

Five Things They Didn't Teach You In School About Starting A Business

FROM A BOOKKEEPER



Hey, it's Sara!

The nature of my job as a bookkeeper means I work with a lot of brand new business owners (*and it's one of the most rewarding parts of my job!*).

But I've noticed that I end up explaining a few certain finance concepts over and over again... so, why not put it all into a free guide?!



The truth is, you don't know what you don't know when it comes to running a business! While you're probably an expert in whatever you're offering to your clients, you might be overlooking something when it comes to taxes and accounting. That's where working with a financial professional can save you tons of money and headaches!

The information provided in this guide is not intended as financial advice. Please consult with your accountant to advise on your specific financial situation.



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A photograph of a wooden coffee table in a living room. On the table is a silver laptop and a white notebook with the word 'NOTES' printed on it. The background shows a dark leather sofa and a patterned rug.

ACCOUNTING CONCEPT #1

Commingling Your Funds

Let's start with the number one mistake...

You haven't opened a separate bank account for your business! Why?! Opening up a new bank account isn't nearly as hard as you think it is. Here's what you'll generally need:

- Your EIN or SSN (depending on your entity type)
- Articles of Incorporation/Organization (if applicable)
- Business License(s)
- Ownership Information
- Personal IDs for Authorized Users

But, Sara, I just want to keep it simple and run everything through my checking account...

OOF - hearing this is your bookkeeper and tax accountant's worst nightmare. Whoever does your bookkeeping now has to sort through every single transaction (including those personal ones you might not want us to see) to determine first if it's a business or personal transaction, and second, how to categorize it if it is a business expense. You're doubling efforts for no reason!

But, this can be a much more serious issue!

When you don't separate your business and personal funds, this is called commingling!

Commingling your funds (if you're organized as an LLC or corporation) can invalidate any personal liability protection that you're getting from your entity structure. Piercing the corporate veil like this can mean your personal assets are vulnerable to lawsuits and debt collection.

Here are a few other benefits of opening a separate bank account:

- You can unlock business bank account features (like the ability to accept certain payments)
- You gain greater credibility with a lender
- You can start establishing your business's credit

If there's only one thing you take away from this guide, it's that if you're starting a new business, one of the first things on your to-do list should be to open a separate business bank account.

A top-down view of a desk with various items: a laptop with a black screen and keyboard, several books, a black pen, a pair of glasses, and a spiral-bound notebook with a brown cover. A white rectangular box is centered over the image, containing text.

ACCOUNTING CONCEPT #2

Taxes, Taxes, Taxes

You need to know these things about taxes...

NOT EVERY EXPENSE IS A DEDUCTION

Just because you've bought something on your business credit card doesn't mean it's a tax deduction. The IRS states that a business expense must be ordinary and necessary in the course of doing your trade or business. Furthermore, certain expenses may fit these criteria, like meals or a home office space, but are only partially deductible according to tax law. When in doubt, ask your tax accountant!

YOU DON'T *NECESSARILY* WANT TO MAXIMIZE YOUR TAX DEDUCTIONS

Taking a lot of tax deductions to lower your taxable income is great from a tax perspective, but you need to have a view of the bigger picture! If you're spending a ton on business expenses to lower your income for your taxes, your income is also going to be lower when it comes to qualifying for financing. If you want to take out a mortgage, your lender is going to want to see your tax returns and will base some of your borrowing capacity on the net income shown.

More things you need to know about taxes...

YOU NEED TO SAVE FOR ESTIMATED TAXES

When you're self-employed, you generally need to pay estimated taxes. Instead of money being withheld by your employer from your paycheck, you need to set aside your own money from your earnings to cover your tax liability.

WORK WITH A TAX PROFESSIONAL

It is incredibly important to find a tax accountant that you trust when you open a new business. They can be your resource for helping you form your business, making you aware of the different taxes you might need to worry about (like payroll tax, sales tax, and state tax), and ensuring you're meeting your federal, state, and local filing requirements. Those estimated taxes you just learned about? They're going to be your resource for how much to pay!

Generally, you want a tax accountant with experience in your industry. Ask your peers who they're using to help with their business's tax needs.



