

# Money Management 101

For Freelancers



# If you only do 3 things...

1 | Keep your business & personal finances separate.

-Have a separate checking & savings account for just your freelance/business income.

-Use designated debit and credit cards.

-Keep all business receipts and invoices.

2 | Save 25-30% of gross income for taxes.

-Current rate of self-employment tax is 15.3%.

-The other 10-15% is for taxes on just income.

-When you receive income, move this % of income into your designated business saving account.

3 | Have an accounting software & use it.

Choose a cloud based software that will allow you to

- Connect to your business bank accounts & credit cards.
- Create & send invoices with a Pay Now button.
- Pull a Profit & Loss report.

# Choosing an accounting software.

Wave <https://www.waveapps.com/>

Freshbooks <https://www.freshbooks.com/>



- Great for starting out.
- Basic functions
- Easy user interface.

Quickbooks Online <https://quickbooks.intuit.com/online/>

Xero <https://www.xero.com/us/>



- More robust.
- Will grow with you.
- May require some training.

# Tips for getting paid faster



- Send your invoices through your accounting software with the *Pay Now* option for your clients.
- Send the invoice immediately after wrapping up a client project.
- Write the work performed in the description clear enough that anyone would understand what you did.
- Have specific date due.
- Have late payment fee and remind clients of it prior to their payment due date.
- Look over outstanding invoices on a weekly basis.



# Receipt Management

- Keep all business related receipts and invoices for at least 3 years.
- Originals or a photo. Photo needs to have the image of the full receipt.
- Store photos in their own cloud storage folder.
- Credit card statements are not the equivalent of a receipt.
- Avoid cash if possible, credit cards and debit cards are more easily trackable if you ever need to locate a receipt.

# Income & Expense Buckets (aka Chart of Accounts)

Name	Type	Description
Sales/Income	Revenue	Income from any business activity
Advertising/Marketing	Expense	Expenses incurred for advertising while trying to increase sales
Bank Service Charges	Expense	Fees charged by your bank for transactions regarding your bank account(s).
Bookkeeping & Accounting	Expense	Expenses related to paying bookkeepers & accountants
Charitable Contributions	Expense	Contributions to charitable organizations
Software/Subscriptions	Expense	Software subscriptions, or other business subscriptions.
Taxes/Quarterly Taxes	Expense	Taxes paid
Insurance	Expense	Expenses incurred for insuring the business assets
Legal Expenses	Expense	Expenses incurred on any legal matters
Licenses & Permits	Expense	Expenses related to any license/permits
Meals	Expense	Expenses paid by company for the business but are not deductible for income tax purposes.
Office Expenses	Expense	General expenses related to the running of the business office.
Postage & Delivery	Expense	Expenses incurred on postage & delivery costs.
Rent/Office Space	Expense	The payment to lease a building or area.
Repairs and Maintenance	Expense	Expenses incurred on a damaged or run down asset that will bring the asset back to its original condition.
Telephone & Internet	Expense	Expenditure incurred from any business-related phone calls, phone lines, or internet connections
Training & Education	Expense	Expenses related to training & education in your field of work-related to your business.
Travel	Expense	Expenses incurred from travel which has a business purpose
Utilities	Expense	Expenses incurred for lighting, powering or heating the premises
Interest Expense	Expense	Any interest expenses paid to your tax authority, business bank accounts or credit card accounts, or loans
Interest Income	Other Income	Interest earned from bank
Other Income	Other Income	Other income (use sparingly)

# Income & Expense Buckets (aka Chart of Accounts)

Cost of Goods Sold	Expense/Cost of Goods Sold	Cost of Goods Sold is the cost of a product that you purchase to then sell to a client.
Owners Contribution	Equity	Funds contributed from the owners personal account into the business.
Owners Pay(or personal expenses paid by business funds)	Equity	Pay to the owner or personal expenses paid by business funds.
Accounts Receivable	Accounts Receivable	Outstanding invoices the company has issued out to clients but has not yet received payment for it yet.
Office Equipment/Computers	Fixed Asset	Office equipment that is owned and controlled by the business over \$2,500 book to an asset.
Accounts Payable	Accounts Payable	Outstanding invoices the company has received from suppliers but has not yet paid at balance date
Sales Tax Payable	Sales Tax liability	Sales tax that you charged to a client that have not been paid. Typically for product sales.
Loan	Non-current Liability	Money that has been borrowed from a creditor
Retained Earnings	Retained Earnings	Do not Use

- Owners Pay is always an Equity account not an expense account.  
(unless you are running payroll and consider yourself a W-2 employee)
- This means you will not see Owners pay reflected on the Profit & Loss statement, only on the balance sheet statement.



# Checklist

## Weekly

- Review outstanding invoices and make follow up calls if needed.
- Organize receipts.
- Sort bank transactions in accounting software.
- Pay Bills.
- Pay yourself.

## Monthly

- Reconcile all bank and credit cards.
- Review Profit and Loss Statement.
- Review Expenses & subscriptions.
- Assess your cash flow.

## Quarterly

- Pay your quarterly taxes.
- Review your pricing structures.
- Make sure all clients have your W-9 for any work over \$600 you did for them.
- Make sure you have a W-9 on any contractors you may have hired.



# Profit & Loss Statement

## PROFIT AND LOSS

	TOTAL
▼ Income	
Client Services	1,600.00
	2,383.75
	7,090.61
<b>Total Income</b>	<b>\$11,074.36</b>
▼ Cost of Goods Sold	
Client Software	166.13
<b>Total Cost of Goods Sold</b>	<b>\$166.13</b>
GROSS PROFIT	<b>\$10,908.23</b>
▼ Expenses	
Continuing Education	657.45
Insurance	166.72
Internet	61.04
Legal & Professional Services	505.28
Marketing/Networking	738.34
Office Equipment	146.17
Office Supplies & Software	96.88
QuickBooks Payments Fees	286.97
Repairs & Maintenance	60.00
Taxes & Licenses	90.00
<b>Total Expenses</b>	<b>\$2,808.85</b>
NET OPERATING INCOME	<b>\$8,099.38</b>
NET INCOME	<b>\$8,099.38</b>

Should have:

- All business related Income & Expenses.
- Interest expenses of loans.

Should *not* have:

- Owners Pay (unless you are considered a W-2 and on payroll of your own business)
- Entire loan payment (only the interest not the principal)
- Mileage (turn into accountant at tax time)  
Fuel *can* go on as an expense.
- Expenses that you not feel confident in justifying to the IRS if you ever had to.

\*Talk to your accountant at tax time about any invoices that are 8+months overdue that you know you won't receive payment on.