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National Disability Institute
Bookkeeping 101
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>> LEXI JONES: Welcome, everybody. We'll give folks a moment to get settled.

(Pause)

Thank you for joining us today. We'll give about a minute for people to log in and get their audio going and then we'll get started.

(Pause)

>> LEXI JONES: Thank you for joining us today for bookkeeping basics with Catherine Wright. We'll do a little bit of housekeeping. On the screen and in the chat you'll see a disclaimer from NDI. It will also be available on the slides when you receive them so you're welcome to read that when you have time.

ASL interpretation. ASL interpretation is available for this webinar. Two interpreters will alternate throughout the event. If you need interpreters, click interpretation on the bottom menu and select American Sign Language.

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How to ask questions.

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Please note this webinar is being recorded and the video, slides, and materials will be available on the past event page at disabilitysmallbusiness.org in one to two weeks. You will receive an email following the webinar tomorrow that gives you the link to access the materials.

A little bit about the NDI Small Business Hub before we get started. What does NDI Small Business Hub do?

Our self-employment ventures, 21st Century strategies for entrepreneurs with disabilities project is a five-year grant funding program that began October 1st, 2024.

And we support the following through this grant. State vocational rehabilitation agencies, updating their policies on small business start-up and development.

State vocational rehabilitation counselors seeking training and confidence in supporting self-employment.

Disability employment services providers expanding their support of self-employment.

Entrepreneurial support organizations adopting practices to support individuals with disabilities.

And lastly, entrepreneurs with disabilities themselves at any stage of business development.

We are also a national partner with Verizon small business digital ready. With VSDBR you can learn through on-demand videos, tools and courses on marketing, legal, financial, operations, and trending topics. The videos are available in English, Spanish, and Chinese subtitles.

You can build community and network through the platform for interactive sessions, for goal sharing and feedback and through live expert workshops.

And maybe the most exciting piece is that you can find funding through the Verizon platform. You'll have access to $10,000 grant opportunities after registering and completing at least two classes or live sessions.

The register link is on the slide, so when you receive the slides, you'll be able to click it and get signed up.

And then a few other things that we have to offer from NDI Small Business Hub.

If you are a business owner or an aspiring entrepreneur with a disability looking to start, build, or grow your business, you can visit disabilitysmallbusiness.org for events and resources.

You can also stream informational and motivational video content for disability-owned small businesses at DisabilityOwned.com.

You can join our mailing list and again the link is in the slides that you will receive. And if you have any questions or concerns, you can always email us at info@disabilitysmallbusiness.org.

A few upcoming events to mention. Our September webinar will take place on Wednesday, September 16th from 2:00 to 3:30 p.m. and it will be a fundraising fundamentals with Ceemo presented by Heather from Ceemo.AI.

And we would love it if you would save the date for our disability owned convening presented by NDI Small Business Hub. The event will take place this year on October 21st and 22nd from 12:30 to 5:00 p.m. eastern each day and registration will open soon. Please register for our mailing list and you'll get all the information about our meeting when it comes out.

And you can visit disabilitysmallbusiness.org before we get started.

A disclaimer for our funder that I will read aloud for everyone.

The contents of this webinar were developed under grant H421 F240198 from the U.S. Department of Education, department. The department does not mandate or prescribe practices, models, or other activities described or discussed in this document. The contents of this webinar may contain examples of, adaptations of, links to resources created or maintained by another public or private organization. The department does not control or guarantee the accuracy, relevance, timeliness or completeness of this outside information. The content of this webinar does not necessarily represent the policy of the department. This publication is not intended to represent the views or policy of or be an endorsement of any views expressed or materials of any other agency.

And now I'm pleased to kick off our webinar for today, which is Bookkeeping 101, simple bookkeeping basics with Catherine Wright. Wright Way Tax Solutions.

Catherine, take us away.

>> CATHERINE WRIGHT: Hello, everyone. My name is Catherine Wright and I'm so glad to be with you today. This is a topic that I think a lot of business owners have a lot of interest in and sometimes can cause stress.

So today it is my goal to help you learn how to develop a simple bookkeeping system that will help you track your business income and help you track your business expenses, and also help you to make important business decisions.

So with this workshop, we're going to be following Maya's cleaning service from setup to capturing transactions to organizing financial documentation to reviewing reports and making decisions.

So before we get started, I am an enrolled agent. I am licensed to practice taxation by the Federal Government. And this simple bookkeeping practice workshop is something that I see that a lot of small business owners, they don't have set up. So hopefully I'll be able to help you with what I teach you today.

Okay. So here are our learning objectives for today. We're going to be able to choose a bookkeeping system, track income and expenses, organize our business receipts and records, complete a monthly review, and read a basic profit and loss report.

This workshop is going to be about practical habits, not becoming an accountant. So most entrepreneurs, they want to know if their business is profitable and how much they spend on business expenses. So this information is important because it helps you to understand the financial health of your business and it helps you to make key financial decisions that you -- that you need to make for your business.

So here's today's roadmap. Every transaction should move through these five steps which we're going to discuss. The monthly routine that we will discuss later in the workshop will bring you the -- will bring all these processes together.

So here is the workshop. I mean the roadmap.

First we have the setup. You're going to choose a system that will help you keep your personal finances separate from your business finances.

Capture. We're going to have a system in place that will allow you to record the details of money coming into your business and money leaving out of your business.