ACCOUNTING CONCEPT #3

Financial Statements

There are three basic financial statements:

INCOME STATEMENT

Also known as your profit and loss statement (or P&L), this financial statement shows a summary of your income and expenses for a certain period. Your P&L is incredibly helpful for showing how much revenue (sales) you have, where you're spending the most money, and how much money you're profiting to keep in your own pockets.

BALANCE SHEET

You might have heard of the equation: $\text{assets} = \text{liabilities} + \text{equity}$. That's your balance sheet! It's a summary of what you own (assets), what you owe (liabilities), and the value left over for the owners (equity).

CASH FLOW STATEMENT

Your cash flow statement shows how money moves in and out of your business over a certain period. It breaks down where your cash is coming from (like income, loans, or investments) and where it's going (like operating expenses, loan payments, or owner withdrawals).

Here's how all your financials connect:

Your financial statements don't exist in a vacuum, they all work together to show a full picture of your business's financial position.

Let's start with your P&L, it's kind of self-explanatory in that it shows your profit (or loss). Your net income number (the bottom line of your P&L) flows through to the equity portion of your balance sheet. If it's a positive number, it increases your equity (and vice versa).

Your cash flow statement actually pulls data from both your P&L and your **balance sheet** to show how cash is moving throughout your business. For example, it starts with your net income and adjusts for non-cash expenses like depreciation or asset purchases shown on the assets section of your balance sheet.

With clean bookkeeping, you can have these three financial reports at your fingertips to help you make important business decisions, like where to invest in growth opportunities or cut spending!

A modern desk setup with a laptop, glasses, a pen holder, and a lamp. The background features a window with blinds and a dark lamp with a white shade. The foreground shows a laptop keyboard, a pair of glasses, a pen holder with pens, and a small bowl of colorful pens.

ACCOUNTING CONCEPT #4

Entity Choice Matters

Your entity choice sets you up for success!

Working with an accountant to determine the correct entity choice for your business is incredibly important. Your business structure can affect your taxes, your liability, and how you pay yourself!

Let's jump into some pros and cons to consider for each common business type:

SOLE PROPRIETORSHIP

If you start a business where you're the only person running it and you don't file any paperwork to create a separate legal entity, you have a sole proprietorship!

PROS

- No costs or filings are needed to set up
- No additional tax returns are needed
- You have full control and ownership

CONS

- No personal liability protection
- Potential for less credibility than an LLC or corporation with clients & vendors

A few more options:

LIMITED LIABILITY CORPORATION

If you're the sole owner of your business but you wish to create a separate legal entity and add a layer of protection to your personal assets, you may want to form an LLC!

PROS

- Personal liability protection
- Flexible taxation options
- Less paperwork and compliance are required compared to a corporation

CONS

- Costs more to set up than a sole proprietorship
- You need to be aware of your state's requirements and any filing fees

PARTNERSHIP (GENERAL OR LIMITED)

If your business is owned by two or more people, the simplest business structure you can have is a partnership.

PROS

- Benefits from pass-through taxation where profits flow through to partners' individual tax returns
- Can have limited liability with a limited partnership

CONS

- With a general partnership, the general partner has unlimited personal liability
- Ruled by your partnership agreement

A few more options:

S CORPORATION

This isn't a business structure, it's an election an LLC or corporation can make to be treated for tax purposes.

PROS

- Pass-through taxation
- Can limit taxes by taking a reasonable salary and remaining compensation in distributions

CONS

- Requires payroll for owner-employees
- More filing requirements and potential fees than an LLC

