An Entrepreneur's Guide to Accounting

In Partnership with xero

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Introduction

Welcome!

You already know that being an entrepreneur can be both exciting and exhausting. You probably also know that you also have a responsibility to understand your finances and pay taxes—this is most definitely not exciting. In fact, it can cause a lot of stress, particularly for those business owners who aren't equipped with the information they need to keep a handle on their finances.

This guide is designed to help you with just that. Learning the ins and outs of accounting versus bookkeeping, **and what this knowledge can do for you and your business**, is just as important as building your business. In fact, understanding these is an essential part of helping your business grow--how can you grow a business if you don't understand finances?

That's where we're here to help.

Accounting is more than just numbers and forecasts. It's a tool that can help your business flourish.

Why is accounting important for your business?

Many new business owners believe they must first gain customers, hire employees, generate sales, and record a healthy profit margin before worrying about accounting. They prioritize spending on digital marketing to generate leads or on monthly software subscriptions to manage their day-to-day efficiencies. The logic that proper accounting doesn't drive a business's top line is understandable, but by getting your accounting set up correctly from the start, no matter how small your business, it will not only save you a lot of headaches as you grow but help you save money. **And that means business growth.**

A measure of business performance

Accounting is the language of business. It communicates and quantifies how a business is performing, and gives you a window into the future. It can tell you whether you'll have enough money to buy inventory in the next three months. It can even break down the numbers and identify which one of your products or services isn't doing well. An accountant looking at your books can also forecast looming expenses and tax levies that you haven't factored in. These are just a few of the countless metrics that require tracking and constant monitoring. And an accountant can help you do that.

You need a tight hold on your finances in the early stages of your business because that is a time ripe for quick pivots. Accountants can help you find answers to critical questions like, is my product or service financially viable? At what point do I expect to break-even and become profitable? Can I sustain the up-front investment until the business turns a profit? And how do I finance these costs?

Meaningful accounting and financial measures have to be taken simultaneously to other efforts that grow a business. This becomes indispensable as the number of stakeholders in your company grows.

Makes tax time that much easier

As a business owner, one of your biggest stakeholders is the Canada Revenue Agency (CRA). There is legislation that dictates taxation rates, deadlines, and all things related to business taxes. But it's near impossible to adhere to these regulations without proper accounting.

With proper accounting, all you have to do is pull reports from your accounting software (or your accountant will pull them for you), and filing your taxes will be fairly straightforward.

In the event that you might get audited, you will thank yourself for having the wisdom to keep proper accounting (or better yet, hiring an accountant). Imagine pulling every single accounting, including receipts, invoices, bills, you name it, and providing all those records to the CRA. With proper accounting, that's already done for you. Easy peasy.

Bad books are bad for business

Without good financial records (and bookkeeping), you impair your decision-making ability. When it's time to pick up a lease, hire staff, or take out a loan, you need a true picture of what's sustainable for your business long-term. Also, new business owners do well when they operate within a defined budget, ensuring company cash is spent on what matters most. With an accountant on your side, you can steer clear of anything that could hurt your business. Simply put, know your numbers to grow your business.

So, how do you do all of this? The first step is to understand the day-to-day workings of your business finances. This means knowing what accounting and bookkeeping are, and understanding the difference and how they work in tandem to help your business grow.

Business owners who write a defined business plan and budget are 16 percent more likely to succeed.[1]

[1]https://hbr.org/2017/07/research-writing-a-business-plan-makes-your-startup-more-likely-to-succeed

One

Accounting vs bookkeeping: What’s the difference?

First things first, knowing the difference between accounting and bookkeeping will help you build your foundational knowledge of finances, and how you can make them work for you. Bookkeeping and accounting are both important parts of managing your finances. At first glance, the two can seem quite similar, but there are a few main differences. Bookkeeping focuses on recording and organizing financial data. Accounting is the interpretation and presentation of that data to business owners and investors. For your business to run smoothly, ideally you need both people. You'd hire a bookkeeper to look after the day-to-day work. And you'd hire an accountant to handle official reporting and high level business advice.

Bookkeeping typically consists of:

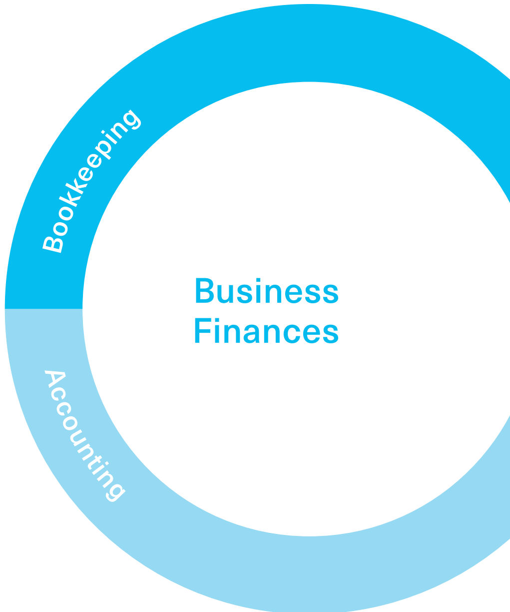
- payroll
- invoicing
- receipts and bills
- recording business transactions

Accounting typically consists of:

- financial statements and reports
- budgets
- tax returns
- analyzing business performance

Besides your natural business savvy, you can usually rely on your company's financials through bookkeeping and accounting to tell you which direction your business is taking, and give you an idea of when to spend and when to save.

Bookkeeping and accounting are two branches of business finances, and using both can help you succeed.



What exactly is bookkeeping?

Bookkeeping refers to the day-to-day practice of recording, categorizing, and reconciling or cross-referencing every financial transaction a business makes in a day. The term bookkeeping comes from the use of physical books or ledgers in the past.

A bookkeeper's role involves maintaining a general ledger where they document and track income and expenses, money owed to the company (accounts receivable), and money the company owes (accounts payable). They also compare (reconcile) company books with bank statements to check for discrepancies.

When to hire a bookkeeper?

