

Bookkeeping Basics

Business Checking Account

You will need your business identification number before opening your business checking account. The backbone of the bookkeeping record is a business checking account. In most instances the bank will not open up a business checking account without a copy of the trade name registration, articles of incorporation, LLC, or partnership papers. You should open a business checking account and not a personal checking account. You should open the account in a commercial bank that works with small business owners. You should order business checks, not personal checks.

Business Is Business

It is extremely important to segregate your business activity from your personal activity. It is very common for the business owner to start a business using their personal checkbook or to open a business account and then write checks out of the personal account when there is not enough money in the business account. The rule is that business is business and personal is personal. No business income gets deposited

in the personal account. No business expenses get paid from the personal account. If you need money in the business account, transfer funds from the personal account and clearly designate them as loans from you to be repaid.

Deposit All Funds

Just because someone pays you in cash is no reason not to deposit the cash in your business checking account. Later on you will understand that for each dollar you do not deposit, your income is reduced by that dollar, and your borrowing capabilities whether personal or business is reduced by four dollars. Most businesses that do not deposit cash received from customers are not managing their businesses properly and are usually the businesses that do not survive. It is also just a matter of time before taxing agencies receive some type of flag. In that case they go back not only to this year but retroactive for three years and sometimes more. I have seen what appeared to be successful businesses fail to survive. You can only improve your chances of survival by depositing all customer funds received. It is better to make a dollar and pay the government forty cents than to not have made the dollar at all.

All Disbursements by Check

The first rule is: if you can write out a check or make an electronic bank payment with a company or individual's name on it, that's what you should do. If you need stamps, write out a check to Postmaster. Go to the post office, get stamps, and give them the check. I do not care if you get a receipt. In an audit your check went to a third party. There is no doubt you did not receive these funds. Now, let's do the same transaction differently. You write out a check to cash. You cash the check. You take the cash to

the post office. You get the stamps and a receipt. You put the receipt in your receipt shoebox. In an audit they will say the check to cash went to you. It is not a good deduction. As far as the receipt in the shoebox, they will say you could have picked it up off of the floor. In addition, with computers you can make real looking vendor invoices. There is no doubt about the deduction if there is a check or electronic bank payment to a vendor. Do not make any checks payable to cash. Do not use cash to pay for anything. Use a check or electronic bank payment to pay bills with a business or individual name on the check or electronic payment.

The second rule is: If you cannot use a check or bank electronic payment, use a business credit card, and then pay the business credit card by check. I said a credit card, not a debit card. Debit cards cause multiple problems. You forget to record them in the checkbook. They do not always come in on the bank statement in the same name as the store. Reconciling the bank account is more complex. A credit card has one checkbook entry and one reconciling item. I strongly recommend not using debit cards or ATM withdrawals in your business account. Again, if you cannot use a check or electronic payment, the second alternative should be to use a credit card, and then pay the credit card by check. The credit card does not necessarily have to be in the business name but I would strongly recommend it. You can use a personal credit card but use it strictly for business. Have another credit card you only use for non-business items. We want a business name on the credit card so that we can build business credit under the Federal ID number.

The third rule is: If you cannot pay by check or credit card, maintain an expense record, and write yourself a monthly expense reimbursement check. Going to the bank to make a deposit is a business expense. You need to get a log to keep in your car and start tracking business mileage. You decide to go to a trade show. You drive

your car, pay tolls, and take a ferry. In addition, you want to buy a book at the show but you do not have a check and they do not take credit cards. You pay with cash. Put the mileage at IRS allowed rates and the cash payouts on your monthly expense report, submit it to your company, and get back a check. The payment is deductible to the company but not included in your income. If you do this each month you will not be running around at tax time to get these deductions and they will not just be forgotten. Again, if you cannot pay an expense with a check or put it on a credit card, then keep track of it, submit a monthly expense report, and receive a reimbursement check.

If you follow these three rules, your bookkeeping will be very organized.

Manual Checkbooks

You will need to have a manual checkbook even if you computerize your accounting. If your accounting is computerized, you will use your manual checks in an emergency or when on the road. These will then be put into the computer system. In this instance a simple business checkbook similar to a personal checkbook is sufficient.

If your accounting is not computerized, you need a more detailed manual checkbook. You will need to account for vendor checks as well as payroll checks. The standard business checkbook consists of three checks on the right with stubs on the left. In this system, you write out the check and then record the same information on the stub. If it is a payroll check, you need to record the payroll gross to net on an employee earnings card. This process consists of writing the same information three times: on the check, on the stub, and on the earnings record. Transpositions and other errors

can occur. I recommend what is referred to as combination payroll and disbursements one-write systems. This system consists of a journal, which goes on a board. The checks go over the journals. The employee earnings card goes under the check. You write the check, it goes on the employee earnings card, and goes on the journal all at one time. This process will make your bookkeeping easy and your accountant will receive good records. Not all small companies computerize their accounting. If you do not feel comfortable computerizing, a one write manual system will work just fine.

