ACCOUNTING MADE EASY

ACCOUNTING TASKS YOU MUST KNOW TO RUN A SUCCESSFUL BUSINESS

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Introduction

When you have just launched your new business, chances are your hands are full because you are doing things solo. It is usual for startup owners to be very hands-on to ensure success. Since you've invested so much money on your new venture, you multitask to cut expenditures. You will often find yourself wearing many hats and doing things like promotions, marketing, sales, after-sales services, and even bookkeeping.

Usually, when you've reached a certain level, you'll eventually expand and bring more people in to help you out. It is common practice to outsource financial details to a professional accountant. Keeping track of everything from invoice to payroll can be a big nightmare, especially if math and computations are not your cup of tea. Hiring a pro ensures that your books are accurate so that you can ascertain where your money is going and comply with the BIR regulatory requirements.

If your business is still small, you may feel hesitant about paying a retainer to a big accounting firm. In the early stages of operations, you may be able to get by with doing your own accounting; however, as your business grows, keeping an eye on this complex task may already be burdensome for you. Instead of wasting your time and energy managing your records on your own, it would be better to hire the services of an experienced accountant who can accurately take care of every detail.

Do keep in mind that your small business's accounting plays a vital role in your operations. Being diligent in updating your records means you can keep track of your income and expenses, monitor your assets and liabilities, ascertain BIR compliance, and provide your investors with the right financial data. Being up to date with your accounting is also crucial as it tells you a lot about your business's performance and financial health.

With the right accounting information, you can make educated business decisions so you can do everything in your power to make sure that your business stays afloat. Remember, your financial records reflect what is going on in your operations. Having access to clear records means you can keep track of your profit margins and possible losses. You can compare your historical records and watch trends so you can make appropriate budget allocations. Through this data, you can make future projections, select the appropriate marketing strategies, and plan your business's growth.

When you hire a professional accountant, it may take some pressure off your shoulders. However, this doesn't mean you can be complacent. You must still stay on top of things to ensure your business is profitable. You need to be at the helm of your budget and cash flow, including documenting transactions properly, initiating corrections when necessary, and constantly reviewing your venture's overall financial health. To ascertain this process is going smoothly, you need to understand basic financial concepts, know what activities you must do, monitor your operations, and conduct a periodic evaluation.

Why Accounting Matters

Money talks loud and clear. Its sound is even louder when you are managing a business. If you don't handle your business finances properly, your investment can fail. Even if your products sell like hotcakes, you can be losing money in the back end and not even know about it. As such, you need to stay on top of your accounting game, or you'll be left blind with no idea where your money is going.

Whether big or small, any business's financial health is always evaluated by three timeless measures: Balance Sheet, Profit and Loss Statement, and Cash Flow Statement. If you are an entrepreneur, you must understand what these three means. They provide you the essential data that you need so you can properly manage your funding. With the right information, you can make educated operational decisions that won't harm your financial standing. Let's get to know each component below:

- **The Balance Sheet**

Some professionals refer to this as the Statement of Financial Position. As the name suggests, this document provides your business's literal financial position at any given time. It will show your assets and liabilities. Colloquially, this is what you have and what you owe. Taking a peek at your balance sheet will tell you how much your business is worth.

- **The Profit and Loss Statement**

Some call this the Earnings Statement or the Income Statement. It will indicate whether your business is earning profits or incurring losses. The BIR requires this so they can assess how much annual taxes you owe based on what you've earned during the fiscal year.

- **The Cash Flow Statement**

The information provided in this document refers to the money coming in and the money being spent. If you stay on top of your cash flow, you know where the money is going. As such, you can pinpoint areas where you can potentially save. This data can also help predict your future cash balances once you've established a pattern after months of logging and tracking information.

These three elements all come into play when you are acquiring a business loan for possible expansion. When applying for a loan, you'll need to assess the cash flow to identify future cash needs. You also need to prep your financial statement, including all three statements, to present to a financial institution for evaluation. You can only grow your business properly and make the right choices when you have accurate accounting data.

Different Ways to Do Accounting

As a new business owner, the first thing you must do is to figure out which accounting method works better for you. There are two ways to get this task done: cash or accrual. You have to weigh this option carefully because you have to keep on doing it for the long-haul once you begin. Let's take a look at the differences below.

- **Cash Method**

Most new businesses stick to this method because it is simple and straightforward. This means that cash payments coming in are considered income, while cash disbursements or paying your bills are considered outflow expenses.

