

The Bookkeeper's Secret Handbook

How Not to Screw Up
the Biggest Investment of your Life



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Introduction

Dear overworked business owner,

Imagine, if you will, that the producers of “Shark Tank” have offered you the chance of a lifetime to present your business on their show. Here’s your chance to have a famous investor (or even several famous investors) become your partner, and inject hundreds of thousands of dollars into your company. You’ve practiced and prepared, and now you’re standing face to face with the Sharks. Kevin O’Leary is very interested! But then he fires off a barrage of tough questions – your answers will make or break this tremendous opportunity to make a deal... with about \$500,000 at stake!

So, Kevin gives you a penetrating stare, strokes his chin, and fires away:

1. What are your sales and sales trend over the past 5 years?
2. What is your revenue trend for the last 4 quarters?
3. What are your profit margins for each product or service that you sell?
4. What is your breakeven point?
5. What is your average customer acquisition cost?
6. What is your customer attrition/retention rate?
7. Which of your advertising and marketing dollars gives you the best return on your investment?
8. What does it cost you to make each product or service and deliver it to the market?
9. What is your percentage potential for growth – what the market will realistically support and you can manage in the next 12 months?
10. What is your burn rate – that is, how fast you are going through your cash?
11. Will you have enough cash to make payroll next month? How about the month after that?

If you have no idea how to answer these questions – or even what they mean – you’re not alone. Many business owners and entrepreneurs can’t answer these questions – even some of those business owners who appear on Shark Tank!

Let’s face it, you’re a business owner and manager – you’re not a bookkeeper. Even so, you need to know your numbers! *Your business will live or die based on the numbers.* According to the Small Business Administration, the leading cause of business failures that end in bankruptcy is: “No experience with bookkeeping or lack of understanding of bookkeeping systems.” And it’s not enough to just have the right numbers - you need to know what those numbers are telling you!

With this “Secrets Report”, you’ll uncover how to get the answers from your numbers so you’ll be well on your way to building a healthy and profitable business.

Secret #1: “Shoebox Bookkeeping” isn’t bookkeeping - not even close!

It seems that most everyone has a certain tendency to engage in self-deception. Many business owners unwittingly lie to themselves about their business. They believe that a shoebox is a “fail safe,” fireproof, waterproof and secure record keeping system. Let’s hope the cleaning service doesn’t mistake that shoebox for trash!



These business owners are the ones who literally put all their sales receipts and expense receipts into a box until tax return time. Then they take that box to the accountant at the end of the year to sort it all out. Inevitably, they forget some pieces of paper, or lose them – it ALWAYS happens! Good luck trying to find that sales receipt from six months ago... what a pain in the neck – and a waste of time! So now you’ll spend big dollars with your accountant trying to get this mess of yours cleaned up so that a tax return can be filed. How’s that headache coming along?

After wading through your shoebox, your accountant will surely find many loose ends and unreconciled transactions, like outstanding customer invoices not collected (cash flow problems), bills never paid, or paid twice, and personal expenses mixed with business expenses, and on and on.

Remember that business ownership comes with many responsibilities and one of them is the responsibility of establishing a good sound accounting system. Don’t be delusional, a good bookkeeper can sort out the mess in the box and organize it into a sound accounting system like QuickBooks Online for a lot less than you will pay your accountant. Plus, the cloud bookkeeping solution offers tremendous time savings and makes the bookkeeping process seamless.

Shoebox accounting can cost you your business. Ditch the shoebox and start out with a sound accounting system like QuickBooks Online.

Secret #2: What you don't know about mixing everyday personal spending with your business will shock you

One of the biggest mistakes that business owners make is mixing up their personal finances with their business finances. Doing this is like waving an "AUDIT ME" sign at the IRS. Not good!

By keeping business and personal accounts separate, you confirm to the IRS that you are running a business, not a hobby, and that your expenses are legitimate business deductions. If the IRS reviews your bank statements and records and sees the commingling, they usually disallow expenses and include deposits as income. Don't be shocked when the IRS adjusts your tax return and assesses a balance due!

