Bookkeeping 101

Why Bookkeeping Matters for Your Business?

Being a business owner means that you have to do bookkeeping. It's crucial because with ALLBOOKKEEPINGANDTAXES managing your financial records becomes more streamlined and effective for small business bookkeeping services. If you're looking for a bookkeeper or considering online accounting services, understanding financial management is key:

* **It arranges data**: Basic Bookkeeping arranges financial data so that it can be easily interpreted and analyzed.
* **The IRS mandates that you monitor specific data**: Accurate information regarding your gross receipts, purchases, expenses, assets, travel and entertainment costs, and employment taxes is necessary when filing taxes for business owners.
* **It aids in budgeting**: By understanding cash flow, you can allocate funds to new initiatives and projects that will support the expansion of your company.
* **It facilitates improved decision-making**: You can accurately assess the state of your company when the books are in order. This enables you to make more informed choices regarding operations and expansion.
* **It facilitates profit tracking**: Naturally, if you want your company to make as much money as possible, then you need a bookkeeper, so tracking earnings becomes more precise.

Understanding Bookkeeping vs Accounting

In a business organization, bookkeeping is a crucial but preparatory task to the accounting function itself. A certified bookkeeper keeps track of every financial transaction, recording them in the accounting journal sorting them into various debits and credits, and arranging them per the company's chart of accounts.

All of the financial transactions are documented, but after certain periods, they must be compiled. Quarterly reports are required by certain companies. To prepare for filing taxes, other smaller businesses might only need reports at the end of the year.

After the time has elapsed, the accountant analyzes, reviews, interprets, and reports the company's financial information. The accountant also prepares the appropriate accounts and year-end financial statements in that firm. The accountant's year-end reports have to be made according to the specifications provided by the FASB. The term for these specifications is known as GAAP or generally accepted accounting principles.

Key Elements of Bookkeeping Explained

For those trying to **find a bookkeeper near me**, understanding these key terms is crucial:

* **Accounting Equation:** The fundamental formula for basic bookkeeping. The formula is given as Assets = Liabilities + Equity. The company's balance sheet explains the workings of an accounting equation.
* **Assets:** The things that your company owns. Cash, real estate, automobiles, patents, and unpaid client bills (accounts receivable) are a few examples of assets. Critical for e-commerce tax accountant tracking and financial management.
* **Liabilities:** The debts that the company owes. Some liabilities include credit card balances, amounts owed to vendors in accounts payable, loan balances, and unpaid taxes.
* **Equity:** The amount owed to the company's owner or shareholders. Equity includes contributions made by the owner, retained earnings—money earned by the owner but not taken out of the business—and other contributions, such as issued stock.
* **General ledger**: It consists of various assets, liabilities, equity, income, and expenses and is the place where financial data is recorded. Your corporate books consist of these five account types.
* **Chart of Accounts**: This is the list of classes you will be utilizing in grouping the transactions your company incurs. Think of a chart of accounts like a filing cabinet that organizes all your company's financial transactions.
* **Credits and debits**: Remember that in double-entry accounting, every transaction that is made in a bookkeeping record is always two-sided. There’s a credit side and a debit side. Formerly increases assets and expenses; hence, it decreases; whereas the latter raises income, equity, and liabilities, which lowers the former.
* **Cash-based versus accrual-basis accounting**: Cash-based accounting records income when earned and expenses when paid. The cash basis captures all of the expenses a person has paid and recorded and captures all of the incomes as received.
* **Reconciliation**: Matching of outside statements, in this case, a bank statement against the balance for specific accounts, such as loans, credit cards, or checks
* **Revenue** refers to the cash and earnings that come from the sales made by your company.
* **Cost:** The amount of money that your business will incur on overheads and operations.
* **Cost of goods**: The cash your business uses to make money. For a deeper dive, check out this cost of goods sold explainer.
* **Profit:** The money your company makes after deducting expenses and the cost of goods. Cash in hand doesn't equal profit.

How to Choose Between Cash and Accrual Accounting?

Accrual accounting and cash accounting both keep track of business transactions. However, there exist some differences between them, and it refers to the point of time when the transactions are recorded. On cash basis accounting, incomes as well as expenses can be made to records at the time when payment occurs. Incomes, as well as expenses under the accrual basis accounting, have no regard for when money payment is done since a record of such happened.

Since it provides the most accurate information about the performance of your company, accrual basis accounting is usually the best option. However, for basic, very small businesses, its complexity might outweigh its advantages. The needs of your company and whether you intend to track accounts receivable and payable will ultimately determine which accounting method is best for you.

