping helps with the evaluation of financial performance. Through financial statements and reports derived from bookkeeping records, owners can assess profitability, identify trends, measure growth, and compare their performance against industry benchmarks. This information helps in identifying areas of improvement, setting goals, and making strategic decisions.

Financial planning and forecasting

Accurate bookkeeping data serves as the basis for financial planning and forecasting. By analyzing historical financial records, businesses can project future revenues, expenses, and cash flow, aiding in budgeting, goal-setting, and resource allocation. This allows for better financial management and helps businesses plan for future growth and expansion.

Communicate with stakeholders

Bookkeeping facilitates effective communication with stakeholders, such as investors, lenders, and partners. Accurate financial records and reports instill confidence and trust in stakeholders, providing them with the necessary information to assess the financial health and viability of the business. This is particularly important when seeking financing, partnerships, or attracting potential investors.

Step 2

Bookkeeping software

As you research the best accounting software for your small business, consider the features that your business needs today and the integrations that will make your day-to-day bookkeeping both fast and easy. Look for accounting software that allows multiple users for your account if your finance team is larger than just yourself, offers branding customization for invoices and estimates sent to customers, and keeps fees low on both credit card and ACH payments.

Accounting software comparison

Wave

Starting Price	\$0/month
Free Trial	Always Free
Cloud-Based	Yes
Mobile App	Apple and Android

Overview

Wave accounting software is a comprehensive financial management tool designed for small businesses and freelancers. It offers a range of features, including invoicing, expense tracking, payroll management, and financial reporting. Wave Accounting stands out for its user-friendly interface, accessibility, and affordability, as it provides many essential functionalities for free.

Xero

Starting Price	Start at \$13/month
Free Trial	30-day free trial
Cloud-Based	Yes
Mobile App	Apple and Android

Overview

Xero accounting software is a dynamic and versatile cloud-based solution specifically designed to cater to the needs of small to medium-sized businesses. It boasts an extensive range of features, encompassing everything from seamless invoicing and precise expense tracking to efficient bank reconciliation and comprehensive financial reporting.

Sage

Starting Price	\$48.16/month (when paid annually)
Free Trial	Not available, but first-year discounts apply
Cloud-Based	Yes with server option
Mobile App	Apple and Android

Overview

Sage accounting software is an all-encompassing and feature-rich solution tailored to meet the diverse financial management needs of businesses, regardless of their size, though it might be a bit overkill for small businesses. With an extensive range of functionalities, including invoicing, expense tracking, bank reconciliation, and financial reporting, Sage provides a comprehensive suite of tools to streamline and automate accounting processes.

FreshBooks

Starting Price	\$8.50/month
Free Trial	Free 30-day trial
Cloud-Based	Yes
Mobile App	Apple and Android

Overview

FreshBooks offers a low price point and features relevant to freelancers. It provides the basics you need (like invoicing, time tracking, and financial reporting) without any of the complexities you don't need (like extensive inventory management or multiple modules).



Step 3

General ledger & chart of accounts

A general ledger is a comprehensive record of your business's financial transactions. It presents a list of your financial accounts and the activities that have affected each of them so far, culminating in their current balances.

General ledgers contain the data necessary to create your business's balance sheet and income statement. Your accountant can use them to review specific transactions when they want to investigate the details of your financial statements.

Setting up your chart of accounts

The chart of accounts (CoA) is a financial organizational tool that provides a complete listing of every account in the general ledger of a company, broken down into subcategories.

It's the backbone of your bookkeeping system which will be used to record transactions in the right accounts and make sense of your financial data. When setting up your chart of accounts in your bookkeeping software for the first time, consider the nature of your business and the necessary accounts to track your business's financial activity accurately.

