Small Business Guide

Finance Fundamentals

6 areas of focus to successfully operate your business

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Get your financial house in order

While passion and excitement often ignite a new business venture, what keeps that business running smoothly is attention to the everyday details. Every aspect of operating a business requires careful planning and execution — from inventory management and training staff, to customer service and marketing.

Finance and accounting in particular can be intimidating topics for entrepreneurs. Even if you've been successfully operating a business for years, handling the financial side often remains a challenge. Without a solid understanding of these key operational aspects, however, you could be putting the financial health of your new business at risk.

Making entrepreneurship easier

Fortunately, you don't have to go it alone. This guide was designed to help you operate your business more efficiently.

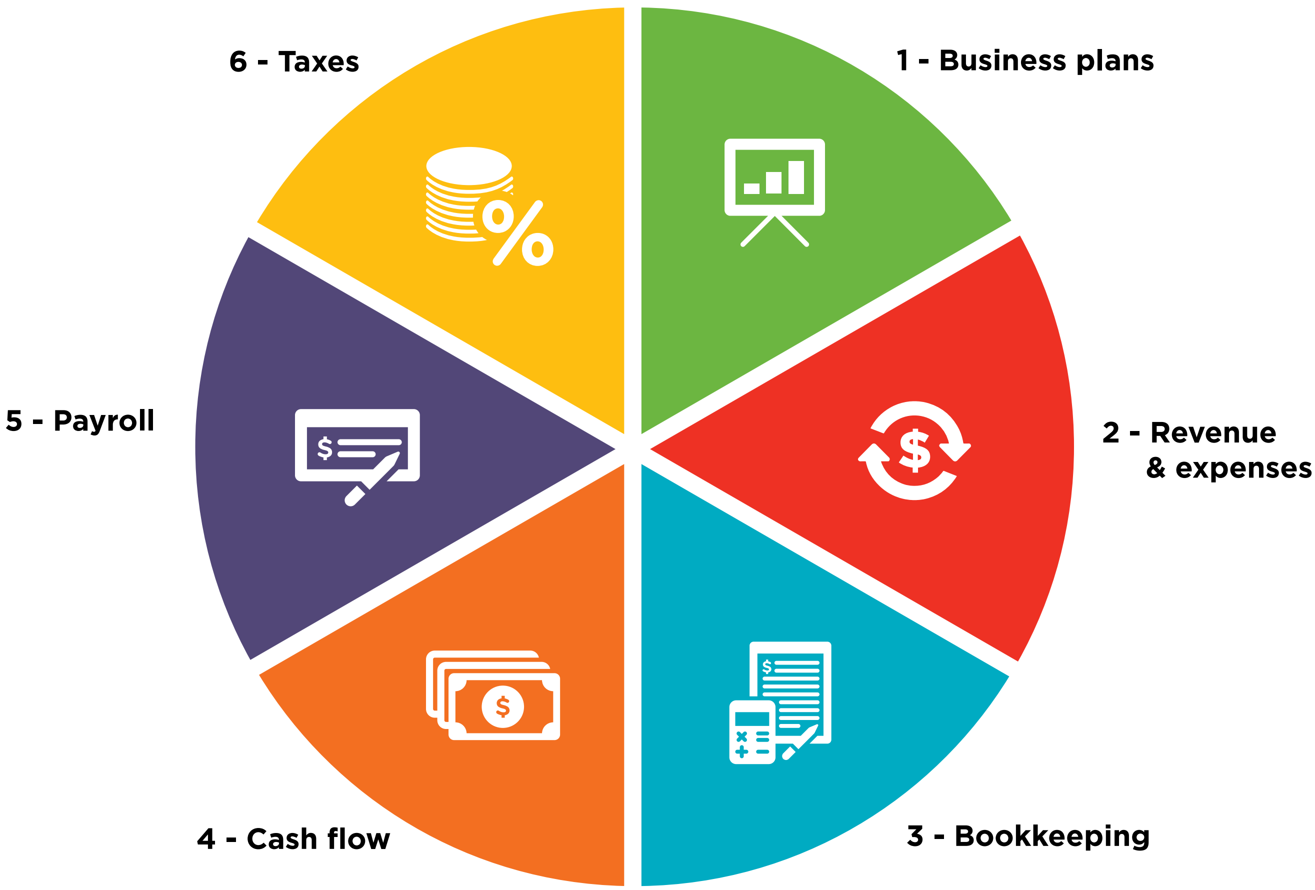
To that end, we've identified six financial areas to focus your attention:

1. Business plans
2. Revenue and expenses
3. Bookkeeping
4. Cash flow
5. Payroll
6. Taxes

To help with each, we've pulled together the fundamentals of small business finances:

- **The important concepts and terms to know**
- **Deciding which tasks to manage in-house, and which can be outsourced**
- **Tips and tools for keeping your business finances in order**
- **Knowing when it's time to call in an expert for guidance and help**
- **Real-world examples from businesses like yours**

Start from the beginning, or jump to the sections most relevant to your business. If you come across an unfamiliar term, find an explanation in the **Financial terms to know** section at the end. Return to this guide as often as you need to, and remember that you have a partner in Deluxe.



Looking for a partner?

Need expert advice or professional insights? Looking for the business tools, documents and services you need to succeed? Talk with a Deluxe Small Business Adviser today. **Call 866.240.8691.**

Finance Fundamentals is for informational purposes only. This eBook does not constitute professional tax or financial advice. Always consult with a certified accountant, financial adviser or other professional about the specific needs of your business.

Part 1: Creating a business plan

What you'll find in this chapter

- 4 reasons why a business plan is so important
- 8 elements you need to include in your business plan
- Questions to ask to keep your business on track

A business plan is a vital tool often used for loan applications or to show investors where you see your business going. A complete business plan contains a number of components, including an executive summary, the products or services you will sell, your target markets, your management team, and finally, your financial plans. Don't launch your business without a business plan.

4 reasons you need a business plan

A good business plan guides you through each stage of starting and managing your business, and it outlines the steps you need to take to achieve your goals. Here's how:

1. A business plan maps the future.
Your business plan is the road map that helps you understand the terrain of your business and the opportunities and threats that surround it. Depending on how detailed a map you want, you can include a competitive analysis, marketing strategy, milestones to success, national and local trends affecting your industry — anything you need to better manage your business. There is no hard and fast rule about the length, format or even the topics to include in your plan. Just start it and keep it moving forward.

2. A business plan supports growth and helps obtain funding.
A well-written business plan can convey your story to prospective investors in a way that builds their confidence and convinces them to open their wallets. To prepare a business plan that wins funders over, include realistic growth projections, the risks involved (and how you plan to mitigate them), and **what makes your business unique.**

3. A business plan develops and communicates your course of action.
Whether you're starting a new business or growing an existing one, you have goals; your business plan is the tool to help accomplish them. If you're interested in renting a new space, for example, your business plan can help you think through what you need before you make the move. Do your growth prospects and plans justify taking on this increased cost? Is the new space in an area where your target customers are? How will you pay for any necessary renovations?

4. A business plan helps manage cash flow.
Your cash flow is the blood that keeps the heart of your business pumping, so you need to have an adequate supply. Adding a cash flow chart to your financial section of your business plan will give you a high-level picture of the money going in and out of your business. This simple overview can help you manage your cash and be in a better position to borrow money, if necessary. You can also add a contingency plan to cover any cash flow problems that may arise.

"Your business plan creates structure and helps your team understand their involvement in the vision for your business. Your goals, clearly communicated, get everyone in your organization on the same page. Create a plan that clearly states who you are as a company, what your goals are and what it will take to grow your business."

— Damon Fieldgate, Vice President & General Manager, Small Business Services, Deluxe Corp.

The 8 elements every business plan needs

How do you create a business plan, and what should you include? Keep it simple by starting with the sections below. Be sure each section answers the relevant questions listed here.

1. Executive summary: Your executive summary is the short, snappy elevator pitch you'll use to sell your investors, bankers, partners and other key people on your business.

Executive summary questions to answer:
- What does your business do?
- What problem will it solve?
- Why is your business uniquely poised for success?

2. Company overview: Provide a snapshot of your business by including basic information about your company's leadership team, employees, products or services, and the like. If you plan to ask for funding, you should also include financials and high-level growth plans.

Company overview questions to answer:
- Where is your business located?
- When was it formed, and what type of legal entity is it?
- What is your mission statement?
- What is your projected growth?

3. Competitive analysis: This section discusses the competitors in your industry. Do your research to identify who they are, what they do and how they serve their markets.

Competitive analysis questions to answer:
- Who are your competitors and how do they serve their customers?
- Why do customers buy from them?
- What do you know about their pricing?

4. Products and services: This section of your business plan details the problem you solve for your customers, and how that solution is different from competitors' goods or services.

Products and services questions to answer:
- What are the types of products or services you sell now?
- What will you develop and offer in the future?
- Why is your product better than or different from the competition's?

5. Target markets: Your target market section is an introduction to the customer who is going to love your product or service and, just as important, your business itself.

Target markets questions to answer:
- Who is your ideal customer?
- What are their demographic profiles?
- What are their needs?
- How does your business serve those needs?

What's your unique selling proposition?

Your unique selling proposition (USP) sets you apart from similar businesses in your area. Determine your USP by identifying how your products and services cater to your target market in a way that's different from your competitors. See items 3, 4 and 5 at left.

6. Management team: Give potential lenders and funders confidence in your business by introducing yourself, as well as the exceptionally qualified group of people by your side.

Management team questions to answer:

- Where were you educated?
- What is your experience?
- What is your expertise?
- What are you putting into the business?
- What about the management team would convince an investor to risk their money?

7. Financial plans and measures of success: Investors and lenders will want to see financial documents that show your company's future profitability, including a sales forecast, personnel plan, cash flow statement, profit and loss statement, and balance sheet for at least three years out. Some investors ask for projections even further into the future, so be sure to invest in a good accountant to help you prepare realistic and thoughtful forecasts.

Financial plan questions to answer:

- How much external funding do you need to build your company?
- What are your projected revenues and profits over the next one to five years?
- What assets must you acquire?
- How does your customer generate revenue?
- How much money do you need to start and run your business?

8. Risk factors: If you're asking people to invest in your business, it's only right to be transparent about the things that can go wrong. Risk factors can include a natural disaster, outdated technology, legal pitfalls, ineffective management, a sudden cash flow crunch or a supplier failure. Once you've shared the risks, it's smart to include the steps you'll take to manage them, so investors see that you have a plan.

Risk factors questions to answer:

- What risks could affect your business?
- How will you address these risks if they present themselves?

Business plans: 3 key takeaways

- A business plan is a road map that guides you through each stage of operating your company.
- A strong plan enables you to plan for the future, grow your business, get funding and manage cash flow.
- Every business plan should include an executive summary, a company overview, a competitive analysis, a description of products and services, a list of target markets, a management team overview, financial plans and projections, and a list of risk factors.

Worksheet:
Start your business plan

A business plan is a map for your business, providing you with the direction you will need to start, manage and grow your company.

Create a plan that sets your business on the right course. Answer these questions to create your business plan.

Executive summary

Create a brief snapshot of who you are as a company and where your organization is headed.

What does your business do? Who are you as a business? What makes you unique? Why will your business be successful?	

Company overview

Describe your organization, current customer base and projected growth in detail.

What type of business are you running? What is your mission statement? Where is your business located? What is your legal entity form? What is your growth potential?	

Competitive analysis

Describe your competitors and how they serve their markets.

Who are your competitors? How do they serve their target customers? Why do customers buy from them? How do they price their goods or services?	

Unique selling proposition

What do you offer that makes you different from other businesses?