C CORPORATION

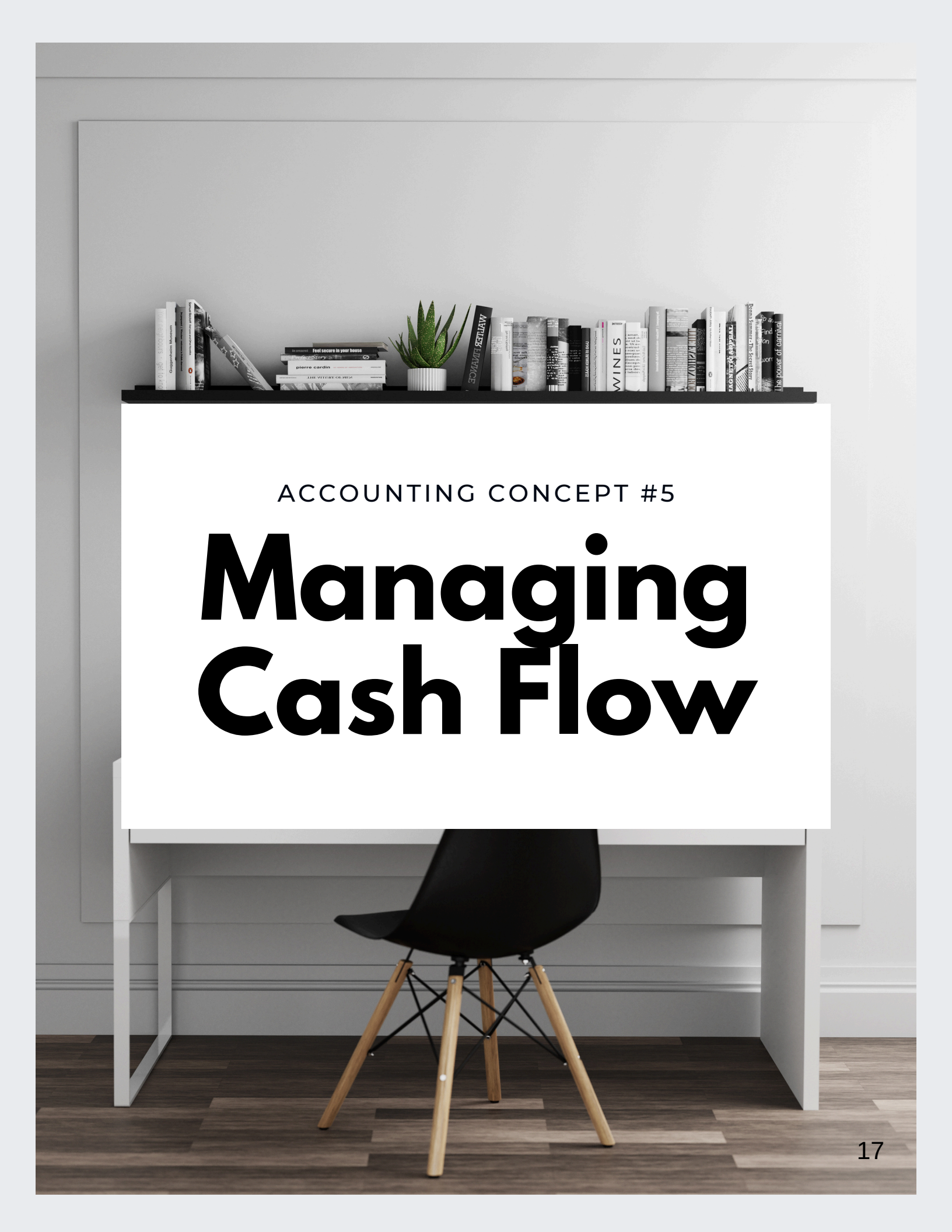
This business structure offers liability protection and can raise capital by issuing stock, but it can be complex!

PROS

- Limited liability
- Organization can operate even if owners leave the company
- Easy transfer of ownership
- Can issue stock to raise capital

CONS

- Subject to double taxation
- More complex to set up and operate to remain in compliance (more filings)
- Subject to more government oversight



ACCOUNTING CONCEPT #5

Managing Cash Flow

Cash flow can be a small business killer...

Did you know you can be profitable on paper but still not able to pay your bills? It's because of cash flow issues!

What they don't teach you in school are all the ways you can mitigate your cash flow risk as a business owner like:

- Negotiating longer payment terms with vendors
- Negotiating shorter payment terms with clients
- Reducing unnecessary spending
- Efficiently managing inventory levels
- Parking cash in interest-bearing accounts

If you're a small business owner, you need to be just as aware of your cash flow as you are of your net income. You need to be prepared with cash reserved to float your business during slower seasons, which means being strategic with your cash when you have a surplus. Monitoring your cash flow on a monthly basis and being proactive is going to give your business a better shot at surviving tough times.

