

# All in the Cloud:

The State of the  
Small Business

Accounting Universe

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## The State of the Small Business Accounting Universe

Written by: Heather Hudson for FreshBooks

Designed by: Jenna Park



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# Chapter

# 01

# Your Business Might Be Small, But It's **Mighty**

Did you know that you're part of an economic engine that's driving the economy forward?

*You may not think of yourself as instrumental in contributing to the economy, but the stats say otherwise.*



*"I don't know...I'm still a solopreneur with a handful of clients."*



*"Huh? I'm a contractor with only two crew members."*

*"Me? I'm a self-employed graphic designer."*

*"Sure, we're growing, but we're still just a modest agency."*





# Your Numbers Are Legion

According to the U.S. Small Business Administration, there are **28.8 million** businesses in the United States. In fact, businesses with **<500 employees** make up **99.7%** of all business in the US.

## You Create Jobs

In the first three fiscal quarters of 2014 alone, small businesses added **1.4 million new jobs** to the US economy.

**39%** of those were from businesses with **<50 people**. Since 2014, small businesses have created **2/3 net new jobs**.



## You Helped Smash the Recession

Between the middle of 2009 and the middle of 2013, **60%** of the jobs created were from small businesses, says Fundera, a small business lending marketplace.

## You Make Money

The latest stats from the U.S. Small Business Administration Office of Advocacy shows that the yields for running small businesses have steadily risen over the last **7 years**.

## You're Part of a Powerful Group

Small businesses are the lifeblood of economies all over the world. You might think your work as a self-employed professional doesn't matter in the grand scheme of things, but clearly it does. It's important that you understand your significance and consider your potential. Your engine is roaring.



# Chapter

# 02

# Small Businesses Don't Always Manage Their Accounting Mightily

Entrepreneurs don't get into business  
for the pleasure of bookkeeping.



It's no surprise that many self-employed professionals pick out the most functional Microsoft Word invoice template or create a spreadsheet to get the job done. It's familiar, easy and lets them quickly move on to the work that really matters to them.

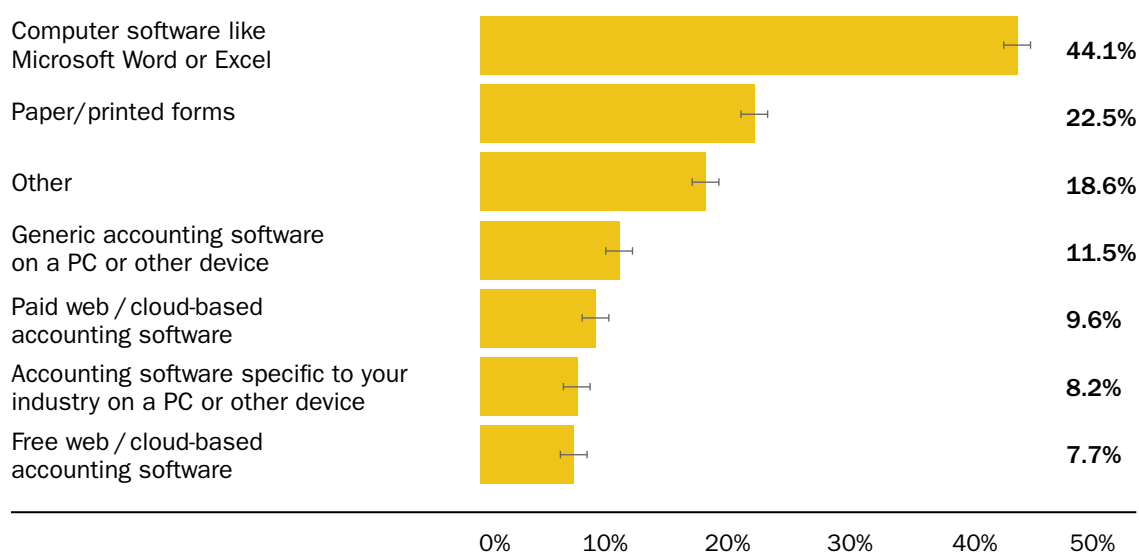
*The problems with this method usually don't reveal themselves for a few months.*

## What Are Small Businesses Using to Invoice?

A November 2015 FreshBooks survey of small businesses indicated that a whopping 45% used 'computer software like MS Word or Excel for billing/invoicing.'

