

What Is Business Accounting? Tips For How To Get It Right



Business accounting is sometimes referred to as managerial accounting or management accounting. It's similar to financial accounting, but there are some important differences to consider.

Business accounting generally involves a stronger focus on modeling activities and projections, whereas financial accounting focuses on the numbers after the money has been earned or spent.

It's where the generally accepted accounting principles (GAAP) come into play, which requires income statements, double-entry accounting, and more.

Business accounting is most useful in performance evaluation and business decision-making. Unlike financial accounting, it is not mandatory.

Even though the law doesn't require your company to do it, it's still something even the smallest of businesses should consider adding to their routine.

Larger companies incorporate several aspects of business accounting and decision-making into their business model.

Small business accounting records all income and expenses, then uses the

financial information to create invoices, pay its employees, make financial forecasts, and file taxes. No matter what your actual job is, accounting is a part of running a business.

Many businesses can't afford to hire a certified public accountant (CPA) to handle it. Thankfully, there's a great deal of accounting tools and software available to make it easier for business owners to take care of these tasks themselves, or have someone else on staff to do it for them.

All business owners should understand basic accounting. Use this checklist of tasks to make sure you get it right.

Business Accounting Tasks: Daily Edition

Yes, you'll do some business accounting work every day, though it's really just one task you should be doing every day anyway.

Check Cash Position

Cash is your lifeblood, and if you find yourself with little to no cash, you're in trouble.

Begin each day by checking to see how much cash you have. It's also a good idea to be aware of how much you expect to receive (and payout) during the next few weeks and months.

Make sure you know which accounting method your business uses - the accrual method or the cash accounting. The cash accounting method is easiest since it tracks everything in the general ledger at the time cash is received and the bills are paid.

The accrual method, on the other hand, records revenue and expenses when it occurs. The accrual method is required by GAAP.

Accounting Tasks: Weekly Edition

Choose one day a week to make your accounting day. You still won't have many tasks to take care of, but it is more involved than the daily list.

The more consistent you are with these weekly tasks, the easier it will be to handle the monthly, quarterly, and annual tasks that your business needs.

Record Transactions

Record all of your financial transactions - both income and expenses - daily or weekly, depending on your volume. You can record them manually in a spreadsheet, but it's often easier to use accounting software.

The software makes it easier to catch errors and is particularly useful when dealing with a large volume. Plus, many software solutions link directly to your bank account and pull in the transactions so all you have to do is categorize them.

Automation rules can automatically categorize repeat transactions. For instance, if you pay your power bill every month - each time that vendor shows up in your transactions, it's automatically categorized as a utility bill.

Keep track of all business transactions - even credit card purchases. It's always better to have more information than you need for your accountant.

Document and File Your Receipts

Keep copies of all the invoices you send, all cash receipts, and all cash payments.

It's a good idea to start a vendor file, where vendors are sorted alphabetically. You should also create a payroll file, sorted by payroll date, and a bank statement file that's sorted by month.

Avoid the temptation to throw all the papers into a box and sort them out at tax time. The more volume you have, the harder it will be. That's why handling things as they come in is often much easier. There are tools that make it easier to keep track of digital receipts, too.

You simply forward the email to a specific email address, and everything's there when you need it. You can also scan paper receipts and send them to your digital storage so you don't have to deal with a ton of paper.

Even if you pass everything off to a bookkeeper, the more organized you are with the information, the easier it will be for bookkeepers and accountants to build

financial statements and other accounting reports.

Review Unpaid Bills

Store all the unpaid bills in an “unpaid vendors” folder. Keep a record of vendors that includes the billing date, amount due, and payment due dates. Also keep note of the vendors that offer early payment discounts, so that you can use them to your advantage whenever possible.

Pay Vendors

Keep track of accounts payable and set funds aside to pay vendors on time. This will keep vendors happy and you’ll avoid late fees in the process.

Whenever possible, take advantage of net 60 or net 90 payment terms – and don’t pay things early unless the early payment discount makes sense.

Whether you pay your vendors online or send a check in the mail, you should always keep a copy of the invoices you send and receive. Your accounting software makes this really easy, which is helpful when it’s time to file taxes.

Prepare and Send Invoices

Always include payment terms. Most invoices are due within 30 days, which is net 30. Without that due date, you’ll struggle to forecast your monthly revenue.

Review Cash Flow Projections

It’s important to manage your cash flow, especially if it’s your first year because you have no historical data to go on.

By forecasting the cash you’ll need in the next few weeks and months, you’ll be able to set aside enough cash to pay the bills, your suppliers, and your staff.

Your cash flow statement, or statement of cash flows, is nothing more than a statement that shows your current cash position, your expected upcoming cash receipts, and cash payments for the period.

