



YOUR GUIDE TO
**PAINLESS ACCOUNTING
AND SMALL BUSINESS
FINANCES**



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Running your small businesses finances can be complicated and confusing—especially if you're not a money management expert. It's very important to have working knowledge of everything you need to financially succeed from accounting to payroll to business loans.

In this guide, we'll provide you with actionable tips for how to manage accounting, taxes, payroll and financing for your small business.



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1 Be a Better Bookkeeper

Typically, a bookkeeper manages daily financial transactions, such as logging business expenses, managing receipts, tracking sales and invoices, paying vendors and processing payroll.

These financial tasks can easily be a lot to handle in addition to running a small business. Luckily, there are some options you should consider that can help take your bookkeeping to the next level.

To Hire or Not to Hire an Accountant

If you have the budget, hiring an accountant can take a load off of your plate. It might be more affordable than you think to work with a professional. Many small business accounting firms work part-time on retainer and can handle whatever you need—whether that’s balancing your accounts, sending invoices or paying employees.

Start with Software

If an accountant isn’t in your budget, make sure you have a handle on your “books” (or, rather, accounting software). Today’s accounting software platforms are incredibly user-friendly, even if you’re not financially (or tech) savvy. Here are a few to explore:

» FreshBooks

FreshBooks is designed for the “non-accountant,” so you know it’s simple to use. You can send branded invoices, accept payments online and view financial reports. If you bill clients hourly, you’ll love the Track Time feature, which helps bill hours on specific client projects. **Subscriptions start at \$9.95 a month to bill up to five clients monthly.**

» QuickBooks

QuickBooks offers features similar to FreshBooks, but also helps you pay employees, receive and pay bills and connect other apps like PayPal and Square. **Plans start at \$12.95 a month.**

» Xero

Xero is a great alternative to more intricate suites like QuickBooks. It helps business owners send invoices, track expenses, view transactions, project cash flow and manage your overall financial picture. It also shares relevant data with your financial adviser or accountant and connects with more than 400 third-party apps like Expensify, Gusto and ADP. **Plans start at \$9 a month to send up to five invoices and pay five bills.**

Tip: Other accounting platforms that cater to specific industries are available, so explore all of your options to find the best fit.

Four Important Components of Bookkeeping

» Cash Flow

Cash flow is the difference in the cash you have on hand at the beginning and the end of an accounting period.

Cash flow is probably the most challenging area of finance for small businesses. Managing your expenses, cutting down on unnecessary costs and having money in savings is essential.

When your clients don't pay you on time, it's difficult to pay your own bills.

If your cash isn't flowing as expected, read the "Financing Your Business" section on [page 9](#) for great options on how you can inject more capital into your business.

Tip: Learn how you can get ongoing access to working capital from **Kabbage**.

» Debt

Carrying debt isn't always a bad thing, but you do want to pay your bills in a timely manner.

Pay attention to due dates. Not paying an invoice on time might cause you to rack up late fees. You may be able to negotiate a discount if you pay your bills early, so don't shy away from asking.

While **credit cards** are a quick way to cover business expenses, interest rates can eat away your profits. If you do decide to use a **business credit card**, shop around for one with a lower interest rate and no annual fee. Always pay off your monthly balance on time so you don't pay an additional \$30+ in late fees or hurt your credit.

Other debt, like **working capital loans**, is more manageable. You'll pay a fixed interest rate that's more reasonable than credit cards offer. It's important you set aside enough cash to cover your monthly payment, or you risk defaulting on the loan.





» **Receivables**

Make it easy for your clients to pay their outstanding invoices by offering multiple payment options like cash, check, PayPal and credit card. Most accounting software offers some form of online card payments, so sign up to make it easy to get paid.

You'll get paid faster if you have an [accounts receivable policy](#) that includes when invoices are due, such as "30 days net," and can outline any late fees. Make sure your policy is clearly communicated to customers and keep an eye on who's not paying. Once you've sent courteous reminders, stronger measures could be in order.

» **Collections**

When you've exhausted all efforts to receive a payment from a customer, it's time to consider using a collection agency. A collection agency will buy your debt for a fraction of the invoice total, which is a viable alternative to writing off the debt entirely. To find a collection agency in your state, visit the [Better Business Bureau](#).



Tip: Read this article to learn [how to fix your most common cash flow gaps](#).



Kabbage Tip:

Check out our guide on [Ways to Optimize Your Receivables Management for Success](#).



