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Bookkeeping: A Guide to Financial Management

Bookkeeping is a fundamental aspect of any successful business and is crucial in maintaining accurate financial records. Whether you're a small business owner, freelancer, or aspiring entrepreneur, understanding bookkeeping basics is essential for effective financial management. In this article, we will explore the fundamentals of bookkeeping, its importance, and how to get started.

What is bookkeeping? Bookkeeping is the systematic recording, organizing, and storing of financial transactions within an organization. These transactions can include invoices, purchases, receipts, and payments. The primary goal of bookkeeping is to create a clear and accurate record of a company's financial activities.

Why is bookkeeping important? Accurate and up-to-date bookkeeping is vital for several reasons:

1. **Financial Decision-Making:** Reliable financial records enable business owners to make informed decisions based on the company's financial health.
2. **Tax Compliance:** Proper bookkeeping ensures you have the necessary documentation for tax reporting and compliance, reducing the risk of errors and penalties.
3. **Investor and Lender Confidence:** Investors and lenders often require transparent financial

records before making investment or lending decisions. Well-maintained books instill confidence in shareholders.

4. **Business Analysis:** Bookkeeping provides a historical record of a company's financial performance, enabling owners to analyze trends and identify areas for improvement.

Although bookkeeping methods vary, two standard systems are the single-entry and the double-entry systems.

- **Single-Entry System:** Suitable for small businesses, this method records transactions as a single entry, either as income or expenses. While the system is simple, it may lack the details necessary for comprehensive financial analysis.
- **Double-Entry System:** This widely used method records every transaction with at least two entries – a debit and a credit. It ensures that the accounting equation ($\text{Assets} = \text{Liabilities} + \text{Equity}$) always balances.

Key Bookkeeping Terms

- **Assets:** Resources owned by the business, such as cash, inventory, and equipment
- **Liabilities:** Obligations or debts owed by the business, including loans and accounts payable

continued on page 2

- **Equity:** The residual interest in the assets after deducting liabilities, representing the owner's stake in the business
- **Income:** Revenue generated from business activities
- **Cost of Goods Sold (COGS):** Direct costs associated with producing the goods sold by a company
- **Expenses:** Costs incurred in the process of generating revenue

Elements for Maintaining Financial Records

- **Chart of Accounts:** This is a comprehensive list of all the accounts a business uses to classify its transactions. It includes assets, liabilities, equity, income, and expenses.
- **Transactions**
 - **Recording:** Document every financial transaction, including sales, purchases, receipts, and payments.
 - **Source Documents:** Keep source documents such as invoices, receipts, and bank statements as evidence of transactions.
- **General Ledger:** This is a centralized source of all the accounts a business uses. It contains individual ledger accounts for assets, liabilities, equity, income, and expenses.
- **Financial Statements**
 - **Income Statement (Profit and Loss):** Summarizes revenues and expenses to determine a specific period's net income or loss.
 - **Balance Sheet:** Presents the financial position of a business by listing its assets, liabilities, and equity at a specific point in time.
 - **Cash Flow Statement:** Tracks the flow of cash in and out of the business, providing insights into liquidity.

Basic Bookkeeping Steps

1. **Record transactions:** Document all financial

transactions systematically, including dates, amounts, and relevant details.

2. **Categorize transactions:** Classify transactions into categories like income, expenses, assets, and liabilities.
3. **Prepare financial statements:** Regularly generate financial statements, including the income statement, balance sheet, and cash flow statement.
4. **Reconcile accounts:** Regularly compare your financial records with bank statements to identify and resolve discrepancies.

Tools for Bookkeeping

- **Accounting Software:** Utilize user-friendly accounting software such as QuickBooks to streamline the bookkeeping process.
- **Spreadsheets:** Excel or Google Sheets can be effective for basic bookkeeping, especially for small businesses with simpler financial needs.

Seek Professional Assistance

- **Accountants:** Consider hiring a professional accountant for complex financial tasks, tax preparation, and strategic financial planning.
- **Training and Courses:** Invest in bookkeeping courses or workshops to enhance your understanding of financial management.