A year later, further research from Q4 2016 revealed similar results to a group of small business owners who were taking FreshBooks' free 30-day trial.

### What were you using to bill before starting a FreshBooks trial?



# Why Word and Excel Are Not the Accounting Answers

The early days are easy. You're not managing dozens of clients yet, so you have time to create invoices and estimates from scratch every time. You designate a shoebox or file folder in which to toss expense receipts and it feels like you have an organized approach to accounting.

But then the world discovers how amazing you are and suddenly you're spending more time than ever doing great work. Creating invoices and estimates becomes a time-consuming chore that you put off until the end of the day, week or month. You lose track of who's paid what and when. Sometimes you don't remember to follow up with the client to whom you sent an estimate a week ago.

The system that felt so simple in the beginning is now a source of frustration.



# It's Not You, It's Word and Excel

With all due respect to Microsoft, which makes fine products, their word-processing and spreadsheet programs were not designed to be the basis of a business' accounting system. Here are four reasons they don't work.

## 1 They're vulnerable to Human Error

Your Word/Excel-based invoice is only as accurate as the person inputting the information. When that person is single-handedly running a small business, there's a good chance that she might occasionally enter a wrong number or date.

## 2 They Rely on a Manual Filing System

A Word/Excel system requires you to create an elaborate system to keep track of your accounting. You need somewhere to save the invoice and another place to put it when it's been paid. You need a folder for your receipts and another spot for your estimates. Do you file invoices by client—or by date? All these moving parts leave you open to mistakes.

## 3 They Rely on Your Memory

When you create an invoice in Word or Excel, you send it off and save a copy in the folder you designated for that purpose. But then what happens? Most entrepreneurs using this system move on to their next task, trusting that the client will pay within the payment terms. With so much going on, it might be weeks or months before you notice you haven't been paid.

## 4 They Require You to Be at Your Computer

Ever try to write an invoice or estimate on your phone at a job site using Excel or Word? Nope, not possible. Taking care of accounting tasks feels like an event because you have to be at your computer. You put it off until you “have time,” which often means the most important thing about running a business (getting paid) is at the bottom of your to-do list.

Using Word, Excel or other manual systems to invoice seem like the simplest solution to start, but they start to fall apart just when you need them the most.



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HEAR YE!



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Chapter

**03**

**The Most  
Essential  
Accounting  
Functions  
for Small,  
Service-Based  
Businesses**



*When you're just starting out, it's hard to know which accounting functions you're going to need as you build up your business.*

While starting simple and gradually adding on is normally a great strategy for small businesses, this is one area where it pays to have everything you need in place from the outset.

Here are the five essential accounting functions your small, service-based business will need.

## 1 Invoicing

An invoice is a bill you send to your clients outlining the service you performed, the amount they owe you and when you expect to be paid.

### What to Include in an Invoice

- **Date.** Include the date that you send the invoice, not the date you completed the work. Your payment terms (usually 30 days), begin from the date you invoice.
- **Invoice number.** Assign each of your invoices a unique number to make it easier to keep track of them, for you and your clients.
- **Your logo.** Even if you're a small or even a side business, you need a logo to visually show your customers who you are. Hire a graphic designer to create one or check out easy to use logo creator tools for freelancers and small business owners.
- **Names, addresses and phone numbers of you and your customer.** Even though you may only communicate with a client through email, it's professional to include complete contact information.

