BOOKKEEPING FOR NEW BUSINESSES

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Starting a New Business

Starting a new business can be an exciting opportunity. You probably have lots of ideas for how to make the best products or services and change the world. However, I can bet that bookkeeping isn't the most exciting part of running your business (unless you started a bookkeeping business, of course). Just having to keep track of all of your sales & expenses every month can seem like a nightmare.

This guide is designed to be practical and straightforward. I don't want to bore you with technical jargon or fancy accounting terminology. The goal is not to overwhelm the reader with complicated accounting theory. Instead, I want to give you practical methods you can use to do your own bookkeeping, completely free of charge!

This guide is an entirely free resource. I will also be posting tons of more free content at https://affordablebooks.ca/ if you're interested. I hope this will make things easier for you on your journey.

Note: This guide is structured in a way that you don’t have to read through the entire thing if it’s not relevant to you. If you’d like, you can skip to the section that seems most relevant to your situation at any time.

Disclaimer

This guide is provided for general informational and educational purposes only. It is not intended as accounting, tax, legal, or financial advice, and it should not be relied on as a substitute for professional advice tailored to your specific business.

Every business is different, and bookkeeping requirements can vary based on your industry, structure, province, and individual circumstances. While I've done my best to make sure the information here is accurate and up to date at the time of writing, laws, regulations, and best practices can change, and I can't guarantee that every detail will apply to your situation or remain current.

By using this guide, you acknowledge that you are doing so at your own discretion and risk. I am not liable for any errors, omissions, losses, or damages, financial or otherwise, that may result from applying the information in this guide to your own business.

If you're unsure whether something in this guide applies to you, or if you'd rather not risk getting it wrong, I'd strongly recommend reaching out to a qualified professional. I offer bookkeeping services through Affordable Bookkeeping Services and am happy to help directly. Feel free to contact me at affordablebooksca@gmail.com to avoid any costly mistakes.

Setting Up an Accounting System

Today, we are lucky to have so many options for effective accounting systems. Gone are the days when bookkeepers would open up physical journals and record each entry by hand. Today's modern tools give us options that are fit for businesses of all shapes and sizes. I've provided a brief overview of some of the most popular accounting systems below. There are also some pros and cons that you may encounter for each, from my experience.

If you already have an accounting system in mind, you can skip to the next chapter.

QuickBooks Online

QuickBooks Online is one of the most popular accounting systems for small businesses. They've got millions of customers globally at the time of this writing. You may encounter some accountants and bookkeepers who *only* use QuickBooks. This could be something to think about if you want a specific company to do your tax filings at the end of the year. Over time, QuickBooks has gotten better and added some impressive features. However, it may be a bit costly if you are a small business just starting out.

Current QuickBooks Online Pricing: https://quickbooks.intuit.com/ca/pricing/

QuickBooks Online (QBO)	
Monthly cost	Midrange
Ease of use	Moderate: many features, can feel overwhelming at first
Invoicing/payments	Strong, built-in payment processing
Bank integration	Yes, automatic import
Mobile app	Good
Upside	Businesses that want the most support/training resources and plan to grow
Downside	Price increases with add-ons

Wave

wave If you're looking for an alternative to QuickBooks with a great free tier, Wave is a reasonable option. They have a free starter plan that should be suitable for many smaller businesses.

Current Wave Pricing: https://www.waveapps.com/pricing

Wave	
Monthly cost	Free or low-cost tiers
Ease of use	Easiest option, built for non-accountants
Invoicing/payments	Strong, free invoicing and payments
Bank integration	Yes, automatic import
Mobile app	Good
Upside	Early-stage or pre-revenue businesses wanting a free option
Downside	Weak Canadian payroll support, fewer integrations

Other Alternatives

Below is a list of some other alternatives, in no particular order.