They fall into five primary categories:

- **Assets** – These represent resources that hold monetary value and go on the top half of the balance sheet. For example, your asset accounts could include cash, receivables, property, and equipment.
- **Liabilities** – These are the amounts that you're obligated to pay other parties. They belong on the bottom half of the balance sheet with equity accounts. For example, accounts payable, business loans, and credit card balances are liability accounts.
- **Equity** – These represent the value that would remain if you liquidated your business' assets to pay its debts. They go on the bottom half of the balance sheet with your liabilities and include accounts like owner's equity and retained earnings.
- **Income** – These accounts are for the funds your business earns through its day-to-day operations and go on the top of the income statement. For example, revenue, sales, and other income are income accounts.
- **Expenses** – These represent the funds your business spends during its operations. They sit below income accounts on the income statement. For example, your expense accounts might include advertising, interest, and labor.

General ledgers typically present their accounts in these groups and in this order. Whenever one of your financial transactions creates a new account, you must add it to the document. Fortunately, accounting software can do this automatically.

How to record transactions in double-entry bookkeeping

The general ledger is integral to the double-entry accounting method, which is the foundation of modern bookkeeping. When using the double-entry method, every transaction must affect at least two financial accounts, and the amounts must balance equally between debits and credits.

Debits and credits refer to the components of journal entries, which are the records bookkeepers use to document transactions. Debits go on the left side of journal entries, while credits go on the right.

However, debits and credits have different effects on account balances based on the account type. Asset and expense accounts increase when debited and decrease when credited. Conversely, liability, equity, and income accounts increase when credited and decrease when debited.

For example, here's the journal entry you'd make to record the cash payment of a \$1,200 rent expense on March 1, 2022. Subsequently, the cash account in your small business ledger would decrease by \$1,200 because of the credit, and the rent expense account would increase by \$1,200 because of the debit. The same accounts on your balance sheet and income statement would also change to reflect the transaction.

There are multiple ways to track business revenue. You can track money as it comes in—and goes out—through cash-based accounting, or you can project the financials of your business through time using the accrual method.

Each of these accounting methods has its pros and cons, particularly for small business owners. Learn more about cash vs. accrual accounting to determine which makes the most sense for your business.

Choose between cash and accrual accounting

Cash basis accounting records transactions when the money comes in and out. For example, a restaurant will record the costs of receiving provisions to cook with and the income from customers every night. Cash-based accounting is immediate and focuses only on money exchanging hands.

What is accrual-based accounting?

Accrual accounting, on the other hand, records revenue when it's earned, not necessarily when your company is paid. Similarly, it records expenses when they occur, not necessarily when they're actually paid.

For example, if a customer buys a product or service, the business owner would record the income immediately even if the customer has 30 days to pay an invoice. It doesn't matter that the customer hasn't paid the invoice yet—the business records the income from the sale.

The accrual basis of accounting also applies to expenses. If you pay \$120 per year for marketing software each January, you can record a \$10/month expense accrued over the course of the year. This makes your books look more even than if you had one \$120 charge in one month without any repeating charges during the rest of the year.

The accounting method you choose will depend on your business model and how you track your finances.

Should small businesses use cash or accrual accounting?

There's no golden rule for whether small businesses should use cash or accrual accounting. Some small businesses start out immediately accruing their expenses, while others continue to use cash even as they grow.

There is one caveat—the [IRS requires](#) business owners to use the accrual method if their business is a corporation that averages more than \$25 million per year in gross receipts.

A potential indicator of the type of accounting you should use is the turnaround time within your business. For example, a home contractor might work on four or five major projects each year. They would likely have agreements with clients to pay part of the funds up front and the remaining balance when the work gets done. In this case, the accrual method might be better to help track accounts receivable and future revenue against current expenses.

If you operate a small business with a short transaction window or offer a monthly service (like a SaaS company or keep your clients on retainer), a cash-based system might be easier to manage.

Additionally, your expenses can dictate whether a cash vs. accrual accounting basis is right for you. If your expenses remain stable each month, then you might feel more comfortable using cash than if your costs come in waves.

When in doubt, speak with an accountant. They can review your current accounting model and make recommendations for you moving forward.

What are the pros and cons of accrual-based accounting?