In conclusion, mastering bookkeeping basics is essential for any business's financial success. Whether you're a sole proprietor or managing a larger enterprise, a solid foundation in bookkeeping ensures accurate financial records, compliance with regulations, and informed decision-making. By implementing these fundamental principles and utilizing appropriate tools, you can confidently navigate the financial landscape and pave the way for your business's sustainable growth.

Credit: Gehman Bookkeeping Team

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Tips for a Better Tax Filing Experience

Most of us don't think about taxes in July. We prefer to wait until February, March—or even April. The amount of frantic scrambling that follows depends upon our individual traits and the proximity of the deadline. There is a better way, especially if you own a business. Implement these five proactive tips throughout the year for a “new and improved” tax filing experience:

1) Find a good accountant. If you're not satisfied with your current service, now is the time to find a new tax accountant. Waiting until January or February may limit your options since many accountants do not accept new clients during their busy season. By transferring now, you can find the best fit for your tax situation.

2) Maintain clean books. Messy, inaccurate bookkeeping is a surefire way to increase your tax preparation fees and the likelihood of an extension. The best solution is to pay a professional to review and clean up your books each quarter. This allows you to address bookkeeping errors throughout the year and streamline your year-end processes.

3) Keep business and personal transactions separate. Using the same account for business and personal expenses creates confusion and extra work. You or your accountant will spend time categorizing each expense at the end of the year. You can easily prevent this headache by setting up one checking account and credit card for business use and one for personal use. Then, choose the appropriate account each time you make purchases or pay bills.

4) Make your estimated tax payments. Pay your estimated taxes on time for the total amount due each quarter. Estimated pay-

continued on page 4

Team Member Spotlights

Steve Miller



Career. One day, I was chatting with my friend Ken Nisly, a Gehman Business Advisor. As he was telling me about his job, my interest was piqued. The rest is history. During my five years with Gehman Accounting, I have worked in sales and business advising.

Books. I enjoy books that help me understand internal motivations and give practical advice for my walk with Jesus. Currently, I'm reading “Practicing the Way” by John Mark Comer. It's a must-read!

Professional Goal. I'd love to develop a sales training program for clients.

Podcasts. Some favorite podcasts are Ransomed Heart by John Eldredge, Practicing the Way by John Mark Comer, and At the Table by Patrick Lencioni. 🐦

Rachel Rovenolt



Career. I enjoy seeing how businesses work and helping them succeed by organizing their finances. I've worked as a bookkeeper at Gehman Accounting for the past three and a half years.

Family. My husband, two children, and I enjoy spending time together and learning about history. We enjoy raising animals, including bison.

Places Lived. Although I've lived in various places, they have centered around north central PA.

Days Off. I catch up on housework and enjoy small projects on our 200-year-old farmhouse. 🐦

Table of Contents

Bookkeeping: A Guide to Financial Management	1
Tips for a Better Tax Filing Experience	3
Team Member Spotlights	3
Bulletin Board	4

Bulletin Board

New Faces at Gehman —

Rachel Knepp – Bookkeeping Team

Resha Newswanger – Bookkeeping Team

Upcoming Expos —

Shed Builder Expo – Grand Rapids, MI – Sept 25-26

Eastool Expo – Quarryville, PA – Sept 27-28

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continued from page 3

ments are required for self-employed individuals (unless you file as a qualified farmer). With interest rates at 7 percent, you can't afford to be late or skip payments. You will be penalized for each month of each quarter in which you underpaid the tax due or failed to make a payment. If you skip a quarter or two and pay a lump sum later, you will still be charged penalties and interest. Government agencies don't offer much mercy!

5) Track receipts with an app. If you are tech-savvy and have a smartphone, take advantage of a

receipt-tracking app. Expensify and Dext are two apps with good reviews. You can snap a picture of each receipt and categorize the expense in a few easy clicks. This eliminates chaotic piles of receipts and keeps your expense accounts up-to-date.

This list is not comprehensive, but it does provide some foundational tips. If you can't tackle the whole list, try implementing just one or two suggestions. Even minor course corrections can make a substantial difference for your next tax season.

—Laurie Hoover