Organize. Going to implement a system that will allow you to save your receipts and your business documents.

Four, review. We're going to make sure that you reconcile your accounts and monitor your reports on a regular basis.

And then five is use. Finally, you're going to want to use your bookkeeping system to help you price your goods or services, plan your next financial move, prepare for your taxes, make investments, and any other financial decisions that you may have.

So bookkeeping is a repeatable process that Maya can be using every month and not a once-a-year emergency.

So let me introduce you to Maya. She's the owner of Maya's Cleaning Service. We're going to take a look at some of the problems that she is facing as she's trying to manage her business finances.

And as I read some of these problems, just think to yourself if you can relate to any of these things that she's going through.

So let us use Maya's cleaning service as an example on how to set up a bookkeeping system that actually works. So right now Maya has cash -- she receives cash and she also received payments through apps like maybe Cash App. But they're not always recorded.

She purchases her supplies on her personal and business cards. She has receipts all over the place, they're in her car, they're in her purse, they're in her emails. And she checks her bank balances but she does not know her profit. She only knows what's in her bank.

So some of us can probably relate to this or could relate to this at one point in our journey of entrepreneurship.

So let's start with setting up the foundation. The best and most ideal situation is to set up your bookkeeping system before you record your first transaction. So if you have not yet set up a bookkeeping system, you're in a perfect place to get things started.

If you've already set up your bookkeeping system, that's okay, you're going to start where you are and then clean up areas that may need reorganizing.

So I want to talk about keeping your business and personal money separate. That is very important. It's extremely important.

I cannot stress this enough. Having separation keeps your business records clean and it helps you to organize your records easily.

It can -- it can be time consuming if you don't have these separations. So if you have your business mixed in your personal, that can take a lot of time to try to get your business finances organized.

It's called commingling, and you don't want to do that. It could create organization problems and sometimes it can create legal problems.

If you commingle your business and personal transactions using the same bank account and credit card accounts, you don't want to do that. You want to separate those things out. And we're going to talk more about that.

Sometimes you may make owner contributions, you may take draws out of your business. You may transfer monies between business accounts or you may have loan proceeds that are deposited into your bank account.

You have to make sure when you're setting up your bookkeeping system or your accounting system that these transactions are clearly identified.

So let's just take a look at the slide. For your business bank account, that's where you want to deposit your customer payments and pay costs from one place. Even if you have more than one business account, you just want to make sure that all of the transactions are business related and not personal.

Two, you have your business credit cards and debit cards. You want to use your business credit cards and debit cards for business purchases only.

Three, your owner activity. You need to track what you're doing for your business to help. So if you're investing money into your business, you want to make sure that you're recording that. And when you take money out of your business, you want to make sure that you are recording that also.

So if you're transferring money into an account, that does not automatically count as an income or an expense. It could just be that you transferred money.

So you want to make sure that when you set your bookkeeping system up that you're tracking these things in addition to your business income and your business expenses.

Maya has decided to set up a one business bank account, one business credit card, and she will begin to track her owner contributions and owner draws using a bookkeeping system.

So you want to choose the simplest system to help you maintain your books. So here are two common bookkeeping systems. You have of course your spreadsheets. And then you have accounting software.

I'm more of a proponent for using accounting software, and you'll see why as we go through the pros and cons.

So let's talk about the pros of using a spreadsheet for bookkeeping.

First, it can be low-cost or free.

Second, it's easy to set up for a small business.

Third, it's flexible. You can create categories that fit the business. It's helpful for businesses that only have a very few transactions.

It's easy to see how income, your expenses and profits are being calculated. And it can also be shared with your tax preparer, your bookkeeper, your accountant, CPA.

And you do not require -- it does not require a long -- does not require a learning -- you know, a learning curve on how to use the spreadsheet where you do have a learning curve with software.

So let's talk about some of the cons of using the spreadsheet. Your transactions must be entered manually. So that means that you have to enter all of your transactions one by one yourself.

Formulas can be changed or they can be deleted automatically. I mean, accidentally.

So you know, if you know how to set up your formulas and your spreadsheets, you know, something happens, those formulas may get lost and then you have to redo it.

It's also easy to enter the same transaction twice or leave one out. So by, you know, us being human, and sometimes we may miss a transaction or we may record a transaction more than one time and we may not catch it.

Your bank accounts, they won't be able to be automatically reconciled, so that's something you'll have to do manually also. We'll talk more about that later.

Your receipts, they can be attached to a spreadsheet, but you won't be able to attach them to a specific transaction. So some people like to attach receipts and invoices to specific transactions.

With a spreadsheet, it would just go and be attached to the entire spreadsheet.

Reports may be limited unless you know how to design your spreadsheet correctly.

It can be harder to manage a business using spreadsheet as it grows. So you know, if you're a small business it may be a little easier. But as your business grows, that's a lot of manual entries and manual tracking of data and it will become time consuming a lot of times once your business starts growing and you have more transactions that you need to track.

Multiple versions of the spreadsheet can come -- can create confusion. So a lot of times when they're doing upgrades to Excel or whatever spreadsheet you're using, it can start confusing for you.

And this is important. It may not clearly track your unpaid customer invoices, bills, loans, assets, or your owner's activity.

Who is a spreadsheet a best fit for?

A spreadsheet may work well for a new business with a small number of transactions that only has one bank account, no employees or inventory to track, and an owner who's going to update it on a consistent basis.