Current FreshBooks Pricing: https://www.freshbooks.com/en-ca/pricing

FreshBooks	
Monthly cost	Fair
Ease of use	Easy, invoicing-first design
Invoicing/payments	Best-in-class for invoicing and getting paid
Bank integration	Yes, automatic import
Mobile app	Good
Upside	Service-based businesses that bill clients frequently
Downside	Less robust once the business grows (inventory, multi-entity needs)

Sage (Pricing Not Publicly Available): https://www.sage.com/

Sage	
Monthly cost	High
Ease of use	Harder, more accounting jargon and an older interface
Invoicing/payments	Decent, less polished
Bank integration	Yes, automatic import
Mobile app	Weaker
Upside	Businesses with some accounting background or complex inventory needs
Downside	Steeper learning curve for a non-bookkeeper

Current Xero Pricing: https://www.xero.com/ca/try-now/

Xero	
Monthly cost	Moderate
Ease of use	Moderate, cleaner interface than QBO
Invoicing/payments	Strong
Bank integration	Yes, automatic import
Mobile app	Weaker
Upside	Businesses that want a modern, clean platform and don't mind paying similar to QBO
Downside	Smaller support/help ecosystem than QBO

Microsoft Excel

Note: Although you can use Excel to do your bookkeeping, I would not personally recommend it. Excel lacks many of the amazing features that are included in new accounting systems. There is also a high risk that your books will have mistakes. Given the number of free and low-cost options available, I would suggest one of the options above.

Excel	
Monthly cost	Already owned, or ~$10/month for Microsoft 365
Ease of use	Easy to enter data, but hard to trust the output
Invoicing/payments	None, manual templates only
Bank integration	No, fully manual entry
Mobile app	Yes
Upside	Very low transaction volume businesses wanting zero subscription cost
Downside	High error risk, no audit trail, doesn't scale. Best used as a stopgap or supplementary tracker, not a full system of record

Feel free to use whichever accounting system feels best for you. What matters most for your business is that the system you choose works for **you** personally.

After you’ve chosen a bookkeeping software and you’ve finished signing up for an account, the first thing you’ll want to do is set up a chart of accounts for your business.

Setting up Your Chart of Accounts

A chart of accounts is just the list of “accounts” where your business will record transactions. Think of an account like a special envelope where you put your transactions. You can have an account to keep track of your cash, another one for inventory, and so on.

Most accounting systems will come with a default list when you sign up. However, almost every business I’ve come across has needed to customize this default list.

A restaurant, for example, might need a "furniture" account for their tables and chairs. An electrician probably won't need this, but they might need an account for gasoline. Different businesses can have different accounts, depending on their needs.

What Accounts Do You Need?

The easiest way to figure out what accounts you need for your business is to start with a template. One option is to use the default template provided by the accounting system. Another trick is to copy one of the many free templates available online.

A decent template should get you about 90% of the way. However, there are some important questions you’ll need to ask to see if there are any accounts you may be missing.

Here are some questions that you should try to answer while you are creating your accounts:

1. What are the things that my business needs to keep track of to help me make better operational decisions?
2. What are the things my business needs to keep track of to file my taxes at the end of the year?
3. What resources do I own that I need to keep track of (assets)?
4. What debts do I owe that I need to keep track of (liabilities)?
5. How much have I invested in and earned from my business (equity)?

These are some of the important questions that shape how you design your chart of accounts. I go into more detail on each of these questions in the following sections.

What Should I Track? Making Better Decisions

The ultimate goal of tracking your business' finances is to make better decisions. Without an understanding of your business' financials, it is impossible to do this. You want to know how to use the resources you own to get the greatest return on your investment. Below are some accounts that you'll probably need to make special note of.

