



Accounting/Bookkeeping

- Keep a separate bank account for your business expenses and income. Make sure your bank includes copies of the checks with your bank statements, if they are needed in the event of a potential audit. If you are paperless and don't get your bank statements in the mail, be sure and save the statements on your computer and/or print them with the copies of the checks. It is very expensive to be called into audit and to have to reproduce these records later.
- Computer software - QuickBooks, FreshBooks, Xero and other brands of software are available to meet your needs for tracking expenses, assets and income. Most software programs also allow you to upload your bank and credit card information. This saves time but does require you to assign the transactions to the appropriate accounts in your software.
- Excel – it's a simple numbers program and great for quick easy tallying but should not be used if you have a bigger business.
- Use a sheet of accounting paper with many columns, make a new column for each expense. Write in the expenses and income in their columns then total.
- Notebook method - keep each page as a different expense category or income category, you will record the income received or expense paid by date and include a description then total each expense category and total income.
- If bookkeeping has become too time consuming or overwhelming for you, then we can provide accounting services for you at our office or refer you to a qualified person to assist you.

Income:

- You are required by IRS to keep track of your income. Keep copies of invoices or record the customer, date and amount received. Just adding up your business deposits is not enough for record keeping.
- Keep track of all money put into business account i.e. loans from you or refunds of insurance, otherwise they could mistakenly be classified as income that you will be taxed on.
- Even if you don't receive a 1099 or W-2 does not mean you don't have to report your income. You are the one who is responsible for tracking and claiming all income.

Expenses:

- Receipts **need** to be kept for all expenses; the IRS will request these at audit. If you are not able to provide receipts, they will disallow the expenses. Even if you have bank statements and credit card statements the actual receipts are still required
- Have a good system to keep these receipts, manila folders are cheap or with current technology you could scan your receipts to your computer that is backed up or a removable hard drive.

- **Car and Truck expenses** – One of the most frequently asked questions is about auto expenses. There are two separate ways to deduct auto costs. One is the “Mileage method” and the other is the “Actual method”. Mileage must be tracked no matter the method you use. Keep a mileage log with the number of miles to and from, time and place, date, and the client visited or reason. There are available apps that track your mileage right on your mobile phone. The car need not be in the business name to be deductible. People often ask is it better to lease or buy a vehicle, use an online comparison calculator and see what works best for your business. Remember that registering a car in a business name doesn’t make it 100% deductible, it goes by the BUSINESS use of the vehicle.

1) Mileage Method: Track the business mileage and report it. Most people use the mileage method, it is simple, and most vehicles do not exceed the government assigned rate for their business use. To find the current years mileage rate you can search on www.irs.gov. (IRS rate X's business miles).

2) Actual Method: If the car/truck you own is expensive and 100% business then it may be better to take this deduction. Most large pick-up trucks/SUVs that are brand new and/or heavy in gross weight fall into this category. Keep track of all ACTUAL costs: gas, insurance, maintenance, registration and interest on payments/lease payments. You will also have to know your personal mileage driven so a business use percentage can be established. Using all the actual costs is the actual method, this is compared to the standard method to see which is better. For example, actual costs \$20,000 and 5,000 business miles were driven and 5,000 personal for a total mileage of 10,000, the vehicle is 50% business and your write off will be \$10,000 under the actual method.

- **Office in Home** - Must use it 100% for business purposes. It is highly audited and not advised if just used casually. The IRS does not allow an office deduction if your business is reporting a loss for the year. You must know the square footage of dedicated office space and the total square footage of your home’s living space to determine a business percentage, Keep track of insurance, utilities, heat, repairs, mortgage interest, real estate taxes and cost of the building as separate from the land. See our worksheet for what to track on business worksheet in downloads. For example, if your home costs are \$5000 and your business use room is 100 square feet with a total home square footage of 1,000 then your business use is 10% so you have a write off of \$500.
- Don't put any equipment/vehicles into the fixed asset accounts if under \$,3000. Large purchases that are assets get depreciated if cost is over \$3,000. If less than \$3,000 that would be small tools, equipment that is classified as an Expense.