For Maya's cleaning service, a spreadsheet could work at the beginning maybe, but she should consider accounting software as the customers grow, as she starts accepting different types of payments, and as her financial transactions increase.

Which will lead us into the pros of using an accounting software. With the accounting software, it can connect directly to your bank and credit card accounts and import those transactions automatically for you so that you don't have to manually type them in.

And depending on the software you use, most of the softwares now, once they get to know how you categorize your transactions, they can automatically categorize them also.

The accounting software can help you organize your income and expenses into categories.

You could also attach your receipts and invoices or any backup documentation to a specific transaction. It can help you produce reports on demand such as profit and loss statements and balance sheets. As long as the transactions are in there, it's easy to manipulate the dates and get instant reports.

Using a software can help make the bank reconciliation process so much easier than doing it by hand.

It also makes it easier to track your customers' unpaid invoices and any bills that you may not have paid.

And the good thing about an accounting system is it will grow with the business. It makes it easier also to share your records with your bookkeeper or your tax professional. So a lot of times the only thing you have to do is just invite them to your accounting system and they will set up their own login, their own password, and they can have access to your books.

Of course as with everything, there are some cons. And here are a few cons.

It usually requires a monthly or annual subscription. Now they do have free subscriptions, but sometimes if you wanted to do little bit more -- if you need more features, they may charge you a fee.

Your bank imports can be duplicated or incorrect transactions can come over. Your automatic categorizations can go wrong.

It still will require you to review and make corrections when needed. If you don't set up your accounting software properly, it can cause your reports to be inaccurate.

Some features may be unnecessary. You may not even need them for your small business.

Internet access may be required. Switching software later can be difficult sometimes.

And business owners, because it's so automated, they can become too heavily reliant on automatization and stop reviewing the books.

Accounting software is a good fit when a business has many monthly transactions, if they have more than one bank or credit card account, or they just love the automation feature of importing transactions.

You can -- if you need it to track your customer invoices and unpaid bills, if you have employees or contractors, if you accept several methods of payment and you plan to grow.

So those are some of the pros and cons of an accounting software. So for Maya's Cleaning Service, she's going to choose to use a software because she knows her business is going to grow. She's going to add more customers. She's going to add workers. She's going to accept payments from different apps. And she's going to have some recurring expenses.

So you want it -- you can start simple, but whatever system that you choose, you want to choose a system that can produce complete, accurate records.

Okay. The next thing we want to talk about, so Maya's going to do her accounting software. The next thing that we want to talk about is capturing your every transaction.

We want to create categories. Categories is chart of accounts.

If you hear the term chart of accounts, it simply just means the name of a category. Your chart of accounts should help support you during tax preparation. Your chart of accounts should be a list of categories that summarizes the financial transactions and we'll take a look at some of the chart of accounts that Maya has set up to use in her cleaning business.

So the money that she takes in for her services, she's created these chart of accounts. She's going to call one cleaning revenue. She has one for tips. And one for other business income.

And you can name your chart of accounts whatever you want to name your chart of accounts so that you understand how to read your reports.

For direct costs she has cleaning supplies, contract labor, and job specific material.

For her operating costs she created chart of accounts for advertising, insurance, phone and software, vehicle and travel, her professional fees, and she also created a chart of accounts, even though these are not going to be on her profit and loss statement, but she has to create -- has to track her owner activity.

She's creating chart of accounts for owner contributions, her owner draws, her loan proceeds, and her loan principal.

So those will show up not on the profit and loss statement, but they will show up on the balance sheet.

Now that Maya has her bookkeeping set up and she's using accounting software, she has her chart of accounts, she can now begin to record her financial transactions.

This will help tell the story of where the money came from and where it went.

So let's help Maya track her income. She's going to have gross receipts. And gross receipts are simply the money that you receive from your sales from services or sales from products before any expenses.

That can include payments received from different channels. And with today's technology there are several ways to accept money for your business.

Of course we still have cash. We also have credit cards. We have electronic payments like Zelle, Cash App, Venmo, et cetera. And we have ACH if you're using your accounting software.

But if you're going to be using these electronic payments, the one thing you need to keep in mind is that there will be a fee associated with accepting these payments. At least for most of them.

So make sure you review your user agreements so that you can see how much you will be charged if you accept an electronic payment.

I also strongly suggest that you issue invoices and/or receipts for all sales that you make. It's important to know who paid you for your services or your sale, who your customer is, and how did they pay you. And most importantly, did they payment actually reach your business bank account.

If you accept cash, it is still considered income, even if you do not deposit the cash into the bank. You still have to account for cash that your clients pay you.

If you are a business that receives 1099s, keep in mind everybody may not issue you a 1099. I know in my business some people issue me 1099s and some do not. Regardless if I get a 1099 or not, you still are required to capture all of your income.

So not receiving a 1099 is not an excuse not to report the income in your bookkeeping system or on your tax return.

So cash counts, even if it never reaches the bank.

Some people collect cash and they just keep the cash. They don't deposit it. But it still counts because you made that sale. And that's why it's important to give everyone a receipt or invoice so you can keep track of your sales.

So as we talked earlier, talked about earlier, Maya has many receipts. Some are business related and some are personal.

So there are two tests that must be met to determine if an expense has a business purpose. And that test -- those tests are the necessary test and the ordinary test.