Let me leave you with a few final thoughts:

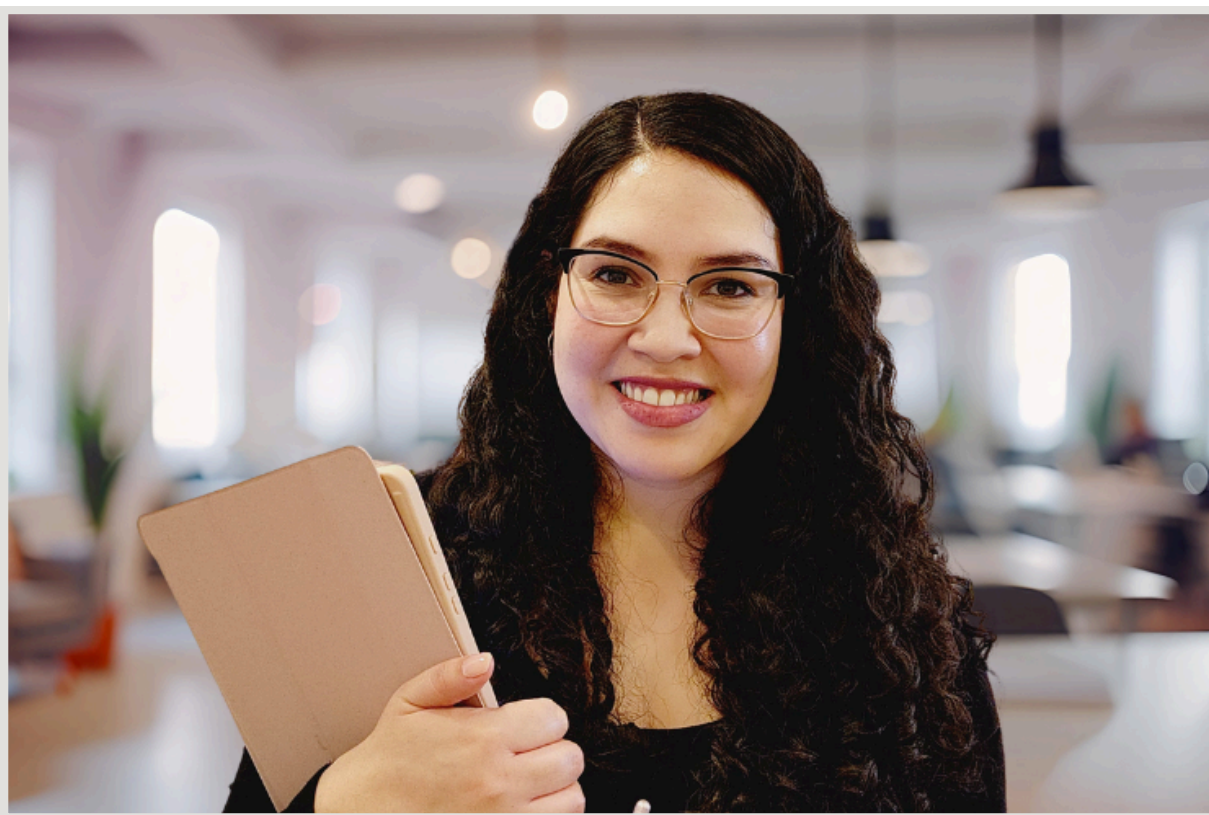
Most schools aren't teaching these crucial finance concepts, which is why so many business owners struggle when they start a new venture.

The thing is, you don't have to do it all alone! Recognizing that you don't know what you don't know, and that you'll need to lean on other professionals for help, is the first step towards being a successful business owner.

When you're first starting a business, I strongly recommend hiring a bookkeeper and a tax accountant to ensure you're building a strong financial foundation.

When you've established your business more and you're ready to focus on growth, hiring a fractional or full-time CFO can help you with strategic financial modeling and advisory services that will help you make well-informed business decisions.

If you need help on bookkeeping or even just setting up your QuickBooks as a new business, I'd be honored to be your trusted business partner!



Let's Connect!

I'm passionate about helping small business owners make sense of their finances, bringing a level of organization and attention that makes all the difference. I'm here to ensure everything is in order, so you can focus on what you do best.

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