Keep your personal finances separate! Not mixing your everyday spending with your business expenses makes it easier to track business income and expenses, take legitimate business deductions, create accurate financial reports, obtain a business loan and file your taxes. Plus, separate records will help you defend an audit, should it happen to you.



Secret #3: Why using spreadsheets as a digital checkbook is costing you money

In 2012, the London Olympics accidentally sold 10,000 more tickets to a synchronized swimming event than it had seats. It seems a member of the staff made a single keystroke error and entered 20,000 instead of 10,000. J.P. Morgan Chase lost over \$2 billion due to a spreadsheet error, which mistake compounded into many more since the miscalculation fed into other calculations. OUCH!

\$59.60	\$865.00	\$233.50
\$348.60	-\$976.90	-\$405.70
\$293.10	-\$862.80	-\$876.80
\$557.70	+\$465.70	-\$205.40
119.00%	-.70%	149.90%
-161.40%	111.00%	121.30%
51.50%	39.90%	51.20%

Spreadsheets are a great tool for keeping track of your data, as long as nothing goes wrong. But with spreadsheets, something ALWAYS goes wrong. If you' a regular spreadsheet user, then you know how malicious and elusive those mistakes can be. If you make a mistake and copy a formula incorrectly, your spreadsheet won't stop you and say: "Hey! Are you sure about that?!?!" Nope. That error may stay there a long time – until you suddenly realize that there's a mistake SOMEWHERE in a formula. One of the toughest problems isn't noticeable until it's already a mess: lack of integrity of your spreadsheets.

So, you stop everything and try to fix it. You're wasting your time and your data is screwed up. This happens all the time because you need to manually add and change data in multiple places since Excel isn't the central hub for your accounting system. What a waste of productivity!

There are many everyday trials in your business that you can't control, but your accounting system should not be one of them!

Secret #4: What Everybody Else Does When It Comes to bookkeeping tasks and What You Should Do Differently

Most business owners fall way behind in their bookkeeping tasks, like not recording transactions in real-time, which inevitably leads to missing transactions altogether. They believe they don't have time to do all this stuff and/or believe it's not important (or, they say to themselves: "I will remember to do it later." Yeah, sure!) With the day-to-day issues of running a business, it's easy to fixate on the short term urgent things that are vying for your attention all day long, and completely forget about important things you need to do over the longer term. Even though they know it is important, they keep procrastinating.



It's not lack of time that keeps them behind, it's the lack of making time. They don't have the drive or discipline to work on the tasks that need to be done – stuff that isn't fun and is easy to defer until later. When pressed on this point, most business owners admit that they feel it's a waste of their time to do bookkeeping and paperwork! This is a recipe for financial disaster because mistakes – sometimes very expensive mistakes – can go unnoticed for months if your records are not regularly checked for accuracy. Suddenly, one missed transaction results in a tangled web of accounting errors, leading to even bigger problems – like inaccurate reports, unexpected cash shortages, or even an unwelcome letter from the IRS.

The “books” are the most powerful level of control that you can ever have about your business. If your books are mess, then you're flying blind. And trust me, when it comes to your business, ignorance is NOT bliss! Your books show you if the company is making a profit, and they'll reveal the almost imperceptible hints of failure months before actual catastrophe strikes.

Make it a priority to do your books and organize receipts at a predetermined interval and *do not fall behind*. As much of a headache as bookkeeping tasks may be, you must set aside some time to tackle them. Do your books in real-time or as close to it as possible. By doing more with your finances every day or at minimum weekly, you will have more insights into your business; you'll have the ability to make more informed business decisions, and have everything organized when tax time arrives.

Many businesses collapse due to poor or non-existent accounting information. Don't become another “road kill statistic” on the business failure highway!