An ordinary and necessary business expense is a cost that is appropriate for operating the business. Ordinary means the expense is common and generally accepted in your type of business.

Necessary means that the expense is helpful and appropriate for your type of business. And it does not absolutely have to be required. It just has to be helpful and appropriate.

For Maya's cleaning service, cleaning supplies would be an ordinary expense. Because cleaning companies commonly use cleaning supplies in their business and it's an accepted practice.

And they help Maya to perform her customer jobs.

A personal purchase is not deductible just because it came out of the business account. The expense has to meet the ordinary and necessary business test in order to be considered a bona fide business expense.

The expense must have a legitimate business purpose and any personal portion should be separated. And when -- if you're paying a business -- a personal expense out of your business account, that is considered as the owner taking a draw.

So let's look at three receipts that Maya has, and let's see if it's an expense, a business expense or if it's personal.

So on June 3rd, she paid cleaning company $86.42 for supplies. And her business purpose was she uses those products on her clients' jobs. And she also has the receipt.

So it is -- it meets the test. It is an ordinary and necessary expense.

On June 5th she went to Fuel Stop and she paid $52.10 and her category is vehicle. Her chart of accounts would be vehicle. And the business purpose was that she got that gas while she was traveling between client locations.

She also has the receipt, so it does meet the ordinary and necessary expense -- I mean test, so it is a bona fide business expense.

On June 8th, she went to the supermarket and spent $64.75. It was not business related, it was personal.

She does have the receipt, however, it does not meet the business ordinary and necessary test, so she's going to count that receipt as an owner's draw, even though it was deducted from her business bank account.

So let's just do a little brief practice so that you can see how everything works.

So we have a customer paid her by Zelle $225. That is going to be considered income.

Maya, she transferred $500 from her personal savings account into her business account because her business needed some extra funds.

That's going to be treated as an owner contribution.

She paid $35 for a monthly customer management software that she uses to manage her customers. That is an ordinary and necessary expense so that will be treated as a business expense.

She made an ATM cash withdrawal of $200. She doesn't know what she did that for, so she needs to do some research to make sure if it was a business expense or if it was personal.

If it was a business expense, she should have the documentation to show what she did with that money. If it was a personal expense, then that ATM withdraw will be treated as an owner's draw.

She got a loan for $8,000 that was deposited into her business account. That should not be counted as income. Loans are not income. They are loans.

And so she's going to record it as a loan and not as a sale.

And then of course she used her business card to buy personal groceries. That will be treated as an owner's draw and not a business expense.

So hopefully this is able to help you to understand how business expenses work.

Now that Maya knows what she has spent her month on, she now needs to organize her receipts so that it backs up each transaction that's entered into her accounting software.

This is a good time to mention that a bank or credit card statement does not substantiate a business expense on its own. You must also have the backup documentation, such as a receipt, invoice, or some other document that connects that transaction to the business.

So sometimes people think that, oh, all I need is my bank statements or all I need is my credit card statements. That's only one piece of the puzzle.

All those documents are going to show is the date that you purchased something, who you purchased it from, and how much you paid.

If you have a deposit, it's just going to -- it's just going to show you how much was deposited and how the deposit came in and what the date was.

Your backup documentation is going to give you more specific information about what happened with that transaction so that you can determine whether or not it was business or -- business related or was it personal or was it an owner's draw, owner's investment or a loan.

So that's why it's important to have your backup documentation in addition to your bank and credit card statements.

Good records connect each number to a document. Keep that in mind.

So I've been talking a lot about supporting documentation and exactly what do I mean by supporting documents.

Supporting documents are records that prove the income and expenses entered into your business's accounting system, the system can be paper, digital, or both as long as the records are complete and retrievable.

If you keep paper documents, it probably will be best to invest in a scanner or find an app that can capture a picture of the document, because over time ink fades and at some point you won't be able to read the paper receipt.

You can upload documents into your computer, into your accounting software, into apps, into the cloud. They have a lot of ways now where you can keep electronic copies of your original receipts and documents.

So let's take a look at the documents that Maya has to support her entries in her bookkeeping system.

So for her sales, she has her invoices that she issued through her accounting software. She has her sales summaries that she probably set up in her accounting software.

She has her payment processor reports that are sent to her. And she also has her deposit slips, if she makes deposits at the bank.

For her expenses, she has copies of her receipts. She has her vendor bills. She's keeping track of her mileage and travel logs. She's keeping track of her contracts that she has. And she also has the copies of her W-9s for her independent contractors that perform work for her business.

For her banking and credit cards, she has her bank statements and her credit card statements. For loans she gets her loan statements and she also has her canceled checks.

Now sometimes canceled checks will be a part of your statement. Some banks, they don't make it a part of your statement so you might have a checkbook that will -- has a carbon copy or if you have online banking you should be able to go online and retrieve a copy of your checks that you write.

Now for her business documentation, she keeps -- she kept a copy of her formation documents, which she first set her business up. All her licenses, her insurance, her payroll, and her tax records.

So these are just an example of some of the things that you need to keep on file for your business documentation, your supporting documentation.

Here are some simple steps when you're organizing your documentation.

One, you want to capture it. So you want to be able to photograph, scan, save the email receipt. Just make sure that you have a copy of your documents.

Two, you want to be able -- you should be able to explain each of these documents. And if necessary, if it's not clear, you want to add the business purpose or the client job.

