The Essential Guide to Setting Up Your Accounting System

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Step 1: Setting Up a Business Bank Account – The Cornerstone of Financial Clarity

What It Is & Why It Matters

Your banking partner will determine which types of accounts you can access for your business, which tools can sync to your banking partner, and reporting cycles. This will have an impact on operations when also considering items like physical locations and office hours, customer support and service, and online functionality.

A business bank account ensures personal and business finances remain separate, preventing tax issues and streamlining financial reporting. It enhances business credibility with customers, vendors, and lenders while reducing legal and financial risks.

How to Set It Up

- **Choose the Right Bank** – Look for business-friendly services such as low fees, online banking, and integration with your accounting software. Try using this resource to find a local bank (https://www.banklocally.com/) and be sure to review the FDIC on the bank's history and confirm they are insured (https://www.fdic.gov/resources/data-tools)
- **Gather Required Documents** – Typically, you'll need an Employer Identification Number (EIN), business license, operating agreement (for LLCs), and incorporation papers. These should be stored with physical and digital copies organized and accessible to you.
- **Open Multiple Accounts** – Consider a checking account for daily transactions, a savings account for tax reserves, and a business credit card to build credit. A common practice is also to have a checking account for different 'buckets' within your business (ex: a payroll checking account bucket, an operating expense checking account bucket, etc.)
- **Enable Online Banking & Alerts** – Stay proactive by setting up notifications for low balances, unusual transactions, and deposit confirmations. Check your accounts daily and set Google News alerts for your bank to ensure you are protected and aware of your accounts and their status. Approvals and 2 factor authentication can further support control over your finances.

Risks of Getting It Wrong

Mixing personal and business transactions can create tax liabilities, complicate audits, weaken business protections and make your business look unprofessional to clients and banks. Unclear financials can also hurt your chances of securing loans or investor funding. Finally, choosing the wrong banking partner can create customer service issues or headaches in accomplishing your financial goals.

What to Look For

When looking for a banking partner you should seek an institution which has a solid online banking portal and access, good customer ratings and reviews, little to no recent legal activity against the bank, FDIC insurance, and fee structure. Every option has drawbacks and trade offs for you to decide on as an owner but below is a breakdown of some of the categories to choose a bank from.

Credit unions like Greater Nevada Credit Union and Redwood Credit Union, are owed by their customers and often provide better rates and fees structures for checking, saving, and other standard business activity and they are required to invest in their region by issuing loans and other financial products so they are great partners for small business for those reasons. Credit unions sometimes can have less customer support options and lower quality online portal due to capital constraints. Below are some credit unions to get you started:

Greater Nevada Credit Union https://www.gncu.org/

Redwood Credit Union: https://www.redwoodcu.org/

America First Credit Union: https://www.americafirst.com/

Large banks, like Wells Fargo and Bank of America, are often publicly listed with many billions in assets and often come with a wide variety of products to fit various business needs, solid online banking portal access and API integrations with most tools and 24/7 support. Below are some large banks to get you started:

Wells Fargo https://www.wellsfargo.com/

Bank of America https://www.bankofamerica.com/

Chase Bank https://www.chase.com/

Online first banks, like SoFi and Chime, offer great online banking portals and API integrations as well as partner with large banks to access ATM networks as well. Core benefits to an online first bank are the lower fees than traditional banks and higher interest rate yields on checking and savings accounts. Below are some online first banks to help you get started:

SoFi Bank https://www.sofi.com

Chime Bank https://www.chime.com/

Axos Bank https://www.axosbank.com/business

All bank types face tradeoffs and drawbacks. We recommend you do research on your potential partners and recommend choosing one that fits your needs and comfort, this step is intended to highlight some of those core differences and benefits to help you make your decision.

Common Mistakes to Avoid

- **Using a Personal Account for Business** – Leads to messy records and tax headaches.
- **Not Setting Up Alerts** – Can result in overdrafts or missed payments.
- **Ignoring Bank Fees** – Some accounts have hidden fees that add up.

Step 2: Choosing the Right Accounting Software – The Engine of Your Finances

What It Is & Why It Matters

Accounting software serves as the digital nerve center of your business finances. It streamlines tracking income and expenses, automates invoicing, reconciles bank transactions, and provides real-time financial insights.

