



# THE SAVVY BOOKKEEPER

## HELPFUL TOOLS OF THE TRADE, PART ONE

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As a small business owner, there are many bookkeeping practices that you can implement to elevate your record keeping and protect your business. These tips and tools reflect sound business practices, and they will help you simplify your bookkeeping efforts, protect yourself from potentially devastating risks and provide you with clarity and peace of mind as you navigate your small business journey.

I hope these foundational blocks of bookkeeping will help you untangle your books, free up your valuable time and give you the information you need to make confident decisions with your business.

This is part one of a two-part series. Check your email for the second part of this resource, **The Savvy Bookkeeper, Helpful Tools of the Trade, Part Two.**



## SEPARATE BUSINESS FROM PERSONAL FINANCES

Separating your business and personal finances may be the most important practice you can implement in your small business. If you have not officially separated your finances, I would encourage you to make this a priority. The exposure of combined finances may be greater than you are aware and a real risk to your personal financial wellbeing.

**1. Obtain an Employer Identification Number (EIN), Business Bank Account and Business Credit Cards**

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To separate your finances, begin by establishing your business entity with an Employer Identification Number (EIN), which is applied for through the IRS. You will use this unique 9-digit number assigned to your business to file your business's income and payroll tax returns, establish your entity type as an LLC or corporation (sole proprietors do not need an EIN), open your business bank account, apply for business credit cards and more. With an EIN,



you will no longer have to use your social security number, which is a major step toward distinguishing between your personal and business identity. That distinction will limit your personal risk should a legal filing be brought against your business. While sole proprietors do not need an EIN, they will still benefit from separating their business from personal finances by other means mentioned below.

## 2. Record Loans, Assets, Revenue and Expenses to Your Business

Once you have obtained your EIN, established your business bank account and credit cards and tied them to your accounting software, you can make deposits, pay bills, and accurately record loans, assets, revenue and expenses through the proper accounts. Not only will this keep your personal finances personal, it will also simplify tax return filings and reduce the risk of IRS involvement due to incomplete or questionable record keeping. Be sure to keep your business and personal purchases separate and receipts in different locations as a practice. When sharing personal items (such as a vehicle, cell phone or home office) with business use, track the business usage. This will allow you to write-off some or all of those expenses on your tax return. Having the solid distinction between business and personal finances in place will also improve your chances of obtaining a small-business loan -- not having them can hurt your chances.



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### 3. Pay Yourself a Salary or Owner's Draw

When your business is financially able, determine an appropriate salary or owner's draw to cover your personal monthly expenses. Try to remain frugal. Set your salary as low as possible and don't allow the benefits of business ownership to cloud your assessment, even if you can afford it. What you save now will give you more flexibility in future, lean months. Transfer the set amount from your business account to your personal account on a regular schedule, once or twice a month, just as if you were working for someone else. An accountant can walk you through the requirements and tax advantages based on your business entity selection. By paying yourself a salary or owner's draw, you establish when and how you will take money out of your business. This will ensure you get paid with regularity rather than pulling out of

your business finances based on fluctuating needs. This is another practice that, when in place, will help you obtain a small business loan.

### BE ORGANIZED

"A place for everything and everything in its place." This proverb has been taken up by people in all trades and businesses who understand that having a set place for their tools and papers contribute to their success.



### 1. Utilize Online Accounting Software

The practice of having everything in its place has been proven to save time, opportunity and money while making life smoother and less stressful over time. We know that spending time each day looking for files, receipts, invoices, contracts, etc. can be frustrating. And when it



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happens multiple times a day, it becomes a drain on your time.

Thankfully, there are affordable online software tools and technologies that are available for small businesses that help organize your files and documents so that everything has its place.

Anytime you need specific information, you want to be able to access it immediately. Accounting software is great for helping small business owners easily track their accounts, income, expenses and tax return information while keeping better tabs on their finances. It's a



modern-day wonder. Before accounting software, detailed reporting was done by hand and took tremendous time and dedication to complete. Today, software provides detailed tracking of financial transactions and near-immediate reporting and analysis of business activity and cash flow.

There are robust solutions that are integrated into small business accounting software that help you pay bills, create and send invoices, manage payroll, and track mileage, inventory and expense reimbursements.



## 2. Customize your experience for greater efficiency

Along with software, there are also digital apps that allow you to customize your process even more. These specialty apps can help address the little things that require valuable time, allowing you to make the most of your day. Choose productivity applications that integrate with your accounting software when possible. They can cross over into IT, field service, human resources, marketing and operations. Collaboration, workflow, project management, marketing automation, email marketing, website builders, ecommerce, customer relations – the options available are nearly unlimited.

