The Beginner's Guide to Accounting

merchantmaverick

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Introduction

So you want to learn about accounting? You've come to the right place. At Merchant Maverick, we believe that anyone can learn the fundamentals of accounting and use that knowledge to run a more successful small business—no matter how confusing or daunting the concepts may seem.

In this guide, we'll lay out the basic principles of accounting and walk you through the process of choosing the best accounting software for your business. We'll also explain how to use that software and provide tips and tricks for simplifying your taxes. Stick with us, and you'll be an accounting expert in no time.

SECTION 1

For the Beginner

> Accounting is simply the process of understanding, recording, and analyzing the financial state of your business.

What is accounting?

Accounting is simply the process of understanding, recording, and analyzing the financial state of your business.

Why does accounting matter?

Believe it or not, accounting was not invented to scare, intimidate, or confuse; in fact, a good relationship with accounting principles can do wonders for your your bottom line! When done correctly, accounting provides a clear picture of your business's financial health. By faithfully doing the books on a regular basis, you will be able to see where your company excels financially and identify where it could stand to improve as well. You can also run regular reports that give insight into your business's overall profit and loss. This sort of insight allows you, the business owner, to make responsible, informed decisions.

A disciplined accounting process also provides peace of mind. Instead of worrying about bank funds every time you write a check, you can be confident about the solvency of your accounts. Instead of stressing about your cluttered, overflowing receipts box, you can have an organized record-keeping system that leaves your desk—and your brain—clutter-free. Keeping clear records will make tax filing easier and safeguard you against a tax audit.

Do I need an MBA or an accounting degree to understand accounting?

You don't need a background in higher math or training as a CPA to keep good books. **Anyone can learn the fundamentals of accounting**—and I'm not just saying that. In this day and age, there are plenty of online resources and videos designed to make accounting principles easy. As long as you have the desire to learn and can take the time to read a few key guides, you'll be an accounting pro in no time. In fact, you're already well on your way by reading this eBook.

SECTION 2

Basics

> First, it's important to be familiar with the concepts of assets, liabilities, and equity.

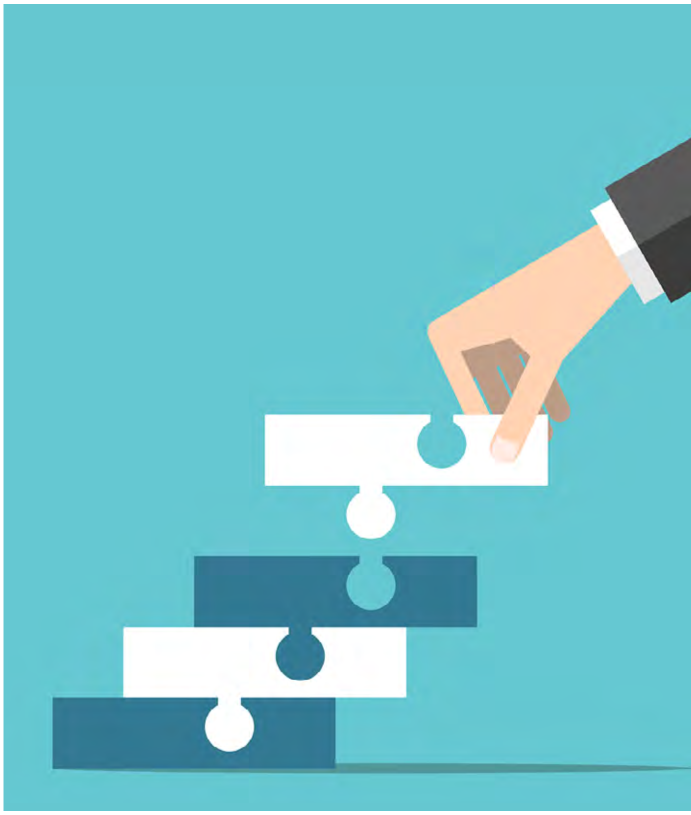
What are the basic principles of accounting?

Fundamental Accounting Terms

Before we get started, there a few terms you need to understand.

First, it's important to be familiar with the concepts of assets, liabilities, and equity.

- **Assets:** Anything *owned* by a business.
- **Liabilities:** Any debts a business *owes*.
- **Owner's Equity:** The owner's investment in a company, which represents a business's capital or worth.
- **Income:** Money earned by a business through selling products or services.
- **Expense:** Money a business spends on items, goods, or services.



Second, you'll need to have a basic understand of what an account is.

- **Account:** An account is a place to record specific transactions. Accounts can be characterized or categorized as an asset, liability, equity, income, or expense.

For example, most businesses will have a Cash account, which documents transactions involving cash. Cash is something you *own*, so it is considered an asset.

Another common account is Notes Payable, which documents formal loans from banks or other institutions. Because Notes Payable tracks money you *owe*, it is considered a liability account.

Making sense so far? We'll cover more examples of typical accounts in the **What is a chart of accounts?** section.

Double-Entry vs. Single-Entry Accounting

There are two ways of recording transactions in accounting:
double-entry or **single-entry**.

Double-Entry Accounting	VS.	Single-Entry Accounting
Each recorded transaction will affect at least two accounts.		Records income and expense transactions only.

If you opt for single-entry accounting, you're signing up for a limited overview of your business. A company's finances involve more than just income and expenses. Fixed assets like property, equipment, and machinery may not bring in "income" like cash, per se, but these assets still make up your owner's equity and are an integral part of your business.

You need an accounting practice that will give you a clear, holistic view of your business's finances—and the only way to accomplish that is through double-entry accounting.

The following sections will all involve the principles of double-entry accounting.

The Basic Accounting Equation

Now that we've covered some basic accounting terms and principles, we can tackle the basic accounting equation:

Assets = Liabilities + Owner's Equity

or

Owner's Equity = Assets – Liabilities

The most important rule of the basic accounting equation is that it must balance out. In other words, each side must equal the other. This is where we get the term "balancing the books." If one side of the equals sign is greater or less than the other, then something has gone wrong in your calculations. Period.

Applying the Basic Accounting Equation

The basic accounting equation is easy to understand *theoretically*, but applying it *practically* is a whole different beast. Bear with me as I try to make this as simple as possible. (I promise this is the hardest concept you will have to learn in the whole book.)

The purpose of the basic accounting equation is to make sure your books are balanced.

REMEMBER
When a transaction is recorded in double-entry accounting, it affects at least two accounts. For example, if you get a $3,000 loan from your bank, your company's Cash account will increase by $3,000, but your Notes Payable account will experience a $3,000 increase as well (because you'll eventually have to pay back the loan). Recording transactions in more than one account ensures that the basic accounting equation always balances.

Still with me?

The easiest way to make sense of all of this is to work through an example.

EXAMPLE 1

Let's return to the example above. How do you record a $3,000 business loan in your books?

First, think carefully about which accounts are affected by the transaction. Remember, earlier we said your company's Cash *and* Notes Payable accounts will be affected. We know which accounts are involved, so now we need to identify whether those accounts are assets, liabilities, or equity. We know that cash is an asset, so we're going to put $3,000 on the *left* side of the equals sign (under Asset).

Assets	=	Liabilities	+	Owner's Equity
3,000	=	—	+	—

The Notes Payable account falls into the "liability" category, so we're also going to put $3,000 on the *right* side of the equal sign (under Liabilities).

Assets	**=**	**Liabilities**	**+**	**Owner's Equity**
3,000	**=**	**$3,000**	**+**	**—**
3,000	**=**	**$3,000**		

Now let's calculate the equation.

You can see that $3,000 = $3,000. The right side equals the left side. We've successfully balanced the books!

Let's do one more example.

EXAMPLE 2

You use cash to buy $500 of office supplies. Again, let's begin by considering which accounts are affected.

Your business's Office Supplies account increases, but your Cash account *decreases* since you had to use cash to purchase the items.

This example differs from the one above in one very important respect: cash and office supplies are both considered assets. **Accounts affected by a transaction aren't always on opposite sides of the equals sign in the basic accounting equation.** In this instance, we're going to put -$500 under Cash and +$500 under Office Supplies, both of which are on the Assets side of the equation.

Assets		**=**	**Liabilities**	**+**	**Owner's Equity**
Cash	**Office Supplies**	**=**	**Liabilities**	**+**	**Owner's Equity**
-500	**+500**				
~~-500~~	**~~+500~~**				
	0	**=**	**0**		

When we calculate the equation, we realize that -$500 and +$500 cancel each other out, leaving us with a balanced equation: $0 = $0.

It seems a bit tricky at first, but once you get used to these calculations, accounting becomes a breeze. The most imperative thing is to carefully reason through which accounts are affected by the transaction you are recording.

What are debits and credits?

Understanding Debits and Credits

While the basic accounting equation is the foundation of all accounting principles, accountants don't use the simplified format of the equation to organize transactions. As you could imagine, this formula gets pretty convoluted when calculating a transaction that affects dozens of accounts.

So now instead of using an equation, we're going to use a T-Account and a concept called **debits and credits**. Debits are always on the left side of the T-Account, and credits are always on the right side, as seen in the picture below:

Debit	Credit

- **Debits:** Transactions that *increase* assets and expenses and *decrease* liabilities.
- **Credits:** Transactions that *increase* liabilities and *decrease* assets or expenses.

These definitions might seem confusing right now, but they'll make more sense in a minute.

WARNING
It's easy to conflate the accounting terms 'debit' and 'credit' with the equivalent banking definitions, where a debited account is negative and a credited account is positive. **Don't make this mistake.** Don't think of debits and credits in terms of debit cards and credit cards, either. For accounting purposes, throw out everything you thought you knew about debits and credits, and simply remember that debits go to the left on the T-Account and credits go to the right.

Recording Debits and Credits

You will create a T-Account *for each account* a transaction affects. (Remember: debits are always on the left of the T-Account, and credits are always on the right.)

Debit	Credit

Let's return to our example from earlier.

EXAMPLE 1

You take out a loan from the bank for $3,000 dollars. In our previous equation, the Cash account went up by $3,000 and the Notes Payable account went up by $3,000.

Assets	=	Liabilities	+	Owner's Equity
3,000	=	3,000	+	—
3,000	=	3,000		

To record this same information in the new T-Account format, we will need a T-Account for both Cash and Notes Payable.

We'll put the account name at the top of each T-Account.

Cash	
Debit	Credit

Notes Payable	
Debit	Credit

By now, it should be ingrained in your head that **debits are always on the left** and **credits are always on the right**. But whether debits increase or decrease an account depends entirely on the type of account represented.

If we go back to our definitions of debits and credits, we remember that debits are transactions that *increase* assets and expenses and *decrease* liabilities. Credits are transactions that *increase* liabilities and *decrease* assets or expenses.

