



11

# Small Business Accounting

If you're starting a business, then you'll need to become familiar with at least a few bookkeeping and accounting basics. We talk you through the main tasks, some timesaving tricks, and explain where professionals fit in.

### **What is accounting?**

Accounting is concerned with tracking money as it comes and goes from a business. Some of the information collected is reported to the government for tax purposes, but most of it is used to help the owner manage the business.

### **The three business accounting basics**

Accounting is a massive topic, but for most small businesses it boils down to:

1. Keeping records of business transactions (basic bookkeeping),
2. Creating accounting reports to help manage the business, and
3. Filing business tax returns.

#### **1. Keeping records of business transactions (bookkeeping)**

A major goal when starting a new business is to make some money. And you won't know if that's happening unless you have a reliable picture of income versus costs. Good record-keeping will:

- tell you if you're profitable, or at least moving in that direction,
- tell you if you're likely to run out of money (even profitable businesses sometimes do), and

- make tax season far easier because you'll have all the information required to lodge your tax returns.

This record-keeping is commonly referred to as bookkeeping. It's critical to small business accounting, and there's a real science to it.

### **How to do bookkeeping for a small business**

You need a way to record transactions accurately and, preferably, quickly. Some businesses keep a cashbook for this sort of thing. In it, they write down every sale and every expenditure. But there are less manual options.

#### **Recording income from invoices**

Note everything you send and check bank deposits to see you get the money or use accounting software to send invoices and the rest will happen automatically.

#### **Recording income at point of sale**

Download sales data and transfer it to your accounts or get a POS system that can send the data directly to your accounting software.

#### **Recording expenses**

Use a dedicated bank account for business purchases and transfer bank data to your accounts. Or get your bank to send this information directly to your accounting software.

#### **Keeping proof of purchase**

Keep your receipts (photograph them on your phone before they're lost) and enter



the extra details into your accounts too. Or get an app which can read pictures of receipts and enter the data for you. We can help recommend some.

You can base your small business accounting on money received and spent, which is cash accounting. Or, for a more accurate picture of your finances, you can also take into account any money that you're waiting on or planning to spend. This is called accrual accounting.

### **Double-checking your numbers**

One job that business owners don't see coming when they start out is bank reconciliation. It's where you cross reference your business books against business bank statements to make sure they agree with each other. It can chew through a lot of time, but there are smart ways to speed up the process.

### **Keeping the books: the early days**

As soon as you start incurring expenses during the set up of your business, you'll need to keep tabs on them. It's simplest to set up a bank account that's just for your business and use it for all your business transactions as far as possible. That way, business costs and income are kept separate from your personal finances.

Make sure you keep receipts and keep track of what each expense was for. One way is to print out bank statements and make a note beside each item. Then, when you've got accounting software set up, all the details will be in one place ready to pull into it.

## **2. Creating accounting reports to help manage the business**

Once your business is up and running, you'll get a feel for how things are going. You'll know whether you're busy or not. And you'll have a rough idea of whether costs are higher or lower than you thought. But you'll need some formal reports to confirm what you think.

### **What are accounting reports?**

There are dozens of accounting and management reports you can use to assess the performance of your business. But the most common are:

#### **P&L (profit and loss) report**

A comparison of expenses and income so you can see if you're making money.

#### **Balance sheet**

Identifies what the business owns (including cash) versus what it owes.

#### **Cash flow report**

Shows if you have more or less cash after all the sales, expenses, and lending activity have been boiled down.

#### **Business dashboard**

A live online report tracking your choice of business performance metrics.

This information will help you make numerous decisions, like whether or not to borrow more money, whether or not to hire help, which products or services to focus on, and which ones to let go. It always helps to have an accountant involved in these sorts of deliberations.



### Do I need an accountant?

Accountants are often thought of as tax people and, yes, they can certainly help you with taxes. But they do so much more. They can create and interpret accounting reports for you, show you which numbers really matter, and suggest next steps for your business.

And if you think you can't afford one, think again. Many accountants and bookkeepers offer starter services for a really modest flat fee, so you'll know what it's going to cost you every month.

### 3. Filing business tax returns

Tax is money that you're legally required to pay the government. It's applied to a lot of the things we buy, it's taken out of people's regular wages each payday, and your business will need to pay tax too.

Business tax comes in many forms and some businesses run into more than others. But three of the most common are:

- **Income tax**

Where you pay a portion of profits to the government.

- **Goods and Service tax**

Where you add a tax to your sale prices and later pay that money to the government. This is usually done in Australia via a Business Activity Statement.

- **Employee-related taxes**

Where you collect tax from employee, pay and send it to the government. In

some countries, the employer is also expected to pay extra taxes. For example, payroll tax.

### Lowering your business taxes

Business costs reduce your taxable income and therefore your tax bill, so make sure they're all accounted for. Quality bookkeeping is vital here.

You need some accounting knowledge to work out all your costs. For example, you can claim wear and tear on assets, and the diminishing value of intangible assets – but you have to follow specific rules.

### Getting a tax professional

Many new businesses wait till tax season to hire an accountant. But you shouldn't leave it too late – they'll already have a bunch of clients who need their tax done at exactly the same time. And make sure you have comprehensive, well-organised records of income and costs before you go to see them. Otherwise tax season will be gruelling and slow for everybody.





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