The biggest benefit of cash-based accounting is that it's easy. You can clearly record when you have money and when you don't. You can also track your cash flow better because you know how much you have on hand. However, there are some significant benefits to accrual-based systems.

- You can track expenses when they occur, even if your accounts payable team takes time to process invoices.
- You'll have a better idea of incoming funds from your accounts receivable department.
- You can better forecast your expenses and set clear budgets based on what you know you owe.
- You can expand your business past the \$25-million limit without having to adjust your accounting method.

Some business owners prefer to use accrual-based accounting if they accept multiple payment types and have several clients. This means laggard clients who refuse to pay won't hold up the cash flow.

However, there are some drawbacks to accrual-based accounting. This process is harder to keep track of and requires an understanding of basic accounting principles. Plus, if you already use a cash-based system, you'll need to retool how you record cash flow. You may need to redo your books from past years so your expenses line up correctly. If you've been in business for several years, this conversion process can take a while.

Step 4

Bank reconciliation

Bank reconciliation is the process of ensuring the information in your business accounting software matches exactly with the information in your bank account statement. In other words, all money in and all money out should be identical in both.

Bank reconciliation is crucial for accurate bookkeeping. Reconciling your cash accounts to their statements regularly helps catch errors, whether from bookkeeping or the bank, so they can be addressed promptly.

What is a bank reconciliation statement?

A bank reconciliation statement is a financial document that compares an account's balance on your company's books to the balance in that account according to your bank statement.

A bank reconciliation statement typically has two parts. The first part starts with your bank account balance and then adds or subtracts any transactions recorded in the company's cash account on its books that haven't yet cleared the bank. The result is your company's adjusted cash balance.

The second part starts with your company's cash account on its books and then adds or subtracts any transactions recorded by the bank that have not yet been input into your company's bookkeeping software. The result of this calculation should be the same adjusted cash balance you calculated in the first part.

What is a bank reconciliation statement?

The first step in reconciling your bank statement is to obtain your latest bank statement and note the period it covers.

Then, open up your bookkeeping software and pull up the register of all entries to your cash account balance for the period covered by your bank statement.

Now, compare the transactions in your software with the transactions indicated on your bank statement and note any transactions that are recorded in one record—either your software or your statement—but not in the other.

For example, let's say that your business checking account has a balance of \$10,000 according to its statement, but a balance of \$11,000 according to your books. In comparing the transactions between the two records, you notice these three differences:

- A \$900 check to your company that you deposited and recorded in your books, but that has not yet cleared the bank
- A \$120 service fee indicated on your bank statement that you have not yet recorded in your books
- A \$20 interest payment from your bank that you have not yet recorded in your books

Once you've done this work, prepare the first part of your bank reconciliation statement, which starts with your bank statement balance and adds or subtracts the transactions recorded only in your bookkeeping software. Using the example above, this part of your bank reconciliation statement would look like this:

\$10,000	Balance per bank
+ \$900	Uncleared check
\$10,900	Adjusted Balance

Now, you would create the second part of your bank reconciliation statement. This part starts with your cash balance on your books, to which you add or subtract the transactions found on your bank statement, but not currently on your books. Following the previous example, this part would look like this:

\$11,000	Balance per books
- \$120	Service fee
+ \$20	Interest earned
\$10,900	Adjusted balance

Since your adjusted balance in both parts matches each other, you can be confident that you've prepared your bank reconciliation statement correctly.

Finally, you record the necessary journal entries to adjust your current balance on your books to match the adjusted balance from your bank reconciliation statement. In this case, your entries would look like this:

Debit Service Fee Expense	\$120
Credit Interest Income	\$20
Credit Cash	\$100

If you haven't reconciled your cash balance to your bank statement before, you'll have to go back to the month in which you opened your bank account and perform this exercise for every month thereafter.

How often should you reconcile your accounts?

Businesses used to reconcile their accounts monthly, relying on physical statements from the bank. However, the digital era has made it easier to pull data and reconcile accounts on the go.