Revenue Accounts

These are the accounts that keep track of the sales from your business. Depending on your business, you may have different types of revenue accounts. Here are some examples below:

A *restaurant business* might need to track sales from different product lines separately, like below:

- In-house dining
- Takeout orders
- Delivery orders
- Non-alcoholic beverages
- Alcoholic beverages

Under your main revenue account, you can create many sub-accounts. The sub-accounts allow you to see break down your sales by product line or type of service. This method gives you more detail about how each segment affects your business. For example, these separate accounts can help explain how dining room closures might affect your in-house sales. Tracking your drink sales separately from your food sales might explain how well your team is upselling drinks.

A *medical or dental practice* may keep a different set of accounts for their revenue, like below:

- Insured services
- Uninsured services
- Product sales (drugs, toothpaste, etc.)

- Promotional services

This breakdown can help you make better business decisions. A dentist might find that their insured services tend to increase near the end of the year, when benefits are about to expire. This would prompt them to run most of their advertising during the end of the year. They might also choose to install new ad space for products and check what effect it has on their product sales.

A *trades business* would also have different priorities to track:

- Hourly labour revenue
- Parts & supplies sold to customers
- Inspection and diagnostic services

There are different ways to set up a chart of accounts for different businesses. Ultimately, we are trying to answer the million-dollar question. *What metrics should I track to make better decisions?* You want your revenue accounts to provide this insight.

Cost of Goods Sold (COGS)

The cost of goods sold (COGS) accounts track costs paid to buy products you sell to customers. If your business is simple, you can choose to have just 1 COGS account. However, here are a few different examples of COGS accounts in business. They highlight different things the business wants to keep track of.

An *ecommerce business* selling printed clothing may have a structure that looks like this:

- Sweaters – COGS
- Jeans – COGS
- Baseball Caps – COGS
- Footwear – COGS

Ideally, you'd want you cost of goods sold numbers to inform the decisions that you could make in your business. This might mean prompting you to negotiate better contracts with your suppliers, for example. Some businesses, like restaurants, may have a goal to keep their costs lower by tracking their portions closely:

A *restaurant business* may have a setup that looks like this:

- Produce
- Meat & Seafood
- Dairy
- Pantry Items
- Non-alcoholic beverages
- Alcoholic beverages

Breaking down your COGS this only helps you get better data on your costs. It also helps you determine how a supply chain issue might affect your business.

Labour Costs

Labour is typically one of the largest expenses that most businesses experience. Your business may use many different types of labour. Keeping track of them separately may help you see if you are using your labour effectively. Here is an example of a labour cost account setup for a manufacturing business:

- Frontline wages
- Quality assurance wages
- Supervisory wages
- Management wages
- Selling, general & administrative wages

Breaking down your labour costs in this way can help you pay closer attention to why your costs are changing. For example, frontline wages may follow sales more closely than management wages.

What Should I Track? Preparing for Tax Filing

It's a good idea to start planning for the tax man right at the beginning of your business. The CRA is likely going to be the main third party that you'll need to share your financials with. The best way to make sure you're prepared for tax filing is to have accounts set up to keep track of what you owe. Here are some accounts that most businesses will probably have:

- **HST/Sales Taxes Payable:** If you're an HST registrant, you'll need to keep track of how much money you'll need to pay to the government when you file
- **HST/Sales Tax instalments:** If you make regular instalments for HST, you'll want to keep track of these separately from your payables so you can reconcile this account easily
- **Payroll source deductions payable: I**f you have employees, you'll want to keep track of the amounts you've collected from them for CPP, EI and federal/provincial taxes so you can remit these to the government. You'll also want to keep track of the amounts you're paying on their behalf.
- **Income Taxes payable:** This is to keep track of any income tax you might have to pay after year-end.

A good tip is to look at the tax forms you'll need to file at the end of the year, and copy those accounts. These are publicly available on the CRA website.

- *CRA's T2SCH100 Balance Sheet Information:* https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t2sch100.html
- *CRA's T2SCH125 Income Statement Information:* https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t2sch125.html

For simplicity, you can mirror the accounts provided by the CRA. That would greatly assist you with your tax filings at the end of the year.

