

BOOKKEEPING GUIDE

FOR SMALL BUSINESS OWNERS



COMMON QUESTIONS ANSWERED!





Welcome to the Bookkeeping Guide

Hi there!

This guide is designed to answer those commonly asked questions that small business owners may have when it comes to Bookkeeping, whether you are just launching a new business and want to start off on the right financial foot, or have decided that it is time to outsource.

Setting things up right from the start and understanding the basics make it better in the long term.

If you are ready to outsource, choosing the right Bookkeeper is key to your long-term success. Do your research, listen to your gut instincts and make sure you are a good match personality-wise.

Enjoy!

Lauren x

Bookkeeper and BAS Agent
Owner - Virtual Aspect



BAS Agent
26255476



What does a Bookkeeper do?

A Bookkeeper is a professional who helps businesses and other organisations keep their finances in order.

As a small business, some of the key tasks you will want your Bookkeeper to help you with are:

- Handling bank and credit card reconciliations
- Preparing and lodging your quarterly business activity statement or BAS (more on this later)
- Outgoings - entering bills, matching payments made
- Incomings - entering invoices, matching receipts
- Preparing monthly management reports
- Providing monthly or quarterly GST estimates to keep you on track
- Managing payroll and superannuation as you grow and bring employees on
- Offering ongoing support and answering questions that arise as you are running your business.

How is a Bookkeeper different from an Accountant?

Both have an important role to play in the success of your business, but their responsibilities are quite different.

Bookkeepers ensure your financial data is organised on an ongoing basis, through the tasks mentioned above. Bookkeepers prepare your end-of-year accounts, so you can take them to your Accountant.

An Accountant's primary area of support is to then use this data to prepare your tax return and lodgements. They might also use this information to provide financial advice to help you make some important decisions.

How do I know when I need to hire a Bookkeeper?

Some telltale signs that it is time to hire a Bookkeeper include:

- You can't find the time to do your books on a regular basis
- You are struggling to keep track of your incomings and outgoings
- Your records aren't accurate
- Your invoicing isn't up to date
- You looking to bring employees on and you need help with payroll and superannuation
- Your cash flow is unpredictable

How do I know if GST applies to me?

If you are an Australian business and earn over \$75,000 in a financial year, or think you might, then you are required to register for GST.

It is quite easy to do, and you have three options to choose from:



“Goods and Services Tax (GST) is a tax of 10% on most goods, services and other items sold or consumed in Australia”

-The Australian Tax Office (ATO)

What should I look for in a Business Bank Account?

Firstly, I cannot stress how important it is that you have a separate bank account for your business.

This will help avoid confusion when it comes to your personal and business related expenses, and also makes it quicker and easier for you or your Bookkeeper to do your reconciliations each week/month.

I would even suggest having a second bank account – a tax account – that you transfer money across to each month for taxes so that you don't find your self short when you need to pay any taxes.

The three keys things to look for when opening a business bank account are:

- 1 Account Fees**
If you are just starting out they should be zero, as you should only need a basic account
- 2 Unlimited Transactions**
So you can make and receive payments as and when you need.
- 3 No minimum balance**
Especially when you are launching, or if you are a product-based business where there are large outgoings at the start, and it might take time to receive income.

What is a Business Activity Statement (BAS) and how do I know if it's relevant to me?

If you are registered for GST, then you must submit a Business Activity Statement to the ATO.

These are completed quarterly and need to include information about the 10% GST you made on all your sales over a certain period. If you have employees, then the PAYG withholding is also included on the statement. If you need to pay a PAYG instalment, this is included also. I will explain more about PAYG on the next page.

It's important to keep records of all GST charged on invoices you send out and GST paid on bills you receive. Using an accounting software program is the best way to handle this. The GST paid on your purchases is deducted from the GST paid on your sales to provide you with GST amount you need to pay.

Key BAS dates to know:

Your BAS is due every three months:

- Q1 - July to September - due 28 October
- Q2 - October to December - due 28 February
- Q3 - January to March - due 28 April
- Q4 - April to June - due 28 July

Do I still need to pay PAYG as a small business owner?

You are probably familiar with Pay As You Go tax from doing your personal tax returns. Well, it is still relevant.

There are two main types of PAYG tax to be aware of:

PAYG WITHHOLDING

If you have employees, company directors or contractors, you must withhold a certain amount of tax from their pay, which is then sent off to the ATO.

This can be calculated based on the tax bracket their salary fits into, and you can find this info on the ATO website. If using accounting software, these tax rates are usually preloaded ready for when you need to use them.

PAYG INSTALMENTS

These relate to the tax paid on the revenue your business makes, allows you to submit quarterly tax payments to the ATO instead of annual ones, by including payments in your BAS statement.

It's a great way to manage cash flow, and avoid paying a lump sum bill at the end of the financial year.

What is the “Chart of Accounts”?

A chart of accounts is a list of account names used to label transactions and keep tabs on your business finances. Think of it as a filing cabinet for your small business accounting system. It organises transactions into groups, which helps track money coming in and out of the business. They are known as General Ledger accounts.

The chart of accounts is separated into the following main areas:

Assets - anything of value in your business is considered an asset. This includes cash in your bank accounts, your accounts receivable balance (since that is money owed to you by customers), as well as inventory, computers, furniture and equipment.

Liabilities - any debts owed by your business are considered liabilities, such as accounts payable (since that is what is owed to suppliers), as well as any loan the business owes.

Revenue/Income - Revenue, also called Income, is simply any monies earned by your business either through products sold or services rendered.