Products and services Explain which products or services you offer and what makes them unique.	
What are you selling? What makes your product stand out? What problems are you solving for customers? What will you develop in the future?	
Target markets Describe your ideal customer.	
Who are your prospective customers? What are their needs? What are their demographic profiles?	
Unique selling proposition (USP) Describe how your products or services address your target customers' needs in a unique way.	
What is your unique selling proposition? How do your products and/or services address the needs of your target customer in a way that sets you apart from the competition? What makes your business different?	

Management team

Introduce yourself and your business partners.

Who manages your business? How many years of experience do you and your team have? What are you putting into the business? Why should an investor risk money on you?	

Financial plans and measures of success

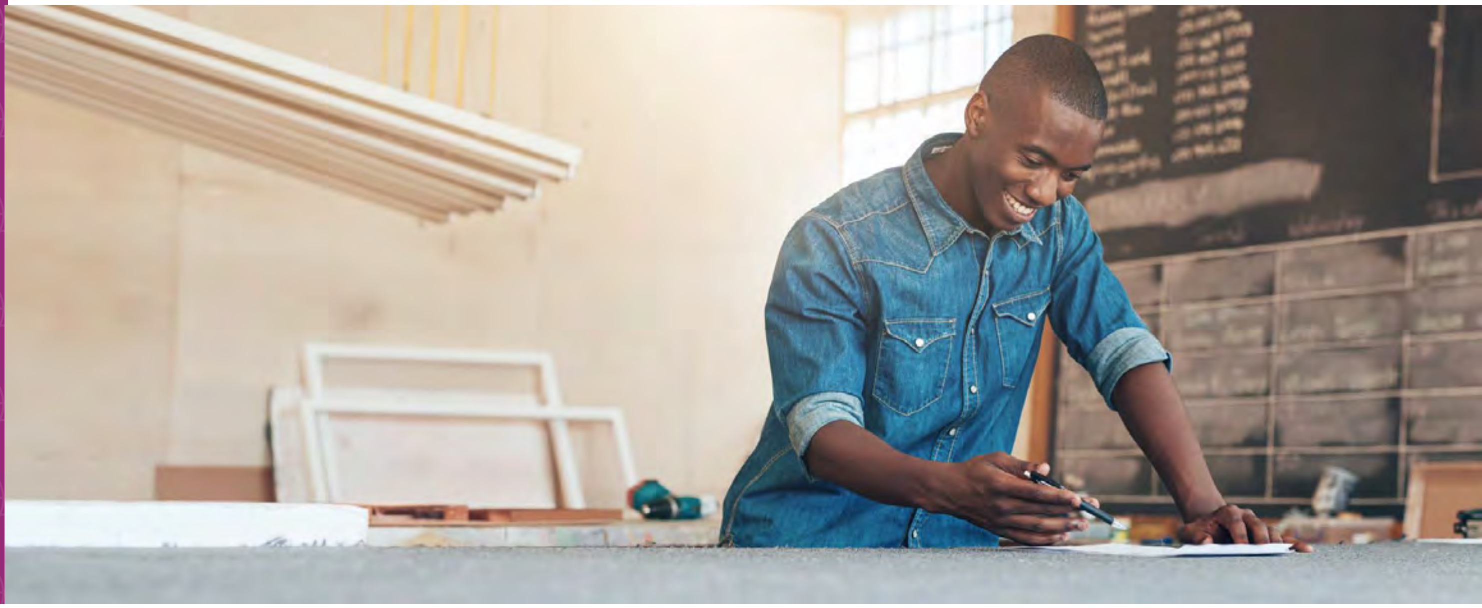
Explain your business's current financial situation and realistic projections for future profitability.

How much money do you need to start and run your business? How much external funding will you need? What assets must you acquire? What are your projected revenues and profits over the next one to five years?	

Risk factors

List the risks that your business faces, including natural disasters, outdated technology, supplier failures and legal pitfalls.

What problems could arise? What risks could affect your business? How will you address the risks if they present themselves?	



Part 2: Understanding revenue and expenses

What you'll find in this chapter

- Which tools you'll need to track your revenue and expenses
- Business and accounting terms to know
- How one small business owner revamped her pricing strategy

One of the main goals of any business is to drive revenue. That said, new business owners may not fully realize the importance of tracking their revenue in detail, along with the money their business spends.

Not every business owner is an accounting expert, but a little knowledge can go a long way when it comes to tracking revenue and expenses.

Why tracking revenue and expenses matters

Every person who starts a business does so with the intention of making money. The only way to determine if your business is successful in that context is to diligently track your revenue and expenses.

Tracking them shows your bottom line, which indicates the current financial health of your business. That's the single most important reason to stay on top of your revenue and expenses.

In addition, keeping your books updated allows you to view trends and helps you forecast the future. For example, the owner of a small hamburger stand that has been open for three years might notice that revenue is very high during the summer months but cools off significantly during the holidays. If there is a clear and consistent pattern, this can help the owner make smart decisions, such as adding staff to maximize profits in the summer, or shortening business hours in the winter to cut down on costs.

"It's important to keep track of all the revenue you bring in, but keeping tabs on your expenses is equally important — if not more so. It gives you a clear picture of your spending habits and where you might need to make cuts, if necessary."

— Jose Borrero, Vice President & Chief Financial Officer, Small Business Services, Deluxe Corp.

Finally, keeping good financial records saves you stress and anxiety when tax season rolls around. Rather than scrambling to make sense of how much money your business made and spent the previous year, you'll have peace of mind knowing your financial records are current and accurate.

Tools you'll need

Balance sheet: A balance sheet is one of the most important financial statements your business will deal with. It provides an overview of where your business stands financially, showing you what you own and what you owe. A detailed balance sheet helps you determine the overall financial strength of your business.

Profit and loss statement: Also known as an income statement, a profit and loss statement shows your income coming in (revenue), and your costs going out (expenses). It analyzes how your business performs over a set amount of time, such as a month, quarter or year.

"Being attentive to your revenue and expenses is vital to gauging the health of your business. Doing so will help you recognize trends that allow you to make smarter decisions and ultimately become more profitable."

— Keith Bush, Senior Vice President & Chief Financial Officer, Deluxe Corp.

Terms to know

When tracking your revenue and expenses, a number of terms pop up frequently. Below are some important ones to know. (Find a longer list of financial definitions **here**.)

- **Revenue:** This is the money your business brings in during an accounting period. Revenue is often referred to as your "top line," because it's the first item listed on a profit and loss statement.

- **Expenses:** The opposite of revenue, expenses are what your business spends money on. Subtracting your expenses from your revenue shows your business's bottom line, which is your net income or net profit.

- **Return on investment (ROI):** Your ROI is the amount of money your business makes (return) compared to how much it spent (investment). It's often shown as a percentage. For example, if you spent $1,000 on a marketing campaign and it led to an additional $5,000 in sales, the return on investment is $4,000, or 400 percent.

- **Margin:** This term is short for profit margin, a measure of how much money your business makes. There are two forms of this: gross profit margin and net profit margin. Gross profit margin is the profit you made before the cost of goods or services is subtracted from revenue. For example, if you bought a T-shirt from your supplier for $5 and sold it to a customer for $12, your gross profit margin is $7.

On the other hand, net profit margin is the profit you have after accounting for all of your expenses and costs. In the same T-shirt example, assume you spent an additional $5 in expenses related to acquiring, inventorying, marketing and selling the shirt. Your net profit margin, then, is $2 ($12 sale, minus $5 to acquire the shirt, minus an additional $5 to cover labor and expenses). Your net profit margin is the best way to determine if your business is making or losing money.

For service businesses, calculate gross margin by subtracting the hourly labor cost of the person providing the service from the price of the service. For example, if a plumber on your staff earns $75 an hour, and spends one hour fixing a broken pipe that you charge $200 to repair, your gross profit margin is $125. To calculate your net profit margin, factor in the cost of parts, supplies and operational expenses related to this broken pipe repair.

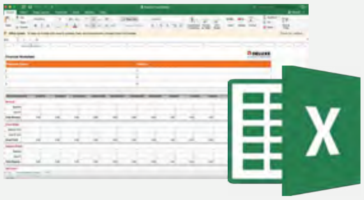
10 accounts to track

When tracking revenue and expenses for your business, you will most likely come across some or all of these 10 types of accounts:

1. **Cash:** Each of the transactions your business makes passes through the cash account. Put another way, this account tracks when your business makes or receives a payment.

2. **Inventory:** If you sell any type of goods, inventory refers to the products or materials you have in stock.

3. **Accounts payable:** This is the money that is sent from your business, typically to cover bills.
4. **Accounts receivable:** Conversely, this refers to the money your business brings in, specifically when you sell something and don't receive an immediate payment.
5. **Payroll:** Your payroll is the money you pay to all of your employees and yourself.
6. **Sales:** Another fairly straightforward account, this tracks the revenue you bring in from selling your products or services.
7. **Purchases:** The opposite of sales, purchases are any of the materials or goods that you buy for the business.
8. **Loans payable:** This is where you track the money you've borrowed to fund your business, including how much is owed and when it's due.
9. **Owners' equity:** This account refers to the amount of money each owner has put into the business.
10. **Retained earnings:** Retained earnings track any profits that are reinvested into the business and not paid out to owners. This is a great tool to gauge how your business has performed since you opened your doors.



Download a **free financial worksheet** from the Deluxe Small Business Resource Center.

GET IT NOW

Find a **filled-out sample worksheet** at the end of this eBook.

Create healthy accounting habits

There's no sugarcoating it: Tracking revenue and expenses, and all bookkeeping, which the next chapter covers, can be a tedious process. Yet it's crucial to maintaining the financial health of your business. Getting into the habit of tracking your revenue and expenses on a daily basis will go a long way toward improving your money management skills and keeping you on top of your financials.

If you run a very small business, regularly tracking your revenue and expenses can be a fairly painless process. As your business grows, however, it becomes more complex. If you start to become overwhelmed, consider bringing in outside help to assist with your accounting. This will ensure that your bookkeeping is up to date, and also free up time for you to concentrate on making your business grow.

Revenue and expenses: 3 key takeaways

- The only way to tell if your business is successful is by tracking revenue and expenses.
- Your balance sheet tells you what you own and what you owe, while a profit and loss statement reveals your net income.
- You should be tracking your cash, inventory, accounts payable, accounts receivable, payroll, sales, purchases, loans payable, owners' equity and retained earnings accounts.

Retail Case Study:
Eclectic Shoppe

Business overview

Opening her own store had long been a dream for Maria Smyth. When she found the right location in downtown Wabash, Indiana, she knew exactly what she wanted — a shop where she could showcase the goods of local artists throughout her community. So she created **Eclectic Shoppe**, a cozy place where customers could find that unique piece of handcrafted jewelry, fun knickknacks or a custom-made T-shirt.

Each section of Smyth's store was carefully curated with just the right mix of artists' goods, making the Eclectic Shoppe stand out as one of a kind in this small town. It was one of the reasons Deluxe selected her business to be featured in the **Small Business Revolution — Main Street series**, when Wabash won the contest to receive a $500,000 revitalization for the town and several of its small businesses.

The situation

As a new business owner, Smyth used unconventional methods to set her pricing. While not a consignment shop, Smyth didn't purchase the goods from the artists. Instead, she allowed them space in her store to sell the goods, and she would take a percentage of the sales. On the surface, this seemed like a decent model, except Smyth wasn't taking into account the costs only she would incur. Operating out of a physical location came with expenses — rent, utilities, property taxes — that none of her artists were incurring.

The plan

Originally, Smyth took 25 percent of each sale, and the artist received the remaining 75 percent. A Deluxe adviser helped Smyth realize that she was taking all the risk, and she needed more of the profit.

