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Bookkeeping 101

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Table of Contents

Introduction..1

Glossary 2

What Is Bookkeeping and
Why Does It Matter? 3

Key Bookkeeping
Actions 4

Block Advisors 7

Introduction

Whether you're new to the term Bookkeeping or need a little practice with expense categorization, welcome! Bookkeeping is one of the most important processes to keep up with as a business owner, so we partnered with Block Advisors by H&R Block to bring you the basics: What it is, why it matters, and tips for setting up systems that make it easier, so you can focus on doing what you love.

What to expect:

- Why Bookkeeping Matters
- A Bookkeeping Glossary
- How to Get Started
- Categorization Practice
- Annual, Quarterly, Monthly, Weekly, and Daily Checklists

Glossary

Before diving in, let's get familiar with commonly used bookkeeping terms:

Cash Flow Statement
A record of cash entering and leaving your business.

Credit
An entry in the books when money goes out of a category of expenses.

Debit
An entry in the books when money goes into a category of expenses.

Expenses
The money you spend on running your business (i.e. email marketing platforms, business events).

Financial Statement
A collection of financial documents, including the P&L and Cash Flow Statement that are used to give a snapshot of a business's health during a specific period of time.

Gross Profit
The profit made after deducting costs of goods and services (COGS).
Gross Profit = Revenue - Total COGS Sold

Net Profit
The actual profit made after deducting gross profit and expenses.
Net Profit = Gross Profit - Expenses

Profit and Loss Statement (P&L)
A report that summarizes the total income and total expenses of a business during a specific period of time.

Reconcile
The process of matching the transactions entered in accounting records with the actual bank and credit card statements from the month.

Revenue
Income generated from your business.

What Is Bookkeeping?

Bookkeeping is the process of tracking all of your company's costs and expenses so you can see exactly where your money is coming and going. This means recording every invoice, deposit, income, expense, and receipt connected to your business.

Why Does It Matter?

1. Complete your taxes confidently and identify the right deductions
   - Bookkeeping helps you to most accurately track your total income and expenses that are required to file taxes. In other words, the more data and documenting you can share during tax season, the more tax deductions available to your business.
2. Secure a business loan
   - Producing a financial statement is often a prerequisite for getting a business loan or line of credit. Lenders need to see a clear view of your financial state before lending you money.
3. Catch financial mistakes
   - You're likely to catch more errors if your books are reconciled on a regular basis. This will prevent issues when it comes time for an official yearly reconciliation.
4. Better understand the health of your business
   - The best way to gauge the health of your business is by taking a holistic look at your finances. Bookkeeping breaks down every area of business so you know exactly where your money is going.

Bookkeeping is the process of recording transactions to produce financial data.

Accounting is the process of recording and summarizing business and financial transactions, as well as analyzing and reporting on the results.

Get Started in 5 Steps

1. Separate Your Business and Personal Expenses

- Keeping separate records and expenses is imperative in having a clear picture of the business's financial performance, and it saves time and money by lowering the number of transactions that need to be coded.

- List out the expenses you should separate:

2. Choose an Accounting Method

A. Cash Accounting: Record transactions as soon as money hits your bank account. This means the bill is not entered in your ledger until the customer has paid.

Easy to maintain; tells you exactly how much cash is on hand at any given point.

B. Accrual Accounting: Record income when you bill your customers, in the form of accounts receivable.

Provides a long term, more realistic picture of your income and expenses.

3. Categorize Your Transactions

- Every transaction is considered a debit or a credit. Credit is money that has come from somewhere. Debit is money that has gone somewhere. For every debit, there must be a credit, and this is where expense

- Marketing
- Rent
- Sales Revenue
- Training and Education
- Shipping
- Rent
- Production
- Permits
- Professional Services
- Business Software
- Business Supplies

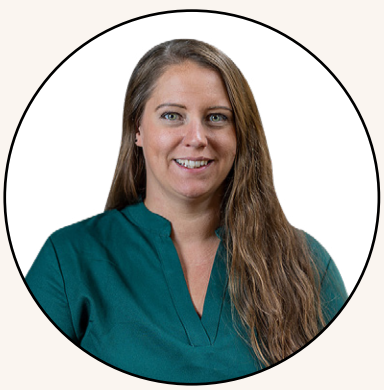
4. Reconcile Your Books Every Month

- Reconciliation is the process of matching the transactions entered in accounting records with the actual bank and credit card statements from the month. This compares the books to what actually happened, ensuring your books are balanced and the next month can begin.

5. Organize and Store Your Documents

- The accuracy of your books may be jeopardized if records wind up missing or incomplete. It's important to set up a system that works for you so no receipt is left unaccounted for.

- Quick tips from Block Advisors Accountant, Amanda Houtz:



- Store receipts in a book or accordion folder.
- Take a photo of the receipt with your phone and email it to yourself.
- Write notes on receipts about their business purposes.
- Spend time reviewing your receipts at least once a month, if not once a week.

Stay Organized All Year Long

- Daily
  - ◯ Record income transactions
  - ◯ Enter and pay bills
  - ◯ Send invoices
  - ◯ Deposit all payments
  - ◯ Categorize and record expenses
- Weekly
  - ◯ Reconcile bank accounts
  - ◯ Identify and follow up on unpaid invoices.
  - ◯ Mark client payments
  - ◯ Pay and mark bills
- Monthly
  - ◯ Balance your books
  - ◯ Review credit card payments
  - ◯ Pay yourself and employees (2x/month)
  - ◯ Review inventory
  - ◯ Generate financial statements:
  - ◯ Cash flow statement and profit and loss statement
- Quaterly
  - ◯ Estimate and pay quarterly federal taxes: Due April 15, June 15, September 15, January 15
- Yearly
  - ◯ Perform profit and loss statement for the year and compare it with your budget
  - ◯ Prepare and issue tax documents to employees
  - ◯ File tax return
  - ◯ Prepare for year-end close