Expenses - These are your operating costs including the purchase of goods, purchasing services, operational expenses like power, internet, phone, payroll expenses and interest expenses.

Equity - When you subtract your business liabilities from your business assets, you have equity, which reflects your financial interest in the business.

What is the “Chart of Accounts”?

If using an accounting software package, you will find that they usually come with a default chart of accounts, so you don't need to start from scratch. Just remember that you can edit the chart of accounts to better suit your business. I

It is a good idea to become familiar with the accounts included in your chart of accounts as it will make it easier when you begin to enter your financial transactions.

TAX CODES

Tax codes are a codified system that designates and defines government levies on transactions, also known as taxes.

The main tax codes are:

- GST - 10% = GST is applicable to a particular item and 10% of the amount should be allocated to the GST account
- FRE - 0% = GST is not applicable to a purchase
- BAS excluded - any goods or services that fall outside of Australia's Goods and Services (GST) Legislation, eg: wages, superannuation, loan repayments, drawings

You also need to take into consideration if you are registered for GST or not.

If you are not sure what tax codes you should be using, talk to your Accountant or BAS Agent.

What is the best Bookkeeping and Accounting Software to use?

Bookkeeping software comes in two forms. There's the type you install on your computer (or local network server) and the type you use online.

As with most software services, online comes with some built-in advantages:

- Data lives online, so there is no need to back it up
- You can view or work on your books from any location or device
- You don't have to email your ledger to your bookkeeper – you can both log in
- Transaction data can flow into the ledger from other online locations such as your bank
- Real-time reporting allows collaboration between you, your bookkeeper and your accountant.

Online bookkeeping software also works well with other business apps. For example, you can use a third-party point-of-sale software to ring up a sale and the data will flow straight through to your online accounts.

What should I consider before buying bookkeeping software?

If you are going to invest in bookkeeping software, you need to think about the following:

- Can you start off slow? What tasks are a priority for you? If you only need a few functions, then that's all you should pay for. Make sure there's some flexibility in pricing.
- Can it grow with you? Will it still be the right system for you in two, five or ten years? You may eventually want to add inventory, payroll, or e-commerce functions. Check it gives you room to grow.
- Is it secure and trustworthy? You're required to keep some accounting records for years so make sure your software provider can keep and protect your data for the long haul.
- Does it fit with other business systems? Can it work with other business systems such as point-of-sale, time-sheet apps, inventory control or e-commerce? Can it accept data from your bank, and receipt scanners? Does your external bookkeeper or accountant know how to use it?
- How easy is it? Software should make your life easier. See what reviewers say about the products you're considering. You don't want to trade one problem for another.
- Does it work with local tax systems? Does it fit with your tax system? It's no use buying software designed for another country.
- Do you get customer support? Is there somewhere to get help with queries? What's the availability of support? Do you have to pay for ongoing support on top of the software?
- What's the return on investment (ROI)? Work out how many hours it will save you each week, month or year. A smart system should pay for itself many times over.

How often should I be reconciling my accounts?

Balancing your accounts is the most crucial step of bookkeeping basics.

The following reconciliations should be done on a monthly basis:

- Bank statement (s) end-of-month balance matches the balance in the accounting system. If not, you will need to compare the transactions on your bank statement against what has been entered into your software and find whether there has been something missed or something entered twice.
- Accounts Payable - any statements you receive from suppliers should be checked against the bills you have entered to ensure that you have received them all. If any are missing, you will need to request copies from your supplier.
- Wages Payable Account - if you are paying wages, you should check this account to ensure that it is zero, that all payrolls that have been processed have been paid correctly.

At the end of each financial year, you need to ensure all necessary accounts have been reconciled. This way you start the next financial year from a good position.

What are the different Financial Reports ?

Financial reporting is a critical part of any business's bookkeeping process. They provide you with a transparent and accurate view of your business's current standing. You are able to gauge the financial health of your business!

The main Financial Reports are:

- Balance Sheet - shows your business assets, liabilities and equity on a particular date
- Profit and Loss - summarises the revenues, costs and expenses incurred during a specified period. It tells you how much profit you are making, or how much you are losing.
- Cashflow Statement - summarises the amount of cash flowing into and out of a business.

Your accounting software can produce the financial statements from the data you have entered. This is why it is important to enter your data correctly.

How can the Financial Reports help my business?

They help the business owner:

- see at a glance how their business is tracking
- make informed day-to-day financial decisions
- apply for loans and attract investors
- comply with the law (if a company)
- which income streams are more profitable than others
- the status of your cost of sales items - which ones are costing your business too much
- where your business spends its money
- if your business is profitable or not
- know how much to put aside for tax

A Profit and Loss Statement can also be used to:

- help you provide proof of income if you are trying to get a loan
- assist the accountant to process your income tax return

Conclusion

Bookkeeping is not something you can pick and choose to do when it suits you.

One of the most important bookkeeping basics is to stay consistent and stick to the schedule you have established for your business,

You must record all financial transactions – ideally once a week. These include all bills, payments, sales and receipts.

Make it a priority to balance your books. You can either do it every month (best option) or at least at the end of every quarter.

If you are afraid you might procrastinate or get caught up in other aspects of running your business or the thought of dealing with accounts is overwhelming, consider outsourcing and have a dedicated BAS Agent Bookkeeper to do this for you.

Are you ready to learn more and potentially get a Bookkeeper on board?

Or, maybe there is another question you would like to ask?

Book a free consultation today and see
how Virtual Aspect can help you!

www.virtualaspect.com.au

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