- **Other Expenses**

- Equipment you purchase for business is an expense. Startup equipment and equipment or furniture that you already owned and put into use for business purposes can be expensed as well. For example, someone gave you a piece of art that is now in your office, or tools you had previously for working on your own home and now you are a carpenter, you are able to turn those into business property and deduct them. Decorations used in your home office that were previously personal.
- Parking & Tolls are deductible for business travel. Keep this separate from auto expenses. Parking or speeding tickets are not deductible.
- Travel - away from home, train, bus, plane, taxi and hotel, rental car and rental car gas.
- Interest on credit cards for business purchases, and other business loan interest is deductible.
- Phone: cell phone or business line for just business is 100% deductible. Personal cell figure business percentage by business calls or minutes vs total calls.
- Meals: with clients, staff meals (IRS only allows 50%) Staff parties are allowed at 100%. Meals must not be lavish. Daily morning coffee, lunch is not deductible.
- Work Clothing: Uniforms, safety gear, required footwear and specific work clothing are deductible. Daily wear clothing or business attire does not qualify.
- Other related expenses such as advertising, professional fees, supplies, liability insurance, dues and subscriptions, office supplies, equipment, repairs and maintenance, commissions, professional development (education) laundry (i.e. uniforms), licenses and permits, and bank service charges. See business worksheet for more categories.
- Don't use a MISCELLANEOUS expense category, all expenses will have a purpose and should be assigned to that category.

Getting it into a usable format

- See business worksheet under the tab "Forms and Information" on our site. This worksheet is ideally how your accounting should be organized. It downloads into excel to easily use for your accounting record or you can print and handwrite it. If you have your own computer software, you can send us your reports from your software. Reports needed are 1) Profit and Loss 2) Balance Sheet. You will need to select the report to be in CASH BASIS (not Accrual) and included the previous year comparison in dollars.

We are here to help with questions so please email Office@baertaxgroup.com

Things to Review Quarterly/Monthly:

Balance Sheet

Cash accounts

Are all old checks voided? Any deposits not yet cleared? Check when you do the monthly bank rec and void before end of year. All accounts should be reconciled monthly

Accounts Receivable

Process an AR report and review, if you see credits (amounts with minus in front of them) then it means something is probably off and a payment was recorded with no bill in the system. To correct: you will create a bill then find the payment and apply the payment to that bill.

If you see an old receivable over 90 days, then it might mean you didn't credit a payment to the person. To correct: find where you deposited the funds and remove that amount then go in and do receive payment and apply it to the customer account.

Review the AR report after you are finished and be sure all Receivables are accurate and corresponds with the amount people owe.

Accounts Payable

Pull an AP report and review, if you see credits then it means you paid a bill but hadn't entered the bill

If you see old payables that look unpaid but are paid then you directly entered the check under the register, you must delete the payment then go under pay bills function and pay the bill through the payables

Credit cards

Accounts should be reconciled and match the statement balance.

Credit card payments are not expenses. Transactions (purchases) need to be assigned to an Expense account.

Payables

Payables should be reviewed to be sure they are accurate, and balances are correct.

Loans

Any loans should match the loan balance the lender has or follow amortization schedule.

Profit & Loss

Income

If an income item is negative (has a minus sign in front of it) then you probably put an expense in it. Click into account and review transactions.

Look for duplicate income accounts, see if anything can be combined to be more concise.

Expenses

Miscellaneous expense account. Move these expenses to an appropriate expenses category.

Look for duplicate or similar expense accounts, see if anything can be combined to be more concise.

Don't create new accounts, usually within the chart of accounts you can find a suitable category for the expense.

Check payroll that payroll is current and correct. At the end of the year the payroll on the Form W-3 should match the gross wages. The W-3 form totals all the W-2's issued to employees. Payroll tax expenses can be found on your year-end payroll summary. Payroll tax expenses consist of Medicare company portion, Social Security company portion, state unemployment and federal unemployment.

Overall: you know your accounting best, so review the accounting -confirm transactions in the right spot, review for balance sheet and income statement, look at the reports, do they seem, accurate?

Put items that need review, or you are unsure of how to post, Under "ask my accountant" in the Chart of Accounts. Let your accountant know about these items periodically so these transactions can be adjusted appropriately.

1099 forms need to be processed for anyone paid for services over \$600 from January to December. This form is issued to the individual by January 31st of the next year. The 1096 form is the summary of all of the 1099's you issue in a year and it submitted to the IRS by January 31.