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A “Non” CPA Firm

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If those of you notice a typo or grammatical error here and there, my apologies. I’m only human. Each publication does go back through an Editing process. I cannot guarantee that all misspelled words are caught. The reason I choose to Self-Publish my books is so that I can write them in a language that the other 70% of the US speak. My clients do not speak proper grammar, so if my books contain grammatically incorrect verbiage that is so they can understand the translation barrier. I did it on purpose.

About the Author

In 1994 I opened my own Accounting Service because I, like many other aspiring individuals cannot work for someone else. I work well with others, but require the respect and freedom that Self-Employment brings. With over Fourteen years of Accounting Experience, I have gained the respect and drive that I have searched for. I am not going to write this bio in a third person. I am writing this to you as if I was sitting at your office teaching you what basic Laymen's Terms steps you need to set-up your business bookkeeping system. I am not your typical Accountant. Descriptions and criteria do need to be so in-depth that you loose the most important person that you are trying to explain it to. I am a White Collar Suit who wears a Blue Collar Hat. On one day of the week I can pick apart financials and accounting data to uncover discrepancies, create financials from boxes of receipts to obtain business loans for clients, then the next day, I'm wearing my shorts and a T-Shirt trying to be a laborer or the new guy as they call me on my Husbands jobsite. Just because you have a title that seems so intimidating because you deal with numbers and money, doesn't mean that you need to intimidate your clients. It's just a title, and frankly I use Bean Counter more than anything. I do claim to be an expert in my field of discussion because I have set-up, cleaned up, and made into perfection my clients wishes with their books. Now that California is in such a financial crisis, my clients who are the smaller businesses, the Blue Collar workers who are trying to succeed in a Corporate World, can no longer afford accounting fees. I wrote this book for them, the ones who can do it on their own, and do it right if they have the simplified direction. It has my brain, my humor, my sarcasm, everything that makes me the "not the typical" stereo typed Accountant. If anything, all I wish is that you can walk away from reading this book with more knowledge and understanding for

business and how your books should look. After I am finished with this book, I am continuing my search for bigger better farther and faster. I've completed everything that I can up until this point, and have changed the direction of accounting that I offer. I have always been a more analytical Accountant instead of so systematic that it's no longer fun. Fun, what kind of a sick person would even think accounting is fun... I am continuing my education for the investigative and analytical side of accounting to become a C.F.E. (Certified Fraud Examiner). Now that ought to keep me on my toes. I want to give a great big thanks to my husband who put up with me starting something new again and my two little monsters who let me type at night. I would also like to give a thank you to Paul and Sarah Edwards, whom I met at a chance encounter and gave me the enthusiasm and ambition to start another project.

My complete best wishes to you and your success.

Julie A. Mucha-Aydott

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Introduction

Many small business owners or new entrepreneurs start their business with one thing in mind, their product or service. Not everyone is an Accountant, and frankly most people don't like accounting. Accountants really do get a nerdy rap. It's easier for the business owner to drop their records at my doorstep or my fellow associates, and not concern themselves with the box of receipts. Times are changing though and more and more home based businesses and small businesses can't afford our expensive fees so they think they can do it themselves, yet they don't know how. Everyone's prices are going up, and it seems much more difficult to hold on to every dollar that you make. I make the most money when you don't understand your businesses finances, and your books are always proof of that. The more lack of knowledge that you have, the more time per hour I spend on your account, which does add up rather quickly. So why would I tell you how to do it? Because the number one mistake a business owner makes is to not know their bookkeeping and will end up in the failure of their company. A profit and loss form is just a paper trail of how much money you earned and where it went. It isn't as scary as all the numbers flying off the paper at you look. The worst thing you could do for your one of a kind business idea that has so much potential is to not be involved and understand your own books. If you don't know how to keep your own books, how could you possibly uncover mistakes or know what your bookkeeper is doing? This instruction guide will show you step-by-step how to set-up and operate your own computerized bookkeeping system, and understand what it is you are creating, and why you're creating it. There are a lot of books out there that will teach you the basic fundamentals of accounting and bookkeeping, and they are excellent books, however from the past 14 years of experience with my clients who are Manufacturers, Cabinet Makers, General Contractors, Bars, Attorney's, and just about every industry, the bottom line is always the same.

Trying to teach someone who is already overloaded with work a new job is very difficult. It needs to be presented in Laymen's Terms, comprehensible for the standard Joe who is the small business owner to understand without throwing his or her hands up and walking away with more frustration than before you opened the first page. Now throw computerized bookkeeping on top of it all, and you're looking at individuals who literally think the computer is going to blow up if they press the wrong button. Unless you plan on becoming a CPA or a CFO of a large Corporation, there really is an easier way of understanding a debit and a credit. Just not in accounting lingo, in Laymen's Terms for the vast growing majority of Americas small businesses.