At a minimum, monthly reconciliation is recommended. Consider setting up a weekly meeting to review statements and ledgers. Some companies even reconcile daily for high transaction volumes.

Regular reconciliation prevents a backlog of statements and ledgers, saving time and effort in the long run. Though not glamorous, it's essential for an accurate financial view.



Step 5

Accounts receivable

Accounts receivable is money owed to your company, typically because you sold a good or provided a service and are awaiting payment. If you don't receive cash for your goods or services at the point of sale, the amount is added to your accounts receivable account. Most commonly, accounts receivable occur in the form of outstanding invoices or bills.

How to record accounts receivable

Accounts receivable is increased—that is, debited—whenever your business delivers goods or provides services on credit. This means that your business was not paid for the goods or services immediately upon sale, but will rather be paid for them at some point in the future. Depending on your business’s billing practices, you may submit an invoice to your client or customer for these sales.

The journal entry to credit a sale on credit is:

Debit	Accounts Receivable
Credit	Sales

When your business receives payment for these goods or services, you decrease your accounts receivable balance.

Here’s the journal entry to record a payment from your customer on an invoice you sent them:

Debit	Cash
Credit	Accounts Receivable

Unfortunately, sometimes a customer will not make good on their obligation to pay you for your goods or services. The most straightforward way to account for these instances is to decrease your accounts receivable balance and increase an expense account called bad debt expense when you have confirmed that your customer won’t be able to pay your invoice. Here’s the journal entry:

Debit	Cash
Credit	Accounts Receivable

This will cause your business's net income on its profit and loss statement to decrease because bad debt expense is an expense account.

An alternative method of accounting for your business's receivables that will never be collected is by keeping a running allowance for doubtful accounts on your balance sheet. This will require you to estimate, perhaps based on your company's historical data, the percentage of your accounts receivable at any given time that will be uncollectible. Then, once you've come up with this estimate, you record the following journal entry:

Debit	Bad Debt Expense
Credit	Allowance For Doubtful Accounts

When using this method, your company's profit and loss statement is only affected by this estimate, not by the actual write-offs of uncollectible accounts, which are recorded with this entry:

Debit	Allowance For Doubtful Accounts
Credit	Accounts Receivable

By using this slightly more complicated method to handle uncollectible accounts, you can better estimate the actual future cash flow from sales on credit that your business can expect. This is possible because you've already estimated the amount that will eventually become uncollectible based on your historical knowledge of your business.



Step 6

Accounts payable

Accounts payable is an account that represents money your business owes to other businesses, such as your vendors and suppliers. Since these other businesses are typically paid in less than a year from when they provide you with their goods or services, accounts payable is a current liability on your business's balance sheet.

Your business's accounts payable balance increases whenever it receives goods and services that it has not yet paid for. Conversely, it decreases whenever it makes a payment for these goods and services.

Note: Only companies that keep their books on the accrual basis of accounting will have an accounts payable account.

How to record accounts receivable

Let's say you own a locally sourced produce market that gets a monthly shipment from a nearby apple farm.

The price of these apples is \$1,000, but you're on net-60 terms with this farm, so your market won't actually pay the farm for these apples for another couple of months.

Your market may present you with an invoice for these \$1,000 worth of apples, or you may have an ongoing credit arrangement with this farm.

In either case, it's important for your accounting records to reflect that you owe this farm \$1,000 for these apples. That's what the accounts payable balance represents.

When you receive these apples, you increase your accounts payable balance by \$1,000. You also increase your inventory account by \$1,000 to record the apples now on your shelves. So the journal entry in your company's books would be:

Debit inventory: \$1,000

Credit accounts payable: \$1,000

Fast-forward two months from now, you finally pay the farm for the apples, per your net-60 payment terms. At this point, to reflect the money you paid the farm, you decrease your accounts payable balance by \$1,000 and decrease your cash account by \$1,000. Your new journal entry in your company's books reads:

- Debit accounts payable: \$1,000
- Credit cash: \$1,000

As you can see from this example, accounts payable lets you know how much money your business owes in the short term—generally the next 30, 60, or 90 days depending on the billing terms you've negotiated—to your vendors and suppliers.

