

## Solopreneur Bookkeeping Blueprint: 11 Keys to Thinking Like a CFO and Growing Your Business

Congratulations! You've launched your new business and have a few clients. Or, maybe your business is well established and you're ready to take it to the next level. Either way, you're the CEO of your small business. You're engaging your customers, you're selling, you're delivering.

In essence, your new business rocks!

Or does it?

Is all your hard work paying off? How can you tell?

What story do your financials tell about your business? And when it comes to tax time, will you and your books be ready on January 1 – or not until April 14? Do you lose sleep over getting ready for tax time? Do you know how to read a financial statement for your business (if you even prepare one at all)?

It's time to step up and **give your business the financial attention that it deserves**. You can do this by hiring a chief financial officer (CFO) for your business. Don't panic – the CFO is you, in case you were wondering!

**To grow your small business, you need to know where it's been and where it stands.** Your financial statements tell that story; it's up to you to read them. Whether or not you outsource your bookkeeping, you are the CFO for your business – you need to **have the right numbers** and **understand your numbers**.

You may think you don't have enough time, or that your business is too small. Do any of the following statements sound familiar?

- I'm just a sole proprietor, so **I know everything** about my business anyway.
- **I don't have enough revenue** or clients to outsource the bookkeeping.
- I'm trying to attract clients and I **don't have the time** to do the bookkeeping.
- The thought of using **bookkeeping software really intimidates me**.
- I'm **trying to get dinner on the table**, run to soccer practice, and run my business, so I don't have time!
- I'll just **deal with it at tax time**.

Here's some good news – taking charge of your business numbers is easier than you think!

In this **Bookkeeping Blueprint**, I'll share with you:

- The keys to **thinking like a CFO** and basic information on how to read your financial statements.
- How to **keep on top of your bookkeeping** so you're ready for tax time.
- Which questions to ask about your revenue and expenses (for last week, last month, and last year). The answers may surprise you. You can **use the answers to make informed decisions** about your business! For example, the answers will help you decide where to spend your marketing dollars, or which product or service area needs updating or purging to increase profitability?

**Ready? Let's go!**

**Here are the keys to using your bookkeeping blueprint successfully:**

### **Key #1 – Treat Your Business Like a Business, Not a Hobby**

You've decided be a business owner, so honor that decision by **giving your business the time and attention that it needs in ALL areas of the business**, not just the "fun" ones. This includes bookkeeping, IT & website, marketing, HR, creating your product or service, etc. This doesn't mean that you have to DO everything, just that you find SUPPORT for these areas if you can't or don't want to handle them. In the early days, support may come from family members. As your business grows, support will likely come from outsourcing to professionals. **In order to grow your business, you need to know your numbers.** You won't know your numbers until you establish some good bookkeeping habits. If you're not a natural born bookkeeper, you'll need some training (see Key # 5).

### **Key #2 – Keep Separate Business Accounts**

Set up a **separate bank account with debit card and/or credit card**. The bank account must have online access and be able to download easily into QuickBooks or similar program (See Key # 3). Having a dedicated business account is KEY to keeping organized. It's no fun determining your profit or loss by trudging through loads of bank statements with both personal and business expenses. It makes your monthly bookkeeping, not to mention tax time, much easier.

- If you don't see the need for a business account yet, dedicate one of your personal credit cards (preferably a Visa or MasterCard) for business use only. Make sure there's no prior balance on the card, and pay it off monthly. You want to **keep all your expenses in one place**. Tax time is much easier that way!

- Why Visa or MasterCard? They're more widely accepted online in the small business community (you're a small business owner and you want to support other small business owners, don't you?).
- Prior to opening a business checking account, you may need to get a business license from your town or city. In my town, this is their notification to assess personal property tax on my business property like desk, chair and computer. It won't amount to much tax, but I need to report this information annually. Be on the lookout for something similar in your area. You may need to visit your city or town hall as this information may not be online.
- Consider which bank to use for business. In my opinion, business bank accounts should easily interface with QuickBooks should provide online bank statements, and this access should be free. Ask other small business owners which bank they use and if they like their bank or not. Better yet, talk with a bookkeeper who has worked with various banks to determine which banks are easy to work with.
- When you order checks from the bank, get the checks with carbon copies. It will save you time down the road if you need to refer back to the original check. Not all banks provide permanent access to check images through the bank statement or online banking.

### **Key #3 – Get the right accounting software**

Keeping track of your business on paper or in Excel doesn't give you timely information about your business. In fact, the only thing it does is contribute to stress. It certainly doesn't get you ready for tax time.