Common Account Types

Asset Accounts

You'll need asset accounts to track the resources your business owns. Some common asset accounts that most businesses are going to need are:

- **Cash Account**
- **Bank Account(s)** – you should create a separate subaccount for each bank account in your business. This will help in the reconciliation step later on
- **Accounts Receivable (A/R)** – this is a special account that helps you keep track of what your customers owe you.
- **Inventory Account** – to keep track of the things you've bought but haven't yet sold

- **Prepaid Expenses** – if you pay expenses in advance (like rent or insurance), this account keeps track of them
- **Undeposited funds** – if you take credit card payments, you'll want to keep track of the amounts your card processor owes you. This is to make sure you're getting the correct amounts.
- **Furniture, Equipment and Leasehold Improvements** – keeps track of things like the tables and chairs in your restaurant, the tools in your toolbox and the upgrades you've made to a leased property
- **Security deposits** – you might've put down security deposits to rent a building or other asset
- **Vehicles**
- **Buildings**

You may have other assets that are unique to your business, which you'd like to keep track of. Examples include software that you've developed, intellectual property like patents or even customer lists that you've purchased.

Liability Accounts

Your business will likely have liabilities (amounts you owe to other parties), that you'll want to keep track of. Here is a list of common liability accounts you might consider in your business:

- **Accounts Payable (A/P)** – this account keeps track of the amounts that you owe to your suppliers.
- **Credit Cards & Lines of Credit Payable** – you should have a separate account for each credit card account in your business if possible. This will help make the reconciliation easier in the future
- **Accrued Liabilities** – these are liabilities that you may have incurred, that you haven't yet received a bill or paid for. Once you receive a bill, you would move the liability into the A/P account. I discuss more examples in the chapter on *Recording Other Transactions*
- **Wages (wages payable, vacation payable, WSIB payable)** – you'll want to keep track of different accounts to keep track of your payroll liabilities.
- **Bank loans**
- **Shareholder loans**
- **Mortgages**

There may be other liabilities that you are obligated to pay that you might want to keep track of. Examples include liabilities from contracts or future promises.

Liabilities don't always have to be amounts that you'll pay for with money. For example, if you receive money from a customer for a service you are going to provide them at a later date, this amount is recorded as a liability. This is because you owe the customer a service or a refund if you fail to deliver.

Equity Accounts

These accounts keep track of the owners' investments and how much of the company's profits have been kept or paid out.

- **Owner's Equity** – the amount that the owners have invested into the business
- **Retained earnings** – the profit from prior years that has been saved in the business

Account Numbering Systems

It helps to enable account numbers in your accounting system. These may also be referred to as general ledger (GL) codes. These codes help keep track of different accounts more easily. For example, here is a common numbering system used by businesses to keep their accounts organized:

- 1000 – 1999: Assets (Cash, inventory, equipment)
- 2000 – 2999: Liabilities (Loans, bills owed)
- 3000 – 3999: Equity (Owner investments, retained earnings)
- 4000 – 4999: Revenue (Sales, service income)
- 5000 – 6999: Expenses (Rent, payroll, software)

You want to be careful to leave lots of room between account numbers. This way, you can add more accounts later.

Setting up Your Opening Balances

If you're starting a new business, this should be relatively straightforward. The first transaction you'll likely make a is a cash investment in your business. To record this, you'll want to make a journal entry in your accounting system.

Making a Journal Entry

To make a journal entry, find the option to do so in your accounting system. Once you start, you'll want to enter the date of the transaction. If this is a bank deposit, you'll want to make sure the date matches your bank account. This makes the reconciliation easier in the later steps.

Next, you'll want to select the account you deposited money into. This will either be your cash account, if you made a cash deposit, or a bank account if you deposited money into the bank.

Then, you'll want to enter the amount. You'll notice that there are typically 2 columns to enter your amounts called **Debits** and **Credits**. To increase the amount in your cash or bank account, you want to *debit* this account. If you want to decrease the amount, you'll want to *credit* the account.