Secret #5: The hidden, wasted costs of improper bookkeeping your accountant or bookkeeper hasn't told you about

Imagine this: You're going on a trip to Australia this year. You don't have a travel plan – one morning you'll get up and go. You're going to wing it. You're just going to travel until the cash runs out. Hopefully you won't leave yourself stranded a dust storm in the outback (yes, they have major dust storms in Australia!) Then, next year (if you survive), you'll compile a report of all your travel expenses to see how you fared. Sound like a good idea? Well, that's how your accountant treats you at tax time – usually a year after the fact. And by then, it's just too late. Cash flow problems will kill businesses quicker than a speeding bullet. According to a study by U.S. Bank, 82 percent of business failures are due to poor cash management. Cash flow isn't intuitive. Don't try to do it in your head. Making sales doesn't necessarily mean you have more money, and incurring the expense doesn't necessarily mean you have less money.

One of the biggest disadvantages facing most business owners is not understanding their own financial health. Without formal training and education, there is no sure way to master this skill. Unfortunately, some accountants and bookkeepers don't help the situation. They don't consider it part of responsibility to their clients to keep them fully informed about the financial performance and status of their businesses. It seems that some bookkeepers and accountants would rather keep the owner in the dark due to some idiotic way of maintaining job security.

Just like the “blood work report” you get from your doctor, your financial statements show you the financial health of your business – including profitability, liquidity, and cash flow – all critical indicators that let you know and understand the health of your business. The most objective way to assess your business health is by reading the financial statements – and knowing how to interpret them! As the saying goes, “the numbers don't lie.” Numbers can indicate prosperity or poverty, but they can also show the first signs of trouble within a business.

If you're not confident about your understanding of your finances, and your accountant or bookkeeper isn't working with you to maximize your knowledge of your business, find someone else! You absolutely must have an accountant or a bookkeeper who is willing and able to explain your financial statements to you in a way you can understand. Better yet, have them teach you how to use the reports in your accounting program so you can get information for yourself – on demand.

Secret #6: The one thing you should never do with your financial records that almost all business owners do

Most business owners just toss those accountant reports in a drawer and never look at them again. And they never dig them out to study them because they don't really know how to interpret them! But, now that you know how to access your reports (see above), it's time to take action!

These reports give you a measurement of how your business is doing and the critical information you need to make proactive business decisions. Consistent review of these reports will also help identify fraud and financial chicanery before it's too late.

Here are seven very important financial reports that will never ever fail you (assuming, of course, that they are accurate!):

Balance Sheet

This is a "snapshot" of the financial health of your business. I suggest you run this report comparing your company's current status to prior periods. You should know why the major line-item accounts changed from prior periods. Dig deeper for more detail, as needed. This report represents what the business owns (Assets) and what it owes (Liabilities) and what your Equity is (cumulative net profit/loss and initial investment in business). The balance sheet acts as your report card for the business as of a particular date. You should always be able to know what makes up each Balance Sheet account. That is your job as the business owner. No excuses!

Profit & Loss (Income Statement)

Basically, this report tries to measure whether the products or services that you provide are profitable when everything is added up. Again, I find a month to month comparison for the period to date is extremely beneficial to see averages, trends, fluctuations, and



gaps. Remember, the Profit & Loss statement measures profitability – not cash flow.

Review Updated Budget to the Real Numbers

(Although they tend to go stale soon after they are produced, it's a good reference point on what was decided and may help refine future budgeting). Budgets are used to forecast revenues and expenses to help determine how your business will achieve both short term and long-term goals. Budgeting estimates revenues, plans expenditures, and restricts spending that is not part of the plan. For example, budgeting dollars for marketing may help

to increase product sales. Look at where your business is today compared to your goals. What areas need to be adjusted? In what areas are you falling behind or over budget?

