

2 BIG pieces of SMALL business startup success

Your concise guide on business entity selection
and accounting system setup



Introduction

Welcome to the wonderful world of expanding your business knowledge!

We are very happy to see you here—digging into helpful, timely educational resources that are designed to accelerate your business acumen and help you operate a better enterprise.

There are lots of pieces and parts to running a successful startup, and that means business owners have to wear multiple hats. This includes all the legwork required to move a company beyond the business plan to a reality—those first big steps into the world of business ownership.

Having supported more business clients than we can count over the years, we know what it takes to launch a new enterprise. And this guide was developed to help you with two big pieces that are critical to small business success:

- 1 Entity selection
- 2 Accounting system setup

Buckle up. You're in for a fantastic educational ride.



BIG piece 1: Entity selection

Every business must fall under an entity type. The structure you choose (which takes a fair amount of intentional, concentrated thought) directly impacts many key aspects of a business, including:

- Business size and operations
- Taxes paid
- How profits are shared
- Your degree of ownership and accountability
- Your legal liability

“Hey Google:
Why is entity
selection
important?”

With so much at stake, it's important to ask yourself the right set of questions as you work through selecting the entity structure for your enterprise.

- Will you be a solo leader or run your company with others, such as partners or investors? If with others, will they be equal partners?
- Do you want to be the sole decision-maker in your business? Or do you prefer to collaborate with partners and/or investors?
- How big do you envision growing your business?
- Are you in it for the long haul? That is, do you anticipate running your business for several years (maybe beyond your life) or is this a short-term endeavor?
- Do you plan on bringing in shareholders at some point and issuing stock?
- Do you want to shield yourself from potential personal liability?
- Do you want to avoid double taxation? This occurs when the company gets taxed on certain income and then the shareholders get taxed again.

This is just a short list of questions to get you thinking about which entity structure is the best fit for you...and why careful consideration is critical to business success.

5 core entity types: A simple summary

Review our simple summary to help you successfully analyze the five core entity types. Then, continue on to our comparison chart for even more helpful information.

■ Sole proprietorship	■ Partnership	■ C corporation	■ S corporation	■ Limited liability corporation (LLC)
One person owns and controls the business. There is no corporate entity.	Two or more individuals share control and ownership of the business. Costs, debts and losses pass through to partners equally.	One or more owners share control of the business; corporation is supervised by shareholders, a Board of Directors and management. Typically reserved for large companies.	This is similar to a C corporation. The main exception is that income, losses, deductions and credits are passed onto shareholders.	A hybrid business entity where an unlimited number of members share control and can choose how they're taxed—as a corporation, partnership or individual.

There are certainly pros and cons with each entity structure. So, be sure to carefully compare each on a standard set of criteria, which should at the very least include:

- Ownership
- Personal liability
- Tax treatment
- Management



Your quick-scan comparison chart to entity selection

Use this chart to weigh the pros and cons and support a sound decision on the entity structure for your venture.

■ Entity structure	■ Ownership	■ Personal liability	■ Tax treatment	■ Management
Sole proprietorship	One owner	Unlimited personal liability	Entity not taxed; profits and losses reported on Individual 1040	Sole proprietor manages the business
Partnership	Unlimited number of partners	Unlimited personal liability for all partners	Entity not taxed; profits and losses passed through to partners	Partners have equal management rights unless stipulated and agreed upon otherwise
C corporation	Unlimited number of shareholders; no limit on stock classes	Generally, no personal liability of shareholders	Corporation taxed on earnings; shareholders taxed on dividends distributed (double taxation)	Board of directors owns overall business management; officers share daily management of business
S corporation	Up to 100 shareholders; one basic stock class allowed	Generally, no personal liability of shareholders	Generally, corporation not taxed on earnings; profits and losses passed through to shareholders (pass-through taxation)	Board of directors owns overall business management; officers share daily management of business
LLC	Unlimited number of members	Generally, no personal liability of members	Entity not taxed, profits and losses passed through to members	Solo or multiple members share management responsibilities

Be sure to reach out to our firm if you have any questions on entity structure and which structure is right for you and your business.

BIG piece 2: Accounting system setup

Essentially, this is the technology infrastructure side of your business. As you think through your accounting system setup, a few questions to ask include: What applications do I need to properly support accounting compliance work? How do the applications work together to support an automated accounting workflow? What cloud-based vendors are preferred?

