

How to Keep Track of Business Expenses



Are you still tracking business expenses with paper documents and manual workflows? If you are, you might be wasting both time and money you could put to better use helping your business thrive in today's competitive marketplace. If you find yourself struggling with the frustration of tracking down credit card statements and scratching your head over half-completed expense reports, now's the perfect time to learn how to keep track of business expenses over the course of the tax year.

Whether you're self-employed as a freelancer or running a small business with staff and retail space, tracking small business expenses and potential tax deductions can be challenging. But by finding effective, accurate, and efficient ways to track your business expenses, cash flow, and overall spending behavior, you'll have a firm grip on your financial data. You'll be able to create clear and

audit-friendly financial statements, make smarter business decisions, and be well equipped to capture maximum savings with minimum stress during tax season.

Knowing How to Keep Track of Business Expenses is Essential

Self-employed professionals—whether they’re sole proprietors, freelancers, etc.—face some unique challenges when it comes to bookkeeping in general and expense management in particular. For example, the Internal Revenue Service (IRS) has a wide range of rules related to business expenses and tax deductions, including those specific to self-employed folks and their taxes.

But it’s not just the rules set down by the IRS. Small business owners often have fewer resources than their corporate counterparts. Sole proprietors in particular are often wearing many hats, from bookkeeper to head chef to marketing and sales. Without the right tools and workflows to help, they may be forced to take a very casual (and costly) approach to their business finances, relying on paper receipts, hand-typed excel worksheets, and their own memory and free time to get the job done.

This limits their ability to manage cash flow effectively, make strategic short- and long-term financial decisions, and leverage spend data to identify new opportunities for partnerships, new markets, and product innovation. Over time, this can limit the company’s financial health (particularly profitability).

And, of course, it makes it difficult to claim tax deductions related to both their business and personal expenses. After all, you can’t claim what you can’t see or failed to record.

Companies looking to compete in the digital global marketplace need tools and techniques that will help them manage their financial information in real

time—and practice responsible, proactive expense management—in order to succeed.

Knowing what you're spending, when and where you're spending it, and its effect on your company's operations and goals is a key part of competing effectively as a small business owner.

Four Ways to Track Business Expenses More Effectively

Accurate tax returns with optimal savings don't happen on their own, sadly. By following a few simple best practices, you can track small business expenses more effectively.

1. Open a Business Bank Account

Even experienced freelancers don't always draw a clear financial line between their personal finances and their business activities. Which is unfortunate, because keeping them well separated is essential to keeping track of business expenses.

A business bank account makes it easier to do business *and* manage your personal expenses, too. With two separate accounts, you can easily move money around as needed while creating a clear record of your activity.

In addition, having a dedicated business bank account helps build your company's credit rating, making it easier to secure financing in the future should you need it.

Finally, with a business bank account, you can also obtain a dedicated business debit and/or credit card. Use it solely for business expenses, and you'll have an additional (and convenient) financial document to assist during tax season.

2. Track Expenses as You Go

“Be a manager of things, or things shall be your manager.” That’s good advice in general, but it’s particularly useful when it comes to staying on top of your business expenses. And in a global marketplace dominated by digital transformation and big data (yes, even for small businesses), an old shoebox and the occasional scribbled reminder aren’t going to cut the mustard.

Leave the shoebox in the closet and go digital. Make a point of requesting digital receipts for all your purchases, and immediately digitizing any paper receipts you receive and uploading them to your accounting software or procurement solution.

If you’ve opened a business bank account, you may even have access to a dedicated expense tracking app provided by your financial institution. Expense tracker apps often include the ability to take a snapshot of paper receipts, eliminating the need for a separate scanner.

Whether you’re using a standalone expense tracker or an integrated mobile app as part of your procurement and accounting software, the goal is to capture *all* your spend. Not only will this help you manage your cash flow more effectively by providing a clear picture of your available working capital, but provide accurate and complete records for the purposes of both tax preparation and audits.

Regardless of the solution you choose, remember to properly categorize and separate business expenses from personal ones.

3. Hire a Professional Bookkeeper

Small business owners are accustomed to being jacks-and-jills-of-all-trades. But when it comes to your business finances and your company’s financial health, it might be better to set aside the little green visor and hire a professional.

A reliable bookkeeper will probably set you back somewhere in the neighborhood

of \$20 - \$25 an hour, although of course fees will vary by location, level of experience, and whether you're hiring a contractor or taking on an employee.

Regardless, it's most likely money well spent, because a professional bookkeeper can:

- Properly prepare your financial records for both accounts payable and accounts receivable.
- Prepare complete and compliant financial statements.
- Identify tax deductions you may have missed.
- Manage reconciliations and reimbursements resulting from personal and business account activity overlapping.
- Provide practical advice on tax preparation to capture all relevant tax credits and properly claim business expenses.

A good bookkeeper will free you to focus on other areas of your business and, more importantly, help keep you in the IRS' good graces.

4. Invest in a Purchasing Software Solution

Tired of struggling with paper receipts, snail mail, and the tedious manual labor and human error that come with manually processing all business purchases and financial statements?

Implement a fully customizable, comprehensive and user-friendly procurement solution such as Planergy. Centralized data management, coupled with advanced process automation and powerful data analytics, make it possible to capture, organize and analyze all your spend data in real time for better cash flow management, long-term strategic spend planning, and better peace of mind at tax time.

In addition, you can automate your entire procure-to-pay process, reducing risk of invisible spend and protecting your business against invoice fraud. You'll save

money by eliminating the need to store “shoeboxed” paper receipts and other documents, too.

Choose a cloud-based solution with a built-in mobile app and practice responsible expense management wherever you are, whether you’re in the office or on the road with your iPhone or Android device.

Create expense categories and make sure you properly expensify every purchase. Create automatic reminders and payment workflows to ensure your bills are paid on time and properly recorded in both your procurement and accounting software.

Complete and clear financial information makes bookkeeping a lot easier too, whether you’re doing it yourself or handing your information off to a bookkeeper. Generate profit-and-loss statements, separate and track your personal and business expenses (including credit card and debit card activity!) build budgets, and set and track key performance indicators to monitor and improve your financial performance, profitability, and progress toward your business goals.

Plus, best-in-class solutions will integrate seamlessly with accounting software such as QuickBooks and FreshBooks, along with a wide range of other software applications commonly used by small businesses, from office suites to advanced enterprise resource planning (ERP) suites.

Best of all, as an ordinary and necessary business expense, your new software is likely tax deductible. Be sure to double-check with your tax specialist to determine the best way to claim it on your tax return.

Tracking Your Small Business Expenses

Doesn't Have to Be a Chore

Knowing what you're spending, when and where you're spending it, and its effect on your company's operations and goals is a key part of competing effectively as a small business owner.

Invest in smart software tools, make sure you've properly organized and separated your business and personal expenses, and take a proactive approach to expense tracking and management so you can spend less time worrying about your tax return and direct your time and attention toward growing your business.

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