By using the right software, you gain efficiency, reduce costly mistakes, and ensure compliance with tax regulations. The wrong choice, however, can lead to inefficiencies, compliance risks, and lost time correcting errors.

How to Choose & Set It Up

- **Identify Business Needs** – Do you need payroll, inventory tracking, or project-based accounting? Make a list of essential features before searching for a tool.
- **Compare Options** – Consider cloud-based software like QuickBooks Online, Xero, or Wave, depending on your business size and complexity. We provide a few to start your search below.
- **Integrate with Your Bank** – Syncing your bank feeds allows automatic transaction imports, reducing manual entry and errors. Be sure your bank integrates with your software to enable easier workflows later.
- **Customize Your Chart of Accounts** – This is explored further in another step (STEP 3: BUILDING THE GENERAL LEDGER). We recommend you review that section to ensure this part is done completely and correctly.
- **Set Up User Permissions** – If you have employees or a bookkeeper, grant access based on roles while maintaining security. Be sure to consider protecting your business assets and information. Try to follow a 'need to know' approach in which people only have access to the tools, systems, and information they need to know in order to perform their specific function.
- **Add products, services, vendors, and your company information** – This will enable you to quickly identify where a transaction should be tied to in the accounting system. Ensure you fill in all of them completely, be sure to use a google or yellow pages business listing to gather any missing information and you can always contact them and request this information for your accounting system.

Risks of Getting It Wrong

Using the wrong software can lead to inefficiencies, higher costs, and compliance issues. Poor integration can result in missing transactions, financial blind spots, and unnecessary tax burdens. Choosing software without scalability can also force costly migrations later. In accurate or incomplete information can result in poor quality or low confidence outputs in your accounting system. Diligence in every step is required to ensure the process is completed without error.

Common Mistakes to Avoid

- **Choosing Software Without Scalability** – If your business grows, you may outgrow the system and face costly migration. Cloud accounting tools are your best bet to account for changes in business size and needs.
- **Not Automating Transactions** – Relying on manual entry increases errors and inefficiencies. Manual work fills your plate as an owner packing an already full schedule. Automation here can remove time wasting activities for an owner-led business.
- **Ignoring User Permissions** – Failing to set access restrictions can lead to security risks and unauthorized changes. Control information, tools, and systems on a 'need to know' basis to only extend access when absolutely necessary to perform the business function.
- **Skipping Training** – Not learning how to use the software properly results in underutilization and frustration. Formal, structured and templatized training for a team gives the whole team an even playing field for success and brings consistency to the business operations.

What To Look For

Three providers stand out as consistent leaders in this space. These tools have wide ranging functionality, extremely low outage and downtime, as well as very large support resources and communities and reasonable pricing. We encourage you to review multiple options and points of interest specific to your needs before making your decision.

Quickbooks Online – https://quickbooks.intuit.com/pricing/

Xero Accounting – https://www.xero.com/us/pricing-plans/

Freshbooks – https://www.freshbooks.com/pricing

If you have concerns around this process and want to ensure this is correct with confidence then you can always schedule a discovery call with ADC & Associates to set a time to get started by clicking here.

Delaying software setup means more manual work, increased risk of errors, and difficulty tracking financial health. Automation is the key to scalability.

Step 3: Building Your Chart of Accounts – The Blueprint of Your Business Finances

What It Is & Why It Matters

Your chart of accounts is the master list of all financial accounts in your business. It categorizes assets, liabilities, revenue, expenses, and equity, making financial tracking easier, tax preparation smoother, and reporting more consistent and reliable.

A well-structured chart of accounts (or COA) also provides the framework for financial analysis, allowing you to assess profitability, control costs, and make data-driven decisions. Without it, financial statements become chaotic, and strategic planning becomes guesswork.