QuickBooks is a robust accounting software for various types of businesses. Before investing in software, **talk to a professional bookkeeper about which version is best for you** – the pro should be familiar with your industry (service, manufacturing, retail, etc.). For the best price for QuickBooks, buy it through a QuickBooks ProAdvisor or on Amazon or subscribe to the monthly online service. Aside from ease of use, **QuickBooks brings great reporting to your fingertips.**

- **Online software** – QuickBooks Online is great for service-based businesses. You can access it from anywhere with an Internet connection. Prices start around \$13/month. QuickBooks has both Profit & Loss and Balance Sheets as part of the service. **Don't consider software that doesn't offer a balance sheet.** The Balance Sheet gives you a snapshot of the financial health of all your assets, not just your checking account
- **Real accounting software is the way to go** – If you use Quicken for your personal finances and you may be tempted to use it for your business as well. Quicken doesn't give you a balance sheet (see Key #7). With Excel, any reporting you must create yourself. I've used both for various ventures in the past, and tax time is a mess (even for a CPA!).

- **Think your business is too small?** Be honest about your motives for being in “business.” To have a successful business, you need to invest in the tools like accounting software to know where your business stands. Otherwise you’re just enjoying (or paying for) an expensive hobby, rather than running a business.

#### **Key #4 - Have a pro set up your bookkeeping system**

They’ll go through your income and expenses, and set up the QuickBooks file for optimal reporting based upon your business model. This is not something you should do yourself! A properly set up bookkeeping system (using paper files and accounting software) is the foundation for your bookkeeping success. If done right, you’ll be up and running in no time. If done incorrectly, your information may not be accurate, you’ll spend more time and money to fix it – once you figure out that it’s broken in the first place. **An ounce of prevention is worth a pound of cure.**

#### **Key #5 - Invest in training on Your Accounting Software**

There are many options here – the local community college, online or in-person classes, QuickBooks one-on-one training. As a small business owner, **time is your most precious asset**. You need to spend your time on activities that generate revenue. You’ll get the best results out of your accounting software by **investing in one-on-one QuickBooks training** with a QuickBooks expert, at a time and location convenient to you. This expert can walk you through how to record various transactions for *your* business. Additionally, this expert can show you **how to analyze the Balance Sheet and Profit & Loss statement**. This is where **you become an empowered and savvy business owner**. Who can train you? Ask other small business owners for a referral.

#### **Key #6 - Update your books monthly**

This includes entering or downloading all transactions from the bank statement and credit card. For many solopreneurs who are just starting out, this will take about an hour or so each month. You **MUST do this on a monthly basis in order to keep tabs on the financial health of your business**. Maybe you outsource this to a bookkeeper, maybe you do it yourself to get a better feel for your business. Either way, tax time is much easier if your books are updated monthly.

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**Key #7 – Run financial statements monthly and LOOK AT THEM**

Here's a brief overview of the questions to ask about your business while looking at these reports:

- **Income Statement or Profit & Loss Statement** shows the revenue and expenses for a period of time (month, quarter or year). Look at your income for the current month; compare it to your income from the prior month in the current year and the same month in the prior year. Look at quarterly or year to date (YTD) information.
  - **Revenue** – this is the money your clients pay you. How has your revenue changed from one period to the next? What is the reason for a change in revenue – different types of products/services being sold? Different mix of services? Did you launch a new program or marketing initiative? How soon do you see increased revenue as result of investment in marketing expenses?
  - **Expenses** – this is what you spend in order to serve your clients. How have expenses changed? Are expenses increasing at the same pace as revenue? Are expenses related to Program A in line with the change in revenue for Program A?
  - **Net Income** – this is Revenue less Expenses. How does your income compare to what you want to earn? **Knowing what you know now, how would you do things differently in the future?** Net income from prior years is classified as Retained Earnings on the Balance Sheet.
- **Balance Sheet** – this is a snapshot of your business as of a certain date (generally the last day of the month, quarter or year).
  - Why has the cash balance changed from prior year end? Due to increased revenue or expenses, or your owner contributions or withdrawals?
  - Have you withdrawn all your profits from Retained Earnings? Will you invest Retained Earnings in your business or take out the cash?

**Key #8 – Document your Analysis**

Your financial statements tell you a story each month. **Write down that story!** Now that you know *how* your business is performing, you need to document *why*. You know how hindsight is 20/20 vision? Six months from now, when you're considering a new marketing angle, you'll remember what worked – or didn't – in the past and why, if you write this information down. **Savvy business owners use this story to plan for the future.** The documentation doesn't need to be fancy, but you should update it monthly.

**Key #9 – Quarterly Reviews & Tax Projections**

Take out that document you prepared in Key 8 and **look for the bigger story** – for the current and prior year. Do you start each year with a bang, then plateau for the next nine months? How can you grow your business in the other months of the year? How did your new marketing blitz affect your revenue? Are you spending too many hours on a program that isn't generating the money you expected? This is where **you're thinking like a CFO of your small business!** These types of questions provide insight into your business, and the answers help you focus your efforts to grow your business.

