

Bookkeeping

Keeping good records is critical in running a successful freelance business. Whether you start out as a sole proprietor or incorporate right away, you need to keep meticulous records of income, expenses and mileage. It doesn't have to be hard though. You can use an Excel spreadsheet (see sample) to track the information or a program like QuickBooks or Quicken* to track information, do invoicing and produce reports. For other suggestions, check with your freelance friends to see what tools they use.

Also, be sure you understand the difference between bookkeeping and accounting. Bookkeeping typically deals with day-to-day tasks like tracking income and expenses, invoicing and paying taxes. An accountant, on the other hand, is the professional you'd go to for tax advice, to have your year end taxes done, depreciate your assets, etc.

**This article at PCMag.com explores some of the different software packages you might consider: <http://www.pcmag.com/article2/0,2817,2363725,00.asp>*

Income and Expenses

To manage your cash flow, you'll want to keep good records detailing what projects you've done, how much you are owed for completed work and when you are to be paid. In addition, you'll need to be able to produce invoices for your work, either using your accounting/bookkeeping software or a template you've created in Excel or Word. I'm including a sample of one I created in MS Word.

You should also track expenses so that you can control your spending and take the appropriate tax deductions at year end. When I started freelancing, I used spreadsheets to record income, expenses and mileage. See the sample spreadsheets for one way to track this information. I now use QuickBooks Pro 2009 to manage my recordkeeping. Initially, your needs will probably be simple, but you should consult other freelancers, a bookkeeper and/or an accountant for their recommendations on what specific things to track. I only show some of these items in the sample spreadsheets.

Taxes

If you are a sole proprietor, you will file your taxes on Form 1040, using Schedule C to report your self-employment income. A good resource for this information is <http://IRS.gov>. I also recommend contacting a tax adviser who works with independent contractors for advice specific to your situation.

2010 Form 1040: <http://www.irs.gov/pub/irs-pdf/f1040.pdf?portlet=3>

2010 Schedule C: <http://www.irs.gov/pub/irs-pdf/f1040sc.pdf>

W-9 (for providing your Tax ID number to clients): <http://www.irs.gov/pub/irs-pdf/fw9.pdf?portlet=3>

Publications & other forms for the Self-Employed: <http://www.irs.gov/businesses/small/article/0,,id=115044,00.html>