Maybe a chart will help:

Account Type	Debit	Credit
Asset	Increases	Decreases
Liability	Decreases	Increases
Income	Decreases	Increases
Expense	Increases	Decreases

Let's get back to our example. We know that cash is an asset. If we look at our chart, we can see that for assets, debits increase the account and credits decrease the account. Our cash increased by $3,000 so our Cash T-Account will look like this:

Cash	
Debit	Credit
$3,000	

We also know that notes payable are liabilities. Our chart tells us that for liabilities, debits decrease the account and credits increase the account. We increased the amount we owe the bank by $3,000, so our Notes Payable T-Account will look like this:

Notes Payable	
Debit	Credit
	$3,000

NOTE: *In a true T-Account you would not use currency symbols or positive or negative signs. We've only included these for the sake of clarity.*

I know it's a little confusing, but as long as you can identify whether an account is an asset, liability, income, or expense, then you can use the cheat sheet chart to make it easier.

Let's do one more example.

EXAMPLE 2

Suppose we use $500 cash to make a payment on our $3,000 loan. How would we record this transaction on our existing T-Account for cash?

Paying $500 in cash *decreases* the amount of cash you have, right? Cash is an asset, and our chart says credits decrease an assets account. So, our T-Account would look like this:

Making a $500 payment on our loan will also decrease the amount of debt we owe the bank. Notes payable are considered liabilities, and our chart says debits decrease a liability account. So, our T-Account would look like this:

Cash	
Debit	Credit
$3,000	
	$500

Notes Payable	
Debit	Credit
	$3,000
$500	

Congrats on making it this far! You are so close to enlightenment—just hold on a little bit longer and you'll see why this new form of recording transactions is so important.

What are journal entries?

I'm sure you've realized by now that we're not talking about writing or doodling in a leather-bound diary from Barnes & Noble. In accounting, the term "journal entry" conveys a completely different meaning.

- **Journal Entry:** A journal entry is used to record a business transaction and organize all of the accounts affected by that transaction. Journal entries are made in the general ledger report.

Every transaction in accounting is recorded with an entry in the journal.

- **Journal:** A record of all transactions in chronological order.

Creating a Journal Entry

Journal entries are generally formatted as you see below. These entries include a date column, an account name column, a debit column, and credit column:

Date	Account Name	Debit	Credit

Let's go back to the T-Accounts we created in the last section and use them to fill in the journal entry. Here are those T-Accounts again if you need a refresher:

Cash	
Debit	Credit
$3,000	
	$500

Notes Payable	
Debit	Credit
	$3,000
$500	

First, use the T-Account to tally a total debit or total credit amount for each account. For the journal entry you'll need a single debit or credit amount. Subtract the decreases from the increases (refer back to the **chart and example from earlier** if you can't remember which column represents increases and which represents decreases.)

Cash	
Debit	Credit
$3,000	
	$500
Total: $2,500	

Notes Payable	
Debit	Credit
	$3,000
$500	
	Total: $2,500

Next, we'll use these totals to fill in the debit and credit columns of the journal entry. In a journal entry, debit-balance accounts (asset and expenses) always come before credit-balance accounts (liabilities and income). Credit-balance accounts are also always indented.

Date	Account Name	Debit	Credit
1/1/2017	Cash	$2,500	
	Notes Payable		$2,500

Last, but definitely not least, you'll want add up the total debits and total debits. **These numbers must match.**

Just like assets always equal liabilities plus equity, debits always equal credits. If the debits do not equal credits, a mistake has been made along the way and your books aren't balanced. In our case \$2,500 = \$2,500, so we're all clear!

Date	Account Name	Debit	Credit
1/1/2017	Cash	\$2,500	
	Notes Payable		\$2,500

Total Debits: \$2,500 | Total Credits: \$2,500

Now you have a complete journal entry! You've made it through some of the most difficult accounting concepts; everything is smooth sailing from here.

That said, let's pause for a minute for some frank talk. The truth is, if you use accounting software or hire an accountant to do your books, **you will probably never have to do these calculations by hand**.

So why did I make you learn about accounting terms, the basic accounting equation, debits and credits, and journal entries then?

Without a firm grasp of these accounting basics, you can't go any further in your journey towards mastery of accounting fundamentals. While you may not need to manually crunch these numbers on a regular basis, it is imperative that you understand the basis of true, double-entry accounting before we can move on to the fun stuff (like choosing accounting software).

PRO TIP
When hiring an accountant, it never hurts to demonstrate that you have some basic accounting knowledge and that you know what you are doing. When *you* know your stuff, you can better understand your accountant's work. More importantly, you can hold them accountable for their work. (Blind trust in an accountant has sometimes led to business owners being cheated, a fate we don't wish upon anyone.)

What is a chart of accounts?

Earlier, we learned that an account is a place to record specific transactions. A chart of accounts is what keeps your individual accounts organized.

- **Chart of Accounts:** A chart of accounts is a way of organizing financial information in accounting by grouping similar transactions into specific categories or accounts.

A chart of accounts is organized into six categories or account types:

- **Assets**
- **Liabilities**
- **Equity**
- **Income**
- **Cost of Goods Sold (COGs)**
- **Expenses**

Several of these terms should sound familiar already. We also already learned that these account types are subdivided into specific accounts like Cash, Notes Payable, and Office Supplies (which we saw in the earlier sections.) These accounts are all given a numerical value and name to make them easier to find.

Here's an example of a typical chart of accounts:

Asset Type	Account Code	Account Name
Asset	1010	Checkings
	1020	Savings
	1030	Cash
	1040	Accounts Receivable
	1050	Inventory
	1060	Property
	1070	Equipment
Liabilities	2010	Accounts Payable
	2020	Sales Tax Payable
	2030	Income Tax Payable
	2040	Mortgage Loan
	2050	Other Loans
Equity	3010	Owner's Contributions
	3020	Retained Earnings
Income	4010	Sales from Products
	4020	Sales from Services
COGS	5010	Materials and Supplies
	5020	Labor Costs
Expenses	6010	Advertising
	6020	Car and Truck Expenses
	6030	Contract Labor
	6040	Office Supplies
	6050	Rent for Property
	6060	Rent for Equipment
	6070	Travel, Meals, and Entertainment
	6080	Wages
	6090	Utilities

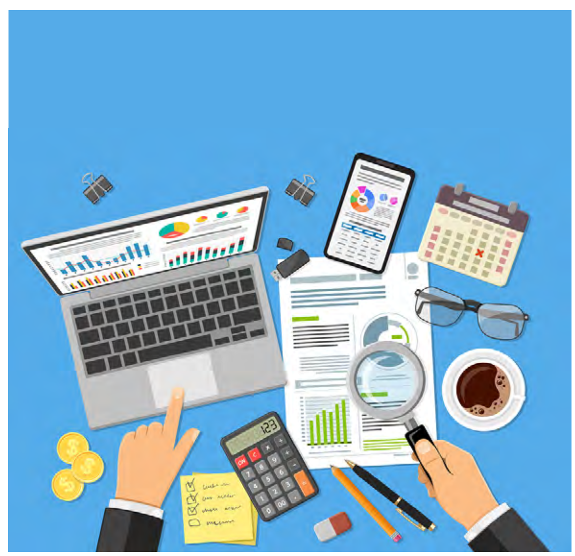
Your company probably has many expenses (rent, utilities, advertising fees, payroll, payroll taxes, etc.), right? By creating an account for each separate type of expense, you can get a better idea of where your money is going and can more clearly organize your business transactions.

Creating proper accounts and categorizing transactions appropriately is the key to maintaining accurate accounting reports. Your chart of accounts goes hand in hand with your general ledger, a report that lays out every transaction in your business. This information is the basis for every report you will create in accounting. We'll explain how to create a chart of accounts for your business in **Section 4**.

What's the difference between cash-basis and accrual accounting?

Cash-basis and accrual accounting refer to the ways you *record* your business's income.

- **Cash-Basis Accounting:** Records income when a product or service is actually paid for.
- **Accrual Accounting:** Records income when products or services are incurred or agreed upon.



Maybe this example will help. Suppose you send an invoice on December 25, 2018 (ideally, you wouldn't send an invoice on Christmas Day, but let's just run with it for the sake of the example). You receive payment for this invoice on January 5, 2019.

If you record this payment as income for 2018, you are using accrual accounting. If you record this payment as income for 2019, you are using cash-basis accounting.

Now that you know the difference, how do you choose which one to use?

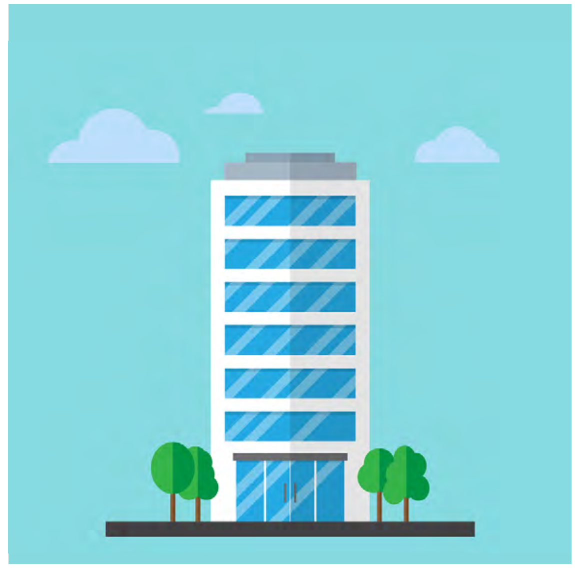
Many small businesses use cash-basis accounting when first starting out. But while this form of accounting is ideal for cash-based businesses, it is not always scalable or practical in the larger business world. **Accrual accounting is used more often and can fit almost any business size or type, from startups to enterprise corporations.** The main reason people like accrual accounting is that it gives a clearer picture of their company's actual profit and loss. Accrual accounting also goes hand in hand with double-entry accounting, so you can see why we like it.

What are accounts payable and accounts receivable?

Accounts Receivable	VS.	Accounts Payable
Funds that you are owed. When your business has *delivered* a product or service, but your buyer has not paid for it yet, the transaction is recorded under accounts receivable.		Funds that you owe to others. When your business *buys* a product or service on credit and hasn't paid for it yet, the expense is recorded under accounts payable.

These terms are important for a few reasons. First, they help you understand how to record income and expenses properly. Second, almost all (good) accounting software has an accounts payable section where you can record bills and expenses. It's good to familiarize yourself with this term now so that when you see "accounts payable" show up on your software dashboard, you don't assume your software is speaking gibberish.

What are fixed assets?



If you remember earlier, assets are anything owned by your business (cash, equipment, property, etc.). There are two different kinds of assets in accounting: **current assets** and **fixed assets**.

- **Current Assets:** Short-terms assets like cash or any assets that will become cash by the end of the fiscal year (ex. inventory or accounts receivable).
- **Fixed Assets:** Assets with a long life-span that won't be used up by the end of the fiscal year (ex. property, equipment, vehicles).

