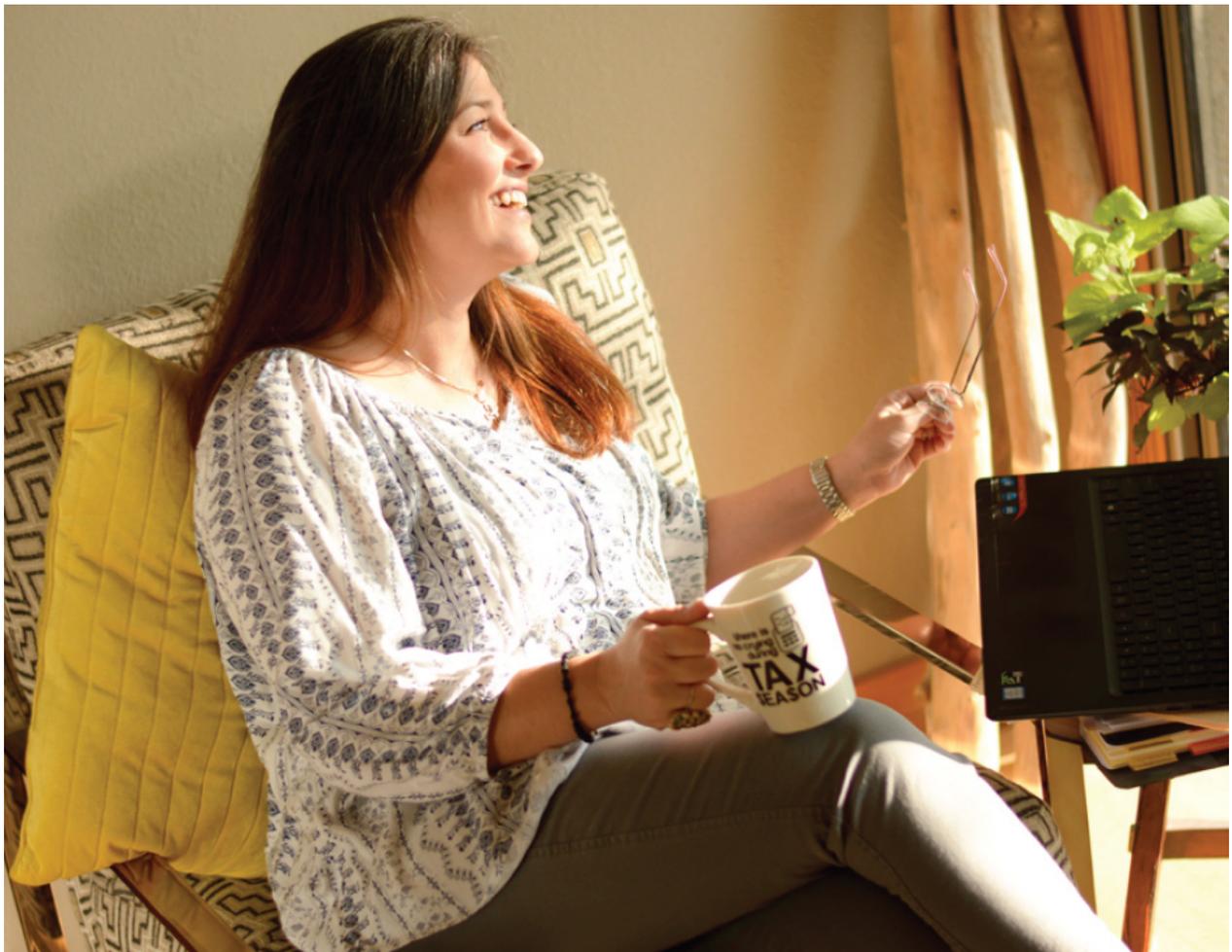


# Mind Your Business

*5 Secret Successful Owners Know About Bookkeeping*



**Irene Kufner**  
**KufnerBookkeeping.com**

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[IKufner@KufnerBookkeeping.com](mailto:IKufner@KufnerBookkeeping.com)

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## AN OWNER'S TALE

Once upon a time, there was a small business owner named Larry. Larry owned a company that made fantastic widgets for all sorts of important things. When the office manager retired, Larry hired his niece, Judy, to take his place. Judy had previously been an office manager at a medical firm, so Larry was comfortable that she could do the job. Because Judy was family, Larry felt she would do an even better job of watching over his financial matters.

