FREE GUIDE

# Bookkeeping Basics for Small Business Owners

The 10 core concepts every business owner needs to understand — no accounting background required.

Bookkeeping isn't about loving numbers. It's about being able to answer three questions at any moment: **Am I making money? Where is my cash going? What do I owe, and what am I owed?** These ten concepts are the foundation for answering all three.

## 1. Separate business and personal money

Open a dedicated business checking account and credit card, and run every business transaction through them. Mixing accounts is the single most common reason small-business books are unreliable — and it makes tax time slower, more expensive, and riskier in an audit. If you pay yourself, transfer money from business to personal as an owner draw or payroll; don't pay personal bills from the business account.

## 2. Every transaction has two sides

Double-entry bookkeeping simply means every transaction affects at least two accounts, and the two sides always balance. When you buy a $2,000 laptop with your business card, you gain an asset (equipment) and a liability (credit card balance). Software like QuickBooks or Zoho handles the mechanics — but knowing this explains why your books must always balance.

## 3. The chart of accounts is your filing system

The chart of accounts is the list of categories every transaction is sorted into: assets, liabilities, equity, income, cost of sales, and expenses. Keep it simple and consistent. Too many accounts make reports unreadable; too few hide what's really happening. A good rule: create an account only if you'd make a different decision knowing its balance.

## 4. Cash basis vs. accrual basis

| | Cash basis | Accrual basis |
|---|---|---|
| Records income when… | Money is received | Work is performed / product delivered |
| Records expenses when… | Bills are paid | The cost is incurred |
| Best for | Very small, simple businesses | Growing businesses, lenders, investors |
| Shows | Cash flow | True profitability by period |

Many small businesses can file taxes on a cash basis but still benefit from accrual-basis management reports. If you invoice customers or carry inventory, accrual reporting tells a far more accurate story.

## 5. Revenue is not cash, and profit is not cash

You can be profitable and still run out of cash — when customers pay slowly, when you buy inventory ahead of sales, or when loan principal payments (which aren't expenses) drain the account. Track cash separately from profit, and watch accounts receivable closely.

## 6. Reconcile every account, every month

A reconciliation compares your books to the bank or credit card statement and explains every difference. It catches missed transactions, duplicates, bank errors, and fraud. If you do only one bookkeeping task consistently, make it this one.

> **TIP** Reconcile within the first week after month-end, while the details are fresh. Our free Bank Reconciliation Worksheet walks through it.

## 7. Track who owes you — and whom you owe

Accounts receivable (AR) is money customers owe you; accounts payable (AP) is money you owe vendors. Review an aging report weekly. The older an invoice gets, the less likely it is to be collected — follow up at a predictable cadence.

## 8. Keep the receipts

The IRS expects documentation that supports your deductions. Snap a photo of every receipt the day you get it, note the business purpose on meals and travel, and store everything in one place. Digital copies are generally acceptable if they're legible and complete.

## 9. Know the three financial statements

- **Profit & Loss (Income Statement)** — revenue minus expenses over a period. Are you profitable?
- **Balance Sheet** — what you own, what you owe, and owner's equity at a point in time. Are you solvent?
- **Cash Flow Statement** — where cash came from and went. Why did the bank balance change?

## 10. Close the books monthly

A monthly close means finishing the month's bookkeeping — reconciliations, adjustments, review — then locking the period so nothing changes. It turns your books from a pile of transactions into reliable reports you can actually use to run the business.

## Your weekly 30-minute routine

1. Categorize new bank and card transactions.
2. Send invoices for completed work.
3. Review the AR aging and follow up on anything past due.
4. Enter and schedule vendor bills.
5. Save receipts and check your cash position for the next few weeks.

**NEXT STEP** Free templates that pair with this guide: Chart of Accounts, Expense Tracker, Bank Reconciliation Worksheet, and Month-End Close Checklist.

*This guide is general information for small business owners and is not tax, legal, or accounting advice. Rules, rates, and deadlines change — confirm specifics with your CPA or the relevant agency.*