- **Accrual Method**

This approach is a bit more complicated as both revenues and expenditures are recorded when the transaction is made. It doesn't matter whether cash was exchanged or not. Once you sell an item, you'll record this in the Account Receivables; then you move it to a Cash Account when the money is received. When you incur an expense, you note this in the Accounts Payable then deduct it from your cash account when the payment is made. This is best for people who hold an inventory of goods and have suppliers they pay on terms.

Do note that each methodology has its own corresponding pros and cons. A consultation with a certified accountant can help you identify which approach is best suited for your small business.

Accounting Activities To Make A Habit

It will help if you are diligent when it comes to keeping your books and monitoring your accounting. Staying on top of your cash flow means having the power to make an informed decision that could significantly affect your small business. To make this task less daunting and confusing, you must ensure your accounting practices are streamlined. You need to keep track of a timeline of activities, managing your daily, weekly, monthly, quarterly, and annual tasks. Doing so will help keep you organized, especially when you have to deal with your taxes.

- **Daily**

The primary ingredient that keeps your business afloat and running well is money. You have to make it a daily habit to verify your business' cash position. Do keep an eye out for your daily receivables and payables. Making this a part of your operations ensures you know the exact amount of money you have in your hands. These are the things you need to do in this regard:

1. Tracking Accounts Payable and Receivables

You have to track your accounts payable and accounts receivables daily to ensure you stay ahead, and you are financially in check. Doing this task means efficiently tracking the money you owe to vendors, as well as keeping accurate records of cash that's coming in. Being diligent with your accounting means you reduce the chances of incurring unexpected expenses that can sidetrack your budget or running into unpaid transactions that can lead to hefty penalties.

2. Update Your Records

You can use a simple EXCEL spreadsheet to keep track of your daily expenses and revenues. Logging these bits of information daily will help keep your records updated and organized. You may also consider investing in accounting software to help you record everything, especially when your daily transactions have increased.

3. Deposit Your Money

Make it a point to deposit any money you receive daily. Cash deposits and checks can now be deposited with ease. Staying diligent means, you won't lose track of incoming revenue. Most of all, you will keep your cashflow healthy, ensuring you don't lose any money.

4. Reconcile Expenses and Receipts

It would be best if you reconciled your transactions between your bank statements and cash or check payments, along with your customer receipts. A common blunder that most small businesses commit is waiting too long to reconcile their bank accounts. Using software will make it easy to record and reconcile with accuracy. Doing this task ensures that everything you do is properly accounted for. Once a month is too long as a lot of things can happen within that time frame. Reconciling before the day ends means nipping problems in the bud. Accounting software and online banking makes this easy.

5. Update Inventory

When it comes to managing your business, you'll realize that inventory and accounting are intertwined. If a certain product is out of stock, you'll need to replenish, which will cost money. Should an item run out too soon, it will affect your sales and revenues. To get a clear and accurate picture of your inventory or stocks, you must look at it daily. Whenever new supplies come in, include it in your inventory list. This is a daily accounting task that you can readily manage with software.

6. Make Backup Files

Some of you may frown on why backing up is included in the daily task. But making a backup version of your files is essential. You can't leave something like this to chance. All it takes is a few simple clicks to make copies, so why not get it done, right? Your company information is vital and irreplaceable. It would be harder to reconstruct corrupted or missing data, so it makes a lot more sense to back up when the day ends.

- **Weekly**

Accurate and updated weekly financial records are a must for your business, or you'll be doomed. If you only occasionally check your business accounts as you do with your personal finances, you're going to become confused. Here are four tasks you should be performing weekly without fail:

1. Pay Vendors

You need to establish a proper system to pay your vendors and suppliers. Keeping track of your credit means you can maintain a good reputation. Terms of payments vary depending on the vendor, with some allowing two weeks, 30 days, or even 60 days. Some prefer cash on delivery. Whatever your agreed payment plan, it is best to stay on track every week to ensure you don't miss a due date, and you don't have to deal with too many check runs. Maybe you'll even get a prompt payment discount!

2. Invoicing of Clients

You must send a complete invoice to your clients for products and services rendered weekly. Complete invoices are crucial so you can get paid on time. With complete and correct billing information on your invoices, there are fewer questions about your bill minimizing delays. If you have many clients, you will naturally have so much more invoices to send out so it will take you longer to prep them. By doing this task weekly, you are assured that you don't miss any detail and you avoid errors that can lead to unhappy customers and late payments.