Every small business owner needs to decide how to set prices on their goods. Doing so in Smyth's case didn't mean shortchanging the artists; instead, she needed to determine a price point where they could both make money.

Another pitfall Smyth encountered was how she was researching her pricing. She looked at comparable products' prices online, then dropped her prices to beat them. The team at Deluxe questioned this approach. People were coming into Smyth's boutique gift shop wanting to buy something. For those customers, it was not about simply finding the cheapest price, but about finding a unique item in a unique place.

The results

In retail, small business owners have to account for all of their costs when selling an item. The cost of the item itself is only the first consideration, followed by salaries, overhead, taxes and more. Only then can the owner determine what he or she can sell that item for.

Smyth embraced the advice provided by the Deluxe team and revamped her pricing strategy. She worked with her artists to ensure both she and they could benefit from the relationship. Within weeks, her business was stronger, and her bottom line more robust, preparing Eclectic Shoppe to survive for the long haul.

Looking for a partner?

Need expert advice or professional insights? Looking for the payment solutions, business tools or services you need to succeed? Talk with a Deluxe Small Business Adviser today. **Call 866.240.8691.**

Part 3: The importance of proper bookkeeping

What you'll find in this chapter

- Key bookkeeping terms and concepts
- How to select the right bookkeeping tools for your business
- How to determine if you should hire a professional bookkeeper

Your company's success hinges on profitability and positive cash flow. Without bookkeeping, you won't know if you have either. Bookkeeping can be time-consuming, even when you know what you're doing. But as a business owner, it isn't something that you can ignore.

Which bookkeeping tools are right for your business?

It's possible to take the do-it-yourself (DIY) bookkeeping route, even if you aren't a finance whiz. Before you dive in, decide whether you'll record transactions manually, with a spreadsheet, or using software such as QuickBooks®, Xero or Zoho Books.

Manual bookkeeping
Although most businesses use computer accounting programs, it's relatively inexpensive to record and calculate your business's finances by hand. This method can work well for those who are willing to make the time investment. If you choose manual bookkeeping, plan to write down all of your transactions in a bookkeeping journal — a book filled with ruled, columnar worksheets specifically designed to help you document your finances.

These journals are the first book of entry for all of your transactions and do not contain balance information. Just as you would record a day's events in a personal journal or diary, you'll write down the day's financial transactions in your bookkeeping journals. At the end of the day or week, you'll post these entries into the ledger — the book that lists all of your accounts, credits, debits and balances, and is used to create your company's financial statements. Here's a look at a typical journal entry:

Date	Account and transaction description	PR	Debit	Credit
5/30	Equipment	101	132.99	
	Cash	312		132.99
	Paid for sauce pot			

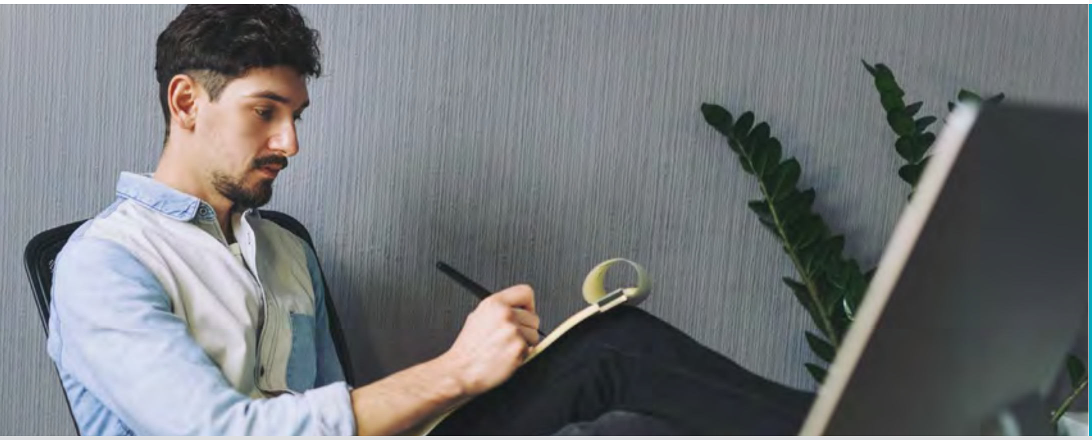
Account debited

Description of transaction

Account credited

Amounts credited and debited

Posting reference (the accounts the entry was posted in)



What is bookkeeping?

Bookkeeping is the act of recording all of an organization's financial transactions in chronological order. For example, have you recently purchased a new point of sale system? That has to be recorded in your books along with the amount that you paid. Did you just make a sale? That has to be recorded in your books. To gauge your company's performance and success, you must track all of the money that is coming in, and all of the money that is going out. You do that with bookkeeping.

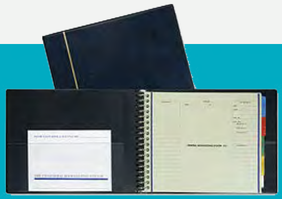
Additionally, bookkeeping helps you:

- Determine how much money your business has to pay in taxes
- Settle a discrepancy in the event of a tax audit
- Provide an accurate record of your financial health in order to secure financing

In your books, plan to record revenue, sales, payroll, tax payments you've made, and payments you've received from vendors and suppliers.

Learn the lingo

For a list of easy-to-understand terms and definitions related to bookkeeping, accounting and other financial topics, **check out the financial terms at the end of this eBook**.



Purchase journals along with columnar sheets, ledger cards and other specialty bookkeeping forms from Deluxe.

LEARN MORE

Bookkeeping by spreadsheet
If you're comfortable using a computer to keep your records, but don't want to purchase additional accounting software, using a computer spreadsheet program like Microsoft Excel or Google Sheets is a great option. This method is essentially the same as manual bookkeeping — you'll use spreadsheets as journals to record transactions and then transfer data to your ledger spreadsheet — but with added benefits.

- Typing out records, as opposed to writing them by hand, ensures that your numbers are legible, decreasing the chances of making transcription mistakes.
- You can enter formulas into spreadsheet cells that will calculate a sum based on the numbers in other cells.
- Electronic files are more portable than physical folders and binders, and can easily be shared with other members of your team.
- If you ever need to present your information or would like to see a graphic representation of your records, you can turn your data into pie charts or graphs.
- Getting started with an Excel spreadsheet is fairly simple. Microsoft® offers several different **financial management templates** that you can use or adapt for your purposes.

Bookkeeping software
Using software makes it easier to accurately record transactions and manage your cash flow. The streamlined workflow, time-saving automation and convenience that accounting software offers will become especially important as your business grows and your finances become more complex.

When using accounting software, you won't have to perform the two-step process of entering transactions into journals and then transferring them into the ledger. The program will automatically update the ledger for you.

QuickBooks is one of the most popular software choices for small businesses. But numerous QuickBooks alternatives exist, including Xero, Zoho Books and FreshBooks. If you opt for accounting software, you typically get all of the benefits of using a spreadsheet, with additional capabilities:

- Creating and sending professional invoices.
- Tracking employees' work hours with timesheets.
- Less data entry, with automatic download and categorization of bank and credit card transactions.
- The ability to grant remote access to your books, so you can easily share the information with other team members or your accountant.
- The ability to sync your point-of-sale (POS) system to your books.
- Easily issue check payments or, with QuickBooks, **Deluxe eCheck payments**.

Expert advice

Choosing a One-Write accounting system helps you eliminate transposition errors and allows you to combine checkwriting with bookkeeping. One-Write makes recordkeeping easy, and keeps your accountant happy. **Learn more about One-Write here**.

"Instead of looking at accounting as a burden, embrace it. Accounting is a key tool that gives you insight into how your business is performing, and enables data-driven decisions."

— Kelly Olson, CPA (inactive) and CMA
Vice President & Corporate Controller, Deluxe Corp.

Start bookkeeping in 5 steps

The sooner you set up your bookkeeping system the better. Here's a quick look at how to get started.

Mixing your business and personal finances gets complicated fast. Before you even begin the actual process of bookkeeping, set up a dedicated bank account for your business.

1. Open a business bank account.

Mixing your business and personal finances gets complicated fast. Before you even begin the actual process of bookkeeping, set up a dedicated bank account for your business.

Unless you're a **sole proprietorship**, your business will have to file a separate tax return at the end of the year. If you've combined your personal and business finances, you'll be left with a tangled mess. A distinct business account will cut down on the time it takes to file your taxes and fees.

What's more, if you're trying to get a loan, lenders will want to see your bank statements to get a true picture of how you're performing. Don't give them a reason to deny you funding.

2. Decide on an accounting method: accrual accounting or cash accounting.

Before recording your business's finances, you have to decide whether to use the accrual or the cash accounting method. With the accrual method, transactions are recorded when they occur, regardless of whether cash has actually exchanged hands. This method is typically practiced by companies that buy or sell a lot of products or services on credit. Most companies that sell inventory are expected to use the accrual method.

In contrast, with the cash method, sales are only reported when cash has been received and expenses are only recognized when the cash is paid out. This method is primarily used by very small businesses and in personal finances.

The cash method will let you know what your exact cash balance is, which, depending on your goals and the size of your business, may be important to you. But if you do choose to use it, you will also have to delay recording sales or expenses if you sell or buy inventory on credit. That means you won't have a complete picture of the overall financial state of your business. Using this method, you could feasibly be cash-rich but owe a vendor more than the sum of your current balance.

It's up to you to decide whether cash or accrual accounting will work for your business, but once you've chosen, you have to be consistent. The IRS states that you can't switch back and forth between the two.

5 reasons to open a business bank account right now

1. **Protect what's yours.** Shield your personal assets by drawing a clear line between you and your business entity.
2. **Build credibility.** If you expect customers to view you as a credible business, you should accept payment as a business, not in your personal account.
3. **Streamline recordkeeping.** Unless you're a sole proprietorship, your business will have to file a separate tax return; if you've combined your finances, you'll have a mess to untangle before filing.
4. **Ace that audit.** When you have separate bank accounts, it's much easier to prove to the IRS which purchases are for you and which are for the business. Remember to keep all your receipts.
5. **Reap tax savings.** Tax deductions can add up to big bucks, so it's worth it to sit down with your accountant to identify every business deduction possible. A year-end business account bank statement eliminates guesswork, so you don't miss any tax advantages.

3. Choose a bookkeeping method: double-entry or single-entry.

Double-entry bookkeeping is based on the fact that every transaction affects both your debit and credit balances. To run your business, you will inevitably use one asset to acquire another asset. For example, if you're a clothing retailer and you spend money ordering a new shipment of sweaters, there will be an increase in revenue (debit) when that inventory is sold. However, there will also be a decrease in inventory (credit) when a sweater is sold. The sum of the debits and credits in your books should be equal. Typically, bookkeeping software such as QuickBooks applies the double-entry method automatically.

If you're using single-entry, transactions are only recorded once and not as credits and debits. This form of accounting is usually only used for personal finances (like balancing your checkbook) and by very small, cash-based businesses. Businesses that use single-entry are limited to using the cash reporting method.

4. Review transactions and separate them into accounts.

Categorizing your transactions will keep all of the entries organized and make it easier to see where you're gaining or spending money. It's up to you to determine the number of accounts you will have and what you will label them. There will be some variation from business to business, based on your industry. For example, a furniture retailer might have an account that just tracks sofa inventory. In the previous chapter, we mentioned 10 common account types. However, there are five basic account types that every business should have:

- Asset
- Liability
- Equity
- Revenue
- Expense

Over the course of the week or month (or however frequently you do your bookkeeping), you'll look at all of your transactions, and then add them to one of these accounts. It's not always easy to tell which account a transaction should fall under. Don't hesitate to consult a financial adviser or professional bookkeeper if you have questions.