- **Contact name and purchase order number (if necessary).** Larger companies often assign billing by departments. Ask your client if there is a particular contact name and purchase order number that need to be included. Double check the spelling and number for accuracy.
- **Description of services, including rates.** If you charge by the hour, you'll include a description of the work you did, the number of hours it took and an hourly or flat fee rate.
  - **Hourly:** "Writing, researching, editing" – 6 hours x \$100/hour
  - **Flat rate:** "Feature article on emu habitats" – \$400
- **Expenses.** If you bought any materials or equipment or incurred travel expenses to complete the work (and have pre-arranged with the client to include the cost in the project), add them to the invoice.
- **Sales tax and business number.** Include appropriate sales tax for your region, along with any registration numbers associated with it.
- **Total amount owing.** Typically, the total appears at the top of the invoice so your customer can see what they owe at a glance. At the bottom, you'll include a breakdown of your costs, indicating the amount before and after tax.
- **Terms of payment.** If you expect to be paid within 30 days, include these terms. Research shows that your customer is more likely to honor the terms if you're polite, i.e. "Please pay within 30 days. Thank you for your business!"



## 2 Payments

There are lots of things to consider when it comes to getting paid. The more you can streamline the process for your customers and make it easy for yourself to keep track of payments, the easier it is for you to manage this function without spending a lot of time on it.



### Online Payments

Once upon a time, there was only one way to get paid: the good old-fashioned check. And while it's still a tried and true method, it's not even close to being the most timely and efficient way to bring closure to a project.

Today, there are dozens of options you can give your customers when it comes to paying up, including:

- **Credit card**
- **Apple Pay**
- **E-transfer**
- **PayPal**
- **WePay**
- **Stripe**

FreshBooks' research indicates that you'll get paid 11 days faster when you accept credit cards online. Consumers and B2B clients alike generally appreciate the convenience of paying straight from an invoice, rather than writing out a check and putting it in the mail.

While you may incur a 2-4% transaction fee by accepting credit cards, you might find a quick payment well worth the cost.

## Payment Reminders

Sending off an invoice is only the first step on the journey to getting paid. You'll need a system to nudge you to remind clients when they've missed a payment deadline.

Most businesses send a reminder at intervals of:

- 5 days overdue (friendly)
- 30 days overdue (firm)
- 60 days overdue (no-nonsense)

If your customers have a hard time meeting your payment terms, you may consider charging late fees—typically less than 10% of the total cost of the project. On your invoice, you can include an exact breakdown of late payment fees, whether it's a flat-fee or a percentage of the invoice value.

## Keeping Track of Payments

Even though the job is officially done when you've been paid in full, you'll be required to have a good record of it when tax time comes around. It's important that you have a good system to track all your payments, including:

- When you completed the work
- When you invoiced
- When you received payment
- Taxes incurred



## 3 Estimates

One of the most common tasks for service-based small businesses is creating a price estimate of a potential project. Whether you're a contractor, a writer or a lawyer, your clients want to see what your services will cost before they commit to engaging you.

### What to Include in an Estimate

- **Date.** It's helpful to have a date attached to an estimate for your and your client's reference. You may also include an expiry date for the estimate.
- **Your logo.** A logo will show your prospective client that you're a professional with a legitimate business.
- **Complete contact information for you and your client.** Another professional touch to demonstrate you take your work seriously. Include email addresses and phone numbers.
- **Estimate/job number.** This is helpful for your future reference. When you have a roster of clients vying for your services, you'll want a way to quickly locate estimates you've issued.
- **Project description.** Using the notes you made from your initial meeting with the client, describe your understanding of the scope of the project in detail. If there are a number of tasks associated with the project, use bullet points to make it easy for the client to read.
- **Price estimate.** You may include a price beside each service in the description or offer a flat-rate project fee for the entire job. Make sure you separate the cost of labor and materials.
- **Tax details.** Include the sales tax applicable in your area in the final price so there are no surprises for the customer later.
- **Terms and conditions (optional).** You may want to add your payment terms, especially if it's a long-term project and you would like weekly, monthly or milestone payments. Also, remind the client that this is an estimate only and is subject to change based on how the project rolls out.





