

Mail Order Bookkeeping Basics

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Mail Order Bookkeeping Basics

INTRODUCTION

This information is provided for individuals who are starting a mail order business and require a basic bookkeeping system. It has been written for someone who has little or no bookkeeping background. No income tax or professional advice is rendered. Such advice should be obtained from a CPA or an Attorney.

The operation for any business requires a basic system to keep track of income expenses. There are two good reasons to keep good records.

1. It is the law. The IRS, State Income Tax Division and State Sales Tax Division (where applicable) requires you to keep complete and accurate records.
2. Keeping good records is good business. It helps you to understand your business better. It will let you know at all times how your business is doing -- how much money you are making or losing. In addition it enables you to analyze expenses and revenues. You can see how seasonal and other trends develop. All of this will help you to make sound business decisions.

BUSINESS CHECKING ACCOUNT

It is best to set-up a separate business checking account with your bank for your business. This account should be used only for deposit of business related income and payment of business expenses. In this way you maintain a distinction between business and personal expenses.

STATE SALES TAX

You are required by law in most states to collect the appropriate State Sales Tax. This only applies for sales within your state. Out of state purchasers are not charged a sales tax. Only the end-user pays sales tax. If you should be selling to a dealer he can provide you with a sales tax exemption certificate. In this case he is not required to pay the sales tax to you since he will be collecting it from his customers.

STATE USE TAX

The Use tax generally applies when a company buys supplies or equipment for its own use from an out of state business. It does not apply when material or merchandise are bought from an out of state company which will be re-sold. The use tax rate is the same as the sales tax rate.

For specific information on regulations in your state call the nearest State Sales Tax Division in your area.

ACQUISITION OF EQUIPMENT

When acquiring office machines, such as typewriters, computers, copiers, furniture, etc. such expenditures are generally depreciated on your tax return over a period of time.. For specific information check with a qualified tax advisor.

EXPENSES RELATED TO A HOME OPERATED BUSINESS

If a business is operated from home in many instances a portion of rental, mortgage or other expense may be deductible when filing your income tax.. The same may apply to utility expenses. There are specific laws pertaining to this, and again you should get professional advice.

EXPLANATION OF FORMS

We have provided you with several forms. You can use them as they are or change them to fit your particular needs.

1. DETAIL OF MONTHLY EXPENDITURE FORM

In the left hand column you keep track of expenditures for merchandise and products that you resell to your customers. The accounting term is generally cost of goods or product, or cost of sales.. If you sell books by mail you would record your purchases for these goods (including drop shipments) in this column.

The right hand column should be used to record all other expenditures. You obtain this information from your business checking account. If you pay for business expenses by cash keep track of these expenditures separately and enter into this column also.. If you also use one or more credit cards to pay for business expenses list these expenses here too.. It is best to designate a specific credit card to be used for business expenses only.. Do not intermingle personal charges. In this case you may be able to deduct the interest on your taxes.

2. INCOME AND EXPENDITURE FORM

Record your daily income in the left hand column. Since you may not have income on a daily basis in the beginning stages of your business you can record income less frequently, such as weekly or even monthly.

You may wish to keep a separate income journal. The purpose of such a journal would be to give you a more detailed breakdown of your revenue. Set it up in any way you feel it will best suit

your needs. For example you may want to record new business separately from repeat business. If you sell dealerships and books, for example, you may want to record the revenue from dealerships separately from the revenue for books, etc.

In fact the right column of this form you can keep track of your expenditures by category. Again you can change the categories to suit your particular needs.

When you deduct your expenses from your receipts at the end of the month you will have an income or loss figure for your business

PROFIT & LOSS STATEMENT FORM

Here you show you monthly revenue, expenses and profit loss. There are no requirements for you to do this on a monthly basis..

Especially in the beginning stages of your new business, you may want to generate a Profit & Loss Statement on a quarterly basis, semi-annual or even annual basis.

SUMMARY

The above information and forms will give you a basic system. Tailor it to fit your own situation. You may want something more elaborate or less detailed. Or you may not even put all your business accounting on your P.C.. If you are considering to acquire a software program to help you with your accounting I would strongly suggest you wait until you understand your business well. Also accounting software can be difficult to use for an individual without accounting background. A personal money management software system will generally be quite adequate for most small businesses.

Don't get overwhelmed by record keeping for you new business especially if this is something new for you. Governmental agencies do not require you to keep your books in a particular way but do require you keep good records. This also means that records must be substantial. Again your accountant can give you detailed information on existing requirements.

While the big task of any new business is developing sales and acquiring customers, good record keeping is generally found in successful business operations. Your records provide you with accurate present and past information that you as the owner and president of your company must use constantly analyze your business so you will maximize profits.