5. Record transactions and post them into the ledger.

To keep an eye on the financial health of your business and save yourself a headache come tax time, record your transactions and post them to the ledger regularly. You can decide on the frequency and the tools you'll use, but it's important to be consistent to avoid feeling overwhelmed.

When should you hire a professional bookkeeper?

Hiring a professional bookkeeper can give you more time to focus on the aspects of your business that you're passionate about. It's also the best way to ensure that every transaction is recorded correctly. Of course, hiring a bookkeeper is one more expense to contend with. That said, it often makes sense to seek out a professional. Here are five signs that it's time to let a professional take the reins:

1. You're not recording all of your transactions.

The number one rule of bookkeeping is "Be consistent." You have to be diligent about tracking every transaction. Failing to record the purchase of that new stand mixer or to credit a vendor could make it appear you have more money than you actually do, and it could cause real problems for you during tax time. If you are unable to write down all of your transactions — whether because you forget, you don't have time or you're frustrated with the process — a bookkeeper can ensure your records are always up to date.

2. Keeping the books takes too much time.

As a business owner, you may wear many different hats. Not only do you handle the day-to-day operations, but you need to develop a marketing plan, hire and manage employees, and deal with unexpected responsibilities.

Adding bookkeeping to the mix can be overwhelming, not to mention time-consuming. Even for those people who have a natural gift for numbers, managing finances can take up time that's better spent attending community events, interacting with customers, building a social media presence and so on.

3. You're not sure your numbers are accurate.

Managing your books is so important that you really don't want to risk making mistakes. Seemingly minor errors — a misplaced decimal here, an added zero there — can throw off your books and result in losses or even a tax audit. If you aren't confident in your ability to track your account balances or use the accounting software that you purchased, it's time to hire a bookkeeper.

4. You aren't able to reconcile your books with your bank statement.

At the end of the month, your internal records should match the balance on your bank statement. If you find that those numbers rarely match up and you're unable to reconcile your bank statement, then you definitely need to have a professional take a look at your books. There can be discrepancies in those numbers for legitimate reasons, but this can also be a sign that there's some kind of fraud or even embezzlement happening. A bookkeeper is trained to identify these issues.

5. Your business is growing.

Bookkeeping may have been a relatively simple task when you started out, but it can become more complicated as your business grows. The amount of money and accounts you're dealing with, and the types of tax deductions and other tax benefits available to you, change as your business evolves. Professional bookkeepers have the resources to work with businesses at every stage.

Part of being a successful business owner is knowing when to delegate responsibilities and when to look for help. There are countless professional bookkeepers in every industry; their experience may make it possible for your business to run more efficiently — and thrive.

Bookkeeping: 5 key takeaways

- Bookkeeping is the act of recording your business's financial transactions in chronological order.
- Accurate bookkeeping allows you to keep tabs on the financial health of your business and be prepared for tax time.
- You may choose to record transactions manually, with a spreadsheet program like Microsoft Excel, or with accounting software such as QuickBooks.
- To start bookkeeping, you'll need to open a business banking account, choose which accounting and bookkeeping methods to use, and categorize and record your financial transactions.
- Hiring a professional bookkeeper can save you time and ensure that your records are accurate.

Looking for a partner?

Need expert advice or professional insights? Looking for the payment solutions, business tools or services you need to succeed? Talk with a Deluxe Small Business Adviser today. **Call 866.240.8691.**

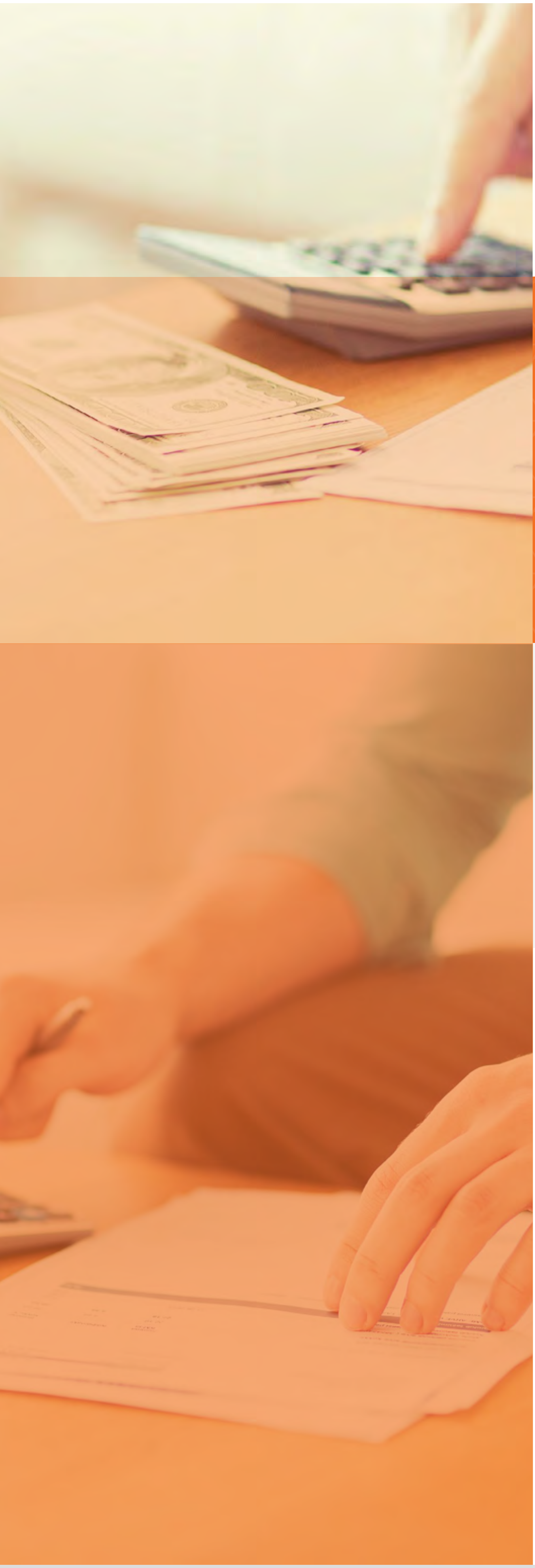
Worksheet:

Pick the right payment solution

The tools small businesses use to make payments are continually evolving. The most secure and well-established payment systems are paper checks, Deluxe eChecks, ACH and wire transfers.

Here's how they stack up:

	ACH	Wire transfers	Paper checks	Deluxe eChecks
How it works	Automated Clearing House (ACH) is offered by most major banks. It allows the transfer of funds between two accounts.	Transfer money from one bank account to another.	A document that orders a bank to pay a specific amount of money to a person from the sender's account.	Send checks instantly via email. The sender writes an eCheck through a secure online system and sends notification to the recipient, who prints and deposits the eCheck, or deposits it instantly.
Benefits	Typically low cost. Good for frequent payments to the same recipients.	Best for transmitting massive sums of money. Typically used by large corporate entities.	No need to store payees' bank information. Checks work with most accounting software.	Payments can be sent at the last possible moment. There are no limits to the amount of transactions. Deluxe eChecks integrate with QuickBooks and other accounting software. Remittance data can be simultaneously sent with each eCheck.
Drawbacks	Some vendors do not accept ACH. Transfers often do not clear the same day. You're required to keep your payees' bank information secure. Setting up ACH payments can be time-consuming. ACH terms and conditions can vary by bank.	High cost. Increased time investment. Sender must have recipients' full bank account information.	Checks can be lost, stolen or delayed in the mail. You must deduct the funds from your account days before the payment is due.	Deluxe eChecks require a recipient to share their email address.



Part 4: Taking control of your cash flow

What you'll find in this chapter

- The tools you'll need to monitor cash flow
- How to create a budget for your business, step by step
- Where to find funding for a new business
- 5 ways to maximize your monthly cash flow
- The benefits of outsourcing day-to-day tasks

If there is one financial challenge that small business owners should master, it's cash flow. Your business could have strong sales, healthy profit margins and a growing customer base — but a negative cash flow could sink you. More than 80 percent of failed small businesses **experience cash flow problems**.

Cash flow is the money that moves in and out of your business over a given period, typically each month. If you deposit more money than you spend in a given month, you have positive cash flow. But if you spend more than you deposit, you have negative cash flow, and may need to find money elsewhere to make up for the shortfall.

Cash versus profit

Determine your cash surplus or cash deficit by adding your cash balance (often simply your bank balance) to your cash receipts (money you collect, primarily from customers), and then subtract your cash disbursements (money you pay for labor, inventory, supplies, operating expenses and so on):

Cash balance + cash receipts – cash disbursements = cash surplus or cash deficit

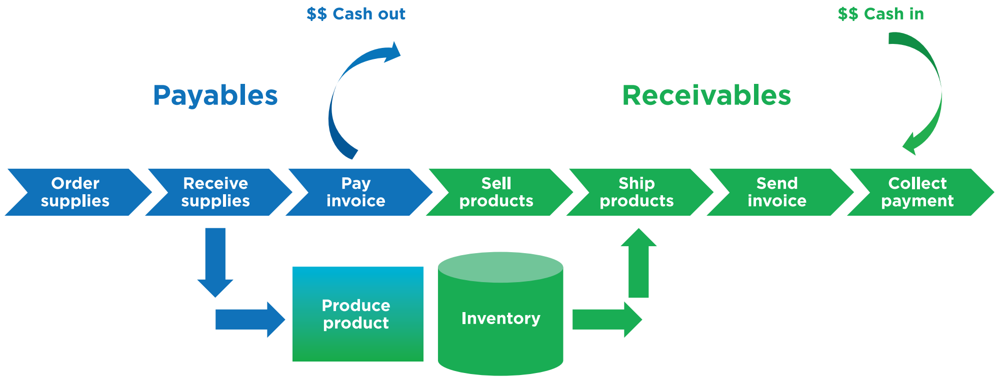
If you end up with a positive number, you have a cash surplus. If the result is a negative number, you have a cash deficit.

"Your financials are the visualization of every decision you make as an entrepreneur. They connect the results of your marketing plan, sourcing decisions, pricing strategy and so much more. Taking the time to use financial planning tools to bring those decisions together will help ensure your business plan is a success and that you reach your cash flow goals."

— Kevin Guerrino, Executive Director of Finance, Small Business Services, Deluxe Corp.

The cash flow cycle

Cash flow has three interacting parts: **payables** (what you've got to pay out), **receivables** (what is payable to you) and **inventory** (the value of goods sitting on shelves or awaiting production).



Monitor your cash flow

For some small businesses, paying careful attention to bank account statements and cash activity is sufficient for monitoring cash flow. That said, a more robust tool for tracking cash flow, and one most businesses will ultimately want to use, is a cash flow statement. This is a financial statement that summarizes how much cash is entering and leaving your business. Accounting software tools like QuickBooks generate cash flow statements based on the data you've entered over the course of a month.

The larger your business grows, the more complicated your cash flow situation may become. But, it's important to consistently track cash flow to ensure you have the resources to cover your business expenses.

Checklist:
Create a business budget

Ideally, you created a budget for your business before you opened. If not, don't worry — it's never too late to create a budget to give yourself a view of the money you're bringing in and to track your long-term goals.

Here is a quick checklist to help start your own business budget:

☐ **Begin right away.**
It's never too early or too late to start a budget. Often, a budget outlines revenue and expenses for one year, starting in January. That said, don't wait until the new year to start a budget. Making time for budgeting always pays off.

☐ **Build a budgeting team.**
Any employee involved with helping your business's performance should be involved in creating and managing your budget.

