



How to start your small business accounting on the right foot

Description

Poor cash-flow is the reason 82% of businesses fail according to [Preferred CFO](#). This is a staggering number, and no doubt just made you do a double take on your own operation.

It's enough to question your own cash-flow and, broadly, business accounting and [financial management](#).

For many entrepreneurs, the answers will be less than pleasing. Small businesses are rife with poor accounting systems and policies, and chances are you are one of them. A status which needs to change considering this is one of the [leading reasons you're losing money](#).

Understandably though, setting proper accounting for your small business can be daunting. It can require significant funds and skills that your small business and you do not have respectively.

So here's how to get started with small business accounting, without turning into an accountant yourself.

Invest in knowing the basics

Here's the good news: most of the accounting wizardry that keeps CAs up at night doesn't apply to your small business. Small business accounting is surprisingly simple for a profession that pays some of the highest salaries.

It's made increasingly simple by the fact that you don't need to know policies for an entire industry, just your own.

Or better yet, just the policies that affect your business specifically. With that in mind, there is no reason not to invest in understanding some of the basics of business accounting.

not to mean you have to do it all yourself, but knowing is an advantage. It'd definitely give you an edge when it comes to your financial management. Additionally, you stand to save thousands if rands paying

a bookkeeper to post your 10 invoices per month.

The websites on [Fit Small Bus's list](#) are enough to leave you a certified small business accountant yourself. They range everything from practical application to technical explanation blogs.

Invest a little time in understanding how to account for your small business, you'll be better for it.

Record every transaction, accurately

Good business accounting is built on a foundation of good bookkeeping. Simply put, bookkeeping is the process of recording the day to day transactions of a business.

Accounting, on the other hand, is the process of producing financial statements and analysing financial results to come up with a picture of the financial health, status and future of the enterprise.

Clearly, bookkeeping, accurate bookkeeping, is pivotal to your small business accounting. Without diligently tracking every financial transaction, no accounting can be undertaken. This is where [consistency](#) becomes key.

If any transactions are left too long, they may be confused and misrecorded or become altogether omitted. Harness the skills you acquired [teaching yourself the basics](#) and make sure you follow proper principles.

If you are unsure, research, learning to account for your small business is a continuous process. Slow but sure is definitely something to aim for here. No transaction, even the smallest is worth omitting.

Even the smallest of expenditures could add up to huge sums and be the source of poor financial performance. Accurately recording these transactions could be the difference between going in the red and surviving.

Believe me, even those staples can sink your business if you use them enough.

Separate business and personal finances

No doubt one of the first basics you would have learnt is $\text{profit} = \text{revenue} - \text{expenses}$. Expanding on this, you would have gone on to understand [why cash is not equal to profit](#).

They may, at some point, be equal, but this is rare, so err on the side of caution and decide they are not. This is one of the important questions, so if you didn't learn it, go back and do so ASAP.

With this in mind, it's simple to understand why willy nilly withdrawing funds from the business for personal use is a bad idea. For this reason, it's important to have a business and personal account that are separate.

Small business accounting would not be complete without accounting for amounts accruing to you as either, salaries, allowances or profits withdrawn. It's important for tax purposes and understanding the

return you are getting from your business.

Additionally, spending on your business from your personal account would distort how much you are investing in it. Even the smallest amounts should be recognised as equity or a loan to the business. This will allow you to keep track of just how much is going into the business, for more informed decisions.

After you have separated the two, what's necessary next is discipline. It's one thing to have separate accounts for the business and yourself, it's another to respect their uses. This is where most entrepreneurs fail.

Get a reliable software package

Small business accounting, can, for the most part, be done using a variety of tools. A small enough business can get by with a simple spreadsheet.

With the help of an excel wizard with some accounting knowledge, you can set up a spreadsheet that allows you to input your simple data, and outputs all you need for your business like income statements, balance sheets and graphs.

In the long run, though, a small business accounting software is your best friend. The field has come a long way since its inception, as such, you are spoilt for choice.

Stiff competition has conspired to keep your options affordable and packed with features designed for a small business like yours.

The advantages of small business accounting software include;

1. Cloud back-ups mean you'll always have access to your data regardless of what happens to local hardware
2. Cloud computing and apps mean you can record transactions anywhere anytime. [Zoho Books](#) goes so far as to let you scan receipts directly into your system.
3. Many provide checks and balances to allow you to quickly root out errors
4. A simple accounting software allows you to complete tasks faster, even completing the double entry for you.
5. Analysis tools are more robust, allowing a better understanding of your business
6. This better tracking and analysis can help you uncover opportunities and threats in your small business
7. With customizable templates, your invoices will always be standard, professional and easy to follow up on and track.
8. Good software allows you to integrate with other software to increase automation, improve workflows and boost productivity.

At [Mut-Con](#), we use [Zappier](#) to integrate our Zoho Books and Hubspot CRM. Every time we invoice or quote a new client, they are imported into our CRM so our sales team can better nature the relationship.

[Try Zoho Books Accounting](#)

Zoho's accounting system is quite simply amazing. It's so incredible and awesome, you'll spend half your time wondering if it's actually really free. It is.

Zoho Books is not just the best free accounting resource available, it's one of the best small business resources, period. In addition to their software, they have an incredible blog for getting started with your small business accounting.

It covers topics about small business accounting in general and getting started with and making the most of their platform.

Additionally, you get inspirational stories from and about fellow entrepreneurs who found success using Zoho. These will definitely come in handy when accounting has you down, as it will from time to time.

The support is world-class, a number of paid services could learn a thing or two from these guys. As an added bonus, you can join the Zoho community, which I've found to be very helpful in day-day queries.

In addition to free unlimited invoicing and expense tracking, you get more;

Budget and Forecast

At the beginning of every period, make sure you have a clear understanding of expected incomes and expenses. A rough idea is good enough here.