New or independent entrepreneurs usually double up as the bookkeeper of their business as it only takes a few hours per week to manage this aspect. The use of an online bookkeeping software can help to speed up these jobs, and reduce the chances for human data-entry errors. (see Chapter 3) (see Chapter 3)

When the business grows in size, and intersects people in different geographies, record-keeping becomes cumbersome and time consuming. Duplicate entries or incorrect categorization of income and expenses could cause trouble during tax time, attracting penalties. A growing business that transacts multiple times in a day should consider outsourcing bookkeeping either to a professional, or to a more robust subscription-based software. When you see this outsourced resource unable to keep up, you know your business is ready to hire a full-time bookkeeper.

What are the benefits of bookkeeping?

Bookkeeping strengthens the financial reins of your business, and enables you to do the following:

- **Track performance:** Recurring patterns in your financial data can tell you if you're making more money than you're spending or if you're heading towards a cash crunch.
- **Manage cash flow:** Bookkeeping alerts you to delayed payments, higher than normal costs, and upcoming big expenses, sales fluctuations, inventory, and incorrect or late payments.
- **Simplify tax time:** Bookkeeping through the year helps ease the burden when it's time to file taxes. You don't have to jog your memory to remember if an expense was personal or professional, or hunt for old bills (see Chapter 6). Up-to-date books give an accountant time to find relevant tax deductions instead of going through countless receipts.
- **Responsive:** In case of an audit by the CRA, your information is ready to present, saving you potential late fees.

Five common bookkeeping mistakes and how to avoid them

As an entrepreneur, you're the one ultimately responsible for how your business performs. In order to do this well, having line-of-sight into your financials and cash flow is key. With that in mind, here are five common errors many entrepreneurs overlook when doing their own bookkeeping:

1

Mixing business and personal finances

Mixing business and personal finances can make your financial life unnecessarily complicated and can lead to accounting mistakes. An easy way to avoid this is to use separate bank accounts and credit for your business, and only use those strictly for business purposes.

In some cases, a separate business bank account is legally required. Other reasons to open a separate business bank account include:

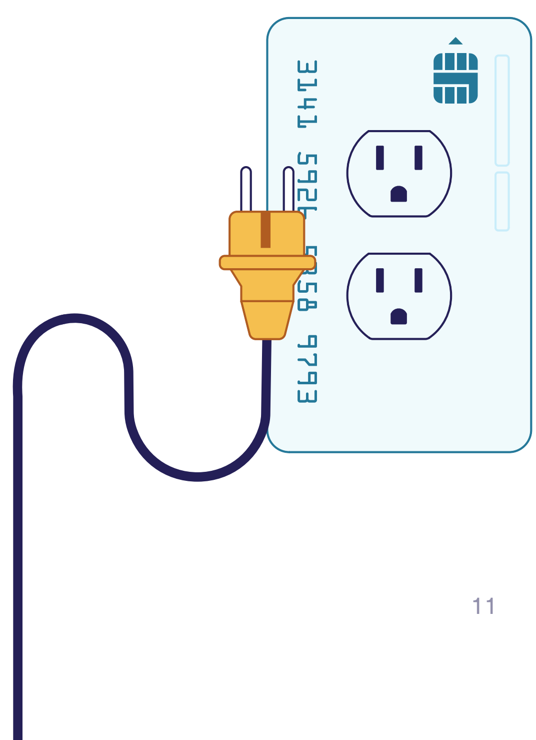
- Keeps business transactions separate from your personal transactions
- Helps streamline expense tracking
- It shows the world that you're a professional, and not just a hobbyist
- Provides clear records in the case of a CRA audit
- Helps establish business credit
- Often required for grants and investors

2

Using accounting software that's not connected to your banking

Using accounting software that's not connected to your banking is really just doubling your work. Accounting software is usually designed to sync with your bank accounts, credits, and loans in order to give you an accurate picture of your business's expenses, earnings, and cash flow. If they aren't connected, you'll have to do the number crunching yourself to make sure things line up.

To connect your accounting software to your bank accounts is fairly straightforward. Most accounting software have simple, step-by-step instructions to connect to your bank accounts.



3

Not getting the most out of your accounting software

Similar to connecting your accounting software with your bank accounts, not using all the features available with your accounting software might mean you're actually doing extra work that you don't need to. For example, if you're keeping track of your expenses in a separate spreadsheet rather than using the built-in receipt capture and categorization that comes with your accounting software, you really aren't getting your money's worth.

Most accounting software comes with 24/7 customer service support, so if you're stuck trying to figure out the features, check with them.

4

Hiring a bookkeeper who doesn't really know your needs

Hiring a bookkeeper is just like hiring any other professional or even an employee. It's not a one size fits all solution. Bookkeepers should come with experience not just with keeping books, but in your particular market. For example, a bookkeeper who looks after a freelancer's business expenses probably won't have the same skillset as a bookkeeper who is well-versed in, say, larger businesses with more employees.

When hiring a bookkeeper, make sure you do your due diligence in the interviewing process. Check references and even give your potential bookkeeper candidate a small task to see how they perform (remember, it's best to pay them an hourly rate even for test assignments like this one).

5

Waiting until the last minute to do taxes

Yes, this happens more often than you'd think. It's nearing the end of April and taxes are due for filing in just a few days. No problem right?

Wrong. Think about all those expenses, receipts, invoices, transactions, and payroll you have to reconcile and categorize. This isn't a small task and while some may work really well under pressure, it's more likely that mistakes will happen.

Working with either a bookkeeper, accountant, or accounting software (or all three) throughout the year can help you come tax time.

What is accounting?

While bookkeepers record data, accountants turn that data into insights. An accountant will analyze and interpret all the information that a bookkeeper (or you) collects to prepare financial statements that summarize business performance. Accountants forecast future cash-flow, advise on long-term strategy, file statutory returns, and help you get the most out of your tax return.

What are the benefits of accounting?

An accountant draws the big picture of a business and often plays the role of advisor. Accounting is essential to:

- **Plan and strategize:** Accounting informs all business decisions and helps you prepare for the future.
- **Borrow money:** Accounting helps lenders see a company's financial statements and cash-flow projections.
- **Tax compliance:** Accountants are trained to spot tax rules you could be breaking or tax deductions you might have skipped. Engaging them at the start of the year accountants can also provide tax planning services to come up with a strategy to reduce tax burdens.