While you're at it, call your CPA after running thru your Q3 quarterly review (after September 30). That's the perfect time to do some tax planning and projections based upon your expected business results. There's no need to pay more taxes than you should. A few hours of working with a CPA will give you an estimate of how much you'll need to pay for taxes and insight to a tax strategy as well.

**Key #10 – Tune-up your books periodically**

Your business changes over time, so update your QuickBooks setup as needed! There are plenty of bookkeepers who provide tune-up services for this purpose. Maybe you've transitioned from selling a service to a product, maybe you're outsourcing some work. Make sure you **use all that QuickBooks has to offer** based upon your *current* business model.

**Key #11 - Deliver your financials to your tax preparer**

Imagine that it's February 1<sup>st</sup>, and you've just finished reviewing the books for December. You've analyzed your results by month and by year (for both revenue and expenses) and strategized for changes you'll make going forward. You walk into your tax preparer's office by the middle of February (before they start getting really busy) and have your tax return shortly after. You can **take vacation or take on new projects in February or March**, knowing that your taxes are done because you kept on top of the books. You'll feel **refreshed and ready to take on the new opportunities in your business!** Rather than focus on last year's finances, you spend February **focused on the future of your business.**

**Congratulations, you're the CFO of your business!** You're on top of your numbers, you use the financial statements to make timely decisions about your business. You're empowered to plan the future for your business because **you know where you've been, where you stand, and where you can go** with your business! You're ready for tax time and have already booked your winter vacation! Hopefully, your business will grow to the point that you do need to outsource your bookkeeping. Either way, you know how to read the financial statements for your business so you can grow your business!

## Tax Tips for Small Business

**You may not know about these, which is why I wanted to share them with you.** Taxes... I know, you just want to make money and it feels like Uncle Sam wants to take it all away... If you're a new business owner, or if your revenue stream has changed from being generated by products to being generated by services or vice versa, here are a few key tips to keep in mind...

- **If you pay individuals more than \$600 in a year for services**, you need to report that payment on a Form 1099-MISC. This applies to individuals (not payments to corporations) and involves payments totaling more than \$600 in the year (not any single payment over \$600). For example, if you hire an individual (not a corporation) to redesign your website for \$350, and then pay that same individual to write blog posts for \$300, you've paid them \$650 in a single year. So, you must issue them a Form 1099 MISC. Your bookkeeper can issue this for you.
  - Note – if you make more than \$600 in payments to an individual, but you pay them with a credit card (not a check), then the credit card company will report that information to them, so you do not need to issue a 1099 to that individual.
  - How do you know if you're paying an individual or a corporation? Ask them for a W-9 before you pay them. This is the IRS-approved way for people to notify you of their tax status. Large companies won't even pay somebody without having this form in hand; you should take the same approach.
  - Form 1099 needs to be filed with the IRS and the individual by January 31 each year.
- **Sales taxes vary by state and they're complicated.** In general, fees for services provided are not taxable (i.e., a photographer's sitting fee received for a photo shoot for family portrait). Physical goods are generally taxable (photos sold to family after the shoot).
  - Things get tricky when you have a flat fee which includes both service (photo shoot) and goods (first 30 prints or photo book are included). Some states say the entire value must be taxed.
  - Maybe you purchase goods for resale to your customers – did you pay sales tax on the purchase? How much tax, if any, must you charge your customer on the sale of these items? The answer may depend on if you apply a markup.
  - You must be familiar with the rules for collecting and remitting sales tax in your state. Have you been in business for a while and have no sales tax issues? **Best to review how you make money to see if your business has shifted and you might have sales tax issues.** Talk to your tax advisor about how to handle sales taxes for the way you do business today.

- Selling online? Same rules apply, other than the fact that sales of goods to out-of-state customers are not subject to sales tax in their state. If you sell online and ship an item subject to sales tax to somebody in your home state (the state in which you do business), then you still need to collect sales tax from the customer because you have a “bricks and mortar” presence in the same state as the customer.
- Estimated taxes must be paid to the US and most state governments. Due dates are April 15, June 15, September 15 and January 15 for each calendar year end. You’re subject to self-employment tax as well. Talk to your tax professional about how to calculate these installments.
- This section is not meant to provide tax advice, only to highlight things which you need to be aware of because you run a small business. Please contact your CPA or tax advisor to discuss how to address these items specific to your individual tax situation.

### About Wendy Sabin, CPA

Solopreneurs from across the country rely on Wendy Sabin, CPA, to keep their books up to date so they can stay laser-focused on their core business and have more fun with family and friends. By utilizing her QuickBooks setups and tune-ups, as well as training, monthly bookkeeping, year-end planning and budgeting, **Wendy’s clients are empowered to make savvy moves to grow their business.** Wendy uses her accounting, budgeting, and training expertise to help entrepreneurs **get good numbers and get on with their life.**

Wendy lives on Boston’s North Shore, and enjoys traveling (to Maine or beyond), cooking, taking photos, and getting outside. She enjoys these activities with her husband and almost 3 year old daughter.