

## **Small Business Accounting 101: 9 Steps to Get Your New Business on Track**

1. Open a business bank account. ...
2. Track your expenses. ...
3. Establish a bookkeeping system. ...
4. Team up with a CPA. ...
5. Determine how you'll get paid. ...
6. Set up a payroll system. ...
7. Determine your tax obligations. .
8. Keep on top of your gross margin.

**Types of Business Entities. U.S. state governments recognize many different legal entity types, but most small businesses incorporate under one of five entity types:**

- 1. sole proprietorship,**
- 2. partnership,**
- 3. C corporation,**
- 4. S corporation, or**
- 5. limited liability company (LLC).**

# Accounting Definition

“ accounting is how your business records organizes and understands its financial information”

It helps to make good business decisions or to know whether you are winning or losing

## **Accounting is split into 5 business areas**

- 1. Managing your Money: Bank or credit cards: Always keep them separate from personal. Don't mix personal with business**
- 2. Bookkeeping –recording and categorizing**
- 3. Financial reports: Balance Sheet, Income statement, Cash Flow Statement**
- 4. Making Business decisions**
- 5. Prepping for Tax season**

**1) An income statement always represents a period of time like a month, quarter or a year. This contrasts with a balance sheet, which shows account balances for one exact date. The income statement below shows five full calendar years plus a last twelve months (LTM) period as of 9/30/13**

**2) Income statements can be generated using the cash or accrual accounting method.**

- Cash accounting means you calculate your profits (or loss) based on when the income and expenses hit your bank accounts. Accrual accounting computes your income based on when a sale was actually made regardless of payment. So, if you made a sale in January but don't receive the funds until February, the revenue will show up in your January income statement with accrual accounting.**
- Accrual accounting is the most accurate, but it can be a big headache to do properly. That's why the majority of smaller independent merchants opt for cash-based accounting**

## **Income Statement**

**The income statement measures performance over a specific time period (quarter, year, etc.)**

**Report revenues first and then deduct any expenses for the period •**

**End result = Net Income = “Bottom Line”**

**Net Income = Revenue - Expenses**

# INCOME STATEMENT

## Phil's Parachute Palace

	2008	2009	2010	2011	2012	LTM 09/30/13
Revenue	\$100,000	\$175,000	\$300,000	\$458,000	\$678,000	\$590,000
Cost of Goods Sold	70,000	120,000	190,000	300,000	415,000	400,000
Credit Card Fees	3,000	5,250	9,000	13,740	20,340	17,700
Gross Profit	\$27,000	\$49,750	\$101,000	\$144,260	\$242,660	\$172,300
<b>Operating Expenses</b>						
Advertising	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$5,500
Salaries and Wages	15,000	25,000	30,000	35,000	40,000	42,500
Phone and Internet	1,000	1,000	1,000	1,000	8,000	1,000
Website Expense	3,000	500	500	500	500	1,200
Depreciation Expense	-	-	-	-	-	-
Office Supplies	50	100	50	100	50	100
<b>Operating Profit</b>	<b>\$6,950</b>	<b>\$21,150</b>	<b>\$66,450</b>	<b>\$103,660</b>	<b>\$189,110</b>	<b>\$122,000</b>
Interest Expense	4,000	3,500	3,000	2,500	2,000	1,500
Interest Income	-	-	-	-	-	-
Non-Recurring Expenses	-	-	5,000	-	20,000	-
Total Income	\$2,950	\$17,650	\$58,450	\$101,160	\$167,110	\$120,500
Income Tax	1,033	6,178	20,458	35,406	58,489	42,175
<b>Net Income</b>	<b>\$1,918</b>	<b>\$11,473</b>	<b>\$37,993</b>	<b>\$65,754</b>	<b>\$108,622</b>	<b>\$78,325</b>

# Calculating Gross Profit

The gross profit equation is:

$$\text{Gross Profit} = \text{Revenue} - \text{Cost of Goods Sold} - \text{Other Direct Expenses}$$