When do you need an accountant?

Accountants are highly qualified professionals, and usually charge a couple hundred dollars an hour for their services. Small businesses, therefore hire accountants once a year to prepare financial statements and file their taxes, and depend on their bookkeeper or a bookkeeping software to maintain the money trail otherwise.

As a business picks up pace, owners find themselves juggling many responsibilities. Many are excited about the challenges of entrepreneurship, but not so much about data entry and bank-reconciliation. Limited knowledge is also a roadblock for preparing their profit and loss statements.

If you're looking to grow your business, secure funding in the form of loans or grants, or are looking to solicit an investor, accounting and bookkeeping are integral to this process. Why? Because you need a business plan and part of a business plan is a financial statement.

See how this all works together?

Ready to get started? Get connected with an experienced accountant or bookkeeper from the Xero advisor directory.

Accountants forecast future cash-flow, advise on long-term strategy, file statutory returns, and help you get the most out of your tax return.

Feel like you're getting to grips with the difference? Now's the perfect time to start your business.

Get Started

Two

Understanding Financial Statements

Now that you've got a handle on what accounting and bookkeeping are, financial statements will help you build your business's financial portfolio.

Financial statements are essentially a small business owner's entrepreneurial blueprint. Not only do they allow business owners to keep track of spending, but they serve as a company's credentials, should any potential investors show interest.

By keeping an ongoing, organized record of financial statements, small business owners can spend less time worrying about daunting administrative tasks like budgeting, and put more energy into the day-to-day operations of the company.

Working without a financial statement is like working blind—you need to know the lay of your business land before you can see it grow.

Understanding your financial statements

Whether you work with an accountant or do your own bookkeeping, it's important to have a solid grasp of your finances--and that means understanding all the components of your financial statements. Financial statements are broken down into three main statements: the income statement, the balance sheet, and the cash flow statement.

Together, these three components help to give small business owners a clearer idea of their company's financial expenditures.

Balance sheets

Balance sheets are perhaps the simplest part of any financial statement. Short and sweet, they resemble an invoice, and include a lengthy tally of business costs with the total sum at the bottom of the page.

Balance sheets outline the business's existing assets, as well as any outstanding liabilities or debts owed, existing investments, and any stockholder equities at a given point in time.

They allow the business owner, as well as any potential investors, to review the company's overall financial operations and examine any financial limitations that would prohibit or hinder a partnership.

The number of balance sheets a business creates per year will ultimately depend on its overall financial position. Larger companies, or those with substantial revenue streams, may benefit from putting together a balance sheet every day, or on a weekly basis, so that they may better track profit or loss.

Small business owners who might not yet have built up substantial financial collateral may find that making a balance sheet on a monthly basis will suffice. The decision is ultimately up to the company and how they wish to track their financial spending.

The following three elements can be found on any balance sheet:

1

Assets

Assets are defined as anything and everything of which the company has full ownership. This includes cash and cash equivalents, accounts receivable, all current inventory, prepaid expenses, and additional investments.

Finances aside, assets can also represent a company’s land and any buildings or offices connected to the company, equipment (including office supplies), and any accumulated depreciation accounts (an asset account with an existing credit balance).

2

Liabilities

Liabilities are outstanding debts owed by the business. This could mean that the company has several outstanding invoices that have yet to be paid or outstanding employee salaries.

3

Equity

Small business owners can realize the equity of their company once the liabilities are subtracted from the assets. The most commonly recognized form of equity on financial statements is the revenue that the business has earned to date.

Equity always refers to what is called the business’s “book value,” which means the total amount that the business has in funds at a given time. If a small business owner were to turn around and sell the business, the existing equity does not represent the true market value. For example, just because a homeowner spends $100,000 on renovations prior to selling does not mean they will collect an additional $100,000 as a result of those investments when the time comes to put the house on the market.

With a simple mathematical formula, understanding equity is easy:

Equity = Assets - Liabilities

Income statements

An income statement is where a small business owner can see how their company actually profited during an accounting period (monthly, quarterly, yearly). Balance sheets, on the other hand, only tell a business owner how financials were doing at a given time (individual days or weeks, for example).

Income statements are sometimes called profit and loss statements, and they allow business owners to track their earnings (revenue) and their spending (business expenses).

Income statements, like balance sheets, are divided into several parts, including sales, gross profits, operating expenses, operating income, and any additional income and expenses, such as interest revenue. Income statements also show a record of the business's income before tax.

In many cases, income statements will have a record of COGS (cost of goods sold), which allows business owners to see how much money it costs to produce their goods, prior to turning a profit on the sale itself. Therefore:

Gross Profit = Revenue - COGS

To further understand this, if the margins between the COGS and the gross profit are a close match, this is a key indication that the business owner is not making much profit off of each sale.

How are balance sheets and income statements different?

While balance sheets provide a breakdown of assets, liabilities, and equity, income statements allow small business owners to better take stock of inventory and spending patterns to plan ahead, allowing them to make more informed decisions for the next accounting period.

It is important to remember that while income statements report the business's revenues and expenses (profit and loss), balance statements keep a record of the company's assets, equity, and liabilities.

As far as financial statements are concerned, most small business owners can make due using balance sheets and income statements. However, in some cases, a third kind of statement, known as the cash flow statement, can further help business owners determine where their funds end up.

Cash flow statements

Cash flow statements are not always used as a standard business practice. Generally, they're used by companies that rely on the accrual accounting method, which tracks expenses only after a transaction takes place, as opposed to when a payment is made or received.

Cash flow statements indicate revenue that a company has secured, but may have not yet received. Therefore, that particular transaction will still appear as a source of revenue on the income statement. Think of cash flow statements as a friendly record of an I.O.U. from the supplier.