Larry eagerly returned to focusing on his business, knowing that Judy would take care of invoicing clients, collecting payments, making bank deposits, and keeping the books with the desktop version of QuickBooks. Everything appeared to be going well, the business was booming, and he was drawing a nice salary plus generous distributions from his S-corporation. He felt proud that he was able to provide his niece with a good job.

Larry had a former business partner who did contract work for the company, but he didn't get along with Judy. So, the former partner quit and opened up his own widget company, stealing two of Larry's best employees.

Larry's sales started to dry up, and he began having cash flow problems. His bank balances dropped. The payroll account ran out of funds, so his payroll company dumped him. Larry was working harder than ever to try and keep his company afloat. But no matter how hard he worked, he never seemed to have enough cash. Something wasn't right.

Then one day, he logged into his bank account for the first time in over a year. He found that Judy had been taking funds from the company accounts and transferring them to her personal account. The transfers had started small enough, but over time, they had grown bigger and bigger. Judy was embezzling from him!

Larry could hardly believe it. He confronted Judy with the evidence. She got angry and stormed out, taking her laptop with her, which, unbeknownst to Larry, contained all the QuickBooks files.

After a heated argument at her apartment the next day, Larry got the laptop back, only to find that all the QuickBooks files had been deleted. To make matters worse, Judy had never backed the files up to the cloud or any other storage device.

He called his accountant to see what could be done. His accountant informed him that he hadn't filed income tax returns for the prior two years. Larry was confused. "That can't be," he said. "Judy showed me reports that looked like tax returns."

"I'm sorry, Larry. But nothing's been filed, and the penalties might be steep," said the accountant.

Larry had no choice. With two years of tax returns to recreate and no business records, a dwindling cash flow, and stiff competition from his former partner, Larry had to shut his business down. He and his wife filed for bankruptcy.

Sadly, stories like Larry's happen more often than you might think. A small business owner puts their trust in a family member or a loyal employee and then abdicates responsibility for reviewing the employee's work, believing they have the company's best interests at heart.

What lessons can you learn from this story? Let's start with the 5 Secrets every successful business owner knows about bookkeeping.

# SECRET 1

## OPPORTUNITY COST

The one thing that Larry did right was to hire someone else to do the books. If Larry had chosen to do the books himself, he would have been spending time on clerical tasks that wouldn't add anything to his bottom line, or help him grow the business. This loss of income-generating activity is called opportunity cost. It's the amount you could have earned if you weren't spending time on bookkeeping.

Many business owners feel they can save money by doing the books themselves. But is that true? Sure, you may not have the payroll or outsourcing expense, but what is happening to your business when you take on this task?

Likely, you're not a bookkeeper or accountant by trade, so you may lack the expertise to record transactions correctly.

That could mean bad news when it comes time to do your taxes. But even more likely, is this manual task of bookkeeping takes a backseat to everything else you need to do.

If your books are out of date, you don't have the current information you need to run your business. You may be wasting money simply because you can't see the cause and effect of the financial decisions you've made, such as different product packaging or a new ad campaign.

Owners of small businesses become successful because they understand their skillset is in creating a product or service that others need and want, and then marketing it. They don't spend time on tasks like bookkeeping that can easily be delegated to someone else.

## SECRET 2

### TIMELINESS

As we mentioned in the last chapter, if your books are always out of date, even if only by a month or two, you'll never have a firm handle on your finances or the financial health of your business.

There are several reasons why not having your books completed on a timely basis can cost you money. First, as we mentioned before, you cannot readily see if a decision you've made is good or bad. It prevents you from adapting quickly to changing conditions: in the market, with your suppliers, or with your marketing team. Knowing your financial health can be critical in business, especially for one with unpredictable cash flow.

Many small business owners will wait until it's almost tax time, whether they are filing quarterly or annually, and then dump a bunch of paperwork on their accountant's desk. Accountants are the most expensive way to get your bookkeeping done.

Do you seriously want to be paying them by the hour to wade through your box of receipts?