It's important to know the difference between current assets and fixed assets for a couple of reasons. First of all, fixed assets are taxed differently than normal expenses.

Because fixed assets are not used up in a single fiscal year, they can't be written off as normal tax deductions. Instead, they have to undergo a process called depreciation.

- **Depreciation:** The IRS's way of calculating how much life is left in a fixed asset, so you can be reimbursed only for the amount that's been used (not the amount that's left).

Since fixed assets have to undergo a more complicated form of taxation, recording fixed assets in your chart of accounts becomes incredibly important (and a bit complex). You'll need accounts for each fixed asset, the accumulated depreciation tied to that asset, and a depreciation expense account for each fixed asset.

Luckily, if you opt to use a robust accounting software like Xero or QuickBooks, you can easily adjust your chart of accounts and run depreciation for fixed assets.

How do I calculate my business's profit and loss?

If you go with an accounting software, it's easy to calculate profit and loss; simply go to your reports section, click the Profit and Loss (or P&L) report, and voila! Your software fills in all the necessary information using data that you've previously entered.

Profit and Loss

StoryBooked
Income Billed (USD)
For Jan 1, 2017 - Dec 31, 2017

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Year Total
Income (Billed)					
Sales	525.00	–	–	–	525.00
Cost of Goods Sold*	0.00	–	–	–	0.00
Gross Profit	**$525.00**	–	–	–	**$525.00** USD
Less Expenses					
Car & Truck Expenses	150.00	–	–	–	150.00
Vehicle Licensing	150.00	–	–	–	150.00
Meals & Entertainment	13.47	–	–	–	13.47
Restaurants/Dining	13.47	–	–	–	13.47
Supplies	68.72	–	–	–	68.72
Supplies (general)	68.72	–	–	–	68.72
Total Expenses	**$232.19**	–	–	–	**$232.19** USD
Net Profit	**$292.81**	–	–	–	**$292.81** USD

*Cost of Goods Sold (COGS) is the sum of expenses for categories you've marked as COGS and all expenses billed to your clients. Expenses appear on the column corresponding to the original expense date.

If you want to calculate your profit and loss by hand, or if you are curious about how your accounting software comes up with the total you see on your report, here's how it works:

Profit or Loss = Income - COGS

- **COGS:** Stands for Cost of Goods Sold. COGS refer to any cost associated with creating or assembling the items (or services) you sell. Usually the total COGS is calculated by the total amount spent on inventory and direct labor costs.

You can calculate your business's profit and loss for a single transaction, for time periods (week, month, etc.), or you can run a profit and loss report for the whole sales year (which is what most software programs do).

This report comes in handy for determining your business's overall profitability, identifying sales patterns, and evaluating operation costs. Access to this information helps ensure that your business is on the right track and can inform important business decisions like whether or not to take on investors, where to cut COGS, and more.

SECTION 3

Choosing Software

> When it comes to running a business, time is money.

Why do I need accounting software?

When it comes to running a business, time is money. No matter how sophisticated your manual accounting system is, you can't afford to keep using a filing cabinet (or shoebox) for receipts, or to spend hours creating Excel spreadsheets to record expenses—not if you want your company to grow, that is. That's where accounting software comes in.

Accounting software can help you...

- **Save time**
- **Get organized**
- **Conserve money (by cutting down on billing hours from your accountant)**
- **Keep all your data in one spot**
- **Get a clear picture of your business's health**
- **Put you in control of your finances**
- **Give you mobility with the cloud**
- **Provide valuable business advice and support from experienced customer service teams**
- **File taxes more easily**

These are just a few of the many benefits of accounting software. But the most valuable thing accounting software can give you is your life back. Henry David Thoreau once said, "The price of anything is the amount of life you pay for it." By using accounting software to automate and simplify your accounting processes, you can balance the books faster and get back to what really matters—running your business.

Is QuickBooks the only good accounting solution?

Not by a long shot. If fear of learning the notoriously complicated QuickBooks is keeping you from investing in accounting software, it's time to put that fear aside and embark on an accounting software hunt.

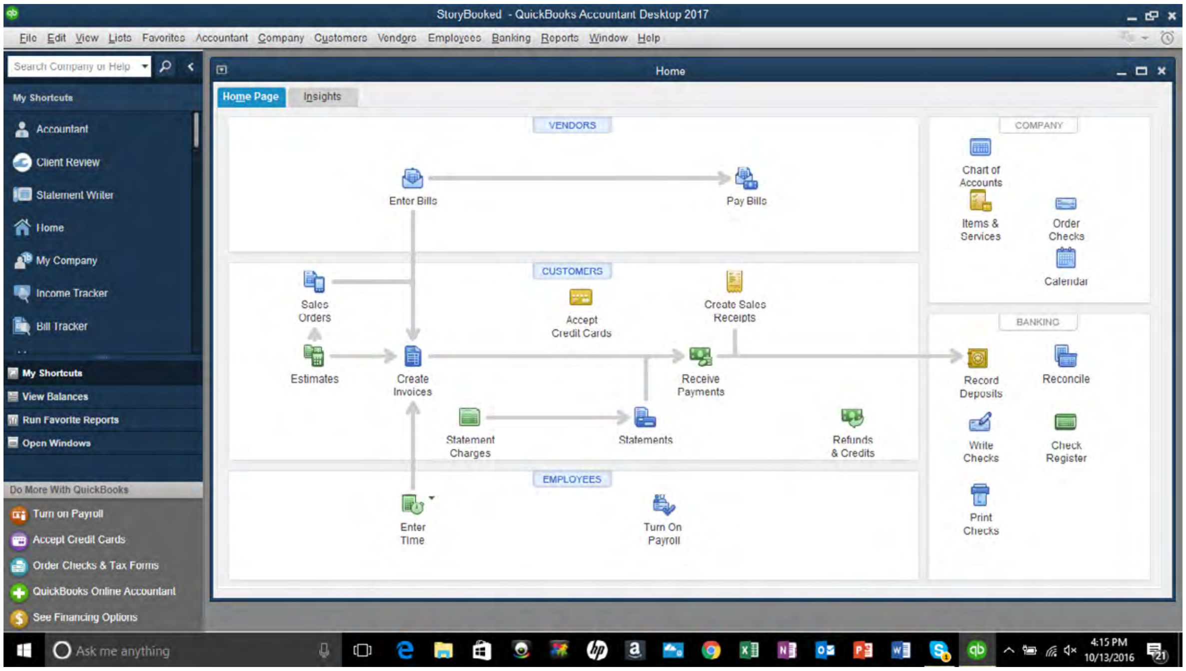
QuickBooks may have been one of the first companies to make a name for themselves in the accounting world, but they are only one of many on the current market. There are plenty of other great software options today. We explain several in the next section. You can also read our blog post, **The Best Alternatives to QuickBooks**, to learn more.

What are the most popular software options?

Some of the most popular accounting software programs include QuickBooks Pro, QuickBooks Online, Xero, Wave, and Zoho Books. (FreshBooks is another popular name, but it isn't true accounting software so we didn't include it in this list.) Each of these software programs receives 4.5 out of 5 stars or higher on our website, so they are definitely good places to start your accounting software search.

We've briefly explained each software below to give you an idea of what makes a good accounting software.

QuickBooks Pro



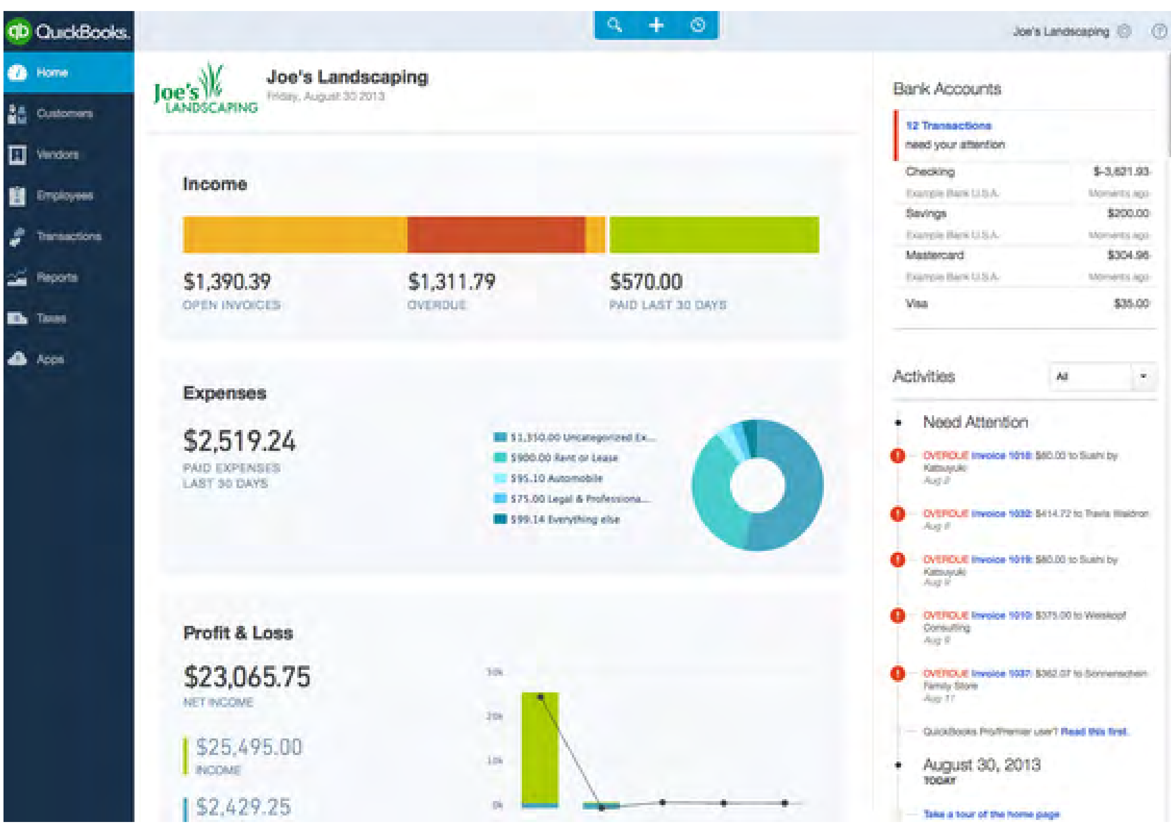
Okay, I know we said that QuickBooks isn't the only answer to accounting software, but it is one of the most popular names in the industry for a reason. **QuickBooks Pro** is a locally-installed software with incredibly robust features; it supports both accrual and cash-basis accounting. The **software costs** $295, with additional users and customer support costing extra. Once you buy a QuickBooks Pro license, you can use the software for at least three years (which is when the customer support for that version drops).

