

CORNERSTONE FINANCIAL SOLUTIONS

Individual/Corporate Taxes – Small Business Accounting – Financial Planning



Bookkeeping Basics



Bookkeeping is the process of analyzing, classifying and recording transactions for the purpose of (a) providing a means by which a business may be conducted in an orderly fashion, and (b) establishing a basis for recording and reporting the financial affairs of the business and the results of its operation.

One of the most important, least understood and appreciated aspects of any business is its bookkeeping or accounting system. And, because very few people know much about the reasons for a bookkeeping system, most people are frightened by the thought of the work involved in setting up such a system, and the drudgery of daily maintenance. Many small business owners choose to use software like Quickbooks to keep track of various aspects of their business. The key to taking full advantage of bookkeeping software is to determine if it saves you time and frees you up to concentrate on running your business. Some bookkeeping functions are best delegated to an accounting professional. While it is essential to retain a thorough knowledge by reviewing your books frequently, an accountant or bookkeeper can free you up to concentrate on expanding your business. Even a bookkeeping task that only takes a few hours a week may be better delegated to someone else if that time can be better spent.

Proper bookkeeping is important to sustaining and expanding a business. Without it, you run the risk of hitting cash flow crunches, wasting money, and missing out on opportunities to expand. Remember that the purpose of bookkeeping is to help you manage your business and to enable the IRS to evaluate your business activity. As long as your bookkeeping achieves both of these objectives, it can – and should – be as simple as possible.

Six Reasons Why You Need a Bookkeeper

1. You must know where your income and revenues are coming from and where your money is going in order to know if you are making a profit.
2. If you are losing money, bookkeeping will let you know how much and from what categories.
3. You need to know which clients or customers owe you money, which ones pay you on time and which ones pay late or not at all. This is very important when you need to decide whether a client must pay in cash or whether you can extend a client credit.
4. If many of your customers pay bills late, you need to know how late so you can take action to collect from “problem” customers.
5. You need to know who actually has paid out so you don’t try to collect money twice. If you make a mistake and tell a good customer that he or she owes you money, that customer or client may get very angry and buy from someone else next time.
6. You need to know where you are spending money. If you are spending too much money in some areas, bookkeeping will help you decide which areas and then you can develop a plan to cut what you spend.