

How to Set Up a Small Business Accounting System

Accumulate Financial Documents

- Keep all documents relating to your business including invoices, bills, bank statements, receipts, government documentation and assessments.
- When in doubt about the relevance of document to your business, hold on to them and ask your accountant (or someone else who can help) at a later date.
- Invest in a stamp that indicates the received date of the documents .

Create Filing System for Documents

- Use file folders and labels to [organize financial documents](#)
- Maintain bank statements, customer invoices, vendor bills, government assessments etc. in separate files
- Investing in colour coded file folders can greatly facilitate file retrieval
- File regularly to avoid scrambling at the end of the year
- Maintain separate folders for outstanding invoices , bills and other documents which require follow up.

Determine Accounting Requirements

- Review volume of transactions and complexity of business as well as your budget and time constraints.
- Depending on your requirements either hire a bookkeeper (full or part time), do it yourself or outsource to a third party
- Usually a good idea to have access to a professional accountant to help out with setup of accounting system, and ongoing questions as well as financial reporting and analysis and tax preparation.

Select Accounting Software

- Accounting requirements i.e. whether you hire a bookkeeper or DIY will determine if you need software.
- [QuickBooks](#) is good for many small businesses and freelancers. Speak to an accountant if unsure
- Free software also available , although functionality is limited
- If doing it yourself, select software that is user friendly. Many small business software have free trials.

Enter Financial Transactions into Accounting Software

- Important to enter transactions on a timely basis including customer invoices, vendor bills, deposits and cheques.
- Reconcile bank statements monthly to track balances and reduce potential errors

- Month end adjustments like depreciation, foreign exchange, accruals etc. help improve accuracy and reliability of financial statements, but can be done by accountant at year end.

Generate and Analyze Reports

- Accounting software will generate reports based on data entered. Review Accounts Receivable and Aging Reports, accounts payable to vendors, inventory balances etc.
- Financial statements can be generated monthly reflecting Profit and loss of the business as well as Balance Sheet.
- Analysis of financial statements can help improve sales, reduce expenses and ensure that customer balances are being collected and loan covenants are being met.

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