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Work Smarter Virtual Voice Tip

Basic Bookkeeping Tips

For many small businesses, the most common bookkeeping errors are also the easiest to fix. Use these six tips to help keep your business on sound financial footing.

① Use the right accounting system. Most businesses use either cash-based or accrual-based accounting. If you use the cash method, you count income when you receive it and expenses when you pay them. Under the accrual method, you count income and expenses when they happen, not when you actually receive or pay them.

In practical terms, this difference in timing is relevant if your company keeps inventory on hand or handles transactions on credit. In these cases, the accrual method might be a better choice for your business. And in fact, if your firm has more than \$5 million in sales or keeps an inventory, the IRS might require that you use the accrual system. In other cases, however, the simpler cash system could be all you need.

② Maintain daily records. This is one of the most basic rules: If you don’t keep accurate daily records, you don’t have an accurate way to track the financial condition of your business. Different people use different record-keeping systems; what matters is that you have one and use it every day. Once you have a good system set up, accurate record keeping will take just a few minutes a day.

③ Handle and review checks carefully. It’s easy to be on autopilot when you’re writing checks and tossing canceled ones into a filing cabinet without reviewing them. Remember: Those checks

are as good as cash. And if something goes wrong, you - not the bank - will be on the hook. Take the same care with checks as you would with cash. Sign checks using a clear, distinctive signature that won’t invite forgery. Review canceled checks before anyone else, including your bookkeeper or employees, sees them; that way you can catch unauthorized checks. And if your business is a partnership, it’s a good idea to have at least one of the partners co-sign the checks.

④ Get a bank statement with a month-end cutoff. This is another basic tip that can reap big rewards. Synchronizing your bank statement with other monthly records will make it much easier to reconcile your statement and track expenses.

⑤ Leave an audit trail. Your record keeping will be much more effective if you have a system that allows you to quickly and easily retrace your company’s financial activities. This means keeping your invoices and checks in numeric order, not skipping check or invoice numbers, and keeping separate bank accounts for your business and personal funds. If you can’t go back a year and reconstruct your company’s finances, you probably aren’t leaving an effective audit trail.

⑥ Use a computer. Computer bookkeeping software is absolutely essential for all but the smallest businesses. These applications make it easy to track income and expenses, prepare tax documents, summarize your company’s financial activities and back up records for safekeeping. If you’re working with an outside bookkeeper, make sure they know how to use a computer.¹

1 Original article “Tips: Understanding Bookkeeping Basics” from Allbusiness.com [Accounting Center](http://AccountingCenter.com).