

Demystifying the Financials for Small Businesses



Barbee Business Services

BOOKKEEPING • BUSINESS ASSISTANCE • TAX PREPARATION

Who Am I?

- QuickBooks ProAdvisor
 - Member of the American Institute of Professional Bookkeepers
 - Degree in Business Management, Concentration in Accounting
 - 15+ years of experience working with small businesses
 - Business owner w/3 businesses
 - IRS Registered Tax Preparer
- Wife
 - Mother of 2 fur babies: Chewy & Zoe
 - Love to travel
 - Love going to camp
 - Love to read



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Tell
Me
About
You?



Our Topic Today

Demystifying the Financials for Small Businesses



Survey

How long have you been in business?



More than 3 years?

Less than 3 years?



Are you using a software system for your bookkeeping ?



3) Do you feel ready for tax season at year end?

Why Do Financials Matter?

Managing Cash Flow
Making Informed Decisions

Readiness for:

Investors

Taxes

Bank Loans

Grants

Audits

Scale & Growth

For peace of mind



Basic Financials to Understand



- ❖ **Profit & Loss**
Income and Expenses during a specific time frame
Shows loss or gain for a period of time
- ❖ **Balance Sheet**
Assets, Liabilities and Equity
Recorded at one specific point in time
- ❖ **Chart of Accounts**
The foundation of all your bookkeeping/accounting
- ❖ **Accounts Receivable**
What clients/customers owe you
- ❖ **Accounts Payable**
What you owe vendors
- ❖ **Cash Flow**
Movement of cash in and out of a business
- ❖ **Cash versus Accrual Accounting**

Digging Deeper

Cash versus Accrual Accounting

Example	Cash	Accrual
Create an invoice		Income recognized
Receive payment on invoice	Income recognized	
Receive bill		Expense recognized
Pay bill, check clears	Expense recognized	

- ✓ It's about timing – when items are recognized on your books
- ✓ First time you complete your business tax return, you choose your accounting method and must stay with that method
- ✓ Which accounting method you choose, impacts how you enter bills, invoices and report on your financials
- ✓ Accrual accounting is more accurate as it shows more than cash on hand, but what is expected to be received and what is expected to be paid

Digging Deeper

Chart of Accounts

- All financial accounts fall in one of 5 types, and understanding these “types” is the foundation of all accounting
- Assets = things you own
 - Checking accounts
 - Savings accounts
 - Buildings
 - Vehicles
 - Large equipment
- Liabilities = what you owe
 - Mortgage payments
 - Loan payments
 - Payroll
 - Sales Tax
- Equity = if you sold all your assets, and paid off your liabilities – what remains is equity
 - Could be negative or positive equity

Digging Deeper

Cash Flow

- Cash flow measures the movement of money into and out of a business, indicating its liquidity and ability to cover expenses.

•Positive cash flow means a company can meet obligations and invest in growth, while negative cash flow may signal financial trouble if sustained.

negative cash flow

Sales (on credit)		\$10,000
Sales (cash)		\$ 2,000
Total Revenue		\$12,000
Expenses		\$ 3,000
Equipment Purchase		\$ 4,000
Net Profit		$\$12,000 - \$7,000 = \$5,000$
Cash Flow		$\$ 2,000 - \$7,000 = (\$5,000)$

Other Things
to
Pay
Attention
To



Self - Employment & Wages

Step 1: What is your entity formation?
Sole proprietor? Single member llc?
Do you have an S-Corp designation?

Step 2: Only if you have an S-Corp designation can you have a paycheck w/taxes withheld.

Step 3: Sole proprietors, single member llcs, you are paid via an "owner's draw".



Why is this Important?

- If you are an Scorp and get a paycheck, all your taxes are withheld, including Social Security and OASDI taxes.
- If you are not, you will pay these taxes on top of your regular federal income taxes.
- Example:
 - Scorp makes \$40,000
 - Pays ~ \$4,000 in federal income tax

 - Single member llc makes net income of \$40,000
 - Pays ~\$4,000 in federal income tax
 - Plus pays \$6,120 in self employment tax
 - Total taxes owed: \$10,120
- Example assumes withholdings cover all necessary withholdings.

IRS

- Individuals, including sole proprietors, partners, and S corporation shareholders, generally have to make estimated tax payments if they expect to owe tax of \$1,000 or more when their return is filed.
- If you don't pay enough tax through withholding and estimated tax payments, you may have to pay a penalty. You also may have to pay a penalty if your estimated tax payments are late, even if you are due a refund when you file your tax return.