For every journal entry you post, the most important rule is **that the total debits have to be equal to the total credits.**

In this case, since this is an investment in your business, you'll want to credit the owner's equity account. Select the owner's equity account and type in the same amount as earlier into the credit column. Check to make sure that the debits equal the credits.

Lastly, you'll want to write a memo to remind yourself what this transaction was for. It helps to include references to source documents or details about the transaction that will be relevant at a later date, so that you can easily tell what a transaction is for.

Once you're done, you can go ahead and press the **Save** or **Post** button to post your first journal entry.

For a new business, this is typically all you need to set up the opening balance. If you already have existing balances that you need to transfer over from a previous business, *I'll be writing a guide for existing businesses that are looking to restart or clean their accounting soon.*

Recording Your First Expense

If you’ve been following this far and you’ve set up your accounts. You are ready to start posting some of your business expenses. Keeping track of your business’ expenses is crucial for making business decisions later. We’ll go through a few examples of how to post expense transactions below. You'll see that most of them are pretty similar.

Step 1 – Start by identifying the expense

To identify that an expense has been incurred, you want to look for a trigger. The easiest trigger to look for is a charge on your bank account or credit card statement. These provide clear signs of expenses. However, you may also have other expenses like cash purchases, which you should keep track of.

Step 2 – Get the source document

For every expense transaction in your business, it helps to have a source document to explain what the expense is. This also shows proof that you’ve actually paid it, or received the goods/services in question. Examples of source documents can include receipts from the business you paid

Step 3 – Record the expense

Once you’ve identified the expense and collected the source documents, you’ll want to enter it into your accounting software. Most accounting software will have a “create expense” option, which I recommend you use. If you are using a more basic accounting software without this feature, I’ll show you how to make a journal entry to record expenses.

Recording Expenses with the Create Expense Feature

To record the expense, start by entering the date that the expense took place. You can typically find this on your bank statement or invoice.

Next, choose the account that the funds came out of, such as the bank or cash account. Afterwards, choose the expense account from your chart of accounts. For example, a bill from Hydro One might belong in electricity expenses.

Next, enter the dollar amount into the amount box.

Finally, upload any source documents to the expense if your accounting system has that feature. If your accounting system lacks an upload option, keep your source documents saved somewhere secure in case you need to access them later.

And that's it! You've posted your first expense.

Recording Expenses with Journal Entries

If your accounting system doesn't have a "create expense" option, you can post a journal entry instead. To post a journal entry, find the "new journal entry option."

You'll want to start by entering the date the expense took place. Make sure this matches your bank or credit card statement.

Next, you'll want to select the correct expense account in the first line of the entry. For example, you might put gasoline purchases in "fuel expenses". Enter the amount of the expense in the *debit* column.

Next, you'll want to select the account that you used to pay for the expense. For example, if you used a credit card, you would select that account. Enter the amount of the expense in the *credit* column. Remember that the total debits and total credits have to equal each other.

Finally, write a memo with the relevant details and upload your supporting documentation. Then press the button to post the journal entry.

Recording Your First Sale

Arguably one of the most exciting moments in business is making your first sale! There are a couple of easy ways that you can record your sales. Creating an invoice is one option that works for large or personalized transactions. You can also sell a product on an external point of sale (POS) system, then record it in your accounting system.

For individualized/customized services like filling a cavity, you'll likely be creating an invoice for each client. Whereas for high-volume sales like burgers, you'll likely be using an external POS system to track sales. Afterwards, you'll post the summarized data into your accounting system. I'll go over both methods in detail below.