You can just write right on the receipt or you can, in your accounting software you can make a note. You know, especially if it's something that you think may cause people to question. And then you can attach it to a job or, you know, just make sure you have your notes.

You want to store your documents. So you can use a folder and, you know, on your desk or a folder on the computer or attach it to the software, put it in the cloud and create folders. But you want to make sure that you are storing your folders.

Next, you want to match your receipts or your documents to any transactions that you record in your bookkeeping system.

So if you have a sale, you should be able to have a document that books up that that was a sale. If you paid a business expense, then you should have a document that says that this was what I spent this money on.

So if you do this at the time of the purchase and not months later, it will save you a lot of time.

All right. It's a best practice to create some type of internal control for your accounting system.

Internal controls are the steps a business uses to protect its money. Catch mistakes, and keep the records accurate.

So for Maya's cleaning service, internal controls could include using a separate business bank account, which I advise everyone to do. Don't commingle your business and personal finances.

Saving your receipts for every purchase. Reviewing your bank activity on a regular basis. Reconciling your accounts each month.

Limiting who can access your business account. If for some reason you have to have another person to access your business account, make sure that is a good business decision for you, because you don't want to subject yourself to anything going wrong with that business account and then everything falls on you.

So if you do have to have someone with extra access, you don't give everybody access, you just limit, you know, to who you want to have access to the account.

You're checking your invoices before you pay them. Make sure that your invoices are correct from your vendors.

Maya has set up a schedule to make sure the controls are working. So here is a little routine that you could do on a weekly basis. You can record your transactions and upload your receipts.

On a monthly basis you can reconcile your bank and credit card accounts. We'll be talking about reconciling.

On a quarterly basis, you can review your profit and loss statement, prepare for your taxes, and see if there is any outstanding items such as people owing you money.

And on a yearly basis, you want to close out your books and provide your statements or access to your accounting software or, you know, to your tax preparer or CPA.

What you don't want to do is have the attitude I will fix it at tax time. I'm telling you that is not a good idea and it will cause you a lot of stress.

So if you just come up with a routine that's regular, it will save your -- it will give you more of a peace of mind.

So each month we're going to review the books. A transaction is not finished until the records agree with reality.

So I know I've been talking about reconciliation, so we're going to talk about that now. So now is the time for Maya to start reconciling her accounts. And reconciliation means comparing your bookkeeping records to your bank and credit card statements to make sure everything matches and is accounted for.

So a simple process would be you would have your bank statement or your credit card statement open, it could be on your desk, it could be on your computer, but you need to be able to see the actual document.

And you want to compare each transaction on that statement to what is in your bookkeeping or accounting software.

And as you are making the comparison, you want to check off the transactions that match. What you're going to look for is you're going to look for anything that is missing, anything that may have been duplicated, or anything that may have been recorded for the wrong amount.

And if you find issues in these areas, then you're going make the corrections. So if something was missing, you want to go ahead and add it into your bookkeeping system. If something was duplicated, then you want to delete or get rid of or void whatever was duplicated.

If something was recorded in the bookkeeping system for the wrong amount that's different from your statement, then you just want to correct the amount.

You also want to confirm that the ending balance in your records and your bookkeeping system matches the ending balance on your bank statements or your credit card statements.

Now sometimes there may be some transactions that have not run through your bank statement yet because maybe it happens at the end of the month so it will show up on the next statement. You don't have to check those, but you want to make sure that the bank statement balance is matching your -- your accounting software or your spreadsheet balances.

So here's an easy example. So let's say Maya's bank statements show that she had a $75 cleaning supply purchase. Her accounting records should also show that exact same purchase. If it is missing, she needs to add it. If it was recorded two times, then she needs to delete one of the entries or void it out.

So each transaction should match what's in your accounting system.

So reconciliation is the process of making sure that your transactions and your books agree with the transactions on your bank or credit card statements. Some of the common issues which I've already said was duplicates. You could have duplicates coming in from your bank fees if you're using an accounting software.

Missing your cash activity. So if you're not depositing your cash, you still want to make sure you are accounting for the cash in your accounting system.

Checks recorded but not cleared. That is common, sometimes you write a check and the person hasn't cashed it and, you know, sometimes they never -- they never get cashed. But sometimes you may have a check out there that you're waiting to be cashed. And sometimes you may need to follow up with the person to make sure that they did get the check.

Transfers are not recorded as income if it was just simply money transferred from one account to another or it was you making an investment into your business.

And that your personal charges are not being treated as business expenses.

Okay. So now that Maya has set up her accounting system, she's recorded her transactions, and she has her accounts reconciled, she can now review her profit and loss report and ask herself some key questions.

So she has her gross profit, and we see that we have it at $8,800 on this slide. That is the money that's left over after subtracting the direct costs of providing a product or service from your sales.

So your gross profit is going to be your sales minus your direct costs.

For Maya's Cleaning Service, her direct costs may include cleaning supplies and the labor used for her customer jobs.

The net profit is going to be the money left over after subtracting all of your business expenses from the income.

So net profit is going to show what the business actually earned after paying direct costs and operating expenses such as advertising, insurance, software, professional fees or whatever expenses you may have.

So the simple difference is that gross profits shows whether the work itself is profitable. And in her case she did have a profit. And the net profit shows whether the entire business is profitable.