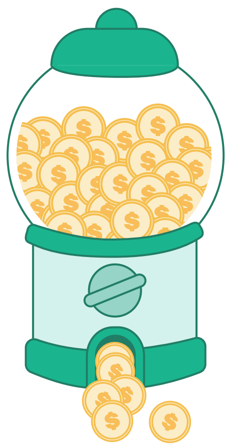
Much like the balance sheet and the income statement, the cash flow statement is divided into various parts and usually provides data for operating activities, investing activities, and financial activities.

Operating activities

The cash flow from operations indicates how much a business earns on a daily basis. Cash flow statements also keep track of how much the company is spending, and where those funds are being allocated.

Investment activities

The cash flow from investments outlines how much profit a business has earned based on its investment purchases on behalf of the company.



Financing activities

Cash flow from financing is similar to a balance statement's liabilities. It's an indication of the sources of cash from any investors as well as banks.

This section also refers to any money that a business owner has invested in the business. It also includes any outstanding debts, such as loans.

One of the easiest ways to increase a business's cash flow is to process the accounts receivable at a faster rate. Rather than providing a grace period of 90 days on an invoice, for example, a small business owner could demand that all outstanding invoices be paid in 30 days of issuance.

Using financial statements to grow your small business

Once fully understood, financial statements can be incredibly beneficial for a small business owner. They may not always be the most fun part of the business day, but over time, can be an integral part of any company's underlying success.

Different kinds of financial statements can provide a number of further earning potentials, based on their ability to help business owners navigate their spending patterns and keep track of cost and profit margins. These documents are a business owner's proof of the company's overall performance and activity. This is attractive to any potential investors who may consider partnering or purchasing stocks or shares, but are looking for an idea of how the business is performing.

Here are a few key benefits of using a financial statement:

Financial statements can help you track spending, secure funding, and let you know when you can invest.

1

Financial statements better track business spending

Financial statements allow business owners to track better and predict the future revenue streams. Without financial statements, a business owner cannot easily prove any incoming revenue or justify any expenses, or offer any direct insight into the company's performance. Without accurate financial performance, it's difficult to secure funding, accurately predict future earnings, and pivot if the market is changing.

2

Financial statements make tax season easier

Most small business owners prefer to focus on the day-to-day operations. For that reason, administrative and financial tasks, like creating balance sheets and financial statements, tend to take a back seat. However, keeping financial records also comes in handy for small business owners during tax season (see Chapter 9).

Keeping a steady record of financial statements, including the balance sheets, income statements, and cash flow statements, better equips small business owners for tax season.

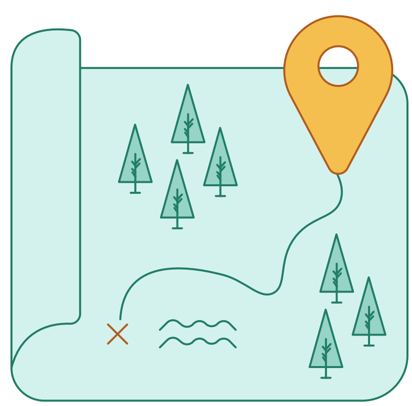
Most small business owners also incur business expenses which are permitted to be written off during tax season. Jotting those expenses down ahead of time means less time is spent pouring over old receipts, and more time preparing for future success. This is also when a great accounting software can be a life saver.

3

Accurate financial statements are essential for funding

Looking to secure credit, a loan, or apply for a business grant? Or maybe you're looking for investors. You'll need accurate financial statements.

Financial statements provide financial analysts and potential investors with a more accurate idea of how financially equipped a business is to both fund its existing operations and pay back any outstanding debts.



Why financial statements matter

Financial statements don't have to be complicated. They serve as a written record of a business's day-to-day operations; balance sheets break down a company's assets, liabilities, and equity. Income statements serve to analyze a company's revenue and expenses (profit and loss) over a certain period of time.

Strong accounting is crucial for every small business. By keeping an organized record of all finances, all small business owners can easily build their own financial statements, thus making it easier to determine profit, loss, and future financial trends.

If you've mastered financial statements, why not start your business today?

Get Started

Three

The key role of cloud accounting software & accountants in your business

Knowing what bookkeeping and accounting are is one thing, keeping track of all of those business transactions is quite another. Let's look at an example.

Ava's bakery is a neighborhood favourite. She enjoys the daily rush of customers and developing new recipes for them. But as her business grows, she struggles to keep her finances in order. She knows she needs help to balance her books, and stay on top of payments.

Ava's dilemma is that of many business owners, contractors, freelancers, and entrepreneurs. They want to keep their revenue and expenses up-to-date, but can't decide what's right for them--doing it yourself (DIY) with online accounting software or hiring a professional? The truth is, you can't choose one over the other. An online accounting system that's well set up can drastically reduce the work associated with financial admin but it can't replace the advice you might get from an accountant or bookkeeper. The two are synergistic, and are likely both required at different times to run your business smoothly.

How to choose the right tool for the job

It might be tempting to use a spreadsheet for your accounting data, but spreadsheet programs weren't designed to be a substitute for accounting software. You can quickly run into difficulties if that's the way you're using it. Here's why:

- **It's hard to see an up-to-date picture:** Spreadsheets don't automatically update – they show you the static numbers, and not the meaning behind them. Accounting software helps you see your cash flow in real-time. Reports and graphs give you clear information and a sense of the big picture.
- **Spreadsheets can be riddled with mistakes:** It might be easy to start with a simple spreadsheet doing manual data entry and simple sums. But if you want your business to run efficiently, manual copy and paste techniques are no way to thrive and grow.
- **There's no audit trail:** Accounting software keeps track of every entry and who made it. This is called an audit trail and it's a vital part of accounting. But anyone can change a spreadsheet, leaving no record of what was done or who did it. This leaves your business open to fraud.

You'll know from running your own business that it makes sense to use the right tool for the job. So get this right the first time – and avoid problems later.

What can you expect from cloud accounting software?

Since it is hosted in the cloud (online), you can run your business accounts on-the-go, anywhere, anytime. The software can also integrate with a whole ecosystem of third-party business apps allowing you to customize your own business solution. If used to its full potential, here's what cloud accounting can do for your business:

1

Automate grunt work

Once authorized, the tools can download your bank account activity and automatically reconcile and categorize your transactions, saving you time and effort to manually enter and match every transaction.