Receivable Aging Report

An accounts receivable aging report lists unpaid customer invoices and unused credit memos by date ranges. The aging report is the primary tool used to determine which invoices are overdue for payment. Does the report look accurate? Question any amounts showing as 90 days or older. These outstanding invoices are a serious threat to your cash flow. The more efficient you are in completing a project or service and following up on collections, the healthier your profitability and cash flow will be. Now is the time to develop a plan to collect these receivables.

Payable Aging Report

An accounts payable aging report shows you the amounts you owe to other companies for supplies, inventory and services you receive and how fast you are making payments. Any balance on the company's credit card is usually included in accounts payable. Again, does the report look accurate? Are there any items shown that you're not sure about? Are all expenditures approved and authorized? Question any amounts showing unpaid for 30 days or older. A business that consistently pays late will find it has trouble getting a bank loan, an increase in credit from a vendor, or even a bank loan. Now is the time to set a policy to pay vendors in 30 days or less (or set up a payment plan with them). The success of your business most likely depends on good relationships with your vendors.

Cash Flow Forecasts

(An estimate of future funds received or disbursed over a specified period of time – usually the next 12 months (6 months at a minimum): The cash flow statement shows the cash moving into the business (called inflows), and the cash moving out of the business (the outflows). This isn't limited to just sales and expenses, but rather ALL forms of cash, including bank loans, equity infusions, loan repayments, dividends, owner bonuses, etc. Just because your business shows a profit in a given period doesn't mean it will have the cash to pay its bills. A profit forecast is always an estimate – and you can't spend estimates.

The Power Ratios

Ratios are definitely the windows into a business's financial statements. They offer a quick shortcut to understanding what the financials are saying, no matter whether the company is a start-up, a small growing company, a struggling midsize business, or a large, publicly held company. One ratio you may have heard of is the debt-to-equity ratio. Bankers



and other lenders examine them to give an idea of whether a company will be able to pay back a loan. And let's face it, bankers hate surprises!

The most common types of ratios used by analysts are:

- Profitability Ratios
- Leverage Ratios
- Liquidity Ratios
- Efficiency Ratios

Some companies create their own key ratios to measure performance for specific things. Which ratios are most important to your business? Think about the numbers that keep you up at night and any others that tell you about the critical aspects of your business.

I suggest you work with your bookkeeper or accountant to develop a set of ratios that are best suited to measure the performance of your business, and review them together on a regular basis.

Secret #7: Why using QuickBooks (or any other accounting software) does not make you a bookkeeper

Many business owners today fall victim to those “do-it-yourself” bookkeeping advertisements that lure you into believing that you can turn this significant responsibility over to the lowest online bidder – somewhere overseas, like a 3-hour-per-week temp who barely speaks English, or a \$12 an hour administrative employee.



This is certainly a myth. Bookkeeping is difficult. That's why there are bookkeeping exams. That's why there are professional testing organizations such as the American Institute for Professional Bookkeepers (AIPB) and the Institute of Certified Bookkeepers (ICB USA).

To succeed with QuickBooks Online, you (or someone on your team) absolutely needs to have a solid grasp of bookkeeping. Otherwise, you may quickly offer up a comment such as this one I recently saw on Twitter – “It's a bookkeeping day. I didn't do any of 2016. And I got to use Quickbooks, which I don't understand. Let's hope I don't poke my eyes out!”

Like any other tool, when used correctly, QuickBooks Online and 3rd party Apps provide an incredibly hearty accounting system for many small businesses. There is a tremendous amount of functionality and efficiency in its use. However, when used incorrectly, bad things can happen to good businesses, and boy, can they happen fast!

Get professional direction to set up QuickBooks Online. The dividends will be huge during the life of your business. If it's already been set up, then get a tune-up to ensure it's been done correctly. The adage “pay now or really pay more later” applies here – the costs to fix chronic bookkeeping errors can wreak havoc with your budget and your business.