How to Set It Up

- **Identify Key Categories** – Define major account types: Assets (cash, accounts receivable, equipment), Liabilities (loans, accounts payable), Revenue (sales, services), and Expenses (rent, payroll, utilities).
- **Tailor the Structure to Your Business** – If you run an e-commerce store, you may need categories for inventory, digital ad expenses, and shipping costs. A service-based business may prioritize labor and job costing. Each type of firm will have differences and similarities.
- **Assign Numerical Codes** – Many accounting systems use numbering to organize accounts efficiently (e.g., 1000s for assets, 2000s for liabilities, etc.).
- **Set Up Subcategories** – Keep reports detailed but not overwhelming by grouping expenses logically (e.g., “Marketing” may have subaccounts for “Paid Ads” and “SEO”). This will enable deep analysis on questions like which marketing channels bring us the most revenue? OR Which line of service is most profitable and which marketing channel brings in that type of business?
- **Use an Accounting System to Maintain Consistency** – Manual tracking can lead to inconsistencies while software helps enforce structure, integrations, and accuracy.

Risks of Getting It Wrong

A poorly designed chart of accounts leads to misclassified transactions, ambiguous or unclear business activity, which can make tax season a nightmare and limit your ability to track profitability. Without a clear financial structure, making informed business decisions becomes nearly impossible, leaving you vulnerable to overspending, compliance risks, and lost revenue opportunities.

Common Mistakes to Avoid

- **Overcomplicating the COA** – Too many categories create unnecessary complexity. Stick to essential ones and use subcategories wisely, no more detail than necessary to accurately reflect your business activity.
- **Using Generic Categories** – Avoid lumping transactions into vague accounts like "Miscellaneous Expenses." This makes financial analysis difficult making it harder to draw insights from the information and the outputs of the accounting system become less valuable.
- **Not Reviewing Regularly** – As your business grows, your COA should evolve. Conduct periodic reviews to ensure relevance perhaps once per year to account for new business operations or growth efforts, new lines of business, new marketing channels, new types of financing, etc.
- **Skipping Numbering Systems** – Not using a numbering system can lead to disorganization, making it harder to locate accounts. Names aren't enough, a numeric system tied to the chart of accounts increases accuracy and reduces the room for error.

What To Look For

Most accounting tools and all of the recommended accounting tools provided in the previous step have standard charts of accounts for your business type (e commerce, service, etc.) so start there and look to customize based on your firm. If you have more marketing channels or want hyper specific insights into materials, create the subcategories and add a numeric system to begin using your accounting system.

Any concerns around this process can always be worked through with an experienced partner like ADC & Associates, be sure to schedule a discovery call with ADC & Associates to set a time to get started by clicking here.

Step 4: Configure the General Ledger – The Core of Accurate Financials

What It Is & Why It Matters

The general ledger is the central record of all financial transactions in your business. It organizes transactions into accounts based on your Chart of Accounts (COA) and ensures that every dollar coming in and going out is properly documented.

A well-maintained GL allows for accurate financial reporting, tax compliance, and strategic decision-making. It is the foundation for financial statements like the balance sheet, income statement, and cash flow statement. Without it, businesses operate blindly, increasing the risk of financial mismanagement, liquidity and solvency issues.

How to Set It Up

- **Ensure Your Accounting Software is Properly Configured** – Most accounting platforms automatically maintain a general ledger, but initial setup is crucial for accuracy.
- **Customize Account Categories** – Align your general ledger with your chart of accounts, ensuring each transaction is classified correctly. By now your chart of accounts should accurately reflect your unique business type and operations.
- **Set Up the Forming Entry** - Either you can ask your tax accountant to create the forming entry for your beginning of year date and you can enter that journal entry into your accounting tool to establish your firm in the accounting system using your chart of accounts and general ledger. If your business started in the current year you can just start by syncing your business bank feeds to capture all business activity. Any personal account activity used to form the business should be captured via journal entry in the beginning for a full and complete financial picture.
- **Enable Automated Bank Feeds** – Sync your business bank accounts and credit cards with your accounting software to automatically import transactions. This is typically done in a 'bank transactions' or 'bank feed' section where you will likely select your institution and then enter your online login details to enable the third party sync to your accounting system.
- **Set Up Recurring Entries** – Automate routine transactions like rent, payroll, and loan payments to maintain consistency. Anything which is constant to leverage automation further reduces the time required and opportunity for error. Review recurring entries quarterly at least to ensure they accurately reflect your business activity.
- **Use Accrual or Cash Basis Accounting** – Decide whether to record transactions when they occur (accrual) or when cash is exchanged (cash basis). This choice impacts tax reporting and financial analysis. This choice impacts tax reporting and financial analysis, most owner-led firms opt for cash accounting but, Investopedia provides an excellent breakdown of cash versus accrual accounting in the article linked here.

