Real World Accounting for Small Business Owners

By Caroline Jordan, MBA

If you're like me, you love accounting. It's so fascinating and such an ingenious system. Don't you just think that Double Entry Accounting is the most beautiful creation of all humankind?

Okay, let's get real. You probably think accounting is boring and best left to pencil pushing geeks (like me!). I mean…BOOORRRRING! Total Snooze-fest!

Well, my friend, I'm about to introduce you to Real World Accounting for Regular People. But, be careful, it just may change the way you look at accounting FOREVER! In fact, one of my clients looked up from a spreadsheet one day and said, "Wow, I never knew accounting could be FUN!" You just might have the same experience.

For starters, a lot of people think accounting is about math, which is an immediate turnoff. Although accounting does include math, it's more like a foreign language. All you need to do is learn the parts of that language that actually apply to you. Think about visiting a foreign country. You don't need to be fluent in the entire language. You just need to know the important things like what to order (or not order) in a restaurant, how to get directions, and how ask where the bathroom is. It's the same thing with accounting. You need to know what you need to know and the rest is unimportant. I mean, do you really need to know about corporate accounting practices or off shore financial transactions. Probably not.

So, how do you figure out what you need to know when you don't even know where to begin? Follow me and I'll show you!

The first thing you need to know is this. You must, must, must keep your personal finances and your business finances separate. Using your personal checkbook for all your transactions is a bad way to go. Here's why:

• The Internal Revenue Service wants to know that you have a very clear distinction between your personal affairs and your business affairs. They want details. If you try to pass off personal expenses as business expenses, you're violating tax laws. They don't like that.

• If you ever plan to borrow money for your business or get credit from your vendors, your lender or vendor will want to see detailed records of your business performance. Handing them your checkbook register is not going to make them want to give you money or sell to you on credit.

• You need to know how your company is performing at all times so you can plan ahead, make adjustments in your operations, and make informed decisions.

• The more accurate your records, the more accurate your tax return. It prevents you from missing deductions.

• It's the only way you'll know whether your business is making money or if you're just kidding yourself.

So, if you don't have a separate checking account for your business, go get one. It's easy and inexpensive and it will give you clarity on how your business is really doing.

The next step is your accounting system. Now, when I say "accounting system" I'm talking about an organized way of keeping track of your records. It can be computerized or it can be the old fashioned pencil and paper route. The important thing is that a) you have one and b) you use it.

Finding a System That Works For You

Your record keeping system needs to be designed so that it works for you. It should:

- Be simple to understand
- Be flexible and adaptable to changing needs
- Be inexpensive to develop and maintain
- Require little time to maintain
- Be handy and convenient to use

If you use a computerized accounting software package like QuickBooks, all those qualifications are met. I generally recommend QuickBooks to my clients because it's easy to use and you can also find local support for set up and troubleshooting. I don't whole heartedly recommend QuickBooks because I think parent company Intuit is losing touch with its core customer (we, the small business owners of the United States of America). There's too much nickel and dime-ing and poor support. But, at this point, it's still the most widely used system and certainly meets the needs of most small businesses as far as what it can do.

I do recommend that you get professional help in setting up your accounting system if you don't have an accounting background. It's a case of Garbage In Garbage Out. A well set up system will give you the best information with the least trouble. It's less expensive to have it set up right to begin with than it is to have it cleaned up later.

Whatever record keeping solution you choose for your business, the key to success is actually using it on a very regular basis. Otherwise, your business struggles and you're in constant danger of sliding into the Cash Flow Swamp.

Caroline Jordan, MBA, is a veteran small business owner, accountant, consultant, trainer, and author. She is the owner of The Jordan Result, a company specializing in developing real world, practical resources to help small business owners improve cash flow and business operations. Jordan is also an accounting and business professor and the author of "Stop the Cash Flow Roller Coaster, I Want to Get Off!" For more tips and strategies to build your business visit www.TheJordanResult.com.