Invoice Sales

Creating an invoice is usually very straightforward in your accounting system. You'll want to look for a feature that allows you to create an actual invoice rather than using a journal entry. The invoice feature in most systems allows you to create unique customer profiles. You can also keep track of the different products or services that you are selling most often. After you open the create invoicing feature, enter the following information:

1. The date of the sale (usually the current day)
2. The due date for payment (sometimes the software allows you to automatically calculate common due dates like Net 30. This means exactly 30 days from the invoice date from Step 1
3. You'll want to select a customer, or create one if they are new. Creating a customer just means entering their billing information into your accounting system so it will show up on the invoice
4. The products or services that you are selling to the customer (you'll likely need to set this up in advance. If product tracking is not important to your business, you can use the built-in default products.
5. The quantity of the product or service. For example, if you are charging for consulting hours, you would enter the number of hours sold
6. The rate for each unit of that product (i.e. $100 per hour or $200 per widget)

7. The accounting software should automatically be able to calculate your total based on steps 2-4
8. Once you're done, you'll want to send the invoice to the customer so you can get paid.

Many modern accounting systems allow you to send the invoice directly from the software as an email. You can even set up credit card payments to allow users to pay the invoice from the same screen. You'll want to review the payment processing fees before setting up this service, as they can be quite high depending on the provider.

External Sales

If you're running a high-volume business (like a restaurant, e-commerce business or retail store), it may be impractical to create an invoice for each customer in your business.

Typically, you'd want to sign up for a point-of-sale (POS) system to keep track of these orders instead. These systems help you quickly handle cash and credit card transactions on the spot. There are plenty of low-cost options that are available in the market today, including:

- Square (https://squareup.com/ca/en/pricing)
- Clover (https://ca.clover.com/)
- Moneris (https://go.moneris.com/)
- Lightspeed (https://www.lightspeedhq.com/)
- TouchBistro (https://www.touchbistro.com/)
- Etc.

Choose the best POS system that works for you. Afterwards, you'll want to record your sales into your accounting system. You can decide how often you make these entries into your books. Businesses that want increased detail may choose to enter their sales daily. While a business that is more concerned with seasonal variation may decide to make one entry monthly. The choice really depends on what you hope to get from the data you've entered.

Entering External Sales with a Journal Entry

For simplicity, we'll assume that you record your sales weekly. To record your weekly sales, you'll want to create a new **journal entry.**

First, set the date of the journal entry to the last day of the week that you're entering in.

Then, choose the revenue account that corresponds to the products/services you sold. You'll want to enter the total sales for that week in the *credit* column next to this line. You can enter multiple amounts for different revenue accounts in one journal entry if you sold multiple products.

Next, you'll want to record the *debit* amounts, which are the sources of payment that you took. First, choose your cash account and enter the total cash sales in the debit column. Then take your credit card receivable account and enter the amount you expect to receive from your credit card processor. Do the same for each payment method that you accepted. When you're done, your debits should equal your credits, as always.

There may be some other items that you'd want to deduct or keep track of from your POS system. For example, if you collected tips that you need to redistribute to your employees, you'll want to *credit* the tips payable account.

Ideally, you want your entry to match what is in your POS system.

Once you're done entering the amounts from your POS system, you should see that the debits equal the credits. If they don't, something is not right with your entry, and you should check your work again. Once you're satisfied with your entry, you can write a memo to explain what the entry is for (i.e. weekly sales from XYZ location) and submit the entry.

Recording Other Transactions

There may be a number of other common transactions that a business needs to enter into their accounting system. This is not an exhaustive list, but rather a collection of some transactions that you're most likely to encounter based on my experience.

Posting Bills

You may receive some goods or services from your suppliers, but you may not be required to pay that amount right away. In this case, you'll want to post a bill instead of an expense transaction. This is because bills allow you to keep track of due dates as well. Posting a bill is very similar to posting an invoice. The difference is that instead of choosing a customer and products sold, you choose a supplier and products received. Keeping track of all your bills as soon as you receive them can help you manage your cash flow better. Cash is an essential resource for growing businesses. **Note:** not all accounting software supports bills on their basic or free tiers.