Step 7

Managing your financial statements

Financial statements are accounting documents that summarize your business activities and position. The three primary financial statements are the balance sheet, income statement, and cash flow statement.

The balance sheet

Balance sheets present your business's financial position at a fixed point in time. In other words, they give a snapshot of your assets, liabilities, and shareholders' equity on a given date. The balance sheet revolves around the fundamental accounting equation: $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$.

Let's take a look at each of those terms in turn.

Assets

Assets are things of measurable monetary value that your business owns. Some examples are cash, accounts receivable, inventory, land, buildings, equipment, and goodwill. In addition, your assets may include costs you've paid in advance, such as prepaid insurance or rent.

You should sort your assets into two categories: current and non-current. Your current assets are those you expect to convert to cash within one year, like accounts receivable and inventory. Non-current assets are those you don't expect to convert within a year, like buildings and equipment.

Liabilities

Liabilities are debts you owe to other parties, such as online lenders. Some common examples of liabilities include credit card balances, accounts payable, business loans, wages payable, customer deposits, and unearned revenues.

Like assets, liabilities are either current or non-current. Current liabilities are debts you expect to pay off within the year, while long-term liabilities are obligations that will remain outstanding for more than 12 months.

Equity

Shareholders' equity is the money that would be left over if you sold all of your company's assets and paid off its liabilities. The amount would usually include the money you contributed to your company to start the business plus any profits kept in the company from previous years, known as retained earnings.

Balance sheet analysis

Balance sheet analysis lets you gauge the strength of your financial position to inform your business decisions. It often involves comparing your current and prior period numbers to assess your growth and calculating the ratios between your assets, liabilities, and equity.

For example, say you compare your current cash reserves to your prior year's balance and find they've decreased by 20%. That makes you concerned about your liquidity, which refers to your ability to pay your debts over the upcoming year.

To further assess your liquidity risk, you calculate your current ratio, which tells you whether you could afford to pay your current debts if you converted your current assets to cash.

Current ratio formula

Current Ratio = Current Assets/Current Liabilities.

Unfortunately, yours is 0.85, indicating your cash and current assets cover 85% of your debts due next year. That means your risk of missing payments is relatively high, so you should cut your spending to help rebuild your cash reserves.

The income statement

The income statement shows your business's net income or loss over time. It's primarily a tool for calculating and analyzing your profitability. The formula for net income is:

Net income formula

Net Income = (Revenue – Expenses) + (Gains – Losses).

Let's look at what these categories mean and some of the accounts that fall into them.

Revenues

Your revenue is the income your business generates through its primary operations. For example, a law practice's revenues would be its earnings from providing legal services to clients. Some companies may also refer to the line item as sales, and it sits at the top of the income statement before all expenses.

There generally aren't sub accounts within your revenues unless you have multiple operating segments that constitute separate income streams.

Expenses

Your expenses refer to the costs that your company incurs while doing business. The income statement separates them into two primary groups: the cost of goods sold (COGS) and operating expenses.

COGS refers to the spending necessary to get your products or services to market. It sits just below revenues on the income statement and includes direct labor, direct materials, and manufacturing overhead.

Operating expenses are the costs you incur in your day-to-day operations that aren't directly related to your product or service. They go below COGS on the income statement and include a wider variety of costs, such as administrative salaries, office supplies, property taxes, rent, professional services, interest, and more.

Gains and losses

Your revenues and expenses dominate your income statement since you generate them through your business's primary activities. Meanwhile, gains and losses come from activities other than your day-to-day operations and arise only occasionally.

Most often, you generate them when your business disposes of an asset. Gains occur when you sell something for more than its cost basis, your original purchase price minus any depreciation. Selling an asset for less than its cost basis generates a loss.