Waiting until tax time might have a further cost to business owners. Your accountant may point out that you could have taken advantage of certain deductions based on your business entity. But now that the year is over, you've likely missed the boat. Unless you can go back and track and validate those deductions with documentation, you won't benefit.

While timeliness is critical to help you run your business, it doesn't matter how current your books are if you never look at them. This was one of the critical mistakes that Larry made. He waited far too long to start going over his books. As long as he was getting paid and able to draw funds from the company, he assumed all was well. As an owner, it is not your responsibility to do the bookkeeping, but successful owners know it is their responsibility to review the books every month.

## SECRET 3

# ACCURACY

When it comes to bookkeeping, accuracy is king. Whether you hire someone internally to do your books or outsource to a bookkeeping firm, you want to make sure they have the experience and expertise you need.

A bookkeeper must be able to classify and enter transactions correctly within a company's chart of accounts. There is no "one chart fits all" when it comes to accurate bookkeeping. Many industries have special accounts, income categories, and deductions that are specific to that industry. What you are allowed to deduct as expenses may also be a function of the type of entity you are. An S-corp has different rules than an LLC or a Sole Proprietorship. An experienced bookkeeper will manage your chart of accounts, so it accurately reflects the business you are in, as well as the form of business you are.

For example, maybe all your employees are on payroll, or maybe your employees aren't actually employees at all, but contract workers. Or perhaps you have a product on which you need to collect sales tax. There is a difference in how the tax will be categorized and reported if you price your product with the tax already included rather than adding the tax on to the price. Or maybe you're an S-corp and can deduct your gym membership as a health expense, but if you were an LLC, you'd need to take that transaction as an owner draw. To ensure expenses are posted correctly, and the correct tax reporting forms are generated, a bookkeeper needs to understand the difference.

A bookkeeper's responsibility for accuracy goes beyond simply entering transactions. They are also a source of education. A good bookkeeper, or bookkeeping company, will alert you when someone in your organization submits expenses to which they may not be entitled. An example would be a request for mileage or auto repair reimbursement when the employee works from home. Or perhaps a "thank you" gift exceeds the \$25 per person threshold.

Successful business owners know an experienced bookkeeper has the knowledge and expertise to be a trusted partner in keeping their business out of trouble. No one wants to be audited because of sloppy bookkeeping.

## SECRET 4

# INDEPENDENCE

Some business owners choose to do their own bookkeeping because they are not comfortable giving others access to privileged information. Many have a privacy concern that their financial situation will become public knowledge if an office manager or bookkeeper leaves the organization.

While these concerns are valid, unless you are the owner of a bookkeeping or accounting firm, you probably lack the expertise to do your own books. As mentioned earlier, there is a significant opportunity cost to doing your own books, not to mention the cost of errors that may go undetected until tax time.

If your business is large enough, it may make sense to hire internal bookkeepers. To maintain independence, though, you would need at least two, or someone knowledgeable enough to step in for a few weeks each year.

Mandatory vacations should be a standard for anyone in a bookkeeping or accounting position. This is your opportunity, as an owner, to get a second set of eyes on the books. Not because you don't trust the person you've hired, but because we all make mistakes, and it's better to catch them sooner rather than later.

If your company isn't large enough to have redundant staff, then you may want to consider outsourcing your bookkeeping to a reputable firm. Successful business owners know that outsourcing the bookkeeping function is the number one way to ensure independence.

Unlike an internal bookkeeper who may be influenced by others in the organization to perhaps post a questionable transaction or look the other way, a bookkeeping firm will not be swayed. This is particularly important if you are in a partnership situation where one or more individuals have an interest in the company. Relationships can turn sour quickly if there is any accusation of misconduct or wrongdoing in conjunction with the books, regardless of how innocent it may have been.

An independent bookkeeping firm ensures that only you, or the individuals you designate, will have access to your financial data. And unlike Larry's situation, your books will always be backed up and accessible.

An independent firm will ensure your books are completed promptly, so you have what you need to manage your business effectively. Many will also provide a monthly review to help you interpret what the numbers say, allowing you to react quickly to any irregularities. An added benefit: your books are tax and audit-ready every month.

## SECRET 5

# MANAGEMENT AND TRAINING

When we look back at Larry's story, it becomes obvious that one of his biggest mistakes was assuming that because Judy had been an office manager before, she was capable. We don't know if he did his due diligence and checked with her previous employer regarding her performance, but since she was family, it would be safe to assume he did not. He turned over the keys to the kingdom and then left her alone.