- **Create a Reconciliation Process** – Regularly compare bank statements with ledger entries to catch discrepancies early. Document this process by downloading the bank statement, the financial statements, and the reconciliation report after completing the reconciliation each month. Place these source documents into a folder where you can use them to support your financial statements and records for tax or loan activities. The reconciliation process is to compare the starting and ending balances as well as the bank statement activity to the financial statement activity in the accounting system to ensure everything is captured correctly. Stripe has a straightforward breakdown of this process and its role in the accounting system.

Risks of Getting It Wrong

If your general ledger is inaccurate or incomplete or your reconciliations are slow or wrong then the financial reports will be unreliable, leading to poor decision-making. Tax filings may be incorrect, resulting in penalties or audits. Unreconciled transactions can mask cash flow problems, leading to overdrafts or missed payments.

Common Mistakes to Avoid

- **Failing to Regularly Reconcile Accounts** – Unreconciled transactions lead to inaccuracies and potential fraud.
- **Misclassifying Transactions** – Incorrect categorization distorts financial statements, weakens quality of insights, and accuracy of tax reporting.
- **Ignoring Opening Balances** – If migrating to new software, forgetting to enter opening balances creates discrepancies, errors, and financial problems.
- **Not Backing Up Financial Data** – Data loss can cripple your business if records are not securely stored and rebuilding can be expensive and time consuming. A trusted third party can prevent this through multiple systems.

What To Look For

As simple as possible and no simpler, the ideal general ledger will be able to capture all your business activity and be easy to read and understand. An organized general ledger ensures financial clarity, reduces tax season stress, and improves your ability to secure funding or loans. It is essential for running a financially healthy business.

Now that your general ledger is configured, the next step is establishing a structured process for accounts payable and receivable to manage cash flow efficiently.

Step 5: Setting Up Accounts Payable & Accounts Receivable – Managing Cash Flow Effectively

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What It Is & Why It Matters

Accounts Payable: The system for managing outgoing payments to suppliers, vendors, and service providers. It ensures bills are paid on time and prevents late fees or supply chain disruptions.

Accounts Receivable: The system for tracking and collecting payments from customers. Efficient AR processes reduce delays and improve cash flow.

Without an efficient AP/AR system, businesses can suffer from cash shortages, missed payments, strained vendor relationships, and delayed revenue collection.

How to Set It Up

For Accounts Payable:

- **Centralize Invoice Management** – Use accounting software to track all incoming bills in one place.
- **Automate Payment Scheduling** – Set up payment reminders or auto-pay features to avoid late fees.
- **Categorize Vendors & Payment Terms** – Identify preferred vendors, standard payment terms (e.g., Net 30, Net 60), and discount opportunities for early payments.
- **Implement an Approval Process** – Define thresholds for automatic payments versus those requiring manual approval.
- **Reconcile Payables with the General Ledger** – Ensure all outgoing payments are accurately recorded and reconciled.

For Accounts Receivable:

- **Establish Clear Invoicing Procedures** – Use standardized invoice templates with due dates, payment methods, and late fee policies.
- **Enable Multiple Payment Options** – Offer online payments, credit card processing, ACH transfers, and digital invoicing.
- **Send Automated Payment Reminders** – Reduce overdue payments by setting up reminders via email or SMS.
- **Monitor Aging Reports** – Regularly review outstanding invoices and follow up on overdue accounts promptly.
- **Consider Incentives for Early Payments** – Discounts for early payments can improve cash flow and reduce collection efforts.

Risks of Getting It Wrong

- **Poor Cash Flow Management** – Late payments to vendors or delayed customer collections can cause liquidity problems.
- **Missed Early Payment Discounts** – Failing to optimize AP can result in lost savings.
- **Increased Bad Debt** – Ineffective AR management can lead to uncollected revenue and write-offs.
- **Vendor Relationship Strain** – Late payments may damage supplier relationships and affect service quality.
- **Legal & Compliance Risks** – Errors in AP/AR can lead to tax compliance issues or contract disputes.

