1. Accounting Basics For Small Business Owners - YouTube

<https://www.youtube.com/watch?v=pqkdCM47hpg>

Transcript:

[Music] hey there aiden from bench accounting here today we're going to talk about the basics of small business accounting by the end of the video you'll have a big picture overview of how to manage your business finances properly and how to outsource the things you're not good at let's jump in first what is accounting accounting is how your business records organizes and understands its financial information you can think of accounting as a big machine that you put your raw financial information into

things like your business transactions taxes projections etc that then spits out an easy to understand story about the financial state of your business accounting tells you whether or not you're making a profit what your cash flow is what the current value of your company's assets and liabilities is and which parts of your business are actually making money basically accounting matters because it's how you tell whether your business is winning or losing it's how you make good business decisions

and without solid accounting in place you won't be able to file your taxes or get a business loan what does accounting involve exactly you could probably slice this a dozen different ways but we've boiled small business accounting down to five main areas managing your money things like managing your bank accounts credit cards loans etc bookkeeping recording and categorizing your financial transactions financial statements turning your bookkeeping into financial reports making business decisions reading your financial reports and

making changes to your business prepping for tax season we'll go over each of these in detail first managing your money this doesn't have to be complicated there's one main rule you need to keep in mind always keep your business and personal finances separate when your business and personal finances are all mixed together this makes bookkeeping and taxes very difficult when you're reviewing the month or the year trying to figure out whether that chipotle lunch was with a client or just with your friend

your jumbled credit card statements won't help you even more importantly mixing business with personal could hurt your business legally if you're a corporation corporations have legal protection that protects the owner's personal assets but when financial lines get blurred that protection gets harder to defend in court so how do you keep your finances separate three main things one open up a separate business checking account and only use it for business transactions two never use your personal credit for

business transactions instead apply for a business credit card three try not to use cash to pay for business things and if you do take the money out of your business checking account get a receipt and keep track of the purchase the second aspect of accounting is bookkeeping we covered this in depth in a previous video so we'll keep this short basically what you need to do with bookkeeping is record every financial transaction and categorize it let's go back to our chipotle example let's say you have lunch at chipotle

with a client where you talk about the project you're working on for them after lunch you grab the receipt at the end of the week you'd record the lunch in your bookkeeping solution of choice you could do this in an accounting software or even an excel file we have a good excel accounting template you can download in the description below here's what you need to record with every transaction what the purchase was where you purchased it from the amount the date and the category for example revenue soap or expense business meals

if you can record and categorize every financial transaction you're 80 there this is where the concept of double entry accounting and debits and credits come in you might have heard of these because they come up all the time in accounting conversations here's a super quick summary double entry accounting is the act of recording every financial transaction twice once as a debit and ones as a credit basically when one category goes up another category goes down it can be confusing remembering what to debit

and what to credit one accountant summarizes it like this debit all that comes in and credit all that goes out the third aspect of accounting is preparing financial statements there are three main financial statements the balance sheet the income statement and the cash flow statement financial statements tell you the state of your business they are super important if you want to get a loan or sell your business you'll need financial statements but even more importantly they tell you how your business is doing

so you can make decisions here's a super quick summary of financial statements the balance sheet summarizes your assets liabilities and equity basically how much you own how much you owe others and how much is left for the owners the income statement summarizes your revenue expenses and profit or loss basically how much money you made in a particular time period the cash flow statement shows you how much cash you have on hand in a particular time knowing how much money you made is important but you really need to know

how much cash you have today to pay your bills if you've done your bookkeeping properly since the beginning of your business and you know your way around accounting software you can make these financial statements yourself however most business owners don't have this level of financial savvy that's okay you can get a bookkeeper to do it for you for example here at bench we do the books for small business owners and send them key financial statements each month actually we just upload it into the bench app so you can log in and view