Small Business Taxes

As much as you hate them, there's no getting around paying your taxes every year. Understanding what you're paying and finding ways to reduce what you owe is a crucial strategy for small businesses.

Choosing the Right Business Structure

The business structure of your company affects your taxes. Here's a quick overview of your options:

» Sole Proprietor/Partnership

By default, you run a sole proprietorship if you're the only owner and a partnership if you have partners. Should your business ever be sued, your personal assets will be at risk under this structure because you aren't legally separated from your businesses. If you can't pay court fees or debt payments, your assets could be taken to cover them.

» S Corporation

This is the most popular type of corporation because of great tax benefits. With the S Corporation, you are separate from your business, and your assets can't be touched. Other types of corporations are first taxed on profits and then shareholders (you) are taxed on dividends. With this structure, you'll benefit from "[pass-through taxation](#)" and will report profits and losses on your personal income tax.

» Limited Liability Company

The LLC has similar taxation and asset protection benefits to the S Corporation but involves less paperwork. Whether you incorporate or form an LLC, you may be responsible for annual paperwork and fees. Check with the Secretary of State in the state where you formed your business structure to see what you're responsible for and when it's due.

Want to learn more about small business taxes?
Check out our [6 top tax and bookkeeping books](#).

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How to Process Payroll

If your business supports hiring employees, congrats! It can help you focus on running your business. If you don't have any employees yet, [you'll get there](#). Here's what you need to know about paying the people that help you run your business:

Employee vs. Contractor

What type of help does your business have? Did you hire full-time employees that you pay a salary and benefits? If so, you'll be responsible for payroll taxes each quarter. If you hire the occasional freelancer or contractor, it's their responsibility to pay income taxes. However, you are responsible for [filing a 1099-MISC form](#) with the IRS and sending a copy to your contractor if you paid them more than \$600.

Make Payroll Easier

You may be able to organize your payroll and/or pay taxes using your existing accounting software. Some software, like [Gusto](#), will deduct payroll tax each time you cut payroll checks or deposits so you don't owe a big chunk every quarter or year. Other payroll services to consider include:

» ADP

[ADP](#) was once the de facto payroll service, though it's seen some competition in recent years. Its small business services include payroll and tax payments, human resources management and time and attendance tracking. **Prices vary. Contact for a quote.**

» Intuit Payroll

If you already use QuickBooks, [Intuit Payroll](#) will work seamlessly with your system. In addition to what ADP offers, Intuit also offers direct deposit of paychecks, app versions of the software and tax reports for your accountant. **Intuit's basic plan, which requires more legwork from you, is \$20 a month. The full version is \$79 a month.**

» Paychex

If you'd rather be hands-off with payroll, consider [Paychex](#). You'll get a dedicated payroll specialist and 24-hour customer support. **Prices vary. Contact for a quote.**

Tip:

If you're new to paying employees or freelancers, make sure you set aside some of your profits to cover payroll. The last thing you want is to lose talented people because of a cash crunch.

Financing Your Small Business

Sometimes you need a little extra cash to keep money flowing, or a lot to invest in equipment or inventory to grow your business. Fortunately, there are several financing options to consider.

Online Loans

Kabbage and other online lenders are different from traditional banks in many ways. It's easier and faster to get approved for a loan, they evaluate different aspects of your business's creditworthiness than traditional banks and they offer loan amounts more in line with what small businesses need.

Kabbage does not use just a credit score to approve applicants. Instead, Kabbage looks at data from eBay, Amazon, UPS, PayPal, shipping analytics and others. For businesses with less established credit, Kabbage can be a great way to get capital for purchasing inventory, hiring more staff or buying equipment. The application process is much less complicated than that of traditional banks, and you'll have the flexibility to draw any increment when you need it.

Credit Cards

Small business credit cards provide business owners with easy access to a set line of credit to make purchases and withdraw cash. Just like a personal consumer credit card, a small business credit card carries a variable interest rate and charges if the balance is not paid in full each billing cycle. When considering a business credit card for your business, make sure you are well educated in the benefits and potential pitfalls that come along with your line of credit.

Tip:

If you are able to pay your bills on time every month and not carry over a balance, credit cards can be great convenience and an asset to your business.



Traditional Bank Loan

There are definitely times when a bank loan is the right choice. Because a loan generated from a bank typically is paid back over the course of several years, it can be beneficial for buying big ticket equipment or investing in new employees. Bank loans are typically approved based upon your personal credit or your established business credit. In most cases, a bank will ask to review your business plan and expect you to have collateral. Since the recent recession, banks have dramatically reduced the number of small business loans that they approve. This trend appears to be slowly lessening, but it remains challenging to get a small business loan unless you have considerable assets and stellar credit.