Labour Costs

If you have employees, you'll likely need to keep track of your labour costs. For small businesses that cannot hire a full-time payroll clerk, I would recommend outsourcing this role, as payroll tax deductions can be somewhat complicated to perform, and mistakes can lead to costly penalties or fines from the CRA. We can help connect you with a service that fits your business' needs when you're ready to make that next step.

Cost of Goods Sold from Inventory

When you buy a product from your supplier but haven't sold it yet, you should record the purchase by increasing (debiting) your inventory balance. As you sell the products in your inventory, you'll want to decrease (credit) the amount in your inventory and increase (debit) the amount in your COGS account. There are different ways of doing this depending on your business.

For retail or product-based businesses, you might decide to have your accounting system keep track of all the inventory your business owns. For businesses that have to buy raw materials and assemble them, like restaurants or manufacturing businesses, the COGS calculation is a bit more complicated.

You'd likely have to count your inventory at different periods in time to see how much of it has been depleted, either through sale or through waste. There are various methods to approximate this, but that is beyond the scope of this guide.

Accruals

Recording accruals is a bit more of an advanced concept, but it can help you create financial statements that are consistent and easy to understand. To understand why you might need to make an accrual, consider this hypothetical scenario:

You run a business that has to pay a monthly rent payment on the last day of each month. This amount is automatically withdrawn from your bank account by your landlord using pre-authorized withdrawal. Usually, the end of the month is a weekday, so the withdrawal happens on the exact last day and gets included in your monthly financial statements. However, this year in May, the last day is a Saturday. The landlord tries to initiate the pre-authorized withdrawal, but your account balance doesn't actually change until Monday, which is the 2nd day of June. What impact does this have on your financial statements?

If you record the monthly rent payment on the day it was withdrawn from your bank account only, your May financial statement will have no rent payments, and your profits will seem significantly higher than usual. Your June financial statement, however, will include both the May and June rent payments, and your profits will seem a lot lower than usual. This creates a sense of instability, even though nothing has actually changed in the business. You still used your rental property in both May and June, so you should record the expense for May and June.

At first, you might think of changing the date of the transaction so that the payment comes out on the last day of the month, but then you'll run into a different issue. Your bank balance on your accounting statements won't match the balance from your bank statements, which will raise questions about the accuracy of your records.

The answer to this dilemma is to record the expense, but instead of deducting it from the bank, you create a liability in the accrued liabilities account. Then you can enter a reversing entry on the 1st day of the next month to cancel out the first entry. The effect of this is that your May rent payment will be reflected on your May statement, and the reversal entry will cancel out the transaction that you post in June from your bank account.

If this seems confusing to you, I'll be making an in-depth guide on accrual entries for small business owners soon.

Reconciling Your Accounts

One of the most important steps in bookkeeping is reconciling your account balances. Reconciling is just a fancy way of saying "making sure that the balances on your financial statements match an external source of truth."

Most accounting systems have a way to mark your transactions as reconciled, and even provide tools to make the reconciliation process easier. Here is a simple way to reconcile your bank and credit card accounts:

Step 1 – Get your bank statement from your bank. Your bank will typically email these to you, or you can likely download them from the online banking portal.

Step 2 – Look at the ending balance of your bank account and the ending date of the statement.

Step 3 – Check if the ending bank balance for that account on your balance sheet matches the amount from your bank statement.

If the amounts match, you're usually in the clear. If not, you're going to want to open up the bank account in your accounting software and check if there are any missing, duplicate or incorrectly categorized transactions.

It helps to use the built-in reconciliation tool in your accounting software to finalize your reconciliation. This ensures that you have a paper trail for the reconciliation you did, and the software will typically give you a warning if you try to change or delete a reconciled transaction. This should prevent you from accidentally messing up your financials after reconciling.

You can complete the same process for credit cards and other balance sheet accounts.

Generating Financial Statements

Now for the fun part. Generating the financial statements for your business is when you'll get the first look into how your business is doing. It can be a thrilling experience to see your hard work and effort pay off as real, tangible profits.