them anytime the fourth aspect of accounting is making business decisions once you have financial statements in your hands you can start making real business decisions based on the financial information you're seeing let's start with the balance sheet let's say you're the ceo of disney and you're reading the 2018 balance sheet for disneyland here's what you'd see there's a lot we could say about this balance sheet but to give you an idea of the kind of thing we can learn from reading a

balance sheet let's look at current assets and current liabilities disneyland has roughly 6 billion in current assets current assets are cash and things that can be turned into cash quickly to pay bills however they have almost 18 billion in current liabilities meaning money they owe to others in the short term that means they don't have enough current assets to cover their current liabilities this is super valuable information to have and it can help you make decisions quickly your revenue might be great you might

even be profitable however if you don't have enough assets on hand to cover your liabilities you're going to be in trouble if you encounter a situation like this you're going to want to ask a cpa for help they can help you restructure your debt and maybe renegotiate with clients and lenders so that some of this short-term debt becomes long-term debt while you get some more capital to cover your obligations to learn more about how to read a balance sheet check out our balance sheet video next the income statement what can we

learn from it here's apple's income statement for 2019 bottom line they earned 55 billion dollars in 2019 but their revenue was so much higher than that at 260 billion dollars so the question is are they spending too much money are they leaving profit on the table we can see they spent 161 billion producing and distributing their products 16 billion on research and development and 18 billion on other overhead costs like paying support employees office leases etc does anything stand out here as being odd or potential for improvement one thing

that comes to mind is the high research and development cost right now they're spending six percent of their revenue on r d it would be smart for apple to audit exactly where that money was spent the different initiatives that resulted from those r d projects and whether that money is efficiently being turned into real products that make money in summary the income statement is the best place to see where you're spending too much money and whether your business is profitable or not the last financial statement is the cash

flow statement to see what we can learn from it we'll pull up a fictional version of the toronto raptors nba team cash flow statement from october remember the cash flow statement shows the reality of the business one thing we can see here is that the raptors spent 10 million on player salaries in october alone and they made six million in ticket sales in october keep in mind player salaries only tend to go up each year and that players generally get paid all year round even in the off season so what if next

year the raptors aren't as good and they sell less tickets even if their player salaries don't increase they will have less revenue to cover those bi-weekly paychecks they will want to get creative with finding new ways to make money those are just three quick examples of real business decisions you can make from the balance sheet income statement and cash flow statement if you're feeling stuck on how to translate financial statements into useful information ask a local cpa they'll help you dig

into what each line means and how you can optimize your business accordingly which leads me to my last point prepping for tax season you will generally not want to file your own business taxes there's too much that can go wrong we highly recommend working with a cpa to file your taxes that being said we generally don't recommend hiring a cpa to do your bookkeeping and get you prepped for tax season they will usually charge way too much money and you can do most of the tax prep yourself if you stay organized so what do you

need to do to get prepped for tax season most of it involves the steps we've already covered to have a successful tax season you will need to dig up last year's tax return it's the starting place for this year's tax pilot have a trial balance for the year which is your balance sheet and income statement for the tax year get your w3 which shows how much payroll taxes your business has paid in the last year get a summary of all income tax estimated payments you've made in the last year if you can hand your accountant all this

information they will love you and they'll be able to file your taxes without too much of a hassle which means it will take them less time and cost you less money one question we often get around tax prep time is what tax deductions can i claim the answer is you can usually claim ordinary expenses that are necessary for running your business in the description below we've linked to our resource called the big list of small business tax deductions where we explain the main tax deductions in detail that's it while you may not know as much

as an accountant after watching this video you at least know all the major accounting basics related to running your own business if the bookkeeping and financial statement stuff sounds like too much you can always hand it off to a company like bench we'll do your books each month get you caught up if you're behind send you monthly financial statements and we'll even get your taxes filed for you if you don't have your own cpa we've done the accounting for thousands of small businesses and we'd

love to help you out too that's it from us here at bench best of luck on your entrepreneurial journey and happy bookkeeping