Gains and losses go just above your company's net income, the last line of the income statement.

Income statement analysis

Income statement analysis primarily helps you gain insight into your company's profitability. Just like with balance sheets, that often involves calculating ratios between the various accounts presented.

For example, one popular ratio is the gross profit margin. Its formula is: $\text{Gross Profit Margin} = (\text{Revenues} - \text{Cost of Goods Sold}) / \text{Revenues}$. If yours is lower than your industry's standard, you probably need to increase your prices or reduce your manufacturing costs to be as profitable as your competitors.

Gross profit margin formula

$\text{Gross Profit Margin} = (\text{Revenues} - \text{Cost of Goods Sold}) / \text{Revenues}$.

It's also beneficial to analyze your income statement by comparing it to your prior period or budgeted results. The differences between them can reveal opportunities for improving your profitability.

For example, say you're a general contractor whose quarterly labor costs are 10% higher than budgeted. Upon further investigation, you discover your electrical subcontractor has consistently taken 20% more hours than expected to complete the projects you've assigned, so you should decide to look for a new electrician.

Cash flow statement

While an income statement shows whether your company made a profit, a cash flow statement displays whether your business generated or lost cash. It presents your cash inflows and outflows over time.

The statement separates your cash flows into the following three categories:

- Operating activities – Regular day-to-day business activities that generate cash inflows and outflows as you collect revenues and incur expenses
- Investing activities – Changes in cash from buying and selling property or long-term investments
- Financing activities – Cash changes from debt- and equity-related activities, such as borrowing money, servicing debt, or selling shares of stock.

Step 8

Close the books

Simply put, closing the books means ensuring that every transaction or expense is recorded and all of the information that a bookkeeper needs to put together their reports—like income statements and balance sheets—is present.

When should you close the books?

Different organizations close their books at various parts of the year. You can review your books on a monthly basis or go over them at quarterly or annual intervals. Many small businesses have unique processes for closing the books at different periods.

For example, a company would ensure that its expenses and income transactions are accurate on a monthly basis and then conduct a quarterly review ahead of an important meeting with the board or investors.

Then, after the end of the year, the company's accountants would close the books so that the financials and taxes can be prepared.

How to close the books

If you've kept up with your [bookkeeping](#) throughout the year, the process for closing your books is simple.

In this case, your [bookkeeping software](#) will already have generated preliminary account balances for you, and closing the books consists of verifying the accuracy of these preliminary balances, as well as checking and recording any transactions that don't run through your external accounts.

Step 1: Reconcile your bank statements

Start by [reconciling your balance sheet](#) accounts to any external statements such as bank statements or business credit card statements.

Step 2: Check the accuracy of other accounts

Now, your focus turns to accounts whose transactions aren't reflected on a bank or credit card statement. [Accounts receivable](#) is a common example.

The details of checking these kinds of accounts differ with the accounts themselves, but the concept is the same: Think of all the events that affect the account's balance and ensure that all of these events have been captured in your software.

Step 3: Record necessary journal entries

Finally, you may need to record some journal entries to properly close your books. A common one is depreciation expense on fixed assets.

To create this journal entry, first determine what your depreciation expense should be for the year. You can use a fixed asset software to calculate it for you. Then, record the transaction in your bookkeeping software by debiting and crediting the proper accounts—in this case, depreciation expense and accumulated depreciation, respectively.

Step 9

Hire bookkeeping services

Is it time to hire a bookkeeping service for your small business? Perhaps your business is growing, or you don't have time to do it all on your own anymore. Whatever the reason, there are plenty of bookkeepers out there ready to help you keep your books in order.

Why hire a bookkeeper?

According to [research](#) by Clutch, almost half of small businesses (45%) don't employ a bookkeeper, and a quarter of small businesses still record their finances on paper instead of a computer. Doing your [bookkeeping](#) by yourself isn't easy. It can be easy to make errors or miss something important. Manual bookkeeping can also put your data at risk from damage or theft. With the help of a professional bookkeeper, you may be able to manage your cash more effectively, save some time, and make better business decisions.

