

IYKYK

If you know, you know

12 Accounting Essentials
every business owner
should KNOW

By Mynell Counting House

Introduction



Starting and running a small business is exciting, but managing finances can be overwhelming. Accounting is a critical part of ensuring your business's success, and understanding key financial principles helps you make better decisions.



This guide will break down the 12 essential things every business owner should know about accounting, and help you confidently be in the know for your business.

1. Understanding Basic Accounting Principals

Accounting follows fundamental rules, such as tracking revenue and expenses, managing assets and liabilities, and recognizing financial transactions. There are two main accounting methods: **cash basis** (recording transactions when cash changes hands) and **accrual basis** (recording transactions when they occur, regardless of cash flow).

Knowing these principles helps business owners maintain accurate records and make informed decisions about profitability and sustainability. A business owner needs to know their basis because it essentially determines their tax implications as it relates to their ownership of the business.



2. Knowing Your Tax Obligations

Business owners must be aware of various taxes, including income tax, payroll tax, and sales tax. Understanding those obligations and deadlines helps to avoid penalties and ensures compliance with tax laws. Failing to meet tax deadlines or miscalculating payments can result in hefty fines and legal consequences.

Sales Tax: A tax on the sale, transfer, or exchange of a taxable item or service.

Payroll Tax: A tax paid on the wages and salaries of employees to finance social insurance programs like Social Security, Medicare, and unemployment insurance.

Income Tax: A tax paid based on income that businesses and individuals generate.



3. Separating Business & Personal Finances

One of the first steps in setting up a strong financial foundation is **maintaining separate bank accounts** and credit cards for every business. This simplifies bookkeeping, prevents tax complications, and improves financial clarity. It is as easy as 1 - 2 - 3!

- Obtain a business tax ID to create a completely separate identity for the business.
- Open a business bank account.
- Keep accurate records on the transactional flow in/out of that account.

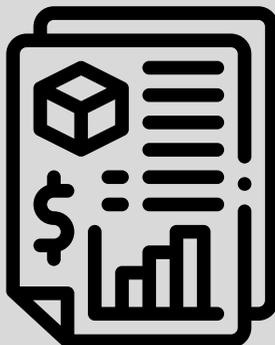
Mixing finances can lead to tax errors, cash flow issues, and potential legal liabilities.



4. Keeping Accurate & Up-To-Date Records

Good bookkeeping practices involve regularly recording income and expenses. It's vital to the life of every business that time is carved out to focus on this task, at least monthly.

Whether using software or spreadsheets, keeping business records organized simplifies tax filing, reduces errors, and improves financial decision-making. Inconsistent record-keeping can result in financial mismanagement, missed tax deductions, and inaccurate financial reporting.

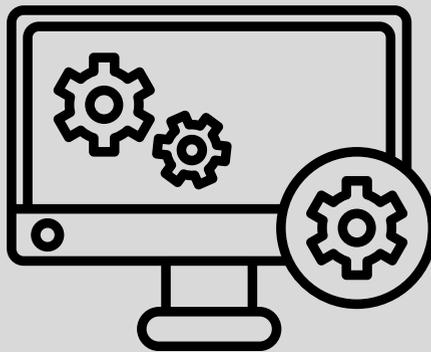


5. Choosing the right Accounting Software

Modern accounting software like QuickBooks, Xero, or FreshBooks can automate many bookkeeping tasks. These tools help track expenses, generate reports, and manage invoices efficiently. Selecting software that aligns with the business needs can save time, reduce human error, and provide valuable financial insights.

When shopping for the right fit, businesses consider these targets:

- Cost - “Does it fit your budget?”
- Features - “What do you need it to do?”
- Scalability - “Can it grow with you?”
- Integration - “Does it work with other tools you already use?”
- Support - “How good is the customer service?”



