



## Center *for* Economic Vitality

Western Washington University

College of Business and Economics

### Bookkeeping 101

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Prepared by: Ashley Zender

Need some basic tips on managing the money that flows in and out of your business? Whether you are establishing a new business or just fine tuning your existing business, here is some advice in operating a successful business. Refer to our “Bookkeeping 101” to understand the important elements of your business financials.

**What is bookkeeping?** Bookkeeping is simply the recording of financial transactions (money received or paid) for a business or organization.

**Why is it so important?** Bookkeeping is very important to running a successful business, because much like a balanced checkbook, having organized and accurate information about a company’s financial situation helps a business owner make decisions about purchases, pay bills, and evaluate sales performance.

#### Bookkeeping Tips

There are several important things a business owner can do to manage their company’s money, through organized and practical bookkeeping practices:

1. *Keep Your Business and Personal Finances Separate:* When operating a business you should establish separate bank accounts and credit cards in the names of the business, keeping all personal purchases separate for business purchases. The most important reason for doing this is to have a clear record to refer to when it is time to have your business taxes prepared. Keep track of all the money that you spend related to the business (example: rent, electricity, supplies, purchases) because many of these items can be deducted from your business taxes.
2. *Collect Money From Clients Quickly:* Once you have delivered your product or service to your client, you are owed money (if it is not collected at the time of sale). It is important for you to collect that money as soon as possible. Create bills (also called invoices) for clients and send them out regularly until you receive the entire amount owed to your business.
3. *Spend Your Money Slowly:* It is important to pay bills on time, but take advantage of payment periods and pay bills the last day or two that they are due. Avoid employee advances (early wage payments or draws against wages owed), unless your business can truly afford it. This technique allows your business to have cash in the bank longer and available for other necessary items.
4. *Limit Your Inventory:* Your inventory is the actual product that you sell. It is important to try to anticipate your clients’ needs and demand for inventory. If you have too much inventory it may spoil, go out of

style, or you may be at risk of theft. When purchasing your materials and inventory make sure that you shop around and get the best prices to ensure you are not paying too much for your product. Having too much inventory also wastes cash that could be used in other areas of your business.

5. *Keep a Record of Money Received:* Keep a strict record off all the money your business receives. Take detailed notes on a daily, weekly and monthly basis indicating where the money came from and when it was received, or use an accounting software product to track the money in your business.
6. *Keep a Record of all Expenses:* Regular expenses like rent and utilities, along with irregular expenses like equipment purchases, need to be recorded. The records should indicate what the money was spent on, who the check was written to, the check number, and the date. Again, this can also be managed in bookkeeping software.
7. *Employee Payment Record:* You should keep a dated list of all pay given to your employees and for which amounts. You should be withholding money for taxes from your employees' checks. Many small businesses choose to work with a payroll services company to simplify this process.
8. *Keep an Updated & Balanced Checking Account:* You should have a separate checking account established for your business. Regularly go through your checkbook register and balance it. To balance your checkbook make sure you record all transactions as they happen. Record your current balance. When your bank statement arrives compare items and balance stated from the bank. Your bank balance may appear to be higher, but this could be due to clients or vendors not yet cashing checks that you have written. If you are regularly tracking your balance in your checkbook register, then your correct balance will be reflected there.
9. *Consider Hiring a Professional Accountant or Bookkeeper:* It is important to select a professional who familiar with your type of business. A good accountant or bookkeeper will be able to help your business pay bills owed, send bills due to business and collect unpaid money from customers, keep records needed for taxes, and advise you on daily cash management.

These tips are designed to help you gain an understanding for the basics of sound business financial record keeping.

The Center for Economic Vitality (CEV) at Western Washington University provides services to businesses throughout Washington State, including specific emphasis on Native entrepreneurs, rural businesses and export assistance. The CEV provides free confidential business counseling and research virtually. Call (360) 733-4014 for more information or visit our website at: [www.cevforbusiness.com](http://www.cevforbusiness.com).