

Small Business Guide

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Some small business owners are already financial experts: they have MBAs, experience in the private sector, and strong literacy in all things related to managing small business finances.

This guide, however, is for the business owners with little-to-no finance experience – the ones who had a passion or a big idea and decided to go for it, but who are now wondering how to manage small business finances effectively (or at all!).



If managing finances for a small business has you feeling completely overwhelmed, take a look at this comprehensive primer. Get ready to learn about need-to-know accounting terms, managing your credit scores, applying for a business loan, and more so you can feel prepared for managing finances for a small business.

Part 1: Business Accounting 101: How to Organize Your Business Finances

We'll start our guide to managing small business finances with the basics of small business accounting. If you've never taken an accounting class, this will provide a basic review of accounting terminology, documents, and accounting software options, as well as tips on when and how to bring in a professional.

Key Business Accounting Terms to Know

As you dive into the world of small business financial management, there are several buzzwords that will likely come up over and over again. If you don't know the terminology, everything you read about managing your small business finances will feel like it's in a totally different language. Let's begin your adventure into financial literacy with a few basic terms:

1. Gross Revenue

Also called total revenue, your gross revenue is the sum of all monies you've received from customers in exchange for your product or service, before taking any deductions or expenses (such as rent, cost of goods sold, taxes, etc.).

2. Expenses

In the simplest terms, expenses are everything that keep your gross revenue from going straight into your pocket – things like rent, payroll, costs of materials for goods sold, taxes, interest on debt, and utilities and other operating expenses.

3. Net Profit

Sometimes called the bottom line, net income, or net earnings, net profit is essentially what is left over after you deduct your expenses from your total revenue. When this number is positive, it means that your revenue is greater than your expenses, and your business is profitable.

4. Cash Flow

Beyond basic profitability, having enough cash on hand can often make or break the success of a small business – even if your business is profitable, you can run into issues if you don't have enough cash in your bank account.

Your cash flow is the difference between the available cash at the beginning of an accounting period compared with at the end of the period. Cash comes in from sales, loan proceeds, investments, and the sale of assets, and goes out to pay for operating and direct expenses, principal debt service, and the purchase of assets.

5. Break Even Point

For the first several months (or even years) of doing business, many small businesses will operate at a loss – meaning their expenses are greater than total revenue. The break even point is production level at which total revenues equals total expenses.

This is typically the turning point to profitability – an important milestone in the life of every small business.

Your Most Important Business Accounting Documents

Managing a small business involves a *lot* of paperwork. You'll need accounting documents to file your business taxes, apply for business financing, and for internal tracking of your revenue, expenses, and profitability. These are the four main accounting documents that every small business owner should regularly maintain:

1. Balance Sheet

The balance sheet is essentially a snapshot of your business's financial standing at a given moment. It lists the assets, liabilities and equity your company holds, and is used to calculate the net worth of your business.

Maintaining a “balanced” balance sheet – one in which total assets (everything your business owns) equals liabilities plus equity – is the foundational tenet of basic bookkeeping.

2. Income Statement

Sometimes called a profit and loss statement, your income statement summarizes your business revenues and expenses over the course of a year, allowing you to calculate your net profit or loss for that year. Maintaining an accurate income statement is critical to determining the break even point for your new business, as well as measuring profitability over time.

3. Cash Flow Statement

We discussed that having enough cash on hand to cover expenses can make or break a company's financial health – and in fact, this issue is so important that there's an accounting document dedicated to the tracking of cash flow.

Your cash flow statement reflects the inflow of revenue and outflow of expenses resulting from all your business activities during a specific time period – usually a month or a financial quarter. Inflow will come from selling goods and receiving payment on invoices, while outflow comes from things like purchasing inventory, payroll, and paying marketing costs and other overhead expenses.

Part 2: Managing Finances for a Small Business Means Paying Business Taxes

Along with getting your books in order, understanding and fulfilling tax requirements should be a priority in your business financial management. The consequences for failing to file your state and federal business taxes are severe – as in you could lose your business and even face criminal charges. Though dealing with the IRS can be intimidating, this isn't something you can ignore.

Here's what you need to know about paying business taxes:

Obtain Your Federal Tax Identification Number

Also known as your employer identification number (EIN for short), this number helps the IRS keep track of your business for tax purposes. Think of it like a social security number for your business.

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While not all businesses need to apply for an employer identification number, there are some circumstances where you may need to file for an EIN even if you don't retain employees – especially if your business is established as a corporation or partnership. Consult the IRS website to determine whether or not you need an EIN.

Understand Federal Business Taxes

There are four general types of taxes levied by the federal government, and the type of business you run determines which taxes you must pay, when forms and payments are due, and how you'll file those taxes. While not every one of these four types of business taxes applies to every business, it's important to know what they are, and understand how they might impact your small business finances.

Income Tax

All businesses must file annual income tax returns and make payments based on revenue received. The exact tax form you use to make income tax payments depends on the structure of your business: sole proprietorship, partnership, corporation, S- corporation, or LLC.

Business income taxes are “pay-as-you-go” taxes, meaning you'll need to make estimated tax payments quarterly.

Self-Employment Tax

Individuals who work for themselves must pay Social Security and Medicare taxes via a self-employment tax. This tax is similar to the taxes withheld from the pay of most wage earners.

Estimated Tax

Income and self-employment taxes both qualify as “pay-as-you-go” taxes. You’ll need to file quarterly documents and make payments accordingly.

Employment Taxes

If you have employees working for your business, you will have additional tax obligations related to those employees, including social security and Medicare taxes, federal income tax withholdings, and the federal unemployment tax.

Excise Tax

Depending upon what type of business you run, what products you sell, and the types of equipment you use, you may or may not be required to pay excise taxes for your business. [Excise taxes](#) most often apply to businesses with heavy fuel usage, but can also apply to such businesses as indoor tanning salons, manufacturers of archery equipment, and more.

Your State Tax Obligations

In addition to federal business taxes, most U.S. states and territories will require you to pay income and employment taxes for your business. Certain states have additional fiscal requirements, such as state mandated workers' compensation and unemployment insurance.

Registration, requirements, and filing procedures vary widely from state to state.

How Your Business Credit Score Works

In addition to your personal credit score, as a business owner you'll also want to establish business credit, which you can start doing after you've obtained an employer identification number.

Like your personal credit score, your business credit score is a measure of how well or poorly you honor your debts, and it's an important factor in determining your eligibility for future business financing – but this time, it's your business that's under the microscope, not you as an individual.

In this case, the credit bureaus cull information about accounts held under your business's name, from sources including your vendors, trade associations, business credit card companies, and business lenders. Dun & Bradstreet is the leading resource to monitor your business credit rating, which you should do at least every six months if you plan to apply for

financing in the future. If you encounter an error, contact the agency for a correction.

For more reading on accounting definitions, see the Fundera website.