Why get a **Kabbage loan** vs. a traditional bank loan?

Merchant Cash Advance

A merchant cash advance provides businesses with upfront cash in exchange for a portion of future credit card sales. For businesses that have plenty of sales but are struggling with little or bad credit, a **merchant cash advance** may be a viable option for getting funds. The key aspect of a merchant cash advance is that it's packaged as a sale of future revenue to be obtained through debit and credit card transactions.

SBA Loan

If you're considering applying for a small business loan, the **Small Business Administration (SBA)** is a good place to start. The SBA is a federal government agency and one of the largest loan guarantors in the United States. The 7(a) Loan Program, SBA's most common loan program, includes financial help for businesses with special requirements. While a loan from the SBA is an attractive option, the process to qualify requires lengthy paperwork, good credit and a fairly detailed business history.

Angel Investing

Angel investors are people (or firms) that agree to provide startup capital, usually in exchange for convertible debt or ownership equity. As this Entrepreneur.com list of **Top 10 Angel Investor Groups** indicates, angel investor groups tend to be regionally based. The best way to locate angel investor groups in your area would be to search for organizations in your state or the nearest major city.

Because angel investors are taking a risk by investing in your startup, they may also have high expectations. It's not unusual for angel investors to expect a return as high as 10 times their initial investment within just a few years. As with any other stakeholders, managing expectations and communicating on a regular basis is vital.

Check out this article from Forbes on **20 Things All Entrepreneurs Should Know About Angel Investors.**

Crowdfunding

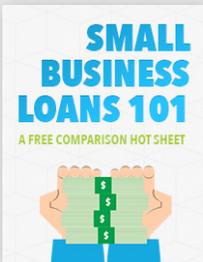
Whether you're just in the idea stage of your business or have already achieved considerable success, crowdfunding may be worth considering. Your business receives money through an online platform from anyone who wants to support you, from your grandmother to total strangers. If you're able to generate enough buzz and support for your business, you have the ability to raise startup capital through a variety of crowdfunding organizations such as [GoFundMe](#), [Kickstarter](#) and [Indiegogo](#). These sites let you publish and promote your fundraising project, but they take a fee or a percentage of what you raise.



Learn how to plan, launch, maintain and fulfill a crowdfunding campaign: **The Business Owner's Guide to Crowdfunding**

Business Grants

Some government agencies, corporations and private foundations set aside a surprisingly large amount of money to help businesses get started and grow. Each year, millions of dollars are awarded through [business grants](#). Money from grants has helped many Fortune 500 companies get off the ground and has connected countless small businesses with funds to succeed. However, competition for grants can be intense, and obtaining a grant is not a quick process. In many cases, you will be waiting weeks and even months before you hear back on your application.



Kabbage Tip:

Make sure you weigh the pros and cons of each type of financing before you make a decision. Check out our [Small Business Loans 101 Comparison Hot Sheet](#) to compare how these funding options stack up on cost, application requirements, decision time and repayment.

Eight Terms to Know

1. Balance Sheet

This financial report includes your business assets, liabilities and equity. If you are seeking funding or applying for a loan, you will likely need to provide your balance sheet.

2. Breakeven

When gross revenue equals expenses, this is called the breakeven point. Many new business owners don't realize that for the first few months or years, they may operate at a loss. Breakeven indicates that profitability is around the corner.

3. Cash Flow Statement

This report highlights the flowing in and out of your business for a set period of time. The money flowing in comes from invoice payment and purchases, while the money flowing out goes toward payroll, inventory and overhead.

4. Employee Identification Number (EIN)

Much like a social security number, this number is unique to your business. You need it to open a business bank account, apply for credit and other financial tasks.

5. Gross Revenue

Gross revenue, also known as total revenue, is the sum total of all payments received from clients before expenses.

6. Net Profit

After you remove expenses from gross revenue, you are left with net profit. Ideally, your net profit is positive, which means your revenue is greater than your expenses.

7. Profit and Loss (P&L) Statement

Also called an income statement, your P&L outlines the expenses and incomes for a specific period for your business. This comes in handy when it's time to file your small business taxes.

8. Revenue Forecast

Being able to forecast how much money you will make in the next year can help you make smart financial decisions. Create best-case and worst-case estimates for your revenues and then look at the expenses you know you have each month to determine profit margin.

Like what you read?

Share it with other small business owners who could use some financing advice.