Chart of Accounts

As you write out checks you need a system to summarize all like checks together. We need a way to accumulate all the telephone bills paid during the year into one number for tax returns and financial reports. This is done using a one write manual system in one of two ways. First, you can spread the checks to various columns, one designated as telephone. Second, you can have one column in which you use a code number, which designates telephone. I prefer the second method, which will work well with your accountant who will summarize this data into his computer system. The idea is that you have a chart of accounts. As you write out a check you tell the accountant what this expense is for (telephone) by recording on the journal the account number for telephone. The following is a startup Chart of Accounts for a sole proprietor or a single member LLC which coincides with the lines on Schedule C, business income, which you will need to complete for inclusion in your personal income tax return.

Balance Sheet

Assets

1100	Cash Checking
1200	Accounts Receivable
1300	Inventory

1400 Other Current Assets
1500 Property and Equipment
1600 Accumulated Depreciation

Liabilities

2100 Accounts Payable
2200 Credit Card Payable
2300 Taxes Payable
2400 Other Current Liabilities
2600 Loans Payable
2800 Other Liabilities

Equity

3100 Owner Equity
3200 Owner Draw

Income Statement

Income

4100 Sales

Cost of Sales

5100 Purchases
5200 Labor
5300 Subcontractors
5900 Other Direct Costs

Expenses

6100 Advertising
6110 Car Expenses
6120 Commissions and Fees

6130	Depreciation
6140	Employee Benefits
6150	Insurance
6160	Interest
6170	Legal and Accounting
6180	Office Expense
6190	Pension and Profit Sharing
6200	Rent Expense
6210	Repairs and Maintenance
6220	Taxes and License
6230	Travel Expense
6240	Meals and Entertainment
6250	Utilities
6400	Office Salary
6500	Other Expenses

Monthly Bank Account and Credit Card Reconciliation

Time is the business owner's most valuable asset. One of the first controls to go seems to be taking the time to reconcile the bank statement each and every month. Unless you agree the cash balance in your journals to the cash balance on your bank statement, your bookkeeping will be incomplete. First, make sure the bank is cutting

off your statement on the last day of each month. If they are not, request them to do so. Second, reconcile your month end bank balance to your month end journal balance. If you follow the bank procedure you will be reconciling to the journal balance the day you receive the bank statement. Doing this gives us no assurance that the month end balance is 100% correct. To reconcile your account first look for any deposits you recorded during the month which do not appear on the bank statement. Add these to the bank balance. Look for any checks you recorded which have not been processed by the bank. Subtract these from the bank balance. Look for any service charges, debit memos, or credit memos, which you have not recorded. Record these in your journal for the month being reconciled. The reconciliation balance should now agree with your journal balance. If not, check for math errors. It must reconcile. Everything mentioned above also applies to your credit card statement. Warning: Waiting until the end of the month to download bank and credit card information into accounting software can cause bounced checks and double recording of transactions. Be careful using this technique.

Accounts Receivable Control

The simplest way to control your receivables is to set up a folder for unpaid customer invoices. Every time you send a customer a sales invoice, put it in this folder. When you receive payment, take the invoice out of this folder. Record the payment check number and amount, and file the paid invoice in a paid invoice folder alphabetically. At the end of each month take your unpaid folder and make a list of the invoices unpaid. This represents your month end accounts receivable.

Accounts Payable Control

The simplest way to control payables is to set up a folder for unpaid vendor bills. Every time you receive a new vendor bill put it into this folder. Select the bills to be paid, write out the check, and record on the vendor bill the check number, date and amount paid. File the paid bill in a paid vendor invoice file alphabetically. At the end of each month, make a list of all your unpaid vendor bills. This represents your month end accounts payable.

Payroll Control

At the end of each month you need to summarize the employee earnings cards for each employee. You then need to summarize these totals into a grand total for all employees for the month. From here you will be able to determine the total federal and state payroll taxes that need to be deposited.

Coordinating with Your Accountant

A properly set up one write system will give you the means to determine your monthly payroll and sales tax deposits. Normally, you would make these deposits. At the end of each calendar quarter, federal and state payroll returns are due. Usually, the accountant will handle these filings. You give the accountant your journals for the quarter, employee earnings cards, bank statements and cancelled checks, bank account reconciliation, a listing of unpaid customer invoices, and a listing of unpaid vendor bills. With this the accountant will have everything he needs to prepare payroll tax returns, sales tax returns, W2s, 1099s, business income tax returns, general ledgers,

and financial reports. Accountants have many variations of these procedures including accounting software alternatives. Check with your accountant to coordinate with his procedures.

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