

Learning to Count: Accounting 101
For the small business owner
by Michelle Woodbury, Business Consultant
with the Small Business Development Center

Accounting.

If you're like the majority of the population, the word *accounting* sends chills up your spine. In fact, you can't believe you're even reading an article with a title like this one.

However, you are also probably mildly aware that a lack of accounting knowledge can cause major complications in both your tax and business life.

This article will hopefully explain some of the more important parts of business accounting that are crucial for your business' success.

However, before we go into how proper accounting can actually help your business, let's start with Rule #1 for business accounting:

Documentation is Key. In order for financial information to be useful for your business, you have to have the information.

If you don't know how much money you're spending or where you're spending it, projecting cash needs will be impossible. If you don't keep receipts, tax time will be torture.

An easy way to keep financial records is to simply list cash transactions on a spreadsheet. Every time money goes out or comes in, write it on the spreadsheet.

Slightly more complex bookkeeping methods include software packages, many of which are available for download online, both for free and for a fee.

Whatever method you use for keeping track of your financial transactions, do it consistently. And, just to be clear, stuffing receipts in shoe boxes does not constitute bookkeeping!

Now that you have Rule #1 down, let's talk about how financial information can be used in your business.

The Statement of Cash Flows – This statement simply shows a listing of your cash inflows and cash outflows for a period of time. Not only does the Statement of CF show your current cash balance (which should be positive), it shows the net change in cash for a period of time (which should also be positive).

Lenders and vendors will want to look at your cash flow to see if you have sufficient surplus cash to pay off your bills and loans, so it is important to keep track of your cash flows for that reason alone.

Budgets – While money may talk, unless you have a budget, it ain't talkin' to you.

Budgets help you allocate predicted funds to predicted expenses for a certain future time period. Examining how much of your incoming funds are already taken can help you make major business decisions, such as offering new products, hiring employees, and moving locations, can all impact future cash flows.

It is also important to be able to use current economic factors in your budgets as well, so that you can better plan ahead for necessary cut-backs.

Invest the time and energy now in developing a system to keep track of your cash flows and predict your future cash needs. If you don't, you risk running out of a cash, which is a place no one wants to be.

###

The Small Business Development Center provides Free & Confidential Managerial and Technical Business Counseling from 16 offices throughout South Carolina.. For the Columbia Area Office, phone 803-777-5118 or email uscsbdc@moore.sc.edu.