And in her case, her overall net profit after everything was paid was $3,100, so she did make a profit, and if she wants that profit to increase, then she's going to ask herself some key questions.

Is her revenue growing?

So sometimes, especially if you have accounting software, it's easy for you to compare your current month profit and loss statement to the previous month. Is revenue growing?

Are her costs rising?

Is her gross profit enough to cover the overhead?

Is the profit enough for her to pay herself as an owner and also cover any taxes that she may have?

So each month, you know, she may look at her profit and loss statement and, you know, ask herself these questions.

So here's a simple 60 to 90-minute, you know, depending on how many transactions you may not even need that amount of time to help you stay up to date with your bookkeeping.

So this is what I suggest that you do every month. You want to confirm all your sales and your deposits.

You want to record and categorize all of your expenses.

You want to attach all your receipts and explain any unusual items. Even if you just make a note on the receipt or make a note on the transaction in the accounting software or on your spreadsheet if you're going to be using spreadsheets.

You want to reconcile your bank -- your business bank accounts and your business credit card accounts.

Very important, you want to review unpaid customer invoices and bills. So if people owe you money, you need to follow up on that. If you owe someone money, you need to follow up on that also.

Each month you want to review your profit and loss statements and make sure you have enough cash or enough money to meet your needs.

Also important, you need to set aside money for taxes. And that's where you can work with your CPA, your accountant, tax preparer, bookkeeper, someone that can help you plan for that.

And then you also want to back up your information, make sure you're saving it. If you have accounting software that's normally automatic because it's all in the Internet, if not, you can, you know, make sure you save on your computer or export it to a drive or whatever.

But you want to make sure that you're backing up your data and you're exporting your key reports that you're keeping copies of your reports.

So let's talk about using the numbers. Your bookkeeping becomes valuable when it changes a decision.

So let's look at our bookkeeping and turning it into business decisions.

For pricing, Maya might compare her revenue per job with her direct costs. Her direct costs like supplies, labor, and travel.

For cash, she can plan for taxes rather than spending every deposit. So sometimes just because the money is in the bank, it may not be a good idea just to go spending it all or taking it out for your owner's draw. You want to make sure that you are -- you know, you have a plan in effect.

Okay, here are some simple examples for turning bookkeeping into business decisions. And we're going to use Maya's Cleaning Service for that.

For pricing, Maya sees that she charges $150 for a cleaning job, but her supplies and labor and travel costs cost $125. That leaves her with a gross profit of only $25.

Her decision is she may need to raise her price or reduce the cost of completing the job. This is how you can use your numbers to help you make some decisions.

Looking at her cash, Maya's profit and loss report shows a profit. But her bank balance is low. And that's because all her customers have not paid their invoices.

So now she needs to go and she's decided that she needs to follow up on her unpaid invoices before she spends any more money.

Her customers, she's going to look at her customers. She notices that when she does office cleaning, that brings in more profit than her residential jobs. So she can now make a decision. Is she going to choose to market more to office cleaning jobs or does she need to review her pricing for her residential jobs?

Same thing with expenses. Costs are rising, and she sees that she's paying more, significantly more than she used to pay.

She may need to go to her vendors and compare. She might decide to buy in bulk. Or check whether or not the supplies that she is purchasing are being wasted. And I know every year for myself I do a review, because sometimes I'll sign up for things that I think will help my business. I may have only used it one or two times. But I've been paying them a monthly subscription fee.

So -- or I find a better service that may cost me less money or offer me more benefits. So then I may decide, you know, I don't need this service anymore. And that will leave -- you know, save you some money on spending things, you know, spending money on things that you really don't need.

Hiring. You know, she might decide that she needs more cleaning requests so that she can hire some people. She can review her profit and loss statement and her cash flow to see whether or not she can afford to hire someone, you know, to help her out in the business.

And you know, doing that, that may lead her to say, you know what? I need to bring somebody on, so I may need to adjust my prices.

Growth. Maya -- she wants to add carpet cleaning services. So now she needs to dermal she be able to afford the cost of the new equipment, how much revenue can she expect from adding this new service, and what additional expenses does she need to be prepared for before she makes the expansion to add this new service.

So if you're a person that, you know, some people are okay with their businesses just running with them. They're not looking to expand, it's just, you know, this is their business, this is what they want to do.

But if you are a business owner whose trying to grow your business and you want to bring in more money, at some point there's only so much that one person can handle. And you may need to have help.

So looking at your financials can help you make some important decisions.

So good bookkeeping helps Maya decide what to change, when to spend, whether to hire, and how to grow her business.

So we look at the slide pricing. Does your pricing cover labor, supplies, travel, overhead, and profit?

Customers. Which services or customers are more profitable to you?

What decisions do you need to make there?

Cash. Is the business bringing in enough money to pay upcoming bills and taxes?

And growth. Can you afford to upgrade your technology, your equipment, get help, do more marketing?

A clean set of books gives you, the owner, a choice. It's not always just about a tax return.

So if you need to reset, here is a plan that can help you get things in order and not become overwhelmed if you're just getting started to getting your accounting system set up.

Once you have everything in place, then you can stay on a monthly review routine that we discussed earlier.

So not to overwhelm yourself, take Week 1 and choose your accounting system.

Also, if you are -- if you have not separated your personal and business finances, do that. Open a separate account for your business and have your personal account. Keep things separate.