This software has quite a steep learning curve and is not for the faint of heart. QuickBooks Pro is ideal for small to medium-sized businesses and accountants looking for feature-rich software that stays true to basic accounting principles. The ideal QuickBooks Pro user should also be comfortable with a locally-installed software solution (see **page 37** for details) and have a small number of users.

Here are some of the most notable QuickBooks Pro features:

- Invoicing
- Estimates
- Contact management
- Expense tracking
- Accounts payable
- Bank reconciliation
- Chart of accounts
- Inventory
- Project management
- Time tracking
- Budgeting
- 200+ reports
- Mileage deductions
- To-do lists
- Calendar
- Customizable letter templates
- Spell check
- Tax support
- Import/export capabilities

QuickBooks Online



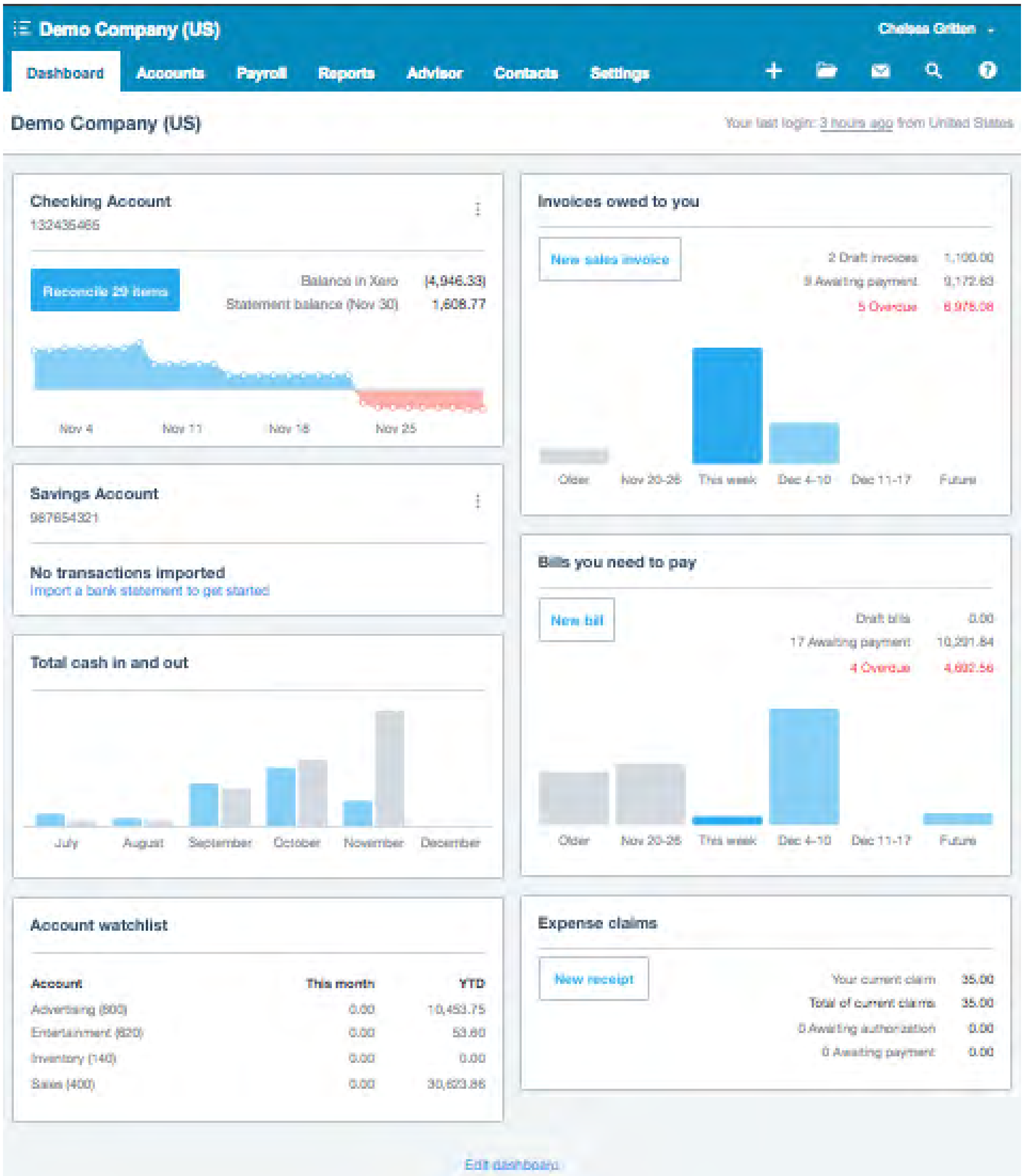
QuickBooks Online retains the strong features of QuickBooks Pro, but it is easier to learn and navigate. QuickBooks Online is a cloud-based solution, meaning it has much more mobility than QuickBooks Pro (and it offers mobile apps for both Androids and iPhones to boot). QuickBooks Online offers accrual and cash-basis accounting, as well as a strong chart of accounts. The software features beautiful invoices and 400+ integrations. It is used by over 2 million customers. QuickBooks Online offers **three pricing plans** ranging from $15 - $50/mo.

QuickBooks Online is ideal for small to medium-sized businesses with no more than 25 users. It is robust enough for complex businesses wanting strong accounting, but easy enough to use for small businesses with minimal accounting experience.

Here are some of the most notable QuickBooks Online features:

- Beautiful invoicing
- Autoschedule invoices
- Estimates
- Great contact management
- Expense tracking
- Accounts payable
- Bank reconciliation
- Chart of accounts
- Inventory
- Time tracking
- Payroll
- Budgeting
- 44-106 reports
- Class tracking
- Print checks
- Packing slips
- Tax support
- Multi-currency support

Xero


Demo Company (US)
Chelsea Gritten
Dashboard
Accounts
Payroll
Reports
Advisor
Contacts
Settings
Demo Company (US)
Your last login: 3 hours ago from United States
Checking Account
132435465
Reconcile 29 items
Balance in Xero (4,946.33)
Statement balance (Nov 30) 1,608.77
Nov 4
Nov 11
Nov 18
Nov 25
Savings Account
987654321
No transactions imported
Import a bank statement to get started
Total cash in and out
July
August
September
October
November
December
Account watchlist
Account
This month
YTD
Advertising (600) 0.00 10,453.75
Entertainment (620) 0.00 53.60
Inventory (140) 0.00 0.00
Sales (400) 0.00 30,623.86
Invoices owed to you
New sales invoice
2 Draft invoices 1,100.00
9 Awaiting payment 9,172.63
5 Overdue 6,976.08
Older
Nov 20-26
This week
Dec 4-10
Dec 11-17
Future
Bills you need to pay
New bill
Draft bills 0.00
17 Awaiting payment 10,291.84
4 Overdue 4,602.56
Older
Nov 20-26
This week
Dec 4-10
Dec 11-17
Future
Expense claims
New receipt
Your current claim 35.00
Total of current claims 35.00
0 Awaiting authorization 0.00
0 Awaiting payment 0.00
Edit dashboard

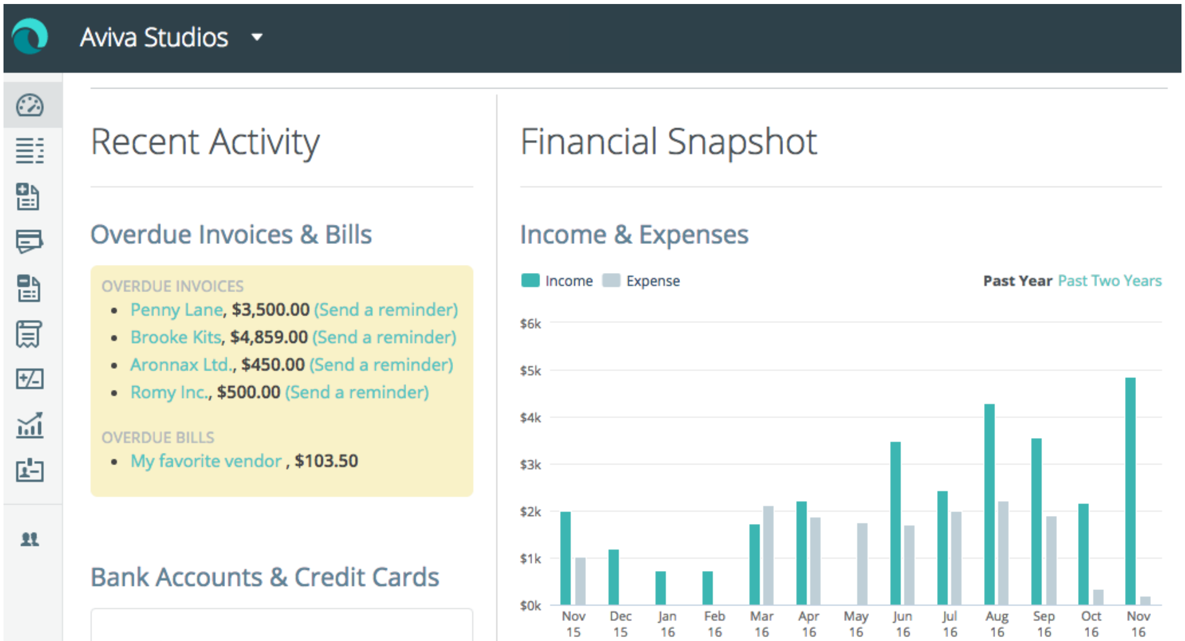
Xero is one of QuickBooks' top competitors and it's easy to see why. This robust accounting solution boasts ample features, hundred of integrations, and great customer service (something that QuickBooks severely lacks). It is a cloud-based program that offers both accrual and cash-basis accounting. Xero has strong inventory and contact management features and is a top choice of many accountants. The company offers **five pricing plans** ranging from $9 - $180/mo.

Xero also allows for *unlimited* users (which is almost unheard of) and strong user permissions, making it a great solution for mid- to large-sized businesses. Xero is also ideal for growing businesses in need of scalable pricing plans. That said, the sheer complexity of the large feature set may be too overwhelming (and too expensive) for some smaller businesses.