Common Mistakes to Avoid

- **Not Setting Payment Terms Clearly** – Unclear terms lead to delayed payments and disputes.
- **Failing to Follow Up on Overdue Invoices** – Uncollected revenue hurts profitability.
- **Mixing Business & Personal Expenses** – This creates accounting confusion and potential tax issues.
- **Ignoring Cash Flow Forecasting** – Not tracking upcoming payables and receivables can lead to financial surprises.
- **Not Automating Invoice Processing** – Manual processes increase errors and inefficiencies.

What To Look For

- **Recommended Software**: Bill.com (A/P), Stripe.com (AR) for AP/AR automation and API integration.
- **Payment Processors**: Stripe.com , PayPal.com , Square.com , ACH bank transfers and Google Sheets.
- **Professional Support**: Outsourced bookkeeping or A/P automation implementation services.

ADC & Associates also offers a full suite of quality accounting operations services which can ensure best practice and new technologies are leveraged for the best cash flow management for your business. Schedule a discovery call today to get set up now.

Efficient AP/AR management ensures steady cash flow, reduces financial risks, and supports business growth. A streamlined system allows you to focus on scaling rather than chasing payments or managing vendor disputes. Review this information weekly or even daily to ensure strong cash flow. A good metric to monitor your business performance in this element is the cash conversion cycle.

With AP/AR in place, the next step is structuring financial reporting and performance analysis to track profitability, optimize expenses, and support strategic decision-making.

Step 6: Implementing Financial Reporting & Performance Analysis – Turning Data into Strategy

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What It Is & Why It Matters

Financial reporting provides a clear picture of your business's health by analyzing revenue, expenses, profitability, and overall performance. Without it, you're operating blindly, making it difficult to plan for growth, secure funding, or prevent financial issues before they arise.

How to Set It Up

1. Establish Key Financial Reports

- **Profit & Loss Statement (P&L)** – Shows revenue, costs, and profitability over time.
- **Balance Sheet** – Summarizes assets, liabilities, and equity to assess financial stability.
- **Cash Flow Statement** – Tracks how money moves in and out of the business.
- **Accounts Receivable & Payable Aging Reports** – Identifies overdue invoices and potential cash flow risks.
- **Break-Even Analysis** – Helps determine the revenue needed to cover expenses.
- We recommend this youtube series created by the Corporate Finance Institute on how to read financial statements to support this step and strengthen your financial intelligence.

2. Set Up a Reporting Schedule

- **Daily/Weekly** – Cash flow tracking, A/R collections, sales reports, bank balances and reconciliations.
- **Monthly** – Full financial reports, budget vs. actual analysis, and expense reviews.
- **Quarterly** – Profitability analysis, tax planning, and financial health assessments.
- **Annually** – Year-end financial review, tax filing preparation, and strategic goal setting.

3. Automate Data Collection & Report Generation

- **Use Accounting Software** – Set up automated report generation to reduce manual effort.
- **Create Dashboards for Quick Insights** – Use tools like QuickBooks, Xero, or Google Sheets to visualize trends.
- **Set Alerts for Financial Red Flags** – Automate notifications for overdue invoices, low cash reserves, or budget overruns.

A professional service partner like ADC & Associates specializes in financial reporting and analysis. Schedule a discovery call now to learn more by clicking here.

4. Review & Interpret Data for Strategic Decisions

- **Identify Profit Drivers & Cost Centers** – Determine what's making or costing you the most money.
- **Spot Financial Trends** – Compare year-over-year or month-over-month performance.
- **Optimize Cash Flow Timing** – Adjust payment schedules and invoice collection strategies based on trends.
- **Use Data for Business Planning** – Make informed decisions on hiring, expansion, or investments.

Risks of Getting It Wrong

Without proper financial reporting, businesses can miss critical warning signs, leading to cash shortages, overspending, or unprofitable operations. Lack of insight also makes it difficult to secure loans, attract investors, or plan for growth.

Common Mistakes to Avoid

- **Ignoring Cash Flow Reports** – Profits on paper don't always mean you have cash available. Monitor cash flow and related metrics like cash conversion cycle and cash balances daily.
- **Failing to Compare Budget vs. Actual Performance** – Can lead to overspending and missed profit targets.
- **Not Reviewing Reports Regularly** – Waiting until tax season to check financials often results in surprises.
- **Focusing Only on Revenue Instead of Profitability** – Growth without profitability can strain finances.