## 4 Expenses

Whether it's office supplies, equipment or materials to complete a project, every small business incurs expenses as part of their work. It's extremely important to track every last dollar so you can claim all of the deductible expenses available to your business. These expenses can lower the amount of taxes you're required to pay.

Many self-employed professionals start out strong with a folder or shoebox marked "Expenses" and feel good about their filing system, but we're here to tell you that it's not as secure as you might think.

### Why You Need More Than a Shoebox to File Your Expenses

- **It's not secure.** Fire, flood, a move, a hungry pet or any number of catastrophes could instantly erase any record of your expenses.
- **Not all expenses come with paper receipts.** Unless you remember to immediately print and file that receipt for the online purchase of software or other supplies, you could miss out on filing some important expenses.
- **You don't remember which job it was for.** You may not always remember to note on the receipt which client you took to lunch or which job you bought the equipment for, but this is important information to have in case you're audited—and to understand which clients cost you the most money.
- **You have only a vague idea of how you're spending your money.** A pile of paper receipts doesn't tell you anything at a glance. You can probably tally up your payments easily, but you're in the dark about your profit vs. loss unless you can easily subtract your expenses.



## 5 Reporting

What's your business' total profit so far this year? How much did your business make last year? Which clients account for most of your earnings? Which clients pay on time and which ones are chronically late? How much do you have in outstanding invoices right now?

If you don't have quick access to information that will help you answer these questions, you need a reporting system so you can take the pulse of your business at any given time.

### What Is a Reporting System?

A good reporting system is usually software that collects, stores, analyzes and gives you access to important data about your business so you can make more informed decisions.



## The Benefits of a Reporting System

- **See the bigger picture.** A bird's eye view of all your projects and clients can empower you to make smart business decisions you wouldn't otherwise be able to make.
- **Know your most and least profitable clients and services.** Know where and on whom—to focus your energy.
- **View all outstanding payments.** Instead of hunting through invoices to add up what you're owed, have access to that information instantly.
- **Make tax time a breeze.** Have your company's expenses, payments and tax information in one place so it's easy to give your accountant accurate information at tax time.
- **Know your profit and loss.** Find out if you're making more money than you're spending.

While a reporting system may seem sophisticated for an entrepreneur starting out, it's an important tool to help you make informed decisions about your business, including the type of clients and projects you look for and take on. Depending on the software solution you choose, you can have access to dozens of reports that will help you manage your business as efficiently as possible.



# Chapter 04

## Why Do Your Accounting in the Cloud?

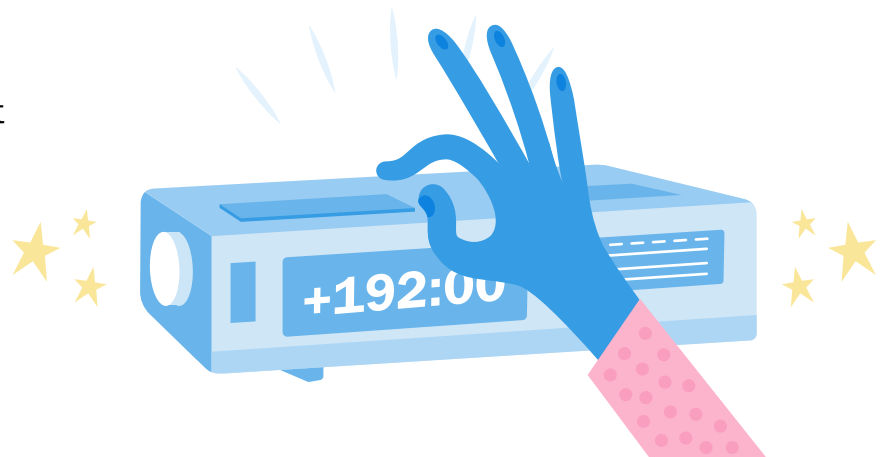
Cloud computing simply means storing and accessing data and software over the Internet instead of your computer's hard drive. Cloud accounting software is typically hosted on remote servers. Data is sent into the cloud (the Internet), where it is processed and returned to you.