Advantages and disadvantages of accrual v/s cash accounting

Here is a brief comparison of the specific pros and cons of each type of accounting, as well as the ideal users for each. Selecting the right accounting method is vital for small business bookkeeping:

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| --- | --- | --- | --- |
|  | **Pros** | **Cons** | **Best For** |
| Cash-basis accounting method | Simplifies maintenance | * Doesn't track accounts payable and accounts receivable, meaning it might give you an unrealistic view of your firm's payroll and bookkeeping.
* Doesn’t have widely recognized accounting standards
 | Very small organizations proprietorships and any company with very simple accounts and very primitive bookkeeping. |
| Accrual basis accounting | Gives more truthful and complete information about your firm's financial condition | * Less understandable; also accounts for accounts payable and accounts receivable.
* For those using a bookkeeper service, maintenance costs are going to be higher.
 | Small companies need to keep an eagle eye open for inventory, accounts receivables, and large-liability loans. |

Ask your bookkeeper or accountant which method best works for you, and ensure that they are aware of the benefits you expect for your financial statements and are not simply suggesting based on your tax basis for your company.

What is a cash basis of accounting?

Such deals are accounted for using a cash basis of accounting while ensuring that cash is either taken out or put into your firm. In other words, it is recorded as revenue when payment has been taken or as an expense when there is a cost incurred. Your online accounting for small business financial statements will report only those transactions that have cleared your checking or credit card accounts except for certain non-cash expenses like depreciation, which have no impact on your company's cash flow.

Cash basis accounting advantages:

Implementing, maintaining, and understanding cash-based accounting is easy. What's more, as you keep your books on a cash basis, your tax returns and financial statements will differ minimally. For business owners looking to find a bookkeeper near me, this means a quick snapshot of a firm's cash from just one financial statement, which means your cash basis income statement can fairly closely replicate your company's cash flow statement. For business owners looking to find a bookkeeper near me, this means a quick snapshot of a firm's cash flow.

Cash basis accounting has the following disadvantages:

* **It is not based on GAAP**: Revenue recognition and matching concepts in bookkeeping and accounting are ignored in cash-based accounting. The two principles are recognized to be part of solid accounting practices, which are generally accepted accounting principles, or GAAP. These must be observed by companies listed in the public exchange and small businesses applying for loans.
* **Cash basis accounting doesn't report accounts payable and accounts receivable**: Your financial state of affairs for the year will not show accounts payable or accounts receivable if your company has used a lot in these balances. Your outstanding balance on invoices from customers nor that for bills to vendors can appear neither on your balance sheet, when using cash accounting basis method. You might think your business is quite profitable on your cash-based financial statements, but when you enter your vendor bills, you're not close to breaking even.

Accrual basis accounting: what is it?

In personal and business bookkeeping, you log income and expenses as they occur, rather than only when money moves. The name of the accounting approach itself tells what accruals are accounts of unpaid bills and, in some cases, unpaid invoices from clients. When you earn money, you record it; when you spend money to make money, you record that too.

Advantages of accounts payable on an accrual basis

Because accrual-based accounting accounts for your company's unpaid expenses and your customers' unpaid invoices, it can provide you with a more accurate view of your company's financial health. This indicates that it matches revenue and expenses to the appropriate time they were incurred more accurately than cash-based accounting. Additionally, it creates a more comprehensive balance sheet by accounting for liabilities like loans, current assets like inventory, and accounts payable and receivable.

Accrual basis accounting follows GAAP rules, but cash basis accounting doesn't.

* Accrual basis accounting is, however, a bit clumsy and time-consuming. The maintenance of proper accrual basis books is very trying, especially on expense matching. Using a bookkeeping service to keep your accrual-based accounting records could end up being more expensive.
* Accrual accounting may hide potential tax liabilities if you are a cash basis taxpayer: Your accrual basis statements can easily be adjusted to the cash basis for tax purposes by your tax preparer. However, you might be surprised at tax time if you only review your accrual basis accounting statements during the year. Your cash basis financial statements, which you'll use to file your return, may show a large profit while your accrual basis statements indicate you haven't made much for the year, even though you might still end up with a large tax bill.

Example of accrual v/s cash accounting

Suppose your company finished a large project in June. You received payment from your client at the start of July, and on July 5th, you deposited the check. This is how the transaction would appear in both accrual and cash basis accounting.

Expenses for the supplies you purchased to finish the job would be documented in June at the time of purchase if you used cash-based accounting. However, since you received and deposited the check in July, the payment for your customer's invoice will not be recorded until then. You might find it challenging to assess the profitability of that job because of that timing disparity.

Even though you weren't paid until July, if you used accrual basis accounting, you would record your income and expenses in June to correspond with when you finished the project and earned the money. You can see that the job was very profitable when you look at your income statement.

Accrual accounting versus cash accounting? Which would be more beneficial to the small business firm?