We now know that successful business owners do not do their own bookkeeping. They spend their time where they are most effective, building the business. But they also know, should they choose to hire an internal bookkeeper, they must manage and train that individual. The daily tasks of bookkeeping may seem menial, but the results of those tasks definitely are not!

Rules around bookkeeping – what constitutes a reasonable expense or deduction, how to classify various forms of income, when a reimbursement should be considered a draw – keep changing. Not to mention the changes that occur with updates to the various bookkeeping systems. At a minimum, annual training is required to stay on top of these changes to ensure your books are accurate and complete.

Hiring, training, and managing an internal bookkeeping function can be expensive. Not only are there salary and benefits issues, but you also have to provide space, equipment, and software for that individual to use. Those are resources that may be more effectively used in other parts of your business. It's even more expensive when you factor in employee turnover and having to go through the process again and again.

These are the reasons why many successful small business owners outsource their bookkeeping to reliable firms. They are assured that the individuals preparing their books are well trained and current with any regulations or software changes.

They do not have to worry about staffing, managing, or training, freeing an owner to do what he or she does best. A bookkeeping firm can also provide your business with instant scalability. They have trained and experienced staff available to grow as your business grows.

So, there you have it, the 5 secrets successful owners know about bookkeeping. If you're ready to make a change and outsource your bookkeeping or want another pair of eyes to review your books, read on. **Kufner Bookkeeping Services** may be the right fit for you.

# KUFNER BOOKKEEPING SERVICES

Kufner Bookkeeping Services is dedicated to you and all of your accounting needs. Owner Irene Kufner is of Greek descent, where the idea of Philotimo is a time-honored tradition. Philotimo is a word not easily translated into English. It stands for positive values such as hard work, duty, honor, and integrity. Philotimo means doing what's right, even if it is to your own detriment. These are the values of each of our employees.

Kufner Bookkeeping will help you avoid the mistakes Larry made. Our primary goal is to earn your trust by providing accurate, timely, and confidential reporting of your financials, so you can focus on making the right decisions to benefit your business. You can rest assured we are constantly training on the latest regulations and the latest software changes, so nothing ever falls through the cracks.

Here are just a few of the benefits of working with us:

A free, no-obligation discussion regarding your business requirements

Fixed accounting fees agreed to in advance and not dependent on income level

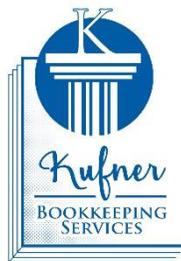
An assigned personal account manager

Company forecasts and regular reviews to ensure an accurate interpretation of the numbers

Secure and remote support

In addition, to show our appreciation for your service, we offer a 15% discount on all companies owned or operated by an active or retired military member.

Are you ready to free yourself from your books and take your business to the next level? Give us a call at 602-513-2797.



[KufnerBookkeeping.com](http://KufnerBookkeeping.com)

# NOTES

Building and running a successful business depends on one thing - the numbers. Without accurate and timely bookkeeping, your business is a “hope” business. You hope you have enough money; you hope you make the right financial decisions; you hope you’re focused on the right things; you hope the IRS won’t audit you.

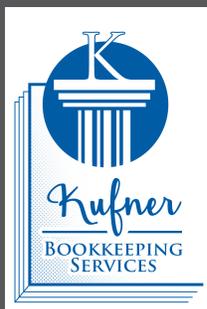
It doesn’t have to be that way. You don’t have to go it alone. Bookkeeping is a critical tool to guide your business to profitability and success. But any tool, in the wrong hands, can cause costly mistakes. That’s why so many successful business owners know and rely on the 5 Secrets of Bookkeeping revealed in this little book. Take a read; it just might be the best advice you’ll get today.

*“Wonderful experience working with Kufner Bookkeeping to get my messy books in order! I have a better understanding of my business finances!”*

- Karenm Estrin, Playbook Marketing

*“Kufner Bookkeeping helped our business become more efficient, and showed us just how much we weren’t documenting before utilizing their services... it’s top-notch, well-rounded company that will benefit your business in many ways!”*

-Austin Jacks, Bizgrowth Marketing



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