2

Provide a real-time financial position

Connect your bank accounts and credit cards to see what you owe, and what you've earned in real-time.

3

Enable paperless expense management

Most tools have features to automate recurring tasks like employee payroll, submitting purchase orders to suppliers and vendors, and paying bills. They offer the convenience of photographing and saving receipts through their app and integrate it all with expense-tracking.

4

Improve collaboration:

Most tools on the market have 24/7 customer support to answer your questions. An accountant you hire can view your dashboard on the time software instead of relying on emails and exchanging files.

5

Monitor business performance

Track inventory and supplies and the time and money spent on a project or task. This ability to monitor business metrics helps you plan ahead, predict growth, forecast risks, and estimate earnings.

How professional accountants and cloud accounting work together

We've already covered this in Chapter 1, but it's worth mentioning again: outsourcing your accounting to a trained accountant can save you in the long run. While accounting software does the record-keeping and number-crunching, accountants are the financial advisors of a business and as you look towards the future, an accountant can take you to the next level.They use the cloud software to view your business by numbers, and translate them into actions and recommendations.

1

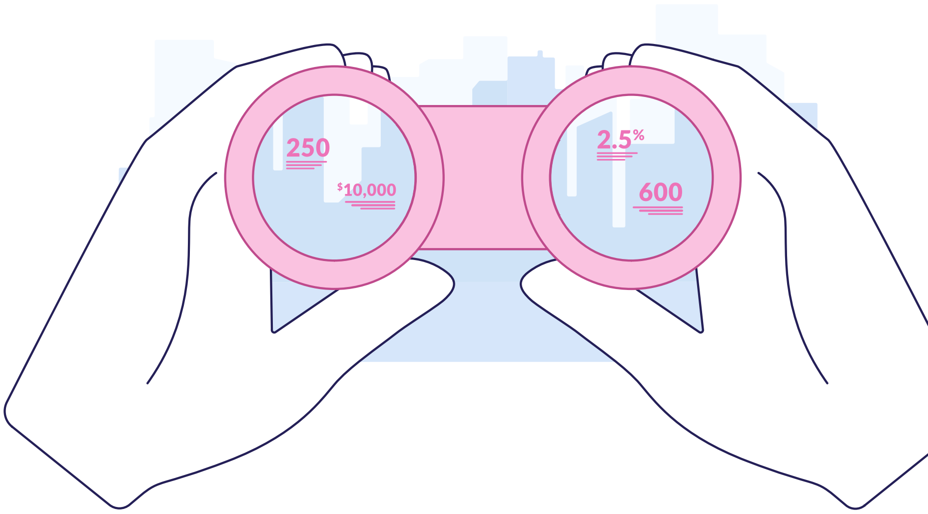
Accountants will monitor the financial health of a business and inform the business owner about any financial risks, costs they may not be aware of, uncharacteristic changes, and what the business can do to save money, and drive growth.

2

They are experts in tax-planning and will often ensure you take advantage of every tax deduction that's applicable to you.

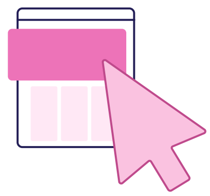
3

Accountant-business relationships are long-term engagements. Business owners rely on them to handle complex accounting matters, like government audits, securing loans, acquiring assets, and complying with statutory filings.



How to get started

Using cloud accounting software can be helpful in managing your business's finances. Now that you've got a handle on what bookkeeping and accounting are, and why they're important for your business, here are a few steps to help you find the right package for you.



1

Ask for recommendations

You need software that's been proven to work well for your type of business. So talk to other people in your situation. Network with other entrepreneurs, online and in the real world. Find out what accounting software they use, and if they'd recommend it. Ask your bookkeeper or accountant for suggestions too.

2

Pick what you need and check costs

Decide which capabilities and features you need. Choosing software that's based on a subscription model will allow you to pay as you go, instead of a lump sum up front. For businesses just starting out, this is a real cost saving. This also allows you to choose a plan to suit your business with room to grow.

3

Plan ahead

If your business grows you may need additional apps to level up your business. For example, you may not need a full payroll solution or time tracking today. But next year, who knows? So try to find software that will grow with your business and integrate with third-party apps to automate tasks and save you time.

4

Try before you buy

Companies that believe in their products are often willing to offer a free trial. See if you can sign up to online accounting software for free. Test it, get used to it and see if it will work for you. Learn more about Xero accounting software, and try it out free for 30 days.

For small business owners, online accounting software helps them work smarter, giving them freedom, flexibility, and empowerment to focus on what they love.

Once you've chosen the right tools, you can get going on your business today.

Get Started

Four

Business bank account basics

While your business may just be getting off the ground, it's important to establish sound business practices from the get-go. Managing your finances in a business-like and day-to-day manner from the start can save you time and prevent headaches as your business grows. One way successful entrepreneurs do this is by opening a business bank account right when you launch your business.

Ownr can help you with this. When you register your business and open a business bank account with RBC, you can get up to $300 cashback to help you grow your business. Check out the details here.

Even for a sole proprietor who isn't legally required to create a separate bank account for their business, creating one can still work wonders and give you that peace of mind knowing that your business records are always clean and accurate.

Here are six reasons why a business bank account provides a strong foundation to a business.

Opening a business bank account saves time by streamlining your business's financial records and tax information.

1

Legal requirement for incorporations

New corporations are legally required to have a new bank account established under their corporate name. Without a business bank account, corporations won't be able to receive money from third parties and customers, as they won't be able to write cheques or send payments to your new business.

When you create your business bank account, you will also need to include an estimate of the total share value for accounting purposes.

2

Separate personal from business

How much money have you made from your business? It's important to track your income to reflect your business growth, to keep accurate books, and to make it easier to file your taxes when tax time rolls around. Depositing business income into your personal bank account requires reviewing all deposits to track your business earnings each month, and recording the figure separately from your personal finances.