Curious about what a bookkeeper could do for you? Typical tasks a bookkeeper can help with include:

- Streamlining your bookkeeping systems and processes
- Recording and reconciling transactions and expenses
- Handling [accounts receivable](#) and payable to avoid cash flow issues
- Issuing invoices
- Paying sales taxes
- [Managing payroll](#) and certain HR functions
- Working with your tax preparer
- Delivering financial reports and help track your financial health

Most small businesses don't need to hire a full-time bookkeeper and can keep costs low by working with an external bookkeeper. Here's what you need to know to hire right.

Hiring a freelance bookkeeper

Freelance bookkeepers can benefit your business in many ways. Because they typically work from home, their overheads are low and their fees competitive. Rates can range from \$15-\$50 per hour depending on the nature and range of work you want them to do—and you only pay for the hours you use. [Freelancers](#) are also business owners and stake their reputation on meeting deadlines and taking their work seriously.

Freelancers can be found by word of mouth or via freelance job sites such as [Upwork](#), [Indeed](#), or [Freelancer](#). You can also connect with a network of bookkeepers via QuickBooks's [ProAdvisor certification program](#) or Xero's [advisor directory](#).

Working with a bookkeeping firm

Bookkeeping firms may cost more than a freelance bookkeeper but for good reason. They bring a range of experience to the table, access to a larger team of experts, and guaranteed coverage. Unlike a freelance bookkeeper, if your dedicated bookkeeper takes a vacation or is otherwise unavailable, someone else can seamlessly step in.

Bookkeeping firms may also offer accounting services, which brings the added benefit of sourcing your tax filing and financial advice from a single provider.

Bookkeeping firms can be found online or through referrals.

Another option is a technology-based bookkeeping firm, like Bench. For a flat monthly fee, Bench uses its proprietary cloud-based software to connect you to its team of bookkeepers. If your finances are straightforward, this can be a cost-effective choice, since automation cuts much of the manual work.

Understand the difference between a bookkeeper and an accountant

In your search for bookkeeping help, don't confuse bookkeepers with accountants or CPAs.

Many accountants provide bookkeeping services, but they can also prepare detailed financial statements (profit and loss statements, balance sheets, etc.).

Accountants, however, are not all Certified Public Accountants (CPAs). Many who perform this function don't have accounting degrees. To become a CPA, accountants must pass a Uniform CPA Exam and meet rigorous experience requirements. Because of the more thorough requirements, individuals and businesses may look to CPAs for more assistance with their financial decisions and goals. Furthermore, you would need a CPA—not an accountant—to prepare audited financial statements and represent a taxpayer before the IRS.

Be sure to consider which type of professional help you'll need when choosing a bookkeeper, accountant, or a CPA.

Choose a bookkeeper who knows your industry

Bookkeepers often specialize in certain industries. Make sure that your bookkeeper understands your industry and specific business needs. Bookkeeping for a construction or manufacturing company is very different from handling a service-based company.

Ask probing questions

Hiring someone to help with financial management for your business is a significant undertaking. A bookkeeper would typically have access to your finances, act in the role of a trusted advisor, and be willing to work closely with your accountant. Before you hire a bookkeeper, be sure you understand what you're getting into. Shop around and find someone with whom you feel comfortable.

During the screening process, Vitek recommends that business owners find out what they can expect from the bookkeeping process. "Interview several bookkeepers and keep a note of what they say in common and ask further questions for anything that sticks out or sounds odd," says Vitek.

If you don't screen your bookkeeping candidates, you might end up overpaying later on. Vitek shared a story that many small business owners would do well to keep in mind. "I recently spoke to an owner of a music school who had been going along with whatever her bookkeeper said without doing her own research. As a result, she has been paying way more for payroll than she needs to."