## Phil's Parachute Palace

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## Calculating Operating Profit

$$\text{Operating Profit} = \text{Gross Profit} - \text{Overhead Expenses}$$

### Phil's Parachute Palace

	2008	2009	2010	2011	2012	LTM 09/30/13
<b>Operating Expenses</b>						
Advertising	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$5,500
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## Calculating Total Income

$$\text{Operating Profit} = \text{Gross Profit} - \text{Overhead Expenses}$$

### Phil's Parachute Palace

	2008	2009	2010	2011	2012	LTM 09/30/13
Interest Expense	4,000	3,500	3,000	2,500	2,000	1,500
Interest Income	-	-	-	-	-	-
Non-Recurring Expenses	-	-	5,000	-	20,000	-
Total Income	\$2,950	\$17,650	\$58,450	\$101,160	\$167,110	\$120,500
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<https://www.ecommercefuel.com/income-statement-format/>

# Balance Sheet

**Asset – something you have (current and fixed assets)**

**Liability – something you owe (debt)**

**Equity – net value of the business**  
**(Equity = Assets – Liabilities)**

ASSETS		LIABILITIES	
<i>Current assets</i>		<i>Current liabilities</i>	
Cash	\$ 2,000	Notes payable	\$ 5,000
Petty cash	100	Accounts payable	35,000
Temporary investment	10,000	Wages payable	8,500
Accounts receivable	40,000	Interest payable	2,900
Inventory	31,000	Tax payable	6,100
Supply	3,800	Unearned revenue	1,500
Prepaid insurance	1,500	Unearned revenue	1,500
<b>Total current assets</b>	<b>88,400</b>	<b>Total current liabilities</b>	<b>59,000</b>
<i>Investment</i>	36,000	<i>Long-term liabilities</i>	
<i>Property plant and equipment</i>		Notes payable	15,400
Land	5,500	Bonds payable	400,000
Land improvements	6,500	<b>Total long-term liabilities</b>	<b>415,400</b>
Buildings	180,000	<b>Total liabilities</b>	
Equipment	200,000	<b>474,400</b>	
Accumulated depreciation	(50,000)	<b>OWNER'S EQUITY</b>	
<b>Prop, plant and equip - net</b>	<b>342,000</b>	Common stock	100,000
<i>Intangible assets</i>		Retained earnings	250,000
Goodwill	105,000	Less: Treasury stock	(50,000)
Trade names	200,000	<b>Total owner's equity</b>	<b>300,000</b>
<b>Total intangible assets</b>	<b>305,000</b>		
<i>Other assets</i>	3,000		
<b>TOTAL ASSETS</b>	<b>\$774,400</b>	<b>TOTAL LIABILITIES</b>	<b>\$774,400</b>



# Recordkeeping

- **Everyone in business must keep records**
- **Good records will help you do the following:**
  - Monitor progress of business activity
  - Prepare financial statements
  - Identify receipt sources
  - Track deductible expenses
  - Prepare tax returns
  - Support items reported on tax returns



# Business Recordkeeping System

- **Income**
- **Expenses**
- **Recordkeeping system**
- **Supporting business documents**



# Small Business Recordkeeping System Examples

- **A recordkeeping system for a small business might include the following items:**
  - Business checkbook
  - Daily and monthly summary of cash receipts
  - Check disbursements journal
  - Depreciation worksheet
  - Employee compensation records



## Electronic Records

- **All requirements that apply to hard copy books and records also apply to business records which are**
  - maintained using electronic accounting software, point of sale software, financial software or any other electronic records system
- **Electronic system must provide a complete and accurate record of your data that is accessible to the IRS**



# Report all Taxable Income

- **Report all taxable income on your return**
- **Most income is taxable unless it is specifically exempted by law.**
- **You can receive income in the form of**
  - Cash
  - Check
  - Credit card
  - Assignment of Income
  - Virtual Currencies
  - Non-cash exchanges such as bartering



# Common Tax Errors

- **Four common tax errors for small businesses:**
  - Underpaying estimated taxes
  - Not depositing employment taxes
  - Filing late
  - Not separating business and personal expenses



