

# Accounting 101: 8 Steps to Set Your Business Up For Success

*By Bench Accounting*

Congratulations on launching your business! It takes courage and determination to reach the point you're at, and you're already that much closer to achieving long-term success.

To put your business on track for fast, sustained growth, it's critical that you establish an effective accounting setup during the early stages of operation. How will you track and manage your money effectively? What accounting tasks should you outsource, and which ones can you automate? And who do you turn to for help in using all of your business's financial data to make strategic decisions that take things to the next level?

As an [online bookkeeping service](#), we're pros at helping entrepreneurs use technology to automate their financial admin, manage their money, and develop an accounting setup that works best for their needs.

In this guide, we'll show you the best methods, apps, and services you can use to set up your financials in a way that gives you and your small business the best chance at success.

# Open a Business Bank Account

As soon as you register your business, it's time to figure out where you'll be keeping your income. [Corporations](#) and [LLCs](#) are legally required to manage their income in separate business bank accounts. Although [sole proprietors](#) can manage personal and business income in the same bank account, we strongly advise against it.

Why? Having separate bank accounts will make tax season far less complicated. Come tax time, you won't have to worry about untangling your personal and professional expenses, because your business transactions will be neatly contained in a separate account.

Additionally, managing your business finances in a separate account allows you, your bookkeeper, and your accountant to monitor and improve your business's financial health with ease.

**Here are the steps to opening your first small business bank account:**

## Shop Around

Pick a bank that's easy to access online and in person. Does it have a local branch close to you? Make sure the bank offers online banking and works well with your business's POS system and other technological requirements. Keep in mind that most business checking accounts have higher fees than personal accounts. Make sure you're aware of how much you'll be charged each month before deciding on a bank that suits your needs.

## Open a Business Checking and a Business Saving Account

Start by opening two business bank accounts: a business checking account, and a business savings account. This will help you keep your money organized. For instance, you may keep business revenue in your primary checking account, while tucking away a percentage of it in a savings account in order to cover your taxes owed for the year.

Generally, you will need a business name and a registered business to open an account. It's also likely that you'll need to have your business registered with your state. Before you head in to open up your business bank accounts, check with your bank of choice to determine what kind of paperwork you'll need to bring to the appointment.

## Consider a Business Credit Card

Business credit cards are helpful for building your business's credit rating. Choose the right card, and you can also accrue additional benefits, such as cash back rebates or travel points, when you make business purchases. Nerdwallet's [Credit Card Comparison](#) tool is an efficient way to compare your options and find a card that suits your business's needs. It's important to note that corporations and LLCs are required by law to have credit accounts separate from their owners' personal accounts.

# Track Your Expenses

Plenty of small business expenses are tax deductible. You can also deduct [certain business startup expenses](#) (for example, the expenses you incur while researching and setting up your new business). But, in order to claim an expense as a deduction on your tax return, you'll need to keep a record of the expense.

Depending on the volume of business related expenses you're making, tracking receipts and filing them come tax time can be a time-consuming endeavor. Thankfully, apps and technology have drastically reduced the amount of time entrepreneurs need to spend worrying about this task. Here's our best advice for establishing a recordkeeping system that saves you time and plenty of headaches throughout the year.

## Understand What Expenses You Need to Track

The IRS requires that you keep [documentation](#) that proves income, credits, and deductions shown on your tax return. Although the records and receipts you need to keep will depend on the nature of your business, generally you'll want to keep the following:

- Receipts
- Bank and credit card statements
- Bills
- Canceled checks
- Invoices
- Proof of payments
- Financial statements from [Bench](#) or your bookkeeper
- Previous tax returns
- W2 and 1099 forms
- Any other documentary evidence that supports an item of income, deduction, or credit shown on your tax return

To make the matter slightly more confusing, the IRS doesn't require you to keep receipts [for certain expenses](#) under \$75.

Rather than have you worry about what records you should keep and which ones you should shred, our advice is simple: **keep everything**. The IRS accepts digital copies of receipts, and certain apps and online storage services have made it incredibly easy to scan, organize, and store all of your business records at the click of a button.

## Pay Special Attention to These Records

Keep in mind, the IRS is known for scrutinizing certain deductions more so than others. Here are five types of receipts you should pay special attention to:

**Meals and Entertainment:** Lunch meetings are great. Just be sure to hold on to the receipt, and record on the back who attended and the purpose of the outing.

**Out of Town Business Travel:** The IRS doesn't like it when people try to claim holidays as work expenses. Use your receipts to provide a paper trail and prove the validity of your trip.