*There are lots of great reasons cloud accounting platforms are a game-changing solution for small businesses all over the world.*

## Save Time

Cloud accounting software pulls together all the important information you need to complete common accounting tasks, saving you copious amounts of time. Rather than hunting through multiple folders on your computer and in your filing cabinet, you'll find everything in one place, including:

- **Invoicing:** Easily create a professional looking invoice and send it in a personalized email straight from the software. All invoices are in one place so you know exactly who owes what and when.
- **Payments:** Accept credit cards online so clients can pay you from a link in your invoice, automatically record when payments are made, send late payment reminders and even autobill for recurring invoices.
- **Estimates:** Easily create a professional-looking estimate and send straight from the software. When the client accepts, you can easily transform an estimate into an invoice.
- **Expenses:** Connect your bank account or credit card to your software so you never have to manually enter anything again and your expenses are automatically up to date.
- **Reports:** With all your company's data in one place, you can instantly take a health check of your business, including profit vs. loss, outstanding invoices and accounts aging reports. Plus, you'll have all the information your accountant needs at tax time.





## Dependable Security

Putting your small business' private information in the cloud is like locking it up and putting it out of reach of disaster. In the past, businesses had to invest in infrastructure to store and protect their information. But physically storing your data in a hard drive comes with risks, including security breaches and possible disasters such as fire or storms that could destroy the building in which the servers are stored.

Cloud accounting platforms manage everything for you, including spam proofing and file back-ups, ensuring nothing and no one can touch your business's information. Plus, cloud-based apps are built and updated regularly based on user insights and demands so you've always using cutting-edge technology.

## Accessibility and Mobility

One of the most exciting and important features of cloud accounting is that you can take care of your accounting tasks on the go. From invoicing to estimating to recording expenses, you can do from anywhere. All you need is your laptop, tablet or phone and you have all your accounting information and functions at your fingertips.