While setting up your accounting system will take concentrated thought and time, it doesn't have to be anxiety-provoking. This section of the guide was developed to help you think through your accounting system setup and move you to action in a few key areas:

- QuickBooks Online
- Tracking contractor payments for 1099s
- Accounts receivable
- Accounts payable
- Expense reporting and reimbursement

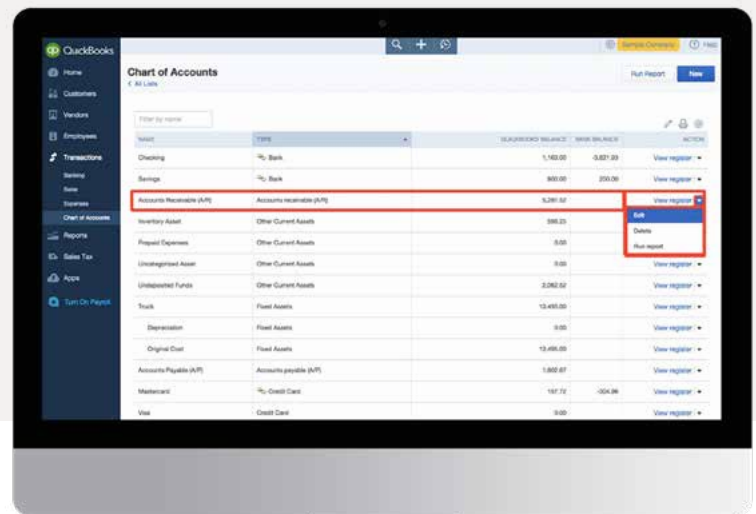
Clean, real-time books = Better business decisions

Your main goal is long-term success, right? So, to ensure this, you must have access to real-time, accurate business data. Only then can you make smart, informed decisions that propel the financial success of your enterprise. In other words, keeping clean books is critical.

To support accurate and on-demand accounting data, your accounting system must be cloud-based. Only then can you access real-time data and gain full visibility into what's happening in your business at any time.

With this in mind, let's now dig into the basics of accounting system setup.

“What cloud-based vendors are preferred?”



QuickBooks Online (QBO)—

Represents the heart of your accounting system and offers real-time visibility into your accounting transactional activity. Items to consider with QBO:

- Set up QuickBooks Online properly from the start. Work with the vendor or your accounting professional to ensure the application is set up to support your unique needs.
- Download the QBO app on your phone for anytime-anywhere access to your data.
- Understand your chart of accounts and keep it simple.
- Connect your business bank and credit card accounts so they flow in to QBO automatically.
- Understand how to code your bank and credit card transactions appropriately (QBO doesn't always guess correctly) and set up rules in QBO to make your bookkeeping consistent.
- Code transactions on a weekly basis and reconcile your accounts monthly.



Tracking contractor payments for 1099s—

Remember, it's your responsibility to provide a 1099 to any vendor you have paid in excess of \$600 during the year (corporations are exempt, of course). This should be a streamlined part of your overall accounting workflow.

Tips to consider with processing 1099s:

- Be sure to have a W-9 on file for all contractors in the case they require a 1099.
- Use QBO to process 1099s, or another application of choice.
- Be sure your chosen application integrates seamlessly with your accounting system (this means it should be cloud-based).
- Ensure that every contractor receives a 1099 by the current tax year deadline.



Accounts receivable (AR)—

Now we're talking about the flow of cash into your business. Clearly, you should have a standardized and sound AR process in place to collect your hard-earned money. Again, you'll want to ensure an automated process, so consider the following tips:

- Use QBO to support AR functionality, if possible.
- Create a standardized internal AR process, including timing of invoices and collections.
- Define your aging report needs.
- Set up your system for electronic delivery of invoices and electronic collection of payments.



Accounts payable (AP)—

This represents how you pay your bills. There are several cloud-based bill pay solutions that you can research and test. To start, however, consider these options:

- Free online bill pay via your bank
- QBO offers paper or electronic check options as well

You will also want to define your AP needs.

Be sure to ask a few key questions:

- Do I require an approval process?
- Can I use credit cards to pay bills in order to earn rewards?
- What is my bill pay volume?
- How do I manage receipts?



Expense reporting and reimbursement—

Expense reporting and reimbursement are key elements in most businesses, so make sure both are integrated into your accounting system. Start by asking a few standard questions:

- Will my employees be incurring business expenses?
- Should I issue company credit cards or reimburse employees?

There are several proven expense reporting and reimbursement applications available. Be sure to contact our firm with any questions as you begin your research. We can help you identify which solutions are the best fit for your business.



Start out strong!

Launching and operating a business is a lot of work. To be successful, you have to make sound, informed decisions from the start—including your entity structure and how you set up your accounting system. We want you to be successful from the get-go, which is why we created this eBook. Read. Learn. Prosper!

Need a little help working through entity selection and/or accounting system setup?

Contact us today! Simply click the **GET IN TOUCH** button on our website and complete the brief form. We are here to help!

