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Small and Medium Enterprise SME Accounting Guide





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Do you have the accounting smarts to run your business?

An easy guide for running the numbers in your Small and Medium - Enterprise (SME)



This guide outlines practical, easy-to-follow accounting solutions so that your business can run smoothly, giving you more time to focus on your customers.

Small business accounting involves the process of tracking, recording and analysing the financial transactions of your business. It translates numbers into a comprehensible statement about the profitability of your business.

Accounting may be a more tedious part of running a business, but it is also necessary to avoid cash flow gaps and sifting through a mountain of paperwork.



Small Business Accounting Explained

Small business accounting tracks the money that flows in and out of your business accounts, including purchases, sales, liabilities, and payments. This constitutes a large part of operating a small business; we can break it down into the following categories:

- Managing Cash Flow
- Bookkeeping (recording financial transactions)
- Creating financial reports
- Filing tax returns
- Managing and lodging BAS
- Payroll
- Using Accounting technology to simplify processes

Accounting provides insight into a business, helps you gauge the health and value of the company. Armed with this information, you can make better decisions about short- and long-term planning and set a platform for success.



Where do I start: Accounting for Small Business

If you set up sound accounting systems and processes, this will make it easier for your business to scale as you grow. In addition, understanding precisely what is coming in and out of your business from a financial perspective creates a competitive advantage giving direct insight into real-time cash flow and expenditure.

1.

Open a Business Bank Account

Many people start a business and use their personal accounts to run all their business transactions. However, the lines can quickly become blurred trying to sift through business-related transactions from personal transactions.

Having a dedicated business account helps to organise your revenue and makes it easier to plan your taxes at the end of the financial year. You will be able to see credits and debits clearly. The credits can match against your sales, and debits can be allocated to your purchases/expenses for the business.

2.

Track and Record all Income and Expenses

Set a system to track and record business transactions that come in and out of the business; having this identified is the foundation of a robust business bookkeeping system. In addition, understanding which transactions are costs will help you monitor your deductible expenses (tax deductions), prepare financial statements and tax returns. This will allow you to track the growth of your business.

Bookkeeping is the practice of recording and tracking the financial transactions of a business. Bookkeepers regularly summarise this activity into reports that show how the business is doing.

3.

What is the Best Accounting Method for your Business

Before you establish a bookkeeping system, you need to select a method of accounting for your business. There are two main methods of recording accounting transactions: cash vs. accrual basis of accounting. With cash-basis accounting, you record income and expenses when you receive or pay cash.

With accrual accounting, you use the double-entry method of recording transactions, which means you need to make two entries for every transaction. You record expenses and income when they are incurred, regardless of when the cash is exchanged.

The difference between cash and accrual accounting is in the timing of when sales and purchases are recorded in your accounts. Cash accounting recognises revenue

and expenses only when money changes hands, but accrual accounting recognises revenue when earned and expenses when they are billed (but not paid).

You will find cash-type businesses will use the cash method like coffee shops, hair salons etc. However, businesses with inventory are almost always required to use the accrual method. Speaking with your accountant is always a good place to start; they can recommend software programs to assist you with invoicing, payroll, and general accounts management. Alternatively, suppose you have a transactional cash base business. In that case, your trusted accountant can help provide solutions so that you can efficiently and accurately account for all transactions coming in and out of your business.



Tips to managing your cash flow

To maintain a healthy cash flow, you need more than just strong revenue. The business must have a sound system in place to collect the income. We have broken down five simple steps for managing your cash flow and getting your invoices paid faster:

Keep your accounts accurate and up to date

Stay on top of your cash and make sure your accounting information is updated regularly. This will provide insight into your current financial position in real-time. In addition, understanding your cash position in real-time allows you to make informed decisions about future purchases required for the business.

Create a system to collect your invoices

Many businesses are great at creating work, building up a bank of unpaid invoices. Remain diligent in making sure the invoices are paid according to your credit terms. Many businesses set a deposit payment first and then require the final amount required on delivery. This is a safeguard to ensure that you are getting paid before the work or goods are delivered.

The non-payment of goods or services requires an action plan to recover outstanding amounts. Set a system in collecting outstanding invoices, if there are unpaid invoices that sit outside your reasonable terms, then you may need to take more formal action to recover the overdue amounts.

Implement a tailored accounting software package

Accounts may not be your strong point; therefore, having access to a trusted accountant can provide you with the tools to ensure you stay on top of your financials. In addition, an accountant can provide information on an accounting software package tailored for your business. This allows the accountant to have access to your daily transactions and advise future planning and forecasting for the business.

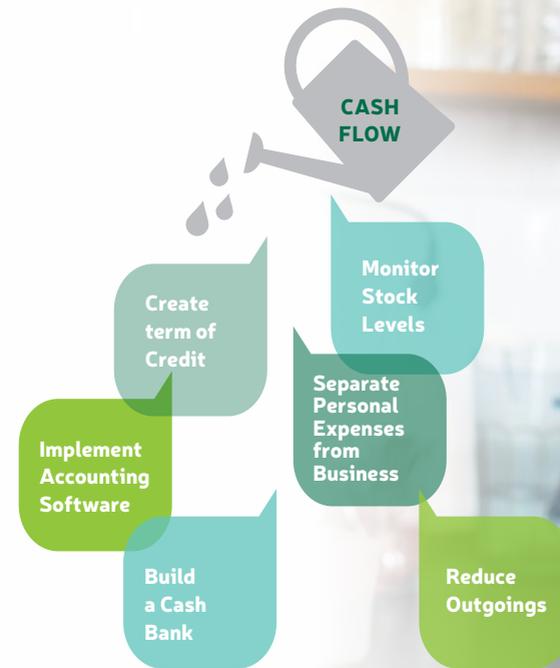
A reliable accounting system will help you track and report on key business activities. These include accounts receivables aging, operating margins, and inventory turnover. Having a good handle on these business metrics will help you manage your cash.

