BOOKKEEPING BASICS: TRACKING MONEY IN AND OUT

What to record, how often, and a simple weekly routine that keeps your books ready for taxes, lenders and investors.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 9 MINUTES LEVEL: BEGINNER

AT A GLANCE

- **Bookkeeping** means recording every dollar that comes into and goes out of your business, and sorting it into categories.
- It takes about **30 minutes a week** if you keep up, and many hours of stress if you don't.
- Clean books are one of the first things lenders, investors and the Project Underdogs graduation standard look for.

Why it matters

Your books answer the questions every business owner needs answered. Am I making money? Where is it going? How much tax will I owe? Without them, you're guessing. And when you apply for a loan or investment, you'll be asked for financial statements that come straight from your books. Businesses with messy records often get turned down or wait months while they clean up.

How it works

Every transaction gets three pieces of information:

1. **The date**
2. **The amount**, in or out
3. **The category**, for example sales, supplies, rent or marketing

Bookkeeping software or a spreadsheet then adds up each category, so you can see totals for the week, month or year.

Common categories

Money in	Money out
Sales	Supplies and materials (cost of goods)
Other income, such as interest	Rent and utilities
Owner contributions (money you put in)	Payroll and contractors
Loans received	Marketing and advertising
	Insurance
	Software, phone and internet
	Vehicle and travel
	Bank and card fees
	Loan payments
	Owner draws (money you take out)

> TIP
> Keep the number of categories small at first, around 10 to 15. You can always split them later.

Cash or accrual?

- **Cash basis:** you record money when it actually comes in or goes out. It's simpler, and many small businesses use it.
- **Accrual basis:** you record sales when you earn them and costs when you owe them, even if money hasn't moved yet. Larger businesses and many investors prefer it because it shows the real picture month to month.

Start with cash basis unless your accountant says otherwise. You can switch later.

Step by step: your weekly routine

1. **Keep business money in a business account.** It makes everything easier. See **M-03 Keeping Business and Personal Money Separate**.
2. **Save every receipt.** Snap a photo the same day. Most bookkeeping apps let you attach it.
3. **Once a week, categorize transactions.** Open your software, look at new bank and card transactions, and confirm each category.
4. **Once a month, match to your bank statement.** Check that your books and your bank agree. This is called **reconciling**.
5. **Once a month, read your reports.** Look at your profit and loss statement. See **M-04 Reading a Profit and Loss Statement**.

Example: Aisha's tutoring business

> EXAMPLE
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> Aisha tutors high school students in math. Every Sunday evening, she spends 25 minutes in her bookkeeping app. She marks student payments as **Sales**, her online whiteboard subscription as **Software**, and her ads in a school newsletter as **Marketing**. At the end of each month she checks that the app's balance matches her bank statement. In March, when she applied for a small loan to buy a laptop and printer, she sent the lender 12 months of clean reports the same day.

What records to keep

- Receipts and invoices for every expense
- Invoices and payment records for every sale
- Bank and card statements
- Payroll and contractor records
- Loan documents
- Tax filings

In the US, the IRS generally says to keep tax records for **at least 3 years**, and longer in some cases. Many accountants suggest **7 years** to be safe.

Common mistakes

- **Waiting until tax time.** Sorting a year of transactions at once is miserable and leads to errors.
- **Using personal accounts for business.** It hides the real numbers and can cause tax problems.
- **Not recording cash sales.** All income counts, whether cash, card or app.
- **Skipping reconciliation.** Small errors pile up and become big ones.
- **Treating owner draws as expenses.** Money you take out for yourself isn't a business expense on an LLC or sole proprietorship. Ask your accountant.

Your checklist

- ☐ Open a separate business bank account if you don't have one
- ☐ Choose bookkeeping software or a spreadsheet (see M-02)
- ☐ Set up 10 to 15 categories
- ☐ Put a weekly 30-minute bookkeeping block on your calendar
- ☐ Reconcile with your bank statement every month
- ☐ Set up a folder or app for receipts

Key words, explained

Word	What it means
Bookkeeping	Recording and sorting every transaction.
Category	A label for the type of money in or out, such as rent or sales.
Reconcile	Checking that your books match your bank statement.
Owner draw	Money an owner takes out of the business for personal use.
Cash basis	Recording money when it actually moves.
Accrual basis	Recording money when it's earned or owed.

Where to go next

- **M-02 Choosing Bookkeeping Software**
- **M-03 Keeping Business and Personal Money Separate**
- **M-04 Reading a Profit and Loss Statement**
- **M-14 Monthly Money Checklist**

IMPORTANT
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