☐ **Set long-term financial goals.**
Choose specific and measurable goals to track throughout the year, such as boosting online revenue by 25 percent, or cutting expenses by 10 percent. Make those goals known across your business, determine how you'll meet them and track them regularly throughout the year.

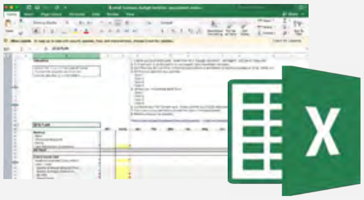
☐ **Estimate monthly expenses and revenue.**
Use data from last year — bank statements, invoices, receipts and other financial records — to forecast your estimated budget for the coming year.

☐ **Track your finances.**
Record your business expenses and revenue as the year progresses, so you can always see the progress you've made on your goals.

☐ **Don't be afraid to adjust.**
Business isn't always predictable, so adjust your budget on a monthly basis if necessary. For example, if a large payment arrives unexpectedly early or late, make adjustments to your budget accordingly.

☐ **Make smart decisions.**
Your budget is there to tell you whether your business can take on added expenses, so use it when making decisions about investing, paying yourself or paying off debt you may owe.

☐ **Repeat the cycle.**
As the end of the year draws nearer, look at your budget and see where you stand. Use what you learned to set new goals and projections for the following year.



Download a **free budget template** from the Deluxe Small Business Resource Center.

GET IT NOW

Eight ways to fund your business

For new businesses, one of the biggest challenges is coming up with the funds to get up and running. It can be a daunting process, because it's hard to know which upfront costs you'll need to cover. Your budget should help indicate your upcoming costs.

Common mistakes new business owners make when figuring out how much startup funding they'll need include forgetting about expenses, overestimating sales and not accounting for potential growth. A standard practice is to add 10 or 15 percent extra to your initial loans, which can serve as a safety net to cover unexpected costs.

There are a wide variety of funding options available for new businesses. Here are eight:

1. **Small business loans:** Securing loans from banks or credit unions is one of the most straightforward ways to obtain startup funds. Remember to shop around and compare rates when looking for a small business loan.
2. **Small Business Administration loans:** These loans are guaranteed by the U.S. Small Business Administration, a government body created to help small businesses thrive. These funds often come with more stipulations than bank loans. However, the terms of these loans are generally favorable to small business owners.
3. **State and local government loans:** The availability of these types of loans varies based on your location. Be sure to check with your city and/or state to see if they offer loans for commercial development.
4. **Nonbank lenders:** Peer-to-peer loans are a good option for business owners without a strong financial history. The process may be faster than a traditional loan, although interest rates are often higher. Nontraditional credit metrics often may be used, such as payment histories to vendors and your presence on social media.
5. **Venture capital:** Some businesses can receive funding from venture capitalists in exchange for shares of ownership in the business. These investors take a risk with hopes that your business turns a profit if and when it goes public.
6. **Crowdfunding:** Services such as Kickstarter, Indiegogo and GoFundMe can be another way for businesses to raise startup funds. These crowdfunding communities allow individuals to donate to emerging businesses. If you can persuade people to believe in your vision, they can start supporting you before you open your doors.
7. **Government grants:** Government-sponsored grants are typically available to only a small percentage of small businesses, but they are worth looking into. Such grants are usually available in areas looking to stimulate economic growth.
8. **Bootstrapping:** A final option is to use your personal savings or to take a second mortgage on your home. This is how the majority of small businesses get started. There is a certain level of risk involved because you're investing your own money, but the trade-off is an immense sense of accomplishment if and when your business succeeds.

Your budget is up and running, now boost your cash flow

Now that you're in the regular routine of budgeting, it's time to turn your attention to cash flow to make sure your business is bringing in enough money to cover expenses. The goal is to maximize the amount of money your business brings in while minimizing the amount that goes out.

Here are five things you can do to maximize healthy cash flow:

1. **Collect payments as quickly as possible.** Bill customers right away to give yourself the best chance of collecting your payments quickly. Generally speaking, the faster you can collect payments, the healthier your cash flow will be. You may even consider offering incentives, such as a small discount, to those who pay immediately.
2. **Utilize preorders.** Entice customers to pay upfront for products or services, to sign up for regular reorders, or to order items in bulk. Again, you may offer a slight discount or gratis service to get customers on board with preordering.
3. **Negotiate with vendors.** In general, the longer you can hold off your vendors, the more favorable it is for your cash position. Wherever possible, try to negotiate longer payment terms (for example, net 30, 60 or 90 days). Doing so will be easier if you have a long-standing relationship with your vendors and have a good payment history. Installment payments can also make a lot of sense, rather than large upfront payments, even if you end up paying a little more over time.
4. **Remember that inventory ties up cash.** Inventory requires cash to acquire, and until you sell the inventory to customers, that cash is tied up. Inventory that doesn't turn over can prevent you from financing other areas of your business.
5. **Don't forget about your budget. It's worth reiterating:** Constantly refer to your budget to make sure you're in line with your goals, as well as to track cash flow.

3 types of financing for women entrepreneurs

Studies show that women ask for less financing than men and receive smaller loans with higher interest rates across all loan categories. Rather than settle for a first loan offer, don't hesitate to look for alternate forms of funding:

Grants

Grants of all shapes and sizes are available for various entrepreneurial backgrounds. Remember:

- Qualifying for a grant is a competitive process.
- Many grants come with eligibility guidelines that must be followed carefully.
- Do your research thoroughly and beware of any fake grants that may ask for your bank account information or processing fees.

Venture capital (VC)

There has been an explosion in VC firms that support women entrepreneurs. Remember:

- Venture capital is ideal for young, innovative startups.
- Women partners at VC firms are in a position to invest in female-driven startups.

Loans

Consider microloan and short-term options. Remember:

- Microloans are small, targeted amounts of capital that are affordable alternatives to traditional loans.
- Short-term loans can quickly cover financing needs without draining every dollar from your emergency fund; they're good for just-launched startups or entrepreneurs lacking strong credit.

Improve your cash flow by outsourcing these 5 tasks

Outsourcing tasks is a great way for business owners to avoid burnout while also boosting cash flow and saving time.

Yes, outsourcing requires an upfront investment, but you can use the time you save to generate more revenue for your business. As a business owner, it's important to keep focused on planning for the big picture and meeting your long-term goals.

Here are five common tasks you can outsource to save yourself time and, ideally, increase cash flow:

1. **Accounting:** Taking care of accounting on a day-to-day basis can be a full-time job in itself, so hire an accountant to do it for you. In addition to freeing up time, a professional accountant can help improve cash flow by cutting costs and helping you pay less at tax time.

2. **Payroll:** No matter the size of your business, handling payroll can be a tedious headache that recurs twice a month or more. Hiring a payroll service will save you time and headaches while also ensuring your employee payments are up to date with labor laws and tax codes. It will also save you from having to pay penalties to the IRS for payroll-related errors or missed deadlines.

   Learn more about payroll solutions from Deluxe »

3. **Social media:** Social media platforms, such as Facebook, Twitter and Instagram, are a great way to tell the story of your business. While you shouldn't step away from social completely — it's refreshing for followers to hear directly from the owner of a business — you also don't need to be the main person posting on your social accounts on a daily basis. Outsource the bulk of your social media activity while also retaining the right to add a few posts of your own when you have time.

   Learn more about social media solutions from Deluxe »

4. **Email marketing:** Email marketing is one of the most cost-efficient ways to drive business, but running an entire email program yourself can be a lot to take on. Consider hiring an email expert to take care of your email efforts so you can focus on other things that may need your attention.

   Learn more about email marketing solutions from Deluxe »

5. **Phone calls:** Hiring a receptionist is one way to avoid being stuck on the phone all day. You can also look at what the majority of your callers are interested in — directions to your office, pricing, booking appointments, etc. — and provide that information elsewhere such as your website or Facebook page. You can even set up your website to take online orders or schedule appointments, making phone call overload a thing of the past.

Take control of your cash flow with Deluxe eChecks

Deluxe eChecks allow you to send payments at the speed of email — which means unprecedented control over your cash flow. Here's how:

- **Pay within seconds.** Because eChecks are issued in just a few clicks, and received by payees nearly instantaneously, you don't have to build in time for the mail to arrive.
- **Hold your cash until the last moment.** Keep funds in your account until the day a payment is due.
- **Enjoy greater flexibility.** Never have to worry about sending and tracking an expensive rush delivery. You can even send payments early to take advantage of vendor discounts.
- **Eliminate the guesswork.** Postal mail may arrive in two to five days — or never, if it gets lost or stolen. Deluxe eChecks let you pay with certainty.

See why small businesses **prefer Deluxe eChecks 3 to 1** over other payment methods.

Cash flow: 6 key takeaways

- Cash flow is the money that moves in and out of your business every month. You have positive cash flow if you deposit more money than you spend in a given month.
- Create your business budget right away. To get started, build a budgeting team, set long-term financial goals, estimate monthly expenses and revenue, and then start tracking finances.
- Businesses looking for funding should consider small business loans, Small Business Administration loans, state and local government loans, venture capital, crowdfunding, government grants and bootstrapping.
- Maximize the amount of money you bring in by collecting payments as soon as possible, utilizing preorders, negotiating with vendors, making payments immediately and watching your budget.
- Accounting, payroll, social media, email marketing and reception duties can be outsourced to help save time and ultimately increase cash flow.
- **Deluxe eChecks** are a payment solution that gives you unprecedented control over your cash flow.

Case Study:

Deluxe eChecks help small businesses control cash flow

We live in the world of "right now." Smartphones let us find information right now. Virtually instantaneous food delivery lets us eat right now. As a small business owner, it only makes sense to use a payment solution that matches this fast pace — and allows for greater control of cash flow at the same time.

What eChecks are

Deluxe eChecks bridge the gap between traditional paper checks and electronic payments, making it possible to send payments instantly and securely by email. Users can send from one to thousands of eChecks in just seconds — complete with remittance data — to anyone with an email address. That's up to 70 percent faster than paying by traditional paper check. What's more, eChecks are affordable and easy to use and can help you manage your cash flow. They're the perfect addition to any organization's payment process, as these four businesses discovered.

eChecks = speed

Linda Fleming, chief operating officer of SweetRush Inc., which creates and implements company training programs, began using eChecks when traditional check payments took up too much of her time. "I was the one literally printing out 20, 30, 40, 50 checks in a month. I was the one who was ripping off the tri-fold, folding the checks up, stuffing the envelopes, sticking on stamps," Fleming said.

Making the switch from paper checks to eChecks has boosted the company's efficiency. There's no longer any need for the envelope stuffing and visits to the post office. SweetRush's contractors are thrilled with how fast they receive payments. Now all Fleming has to do is click her mouse, and the eCheck is sent. "A new person I just brought on, who I suspect has been without work for a bit and is pretty financially tight, emailed me and asked, 'Once you send the check, how soon will I have it?' I said, 'Instantly. I will push the button on my end, and it will be in your email.'"

eChecks = reduced expenses

Marc Greco, owner of N3 Notary, specializes in I-9 verification for remote workers. Like Fleming, Greco was pleased with how efficient the payment process became after he started using eChecks. However, he was most impressed by how much money he was able to hold on to. Every business, big or small, looks for ways to save money. Because eChecks are delivered by email, they eliminate the costs associated with sending out paper checks.

eChecks = better cash flow

Small business cash flow can ebb and flow based on season, demand or any number of things out of your control. Because eChecks can be sent almost instantly, you don't have to plan around the time it takes for postal delivery. That gives you better control over when you pay your bills — which means better control over funds coming in and going out.