**Vehicle Related Expenses:** Keep track of when, where and how you use your vehicle for work. Then, apply the percentage of business use—versus personal use—to determine your vehicle-related expenses. Business-related gas mileage is 100% deductible, so long as you hold on to payment records and keep a log of where you drove, and why.

**Business Gifts:** If you give someone event tickets as a gift, it matters whether you attend the event with the person you gave them to. If you do, the expense should be categorized as entertainment and not a gift.

**Home Office Expenses:** Just like with vehicle expenses, you need to track what percentage of your house is used for work, and apply that percentage to home-related expenses. You may be able to cover your internet connection, phone, and travel expenses for trips to work sites.

## How to Track and Store Your Expenses

Technology has put an end to the days of hoarding paper receipts and keeping documents in creaky filing cabinets. [Shoboxed](#) is an online service that can scan, store, and categorize all of your receipts and records, converting them into financial reports. It's especially useful if you have a backlog of receipts—a literal shoebox—that needs to be dealt with.

Another popular choice is [Expensify](#), a mobile app that allows you to capture receipts and track mileage while you're on the run. Get into the habit of snapping a photo of your receipt and saving it to Expensify as soon as you've made a business expense, and you'll never lose a receipt again.

If you simply need a place to store your business records, cloud storage services [Box](#), [Google Drive](#), [Evernote](#), and [OneDrive](#) can help you store large volumes of files online, which can be accessed from anywhere.

# Establish a Bookkeeping System

Bookkeeping. Few business owners love it. But every business owner is required to do it. Before we get into your bookkeeping options, it may help to establish the [difference between bookkeeping and accounting](#).

Bookkeeping is the day-to-day process in which you record business transactions (money coming in, money going out), categorize them, and reconcile bank statements. Accounting is more high-level. It uses data from your books to examine your business's financial health and strategically plot your business's growth.

Bookkeeping is an ongoing task. Ideally you'll need to make sure it's complete each month, so that you have fresh financial statements on hand, as well as an up-to-date understanding of how your business is performing.

When choosing the best option for getting your books done, it's a good idea to consider your level of financial knowledge and the time you can devote to your books each month.

**Do It Yourself:** If you'd like to tackle the books yourself, simple accounting software or a robust Excel spreadsheet can help you get the job done.

**Outsource the Task:** If you'd prefer to spend your time focused on other important aspects of your business, leave the bookkeeping to the pros. Have a part-time bookkeeper or an online bookkeeping service like [Bench Accounting](#) handle your bookkeeping.

**Hire In-House Support:** When your business is big enough to warrant it, you can opt to hire a full-time bookkeeper.

There are a lot of options out there, so be sure to settle on one that truly suits your needs.

It's important that you also determine whether which bookkeeping method you'll use:

**The Cash Method:** Revenues or expenses are recognized the moment they are actually received or paid. The cash method works best for small businesses because it is simple to maintain. This method also makes it easy to determine when a transaction took place—the money is either in the bank, or it isn't—and it isn't necessary to track receivables or payables. And you can check your bank account and easily tell how much money your business has at any particular point.

**The Accrual Method:** Revenues or expenses are recognized the moment the transaction takes place, regardless of whether money has changed hands yet. This method is more commonly used, in general, than the cash method. It provides a more accurate depiction of income and expenses over a period of time, allowing owners to assess the performance of their business over the long term. Where accrual falls short is the fact that it doesn't report actual cash flow; a business can appear to be profitable, but have an empty bank account. Without careful monitoring, accrual based accounting can have serious consequences.

Note that if your annual revenue exceeds \$5 million, you are required to use the accrual method.

# Team Up with a CPA

A Chartered Professional Accountant (CPA) is essential if you're serious about growing your business. A CPA can help with lease negotiations, cash and treasury management and ongoing tax reporting. They are also on hand to guide you with long-term strategic planning and financial decisions.

It's best to work with a CPA who specializes in servicing entrepreneurs in your industry or niche. To find a CPA that's right for you and your business, start by asking your contacts if they have any recommended accounts. After you've collected a few leads, arrange to meet each CPA in person and ask them directly how they would work with you to grow your business.

It's also a smart idea to discuss their rates during your initial meeting. Most accountants charge by the hour, while some accept a monthly retainer fee. All of them, however, should be willing to meet you for a free consultation. If you're new to working with a CPA, read our guide on [how to hire, find, and work with a great accountant](#).