Sales Tax

Receipt: 001-190310-010-031468
Station: Station 7
Date: 3/10/2019 1:24 PM
Cashier: Erin D

1 Fly High Party	299.99
12 Party Jumper	.00
12 Group 30 Minute Add-On	47.88
1 Birthday Shirt: Adult Smal	.00
1 Fly High Party Add On	18.99
4 Group 30 Minute Add-On	15.96
4 Party Jumper	.00
15 Bottled Water	29.85

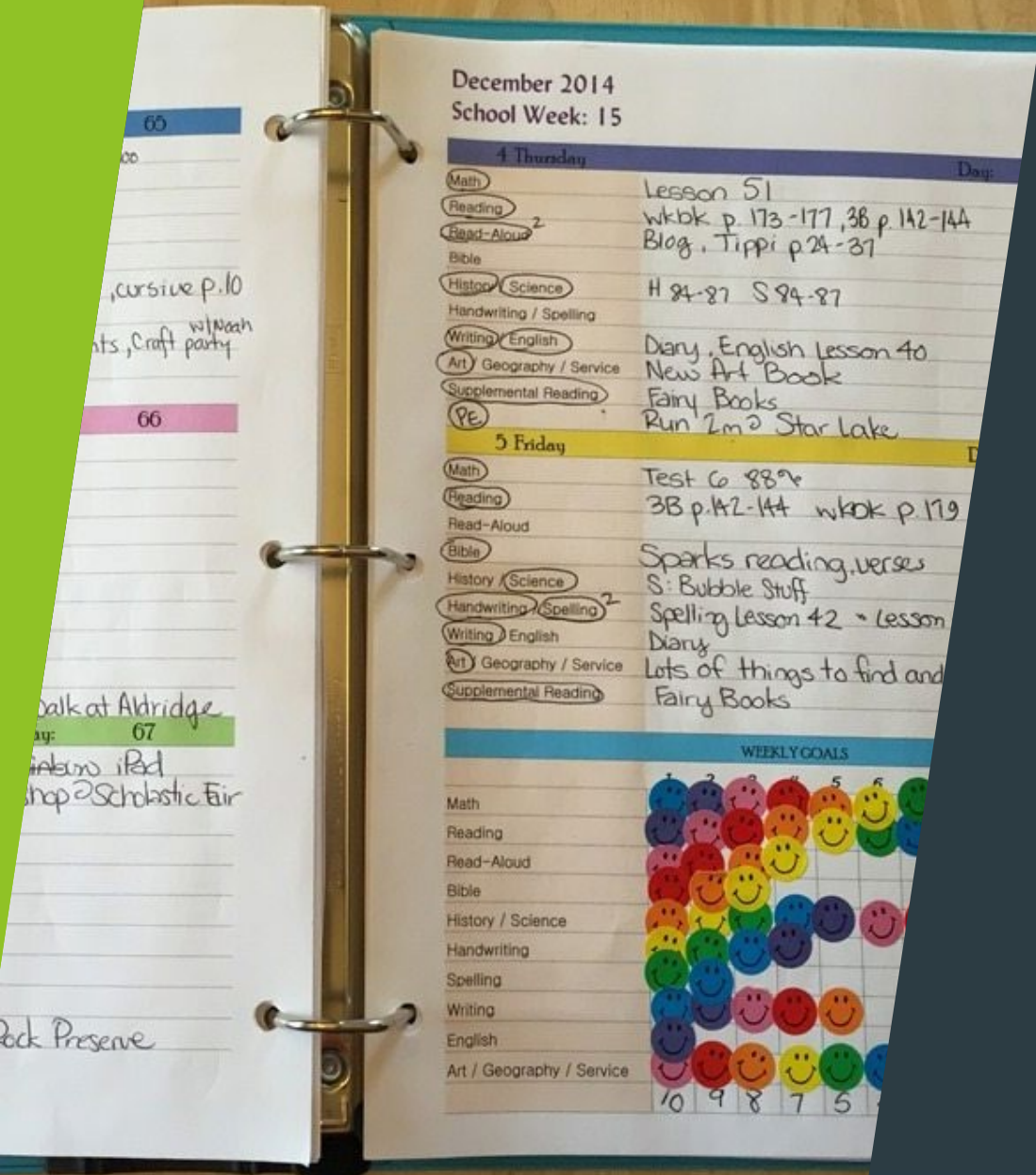
Group Name:
Event No: 21273
Arrival Date: 3/10/2019
Description: Sam- Fly High

Group Total:	\$412.67
Less Discounts:	\$0.00
:	-----
Sub Total:	\$412.67
WI Sales Tax:	\$22.70
:	-----
Total Amount Due:	\$435.37

- ❖ It is a consumption tax imposed by the government on the sales of goods and services
- ❖ Collected at the point of purchase
- ❖ You are the “holder” of the tax and must pass this back on to the state of Maine
- ❖ In bookkeeping terminology, it is a liability, not an expense
- ❖ You must register with the state, and they will determine if you must pay monthly, quarterly, bi annually or annually
- ❖ If you sell across state lines, you need to understand what nexxus is
- ❖ Missing a sales tax deadline costs you an automatic 10% of the amount owed, plus other fees

Financial Tools

- ▶ The difference between Manual and Computerized Accounting is that manual accounting is where all the financial transactions are maintained in a register or in an accounting book and in computerized accounting all the financial transactions are recorded in accounting software.
- ▶ A manual system is more cost-effective because it is not necessary to buy computers and software or train employees.
- ▶ A manual system can also be more secure because it is not required to use the internet to transfer data to the IRS or accountants.
- ▶ The manual accounting system has no inconvenience since it can work even when there is no electricity, unlike a computer system setup.