Here are some of the most notable Xero features:

- Invoicing
- Estimates
- Great contact management
- Expense tracking
- Accounts payable
- Bank reconciliation
- Chart of accounts
- Inventory
- Time tracking
- Payroll
- Strong user permissions
- 65 reports
- Class tracking
- Tax support
- Multi-currency support

Wave



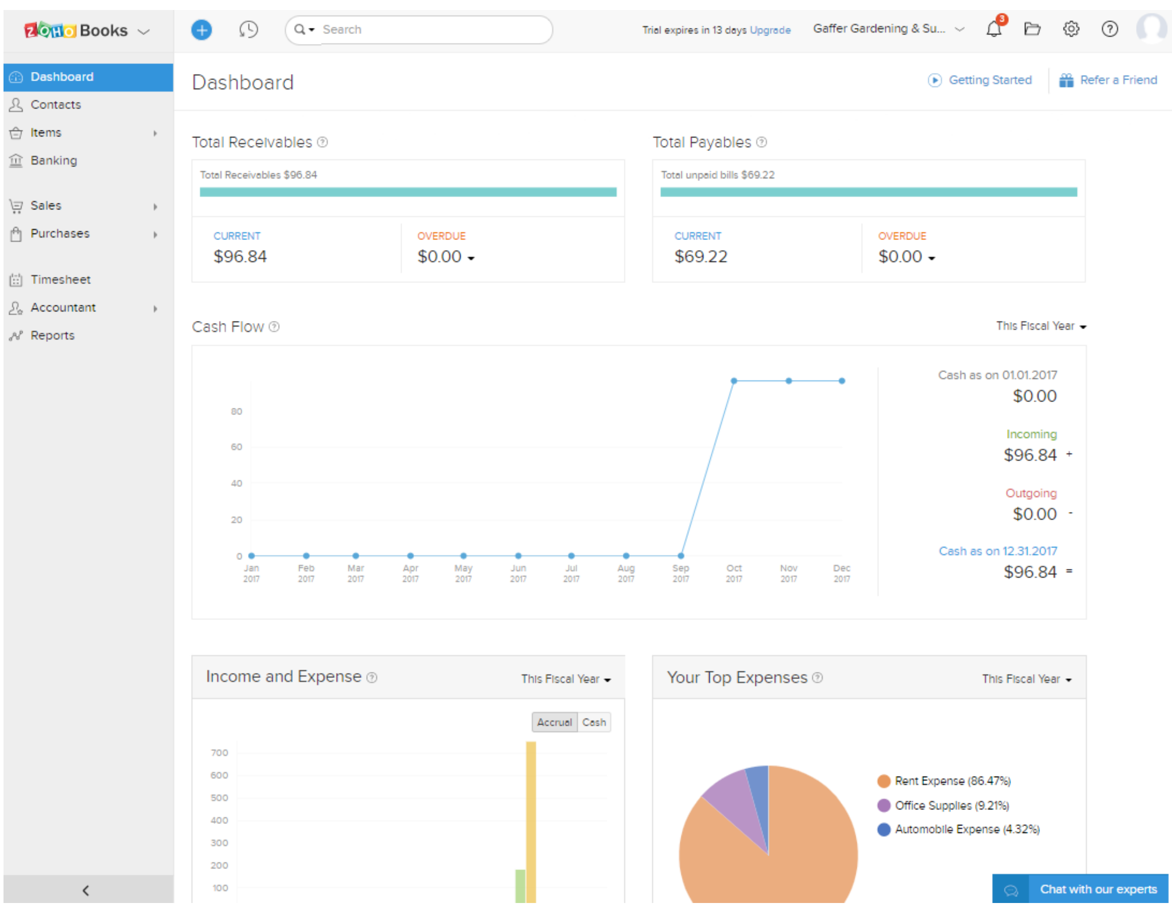
Wave is a completely free—yes, free!—accounting software solution. There are no gimmicks, just honest, robust accounting software designed with the small business in mind. Wave is a cloud-based software that offers true double-entry accounting and uses the accrual accounting method. The software provides beautiful invoices, full-featured mobile apps, and nearly all of the features you'd expect from a bigger software like Xero or QuickBooks (minus inventory). While the number of reports and integrations are limited, Wave is designed beautifully and offers one of the only direct lending features on the market.

Wave was created for small businesses, and its free pricing makes it a no-brainer for many business owners. The software is ideal for small businesses who need a way to separate their personal and business expenses. Wave also has a strong Etsy integration for Etsy sellers. However, mid- to large-sized businesses might find that they outgrow the software quickly, and users who need cash-basis accounting are out of luck.

Here are some of the most notable Wave features:

- Good invoicing
- Estimates
- Contact management
- Expense tracking
- Receipt scanning
- Accounts payable
- Bank reconciliation
- Item list
- Time tracking
- 12 reports
- Lending
- Multi-currency support
- Import/export capabilities

Zoho Books



When it comes to invoicing, no one can beat **Zoho Books**. The software offers beautiful invoices, ample invoice customizations, a client portal where customers can view (and pay) their invoices directly online, and even invoice encryption. The company doesn't sell its other features short either. Zoho Books has strong contact management and project management as well. Zoho Books offers **three pricing plans** ranging from $9/mo - $29/mo.

Zoho Books is ideal for small business owners who need strong invoicing and basic accounting features. It is also great for international invoicing. Mid- to large-sized businesses may need more complex accounting than Zoho Books can offer. If you need a large selection of integrations as well, Zoho Books might not be for you.

Here are some of the most notable Zoho Books features:

- Beautiful invoicing
- Invoice encryption
- Estimates
- Client portal
- Contact management
- Expense tracking
- Accounts payable
- Bank reconciliation
- Inventory
- Project management
- Time tracking
- Tax support
- Multi-currency
- Import/export capabilities

Should I use cloud-based or locally-installed software?

Cloud-Based Software:	Locally-Installed Software:
Mobile	Doesn't require Internet access
Easy to use	More complex and feature-rich
SaaS subscription-based model	One-time payment or 1-year license model
Access for multiple users in different locations	Single location
Security for those who wouldn't set it up on their own	Potentially more secure

Cloud-based software is software that operates entirely in the cloud (on the Internet). This business model has been growing in popularity and many believe it is the future of accounting. Cloud-based software offers mobility and its monthly subscription model is usually more affordable, especially when you're just starting out. If you aren't tech savvy, cloud-based software might be a good option. Customer service is almost always included and you don't have to worry about your data security; the company takes care of it for you.

Locally-installed software is software that is downloaded and installed on a single, on-premise computer. (Some locally-installed licenses allow for multiple downloads, while others require additional purchases for each user.) Most on-premise software requires a one-time purchase, which could potentially save you money if you use the software long enough. Locally-installed software can also be more secure, so long as you take the necessary security precautions (firewalls, data encryption, etc.), which you are completely responsible for.

In addition, locally-installed software is often more robust than its cloud-based counterparts, giving it higher functionality but a much steeper learning curve. Some users (especially accountants) appreciate this type of software for that very reason. However, I find that **most small business owners prefer cloud-based software**. The sheer mobility of cloud-based software makes it a favorite. These solutions are less expensive and far easier to use—especially for those who have no previous accounting experience.

How do I know which software is best?

There isn't one overarching "best" accounting software, but I can guarantee there is a program out there that is the best fit for *your* business. When there are dozens of good software options, though, how are you supposed to decide which one is right for you?

Well, that's what I'm here to help you with. I've broken down this complicated process into five simple factors to consider when choosing the right software for your business.

1. True Accounting Features

Believe it or not, some programs marketed as "accounting" solutions actually aren't accounting tools at all. Instead, you might receive invoicing capabilities with some light bookkeeping capabilities.

How do you tell whether or not a vendor is offering true accounting software? Well, I'm glad you asked. These are the key features you'll want to look for:

- **Double-entry accounting**
- **Chart of accounts**
- **Bank reconciliation**
- **Accounting reports** (see **page 61**)

For freelancers and other micro-businesses, these features may not be a deal-breaker, but for business owners looking for true accounting, they are must-haves.

2. Overall Feature Set

This is probably the biggest deciding factor for business owners (apart from price). You must ensure that your software provides all of the features you need. (And if it covers some that you just want too? Well, that's icing on the cake.)

If you don't know much about accounting software, it can be hard to know what kinds of features are available to you. Never fear; I've created this comprehensive list of the most common accounting software features:

Common Accounting Software Features:

- Invoicing
- Recurring invoices
- Custom invoice template designs
- Snail mail
- Quotes/estimates
- Client portal
- Contact management
- Lead management
- Vendor management
- Request customer reviews
- Expense tracking
- Receipt scanning
- Separate personal and business expenses
- Live bank feeds
- Bank reconciliation
- Chart of accounts
- Manage bills
- Project management
- Job-costing
- Time management
- Payroll
- Direct deposit
- Inventory
- Class tracking
- Reports
- Budgeting
- Track mileage deductions
- Sales tax capabilities
- Tax support
- Thank you notes
- To-do lists
- Packing slips
- Purchase orders
- Sales orders
- Journal entries
- User permissions
- Print checks
- Multi-currency
- Multi-language
- Multi-company
- Import/export capabilities
- Mobile apps

I recommend that you use this list to determine which features you absolutely *need* and which would just be nice to have, and then choose the software that meets your needs and addresses as many preferences as possible.

3. Competitive Pricing

When choosing software, you want to make sure you're getting the most bang for your buck in terms of features. You also want to make sure you aren't getting ripped off in comparison to other software plans. So before choosing an accounting program, be sure to read the next section, **How much should I expect to pay?**, to guarantee you're getting a good deal.

4. Reliable Company

While features and pricing are key factors on the forefront of most business owners' minds, reliability is an often overlooked factor that is arguably even more important. Be absolutely sure that the company you choose is reliable and that your data is secure. This is particularly important if you opt for cloud-based software. Read the upcoming section, **Is my software company reliable?**, for more information.

5. Enjoyable to Use

You wouldn't buy a car without taking it for a test drive, so don't sign away your soul to a software before testing it out first. Almost all software companies offer a free trial. Take advantage of it. This is the only way you will find out if you actually like the software and if it's a viable option for your business. If you don't like using it, then it's not the software for you.

WARNING
If a software requires credit card information to access their free trial, run. This is a shady and questionable practice; nearly every reputable company will offer a free trial that doesn't require credit card information.

PRO TIP
If the software you're looking at doesn't offer a free trial, contact the company to request a demo. They are often more than willing to show off their product. You can also search YouTube for prerecorded video demonstrations and webinars.

If you don't know where to start looking, here are some articles which may help you discover which accounting software is best for your business. You can find the best of the best here:

- **Best Accounting Software for Small Businesses**
- **Best Accounting Software for Larger Businesses**
- **Best Free Accounting Software**
- **Best Accounting Software for Accountants**
- **Best Accounting Software for Invoicing**

Or, check out Merchant Maverick's **accounting software comparison chart**, which features some of the most highly ranked accounting software programs on the market today.

How much should I expect to pay?

Business Size	Price Range
Freelancers	$0-$15/mo
Micro Businesses	$0-$20/mo
Small Businesses	$20-$35/mo
Medium Businesses	$35-$50/mo
Large Businesses	$50+/mo

The price of accounting software depends predominantly on your business size and type. Knowing the range you can expect to pay for good software will keep you from getting ripped off and ensure that you are getting the most out of your money in terms of features.

Small business owners should be able to find a good, full-featured accounting solution for $20-$35/mo. Medium-sized businesses needing payroll and additional users can expect to pay around $35-$50/mo, while larger businesses should plan on shelling out $50/mo+ depending on their needs.

