

Module 2.1: Nobody Likes Paperwork

Let's start off with the elephant in the room: Almost nobody likes to do paperwork. Especially the business person starting out whose sole objective is to get enough clients to pay the bills.

And yet, if you truly want to Protect the Profits that your business makes from runaway expenses or getting overly taxed - then we need to talk about bookkeeping. It is second of the three pillars of building a solid foundation under your business. A foundation that will make sure that you have the greatest chance at success.

I'm not here to make you an accountant. There are schools for that. What I would like to achieve is to show you how to organize the financial aspects of your business in an easy understandable way. So that it takes the least amount of time to do, and yet...

- You will be able to monitor the progress of your business to see if it is improving, which items are selling (or not) and what changes you need to make.
- You will be able to identify the source of your income and determine which areas of your business you need to optimize or drop unprofitable endeavors.
- You will be able to identify what expenses you are spending money on that do not increase your profit and can be cut.
- You will be able to deduct the correct amount of expenses and only the allowable expenses on your tax return. Certain expenses are treated differently on your tax return than they are on your books and we'll discuss that in Section 3.
- You need good records to prepare your tax returns and you need to know how to organize them to make sure you pay the least amount of legal tax liabilities. Taxpayers must keep business records available at all times for inspection by the IRS. If the IRS examines the tax returns, you will be asked to explain the items reported and a complete set of records will give you the best chance for a good outcome.
- Even if you decide to hire an accountant or CPA to keep the books, knowing how to do it yourself will help you choose a good professional and make sure you give them all the information they need - in the format they need - to do the best job for you.

So, what should be included in your books and records

A system of books and records may be as simple as a calendar showing business income earned each day and business expenses paid each day all the way up to a detailed accounting system. It should include enough information to correctly determine the gross receipts, the business expenses incurred and the purchase price of assets acquired for use in your business. These records should also include inventory purchases, payroll, and other transactions occurring in the course of operating your business.

These books and records need to include all of the supporting documentation, such as sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. Keeping these documents are important to support the entries you made in the books and on your tax return. They will also help you determine the value of inventory at the end of the year, because if you sell products you have to list the beginning and ending inventory value on your tax return. (Most new business owners do not realize they need to count inventory.)

One of the first questions that people usually ask when they go about setting up their business is:

What is the best accounting system to use?

And yet, that really is the wrong question to ask, if you don't want to have to spend time correcting everything later. The question that you need to ask yourself is:

What do I need to learn about accounting before I choose what type of system is best for me?

That is what we are here to answer for you.

So many people just go out and buy a software program and choose to use one of the default 'example' business setups. For example, Quickbooks gives a choice of starting with a service business or a product business which you can customize from there. The problem is that most small business people don't have a clue on how to customize the software, much less what a Chart of Accounts, Balance Sheet, or Profit & Loss statement is. They don't see the need or want to take the time.

You **need** to. This is **important**. And this module will give you that information.

- In 2.2, we will begin the discussion with some basic definitions and the decisions you will need to make before you setup up your bookkeeping system.
- In 2.3, we will discuss the various expense categories and how they differ from industry to industry. We will also begin the discussion on asset management and the various income documents you may enter, such as how to handle cash, checks, credit, as well as 1099-MISC, 1099-NEC and 1099-K forms.
- In 2.4, we will take the income and expenses and create a Chart of Accounts with them that allows you to drill down into your business to see where your profits and losses are coming from. We will also discuss how this translates into your Profit & Loss Statement which become a vital tool for both profitability and tax preparation.

- In 2.5, we will expand on our discussion of asset management and vehicle/travel expenses. These expense categories require different handling at tax time, so you need to know how to properly record them.
- And in 2.6, we will explore how you handle the paperwork for hiring employees and independent contractors. How are they different and what procedures/forms you will need to do to stay in compliance.

By the end of this module, you will know what to do with every little piece of paper that comes your way, what paperwork you have to produce to determine your profitability & tax obligations, and what paperwork you will need to give to those who work with you.

You will also know how to set up an accounting system, either by spreadsheet or software program. Being organized helps you relieve a lot of stress, spend less time keeping track of things and know if you need to change anything to become more successful.

If you did not keep records of all of your transactions for the year, then check out our bonus section for an article on how to recreate them.

Let's get started.