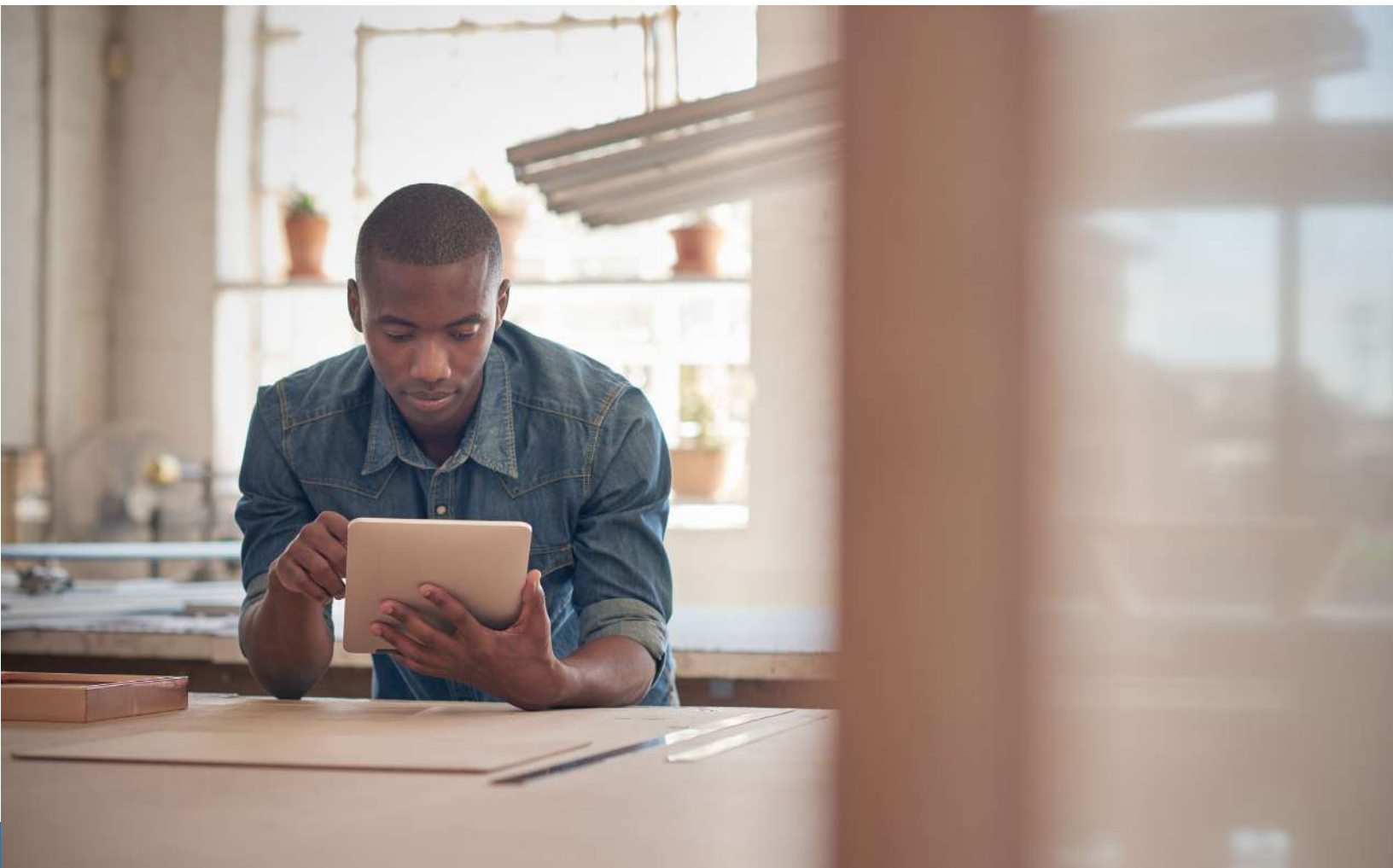
Cloud accounting makes invoicing and expense-management a series of small tasks you can manage on the go instead of one Herculean task you have to set aside a huge block of time for in your office. It's infinitely easier to integrate accounting into your day.



## Cheaper and Easier to Use Than Installed Accounting Software

The leap from Word or Excel to bona fide accounting software is a big one for most self-employed professionals. The cost alone (some are upwards of \$1,000) can be prohibitive. Then there's the learning curve associated with learning all its functionalities that may be more sophisticated than they need it to be... only for the software to be out of date within a year or two. It's no wonder many entrepreneurs cobble together their own system rather than face the time and money suck of traditional accounting software.

Most cloud accounting platforms offer their product on a monthly, annual or pay-as-you-go subscription basis, so you only pay for what you need. Plus, if you choose cloud software designed for small businesses, you'll only get functions relevant to the type of accounting you need to do, saving you from combing through hundreds of fields that don't apply to you.



# Chapter 05

## Is Your Small Business Ready for the Cloud?

There are clearly lots of advantages to investing in cloud accounting software. But how do you know if you're ready?

*If you're just starting out and aren't sure if you want to pursue the business or you have a side hustle that you're not really serious about, you may not be ready.*

## You're Not Ready if You...

- Create handwritten invoices and estimates
- Deal in cash payments
- Don't track expenses
- Are not a registered business and don't plan to be one

If you're a small business owner who is serious about running and growing a professional business, cloud accounting might be an ideal solution.

## You're Probably Ready if You...

- Create invoices, estimates and reports using Word and Excel
- Have professional accounting software installed on your computer
- Spend time carefully backing up your documents every month on a back-up drive
- Run manual reports every month and forecast the next month
- Wish you had more real-time control and visibility over your accounting
- Run your business on your mobile device
- Have discovered errors in your business reports





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