When looking at software pricing consider these points as well:

Don't Overpay

If you are a freelancer, you don't need to spend an arm and a leg on accounting software. There are freelance-specific software options like **AND CO** that offer free plans, and programs like **QuickBooks Self-Employed** cost only $10/mo.

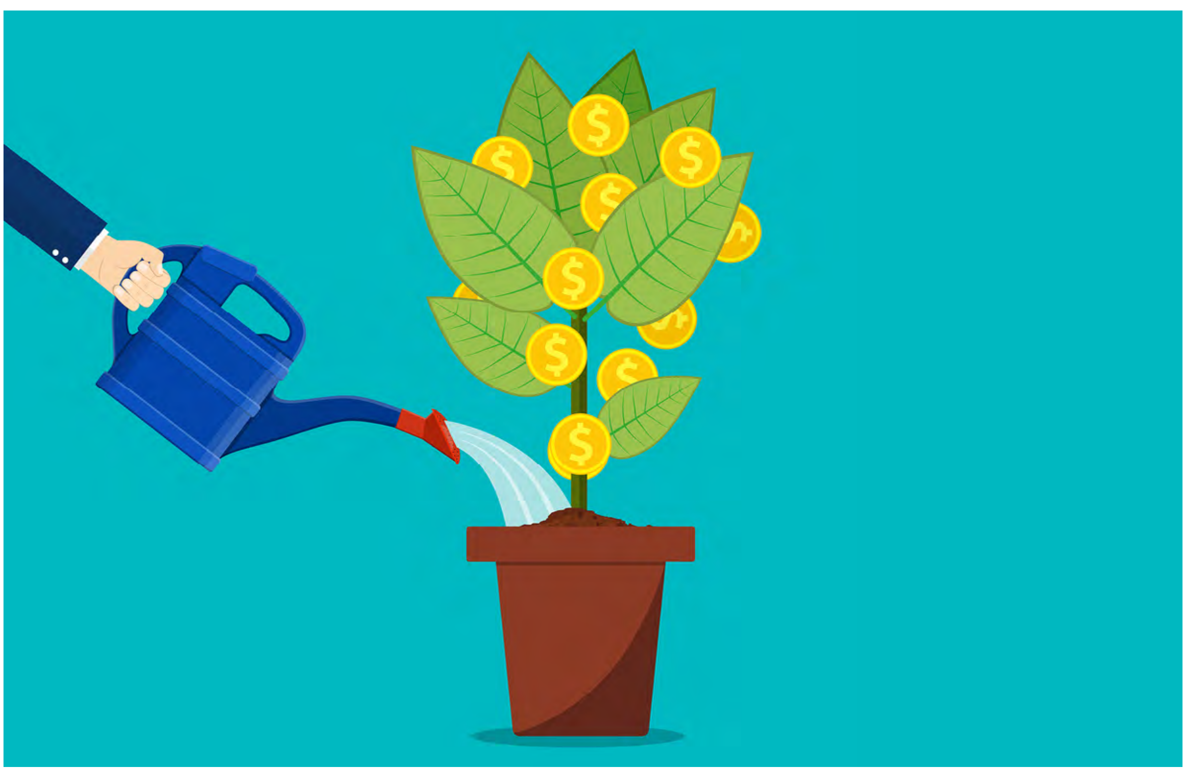
If you are a micro-business, a free software like **Wave** could save you a good chunk of change, without sacrificing any of the features you need. Many small businesses could also get away with using Wave as an accounting solution, rather than spending $30/mo. This option is definitely worth checking out. If a free plan works for your small business, why spend money needlessly on some other software?

Don't Underpay

If you are paying between $0-$35/mo on software, make sure you are actually getting your money's worth. Many companies' smallest plans (with the exception of Wave) offer limited features and artificial limitations on those features (i.e., you can only send 50 invoices a month or have 20 customers, etc.). In these cases, spending a little bit extra per month could be all it takes to get better features and better value for your money.

Consider the Future

If you are looking to grow your business, be sure to consider how scalable a potential software program is. You want to invest in something that will grow with you as your company grows, rather than having to switch software again and again when your solution's features no longer suit your needs. Good scalable options offer multiple pricing plans and don't charge an outrageous amount for extra users. (For an example of a scalable accounting solution, take a look at **Xero**.)



Is my software company reliable?

There are three ways to determine whether an accounting software program is safe to use.

1. Strong Security Measures

I don't have to tell you how important security is when it comes to the cloud, but sometimes it's hard to tell what are good security practices and what aren't. First and foremost, **you want a company that is completely upfront and honest about their security**; if they're cagey or reluctant to part with information, they might be hiding something. For cloud-based accounting software, good security measures include:

- **256-bit SSL encryption**
- **Regular data backups**
- **Intrusion protection**
- **Firewalls**
- **Multiple data centers**
- **Physical security precautions**

If you're concerned about a company's security or need help finding their security information, each of **our accounting software reviews** includes a detailed description of the company's security policies. Our **Merchant Maverick blog** also features several articles explaining SSL encryption and cloud security.

2. Good Customer Reviews

Looking at real reviews from real customers is a great way to learn if a company is reliable or not. It gives you a chance to learn what the user experience is like from an actual business owner's perspective and gives you an idea of what types of businesses are succeeding with that software. Positive reviews are always a great sign, but don't get scared away by negative reviews either.

Negative reviews can show you how responsive a company is. If the company has seen and addressed negative reviews quickly, that is a win for the company in my book. It's also important to remember the role of **negativity bias** in reviews. Upset users are much more likely to post a review than happy users. However, if you see a serious complaint again and again with no resolution, weigh this carefully before continuing with that software.

3. Frequent Updates

If a company is constantly releasing updates, that's a good sign that their software is alive and well. You want a company that listens to user feedback and constantly strives to make their software better by adding new features and improving existing ones.

You can generally find information about recent updates in company blogs, archives, and roadmaps.

WARNING
Stalled updates are a bad omen. If a company hasn't released any updates in a year or two, this could be a sign that the company's attention is focused elsewhere and the software may be discontinued soon.

When should I hire an accountant?

Many small business owners use accounting software so that they can tackle their own finances and reduce the number of billable hours for their accountant. However, there are key times when having an accountant is incredibly important:

- **When you first start your business**
- **When you have question about the legal structure of your business**
- **When preparing for a tax audit**
- **When you don't have the time to do everything yourself anymore**
- **When you can afford to hire someone else**
- **When filing taxes**
- **Whenever you feel out of your depths**

You don't have to hire an accountant for all of these scenarios. For example, many accounting software companies offer built-in tax support, so you may not need much extra help (see **section 5** of this book for more details). However, if you are ever feeling overwhelmed and underqualified, we highly recommend considering an accountant.

Most accounting firms also give you the option to hire an accountant by the hour. So, if you don't need a full-time accountant but do need a little extra help before an audit or during tax season, this could be an economical solution for your business.

SECTION 4

Using Software

> Each software program treats set up a bit differently, so it can be difficult to know where to start.

How do I set up my software?

When you finally decide on a software, the tendency can be to download the program and start using it right away. However, if you don't take time to set up your accounting program correctly, you either will run into a lot of unnecessary setbacks down the road, or you will never again have the time to sit down and do everything the right way.

Each software program treats set up a bit differently, so it can be difficult to know where to start.

When deciding what to do first, ask yourself: *what information do I need to get up and running?*

These are the steps you should prioritize when setting up a new software:

1. **Add/import contacts**
2. **Add/import items**
3. **Set sales tax rates**
4. **Update chart of accounts (if necessary)**
5. **Connect bank accounts**
6. **Customize invoice template**

Now, ask yourself: *is there anything else I can do now to save time down the road?* For example, if the software offers default email messages or thank you notes, you should set those up right away. Spend a lot of time perusing your software's settings section to make sure you've added all the information and automations you can.

Ultimately, **the more thorough you can be during the initial setup process, the easier your software experience will be**.

PRO TIP
Many companies offer getting started videos or "setup wizards" that walk you through the software, so be sure to take advantage of these resources.

How do I set up my chart of accounts?

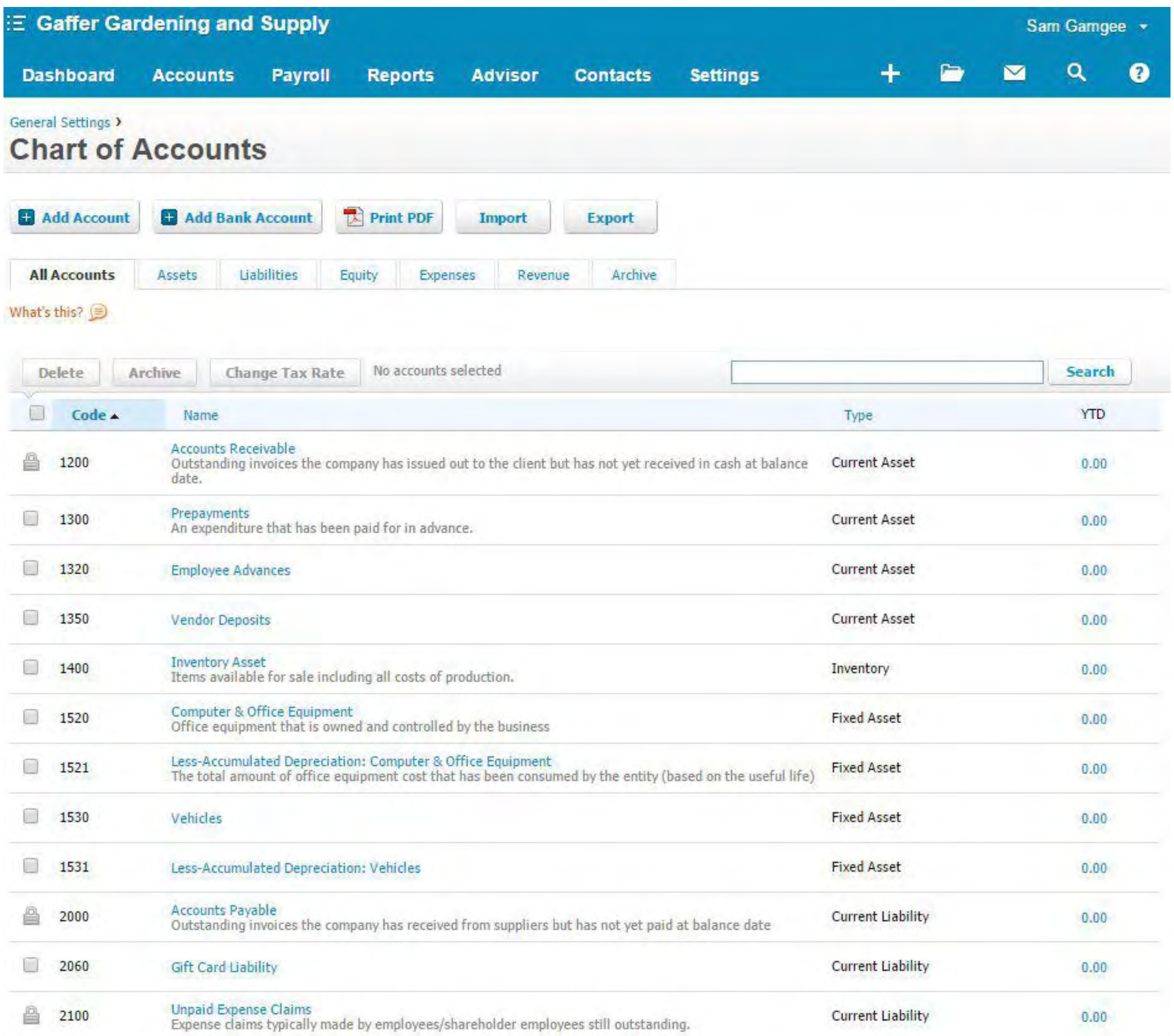
In an article titled **How to Organize Your Chart of Accounts**, QuickBooks compares a traditional chart of accounts to a librarian's Dewey Decimal system; librarians love it, but it's a bit too complicated for us lowly library-goers. In the same way, accountants can often make a chart of accounts far more complicated than it needs to be.