In the case of a sole proprietor, your business would not be considered a separate legal entity so you may think that it is easier to make business transactions out of your personal account as there is no need to separate the two. However, it will take time to sift through your bank account to figure out your business income when filing your personal taxes as well as figure out your business's expenses to claim. This will take away time that you can spend towards other parts of your business.

Then there's the possibility that your personal bank account may not offer services best-suited to your business, such as options to pay vendors directly from your account. Opening a new business account can give you access to services and products created for businesses to make your life and business easier to manage.

3

Make expense tracking easier

Separating your personal account from your business account can also make it easier to track business expenses. If you make business payments from a personal account, you'll have to review each monthly statement to identify which expenses are personal and which are business-related.

Opening a business bank account can also help save time by streamlining your business's financial records and tax information. Finding deductions, for example, can be easier if you don't have to search through every item in your personal banking statements. Any fees that come with a business bank account can be deducted as a business expense.

4

Show the world you're a professional

Opening a business bank account can show the world that you're a professional who's serious about managing their business's finances, such as using a business account cheque to pay for supplies or services.

When you transact business from a business account, it can assure clients that your venture is legitimate, rather than just a hobby. Managing your business finances professionally can help establish credibility for your brand when you're starting out.

5

Provide clear records in case of audits

When you commingle your personal and business banking, it might prove difficult for you, your bookkeeper, or your accountant to extract required business financial information. It could also prove problematic if you face a tax audit.

If the CRA chooses to audit your business and you don't have a separate business bank account, they'll have to review all of your personal banking information to find your business transactions. This could lead to additional questions and time-consuming complications as they investigate both your personal and business finances. It's much easier for them (and you) to review your business accounts only.

6

Establish business credit

As your business grows, you may find yourself looking for a business credit card, business credit line, or a business loan. Having an established business bank account that has been operating satisfactorily may improve your chances of getting a business credit approval when the time comes, and your approval won't necessarily rely on your personal credit rating only.

In the case of a business loan, you are going to need to set up a business bank account in order to get one, no matter what business type you choose to create your business as.

Your company is never too small for a business bank account and there are many good reasons to open one. Creating a business bank account can take some time, but it only requires a small adjustment as you operate your business. Establish good business financial habits by keeping your personal and business finances separate right from the start. That way as your business grows and your financial needs expand, it will make record-keeping, accounting, filing taxes, and applying for business credit as simple as possible.

But in order to open a business bank account, no matter what business structure you've chosen--sole proprietorship, partnership, or incorporation, you'll need to register your business first.

Five

How to register your business

Registering your business is a crucial next step to getting a handle on taxes and accounting in entrepreneurship. How you register your business in Canada will be based on where your business operates and what type of business you're running. Alberta, Ontario, and British Columbia all have similar processes for registering your business, and you will need to access the appropriate documentation based on the province where your business will be operating. The registration process is also slightly different depending on if you own a sole proprietorship, a partnership, or a corporation.

Let's go through what's required so you can register your business.

Registering your business is a great way to access benefits and support in many different ways, and helps you grow as a small business owner.

Why register your business?

Anyone can own and operate a business. In simplest terms, running a business is providing a good or service to consumers for a fee. However, registering your business helps ensure you are running a legitimate operation in the eyes of the provincial and federal governments, as they will have your business on record. As a registered business, you can file taxes as a business and reap business tax benefits.

Having a registered business will also give you access to applying for a business loan and opening a business-specific bank account to keep your finances in order. It will make hiring employees feasible, and provides access to business-specific discounts with suppliers in your industry. It will also boost your profile with your customers, as they are more likely to trust a registered business and view your venture as a reputable option in the marketplace.

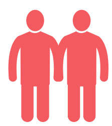
Basically, registering your business is a great way to access benefits and support in many different ways, and helps you grow as a small business owner.

What type of business will you be registering?

In Canada, there are four different business types: a sole proprietorship, a partnership (general and limited), a corporation, and a cooperative.

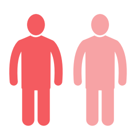
Sole proprietorship

The most basic form of business ownership, where you are the sole owner and make all the business decisions. Many small businesses start as sole proprietorships.



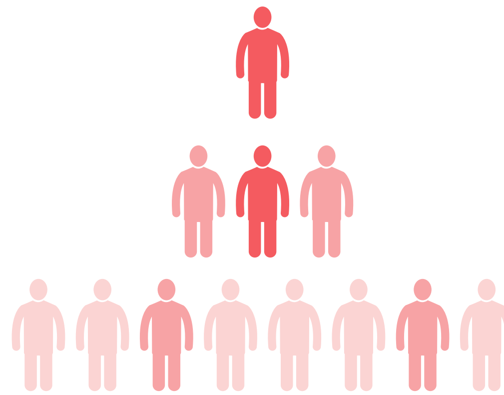
General partnership

Similar to a sole proprietorship in structure, but rather than just one owner, there are two or more owners of the business operating it together.



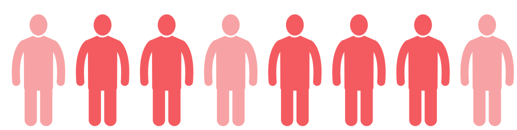
Limited partnership

When there are different responsibilities among the two partners, and they do not share the same access to the business.



Corporation

Often formed when a sole proprietor decides to incorporate their business to increase business growth and access a different tax rate. It also often occurs when a business grows from one owner to many owners or stakeholders, who all have a say on how the corporation is run.



Cooperative

You are a member of a private business where decisions are made through consensus and voting among members. Ownership is controlled by who accesses and provides services in the business.

Registering a sole proprietorship and a partnership are similar processes at the provincial level. If you're registering a corporation, you will be following a slightly different, but still relatively straightforward process.

What is the difference between registering a business name and registering your business?

It's easy to get the registration process confused. You only complete one registration, but you will need to choose your business name first before you can register your business in Alberta, British Columbia, and Ontario. Naming your business can feel like a pretty major step as an entrepreneur, but there are some techniques to find the perfect business name that can help you settle on a winner.

Once you've landed on the perfect name for your business, you're ready to register. If you're incorporating, you can also do so as a numbered corporation without choosing a name. You will be assigned a number by the government, and this number will be the name of your business.