# IRS and Other Federal Resources for Entrepreneurs



<https://www.irs.gov/smallbiz>



<https://www.uspto.gov/learning-and-resources/inventors-entrepreneurs-resources>



<https://www.usa.gov/business?source=busa>



U.S. Small Business  
Administration

<https://www.sba.gov>



## Stay informed

- **IRS Small Business & Self-Employed Tax Center – [IRS.gov/smallbiz](https://www.irs.gov/smallbiz)**
- **Small Business Tools & Resources**
  - e-News for Small Businesses
  - IRS Social Media – [IRS.gov/socialmedia](https://www.irs.gov/socialmedia)
  - Small Business Presentations on IRS Video Portal – [IRSvideos.gov/business](https://www.irs.gov/videos/business)
  - Small Business Virtual Tax Workshop
  - IRS Online Tax Calendar options for Small Business & Self-Employed – [IRS.gov/taxcalendar](https://www.irs.gov/taxcalendar)
- **IRS has helpful publications – [IRS.gov/publications](https://www.irs.gov/publications)**



# Small Business/ Self-Employed Tax Center – IRS.gov/smallbiz

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## Small Business and Self-Employed Tax Center

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##### Small Business and Self-Employed

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### Charities and Nonprofits

### International Taxpayers

### Governmental Liaisons

### Federal State Local Governments

### Indian Tribal Governments

### Tax Exempt Bonds

### What You'll Find Here

Resources for taxpayers who file Form 1040 or 1040-SR, Schedules C, E, F or Form 2106, as well as small businesses with assets under \$10 million.

### Most Popular

- [Employer ID Numbers \(EINs\)](#)
- [Forms and Publications](#)
- [Self-Employment Taxes](#)
- [E-file Employment Taxes](#)



IRS Small Business Self-Employed Tax Center YouTube Video

### Information For

- [Self-Employed](#)
- [Independent Contractor or Employee](#)
- [Business Structure](#)
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### Preparing Your Taxes

- [Business Tax Credits](#)
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- [Changing Business Name](#)

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- [Gig Economy](#) (Sharing Economy)
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Small Business and Self-Employed

Employer ID Numbers

Business Taxes

e-News for Small Businesses is a free electronic mail service designed to provide tax information for small business owners and self-employed individuals.

Sign-up and you will receive information about:

- Important upcoming tax dates for SB/SE customers
- What's new for small businesses on the IRS website
- Reminders and tips to assist small businesses/self-employed with tax compliance
- IRS News Releases and special IRS announcements that pertain to SB/SE customers

When you subscribe, you will receive a confirmation message by e-mail. Remember, you must respond to this email in order to verify your subscription.

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#### Tax Relief in Disaster Situations

#### Tax Reform

#### Taxpayer First Act

#### Tax Scams/Consumer Alerts

#### The Tax Gap

#### Fact Sheets

#### IRS Tax Tips

#### e-News Subscriptions

#### IRS Guidance

#### Media Contacts

### Connect with the IRS

The IRS uses social media to share the latest updates on tax changes, scam alerts, initiatives, products and services. Connect with the IRS through the following social media platforms.

#### Facebook

The IRS Facebook pages in English and Spanish post useful information, event announcements and tips for the general taxpaying public and tax professionals.

#### YouTube

Tune in to the IRS YouTube channels to watch short, practical videos in English and ASL. You can also see our video tips in Spanish and Chinese in our Multilingual channel.

#### Twitter

IRS tweets include tax-related announcements for individuals, businesses, tax professionals and people looking for #IRSjobs. This platform is also a good way to stay up to speed on the latest scam alerts. We share updates in English and Spanish.

#### Instagram

The IRS shares taxpayer-friendly information on Instagram covering a variety of topics to help people navigate tax law changes, provide the latest tax scam information and help combat tax-related identity theft, as well as periodically share information in Spanish and other languages.

#### LinkedIn

The IRS LinkedIn page posts agency updates, tax information, and job announcements.