Chapter 1

Where to begin

Depending upon what stage of operation your business is at, whether it is brand new or you have been in operation for a while, I will go back to the basics of starting a new business. Get a pad of paper handy because you need to answer these questions for yourself to understand who and what you are. All of these items are important to figure out what system of accounting would be best suited for you.

Setting up a new business

- ✓ Why type of business are you? Are you a service company, do you manufacture a product, are you a retail store, consultant, or a contractor?
- ✓ Are you opening this business by yourself, or will you have a partner? Is it a franchise, or did you buy it?
- ✓ Small businesses generally start as a Sole Proprietor. “A business owned by one person”.
- ✓ If you have a partner, make sure you’re both aware of the tax filing requirements. A Partnership return costs just as much to prepare as a Corporate Tax Return because of the complexity. Partnerships are not protected as a corporation though and all partners can be sued. Also, if you operate your business jointly with your spouse, it is not a Sole Proprietor even though you file your tax return jointly. You now have a partnership and must be filed accordingly.
- ✓ Should you incorporate, and why would you?
 - To protect your personal assets. We all know how sue happy this country has become, and a big benefit of holding on to your personal assets is to take the burden of Self Employment from your name to your Corporations name.

- General Corporations are filed as a C-Corp, S-Corp, LLC (Limited Liability Corporation) or LLP (Limited Liability Partnership). The difference is;
 - **C-Corp** is double taxed; the Corporation pays tax on its earnings and the shareholders pay taxes on those distributed earnings. And we thought double taxation was against the law.... Unless you're as big as Enron® or Worldcom® and can get away with tax evasion, then an S-Corp would be best suited for your needs and tax advantages.
 - **S-Corp** is really the same as a Sole-Proprietorship; however you are protected by the Corporation. Your net profits are considered capital distributions and your profits are not taxed through the corporation; yet flow through to your personal income tax return on a K-1. This will save you thousands of dollars in Self-Employment tax.
 - **L.L.C.** The Limited Liability Company or LLC is not a partnership or a Corporation. An LLC is a distinct type of business that offers an alternative to partnerships and corporations, by combining the corporate advantages of limited liability with the partnership advantage of pass-through taxation. Laymen's terms, it is best used for a partnership to protect all investors without the tax consequences of a general partnership.
- The old Self-Employment tax for Sole Proprietors. 100% of your profit over the \$400.00 minimum is taxed at 15.3% of your Net Profit. When you're a Corporation, you have to draw a set salary (which Employment Tax is taxed at 15.3% FICA and Medicare) and the net profits after your salary instead of being taxed at 15.3% are taxed as a capital gain.

Example;

- You're a Sole Proprietor and at the end of the year after all expenses are deducted from your income, you made \$45,000.00 profit. Keep in mind an owner draw is **not an expense**. You are really advancing the money from your profits which is what you earned, thus meaning your Net Profits. Your Self- Employment tax liability would be $\$45,000 \times 15.3\% = \$6,885.00$. That is just Self-Employment tax, not Federal Tax or State Tax.
- You're an S-Corp and you took a \$24,000 per year salary from your net profits of \$45,000.00. You would pay FICA/Medicare out of your paycheck 7.65% and the Company is required to match it at 7.65% (which is Self-Employment tax) $\$24,000 \times 15.3\% = \$3,672.00$. Your New Corporate Net Profit is $\$45,000 - \$24,000 = \mathbf{\$21,000}$ with 0% self-employment tax liability giving you a tax savings of \$3,213.00. ($\$6,885.00$ minus $\$3,672.00 = \$3,213.00$) The reason why your net profits are now only \$21,000 is because you are able to Expense (Write Off) your salary, which we know that an expense reduces our profits. Remember before on a Sole Proprietor your Owner Draw is not an Expense? However a Salary is.
- ✓ So, what is the best decision for you and your company? My opinion and suggestion depends entirely on the type of business that you are. If you are manufacturing a product or are in the construction industry, hands down incorporate. Those are the two biggest industries that hold the highest liability and lawsuit claims. All it takes is one human error, and everything you've worked so hard for is gone. Otherwise, ride out the Sole Proprietor train for a few years and when you start making more of a profit, then investigate incorporating. You can always do it later. If you choose to do it now, there are companies online that do it for a much smaller fee than an Attorney or an Accountant. You can pay anywhere upwards of \$5,000 to incorporate a business, but honestly it only

costs a few hundred to process depending on the complexity. One place to look is www.bizfilings.com. They can incorporate you in any state for a minimal fee.