3. Check Time Record of Employees

Even if your payroll is biweekly, reviewing the time records of your employees must be conducted weekly. Waiting at the very last minute can result in inaccuracies and surprises like extra overtime payments. It is best to check the timesheets two days before the end of the workweek.

4. Check Your Month-To-Date Profit Vis-a-Vis the Budget

Though you are careful about your expenditures, it is still very easy to go beyond your budget if you are not tracking diligently. Expenses can quickly get out of control if some of your key employees are authorized to transact on your behalf. By comparing your month-to-date profit and loss statement with your business budget weekly, you will spend more wisely, allowing you to save.

5. Scan Receipts and Important Documents

It is vital to scan important docs and receipts into the cloud to safeguard your records. Even if the BIR requires businesses to print on non-thermal, you need to have a backup copy if the original gets lost. When it comes to record-keeping, it is better to be vigilant and err on the side of caution. In case of an audit, you will need access to these important files to act as your evidence. With scanning, you don't need to fear that they will be unreadable. You can delegate this task to someone in your employee roster.

- **Monthly**

Your monthly statements are a vital strategic tool because they provide information to support fiscal monitoring and decision making. Staying abreast means mitigating costly mistakes and prep you for paying your taxes. Do note that these monthly reports are only valuable when they are done accurately. It requires coordinated activities that you do daily and weekly. You will need your monthly accounting data to make your financial statements and underscore your business's key performance indicators. Here are the top five things you must do monthly:

1. Bank Accounts Reconciliation

New small businesses must stay on top of their bank accounts to ensure survival in the difficult growing years. You need to reconcile your bank accounts monthly to ascertain that your transactions recorded in the books are perfectly matched with those reflected in your bank statements. This monthly reconciliation practice will help you verify that all your monthly transactions are properly recorded in your books. This practice is important to ensure accuracy, so in case there are mistakes or omissions, you can correct them right away.

2. Identify Unpaid Receivables

When you are working on your invoices, don't forget to incorporate notes about unpaid receivables that are all past their due dates. With this practice, you can swiftly spot clients who are defaulting on payments. This way, you can take the appropriate measures like texting reminders, emailing statements, calling, and as a last resort, suspending services. Identifying these details monthly will help you when the year-end audit happens. The data will help you pinpoint where the deficits are, along with what debts should be written off or carried over to the next fiscal year.

3. Evaluate Inventory Status

If you have stocks or an inventory of goods in your business, you need to take a look at the big picture every month. Under your watchful eye, you can spot which items are flying off the shelves. A monthly assessment will also help you pinpoint which is not selling well. Maybe you need to put those on sale or bundle it up you're your best-selling merchandise. Doing a monthly evaluation ascertains you've got a good supply flow, and you are not loaded with non-moving stocks.

4. Management of Payroll and Taxes

Though your staff is usually paid twice a month, there are different tax schedules and government deductibles that you must consider monthly. Apart from withholding taxes and the VAT (Value Added Tax), you also must factor in SSS, Pag-ibig, and Philhealth. It would help if you established a calendar, so you won't forget to pay these fees on time.

5. Review Financial Performance Versus Budget and Other Periods

Usually, you prepare a budget at the start of the year so you can anticipate needs and plan your decisions. It is vital to compare your monthly income statement with your planned budget. Seeing the actual numbers versus your targets can help you gauge where your funds are going.

This will allow you to continue what you're doing right or fix your errors. You can also compare your monthly statements per year to establish a trend and check for cycles that you ought to watch out for.

- **Quarterly**

1. Performing Quarterly Financial Check-Ups

Every quarter, you have to meet up with your accountant to review your income statements, which will impact your annual taxes. It is vital to analyze the fluctuations in your income to check if you need to make changes. If you are burning your cash flow because of deadbeat clients or an unreliable supplier, you may need to drop them. Maybe you have limited funds, so you can't meet the demand, and the second line of credit is in order. It is vital to review your financial statements and reports to know where you stand.

2. Compute Estimated Tax and Make Payments

Small business owners are not exempted from filing quarterly income tax returns and paying the BIR assessment fees. To ensure you're filing the correct amount, you may seek help from a professional CPA. This way, you don't earn any expensive penalties. Do note that whatever balance is not paid for quarterly will be carried over to your annual income tax return.