For Rod Carter, owner of Carter's Custom Sound & Security, cash flow is everything. "I may not be able to place an order until I get that vendor paid," he said. Carter tried eChecks and found that he's now better able to track payments and manage his inventory. "If I make a payment online with my credit card, [the credit card company] may not do a draw for two days. Well, I may need that product now. With an eCheck, I call my product rep, and say 'I just sent you an electronic check. Money's deposited. Deposit it at your end.' And they say, 'Go ahead and place that order with us today.'"

eChecks = convenience

Another major benefit of eChecks is the ability to make payments when you want, from wherever you are. Deluxe eChecks can be sent from your desktop, laptop, tablet or smartphone. As long as you're connected to the internet, you're able to securely access your eChecks account.

Ben Griffin's Prime Zero Productions shoots music videos and commercials on location. Switching from paper checks to eChecks was a natural fit for his business. "Typically, in production, there is a lot of paperwork. We try to streamline it and keep everything digital, so we don't have stacks and stacks of binders," Griffin said. The ability to make payments when he's on the go was the biggest draw. "Certain people require checks right away, and it's difficult to send them out if you are in a place where you don't have a physical check or you don't have a printer. With eChecks, I could do it right from my phone, wherever. When we are shooting, we are out on location and traveling around the world. But I can send eChecks right from my phone."

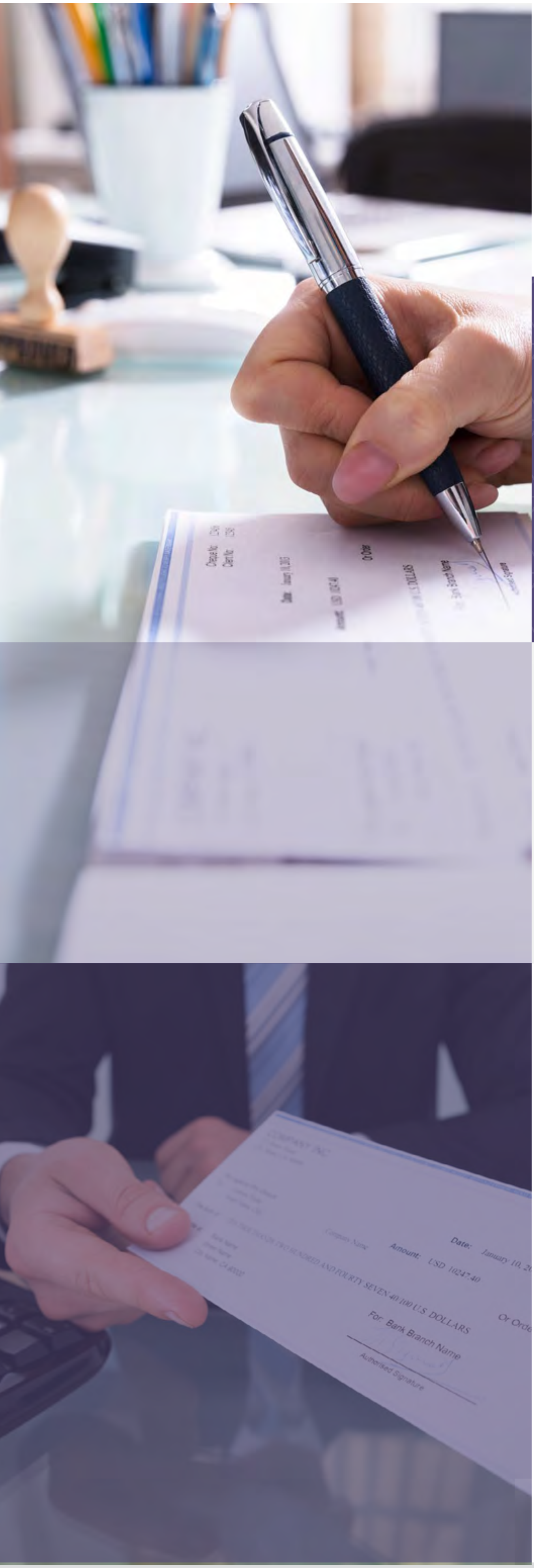
eChecks = a better payment solution

In today's electronic world, "right now" is the norm. Vendors, suppliers and customers expect electronic payment options. Deluxe eChecks not only provide that option, but can also easily be integrated into your existing payment processes. "My favorite thing is just the simplicity of it," Fleming said. "I can write a single eCheck or upload those batches and send."

Special offer

Try Deluxe eChecks today with a special introductory offer: **50 eChecks for $30**

GET STARTED



Part 5: Payroll practicalities

What you'll find in this chapter

- The difference between doing payroll yourself and outsourcing it
- How to choose the right payroll solution for your business
- What to look for in a payroll provider

When you start a small business, you spend a lot of time thinking about the products and services you'll sell, ways you can outdo your competition, and how to build an audience using a combination of marketing and social media. Something else you need to think seriously about is payroll.

While payroll sounds fairly straightforward, it can quickly become complicated because there are many factors to consider beyond simply paying your employees.

No business is too small to consider payroll solutions; even one-person businesses may benefit from the tax implications of implementing payroll. Always consult with a professional to understand the specific needs of your business.

That said, small business owners typically have three main options when it comes to handling payroll:

1. **Do it yourself (DIY):** Just as it sounds, you or one of your employees takes care of payroll for the business.
2. **Hire an accountant:** A full- or part-time accountant takes care of payroll for you.
3. **Outsourced payroll:** A third-party payroll service handles every aspect of your business's payroll.

Here's how these options stack up.

DIY payroll

When doing payroll in-house, you or one of your employees takes care of it without having to worry about paying someone else. Many businesses take advantage of the payroll capabilities of accounting software, such as QuickBooks, to run payroll. Doing payroll yourself may be a smart option for small businesses with only two or three employees, but it still carries significant risks.

Pros of DIY: The most obvious advantage of handling payroll in-house is that it's inexpensive. Another advantage is, because you're handling all of the paperwork yourself, you will have an intimate understanding of who is getting paid what within your business.

Cons of DIY: There are two fairly large drawbacks to keeping payroll in-house. The first is time. While it may be inexpensive to do payroll on your own, it also takes up time that could otherwise be spent making your business productive in other key areas.

Another drawback: Doing payroll yourself means you'll need to stay on top of all the various federal, state and local tax codes that apply to your business. Tax laws are complicated and change regularly, making it difficult to stay aware of how each regulation might affect your business.

Some of the tax topics to be knowledgeable about include federal income tax, state income tax (if applicable), Social Security and Medicare taxes, federal unemployment tax — and that's only a partial list.

Before doing your own payroll, ask yourself these questions

DIY payroll may seem easy, but before you begin, consider the following:

- Are you fully versed in the federal, state and local tax laws that apply to your business?
- Are you required to follow special regulations for workers who earn tips?
- Are your employees exempt or non-exempt?
- What will you do in the event of a payroll mistake?

"I always recommend that small business owners outsource time-consuming tasks like payroll. Many are hesitant because they're trying to keep costs down, but I assure them that it's usually money well spent that frees up time for them to concentrate on other aspects of making their business successful."

— Al Richels, Executive Director of Finance, Small Business Services, Deluxe Corp.

Hiring an accountant to do payroll

Some small business owners hire an accountant, either part- or full-time, to execute payroll.

Pros of hiring an accountant: The best thing about hiring an accountant is they should know the laws and regulations surrounding employment taxes. Further, any reputable accountant understands that the laws can change quickly and that it's important to keep up-to-date. Another advantage of hiring an accountant is they can handle tasks in addition to payroll, such as filing your business's taxes each year. An accountant will also save you time, allowing you to concentrate on other important facets of your business.

Cons of hiring an accountant: One of the biggest disadvantages of hiring an account is they are not free. In fact, they can be downright pricey: Experienced accountants can charge $150 (or much more) per hour. You may be able to find an accountant who charges less, but that means they're likely inexperienced and could put your business at risk of inadvertently violating tax law.

Another potential disadvantage: If you hire an accountant to handle payroll, you may become out of touch with your business's payroll obligations and expenses. If you take this route, be sure to make a conscious effort to check in regularly and have the situation explained as necessary.

Outsourcing payroll

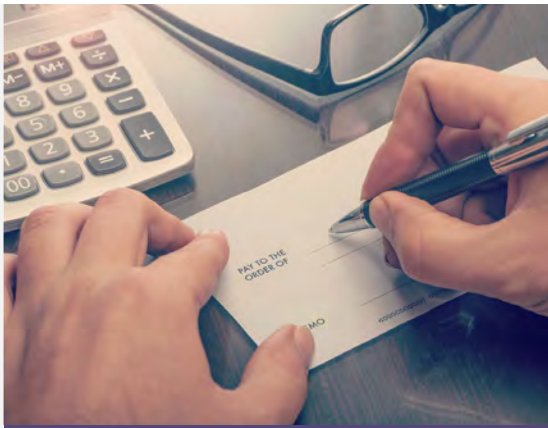
Your third payroll option is to outsource it to a third-party company. This is often a full-service option that may include payroll management and human resources help.

Pros of outsourcing: Hiring a company to handle payroll has similar advantages to an accountant — they know the ins and outs of payroll and employment tax law, and hiring them will save you time because you won't have to handle it on your own. Knowing that you're working with a professional service that is paid to understand the law can give you peace of mind.

Another advantage: Payroll services often offer a secure online portal that allows you to quickly and easily enter your business's payroll information, view grids that show employee hours, earnings, tips and other pay information, and run and print customized reports.

An additional benefit: Reputable payroll services offer a high level of data security, taking multiple measures to keep your employees' personal information private.

Cons of outsourcing: Outsourcing payroll will cost your business money, but most likely not as much as hiring an accountant would cost. Consider what you spend on payroll services as a small investment that allows you to spend time improving your business in return.



4 reasons to outsource payroll

1. Payroll is time-consuming. In most cases, processing payroll will cost you valuable time every month, and sometimes every week — and that's if it all goes smoothly. If an issue arises, however, you'll need to dedicate even more time to payroll. That means you'll have less time to support your business in other ways.

2. Complying with the tax code is difficult. You or your business may have been audited in the past, or you may have had previous issues with the IRS due to inadvertently under- or overpaying employee taxes. Outsourcing payroll takes care of this because compliance is guaranteed. Additionally, it can be difficult to stay informed on the latest state and federal tax laws, and determining how to classify employees is often confusing.

3. Your business is growing. The more employees your business has, the more tedious it can be to process payroll.

4. Security is crucial. In this online era, there are a multitude of questions surrounding security and data privacy. Security can be difficult to guarantee when handling payroll on your own, but reputable payroll services have a number of security measures in place to ease your concerns (more on this below).

Security measures to look for in a payroll provider

When deciding on a service to handle payroll for your business, you'll no doubt take criteria such as cost and customer service into account, just as you would with any other type of service. Still, one of the most important things you should consider is the level of security the service offers. Here are eight quick security features that a reputable payroll provider should offer:

1. **128-bit encryption:** One of the most secure encryption methods currently available, this safely protects any data transferred and prevents hackers from stealing personal information.
2. **Unique login information:** This gives users the ability to select their own unique username and password, which is more secure than logging in with email addresses.
3. **Customizable secret questions:** Users create their own secret question and answer in case they forget their password and need a new one.
4. **Password encryption:** Passwords are encrypted and hidden from everybody, including administrators and software developers.
5. **No local storage data:** This feature avoids storing sensitive data in the user's web browser, which prevents others from potentially accessing private information after the user has logged off.
6. **Secure user lockouts:** If a user (or anyone else) tries to log in with an incorrect password five times, the account is automatically locked until the user contacts a payroll administrator.
7. **Limited access to data:** Users can see their own data, and only their own data. Also, bank account information should not be visible.
8. **Instant email notifications of potential issues:** Automatic emails are sent to the user if an incorrect password is entered, the user logs in on a different device or the user's account is locked.

