

Basic Accounting Principles Small Business Owners Must Know

What does it mean to be a small business owner? It means a few things. First, that you have worked incredibly hard getting your business off the ground. And two, that you have probably spent many sleepless nights trying to learn every area of your business including basic accounting principles. If you're just trying to wrap your head around this three-headed monster that is basic accounting, then this may serve as a decent guide to getting started.

Accounting Basics - Keep your books in order

One of the biggest reasons small business owners screw up with their accounting is because they miscalculate their expenses and taxes. This can stem from a variety of reasons such as small business owners spending money that they don't really have, missing tax payments, and losing out on tax refunds.

It doesn't matter how great you think your business is doing, if your basic accounting isn't accurate, then your business can go from struggling to gone. The best place to start with your basic accounting and bookkeeping is with "cash basis accounting."

What is cash basis accounting?

Cash basis accounting is the most simple recording practice for accounting. Basically, it means cash in, cash out. You record when you get paid for a sale, you record when you spend, and you record it all the day it happens. This is the most popular form of accounting for small businesses because it is the most simple.

So, what exactly do you record for your accounting?

Since you break down cash basis accounting into "cash in, cash out", the simplest way to break this down is what do you record the comes in and what do you record that goes out.

Incoming

- What you sold
- who you sold it to
- How much money you collected
- When you received the money
- How much sales tax you collected

Outgoing

- Taxes you paid
- Employees you paid
- Business expenses
- Rent and utilities

Running your small business means you have a lot of responsibilities, and one of those is your accounting. You need to keep track of every single dollar that goes in and out of your business.

Basic Accounting Principles - Recording

Now that you know what to record for your business, you have to learn about to organize and actually record your transactions. While several small businesses will work primarily from Excel to manage their books, we highly recommend investing in some simple accounting software. QuickBooks is a great low-cost solution for you accounting, and we highly recommend using it.

Using small business accounting software like QuickBooks will save you time and maintain accuracy in your bookkeeping. We also recommend implementing a Chart of Accounts to break down each transaction into its core components and payment location.

Basic accounting for your small business may seem daunting, but as you learn more you'll be able to manage your books like a pro. If you think your business has gotten to the point where you think you may need more advice for your accounting or even an overhaul of your current processes, then feel free to reach out to us at (415) 461-2586