6. Maintaining Proper Record Retention

Tax authorities and legal regulations require businesses to keep financial records for at least **3-7 years**. That includes keeping receipts, bills, check stubs, and statements which act as proof of purchase (deductions) for the business. Having these organized records protects business owners during audits and simplifies financial reviews. Losing important records can result in penalties, disputes, or missed financial opportunities.

Pro Tip! Most accounting products today allow you to upload images to the transactions you are tracking. Keeping these records in your accounting software puts everything in one place and offers peace of mind.



7. Managing Accounts Receivable & Payable

Where basic bookkeeping records money in and money out, utilizing Accounts Receivable and Accounts Payable tools will elevate business record keeping.

Accounts Receivable (invoices) will ensure that customers pay on time and maintain a healthy cash flow.

Likewise, **Accounts Payable** (bills) manages vendor payments and maintains good relationships while avoiding late fees.

Uncollected receivables can severely impact liquidity, while overdue payables can damage supplier relationships and creditworthiness.



8. Reconciling Bank Statements Monthly

Data entry means human error is bound to happen. That's why business owners must always reconcile their record keeping to their bank or credit card statements.

Every month, they will match each period related deposit and withdrawal in their software to the deposits and withdrawals shown on the period statement provided by their financial institution.

Bank reconciliation helps to identify errors, detect fraud, and ensure your records match your actual bank balance.

This prevents financial surprises and keeps the books accurate. Ignoring this step can lead to financial discrepancies that are costly to correct later.



9. Understanding Financial Statements

Three essential financial statements help owners assess their business's health:

- **Income Statement (Profit & Loss Statement):** Shows revenue, expenses, and profitability. It helps determine whether the business is making or losing money.
- **Balance Sheet:** Lists assets, liabilities, and equity. This provides insight into what the business owns and owes at a given point in time.
- **Cash Flow Statement:** Tracks cash movement in and out of the business. Understanding this ensures owners have enough liquidity to cover expenses and plan for future investments.

Knowing how to read these reports helps business owners make data-driven business decisions and anticipate financial challenges.



10. Tracking Cash Flow Religiously

There's a saying: "Revenue is vanity, profit is sanity, but cash is king"

Great sales look good on paper, a profitable bottom line lets us sleep at night, but cash flow is the real lifeblood of any business. Every business owner knows to monitor how much cash is coming in and going out to avoid running out of funds unexpectedly.

They use cash flow statements to identify potential issues, plan ahead, and ensure their business remains financially stable. Without a solid grasp of cash flow, even profitable businesses can struggle to pay bills or make strategic investments.



11. Budgeting & Forecasting Regularly

Smart business owners know that since they already track each transaction, they have a distinct perspective on earning and spending trends. They use the data to critically analyze and create a budget that keeps their business on track. **Budgets** set realistic spending limits and revenue goals. **Forecasting** helps predict future financial challenges and prepare for growth opportunities. Without a budget, businesses risk overspending and missing revenue targets, leading to financial instability.



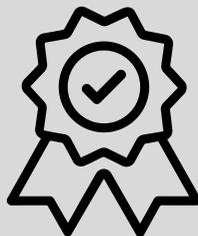
12. Working with a Professional When Needed

While DIY bookkeeping is possible, working with an accountant or bookkeeper can save time, reduce errors, and provide expert financial advice. Outsourcing bookkeeping can be a cost-effective solution, allowing business owners to focus on growing their business. A professional can also help with tax planning, financial strategy, and compliance, ensuring long-term financial health.

Should You Outsource Your Bookkeeping?

Many small business owners start by managing their own bookkeeping, but as your business grows, outsourcing may be the smarter choice. Here are a few signs it might be time to hire a bookkeeper:

- You spend too much time on bookkeeping instead of running your business.*
- Your financial records are disorganized or inaccurate.*
- You struggle with tax compliance and deadlines.*
- You want professional insights to improve profitability.*



Conclusion



Accounting doesn't have to be intimidating. By understanding these 12 key principles you can set your business up for financial success.

Investing time in good financial management today will pay off in the long run, helping your business grow and thrive.