Second week, gather all your receipts and your invoices and statements and enter them into your accounting system. Whether it be the spreadsheet or the accounting software.

Week 3, reconcile your account each month. And if you have miscategorized any owner contributions or owner draws or loans, make those corrections.

Week 4, you want to review your profit and loss. And once you do that review, ask yourself some key questions and then set yourself on a regular monthly schedule to make sure that you're keeping your accounting system, spreadsheet or accounting software up to date.

So we wanted to keep our system simple, have consistent habits, and make -- that will help us make clear decisions.

So here are a few questions that I did receive in advance that I would like to address. And I know that you all are going to have some questions that you want me to answer also.

So the first question that I was sent was when you receive mail from clients, do you input the date received or the date on the check?

And I say always use the date that you actually receive the check, because that is the true date for your bookkeeping purposes. You know, sometimes people can write a day on the check and they don't put it in the mail until two or three weeks later. So you want to use the date that you actually receive the payment.

Do you have any recommendations for free, cheap, online tools to track spending and income for a small business?

Now there is a free accounting software for small business, people seem to like it, it's called Found, f-o-u-n-d. You can go to www.found.com and they have a free accounting software that you can use. And that's really good. It can also help you figure taxes. You can import your statements from your business bank account. So it's really good. It's a really nice system.

Now this next question, this is for entrepreneurs, so I'm going to address this very briefly. But how to organize for reporting requirements for 501(c)(3).

So we're not discussing nonprofit accounting in this workshop. However, what I will tell you is that you need to track at least these three categories. Your general and administrative expenses. Your program expenses. And your fundraising expenses.

So I'll just leave that at that.

Okay. And the last one I wanted to answer that came to me was is recordkeeping different for business owners that make or sell products sporadically with disability benefits?

No. There is no difference when it comes to bookkeeping. You want to track your income from your business and you want to track your expenses for your business.

Okay. And that was all of the questions I was going to answer in advance, so if there's any other questions.

>> KOCHELL RICKLEFS: Catherine, this is Kochell from NDI. I do have some Q&A questions up. I'll just go through them with you.

The first question we have is what accounting software do you recommend?

>> CATHERINE WRIGHT: Well it depends. I'm a Quickbooks person because I know how to use it. So if -- I like Quickbooks. But if you're looking for something free, that found.com I have a couple clients, that's probably the only system that I see that people use and they don't really ask me to help them.

So it seems to be very user friendly. I personally use Quickbooks because they have a lot of features and plus I get a free subscription for it so that helps too.

But they have Xero, X-e-r-o, they have so many different types.

Now sometimes you can also find industry-specific bookkeeping software. So you know, they may have something just for if you do hear it, they have a whole suite of things. Quickbooks is you can customize it to what you need.

You may be also able to find software designed for your industry because they know what you need to track.

>> KOCHELL RICKLEFS: The next question is I would love to know what accounting software is recommended for product-based businesses. I feel like most of them are geared towards service base and tracking invoices. I don't ever use invoices, I mainly track expense and earnings.

>> CATHERINE WRIGHT: If you're just tracking expenses and earnings, the found.com may work for you. Quickbooks does have invoicing and they do offer it, like I said earlier in the presentation, sometimes you'll pay for an accounting software and you don't even need all of the features.

You know what I'm saying?

So if you don't need the features, if it's just simple income and expenses, you know, try out Found. And you can also Google to see if anything else is out there that will help you.

But yeah, sometimes you are paying for a subscription and you don't need all of that. You're just doing something simple.

>> KOCHELL RICKLEFS: So the next one is when you get receipts, can you require them to be emailed or submitted in another virtual way to make keeping track of them easier?

>> CATHERINE WRIGHT: So when you -- so is that people paying you or are you purchasing something?

>> KOCHELL RICKLEFS: I'm assuming the way I'm reading it is the customer's sending back the receipt and they're asking how to track it as a business owner.

>> CATHERINE WRIGHT: Okay. So let's just say -- okay, so if the customer is sending you a receipt, I'm assuming that you sent them an invoice or bill to pay for your services.

If you use an accounting software, it will do it electronically for you. Like if you use Quickbooks or Found or whatever, you can send an invoice out, they will give them the payment options. Now keep in mind there's going to be a fee if you accept electronic payment, but it will automatically record it into your accounting system.

They have bill.com and different ways. You can require your customers to pay you however you want to. However you want them to.

So if you don't -- if you want them to do it electronically, you just need to find an electronic system where they can just go online and make the payment and then it will come to you electronically.

And then sometimes if you're going to be using an accounting system, you might be able to integrate that software or whatever with your accounting system if you're not doing invoices or receipts within the accounting software.

>> KOCHELL RICKLEFS: Next one. Are office lunches a business expense?

>> CATHERINE WRIGHT: Office -- so office lunches -- so they kinda changed the rules on that a little bit. It used to be, you know, that if you were -- if the office lunch was being prepared for the benefit of the employer, you know, then they would allow you like a 100% deduction. I believe they changed that. You can only do like 50% if it's for the benefit of the employer. Like if you're having like a Christmas lunch or something like that.

>> KOCHELL RICKLEFS: Next one. What about all expenses of eating and Uber when attending a conference for business out of state?

>> CATHERINE WRIGHT: So that will be your traveling. You want to keep track of what you're spending so you can count your travel expenses. And you can also use -- if you go on the OPM.gov's website, you can use per diem rates too.

