

Bookkeeping and Accounting Guide

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Bookkeeping and Accounting Introduction

- Proper bookkeeping and accounting can often be challenging for small businesses, especially those just starting out. It often proves to be quite daunting and overwhelming. This guide aims to clear up misconceptions and questions about the two, and ultimately provide some guidance for handling both.
- There are plenty of services that help keep track of all financial transactions for small businesses, as well as record expenses and keep record of all receipts. These softwares usually cost money, but they can be more cost effective than hiring a bookkeeper or accountant. For Forbes' top picks for bookkeeping services and softwares, click [here](#).
- It is important to note that we are *not* experts on the topics listed, and that this guide is purely meant to help small businesses understand *some* components of the topics discussed. While we strive to provide the best guides and most information we can, there are countless intricacies and complex aspects within these topics that simply cannot be fully covered in one guide. To learn more, we recommend and encourage you to check out our other guides, and meet with professionals to discuss these topics more in depth.
- Mostly, we want to hear from you. Are there questions that we haven't answered? Are there resources we haven't included, or topics we haven't covered? Let us know by sending a note to michelle.feldman@eastfallspa.com.
- *Looking for professional assistance from a local East Falls business? Visit our online business directory [here](#) or contact our offices via michelle.feldman@eastfallspa.com.*

Bookkeeping and Accounting FAQ

- There are plenty of FAQ's (frequently asked questions) that small business owners have about bookkeeping and accounting, and when left unanswered these questions can lead to unfortunate, but ultimately preventable, problems for businesses. Below are some answers to FAQ's about bookkeeping and accounting asked by small business owners.
- **Is there a difference between bookkeeping and accounting?**

- In short, yes, there is a difference between bookkeeping and accounting. As a result, hiring a bookkeeper or bookkeeping service does not automatically mean that they will take care of your accounting needs too.
- **What are the key differences between bookkeeping and accounting?**
 - Bookkeeping is the recording of financial transactions for a business. This includes posting debits and credits, producing invoices, managing payroll, and maintaining and balancing ledgers, accounts, journals, budgets, and subsidiaries. *So bookkeeping is the act of tracking the day-to-day expenses of a business.*
 - On the other hand, *accounting is done in response to bookkeeping. Accounting is the process of verifying and analyzing the data produced by the bookkeeper(s). Accountants take the ledgers, journals, etc. that are recorded by the bookkeeper and check their accuracy before they are then used for other financial reports.*
 - These reports include income statements, balance sheets, and statements of financial position. They are also responsible for adjusting entries recorded by the bookkeeper if they notice any inaccuracies or discrepancies. Additionally, there are also tax accountants that specialize in filing and preparing tax returns for businesses.
- **What's the difference between a CPA and an accountant?**
 - CPAs (Certified Public Accountant) are accountants who have passed the CPA exam, which is the uniform test that accountants can choose to take to become officially certified. CPAs are deemed as qualified by the government to perform certain tasks that accountants cannot perform, such as preparing audited financial statements, acting as a representative in front of the IRS, and conducting company audits. When hiring an accountant, you may want to take into account education level, years of experience, and charge rate for their services, along with whether your business needs a CPA specifically for the services mentioned above.
- **How much does each service cost?**
 - Bookkeepers typically cost around \$30-\$90 per hour, depending on the services required, experience level, and general prestige.

- In a survey conducted by the US Small Business Administration program SCORE, 53% of small businesses paid within the range of \$1,000-\$5,000 per year for their accounting services, 18% paid within the range of \$5,000-\$10,000 per year, and 12% paid within \$10,000-\$20,000 per year. That being said, most small businesses will likely fall within the \$1,000-\$5,000 per year range.
 - Learn more about SCORE [here](#), as they can be an extremely useful source for small businesses.
- **What should I use if I want to keep track of finances myself?**
 - This is a rather daunting task for a small business owner to take on, but if done right, you can get a better feel for your businesses finances and save some money in the long run. If you are going to do so, using QBO (Quickbooks Online) is highly regarded as the best option for small businesses to use. For more information on Quickbooks Online, please look into our dedicated piece to Quickbooks Online.
- **What is reconciling accounts, and how do I do it?**
 - Reconciling accounts is checking to ensure that the records that you or your bookkeeper have documented match the bank's records. To do this, simply compare your bank statement with your accounts, and see if either of them have a discrepancy or inaccuracy.
 - It is recommended that small businesses reconcile their accounts once a month to ensure that any fraudulent behavior can be caught quickly. Reconciling is also easier if done monthly, as there will be less to check as opposed to if a business reconciles their accounts less frequently.
 - If questions arise, you will want to meet with your accountant. They will be able to clear up anything that is unclear or that you are uncertain about, and they will be able to ensure that your finances are being tracked and recorded properly.
- **If my accounts and bank statements do not match, what do I do?**
 - If you have compared your records with your bank statement and found discrepancies, please know that this is not something to panic over. This is, after all, a regular part of managing accounts. In fact, in most cases the accounts will

not match and adjustments will be required. There are a few factors that can cause this, some of which are listed below.