That's why we've provided these tips and tricks to make things easier for you. Even though setting up a chart of accounts can seem a bit intimidating at first, there's nothing to be afraid of. It can be done.

1. Use Accounting Software

One of the best ways of simplifying your chart of accounts is by using accounting software. Almost all good accounting software will create a basic chart of accounts for you. You will just need to edit the preset accounts. Delete accounts you don't need, add accounts you do need, and simplify any confusing account names to make things easier on yourself.

Here's an example of Xero's default chart of accounts:



Code ▲	Name	Type	YTD
1200	Accounts Receivable Outstanding invoices the company has issued out to the client but has not yet received in cash at balance date.	Current Asset	0.00
1300	Prepayments An expenditure that has been paid for in advance.	Current Asset	0.00
1320	Employee Advances	Current Asset	0.00
1350	Vendor Deposits	Current Asset	0.00
1400	Inventory Asset Items available for sale including all costs of production.	Inventory	0.00
1520	Computer & Office Equipment Office equipment that is owned and controlled by the business	Fixed Asset	0.00
1521	Less-Accumulated Depreciation: Computer & Office Equipment The total amount of office equipment cost that has been consumed by the entity (based on the useful life)	Fixed Asset	0.00
1530	Vehicles	Fixed Asset	0.00
1531	Less-Accumulated Depreciation: Vehicles	Fixed Asset	0.00
2000	Accounts Payable Outstanding invoices the company has received from suppliers but has not yet paid at balance date	Current Liability	0.00
2060	Gift Card Liability	Current Liability	0.00
2100	Unpaid Expense Claims Expense claims typically made by employees/shareholder employees still outstanding.	Current Liability	0.00

2. Keep It Simple

Make it easy on yourself by keeping the names of accounts simple. You want something that will be easy to remember and to search for in the future.

Also use a consistent numbering system to organize your accounts. When creating and numbering a new account, this is the general template to follow:

Assets	1,000-1,999
Liabilities	2,000-2,999
Equity	3,000-3,999
Income	4,000-4,999
COGS	5,000-5,999
Expenses	6,000-6,999

You want to start each account a few numbers apart from the previous one in case you need to go back and add more in the future (e.g., 1010 cash, 1020 petty cash, 1030 checkings, 1040 savings).

3. Base Expense Accounts Off Tax Forms

When creating your expense accounts, take a look at your Schedule C (or your business's equivalent) and base your expense account names off of the tax categories. For example, create a Travel account and a Meals and Entertainment account, so when it's time to fill out your taxes, you can easily know the total that goes in the Travel, Meals, and Entertainment line of the Schedule C.

Part II **Expenses.** Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
				20	Rent or lease (see instructions):		
10	Commissions and fees	10		a	Vehicles, machinery, and equipment	20a	
11	Contract labor (see instructions)	11		b	Other business property	20b	
12	Depletion	12		21	Repairs and maintenance	21	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		22	Supplies (not included in Part III)	22	
				23	Taxes and licenses	23	
				24	Travel, meals, and entertainment:		
14	Employee benefit programs (other than on line 19)	14		a	Travel	24a	
15	Insurance (other than health)	15		b	Deductible meals and entertainment (see instructions)	24b	
16	Interest:			25	Utilities	25	
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less employment credits)	26	
b	Other	16b		27a	Other expenses (from line 48)	27a	
17	Legal and professional services	17		b	**Reserved for future use**	27b	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27a ▶	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). **Simplified method filers only:** enter the total square footage of: (a) your home: ______ and (b) the part of your home used for business: ______ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2.** (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31	

These three tips will help you not only organize your chart of accounts but also optimize your chart of accounts so your small business can run smoothly.

Why are reports important and which do I need to use?

Reports are the heart of accounting. They help you understand the financial health of your business so that you can keep track of past records, adjust your present business practices, and make informed decisions about the future.

All accounting software programs worth mentioning offer reports; the more the merrier. You want *at least* these basics covered:

- **Profit and Loss Statement:** The profit and loss (P&L) statement calculates your net profit for the year (or your net loss, but we hope that isn't the case) by subtracting total COGS from total income. I recommend running a profit and loss statement at least once a year, but you can use this report to check your overall profit at any time you'd like. You will also need this report to file multiple tax forms. (This report is sometimes referred to as the Income Statement.)
- **General Ledger:** This report records the financial transactions from all accounts. These accounts are in correlation with the chart of accounts and include asset, liability, equity, income, and expense accounts (**see page 20** for more details). This report comes in handy when needing to analyze transactions in more detail. It's also a good one to save for future use and for the sake of maintaining strong records (**see page 62** to learn more about keeping accounting records).
- **Trial Balance:** A trial balance lists all balances of all accounts found within the chart of accounts. This report also tallies your total debits and total credits. These numbers should match. If they don't, your books aren't balanced and some mistake has been made along the way. Prepare this report periodically to make sure everything looks right; you don't want to realize too late that your books are unbalanced.
- **Balance Sheet:** A balance sheet takes the information from the trial balance and morphs it into something legible and more useful. The balance sheet shows a company's assets, liabilities, and owner's equity. This report is often used when applying for loans and other sources of funding.

- **Statement of Cashflows:** A statement of cashflows is like a general ledger that is specific to cash; it shows all transactions affecting cash accounts. Use this report when you need to see your cash on hand or when you want to know where your physical money goes.
- **Audit Trail:** An audit trail is a report that documents all business transactions (and activity), i.e. when the transaction was created, who made it, and any changes or modifications made to it, etc. This report is used when, you guessed it, you're preparing for a tax audit. Hopefully you'll never have to use this report, but it's there as a safety net if you ever need it. (This is also called an Audit Log or Audit History on occasion.)
- **Accounts Receivable Aging Summary:** The accounts receivable (A/R) aging summary shows what customers owe to you. The report is usually designed to show how late each customer is on their payment. Unlike some of the previous reports in this list, which can be run yearly, you'll want to take a look at this report regularly so that you can contact late customers and get your money.
- **Accounts Payable Aging Summary:** The accounts payable (A/P) aging summary shows what you owe to other vendors and suppliers. The report is usually designed to show how old each outstanding payment is as well. You'll want to take a look at this report regularly to ensure you get all of your bills squared away without incurring interest or late fees.

In addition to the must-have accounting reports, good accounting software will usually offer you bonus reports like a customer balance sheet, inventory valuation, sales by product report, sales by customer report, or bill payment list. While these reports aren't integral to accounting, they sure are helpful for running a small business. Be certain to take advantage of these extra reports.

To learn which reports you need for tax season specifically, **visit page 61**.

How do I reconcile my bank statements?

You know that pesky envelope the bank sends you each month containing your transaction history? Your bank statement isn't just extra coloring material for your kids or fodder to kindle your summer barbeques. It's an integral component for balancing the books and completing your company's accounting.

Each month, your bank should send you a statement of all of your transactions for a specific account (either electronically or by mail). When you receive this bank statement, the goal is to make sure the data you have recorded matches the bank's data.

This is incredibly important because it protects you against any potential hiccups (ex. you're missing a sales transaction that should already be in your bank but isn't, or the bank charged you twice for the same expense, etc.). Once everything is accounted for, you can sleep in peace and move on to another aspect of running your business.

For period: 11/30/2017

Hide transactions after the statement's end date

Checks and Payments

✓	DATE	CHK #	PAYEE	AMOUNT
✓	11/01/2017		Shire Views Pro...	1,400.00
✓	11/01/2017		Underhill Electri...	450.00
✓	11/01/2017		Farmer Maggot	385.00
✓	11/01/2017		Gimli	655.00
✓	11/08/2017		Brandywine Wat...	560.00
✓	11/15/2017		Rosie Cotton-G...	890.00
✓	11/15/2017		Old Gaffer	1,200.00
✓	11/20/2017		Shire Insurance	209.99
✓	11/20/2017		Rosie Cotton's ...	90.00
✓	11/29/2017		Misty Mountain I...	49.95
	11/30/2017		**Rosie Cotton-G...**	**820.00**
	11/30/2017		**Old Gaffer**	**1,200.00**
	11/30/2017		**Sam Gamgee**	**3,000.00**
✓	11/30/2017		The Shire Calls	95.00

Deposits and Other Credits

✓	DATE	CHK #	MEMO	TYPE	AMOUNT
✓	11/03/2017		Deposit	DEP	1,892.63
✓	11/10/2017		Deposit	DEP	2,265.50
✓	11/10/2017		Deposit	DEP	303.59
✓	11/17/2017		Deposit	DEP	1,892.63
✓	11/17/2017		Deposit	DEP	80.95
✓	11/24/2017		Deposit	DEP	2,642.63
✓	11/24/2017		Deposit	DEP	562.58
✓	11/30/2017		Deposit	DEP	1,515.50

PRO TIP
Sign up for electronic bank statements with your bank. Most accounting software will let you upload your bank statement directly into the software, which saves you time and makes the reconciliation process a breeze. Even better, many accounting programs let you connect your software directly to your bank account via live bank feeds. Once connected, all your bank transactions will be automatically pulled into your software.

What if my software doesn't have all the features I need?

If you found a software that you absolutely love, but it doesn't have all the features you need, don't fret or throw the baby out with the bath water. Welcome to the wonderful world of integrations.

- **Integrations:** 3rd-party software programs or apps that link directly to your accounting software.

Integrations are a great way to gain features that you may not have otherwise, and can cover everything from customer relationship management to project management to time tracking, invoicing, email marketing, payment gateways, scheduling, payroll, and more.

Many integrations require you to pay an additional subscription (for the privilege of integration, for use of the 3rd-party app itself, or for both), but these costs can be more than worthwhile. To learn more about how integrations work and to see some of the best integrations on the market, visit our article **25 Must-Have Accounting Software Integrations**.