Secret #8: Two Undeniable Truths about cloud accounting software that no one is telling you

FIRST UNDENIABLE TRUTH

Are you a QuickBooks Pro or other desktop accounting program user? I find that desktop clients are really tied to the software that must be upgraded every two- or three-years or they will lose support and access to other software features. A lot of them do the work themselves, or have family members doing the work, and they don't have an accounting background! At the end of the year they send the numbers to their accountant — but they don't make any sense! It takes a goodly amount of the accountant's time fixing the numbers and getting them in working order to complete the end-of-year work for tax preparations.

I've also seen where the accountant is supposed to "log-in" to the business owner's computer to fix and update the desktop software (of course it must be out of office hours and the business owner's computer has to be left on) and it never gets done! Accountants get busy too, and bookkeeping and understanding the QuickBooks software is not a priority for them. If the business owner had QuickBooks Online and a ProAdvisor bookkeeper, they would share the data in real time and the accounting records would be corrected in real time, therefore eliminating the accounting Gordian Knot at the end of the year. By sharing the same data, true collaboration can occur, and the QuickBooks ProAdvisor can help with valuable business insights that would improve their business throughout the year.

SECOND UNDENIABLE TRUTH

With QuickBooks Online, you get solid, built-in security from the beginning. When you sign up for a locally installed software like QuickBooks Pro, you are in charge of keeping your data secure. This means that there is no built-in security. Most business owners don't make backups properly, they don't protect their data, they don't ensure that they will continue to have access to important information, and they don't protect their online activities. Also, can you trust that the accountant office logging into your computer has all the necessary safeguards in place at their end?

The fact remains that accounting records are more secure with QuickBooks Online and Online Document Storage. Cloud accounting and storage providers must make a significant investment to protect the data and maintain all the pertinent security audits that would be way too costly for a small business owner to keep up with on their own. For most people, the convenience of security that is taken care of for you outweighs the extra security steps locally-installed software requires.

Secret #9: Concealed QuickBooks Online features almost no one uses that can put extra cash in your pocket fast!

As I mentioned before, cash flow is the life blood of any business. So, the faster you can get paid, the healthier your business. QuickBooks Online recently announced five new innovations to help you get paid fast and save as much of the money you've earned as quickly as possible:



1. An integration with Apple Pay that enables merchants to get paid quickly and easily on outstanding invoices via the newly launched Apple Pay on the Web;
2. An integration with American Express Working Capital Terms, which provides short-term loans directly within QuickBooks Online; and
3. Mileage Tracker, which finds users \$7,000 in tax deductions by auto-categorizing trips as personal or business.
4. A new Smart Invoice feature notifies you immediately of the status of your invoices as they're updated. Without opening the invoice, you'll know if customers have received, viewed, paid, and when the deposit is expected. Plus, you'll know which fees are associated with a given invoice. As part of the QB Payments update, ACH fees have been eliminated. Now, there will no longer be a 50-cent-per-transaction fee. ACH payments are FREE!
5. QuickBooks invoices now connect with the Google Calendar App. Pull event details and descriptions from Google Calendar into your QuickBooks invoice. No need to spend time searching for the events you need to invoice for. It's right there. A few clicks and your invoice is sent!

Secret #10: The biggest bookkeeping mistake most business owners make that can cost them hundreds or thousands of dollars a year in needlessly wasted money and worry

Failing to plan! Taxes are most often the biggest expense faced by a business owner. As a business owner, you have two ways to put cash in your bank account: selling more or spending less. Since taxes are the biggest expense, it makes sense to have a good tax plan. And that plan starts with an accurate set of books so you can claim all your allowable expenses and not miss any taxable income.



Did you know that the IRS can charge you a penalty if your records aren't accurate, complete and readable? You might have to pay interest and penalties if your figures turn out to be wrong and you haven't paid enough tax. With an accurate, reliable and efficient accounting system, you can sleep at night knowing your financial records comply with the IRS requirements and that your tax planner has up-to date and complete financial reports.