- Factor #1: **Deposits in Transit** will not be accounted for in the bank statement, and will need to be added. These are simply any amounts that have been received and recorded by the business, but are not yet recorded by the bank.
- Factor #2: **Outstanding Checks** are checks that have been recorded and written in the account of the business, but have yet to clear the bank account, and will therefore not be counted yet. This typically occurs when a check is written within the last few days of the month. These will be deducted from the bank balance.
- Factor #3: **Bank Errors** can and will happen, and are usually something like the wrong amount being entered or an amount being omitted from the bank statement. If this occurs, be sure to notify your bank so that they can investigate the error.
- These are all factors that would cause the bank statement to be inaccurate, but there are also factors that cause the account of the business to be inaccurate. These are also normal and to be expected during the reconciliation period.
- Factor #1: **Bank Fees and Charges** can include overdraft fees, monthly charges, and other fees that the bank may deduct from your account. These fees and charges must be deducted from your account.
- Factor #2: **NSF (not sufficient funds) Check** is any check that the bank has not recorded due to there being insufficient funds in an account. This means that the amount from the check has not yet been deposited in your account, and needs to be deducted from your records.
- Factor #3: **Errors in the Account** are simply mistakes made by whoever is keeping track of the accounts in the business. These mistakes can be easily fixed, and as long as they are fixed, they will not harm your business in the long run.
- While this list covers many of the factors that may cause discrepancies, there are still others that could cause inconsistencies.
- For more information on reconciling accounts, we recommend the link provided [here](#).

Getting Started

1. As mentioned above, it is recommended to use Quickbooks for your bookkeeping and accounting needs.
2. The first step is to set up your accounts payable and accounts receivable. To put it simply, accounts payable is what you owe to other people, businesses, etc. as part of your business expenses. Accounts receivable are what people, businesses, etc. owe you that they have yet to pay you for. So, if a customer were to pay with credit, the amount would go into accounts receivable since you have technically not received the funds yet despite having already provided the service, good, etc.
3. To set up accounts payable, either get an online service such as Quickbooks Online, or start setting up an Excel sheet or other form of ledger. Next, ensure that you save all proof of business expenses. This includes bills, receipts, bank statements, credit card statements, proof of payment, and any other documentary evidence. Next, create columns for the supplier's name, the account number, what type of expense it is (such as office supplies, professional services, etc.), the date you received the invoice, and the amount you owe. From there, be sure to post any new additions to your accounts payable daily. This is a good habit to get into to ensure that you don't lose track of payments. Then, be sure to pay debts on time, preferably before the due date, as it will create trust and a positive relationship with whomever you are doing business with.
4. To set up accounts receivable, you will once again want to begin a Quickbooks account, spreadsheet, ledger, etc. just like for your accounts payable. Then, you will need to develop an invoice with the following information: your business contact information, your business logo if you have one, clear payment terms (including date a payment is due), specific details about the service you performed, hours worked, date, and the name a check should be made out to. Additionally, you will want to keep track of proof of payment and other documents, including your invoices, canceled checks, and any other proof of payment. Just like before, you will then want to set up columns within whatever tool you are using: customer name, invoice date, invoice number, amount owed, due date, amount past due, and date receivment was paid. Again, be sure you post into this daily just like with the accounts payable in order to keep track of everything.

5. Be sure to also keep record of your petty cash (petty cash can be best described as a small amount of cash that is kept for small transactions such as office supplies, postage expenses, etc.) as well as any transfers that go along with it. Small businesses usually want to start with \$50-\$200 in petty cash. Be sure to have a log and receipts to document all transactions that occur with petty cash in order to keep track of the amount of petty cash. This will be important when creating balance sheets, as petty cash, although small, still needs to be accounted for. For additional information, we recommend using the link provided [here](#).

More About Us

- This guide was developed by the East Falls Development Corporation to advance our mission of supporting the East Falls business community to ensure our neighborhood is a great place to live, work, play, visit, and do business.
- For over twenty years, we have worked to make East Falls the best community it can possibly be for our residents, businesses, and visitors. We have spearheaded numerous successful projects including the redevelopment of the historic Bathey House into a commercial space, and the new [East Falls River Landing](#) - a recreational site with ADA access to the Schuylkill River for non-motorized boating, fishing, birding, and more.
- Because we compiled this guide to support East Falls' small businesses to the best of our abilities, your feedback and suggestions are not only encouraged, but crucial to helping us fulfill our mission. This toolkit is just one step in what we hope will be a continuous effort to make East Falls the best community it can be, and your help and support would be greatly appreciated.
- Read more about our work on our [homepage](#) (discovereastfalls.org): what we do to serve the East Falls community, who we are, and how you can get involved. You can also follow us on Instagram (@DiscoverEastFalls) and Facebook (@EFDCorp).
 - If you are a small business owner, we hope you will reach out to our offices to learn more about the East Falls Business Association; grant, loan and training opportunities we can connect you with; ways in which we can support your



marketing and promotion efforts; and how we can act as a liaison to government at all levels as well as Citywide supports for small businesses.

- You can contact us via our homepage, 215-848-8084, or emailing michelle.feldman@eastfallspa.com.
- We look forward to hearing from you, and we hope this guide was helpful!