Accounting is easy to avoid – but skipping these tasks will only make your life harder when it comes time to file your taxes.

Accounting Tasks: Monthly Edition

No matter the size or nature of your business, there are a few tasks you'll need to handle every month.

The better you do with managing these tasks, the easier the rest of your tasks will be.

Balance the Checkbook

In the same way you reconcile your personal finances, you should reconcile your business account.

This ensures that you're always working from the correct cash position. This is also a good way to spot and fix errors - either of your own or the bank's.

Review Past-Due Accounts Receivables

Include an "aging" column so that you can separate your open invoices by the number of days a bill is past due. This way you'll be able to quickly see which customers are overdue, so you can send payment reminders.

Check Inventory Status

If you have an inventory to manage, make sure you set aside time to reorder the products that sell fast and find the others that aren't moving well enough. You may need to mark them down to get them moving or write them off.

If you make it a point to do this every month, you'll be able to compare it to previous months and the same time last year, so you can make adjustments.

These adjustments help keep your inventory right where it needs to be - so you have enough to avoid running out of stock, but don't end up with so much you can't sell it all.

Process Payroll and Tax Payments

You have an established schedule to pay your employees. You'll need to meet payroll requirements at the state, local, and federal levels, at different times.

That's why you need to withhold, report, and pay the appropriate taxes for income, social security, medicare, and disability to the appropriate agency at the right time.

To avoid needing corrections during the next payroll period, review the summary before dispersing payments. If you need to save time, enlist the help of a payroll service provider.

Review the Profit and Loss Statement Against Your Budget and the Prior Accounting Period

Look at the profit and loss statement (P&L statement) for the current month and the year to date.

This tells you how much you spent. Measure it against either your monthly or quarterly budget. Comparing your actual numbers to your planned numbers helps you see where you are spending too much (or not enough) money.

Review Month-End Balance Sheet Against the Prior Period

Comparing your balance sheet at the end of the month to a balance sheet from an earlier date, you get an idea of how you're managing your assets and liabilities. Look for what's significantly up or down, and figure out why.

If the receivables are up, is it because you've had more sales recently? Or is it because your customers are taking longer to pay?

Accounting Tasks: Quarterly Edition

Every quarter, you'll deal with some more intense elements of accounting for your business or self-employment.

You'll make tax estimates and send quarterly payments to the state and federal governments. You'll quickly start to see why good bookkeeping and accounting software are so crucial to running your business smoothly.

Prepare a Revised Annual Profit and Loss Estimate

Now's the time to look at how much you're actually making and whether your assets are increasing or decreasing.

You need to know the differences between revenues and expenses, the reason for those changes, and how you're spending your profits. This process will help you see areas of trouble so you can make adjustments to improve your margins and sales.

Review Quarterly Payroll Payments and Make Payments

The IRS and many states require you to send quarterly payroll reports along with any remaining quarterly payments. Your payroll service can handle this for you.

Review Sales Tax Information and Make Quarterly Payment

If you're operating in a state that requires sales tax, comply, or face serious penalties.

Calculate Your Estimated Income Tax and Make Payment

Set aside your quarterly estimated income tax payment. Your year-to-date P&L can help you determine if you'll owe estimated taxes for the quarter.

Accounting Tasks: Annual Edition

Every year, you'll celebrate holidays, birthdays, and anniversaries. We can just about promise you won't have something like "inventory review" or "file taxes" on your calendar as one of those things - but that doesn't make them any less important. Failure to handle these tasks could easily spell legal and financial trouble.

Review Past-Due Accounts Receivable

Look at the past-due receivables again. Decide whether your customers will eventually pay or if you want to write them off for a deduction.

Review Inventory

Look at your inventory and determine the value of the things you didn't sell. You'll have another deduction for your year-end taxes. If you skip; writing down unsellable inventory, you're inflating your inventory balance, and ultimately paying additional taxes you don't owe.

Prepare and Send IRS Forms W2 and 1099 MISC/1099-K

The IRS requires you to send employees and independent contractors the appropriate tax forms by January 31 every year.

You must report the payments by this date and have copies of the forms mailed out by then. If you have contractors who earned less than \$600 in a year, a 1099 is not required.

Review and Approve Full-Year Financial Reports and Tax Returns

Review the company's full-year of financial reports before passing them off to your accountant. Before you sign the tax return, review it for accuracy compared to those financial reports.

If you're audited and found to have underpaid taxes, it comes to you, not your accountant to check for the additional taxes, penalties, and interest.

If the accounting stuff sounds like a lot - it is - and that's okay. That's why some deep breaths and planning can make all the difference. It's a necessary part of running a business. Without solid financial records, you'll never really be able to truly understand your business's financial health.

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