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## **Ten Accounting System Recommendations for Small Businesses**

Dear Clients, Colleagues, and Friends:

The United States is experiencing a significant shortage of accountants and Certified Public Accountants<sup>1</sup>, and even bookkeepers. To help combat the problem, this Newsletter provides Small Businesses guidance for their accounting systems.

Our video version of this Newsletter can be found on [www.youtube.com/@TaxLawPaul](http://www.youtube.com/@TaxLawPaul).<sup>2</sup> We will be publishing videos on pertinent topics relating to taxation, accounting, business law and estate planning. The 10 recommendations of five *Tax Tips!* are:

1. A good accounting system will easily provide managerial reports to assist with business decisions and will facilitate income tax compliance and planning.
2. The objective of an accounting system is to efficiently “capture” business revenues, expenditures, and owner compensation.
3. Many small businesses have success using QuickBooks Online (“QBO”). It is simple to write checks, set up charts of accounts, and balance the check book with QBO, and conducive to share with bookkeepers and accountants. There are also other good programs available, especially industry specific accounting software.
4. Typically use a third-party vendor to process payroll. Payroll is not complicated, but processing it requires numerous small steps timely that can make in-house payroll preparation inefficient for a small business.

***Tax Tip!*** Large federal and state W-2 withholdings is good method for a business owner to pay taxes on S corporation taxable income.

5. Using a reputable payroll service can also protect the business owner. Federal and state payroll deposits are fertile grounds for employee embezzlement. It can take months, sometimes years, before management is aware of deficient payroll deposits.

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<sup>1</sup> OpenAI. (2024). *ChatGPT* (December 9, 2024). Retrieved from <https://chat.openai.com/>.

<sup>2</sup> “Tax Law Paul” is a Joint Venture of Paul H. Burgess, J.D., CPA and Steven D. Lasiter, B.S. (Computer Science).

**Tax Tip!** An internal control procedure can include retrieving IRS transcripts to verify payroll deposit payments and coded to the proper quarter.

6. A small business should have a credit card account. Find the card that provides the benefits that “works best” for the company’s operations. Generally, also have a business only Amazon, Office Depot, etc. business account for company supplies and equipment. But don’t charge personal expenses on the business accounts, and vice versa. Thus, have separate business and personal credit cards and accounts.

**Tax Tip!** Usually, credit cards have an array of charges that should be categorized. One method is downloading the charges to an Excel file and populating the dozen or so different business categories on the spread sheet.

7. Do not pay personal expenses from a business checking account. Instead, transfer funds from the business account to the personal account. Similarly, refrain from paying business expenses from the personal account. Again, transfer personal funds to the business account, and then pay the expenditure.

**Tax Tip!** When transferring funds between your personal and business accounts, round to the nearest \$1,000 which helps identify transfers vs. income or an expense.

8. Once a month the checking account should be reconciled, and the appropriate business reports generated. The monthly minimum reports are the income statement and the balance sheet. A statement of cash flows can be helpful too. Make it a goal to have all reports completed by the 15th of the following month. Many circumstances dictate more timely reports.

**Tax Tip!** Prepare a monthly accounting checklist in a question format listing the procedures to perform, and the due diligence questions.

9. Accrual basis accounting statements should generally be generated when the accounts receivables and accounts payables are an integral part of the business operations.
10. If a business does not desire or have the time or expertise to code monthly transactions, perform account reconciliations and generate monthly reports, it should have those completed by a bookkeeper. Good bookkeepers are difficult hires.

**Tax Tip!** Help your bookkeeper with timely provided bank and credit card statements, asset purchase invoices (vehicles and other large purchases), loan balances, and use the memo column on checks to help guide; and review your accountings on a contemporaneous basis. Refrain from allowing misclassifications or missing items to compound month after month.