You are never going to be a 100% here, so aiming for being as accurate as possible will suffice. After all, weatherman and economists are wrong a lot of the time, yet their insights come in handy.

Small business accounting leans more on budgeting than larger businesses because unlike them you can't afford to be taken by surprise. If at any given time cash-flows don't cover expenses, you don't have banks queuing up to give you funds.

With a good budget, you are able to;

1. Make sure you have sufficient cash-flows to meet your goals
2. Analyse variances, to understand areas of overspending and potential savings
3. Stay alert of and make contingencies for seasonality
4. Plan ahead for financing needs, which is essential for finding affordable financing
5. Stay disciplined and keep to spending targets

6. Stay motivated and chase after revenue targets
7. Plan for tax and compliance a lot easier
8. Clearly communicate priorities within the business
9. Eliminate conflicts within your business

Analyse

If you get one take away from this post, make sure it's from this paragraph. Small business accounting is about [analysis](#). Pouring through the numbers to understand where your business stands financially.

In a small business, everything is relative, and small business accounting should give you a balanced view.

A profit might seem small, but relative to your competitors you might actually have gotten the best of a tough year. A sale might seem large, but operational costs might mean the margins are not worth the time investment.

Looking at numbers without context is very toxic, even more so for a small business. That's why tools like [accounting ratios](#) can turn information into actionable insights. They can help you move beyond the what to the how and the why.

With these insights, you can unearth possible opportunities and deal with looming threats. A clear understanding of cash-flows and financial structure can unearth areas of growth.

It's also easier to determine the best way to finance assets and operations if you are constantly aware of your business's financial health.

The long and the short: if you know where all the money is coming from and going, as well as how you stack against important factors, you can do more for your business.

Benchmarking is also indispensable for an entrepreneur like you. Understanding how your industry, your competitors or your peers are stacking up can aid decisions.

It'll seem like things are wrong more often than they are right if you own a small business. If you know you are ahead of the pack, you'll stay encouraged. If you are behind, you can make changes before it's too late.

Stay ahead of compliance issues

When it comes to [tax](#), the challenge is often not what you owe, but how long you owe it. A good example is VAT, most businesses charge it over and above their prices, and yet still struggle with it.

So how does a business struggle with an amount that wasn't due to it, to begin with? Quite simply, businesses hold on to it so long, they end up using it to cover their push cash-flow. When the VAT comes due, it seems like a huge burden.

Same applies to all taxes and fees. If you take too long to deal with them, time or money are going to be in short supply when you get round to it.

Remember that for small businesses earning a million Rands or less a year, you qualify for [Turnover Tax](#). This is a singular tax that can be paid in place of all other taxes your businesses is liable for. It's optional, so register, as it will save you time and help you stay ahead of compliance issues.

For the rest of us, here are a few taxes you need to stay cognizant of your small business accounting;

1. Value Added Tax (VAT) – Voluntary with earnings of R50 000.00+, and compulsory with earnings of R1 000 000.00. Due every month, 2 months, 6 months, or yearly, depending on what [category](#) you qualify and apply for.
2. P.A.Y.E – Compulsory if you have employees that qualify for normal tax, and payable at each payroll period.
3. Unemployment Insurance Fund (UIF) – Compulsory if you have employees that [qualify](#), and payable at each period after deduction is made.
4. Skills Development Levy (SDL) – Compulsory if your organization qualifies, with a salary bill of R500 000.00+, due with every salary bill.
5. Provisional Tax – Compulsory and Due 6 & 12 months from your financial year end.
6. Income Tax – Compulsory at the end of your business's financial year-end.

Also, do not forget to file your CIPC returns annually. These are an absolute must, as failure to do so will result in your business going into deregistration.

Small Business Accounting as a Priority

Accounting should be elevated to a priority, not kept as an afterthought or nice to have in your business. It's important to have a schedule that allows you to accomplish important tasks, like capturing outstanding receipts and invoicing.

Doing the books as and when the mood hits you will not do you any favours. Quite honestly it's a waste of time, that'll likely do more damage than good. Understandably, it's tough for a lot of entrepreneurs.

After all, you didn't go into business to be a bean counter, you went in to set the world ablaze with your quirky t-shirts.

All admin work can be rather daunting. Just remember though that it's this admin work that makes it possible to do what you love most.

One of the most prominent pieces of advice when it comes to accomplishing tasks you hate is to break it down into smaller pieces. Letting the work pile up will make it harder to do.

This is why it's so important to keep your small business accounting as a priority and do it at regular intervals.

Get a professional, ASAP

While in the short run you can do your small business accounting yourself, hiring a qualified accountant is more beneficial in the long run. They'll have knowledge that will take you time to gain.

For a small business these advantages won't matter much, but as you grow, [the ways a professional accountant can help your business](#) increase. Just be sure to vet properly, make sure your would-be candidate is well vested in your success.

You can achieve this by looking into your would-be accountant's priorities. A good accountant would be less interested in being a glorified bookkeeper, and more in being an indispensable analyst.

From the onset, they'll be keen to sure value by giving you analysis that grows your business, and information that gives you an advantage. This pertains to aspects of your revenues, costs, structure, and tax obligations.

Conclusion

So, small business accounting can unlock areas of competence and improvement for a lot of entrepreneurs. It can, most of the time be the difference between whether or not you succeed or fail.

With the statistics pointing to more businesses not doing it that are, this is an area you should be exploiting to get ahead of your competition.

We know we definitely missed a few, so please jump into the comments and pitch in on;

1. What great software you use yourself and why it's so amazing
2. Any tips and tricks you have to stay ahead with your accounting tasks
3. What resources you rely on to keep your house in order.

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