Registering your business in British Columbia

If your sole proprietorship is operating in British Columbia, you'll need to follow a few steps to register.

You will first need to request approval to use your business name with the province online, by mail, or in person, as noted on the British Columbia government website. As part of the application, you will need to provide three possible business names you'd like to register for, listed in order of preference, to ensure you have options if your first choice is rejected.

Once your business name has been approved, you will receive a notification from the provincial government and receive a Name Request (NR) number. You will then have 56 calendar days to register your business.

If you are registering as a corporation, you will need to approve your corporation's name first, and then create a Corporate Online account. You will need to create your Articles of Incorporation, and prepare the incorporation agreement. You can then submit the incorporation application online or by mail. There is a pretty substantial fee for this in addition to the name reservation fee.

This process can be time-consuming and confusing, so many corporations consult with a lawyer to ensure they are registered properly in British Columbia. Registering with the government directly will not provide your company with formation legal documents.

You can incorporate your business through Ownr. You will receive a complete incorporation package that includes your name search report, Articles of Incorporation, company formation documents (Minute Book), and business

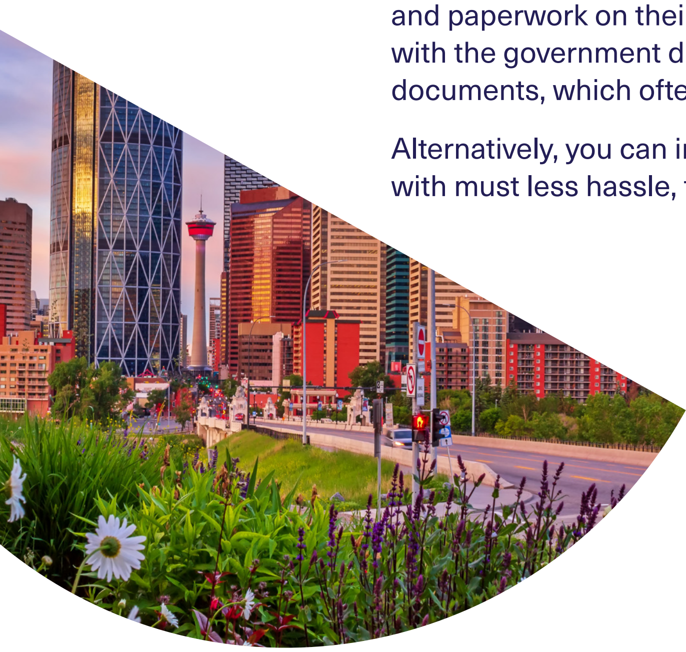
Registering your business in Alberta

To register a sole proprietorship or partnership in Alberta, you will need to register your business name first. You will then need to compile important information, including your approved business name, your business address, and the provincial license type you are applying for. You can register your business at your local business registry in person or online through the government of Alberta website. There is a fee for this, so best to check for any updates.

If you would like to register a corporation in Alberta, you will first need to order a NUANS name search for your business name. After receiving the name reservation, the government will charge a fee to register the corporation.

Many corporations in Alberta will register through a lawyer to reduce confusion and paperwork on their end, as well as to ensure it is done properly. Registering with the government directly will not provide your company formation legal documents, which often requires a lawyer to create.

Alternatively, you can incorporate for a fraction of what a lawyer would cost, and with must less hassle, through Ownr.



Registering your business in Ontario

If your sole proprietorship or partnership is based in Ontario, you can register online, in person, or by mail. You will need to provide your name, address, a valid email address, a description of what your business will be doing, the name of your partners (if any), as well as the partnership agreement you have in place, if applicable. There is a fee for registering, so best to check.

Once your business has been registered, you will receive a nine-digit Business Identification Number (BIN), which will identify your business as registered in Ontario. You can then use your BIN number to open a business account, access a business loan, and tap into wholesale prices from your suppliers.

It’s all in the business name (and how to register it)

Registering your business also means registering a business name. This can be both exciting and a little nerve-wracking. How do you pick a name and how can you make sure yours is unique? The process is actually quite simple.

Start with a business name search

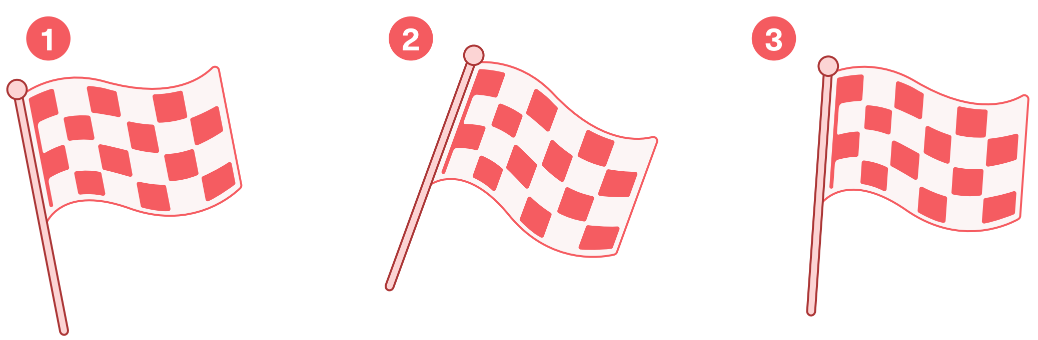
The purpose of a name search is to discover any business names that are already trademarked by other companies. Ownr’s name search tool allows you to perform up to 30 name searches for a one-time cost. That may sound like too many, but we urge you to take advantage of all 30. Why?

First, you just don’t want to get in any legal trouble by choosing a name that’s already been trademarked or registered by someone else. Second, you want your business name to be distinct and stand out from your competition. Finally, give yourself as many options as possible. In the event that the business name you select is not accepted by the government, instead of starting the process again, you’ll already have 29 more names to consider.

Alternatively, you can conduct a NUANS search (short for New Upgraded Automated Name Search), which is Canada’s official database of incorporated and trademarked businesses across the country.

