

## Set Up a Basic Bookkeeping System

A strong bookkeeping system can help you keep accurate records for a range of purposes. These include analysing business activities, attracting investors, seeking finance, lodging and paying tax as well as meeting your reporting requirements. Under tax law, you're required to keep records relating to income tax, GST, payments to employees, superannuation, fringe benefits tax, fuel tax credits and business payments.

It can be difficult to set up your own system without a bookkeeping background. So, if you need help getting started, contact your accountant, bookkeeper or business advisor. Once your system is set up the right training, effort and discipline can help you take control of your finances.

## Cash vs Accrual Systems

When choosing an accounting system that suits your business needs, don't be limited by choice — some businesses successfully use a combination of both cash and accrual systems.

### Cash-Based Accounting

Some cash-based accounting system records transactions at the time the cash was paid or received, regardless of when the transaction occurred. While this method is simpler and uses less paperwork, it can be prone to errors.

Cash accounting tracks the actual money coming in and out of your business. In cash accounting, if you get an invoice for something, you don't record the cost in your books until you've paid the invoice. Similarly, when you send an invoice to a customer, you don't record the sale in your books until you receive the money from the customer.

For example, if you send an invoice on Tuesday, and don't receive the payment in your account until Thursday, you record the income against Thursday's date in your books.

### Accrual-based accounting

Some accrual-based accounting system records transactions at the time they occur, whether the payment is made now or in the future. While this is a more widely used method and tends to be less prone to errors, it can be more complex. This method is suited to all types of businesses and makes reporting complex transactions like extending credit and wages much easier.

If you use accrual accounting, you record expenses and sales when they take place, instead of when cash changes hands.

For example, if you're a builder and have sent an invoice for a project you've completed, you record the sale in your books even though you haven't received payment yet. This way of accounting shows the amounts you owe to people and the amounts owing to you.

## Pros and Cons

Cash accounting is:

- a simple system that keeps track of your business cash flow
- generally suited to smaller businesses that mostly handle transactions in cash, for example a hairdresser's or a grocery store
- gives you a picture of how much money you have in your till and in your bank accounts.
- It doesn't capture money that is owed to you or money you owe to others.

Accrual accounting is:

- more complicated than cash accounting
- better suited to businesses that don't get paid straight away
- a system that tracks your true financial position as it captures money that is owed to you and money you owe others
- Accrual accounting is more complicated than cash accounting so you'll need an in-depth understanding of bookkeeping methods or a professional to help you out.

## Manual vs Electronic Systems

Manual bookkeeping systems include a series of books or ledger accounts that are often available at your local newsagent, office supply or book store. While manual systems require more time spent on paperwork, they can be ideal for business owners who aren't confident using a computer and have simple affairs.

If you're confident using a computer, an electronic system may be your solution. As with all electronic systems, a good backup procedure with external off-site storage is vital. Some of the electronic options include:

### Software

Off-the-shelf or tailored software accounting packages can help you record your transactions, calculate GST, automatically update ledgers, prepare financial statements and help you generate invoices. However, before you invest in an accounting package, it's worthwhile checking to see what systems your accountant or business advisor recommends and that the software is compatible with Standard Business Reporting (SBR).

### Web-based

Using a web-based or 'cloud' system allows you to update your books from any location. It also has the added benefit of automatic off-site storage of your financial records.

### Spreadsheets

If you're confident using a computer but don't have the funds for a full accounting package, consider setting up a series of spreadsheets to use for your accounts. Spreadsheets are more labour intensive and are prone to errors than other types of electronic systems.