To lead you into accounting for your small business, ask yourself the following:

* **Need assistance with keeping tabs on accounts payable and accounts receivable?** Accrual basis accounting probably then will be more suitable.
* **Ever applied for a business loan?** Lenders would like financial statements to be presented using the accrual basis method. If ever you will borrow, then your liabilities will also be presented better with the use of the accrual basis method of accounting.
* **Does your company have a sizable inventory?** If so, cash-based accounting is probably going to be insufficient.
* **How long does it take for expenses to be paid after they are incurred?** Consider billing customers as opposed to receiving payment from them. Cash-based accounting might be perfectly acceptable if these things usually happen at the same time. Accrual-based accounting gives a clearer picture of your company's financial health, especially when weeks or even months go by.

Accrual basis accounting is supported by all of the accounting software programs on this list, and some of them allow you to select whether to view reports using accrual or cash.

Choosing the Right Bookkeeping Tools for Your Needs

In bright news for owners who wish to have easier company book-keeping,

there's help in line with ALLBOOKKEEPINGANDTAXES. The entry process of data can be overlooked by an online bookkeeping service and this way some business owners can be directed towards avoiding the tangle of paperwork. The aim of these online accounting services is also focused: on running the firm, and the daily bookkeeping with using these services affordable. The software makes the process of entering data less hassle for owners who can use it. It is no longer necessary to worry about entering double-entry data into two accounts; the bookkeeping business software does this for you.

Steps to Manage Bookkeeping Effectively

To ensure that the books are accurate and up to date, you will typically follow these four steps when doing the bookkeeping. Keep in mind that every transaction is linked to a particular account before being recorded in the general ledger. Reporting is more accurate when debits and credits are posted to the appropriate accounts. To manage your bookkeeping, look at the next four steps.

Assign Particular Accounts to Transactions

Determine which account the item in question belongs to by looking at it. For instance, the sales revenue account will be credited when funds are received from a sale. You can get the most useful reports from your bookkeeping software and get the best picture of your company by ensuring that transactions are correctly assigned to accounts.

Close Accounting Journal for Credit and Debit Accounts

In manual bookkeeping, you put debits on the left side of the ledger and credits on the right side. Whatever is debited must balance with credits.

Upload data in the ledger account

In this manner, you can post entries to the general ledger to have a general view of where you stand financially after allocating them to the right accounts. This is because most accounting software automatically performs this step.

At the end of each accounting period, be sure to tweak your entries

Spend some time revising your entries after the accounting period. Your books become more accurate with adjustments. For instance, you might have made estimates for some invoices that were subsequently confirmed with a precise figure. Make sure to update the entries with the right information.

Not sure you're qualified for the position? To make managing your books easier, think about utilizing one of the top bookkeeping services with ALLBOOKKEEPINGANDTAXES.

What You Need to Know About Financial Statements?

Income statements are prepared with costs, expenses, and revenue from sales and other sources. Every transaction in bookkeeping that can be classified as falling under one of the three above categories must be recorded in the accounting journal.

**Take note**

At the end of the accounting year, the accountant will have complete financial information regarding the bookkeeping transactions of the company in terms of the accounting journal following the data obtained from income statements and balance sheets.

The sum total of revenue from all of the money generated by a business by selling their goods or services is revenues. All the money expended by a company in procuring or manufacturing the good or service it sells to the customer costs, otherwise known as the cost of goods sold. The purchase account in the chart of accounts keeps tabs on everything that’s been bought.

All the cash that was spent to operate the business which cannot be traced directly to a good or service sold is termed expenses. Expense accounts include salaries and wages and selling and administrative costs.

This bookkeeper, therefore should ascertain which of the accounts would be ideal for transaction recording. If your business applied the double-entry bookkeeping method and it sold to its customer cash it could debit the selling to a revenue account such as sales, while crediting the money realized in a corresponding asset account cash.

FAQs on Bookkeeping and Taxes

* **Is it possible for me to handle my bookkeeping?**

*With accounting software, a small business can probably handle all of its bookkeeping. Accurately entering debits and credits is made simple by the software's automation of many processes. Perfect for entrepreneurs seeking personal bookkeeping solutions*

* **Do small companies require bookkeeping?**

*Keeping accurate records is a major aspect of running a small business. Although you do not have immediate plans for an expansion, you will have to know whether you earn or spend more money. Moreover, the data applied in the bookkeeping process can help you file taxes correctly.*

* **Accounting and bookkeeping: Do they differ from one another?**

*The primary aim of bookkeeping is the recording and arranging of financial data, which encompasses payroll, billing, invoicing, and transaction reconciliation whereas, accounting is an interpretation and presentation of financial data, including tax returns, audits, and performance analysis, is termed accounting.*

* **The abilities required of a bookkeeper?**

*Bookkeeping does not require any certifications, unlike accounting. A good bookkeeper should be very organized, have a keen eye for detail, possess proper communication skills, and accurately balance ledgers.*

By mastering these bookkeeping and accounting principles, you'll be well-equipped to manage your business's financial records effectively for more help try our online bookkeeping services.