



**LCA Accounting**  
Chartered Accountants

# BOOKKEEPING FOR SMALL BUSINESS



Being in small business is not all fun and games.

Keeping on top of the record keeping and finances is an absolute must.

Here's some simple steps to do just that:

## 1. Separate your finances

As a small business owner you may feel you can just leave all your money in your business account and spend it however you like.

This is far from the best way to do things. You should keep your business and personal expenses totally separate. Otherwise things will get real messy real soon.

Open two business bank accounts.

- a. The first one is your main operating account
- b. The second one is a tax savings account, to put money aside for GST, PAYGW and income tax.

Use the first account to operate your business from. You bank all your income into that account and pay all your bills from that account.

Each week you need to transfer the net GST you receive, the PAYGW that you have withheld from employees wages and the superannuation owing to the employees, out of the main business account and into the tax savings account. You will also need to transfer an amount out each week to cover the estimate tax you will have to pay. You may need to discuss with LCA what this amount should.

Transfer a regular weekly or fortnightly amount out of the business account and into your personal spending account that way you are still receiving a weekly "wage" and you can spend it however you wish on your personal needs.

All the money in the tax savings account is **NOT YOUR MONEY**. It belongs to the ATO so do not under any circumstances spend this money. You will have to part with it to the ATO at the end of each quarter when the BAS is prepared. If you are too tempted into spending this money then have two choices. One you could use a separate bank that doesn't come up on your internet bank every time you log in – that way it's out of sight and out of mind so you won't be tempted to spend it. Or two, you could prepay it to the ATO, where it will be held in credit in your account until it's needed.

The people who succeed in small business are the ones who get control of their finances quickly and keep the ATO money out of harms way and ready to hand over to the ATO when it's due. ***The people who go broke the fastest are those who don't.***

## 2. Accounting Software

Be sure to choose the accounting software that you are either familiar with or what suits your type of business. Do not be swayed by what everyone else is using – what's right for them may not be right for you.

There are many choices – here are just a few of the most popular ones.

- a. MYOB
- b. XERO
- c. Reckon
- d. Quickbooks
- e. Cashflow manager
- f. Phoenix

Each program comes with a monthly subscription fee and some can be very expensive so choose wisely.

You will need to know if you need:

- a. Invoicing – do you want to use an app for invoices?
- b. Payroll for Wages – if so how many employees?
- c. Have it portable – can it be used on ipads and phones?
- d. Which bank you are going to bank with?
- e. Do you have reliable internet?
- f. Who else will need access?

Make sure you have some training – LCA will provide you with assistance and I strongly suggest you take this training and continue to ask questions until you are comfortable with how the program works.

With all these programs your bank account statements will feed automatically into the software program regularly and you will be taught how to go into the program and “code” the entries to explain what the expenses are for and where the income came from.

You will learn how to create an invoice and receipt a payment and it is vital that you understand how this works and what has GST on it and what doesn't.

At this stage you are probably wondering if going into your own small business is such a great idea.

Stick with us it gets better once you get more comfortable with everything.



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### 3. Reconcile frequently

Reconciling your bank accounts is the only way of knowing if all the income and expenses have been accounted for correctly.

We recommend you reconcile weekly or fortnightly to keep on top of it. It's much quicker to do it weekly and you can fix any problems quickly.

If you need to make an important financial decision for the business, being on top of your finances is essential as you need to know whether or not what you're taking on is financially viable.

### 4. Stay on top of Debtors – people who owe you money

1. ***Invoice customers regularly and make strict, short payment terms.***

Be sure your correct details are on your invoices including your logo, your bank account details so clients can pay directly into your account.

2. ***Don't under value your services – charge correctly and don't give mates rates.***

You and your family need to survive and pay your bills so bill everyone the same. Check out your competitors and be sure your charge out rate is competitive and realistic.

3. ***Ask for payment at the time the job is done.***

Having a small mobile device that can match with your phone and take card payments will ensure you get paid quickly and alleviate the need for chasing people.

If you have to do an invoice and email or post it to the customer use 7 day payment terms and if they haven't paid in that time then get on the phone and call them and remind them they owe you money.

At the worst offer payment terms so they can pay you some each week until it's paid. Under no circumstances should you do any more work for customers who don't pay.

4. ***Cash is king in all business.***

5. You can run the most profitable business in the world but not be able to pay your bills because you have so many people who owe you money.

Be sure to receipt all money receive into your software program and match it to your bank statement when you are coding. (ask if you get confused as to how this works)



## 5. Understand the reports

So now you have been happily coding your data and receipting the invoices and diligently reconciling your bank account each week – now what?

Well now you need to be able to read the reports and understand what all this means.

You need to know where to find and how to read:

- a. The profit and loss statement – both monthly and year to date
- b. The balance sheet
- c. The debtors list
- d. The creditors list (if you are using this one)
- e. The GST reports
- f. The variation reports that shows the difference between this year and last year

A lot of people are just not interested in looking at these reports but we suggest you do. We also recommend that you come and see our team and we will teach you what you are actually looking at. Then you can celebrate how well your business is going or identify where you need to be careful of cashflow etc.