If you choose to work with a freelancer, they may or may not have experience working with your [accounting software](#). Ask about this during the consultation process, as well as their capacity to work with your accountant or CPA during tax time. Other considerations include their availability, especially during the busy season at the end of the financial year. Bookkeeping and accounting are both essential business functions. However, hiring an employee or independent contractor to manage them often costs more than new small business owners are willing to pay.

Fortunately, online bookkeeping and accounting courses can help you quickly acquire the skills you need to manage your company's finances yourself. Let's review five of the best options to consider.



Step 10

Bookkeeping courses for beginners

There's a surprisingly extensive library of bookkeeping and accounting courses online. We looked for the following qualities when narrowing the options down and selecting our recommendations:

Beginner-friendly

You don't need prior financial expertise to understand these courses. They can take you from zero bookkeeping and accounting knowledge to basic proficiency in financial management.

Aimed at business owners

These courses are for business owners who want to learn bookkeeping for their own company's needs rather than someone looking to launch a career as a bookkeeper or accountant.

Accessible and affordable

You don't need to spend much money or time to complete these courses. You should be able to access them for less than \$100 and finish them in a day.

Positive reputation

These courses consistently receive high ratings and positive reviews from previous customers.

Course	Course Cost	Format	Time
Accounting Coach Bookkeeping Training	Free	Text	Variable
Free Bookkeeping Accounting Bookkeeping and Accounting Basics	Free (premium course for £85)	Video	Variable
Udemy Bookkeeping Basics #1	\$89.99 (discounts available)	Video and text	4.5 hours
Udemy Bookkeeping in QuickBooks Online	\$99.99 (discounts available)	Video and text	4.5 hours
LinkedIn Learning Accounting Foundations: Bookkeeping	\$39.99 per month or \$239.88 per year subscription (free trial available)	Video	1 hour and 39 minutes

Bookkeeping quick guide

1. Set up a chart of accounts – Create a chart of accounts to categorize and organize different types of transactions. This will help you track income, expenses, assets, liabilities, and equity.
2. Record financial transactions – Record all financial transactions, including sales, purchases, expenses, and payments. Use appropriate journals—such as the cash receipts journal and cash disbursements journal—to track cash flow.
3. Maintain general ledger – Transfer the transaction details from journals to the general ledger. This step involves posting debits and credits to the proper accounts.
4. Reconcile bank statements – Regularly reconcile your bank statements with your accounting records to ensure accuracy and identify any discrepancies.
5. Track accounts receivable – Keep a record of customer invoices and track accounts receivable. Monitor outstanding payments and follow up on overdue invoices.
6. Manage accounts payable – Stay on top of your vendor invoices and track accounts payable. Ensure timely payments to maintain good relationships with your suppliers.
7. Generate financial reports – Prepare financial reports—including the balance sheet, income statement, and cash flow statement—to assess the financial health of your business.
8. Close the books – At the end of each accounting period, close the books by making necessary adjusting entries—such as accruals and prepayments—and prepare financial statements.
9. Store and organize financial documents – Keep copies of invoices, receipts, bank statements, and other financial documents in an organized manner for future reference and audits.
10. Seek professional help if needed – If bookkeeping becomes overwhelming or complex, consider hiring a professional bookkeeper or accountant to assist you with the process.

Remember, accurate bookkeeping is crucial for making informed business decisions, ensuring compliance with tax regulations, and maintaining financial transparency.



Conclusion

In a nutshell, the journey to financial mastery for small business owners can get intricate. But fear not! With the right knowledge and tools, it becomes a whole lot easier to navigate. Whether you decide to handle your finances yourself, hire a pro, or find a middle ground, understanding the basics of bookkeeping and deciphering financial statements is crucial. These skills empower you to make informed decisions that protect your business's financial well-being and steer it toward sustainable growth.

Ready to take control of your business's finances on the go? [Download the Lendio mobile app today!](#) With its user-friendly interface, the Lendio mobile app allows you to manage your accounts, monitor your cash flow, and make informed financial decisions, all from the palm of your hand.

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