So that will give you your per diems are expenses that the government will allow while you're out on travel for the day that you leave till the day that you return. And it will cover your meals and incidentals.

But you want to keep track, so if you're on travel, just make sure that it was overnight travel because it was not within commuting distance from your home. You had to travel in order to be able to attend that meeting.

And you're keeping track of your meals, track of what you're paying for your transportation. And then in your accounting system, you want to keep track of all that.

>> KOCHELL RICKLEFS: All right. So this next person has three questions so I'm going to separate it out.

First question. How to separate out business using phone and phone bill when the bill is shared with family and paid out of my personal account.

>> CATHERINE WRIGHT: Okay. So it sounds like you have -- I don't know if this is like a cell phone or a regular house phone. I don't know how it is. But if you have -- you normally do a percentage. So like let's just say it's a cell phone bill.

You have to figure out for your line only. So on your cell phone bill if there's more than one line, your cell phone bill should break out each phone number. So you have to figure out what the business use percentage of your cell phone use is. That would be your deductible amount.

And then if it's a house bill, because it's like one phone bill for the whole house, then that can go to play with your home office deduction. Yeah.

So these some questions that you would discuss with your tax preparer at the time and let them know. But I will tell you if it's a cell phone bill, then you can't deduct all of the numbers. You can only use yours that you use for business.

>> KOCHELL RICKLEFS: Do you know of any coaches available to help with the new cash accounting system? And it's spelled g-n-u and then cash, c-a-s-h.

>> CATHERINE WRIGHT: I haven't heard of that system. But maybe if you go on their websites. A lot of times when you go on the software websites, accounting websites, they have a list of experts or if you need help, they'll have a referral service for someone to help you.

So a lot of times accountants will sign up. So if they -- if you need help, you can go through their website. Just go on their website and see if they have an option for help.

>> KOCHELL RICKLEFS: Next question. How to record B2B sponsor income.

>> CATHERINE WRIGHT: Is this like a broader situation or...

>> KOCHELL RICKLEFS: It doesn't say.

>> CATHERINE WRIGHT: Okay. I think I would probably need more information.

>> KOCHELL RICKLEFS: Okay.

Next question had the how would this work for pet service business?

>> CATHERINE WRIGHT: Your accounting system? Well, with the pet service business you're still going to keep track of your income and expenses.

No matter what industry you're in, you have to keep track of the income that you're making and your expenses.

So when you're doing your accounting system, you can make it as extensive as you want. Like for me, I have different things that I track. I want to know how much do I make with tax preparation? How much do I make with bookkeeping?

How much do I make with this so I can separate that out.

Quickbooks allows me to do that, you know what I mean? So you can set up your accounting system so if you have a pet service, you know, you offer different things and you want to see how each segment of what you're offering is doing, how well it's doing, then you can separate that out.

But you are required to have some type of system in place. It doesn't have to be software, it can be spreadsheets or whatever. But it's much easier with the accounting system and you can, you know, make that accounting system work however it is that you want it to work.

>> KOCHELL RICKLEFS: If you have more than one business.

>> CATHERINE WRIGHT: If you have more than one business, then you need a separate accounting system.

>> KOCHELL RICKLEFS: Okay. Perfect.

And then does sales tax collected count as revenue or how should it be categorized?

>> CATHERINE WRIGHT: So sales tax is not revenue, it's actually a liability. So you would -- you know, when you set up your books, if you're going to work with someone to help you set it up and you want to create a liability account for your sales tax. Because all sales tax is, you're holding money for the government. It doesn't belong to you.

So you have to pay it over. So technically it's not -- it's not an expense for you, but depending on how you report income, some people -- you know, so anyway, long answer is technically no, it's not revenue. It's -- it only becomes a little revenue if they let you keep some of the sales tax.

Like I know I'm in Maryland, so if you pay your sales tax on time, they let you keep a small portion of it. That small portion that they let you keep, that little bit is income. But the rest of it is a liability.

>> KOCHELL RICKLEFS: Okay. Next question. Do you have a suggestion for how much to save for taxes? Or a percentage.

>> CATHERINE WRIGHT: Well, it depends because it's going to -- when you're planning for -- when you're doing your tax planning, it looks at your overall tax picture.

But for businesses, you're going to pay a self-employment tax on top of the income tax. So you're going to pay an income tax which would be your profit plus whatever other income you may have to pay taxes. That's your income tax.

But then there's going to be what you call a self-employment tax where you will be required to pay into Social Security and Medicare.

And that normally comes like around 15.3%. You'll pay into Social Security. And when you file your tax return, the schedule that shows your self-employment tax actually gets sent to Social Security. And if you log into your Social Security account, you should be able to see how much credit you have.

>> KOCHELL RICKLEFS: And I do have two more other questions, but you've already answered them. So we're just going to run those up and just say that we have no more questions.

>> CATHERINE WRIGHT: Okay. Okay, great.

>> KOCHELL RICKLEFS: So thank you.

>> CATHERINE WRIGHT: Thank you for attending.

>> KOCHELL RICKLEFS: Yes, thank you. It was a great presentation. We appreciate it.

And also for everybody that's still in attendance, if you could please look at the QR Code on your screen and complete the satisfaction survey. It really helps us. I'll follow up with email and get your feedback so we can create more training seminars for you.

And Catherine, thank you so much.

(Session ended at 3:15 p.m. ET)