# Determine How You'll Get Paid

These days it's highly unlikely that you'll perform all of your business transactions in cash, so you'll need to find a payment solution that works for your business.

First, determine whether you'll be accepting payments in person, through a POS system, or online:

**POS System & In-Person Payments:** If you'll be doing both, consider a mobile credit card reader like [Square](#). This is ideal if you don't expect to process a high volume of in-person purchases on a daily basis.

**POS Payments Only:** If you will only be performing POS sales, look into a POS system—which works with a cash register—or just a credit card reader, which is independent of any cash collection system. For the in-person payment methods—POS systems or credit card readers—you will need to open a merchant account with your bank. This account essentially acts as an intermediary between the payment system and your bank account, withdrawing and depositing funds.

**Online Payments Only:** If you'll work exclusively in online payments, [Paypal](#) is fairly standard. [Shopify](#) is also an excellent platform for online retailers.

# Set Up a Payroll System

When your operation grows, you may hire a part-time employee or an independent contractor to help out with the business.

Just like bookkeeping, payroll is a hands-on task that can drain your time and energy. There are plenty of cloud-based solutions you can use to make payroll easier. The most effective one we've come across is [Gusto](#). The online service automates many of the tasks involved in payroll and employee benefits, which can save you plenty of time in the long run.

Before you add new team members to the payroll, make sure you're categorizing them correctly as [employees or independent contractors](#). Get this wrong, and you may face a penalty from the IRS.

# Determine Your Tax Obligations

## Tax Filing Obligations

Your business's tax obligations are dictated by the legal structure of your business. If you're self-employed—a sole proprietor, LLC, or partnership—you'll likely claim business income on your personal tax return. But, if you run a corporation, it's considered a separate tax entity, and the income you receive from the corporation will be taxed independently, as though you were an employee.

Self-employed individuals need to withhold taxes from their income, and remit them to the government in the same way as an employer withholding taxes from an employee's pay. If you owe more than \$1,000 in taxes, you will need to pay [quarterly estimated taxes](#) four times a year.

## Sales Tax Collection

Heads up: it's highly likely you'll need to collect sales tax. Thankfully, sales tax is relatively straightforward if you're operating a traditional brick-and-mortar store. A customer walks in, buys something, and you charge them percentage points in line with state regulations.

The matter becomes a little more complicated once shipping costs and sales outside of your home state are involved; when goods cross state or national borders, new rules apply.

When selling to international buyers, you don't need to charge local sales tax on their purchases. When it comes to shipping state-to-state, many different rules apply. For example:

**Origin vs. Destination-Based States:** Some states charge sales tax based on where you, seller, are located, while others charge based on where the buyer is located.

**Sales Tax Nexus:** Your business might have a “nexus,” which can be established by office location, affiliates, temporary visits, and other factors.

Remember how earlier we advised you to team up with a CPA that specializes in your niche? This is where their knowledge will come in handy. Tax obligation and sales tax collection are easy to get wrong. Work with your CPA early on, and make sure you're getting both areas right, to avoid running into any surprises down the line.

# Calculate Gross Margins

An effective way to generate more income is to increase your company's gross margins. Calculating your gross margins means knowing how much it costs to produce your products or services. This will be easier to understand once we define Cost of Goods Sold (COGS) and gross margins themselves.

**Cost of Goods Sold (COGS):** The direct costs a company incurs during production. This includes the prices of both raw materials and labour.

**Gross Margin:** Expressed as a percentage, the total revenue a company collects after factoring in the COGS.

Here's how you calculate gross margin:

Gross Margin % =  $(\text{Revenue} - \text{COGS}) / \text{Revenue}$

Your ability to sustain your business depends on the difference between what you sell a product for and the costs you incur to produce it.

## Continually Refine Your Methods

Reviewing—and, if necessary, modifying—the way you handle your approach to small business accounting is going to help you maintain a successful business. With apps and online services tracking and automating most of your accounting tasks, you will always have an up-to-date snapshot of the financial health of your business. And with a bookkeeping team and a CPA on your side, you'll be able to use the data in your financial statements to run your operation in an efficient manner and make smart, long-term decisions that support long-term success.

Even though the first few years in business can feel overwhelming at the best of times, a smart accounting setup can help ensure that the path ahead is smooth—now, and well into the future.

# About Bench Accounting

**Bench** is a new kind of online bookkeeping service. We pair you with a team of dedicated bookkeepers and use simple, elegant software to do your bookkeeping for you.

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