To generate financial statements, you'll want to make sure that all of your transactions have been posted and that all of your balance sheet accounts have been reconciled.

Afterwards, your accounting system should have a "reports" section where you can click to generate your statements for a particular time period. Here are some of the financial statements that you'll want to pay attention to and what they mean for your business:

Balance Sheet

This financial statement shows you a "snapshot" of all the resources your business controls (assets) and all of the debts you owe to others (liabilities), along with the "Net Worth" of your business (equity). You'll want to pay close attention to how your balances have changed since the last period, and you can do so by creating a "Comparative Balance Sheet" in your accounting system.

Profit & Loss Statement

Your profit and loss statement shows you how much income your business generated, and what expenses you incurred to generate that income. The bottom of your profit and loss statement shows the net income or profit that you generated that period. You'll want to pay close attention to how your profit and loss statement changes from period to period, as it can provide you with insight into how your operational decisions are affecting your financial results

Cash Flow Statement

The cash flow statement provides you with a view of one of your business' most valuable resources, it's cash. Since you need cash to pay your suppliers and employees, it is essential to keep track of where it is going and coming from.

You might be wondering, what is the difference between profits and cash coming into the business? If my business is profitable, shouldn't I have more cash available?

This is a common misconception. A business can be profitable on paper, but still not have the cash available to pay its bills. The reason is that you might be making sales, but if your customers aren't paying their bills on time, you'll have a cash flow problem.

You may also have a lot of prepaid expenses like subscriptions and insurance, which don't reduce your profits just yet, but they do decrease your cash flow because you've already paid for them. Your cash flow statement shows you exactly where you stand, and the difference between your profits and the actual cash landing in your accounts.

Accounts Receivable (A/R) Aging Report

If you've looked at your cash flow statement and you're wondering whether there may be some customers that haven't paid their invoices, the A/R aging report is the next one you'll want to check. It shows you all the invoices you've issued which are still due and which customers are behind on their payments. You'll want to regularly check this report to make sure that all of your customers have paid, and send follow-up reminders to the ones that haven't so they are aware of the outstanding balance.

Accounts Payable (A/P) Aging Report

This report shows you all of the bills that have been posted in the accounting system which are still due. You'll want to make sure that you check this often to avoid missing payments. It can also help you avoid facing interest penalties or straining the relationship with your suppliers.

Closing The Books

The phrase closing the books comes from a time when accounting records were literally stored in books. Once the accountants were done with their work, they would close the books to avoid making any changes to them again.

Nowadays, with modern accounting software, we don’t have a physical book to close. However, we still want to let our accounting system know that changes should not be made to our financial statements anymore.

The reason for this is that you may have already communicated the financial results with your team or your investors. Making changes to the financials after you’ve distributed them can raise questions about the accuracy of your reporting. Instead, you want to make sure that any changes are reflected in the next period, so that the historical records stay consistent.

You should be able to close the books by finding the option to do so in your accounting software. This doesn’t prevent you from re-opening the books and making changes later if you wanted to. However, it will prevent you from accidentally making changes to past records without realizing. You may also have a password set up to prevent changes made by other people who have access to your accounting system.

Once you’ve closed the books, you should only make changes to them if they are absolutely necessary, and if you understand the implications. You’ll also want to make sure all of the people who’ve received copies of the old reports are aware of the changes.

Conclusion

Bookkeeping is an incredibly important part of any business. It’s the way you learn how your business is doing financially and whether the work you're doing is actually impacting your bottom line.

If you like this free guide, I would appreciate you sending me a testimonial at affordablebooksca@gmail.com and also sharing it with anyone who may need it. If you find that bookkeeping is something that is taking up too much of your time and you face any challenges while doing so, you can always contact us or visit our website at https://affordablebooks.ca/ to get a free consultation and assistance with your bookkeeping.