SECTION 5

Taxes

> “ Many accounting software companies offer tax support to help alleviate the stress of the dreaded April 15th deadline.

How do I prepare for tax season?

Deep breathing exercises and a strong pot of coffee can help, but there are a few key things you are going to need to tackle the tax season head on. While preparing and filing taxes can seem like a daunting task, I've broken down the challenge into five manageable steps that will help you get all of your accounting processes squared away before filing.

1. Input All Income and Expenses

Before filing taxes, you want to make sure all of your information is 100% up-to-date. Be sure to input any last-minute sales and expenses. This will ensure that your records and reports are accurate.

2. Separate Any Personal and Business Expenses

Be sure to separate any personal expenses from your business expenses. One of the biggest reasons small businesses get audited is that they've mistakenly used business funds for personal purchases.

3. Value Inventory

If your company manufactures or resells goods, you have to value your inventory at the beginning and end of every year. You can often use your accounting software to do this if it has an inventory feature. You will need your total COGS for multiple tax forms.

4. Prepare and Export Reports

You'll want to run certain key reports before filing taxes (**see page 61** for a complete list). If you hire an accountant for the tax season, you will also need to export these reports and send them to your accountant before completing the filing process. After filing your taxes, save the reports for your records as well in case you ever have to defend yourself in a tax audit situation.

5. Don't Forget Deductions!

The pennies really do add up when considering tax deductions. There are dozens and dozens of ways to save money on your taxes. Most small business owners know about mileage deductions and home office deductions, but did you know that even magazine subscriptions and accounting software expenses count as deductions? Make sure to do your research so you can write off as much as possible before filing your taxes. Read our article **What Can I Write Off as a Small Business Tax Deduction?** to learn more.

Our **Merchant Maverick blog** has several other tax resources available as well, but always be sure to visit the actual **IRS** website for specific tax inquiries.

Can my accounting software help with taxes?

There is hope for an easy tax season. Although it seems counterintuitive for "easy" and "taxes" to exist in the same sentence, many accounting software companies offer tax support to help alleviate the stress of the dreaded April 15th deadline.

Most companies will use the data you've entered throughout the year to fill in tax forms for you automatically. Quite a few companies also offer e-filing. QuickBooks Self-Employed users are in extra good hands since the software integrates directly with **TurboTax**. Be sure to ask your software vendor about their specific tax support options. Each software is a little different, and some may require additional fees for tax support.

Below we've created a chart to show which tax forms each of these major accounting companies support. To learn which forms you need to file for your small business, consult your accountant or check the IRS's **Small Business Tax Center**.

Xero	1099-MISCs, W-2s, 940s, 941s, 944s, and Sales Tax Returns
QuickBooks Online	1099-MISCs and W-2s
QuickBooks Pro	1099-MISCs, 1096s, 940s, 941s, 944s, W-2s, W-3s
QuickBooks Self-Employed	Estimated Quarterly Taxes and Schedule C
FreshBooks	1099-MISCs
Sage One	1099-MISCs and W-9s
Sage 50c	1099-MISCs, W-2s and W-3s
FreeAgent	1099-MISCs
Zoho Books	1099-MISCs
Wave	940s, 941s, W-2s and W-3s

Which reports do I need to file my taxes?

Make things easier for yourself (and your accountant) by having these reports ready to go before filing your taxes:

- **Profit and loss report**
- **Income report**
- **Expense report**
- **Balance sheet**
- **Payroll summary**
- **Sales tax summary**
- **Mileage log**

To learn more about the specific role each of these reports plays, read our post **How to Get the Most Out of Your Accounting Software This Tax Season**.

How long should I save my accounting records?

This is a good question, and one your filing cabinet may not like the answer to. Many people will say that you should keep your accounting records for three years. However, the IRS can audit you a full six years after you file your taxes; and, in some cases, depending on the nature of the audit, they can approach you after an indefinite period of time.

So, what does that mean? If you want to be safe rather than sorry, store your accounting records for a long, long while.

Conclusion

Congratulations, you've made it through **The Beginner's Guide to Accounting**! You should now have a firm knowledge of basic accounting principles. Going forward, you can successfully choose and use accounting software and tackle your taxes with ease. You have all the skills you need to handle your small business's accounting with pride and confidence.

We wish you the best of luck in all of your business endeavors and want you to know that we're always here to help. At Merchant Maverick, we are constantly updating our blog with all the latest accounting tips and insights. We also spend hours researching and testing accounting software to bring you unbiased, comprehensive reviews. As you continue your search for the perfect accounting software for your business, be sure to check out **these accounting reviews** and **our top software recommendations**. Best of luck and happy accounting!

Accounting Glossary

Account
A place to record specific transactions. Can be categorized as an asset, liability, equity, income, or expense. Accounts are also used in the chart of accounts.

Accounting
Accounting is the process of understanding, recording, and analyzing the financial state of your business.

Accounting Software
A cloud-based or locally-installed software program that allows you to manage your business's finances and accounts. Accounting software must include double-entry accounting, accounting reports, a chart of accounts, and bank reconciliation. Other common features include invoicing, expense tracking, contact management, time tracking, and project management.

Accounts Payable
Funds that you owe to others. When your business *buys* a product or service on credit and hasn't paid for it yet, the expense is recorded under accounts payable.

Accounts Payable (A/P) Aging Summary
A report that shows what you owe to other vendors or suppliers and how old each outstanding payment is.

Accounts Receivable
Funds that others owe you. When your business has *delivered* a product or service but your buyer has not paid for it yet, the transaction is recorded under accounts receivable.

Accounts Receivable (A/R) Aging Summary
A report that shows what customers owe to you and how late they are on their payments.

Accrual Accounting
A way of recording transactions in accounting. Recognizes income when products or services are incurred or agreed upon.

Assets
Anything owned by a business. A key factor in the basic accounting equation.

Audit History
Another term for an audit trail report.

Audit Log
Another term for an audit trail report.

Audit Trail
A paper or electronic trail that documents all business transactions (and activity), i.e. when the transaction was created, who made it, and any changes or modifications made to it, etc. Also known as an audit history or audit log.

Balance Statement
A report that shows a company's assets, liabilities, and owner's equity, and is often used when applying for loans.

Basic Accounting Equation
Assets = Liabilities + Owner's Equity

Cash-basis Accounting
A way of recording transactions in accounting. Recognizes income when a product or service is actually paid for.

Chart of Accounts
A chart of accounts is a way of organizing financial information in accounting. The chart of accounts is divided into six categories: assets, liabilities, equity, income, COGS, and expenses. Each of these categories is subdivided into specific "accounts" or numerical codes where transactions are recorded.

Class Tracking
An accounting software feature that allows you to create custom "classes" that keep track of specific aspects of your business, ex. location, department, etc. You can usually use these classes to run custom reports.

Client Portal
Customers receive their own, personal interface where they can accept, comment on, or decline estimates, as well as view and pay invoices directly online.

Cloud-based Software
Software that operates entirely in the cloud (on the Internet). Information is stored by your software provider's web servers, rather than on your computer.

COGS
Cost of Goods Sold.

CPA
Certified Public Accountant.

Credit
A transaction that *increases* liabilities and *decreases* assets or expenses. Credits are always on the right-hand column of the T-Account.

Credit-Balance Account
An account that records increases on the credit side of a T-Account and decreases on the debit side. Liabilities and income accounts are credit-balance accounts.

Current Assets
Short-terms assets like cash or any assets that will become cash by the end of the fiscal year (ex. Inventory or accounts receivable).

Debit
A transaction that *increases* assets and expenses and *decreases* liabilities. Debits are always on the left column of the T-Account.

Debit Balance Account
An account that records increases on the debit side of a T-Account and decreases on the credit side. Asset and expense accounts are debit-balance accounts.

Depreciation
The IRS's way of calculating how much of life is left in a fixed asset, so you can be reimbursed only for the amount that's been used (not the amount that's left).

Double-entry Accounting
A complete method of recording transactions in accounting where each transaction will affect at least two accounts.

Expense
Money a business spends on items, good, or services.

Firewall
A cyber security measure that acts as a barrier between your computer or network and any unauthorized access to that computer or network.

Fiscal Year
A business's financial year. The fiscal year does not always line up with the calendar year.

Fixed Assets
Assets with a long life-span that won't be used up by the end of the fiscal year (ex. property, equipment, vehicles).

General Ledger
A report that records the financial transactions from all accounts. These accounts are in correlation with the chart of accounts and include asset, liability, equity, income, COGS, and expense accounts.

Gross Profit
Your business's income from sales, minus COGS.

Income
Money earned by a business through selling products or services.

Income Statement
A report that shows the income and expenses of your business over a designated period of time.

Integrations
Third-party software programs or apps to that connects directly to your accounting software.

Journal Entry
Used to record a business transaction and organize all of the accounts affected by that transaction. Journal entries are used to complete the accounting journal and are used in the general ledger report.

Journal
A record of all business transactions in chronological order.

Liabilities
Any debts a business owes. A key factor in the basic accounting equation.

Live Bank Feeds
Allows your accounting software to automatically connect to your bank account. If you use this feature, banking information will be synced to your software in real-time.

Locally-Installed Software
Software that is downloaded and installed on a single, on-premise computer.

Net Profit
Your business's gross profit minus taxes and interest (your true profit).

Mileage Log
An accounting report that tracks mileage deductions. Used for filing taxes.

Owner's Equity
The owner's investment in a company, which represents a business's capital or worth. A key factor in the basic accounting equation.

Payroll Summary
An accounting report that breaks down a business's payroll expenses. This report is often used when filing taxes.

Profit and Loss Statement
A report that calculates your net profit for the year (or your net loss) by subtracting total COGS from total income.

Recurring Invoices
An accounting software feature where invoices are automatically sent to customers on a custom schedule, i.e. weekly, monthly, yearly, etc.

Revenue
Income earned by a company by providing products or supplies.

Single-entry Accounting
A incomplete method of recording transactions in accounting where only income and expense transactions are taken into account.

Statement of Cashflows
A report that records the financial transactions from all accounts affecting cash.

T-Account
A T-Chart that organizes the debits and credits of an account for a specific transaction in accounting.

Trial Balance
A report that lists the balances of all accounts found within the chart of accounts and tallies your total debits and total credits.

256-bit SSL Encryption
A security measure used by accounting software programs and banks to encrypt or code client data for added protection.

About the Author

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HEAD ACCOUNTING AND INVOICING WRITER

Chelsea Krause is a writer, avid reader, and researcher. In addition to loving writing, she became interested in accounting software because of her constant desire to learn something new and understand how things work. When she's not working or daydreaming about her newest story, she can be found drinking obscene amounts of coffee, reading anything written by C.S. Lewis or Ray Bradbury, kayaking and hiking, or watching The X-Files with her husband.

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