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### 3. Get the most from these tools

Having the proper software and applications in place will help you organize and consolidate your business financial activity. With that clear visibility of your business finances, you will have the information immediately at your fingertips to make sound, confident decisions. Take the time to become more familiar with these productivity tools. You'll be forever grateful that you have them and amazed with all they can do for you in organizing your business.

### STAY CURRENT

Staying current with suppliers, employees, customers and the IRS is

an important business practice. If any of these relationships are unattended to, tension quickly builds in the business. Not only is it difficult to catch up on late payments but recovering from the loss of any of these relationships proves to be a more difficult hurdle, often affecting the business's reputation in the marketplace. However, there are several practices that can help you stay current with your company's finances, which helps maintain your business relationships.



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## 1. Link your dedicated business bank account and credit cards to your accounting software

As mentioned previously, utilizing a dedicated business account and credit card and linking them to your online accounting software is the easiest way to ensure your financial records reflect your current business spending and earnings. Apart from some initial set-up, all your income and purchases are recorded effortlessly and are visible in near real-time. This is one of the greatest tools available to help you stay current.



## 2. Don't spend prematurely

You can help prevent a cash flow crisis by spending and saving responsibly. Minimize initial purchases as much as possible. When you have actual revenue coming in, consider carefully what the most important expenditure is and if it is the right time to make the purchase. It may be more important to take the available cash and set it aside. It's recommended by financial advisors that you have three to six months of funds on-hand should an unexpected situation arise. If you have not saved these funds for a rainy day, saving may be your most responsible decision.

## 3. Take time each day to get your financial bearings

Getting your bearings when you



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arrive at your business will help you set the pace for the rest of the day. If you have a good handle on your finances, you may only need a quick look at your financials. If you have been away for a couple days or your business schedule has been hectic, more time may be helpful.

## Consider:

- Reviewing your expenses, as they can add up quickly
- Looking over your bank balance and outstanding accounts receivables in order to see where you stand and what is forthcoming
- Verifying that recent shipments match the products or materials you ordered
- Checking the status of jobs underway
- Seeing what bills need to be paid immediately to remain current

The 15-20 minutes you invest each day with your finances can help you avoid major disruptions, fine-tune your spending habits, identify potential risks and make informed decisions. This may be your greatest

investment to the day.

## 4. Issue invoices as soon as possible

I don't have to tell you that accounts receivable are of fundamental importance to your business. To ensure that payments are not overlooked in the process, consider setting payment terms to seven days. Weeks of delay in sending out invoices to your customers can equate to weeks of delay in receiving critical funds. Your material suppliers are chomping to be paid, so receiving payment from your customers as quickly as possible will help reduce stress on your business. It will ensure you cover outstanding payables, even during lean times. This is a good practice for any business. Automated email reminders or SMS messages can be sent through most accounting software programs. If you find you have a customer that is frequently late in paying, you can also incentivize payment with a discount for early and full remittance, like a 2% discount if paid in full upon receipt of invoice.



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## 5. Pay bills on time

To remain in good standing with your suppliers, be sure to pay your bills on time. Anyone who has fallen behind in paying their bills knows how difficult it is to catch up and recover their reputation. Late payments often come with late fees, an unnecessary expense that quickly adds up. With your accounting software in place, you can run an Aging Report to determine outstanding or upcoming bills. And don't forget deadlines for payroll, sales tax and income tax. I recommend setting reminders, however it works best for you, to avoid penalties and keep your bills current.

## 6. Pay employees on time

Employees have personal financial obligations, and they trust that they

will receive their wages on time as agreed upon. Many employees, especially today, live paycheck to paycheck. When they do not regularly receive the earnings required to pay bills on time, it leaves them at risk of costly late fees, delayed purchases of critical items, potential loss of housing or vehicles and much more. This will directly affect their productivity and yours. They may even choose to leave your business as a result, putting you in a bind to find other help.

To maintain good relationships with employees, make sure to budget properly so you are able to pay them on time. If you find yourself in temporary financial hardship, it's best to find some way to get paychecks out to your workers, even if that means taking out a short-term business loan to cover your costs.







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*Make informed decisions*

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I hope you found part one of **The Savvy Bookkeeper, Helpful Tools of the Trade** useful.

In part two, I will explore tips on planning ahead, becoming more efficient in your small business financial journey and sharpening your focus to strengthen your financial health and future.

Please consider turning to Fulcrum Bookkeepers if you need help implementing any of these practices.

We are an online bookkeeping and financial advisory firm helping small businesses get out of the day to day accounting, shore up their financial reporting and guide them toward a better financial future. You can reach me at [FulcrumBookkeepers.com](http://FulcrumBookkeepers.com) to schedule a free 30-minute call or contact me directly at 417-207-0321.

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