



Bookkeeping Basics for Entrepreneurs

Intro— duction

To all the entrepreneurs rolling up their sleeves to do their own bookkeeping, we salute you! This guide is for you.

Bookkeeping can be tedious work, but the sweat equity buys you something priceless: financial insight into your business. Without bookkeeping, you're driving blind like a car without a gas gauge. Sure, the car is driving fine, but who knows how long before you have to pull over and wait for a friend to bring a jerrycan?

In this guide, we'll walk you through the basics of what bookkeeping is, why it matters, and the seven key steps to getting your own bookkeeping process off the ground.

“Siri: Define 'bookkeeping'”

Bookkeeping is the process of tracking all of your company's financial transactions, so you can see exactly where your business is spending money, where your revenue is coming from, and which tax deductions you'll be able to claim.

Why bookkeeping matters

1. It ensures that you don't miss out on deductions

If you have immaculate books, then every transaction will be categorized for your CPA. The more information (and supporting documents) your CPA has at tax time, the more deductions you'll be able to legitimately claim, and the bigger your tax return will be.

2. It can help you secure a business loan

Thinking of expanding your business? If you need financing of any kind, having well-kept books gives lenders or investors a clear idea of your business' current financial state, and allows them to make financial projections about your company's ability to pay off your loan in the future.

3. It helps you catch banking errors quickly

If you wait until the end of the year to reconcile your financial transactions, then you won't know if the bank made a mistake until you're buried in paperwork at tax time. It can be more difficult to reconcile an overcharge with your bank months later, than if you'd caught it right away.

4. It gives you a clear picture of where your money is going

You may be able to see your bottom line by glancing at your bank balance, but the ups and downs in your account are also telling a story. Are sales up? Are your shipping costs too high? Who knows? Paying attention to your financial statements is a great way to get to know the story of your business.

Where to start

The first seven steps of a bookkeeping process

We're making it sound easier than it is. When you're stuck in the minutiae of reconciling your transactions, this won't feel like "seven easy steps".

But for the sake of explaining the basics of bookkeeping, here are the first seven steps you'll need to walk through to get your bookkeeping machine humming.



Step 1.

Separate your business and personal expenses

To track your business finances effectively, it's important to permanently separate them from your personal finances.

Why? Liability—if you're running a corporation or limited liability entity and there isn't sufficient distance between your personal and business finances, there's a chance that you could be held [personally liable](#) for any debts incurred by your business.

Plus, you'll want to pull your hair out when it's time to reconcile bank statements, and you have to hunt down the receipt for that \$200 brunch to remember if it was a date, or a client meeting.

Step 2.

Choose a bookkeeping system

There are two main bookkeeping methods: single-entry, and double-entry. There's no right or wrong, it's just a matter of picking the system that's right for your business, and sticking with it consistently.

Single-entry is a simple system that might work for you if your bookkeeping is very straightforward. Entries are recorded one time, as either an input or output. Especially if you're doing your own bookkeeping, this is likely the approach you'll want to take.

Double-entry is more complex, but also more robust. First, all transactions are entered into a journal, and then each item is entered into the ledger—you guessed it—twice, as both a debit and a credit.

For example, if you own an ice cream shop, each time you sell a pint of ice cream, the sale is entered as a credit to your “cash” account and as a debit to your “ice cream” account (more on accounts later). Debits and credits entered in the ledger should always add up to zero. The IRS has published a [handy list of guidelines](#) to help you understand the ins and outs of double-entry.

Using the double-entry method is complicated at first, and may require the help of a trained bookkeeper. But it will give you more accurate books overall. Think of it like double-checking your answers before you hand in a math test.

Step 3.

Choose an accounting method: cash or accrual

It's important to choose either a [cash or accrual accounting](#) method before you start your books.

If you're using cash accounting, you only record transactions when money has exchanged hands. So if you billed a customer today, those dollars wouldn't enter your ledger until the customer paid you.

Using the accrual accounting method, you would record the income when you bill the customer, rather than waiting for them to pay you. So at the end of the tax year, you've recorded all income that you earned during that year, even if you haven't collected it yet.

Same goes for deductions. You deduct them when you're billed, not when you pay. If your company has inventory, in most cases you'll be expected to use the accrual method.

Step 4.

Categorize your transactions

Every transaction you make needs to be categorized when it's entered in your books. This helps your bookkeeper catch more deductions, and will make your life easier if you get audited.

Six months later, an unmarked receipt for lunch at a restaurant might not mean much to you. Was it a client lunch? Did you treat your employees after a successful quarter?

The way you [categorize transactions](#) will depend on your business and industry. Generally speaking, your transactions fall into five account types—assets, liabilities, equity, revenue, and expenses. Individual line items are then broken down into subcategories called accounts. In our ice cream shop example, some accounts in your ledger might be “revenue-ice cream sales”, “expenses-ice cream ingredients”, etc.

The actual work of categorizing will depend on your bookkeeping solution. If you're doing it all yourself, you could make a note on each receipt. If you're using an online bookkeeping service like [Bench](#), you'll just have a conversation with your bookkeeper about how you'd like your most common transactions to be categorized, and they'll take it from there.

If you're going to be doing your own bookkeeping, it's worth talking to a pro when you set up your system, to make sure the accounts you create align with your industry standards and CPA expectations.

Step 5.

Organize and store your documents

At tax time, the burden's on you to show the validity of all of your expenses, so keeping supporting documents like receipts and records is crucial.

Diamonds may be forever, but the ink on your expense receipts is not. Since the IRS accepts digital records, it's smart to use a cloud-based system like [Dropbox](#), [Evernote](#), or [Google Drive](#) so you never have to deal with smudged receipts. You can also use apps like [Shoebboxed](#), which are specifically made for receipt tracking. Plus, let's face it, that overflowing shoebox of receipts has got to go.



Step 6.

Organize potential deductions

The IRS' [golden rule on deductions](#) is that they must be both ordinary (a common expense in your field of work), and necessary to your business. For example, pens would be an ordinary expense for a writer, but a \$900 pen might not fall into the category of “necessary” (well, it definitely wouldn't).

Even when an expense is ordinary and necessary, it may not work out as a one-to-one deduction on your taxes; just because you mostly work from your dining room table, doesn't mean that you can deduct your entire monthly rent. Luckily, the IRS has made [a comprehensive guide on business deductions](#).

Step 7.

Make it a habit

It's easy to fall behind on your bookkeeping when you've got other things happening. To stay on track, try setting a finance date with yourself (or your business partner) once a month to get it done. If you do happen to fall behind, Bench [can help you get caught up in no time](#).

DIY vs. Professional Bookkeeping

There are [a ton of options out there](#) for how to handle your books. They fall into two basic categories: doing it yourself, or having them done by someone else.



The DIY approach

If your business is starting out as a side hustle with a limited budget, taking a DIY approach is a great way to get started. If you go this route, a consultation with a CPA or bookkeeper to help you set up your books will ensure you don't end up with a year of books that have to be re-done by a professional.

Your DIY bookkeeping can be handled using a simple spreadsheet, or you can work with one of the many online bookkeeping programs available.



Outsourcing to a professional

If your business is past the hobby stage, or if your bookkeeping duties just keep getting pushed to the side, it might be time to hire a professional. Our bookkeepers here at Bench can do your books for you, no matter where in North America you are, and we'll give you simple software to keep track of your finances.

If you have a lot of physical financial records, or prefer meeting face-to-face, you might want to hire a local, part-time bookkeeper.





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