"In most cases it's best to outsource payroll, if only for peace of mind. Knowing you have a professional on your side who's familiar with the ever-changing tax rules and regulations, and who takes the security of your data very seriously, is worth exponentially more than the cost of the payroll service."

— Julie Loosbrock, MBA, Ed.D., Senior Vice President, Human Resources, Deluxe Corp.

Payroll with peace of mind

Deluxe Payroll offers the flexibility you want, with the expertise and security you need. Let us handle your payroll so you can focus on running your business.

See why **Deluxe Payroll** is the smart option for your small business.

Which payroll option will make business easier?

When deciding whether to handle payroll in-house, hire an accountant or enlist a third-party service, a question to ask yourself is, “Which option will be better for my business?” For very small businesses, doing your own payroll might be the perfect low-cost solution. For others, hiring an accountant that can also handle other financial tasks like tax filing may be the preferred way to go.

For most small businesses, however, using a full-service payroll provider has many more advantages than potential disadvantages. The main hang-up for most may be the cost that’s incurred, as every business owner wants to save money whenever and wherever possible.

That said, hiring a payroll service essentially pays for itself:

- You’ll avoid paying penalties on tax laws you may have overlooked or didn’t know about to begin with.
- You’ll have extra time that you can instead dedicate to building up other areas of your business.
- You’ll have constant and instant access to any payroll reports you may need.
- You’ll know that your business and employee information is safe and secure.

Whichever option you choose, be sure it’s one that meets your business’s needs in the most efficient way.

Payroll: 3 key takeaways

- When handling payroll, business owners have three main options: do it yourself (DIY), hire an accountant or outsource it to a third-party service, such as **Deluxe Payroll**.
- To find the right payroll solution for your business, you should consider the size of your company, your budget, and the amount of time you have to devote to payroll and understanding tax codes.
- When looking for a payroll provider, consider the level of security the service offers.

Part 6: Smart tax planning

What you'll find in this chapter

- How to determine which taxes your business must pay
- Which tax deductions and credits you should take advantage of
- Tips to help you prepare for tax time

To stay in compliance with ever-shifting tax laws, and to avoid penalties for **late filing** or other infractions, small business owners need to be prepared for tax time.

While you don't have to understand all the intricacies of the complicated tax code, arming yourself with the basics can help you avoid audits, claim more deductions and ensure a stress-free tax season.

This eBook is not professional tax advice. Deluxe Small Business Advisers are unable to provide tax guidance, tax advice or answers to tax questions. Always consult with an accountant, lawyer or certified tax professional about the tax obligations of your specific business situation.

Business taxes in a nutshell

What taxes do you have to pay? The answer is, it depends. Here are some pointers to help you determine your tax obligations:

- Taxes for businesses come in several varieties: federal, state and local.
- Each state has **different taxes** and different methods of calculating each tax obligation.
- You may have to pay taxes for other locations if you're buying equipment or serving customers out of state.
- Are you selling taxable products or services? Do you have employees? Do you own business property? Your tax obligations will vary based on your circumstances.
- The **type of business** you start determines which income tax return form you have to file.

To learn more about your tax obligations, visit the **Small Business Administration**.

Save money with tax write-offs

The best way to reduce your income tax bill is to ensure you're claiming all the tax write-offs (also known as deductions) you can. Here is a quick list of common small business tax deductions:

- Advertising costs
- Business insurance
- Business interest and banking fees
- Business meals
- Business use of your car
- Charitable contributions
- Child and dependent care expenses
- Deductions for pass-through entities
- Education
- Energy efficiency property expenses
- Foreign earned income and taxes paid
- Home office
- Investments
- Legal and professional fees
- Medical care expenses
- Mortgage interest paid
- Moving expenses
- Promotions
- Real estate taxes
- Retirement contributions
- Salaries and benefits
- Social media costs
- Telephone and internet expenses
- Travel expenses

Small business tax checklist

Whether you hire a professional or do it yourself, you need certain information and documents to file your tax return. Here are some commonly needed items to account for, according to **H&R Block**:

Income

- ☐ Gross receipts from sales or services
- ☐ Interest on business bank accounts
- ☐ Returns and allowances
- ☐ Other income

Costs of goods sold (if applicable)

- ☐ Inventory and related expenses
- ☐ Materials and supplies

Expenses

- ☐ Advertising and marketing costs
- ☐ Commissions paid
- ☐ Contractor and freelancer payments
- ☐ Employee wages and benefit expenses
- ☐ Equipment and vehicle insurance
- ☐ Office space and supplies
- ☐ Transportation and travel expenses

This is only a partial list. Get a complete tax checklist at **H&R Block** or from your certified tax professional.

"My single most important bit of tax advice? Talk to a professional. This will ensure that your taxes are in line legally, and a pro may unexpectedly help you save some money."

— Edward Merritt, Vice President and Treasurer, Deluxe Corp.

Frequently missed tax deductions

Small purchases like a cup of coffee during a business meeting or a ream of paper for your printer can add up to a significant deduction, so save your receipts. Be sure to keep your eyes peeled for these small but impactful tax deductions.

- Bank service charges
- Business association dues
- Business gifts
- Business-related magazines and books
- Casual labor and tips
- Casualty and theft losses
- Coffee and beverage service
- Commissions
- Consultant fees
- Credit bureau fees
- Office supplies
- Parking and meters
- Petty cash funds
- Postage
- Seminars and trade shows
- Taxi, bus and Uber-type fares

Keep in mind that some of the deductions in this list may not be available to all small businesses.

Hobby or business?

Is your side hustle a **business or a hobby**? As a bona fide business owner, you're entitled to exclusive benefits, including tax deductions. Tax obligations can vary depending on how you classify your business. Check out **these guidelines** to see how the IRS views your business.

"Whether you run a single-employee or a multi-employee business, always keep your business and personal finances and records separate. Separation makes it easier to track and defend business expenses for tax purposes, and also makes your business look more professional to customers."

— **Brian Nordling**, Vice President, Corporate Tax, Deluxe Corp.

Take advantage of tax credits

There are a number of **tax credits** that may reward you for taking certain action to help your employees or your business operations:

- **Family and Medical Leave credit:** Businesses providing paid family and/or medical leave could receive a 12.5 to 25 percent credit.
- **Small employer pension plan startup costs:** If you've set up a retirement plan for your workers, this tax credit could offset the costs of doing so.
- **Small employer health insurance premiums:** If you subsidize the cost of employee health insurance premiums, you may be able to get 50 percent of that money back.
- **Credit for increasing research activities:** You don't have to be a scientist to qualify for this tax credit. If your business conducts research to design, develop and improve products, you may qualify for a tax credit of 20 percent of your research-related expenses.

5 smart tax-time tips

Whether it's the first time or the fortieth, filing business taxes can be stressful. Here are five tips to keep in mind:

1. Talk to a tax pro.
Always consult a certified tax professional to be sure you have

everything in order. That way, you can be sure to take advantage of every applicable tax incentive and deduction while staying in compliance with the latest rules and regulations.

2. Stay organized.
The best thing you can do for your small business is keep your books up to date, organized and accurate. File receipts and other important documents as they come in, so you don't have to scramble to find them in the event of an audit.

3. Keep personal finances separate.
It's much easier to track expenses that are solely for your business if your personal and business accounts are separate.

4. Save time with tax software.
Everything will be organized at tax time if you consistently record revenue and expenses into **tax software** throughout the year. Most software also helps you fill out and file your taxes, so you can have a good portion of tedious work done before you turn it over to your tax professional. You can often use the software to file your taxes electronically, too, which usually means your taxes will be processed faster.

5. It pays to be punctual.
With penalties as high as 5 percent a month, filing your taxes late can cost you. And the longer you delay, the longer you'll have to pay interest. If, for some reason, you absolutely cannot file your taxes by Tax Day (usually April 15), be sure to file for an extension, which gives you more time and alerts the IRS that you do indeed intend to file. Keep in mind, too, that different types of businesses have different filing requirements and deadlines, so April 15 may not be the only deadline you need to pay attention to.

Always refer to your professional tax adviser or the IRS for guidance on tax obligations and filing requirements for your business.

Need more help?

- Get more information **from the IRS** about self-employed and small business taxes.
- Get additional advice on navigating the tax code and staying up to date on your tax responsibilities from the **Small Business Administration**.
- Look to Deluxe for the **business tax tools** you need to make tax time as painless as possible.

Taxes: 3 key takeaways

- Geographic location, business type, the products or services you sell, and the number of employees you have are among the many factors that determine your business's tax obligations.
- Make sure you're claiming as many tax deductions as possible to reduce the amount that you pay. Keep your personal and business finances separate, so you don't miss a single deduction.
- Reduce tax-time stress by consulting a certified tax professional. In addition, keep all your financial documents organized, use tax software and file your taxes on time.

Financial terms to know

Accounts payable: The money your business owes to creditors (e.g., the vendors or suppliers that you work with). This is recorded as a liability on your balance sheet.

Accounts receivable: The money your business receives when it sells goods or services to a customer on credit.

Accrual accounting: With the accrual method, transactions are recorded when they occur, regardless of whether cash has actually exchanged hands. This method is typically practiced by companies that buy or sell a lot of products or services on credit. Most companies that sell inventory are expected to use the accrual method.

Asset: Any resource, tangible or intangible, that has value. Furniture, a building, computers, a business website and cash in the bank are all considered assets. You may divide assets into subcategories:

- **Current assets**, or anything expected to generate an economic benefit to a company within the fiscal year (e.g., cash, inventory, undeposited customer checks, prepaid expenses).
- **Fixed assets**, any asset that isn't expected to be converted to cash within the fiscal year (e.g., equipment, buildings, computer software, vehicles).

Balance sheet, or statement of financial position: A balance sheet is a snapshot that shows your financial position at any point in time. It is one of the most important financial statements your business will deal with. It provides an overview of where your business stands financially, showing you what you own and what you owe. It is a record of all of your company's assets, liabilities and equity. The balance sheet is best understood through this equation:

Assets = liabilities + equity

In other words, what you have (assets) should equal what you owe (liabilities) plus what you own (equity). To put it still another way: If you subtract what you owe (liabilities) from what you have (assets), what's left is the value of what you own (equity).

Bank reconciliation: The process of ensuring that the numbers in a organization's records match the bank statement balance. Any differences between these two amounts require looking into. Discrepancies could be from errors made by the account holder or the bank, a deposit that hasn't been cleared (outstanding deposit), or a deposited check that has been returned by the bank. Bank reconciliations should be performed regularly to ensure that records are accurate and to safeguard against fraud.

Books of original entry, or journals: This is the journal in which a business's transactions are first recorded. This is where you can write everything down before you transfer the information into the ledger and categorize it at the end of the day or week.

Bookkeeping: The act of recording all of an organization's financial transactions in chronological order. For example, have you recently purchased a new point of sale system? That has to be recorded in your books along with the amount that you paid. Did you just make a sale? That has to be recorded in your books. To gauge your company's performance and success, you must track all of the money that is coming in, and all of the money that is going out. You do that with bookkeeping.

Bottom line: Subtracting your expenses from your revenue shows your business's bottom line, which is your net income or net profit.

Cash accounting: In cash accounting, sales are only reported when cash has been received and expenses are only recognized when the cash is paid out. This method is primarily used by very small businesses and in personal finances.

Corporation: A company or group of people authorized to act as a single, legal entity.