How a business name search works

To make sure your business name is unique, the verification process goes through three checkpoints:



1. Trademarked Names
2. Corporate Business Names
3. Business Registration in the province you're registering

Ownr’s name search tool can prevent you from inadvertently registering a business name that is trademarked or already belongs to an existing business.

Picking just the right name

A business name needs to be distinctive and descriptive.

Distinctive business names

Let's head back to Ava and her bakery. A distinctive business name for her would include her name, Ava. Basically, a distinctive name is what distinguishes your business from others. In Ava's case, her name will distinguish her bakery from Anil's down the street.

Descriptive business names

Using just "Ava's Business" isn't going to cut it. We (and the government) don't know what Ava's business actually is. There's no description. But if Ava decides on Ava's Bakery, that's descriptive. We know it's a bakery. Basically, a descriptive business name actually (yep, you got it) describes what the business is. There's no questioning that Ava's Bakery is a bakery.

Registering your business name

The process for registering your business name will depend on whether you're registering your business name as a sole proprietor or a corporation, and what province you're in. For instance, it's possible to incorporate your legal name as a business name in Ontario, but not every province allows this. In Alberta, you'll need to add in your business activity to include your legal name for your business name.

Registering a business name for a sole proprietorship is more simple than a corporation as it requires less paperwork and is less restrictive. Once you register your business name as a sole proprietor, you'll immediately be asked to provide the rest of your business information, such as business activities (what does your business actually do; Ava bakes novelty cookies), the industry in which you operate, and the business's contact information.

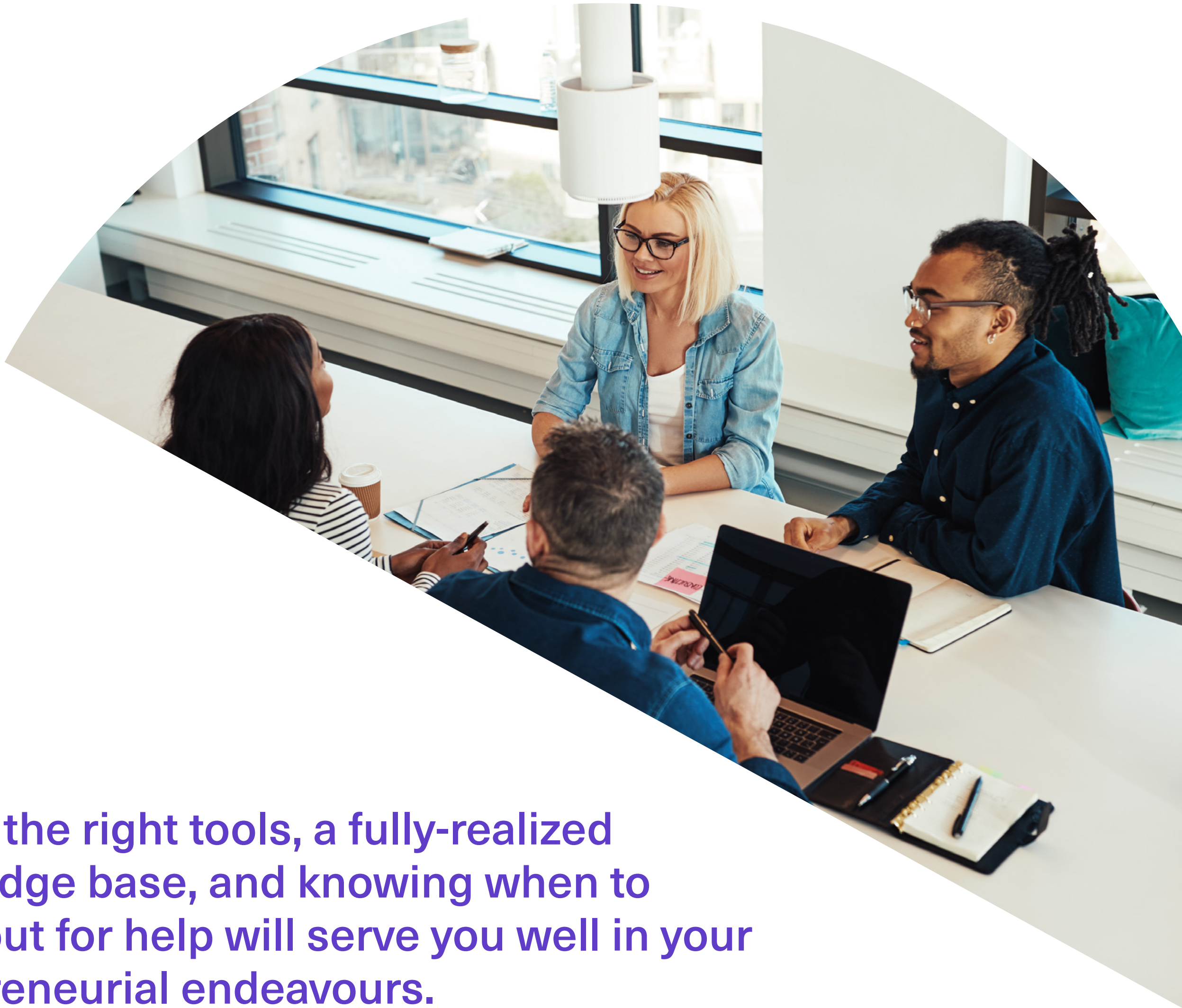
As a sole proprietor, you're not technically required to register your business, but in order to keep your finances in order and to do yourself a favour at tax time, doing so is advised. You can open a bank account and are even eligible for business expense tax deductions.

The Takeaway

You mention the words “accounting” and “bookkeeping,” and you’ll most likely either get blank stares or horrified looks. They aren’t for the faint of heart, and there’s a reason accountants are paid well for their work--it’s hard, laborious, monotonous, and takes a very specific eye.

This doesn’t mean that they should scare you or let those account books or financial statements become a barrier to achieving your business goals. Having the right tools, a fully-realized knowledge base, and knowing when to reach out for help will serve you well in your entrepreneurial endeavours.

And when in doubt, Ownr is here with you, every step of the way. From offering you a wealth of knowledge and tools at your fingertips to helping you register your business, we’ve got you covered!



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