### IRS2Go

- [IRS2GoApp](#)

### YouTube

- [IRS Videos](#)
- [IRS Videos ASL](#)
- [IRS Videos Multilingual](#)
- [Taxpayer Advocate](#)

### Twitter

- [@IRSnews](#)
- [@IRStaxpros](#)
- [@IRSenEspañol](#)
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- [@IRSsmallbiz](#)
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### Facebook

- [IRS](#)
- [IRS en Español](#)
- [IRS Tax Pros](#)
- [Taxpayer Advocate](#)




# IRS Video Portal

## IRSvideos.gov

 **Video** 

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Individuals **Businesses** Tax Professionals Governments Charities & Non-Profits Multilingual

Taxpayer First Act

Affordable Care Act

Bank Secrecy Act

Business Expenses

Business Income

Changing Your Business

Disaster Information

Employers

Filing and Paying Taxes

IRS Audits

IRS Liens

Post-Filing Issues

Resources

Retirement Plans


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## IRS.gov/sbworkshop

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Taxpayer First Act

Affordable Care Act

Bank Secrecy Act

Business Expenses

Business Income

Changing Your Business

Disaster Information

Employers

Filing and Paying Taxes

Forms

IRS Audits

IRS Liens

Post-Filing Issues

Resources

Retirement Plans

Scams and Fraud

Starting a Business

Small Business Tax Workshop

☒ **Transcript**

Hello everyone and wel

We designed this works

Small Business Tax Workshop



English (United States) ▼

English (United States)

español (Estados Unidos)

中文(简体)

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한국어

русский

Tiếng Việt

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Lesson 1- Federal taxes and your new business

Lesson 2 - Schedule C and other small business taxes

Lesson 3 - Filing and paying taxes electronically

Lesson 4 - Business use of your home

Lesson 5 - Federal taxes when hiring employees or independent contractors

Lesson 6 - Managing payroll to withhold the correct amount of taxes

Lesson 7- Tax deposits and filing a return to report payroll taxes

Lesson 8 - Hiring people who live in the U.S. who aren't citizens



# Online Tax Calendar – IRS.gov/taxcalendar

## Online Tax Calendar

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### Online Tax Calendar

View due dates and actions for each month. You can see all events or filter them by monthly depositor, semiweekly depositor, excise, or general event types. Visit this page on your Smartphone or tablet, so you can view the Online Tax Calendar on your mobile device.

View the [Online Tax Calendar](#) ([en Español](#)

### Calendar Reminders

You can have your Calendar reminders sent to your email inbox via RSS Feeds one or two weeks in advance of when a form or payment is due.

View the [Instructions for RSS Feeds](#) ([en Español](#)

### Subscribe to or Import into Your Calendar Program

You have the option to Subscribe to the Small Businesses calendar using Outlook 2007, Outlook 2010 or Mac iCal. Outlook 2003 does not have the ability to subscribe but you can download the tax events from the calendar.

#### Subscribe

Subscribing adds Web calendar data to your calendar program.

The Web calendar data will be updated automatically, but you will not be able to make manual changes to it.

#### Download

Downloading lets you add a one-time "snapshot" of the calendar events to your calendar program (e.g. Outlook).

Outlook will allow you to edit this imported calendar data but will not automatically refresh it when data is updated by IRS.

View the [Instructions to Subscribe to or Import the Tax Calendar](#) ([en Español](#)



# IRS Publications

- **Publication 1, Your Rights as a Taxpayer**
- **Publication 15, Circular E - Employers Tax Guide**
- **Publication 225, Farmers Tax Guide**
- **Publication 334, Tax Guide for Small Business**
- **Publication 463, Travel, Entertainment, Gift, and Car Expenses**
- **Publication 525 – Taxable/Nontaxable Income**



# IRS Publications

**Here are some of our top recommended sources for you to review.**

- **Publication 5557, A Guide to Starting a Small business**
- **Publication 583, Starting a Business and Keeping Records**
- **Publication 535, Business Expenses**
- **Publication 587, Business Use of Your Home**
- **Publication 594, The IRS Collection Process**
- **Publication 505, Tax Withholding and Estimated Tax**
- **Publication 463, Travel, Gift and Car Expense**