- **Yearly**

1. Prep Year-End Financial Statements

December is the year to prep and evaluate your year-end balance sheet, cash flow, and profit and loss statement. These three are a goldmine of information regarding various aspects of your business. The P&L will show you the net income, along with operating expenditures. The balance sheet will show your mixture of assets and liabilities. Finally, your cash flow statement will reveal your income or revenue streams that flow into your business. All of these must be ready at the end of the year because you need them to make plans.

2. Pay Annual Taxes

Though your annual taxes are due in April, you are paying for one whole fiscal year. Getting this prepped ahead will do you a world of good because you can prepare all the required documents and your tax obligations. Staying ahead of the game will ensure you don't make any defaults or incur penalties.

3. Manage Past Due Receivables

During the end of the year, you have to look at those receivables that are long past their due date. Determine if you want to give these clients more time to pay, send them to a collection agency, or write them off as a possible deductible. Carve out time to analyze these details so you can address each issue appropriately.

4. Tackle Year-End Inventory

When conducting the year-end inventory, you have to work with an eagle eye. Check the monetary value of unsold items. Do you think you can come up with a gimmick to dispose of them soon, or do you need to write them off as a deductible? If the situation is hopeless, you need to declare it, so you don't have to pay additional taxes for overstating your stocks.

5. Preparation of Budget for the Following Year

At the end of the year, business owners must prepare their budget for the following year because this will serve as the crucial blueprint for mapping out future activities. Though this budget will not predict exact future outcomes, it is a good start to help you anticipate your business's projected performance. Having this budget will help you make sound decisions because you have a guide helping you out.

Common Accounting Pitfalls To Avoid

Even though there are many applications for you to use, allowing you to make an accurate record of your business's finances, it is still possible to make mistakes like incorrect categorizations. Though errors might seem minor, when things compound over time, it can significantly affect your company's financial health. Poor accounting practices can lead to lost income, or worst, business insolvency. Here are eight common accounting errors that can create issues and wreak havoc in your business:

1. Not knowing the differences between cashflow and profit

Most business owners make the wrong assumption that their cashflow is the same as profit. Cashflow is your money coming in and money going out. It does not equate to profit. On the other hand, your profit is equal to your sales minus all your costs of goods sold and related expenses. Knowing the flow of your money is vital so you can assess if you are truly making money.

Though you have increased revenue and cashflow, your business could still not be making enough profit if you have a substantial debt. As such, keeping track of both is vital to your operations. Apart from just knowing your profits, understanding your cashflow, and planning it can keep your business afloat. It can also help you manage any kind of pitfall that you may encounter.

2. A lackluster attitude towards bookkeeping

If you don't take bookkeeping seriously, you are setting yourself up for disaster because maintaining your records is the primary tool for effective accounting. Be sure to jot down small payments to large deals, and don't forget to categorize everything properly. Being responsible for your accounting and bookkeeping means you can have a reliable and accurate picture of your company's true financial health. When you look at a specific period, you can determine how poorly or well you are performing.

3. Failing to categorize income and expenses properly

Misclassification of income and expenses into proper categories is a common accounting pitfall. You need to be diligent in accounting for these transactions to help you maximize your profitability. As the one at the helm, know where your money is coming from and how it is spent. Failure to track this information means you will be unable to make sound business decisions. It can also lead to possible losses, which you will be unable to explain.

4. Doing in-house accounting

In trying to save money, you try to do everything yourself. Yes, it may be cheaper than paying for a professional, but it can cost your business even more money in the long run. Since you don't have the experience, you may fail to maximize your deductions. You are also unable to spot errors, which can lead to issues when tax season comes. You may end up paying more penalties to the BIR when they do an audit.

5. Neglecting to reconcile bank accounts with books

You have to reconcile all your accounts periodically. Reconciliation is a process of cross-checking your books with your bank account to spot inconsistencies. By keeping this practice, you can spot mistakes and rectify them. Doing so means you can accurately evaluate your financial situation. Looking at your books vis-a-vis your account means always being in sync with the true status of your business's finances.

6. Failing to record small transactions

You may think that small cash transactions are not critical. However, you must record everything, no matter how small it may seem. Those petty cash transactions will pile up. Staying on top of them means you can better manage the bigger ones. Keeping this habit means you can easily manage details when your company grows and the transactions increase.