Manual vs. Computerized Bookkeeping

- ▶ A computerized accounting system comprises of computer systems and software.
- ▶ The software is designed to track the company's accounting transactions, intending to produce monthly financial reports, tax return information, annual financial statements, and other financial reports that analyze a company's efficiency, profitability, and operations.
- ▶ Computerized accounting systems are much faster than manual accounting systems. The time required to enter data may almost be the same for both systems. However, a computerized system helps users when tallying the results.
- ▶ Computers generate reports quickly, and you can change parameters just by clicking and choosing options instead of adding whole columns of numbers.
- ▶ Computerized systems are susceptible to glitches and bugs that can slow you down.

Software Options



1. Quick Books

2. Fresh Books

3. Zero

4. Sage

5. Wave (free)

How do I pick?

- Customer Service
- Price
- Ease of Use
- Cloud Based
- All Bookkeeping Needs Covered

Manual Bookkeeping Options

1. Ledger
2. Excel Spreadsheet
3. Google Sheets

Pros:

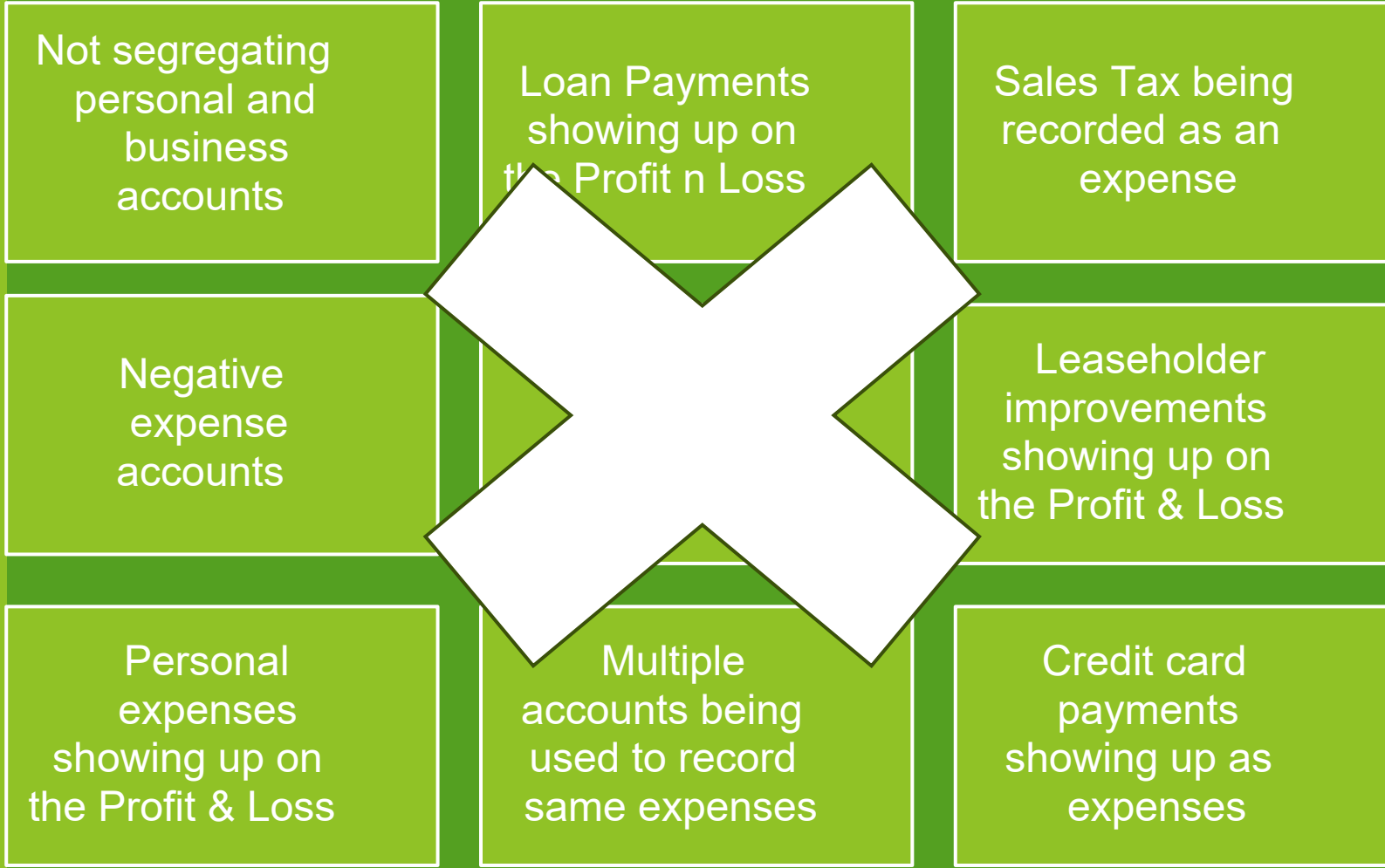
- Hands on Approach
- Less Expensive

Cons:

- Prone to Error
- Time Consuming



Common Errors



Any Questions?
Ask Away!



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