So, what does an accurate, reliable and efficient accounting system look like? There are three inter-connected and integral components which comprise your entire accounting system:

- **Recordkeeping** - the maintenance of a history of your business activities, by entering data in ledgers or journals, putting documents in files, organizing receipts, etc.
- **Bookkeeping** - the work or skill of keeping and maintaining account books or systematic records of money transactions (distinguished from accounting). This means you understand how to correctly record transactions into your accounts so they reflect accurate financial information when it's time to prepare your reports.
- **Accounting** - It is the art of analyzing the financial position and operating results of a business from a study of its sales, purchases, overhead, inventory, capital assets, liabilities, equity, cash flow, etc.

The result of building and maintaining this system allows you to understand exactly what is happening in your business at any time from a financial perspective and provides the financial knowledge you need to plan and run your business effectively.

Conclusion

Most entrepreneurs thrive on a “do-it-yourself” mentality. With user-friendly QuickBooks, business owners feel they should be able to keep their records on their own, although they inevitably struggle with finding the time and wonder if they are doing things right.

From the get-go, your accounting software, systems and processes need to be set up correctly to operate accurately and effectively.

Small business owners should budget up to 8-10 hours a month to do their recordkeeping, bookkeeping and accounting with another 2 or 3 hours analyzing the data and making decisions for their business based on the numbers.

If you are spending more time on these tasks, question whether you are doing it right, or you just hate doing them, then it’s probably time to hire a bookkeeper.

But not all bookkeepers are alike. Many bookkeepers will not look at your business from your (the business owner) perspective. They may not track and pay bills as aggressively as you. It is important that you stay in touch with the numbers of the business and not just delegate to a bookkeeper. The bookkeeper should work with you like a partner in your business. You, the business owner, must continue to watch every penny that is going out and coming into the business. Ideally, the Business Owner and Bookkeeper work as a team. Together you should go through all the data, understanding what it means to your business, and execute strategy based on financial analysis and planning.

Furthermore, many bookkeepers only do data entry (which is really “record keeping”) and will not be able to translate those numbers into actionable items for your business. The CPA is generally not going to do that either. Most CPA’s know taxes, tax law and tax code, and general accepted accounting principles. They can explain how a balance sheet works and why it is important but most won’t tell you what your balance sheet should look like compared to a healthy company in your industry.

How can I find out more about building my entire accounting system?

Susan Jane Kirkpatrick is the founder of Bookkeeping21 a business management accounting and consulting company devoted to helping entrepreneurs understand what is going on in their business from a financial perspective. Susan utilizes her previous experience as entrepreneur, realtor, business owner and executive administrator along with her accounting, finance, and management expertise to assist entrepreneurs in assembling accurate business data and teaching them how to analyze the data so they make educated decisions and gain tighter control of their business. She offers financial systems and training and delivers guidance in business acumen, executive leadership, and entrepreneurial skill sets. Susan is a certified bookkeeper with the American Institute of Professional Bookkeepers, a certified QuickBooks ProAdvisor specializing in cloud bookkeeping solutions and a certified Professional Coach.

Whether you want to fully delegate your bookkeeping and accounting tasks or simply want to learn how to manage your finances on your own, Susan wants to work with you to find your perfect solution.

Depending on which solution you select, Bookkeeping21 turns your business transactions into meaningful information you can use to manage and grow your business.

Schedule a Complimentary Discovery Session with Susan. During the call, she'll help you define the challenges you are experiencing around your business, your accounting systems and what type of support you are seeking. Plus, she'll even give you some tips you can use right away! Then, together you'll decide if you and Bookkeeping21 are "good fit" for working as a team.

Call: 855-255-2121

Email: clientcare@bookkeeping21.com

Book Online: www.Bookkeeping21.com

book.21
keeping

Bookkeeping21

7077 Crittenden Rd

Suffolk, VA 23432

855-255-2121 (Toll Free)

clientcare@bookkeeping21.com