7. Mixing business with personal finances

Mixing your business and personal finances is a surefire way to get confused. If you want to keep your business's finances healthy, make it a point to keep your business and personal finances separate. You can do this by opening up a business bank account. Make sure your business's income and expenses are all done in this bank account. If you are paying business expenses out of your personal funds, be vigilant in keeping a record because these are tax-deductible. Failure to do so means you will be losing money when you file your taxes. But for a more concise, stress-free, and accurate record-keeping, keeping your personal and business accounts separate advisable.

8. Failure to assign specific budgets for projects

If you have a new project, you need to know how much it will cost you right down to the last cent. If you fail to budget properly, it will be hard for you to rein in this new project. It could end up costing you a lot more money. Setting a budget from the get-go also makes success more attainable because you have a path that keeps you from being wasteful.

Surefire Signs That You Need An Accountant

In charge of your business, you carry many responsibilities from developing products, manning daily, operations, mentoring staff, handling client queries, etc. Doing your own accounting, managing your taxes, and working out what you need to pay may consume a lot of your time, especially when you are not confident about finance. If you find yourself wasting a lot of hours poring through your records, trying to work out numbers, and figuring out BIR updates, chances are, you need the help of a CPA. Here are the warning signs that you need to hand over the wheels of bookkeeping and accounting to a professional accountant.

1. Your bookkeeping task is a major distraction

When you are starting, managing your books with excel seems like a good idea. But as your business grows, these tasks will already serve as a distraction. Instead of improving your goods, attending to your clients, or focusing on management, you are stuck spending hours on documenting receipts and tallying your ledgers. When you analyze it, your time equates to money. Hiring an accountant will help you free up your time to focus your attention on more important matters of growing your business.

2. Your business is growing rapidly

This scenario is every entrepreneur's wish. Consequently, rapid growth also spells new demands like hiring more staff, upgrading internal systems, and producing more inventory. As such, this spells more numbers to account for and more paperwork to file. With the entry of more tasks, you need a helping hand whose sole focus is on your company's financial health to ensure everything is going smoothly.

3. Business revenue is increasing, but profit is NOT

If you are killing your goals with increase sales and more revenues, but your profit margins are not increasing, there is something wrong with your company's financial health. In this scenario, you need the aid of a professional accountant who has the skills of taking an objective evaluation of your finances. In the end, your CPA will be able to help you pinpoint the problem and help you craft the right solutions so you can truly increase your bottom line.

4. You want to expand to other locations

Expanding in other provinces of the Philippines means you have to deal with Local Government rules and ordinances. If you are set to open in a new location, hiring an accountant can ascertain you are compliant with municipal taxes and other regulatory requirements when opening your new business.

5. You are thinking of making an expensive purchase

As a business owner, you need an accountant's help when you are ready to purchase big-ticket items like tools, machinery, or real estate. If you feel unsure about making such a huge financial decision, your accountant can help provide a second opinion grounded on facts. A CPA can assess your current financial standing, providing you with the right knowledge and guidance on how you should spend your money based on your assets, liabilities, profits, and losses.

6. You are looking for investors

If you are looking for investors and financial institutions to give you a loan, you need to present a professional financial report documenting your company's financial history. This document is a vital element for securing loan approvals and investor funding. You need your accountant to make professional reports that contain all the pertinent information. Moreover, if you have investors, you will also need these reports regularly to disseminate them to your investors.

7. BIR is all set to audit your operations

Getting a "love letter" from the BIR saying you are being audited is very stressful. This scenario means going through tons of paperwork to prove that you have no obligations and are compliant with all the tax requirements. If you are facing an audit, you need your accountant to help you examine all your documents so you can identify the crucial information that can satisfy the BIR's inquiry. Your accountant can even act as a liaison with the BIR officers so you can focus on your business' daily operations.

The above elements are the guaranteed signs that you need to have an accountant on board. However, if you feel like you don't have the funds to hire one in a full-time capacity, you can hire professional accountants on a retainer basis. This option means you can get their valuable advice, allowing you to avoid big financial mistakes that will cost you loads of money down the line.

Final Word

There is nothing to fear when it comes to accounting and bookkeeping. These are tools that you need to manage your business correctly. You need to do a monthly tune-up of your books and accounts, categorize different types of assets and liabilities, and establish a serious system of tracking your records to keep your business financially secure. Through this, you can generate accurate information to grow your company. Make accounting a habit!

Recommended Reads

The No. 1 Reason Why New Businesses Fail

Common Taxes You Should File
as a New Business Owner

3 Questions Smart Entrepreneurs Ask
before Starting a Business

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