Credit: A credit is the opposite of a debit balance, and is recorded in the right hand column of an account. Any increase in equity, liability or income accounts, and corresponding decrease in the asset or expense accounts, is added to the credit balance.

Current liabilities: Debts, loans, trade credit or other obligations due for payment within one calendar year.

Debit: A debit is the opposite of a credit balance in an accounting journal, and is recorded on the left hand column of an account. Any increase in the asset or expense accounts, and corresponding decrease in equity, liability and income, is added to the debit balance.

Deduction: See write-off.

Double-entry bookkeeping: The bookkeeping system used for the accrual reporting method. Most businesses employ double-entry bookkeeping. It is based on the understanding that every transaction affects both your credit and debit balances. To run your business, you will inevitably use one asset to acquire another asset. So if you spend cash acquiring new inventory, for example, there will be an increase in revenue once that inventory is sold. However, there will also be a decrease in inventory. The sum of the debits and credits in your books should be equal.

Employer identification number (EIN): A 9-digit number issued by the IRS and used to identify businesses with paid employees. If you're a sole proprietorship, your EIN is your social security number.

Equity: The assets that an owner has invested in a business minus the business's liabilities. The equity account basically represents the company's net worth.

Expenses: The opposite of revenue, expenses are what your business spends money on. Examples include your business's cell phone bill(s), office or building rent, postage, and business travel costs.

Financial statement: A report of a business's financial information that is comprised of four basic reports: an income statement (expenses, revenue, and profits and losses), a balance sheet, a cash flow statement (money coming in and going out of the business) and a retained earnings statement (record of changes in equity).

Income statement: See profit and loss statement.

Itemized deductions: Medical expenses, charitable contributions, unreimbursed employee expenses and other personal deductions that may be taken if they total more than the standard deduction.

Ledger: Also called the books of final entry, this is where all of the current account balances should be recorded. The debit and credit entries written in the books of origin/journals are posted into the ledger.

Liability: The opposite of an asset, a liability is everything that a business owes. This can include anything from the electricity bill to the money owed to vendors.

Limited liability company (LLC): A type of business that protects its owners, also known as members, from certain types of legal liability.

Long-term liabilities:
All debts that are not due until at least one calendar year in the future.

Margin: This term is short for **profit margin**, a measure of how much money your business makes. There are two forms of this: gross profit margin and net profit margin. **Gross profit margin** is the profit you made before the cost of goods or services is subtracted from revenue. For example, if you bought a T-shirt from your supplier for $5 and sold it to a customer for $12, your gross profit margin is $7.

On the other hand, **net profit margin** is the profit you have after accounting for all of your expenses and costs. In the same T-shirt example, assume you spent an additional $5 in expenses related to acquiring, inventorying, marketing and selling the shirt. Your net profit margin, then, is $2 ($12 sale, minus $5 to acquire the shirt, minus an additional $5 to cover labor and expenses). Your net profit margin is the best way to determine if your business is making or losing money. *(Margin continues on the next page.)*

Margin (continued): For service businesses, calculate gross margin by subtracting the hourly labor cost of the person providing the service from the price of the service. For example, if a plumber on your staff earns $75 an hour, and spends one hour fixing a broken pipe that you charge $200 to repair, your gross profit margin is $125. To calculate your net profit margin, factor in the cost of parts, supplies and operational expenses related to this broken pipe repair.

Partnership: A business with two or more owners who manage and operate the business as partners.

Posting: In bookkeeping, the act of transferring journal data to the ledger.

Profit and loss statement: Also known as an income statement, a profit and loss statement shows your income coming in (revenue), and your costs going out (expenses). It analyzes how your business performs over a set amount of time, such as a month, quarter or year.

Return on investment (ROI): Your ROI is the amount of money your business makes (return) compared to how much it spent (investment). It's often shown as a percentage. For example, if you spent $1,000 on a marketing campaign and it led to an additional $5,000 in sales, the return on investment is $4,000, or 400 percent.

Revenue: This is the money your business brings in from selling and delivering its products or services during an accounting period. Revenue is often referred to as your "top line," because it's the first item listed on a profit and loss statement.

S corporation: A corporation with no more than 35 shareholders that files taxes yearly, not quarterly, and isn't subject to double taxation.

Single-entry bookkeeping: Transactions are only recorded once and not as credits and debits. This form of accounting is usually only used for personal finances (balancing your checkbook) and by very small, cash-based businesses. Single-entry bookkeeping requires the cash accounting method.

Sole proprietorship: A business owned by an individual who earns all the profits and is entirely responsible for taxes and other business-related financial obligations.

Standard deduction: A fixed dollar amount that reduces the income you're taxed on.

Tax deductions: Costs you can deduct to reduce your taxable income.

Tax identification number (TIN): An employer identification number that's used to identify a corporation for tax purposes.

Taxable income: Your total gross income minus exemptions and deductions.

Write-off: Also known as a deduction, a write-off is typically an expenditure that decreases the amount of tax you owe.

Sample financial worksheet

Sample Financial Worksheet

FINANCIAL GOALS

1. Grow premium product revenue by $12K per month by year end
2. Double my online sales next year
3. Increase retail revenue with outbound calling

HOW TO

1. Attend 1 extra trade show (in Feb.) to pick up 6 additional accounts @ $2K ea.
2. Upgrade website and increase online marketing spend
3. Outsource payroll services to free up my office manager for outbound calls

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
REVENUE														
Baseline		100	100	100	100	100	100	100	100	100	100	100	100	$ 1,200
Goal #1		-	-	-	2	4	8	10	10	10	12	12	12	$ 80
Total Revenue		**100**	**100**	**100**	**102**	**104**	**108**	**110**	**110**	**110**	**112**	**112**	**112**	**$ 1,280**
GROSS MARGIN														
Baseline	40%	40	40	40	40	40	40	40	40	40	40	40	40	$ 480
Goal #1	25%	-	-	-	1	1	2	3	3	3	3	3	3	$ 20
Gross Profit (Loss)		**40**	**40**	**40**	**41**	**41**	**42**	**43**	**43**	**43**	**43**	**43**	**43**	**$ 500**
EXPENSE (SG&A)														
Baseline		25	25	25	25	25	25	25	25	25	25	25	25	$ 300
Goal #1		-	10	-	-	-	-	-	-	-	-	-	-	$ 10
Total Expense		**25**	**35**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**$ 310**
NET INCOME														
Baseline		15	15	15	15	15	15	15	15	15	15	15	15	$ 180
Goal #1		-	(10)	-	1	1	2	3	3	3	3	3	3	$ 10
Total Net Income (Loss) before taxes		**15**	**5**	**15**	**16**	**16**	**17**	**18**	**18**	**18**	**18**	**18**	**18**	**$ 190**

TOP 5 KEY TAKEAWAYS

1. A budget can be created without accounting knowledge.
2. Not just a cost-constraining exercise: budgets need to include BOTH revenue AND expenses!
3. Think of your “budget” as more of a “plan” for your future. Plans in corporate America focus heavily on profitability and income statement.
4. Bank account will not show you profitability — need to apply some common-sense timing to understand bottom-line profit.
5. Profitability + Optimized Cash Flow = Sustainability for Your Business

Find more tips on how to achieve your goals: www.deluxe.com/sbrc/financial

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Apply your financial knowledge

Now that you're familiar with the financial know-how that makes a successful business, you're off to an amazing start. Choose the tools and services that make sense for your business at this stage.

Put your knowledge into action

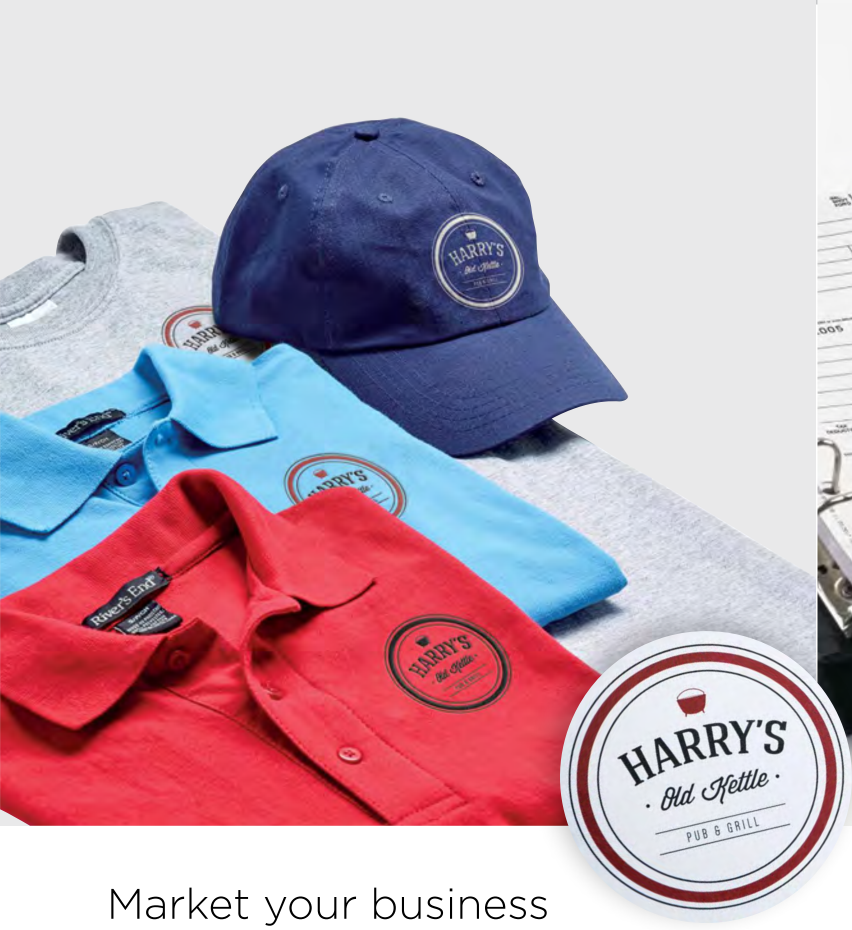
Get your financial footing by starting with some or all of these items:

- ☐ Begin writing a business plan.
- ☐ Open a business bank account.
- ☐ Decide on a bookkeeping method and accounting software.
- ☐ Create a budget.
- ☐ Take control of your cash flow by ordering **Deluxe eChecks**.
- ☐ Find a payroll service provider, such as **Deluxe Payroll**.
- ☐ Begin collecting receipts and other tax-related documents.
- ☐ Consult a financial adviser, accountant and/or tax professional.

Every effort counts! Return to this guide, as often as necessary, to navigate your financial challenges. If you're short on time or need additional guidance, remember you have a partner in Deluxe. More than 4.5 million small businesses fulfill their operational and marketing needs with Deluxe products and services. It's been an honor to help them thrive. Today, we're here for you.

Whether your business is a startup or well-established, we offer the expertise you need to define your goals, make a plan, and implement the full suite of tools and services that help you succeed.



Market your business **successfully**

Rely on Deluxe to help you design the right logo, build an effective website or create eye-catching collateral.

- Logo and website design
- Print marketing materials
- Retail packaging products
- Promotional and apparel products
- Online and email marketing services

Run your business **efficiently**

Every new business needs the basics — banking products, business checks and forms. We can help you find the perfect products to assist with all your everyday needs.

- Business checks and forms
- Checks and eChecks
- Cash management and banking products
- Sales and service management
- Payroll services and more

Finance Fundamentals is for informational purposes only. This eBook does not constitute professional tax or financial advice. Always consult with a certified accountant, financial adviser or other professional about the specific needs of your business.

Still have questions?

Our Small Business Advisers can help. Get expert advice and insider tips with absolutely no obligation to buy.

Tell us about your business today.

Call **866.240.8691**

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