Build a cash bank

Many businesses will struggle to grow as funds are required to purchase more stock or build on growth plans. Managing cash flow provides the cushion you need to manage unexpected events and gives you the confidence and finances you need to grow your business.

It's not always possible to build a large cash reserve. But if you do, it can insulate you from the outside economic environment. It will also let you take advantage of opportunities when they present themselves.

Cash Flow Table



Bookkeeping

Regardless of the size of your business, efficient bookkeeping practices are essential to keep any business running smoothly. Here are some helpful hints to help you streamline your bookkeeping process:

- Set up a chart of accounts that best keeps track of all your bookkeeping information. Using information technology is a great way to assist you in that process.
- Record all transactions and balance income and expenditure transactions each day, including cash receipts.
- Reconcile your bank account, ensure that you can account for all transactions coming and going out of your business bank account.
- Stay on top of your accounts receivable from customers to ensure that your cash flow remains consistent.
- Pay your bills accurately and on time; this will help you plan your resources for future opportunities and create good relationships with your vendors, partners, and suppliers.
- Build sales and revenue targets and revise and review to check performance against your sales goals.
- Set a clear budget for all your expenses so that there are no hidden costs that could affect profitability.
- Follow your cost of materials and monitor increases in expenses.
- Set pricing for goods and services sold so that it generates gross profit.
- Don't over-order on slow-moving inventory, and be sure to hold enough stock of fast-moving items. The key is not to carry too much stock for long periods as this will tie up cash.
- Pay all staff on time, including superannuation and withholding tax.

Creating Financial Reports

A financial report (also referred to as a financial statement or finance report) is a management tool used to communicate key financial information to both internal and external stakeholders by covering every aspect of financial affairs.

The four key types of financial statements found within a financial report include income statements, balance sheets, a statement of retained earnings, and cash flow statements.

Income Statement

An income statement, also known as the profit and loss statement, summarises a businesses revenue, expenses, and profits.

Example of Income Statement

Revenue			
Gross Sales		\$	
Less: Sales Returns and Allowances		\$	
Net Sales			\$
Cost of Goods Sold			
Beginning Inventory		\$	
Add: Purchases		\$	
Direct Labor		\$	
Indirect Expenses		\$	
Inventory Available			\$
Less: Ending Inventory		\$	
Cost of Goods Sold		\$	
Gross Profit (Loss)			\$
Expenses			
Rent		\$	
Amortization		\$	
Utilities		\$	
Wages & Direct Cost		\$	
Commissions		\$	
Supplies		\$	
Marketing		\$	
Logistics		\$	
Repairs and Maintenance		\$	
Miscellaneous		\$	
Depreciation		\$	
Interest		\$	
Total Expenses			\$
Net Operating Income			\$
Other Income			
Gain (Loss) on Sale of Assets		\$	
Interest Income		\$	
Total Other Income			\$
Net Income (Loss)			\$

Balance Sheet

A balance sheet delivers a snapshot of a business's assets, liabilities, and business owner equity at a single point in time.

Statement of Retained Earnings

A statement of retained earnings reveals a business's changes in equity during a standard accounting period.

Cash Flow Statement

A cash flow statement demonstrates the amount of cash coming in and out of a business. The cash flow statement gives stakeholders an idea of how a business operates and manages cash to pay off debt and fund current expenses and future investments.

Summary Balance Sheet

	FY-2021	FY-2022
Asset Type	Prior Year	Current Year
Current Assets	0	0
Fixed Assets	0	0
Other Assets	0	0
Current Liabilities	0	0
Long-term Liabilities	0	0
Owner Equity	0	0
Total Assets	0	0
Total Liabilities & Stockholder Equity	0	0
Balance	0	0

Example of Cash Flow Statement

	FY-2022
Cash Flow From Operating Activities	\$
Net Earnings	\$
Depreciation	\$
Decrease in accounts receivable	\$
Increase in accounts payable	\$
Increase in taxes payable	\$
Increase in Inventory	\$
Net Cash from Operations	\$
Cash Flow for Financial year	\$

Small & Medium Business Accounting Conclusion

It may be overwhelming to keep your accounts for your business; however, it doesn't have to be difficult when you consider the fundamental goals of accounting: To keep track of your expenses and collect financial information for tax filing. Follow these easy-to-understand steps.

- Keep the receipts of your business's sales and purchases. These receipts will contain the amount, the date, and other information necessary to create summaries of your transactions.
- Post your receipts into a ledger. This is nothing more than a summary of revenues, expenditures, and whatever else you're keeping track of.
- Create financial reports by combining data from your ledgers. The key reports include—the Profit and Loss Statement, the balance sheet, and the cash flow analysis. These reports offer insights into the financial health of the business.
- Once you have created your reports, take a step back and start streamlining systems. It might be time to set realistic expectations with your customers. Efficient bookkeeping helps you see a pattern and make the necessary changes in how you've been operating.

It is recommended to partner with a trusted accountant that can help and guide you through the accounting functions of operating a business. **numberwise** is here to help and support your business; as you grow, we all grow wise together.

Thank you for reading through our guide on Small Business Accounting; **numberwise** is here to help and is offering free discovery meetings, visit www.numberwise.com.au/book-a-discovery-meeting and speak to a **numberwise** tax accountant today on how we can help you.

If you have any questions or would like some more information, please feel free to contact **numberwise** today on 1300 936 656.

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numberwise.com.au
1300 936 656



SYDNEY

Suite 5, 82 – 86
Pacific Highway
St Leonards NSW 2065



ERINA

Suite 3 / 167
The Central Coast Hwy,
Erina NSW 2250