- ✓ Accounting Methods, what type should you be? There are two types of accounting methods that are generally used.
 - Cash – Cash earned and received within a fiscal year. Cash is the best method to use for small businesses that are a service company, a retail store, restaurant or bar. You don't necessarily track your bills due in large sums (your Accounts Payable) and you file your tax returns based upon how much money you received from your customers.
 - Accrual – Income earned in a fiscal year, but not yet received. This means you billed your customer for the product or service, yet they haven't paid you yet. If you track large accounts receivables (customers invoices due) or accounts payable (vendors invoices that you have to pay), accrual method has its definite benefits. You don't necessarily want to pay for income that you have not yet received. The same flip side to that is if at the end of the year you have large vendor bills that came in the mail in December, but you have thirty days to pay them, they would be accrued and applied to December's financial statements which would reduce your tax liability. Had you used the Cash method, you would not be able to use that expense on your tax return unless you paid it immediately. (Writing a check out of your checking account and sitting on it for three weeks doesn't count either if there isn't enough funds to cover that check...)
- ✓ Company Fiscal Years - Each Company is created different, yet the accounting principal is still the same. A fiscal year is the accounting year in which the company records its Income and Expenses. Most companies use a calendar year of January to December. When you get into bigger Corporations depending on the incorporation date, their fiscal

year could be from October to September, or August to July. It is still in 12-month increments, but the calendar for earnings is recorded differently. Thus their company tax return is filed at a different time of year than what the general public is accustomed to April 15th for individuals and Schedule C Returns (Sole Proprietors). The tax deadline date for Corporations (depending on what fiscal year they are using) is March 15th.

Accounting is also separated by quarters. It is usually used for Financial Institutions and Tax Agencies for receiving their financial reports, or tax reports and payments. The Quarters are separated as follows:

1. Jan-Mar is your First Quarter
2. Apr-June is your Second Quarter
3. July-Sept is your Third Quarter
4. Oct-Dec is your Fourth Quarter

- ✓ Always remember those quarters if you already don't know them! Payroll Tax Reports, Estimated Tax payments, Sales Tax Payments, and Financial Packages are always due by the last day of the following month preceding the end of a quarter. Example: Payroll Tax Form 941 1st Quarter is Jan-Mar 31st and is due by April 30th. Your estimated tax payments are due the 15th day of the month preceding the end of a quarter. Sales tax reports and payments are due quarterly depending on the amount of collectable sales tax in your state. If you process a large taxable sale each month, the State Sales Tax Agency will require a monthly tax deposit along with the quarterly tax filing.
- ✓ Apply for a Federal Taxpayer Identification number. The bottom line is; do you want your social security number on everything? The less other businesses, agencies, vendors and customers know about your personal life the better. It is way too easy to let people have access to your personal financial life with just one social security number, yet it

takes years to correct an error on your TRW. Unless you have to personally guarantee a note, get a Federal ID Number so your social security number is protected. You can apply online at <http://www.irs.gov/businesses/index.html> scroll down to topics and select Employer ID Numbers.

- ✓ Once you receive your business license and have your Taxpayer ID Number, you can open a checking account at your local bank. When you're first starting your business by purchasing assets and operating tools, it is okay to use your personal checking account to pay for these items. However, once you open your business bank account, **DO NOT** write your mortgage check out of your business account. Steer clear from using your business account for personal bills. I cannot stress enough to keep them separated. The cleaner your books are the less likely you'll be involved in an ugly audit. Please keep in mind if you have a credit card, gas card or some type of loan payment in your personal name yet it is used for business, it is still a business expense. It is the same as personally guaranteeing a business note.
- ✓ The big question of the day is are you scared of a computer? Most clients are terrified of accounting software and are so afraid that they are going to break it. The worst thing that will happen to you is if you really can't figure it out and end up hiring an Accountant or Bookkeeper to fix what you tried to create, they'll secretly laugh at you as they're correcting your books. Well, I may be exaggerating a bit, but I have cracked a smile a few times.... There is one software program that I recommend. QuickBooks Pro® is the number one small business accounting software because it's created for small business owners, specifically non-accountants. If you go with the lowest end version of QuickBooks®, it's still very basic bookkeeping. Their software has become much more complex if you choose their Point of Sale for Retail or Contractors versions I do recommend taking a tutorial class to help you understand those versions. Then there is