What To Look For

- **Accounting & Reporting Software**: Our previous accounting and reporting softwares from earlier support the foundation and some basic financial reporting. Quickbooks.com , Xero.com , and Freshbooks.com .
- **Financial Dashboard Tools**: Tableau.com from Salesforce, Power BI from Microsoft, and Reach Reporting all are useful tools to plug into your accounting system and any other operating software tools you use. Together the information tells a clear picture of what is happening internally and externally in your business.
- **Bookkeepers, Accountants, & CFO Services**: One method to source an accounting service would be to use the Quickbooks Accountant Lookup Tool by clicking here. Another platform to source quality accountants locally would be the Bark platform by clicking here. You can also use Google or word of mouth to ask your network which is always a great option to find an accountant you can trust and who already delivers quality work for people in your network.

ADC & Associates also offers a full suite of quality accounting operations services which can ensure best practice and new technologies are leveraged for the best financial analysis for your business. Schedule a discovery call today to get set up now.

Tracking financials regularly prevents surprises, enables proactive decision-making, and positions your business for sustainable growth.

Now that financial reporting is in place, the next step is leveraging this data for budgeting, forecasting, and financial strategy to drive business growth.

Step 7: Budgeting & Forecasting – Aligning Financial Plans with Business Goals

What It Is & Why It Matters

Budgeting sets financial expectations, while forecasting helps predict future performance. Together, they allow businesses to prepare for opportunities, avoid cash shortages, and optimize spending. Without these processes, businesses risk running out of cash, overspending, or missing growth opportunities. The U.S. Chamber of Commerce has created a detailed guide to cover more on budgeting which you can see if you click here.

How to Set It Up

1. Create a Baseline Budget

- **Revenue Projections** – Estimate sales based on historical data and market trends. Your experience is critical here to establish a baseline specific to your business.
- **Fixed & Variable Costs** – Identify essential expenses (rent, salaries) and flexible costs (marketing, new hires).
- **Profitability Targets** – Set profit goals based on desired margins and growth plans.

2. Develop Financial Forecasts

- **Short-Term (3-6 months)** – Predict revenue, expenses, and cash flow based on current trends.
- **Mid-Term (6-12 months)** – Adjust forecasts for seasonality, expected investments, or planned growth.
- **Long-Term (1-3 years)** – Model different growth scenarios and financial outcomes.

3. Use Scenario Planning

- **Best-Case Scenario** – High revenue growth, controlled expenses, and strong cash flow.
- **Worst-Case Scenario** – Declining sales, unexpected costs, and tighter cash reserves.
- **Moderate Scenario** – Gradual growth with manageable challenges.

4. Implement Budget Monitoring

- **Compare Budget vs. Actuals Monthly** – Identify discrepancies and adjust forecasts.
- **Set Spending Controls** – Prevent over-budgeting with approval processes.
- **Automate Alerts for Variances** – Get notified of unexpected financial deviations.

Risks of Getting It Wrong

- **Overestimating Revenue** – Leads to overspending and potential cash shortages.
- **Underestimating Expenses** – Results in financial strain and unplanned borrowing.
- **Failing to Adjust for Market Changes** – Can lead to missed opportunities or financial distress.

Common Mistakes to Avoid

- **Static Budgets That Don't Adjust for Changes** – Financial planning should be dynamic and capture realistic variances in expectation and reality and enable scenario planning and forecasting.
- **Ignoring Cash Flow in Budgeting** – Even profitable businesses can go bankrupt without cash flow planning. Profit on paper may not always translate to available cash in the bank.
- **Not Involving Key Team Members** – Departments need input to create realistic budgets. Key individuals will have essential insights into realistic software, material, and other related costs.

CONCLUSION

Ultimately we recommend pairing this guide with additional research and insight so you can have a deep and full perspective of this mission critical system. This requires investment in your software, your team, and your knowledge to reinforce strong workflows and quality outputs. The accounting system will enable informed business decisions and paired with additional data like operational insights and external data can create a clear map for your business.

ADC & Associates is always available to answer questions and explore your accounting systems, any gaps, and identify opportunities to strengthen your information and cash flow. Click here to schedule a discovery call today.