## 6. Keep Records

You must keep your receipts and other accounting and business records for 5 years. So file things away regularly, don't let this get on top of you otherwise it becomes a big chore.

Create a filing system either month by month (which is the preferred system), or quarterly.

The ATO can ask you at anytime to produce the receipts for things on your BAS or in your tax returns so you will need to know where to find these things.

## 7. BAS – Business Activity Statements

So now you are up and running and it comes to BAS time.

The BAS is due within 28 days from the end of each quarter.

The quarters end:

- a. 30<sup>th</sup> September
- b. 31<sup>st</sup> December
- c. 31<sup>st</sup> March
- d. 30<sup>th</sup> June

The team at LCA are happy to prepare the BAS and associated other forms as required or if you want to do it yourself we will teach you how to do this too. If you are doing it yourself it's often better to have our BAS team check what you have done before you lodge it. This avoids unnecessary amendments at a later date.

If you have employees the PAYGW that you have withheld from their wages will be added to your GST and paid as part of the BAS to the ATO.

Your employees Superannuation Guarantee Charged (SGC) super contributions are also due at this time and will need to be paid strictly by the 28<sup>th</sup> of the end of the quarter. End Sept, Dec, March and June. Again our BAS team will organise this for you.

## 8. Personal income tax

By now you should be thinking when do I pay my tax.

You have been saving money each week to cover your personal tax – which is a great idea.

But don't be tempted to spend it as it will be a while before the ATO will be asking for it.

In about May or June each year you will be invited to a tax planning meeting with one of the senior accountants at LCA. We strongly suggest you attend this meeting as many things will be discussed and you will get to understand more about how your business is travelling.

At this meeting we do an estimate of how much tax we think you might have to pay once your tax return is lodged. We will also tell you the latest tax rules that may be affecting your business and give you advice on how best to save yourself some tax by doing certain things.

You will then be given a date when we will be preparing your tax returns. We have all our clients allocated to various months so we can get your work done in a timely manner.

If for example you work in scheduled for September, the team at LCA will email you list of things we need you to get into us before the 1<sup>st</sup> September. Once we have all the things we need then your work will progress into our system to be prepared.

Once your work is done we will contact you as to how you would like your reports sent out to you. We can email them or post them to you. We then invite you to come back and discuss the results with us if you wish to do so.

In the first year you are operating you will more than likely receive a tax bill.

Regardless of when we lodge that return the tax will be due for payment in March of the new financial year. For eg if the return is lodged in Oct 20 and you have a tax bill of \$8000 then that is due for payment on March 2021.

You might think that's great I've got the money for that and can pay it – which we certainly hope you have.

But there's more to the story!!

After the first business return is lodged and you have tax to pay the ATO will put you onto the quarterly payment system called the Instalment system.

If for example you had \$8000 when you lodged your tax return the ATO will assume you will have similar tax to pay in the next year and they will ask you to pay \$2000 tax every quarter at the same time the BAS is lodged.

This can cause a problem in the first year this starts unless you are really on top of the saving plan for tax.

For example

You lodge your 2019 return in Oct 20

Your Dec 2020 IAS will be approx.       \$2000

Your March 2021 IAS will be approx.     \$2000

Also in March 2021 the 2019 tax is due   \$8000

Your June 2021 IAS will be approx.       \$2000

You can see in the period from Dec 2020 until June 2021 you will feel like all you are doing is Paying the ATO. Well you are.

But not all is lost !!

Because when we lodge your 2021 tax return in Oct 2021 you actually get a tax credit for the 3 instalments you paid in advance – if you have \$8000 tax to pay again the ATO will say Ok you have paid \$6000 in Dec, March and June we will deduct that off the \$8000 due therefore you will only have \$2000 to pay and so the circle continues.

Eventually you will get to a point that your quarterly tax instalments will be sufficient to cover the tax due when you lodge your tax return each year.

But of course in that first year it could be tough if you haven't followed the plan and put the tax away in the savings account each week. Hence why we push so hard for you to start off on the right foot and be consistent in saving for the tax. It will save a lot of stress down the track when the ATO comes knocking.

If your business is making more money one year or the reverse - it is making less money- we have a way of adjusting the quarterly payments to suit. If you have a quarter of poor cash flow the last thing you will need is to be paying out a lot of money to the ATO – when you earn less you pay less – when you earn more you pay more – very similar to when you were working on wages.

The team at LCA will calculate this for you each quarter.

The quarterly tax will be due at the same time as the BAS.

## 9. Hire a Professional

If you are totally overwhelmed with the thought of all this record keeping you might want to consider hiring a professional bookkeeper and LCA can recommend one of our preferred bookkeepers.

Or you might think I can do some of it and want LCA team to do the BAS, IAS super and anything else that is required to be done.

## 10. ASK FOR HELP

The last word is – *never hesitate to ask for help*. We have heard it all over the past 40 plus years and we understand small business. The team at LCA are here to assist you to help you turn your hard work into your life's dreams.

work  
HARD  
dream  
BIG  
never  
GIVE UP

