9 Simple Accounting Mistakes That Are Costing Your Business Money

CRS CPAs

YOUR STRATEGIC ACCOUNTING PARTNER

www.crscpa.com

Why We Wrote This

In a world where every dollar matters, we see too many business owners struggle to hold on to what they've earned. Over the years, we've been able to guide hundreds of entrepreneurs just like you through all kinds of accounting situations.

Unfortunately, we've seen too many hard working men and women lose valuable dollars because of simple mistakes they've made in the past. And we simply don't think you should have that happen to you too.

So we put together this booklet featuring 9 of the accounting mistakes you're most likely to encounter. Enjoy!

Rabbi Daniel Lapin, who refers to himself as "America's Rabbi" (**www.rabbidaniellapin.com**), is a speaker and author who frequently uses ancient Jewish wisdom to address modern day problems. When discussing business topics, he often mentions that everyone is in sales.

"Selling means helping others see things from a new perspective. Whether you are a dentist or a lawyer, whether you are a bookkeeper, a bartender, or a ballerina, you are in sales. To a large extent, your success is as dependent upon your selling ability as it is upon your basic skill. If you have a job or are looking for a job, you are in sales. If you are a teacher, a pastor or a preacher, you are in sales. And if you are seeking a spouse you are in sales. In other words, in any number of areas of our lives we are all in sales—perhaps even a Supreme Court Justice."

At CRS CPAs, we agree we're all in sales...and every dollar is precious. As Rabbi Lapin also points out, money connects two dreamers: one who dreams of having or doing something... and one who dreams of running a business providing that thing.

Every dollar you earn fulfilling someone's dream is a well-earned "certificate of appreciation" for a job well done. And since you've worked hard selling whatever it is you provide, you simply can't afford to throw any of those certificates away!

What does all this have to do with a CPA firm?

Good question. Every time you make one of the following accounting blunders, you are throwing hard-earned money away. At CRS CPAs, we want to help you prevent that! We believe you deserve to keep as much of it as possible.

Mistake #1: Falling Behind in Paperwork

It's easy to fall behind in doing the paperwork necessary to run your business. After all, no one ever starts a business with the thought, "Gee, I'd really like to do something that lets me do paperwork all the time."

Who among us hasn't found more interesting things to focus on rather than keeping forms and files in order? Long-range planning, creative marketing, and interacting with customers are much more enjoyable than making sure you are filling out accounting paperwork on time each week/month/quarter.

On top of all that, you get to make sure everything is neatly organized and kept up-to-date so that every bit of your financial information is available at a moment's notice. Just in case people in suits come calling.

Outsource it instead!

By partnering with a qualified accounting firm that can handle your financial paperwork for you, you instantly remove one of your biggest stress points.

- **They'll keep track of what needs to be recorded and when.** No more wondering where that particular piece of paper went or when it was due.
- **They'll stay on top of the most current federal, state, and local tax laws.** No more lying awake at night wondering if you're violating some obscure regulation or not.
- **They'll have current backups of all of your financials.** No more worrying about what will happen if or when your hard drive crashes.
- **They'll free you up to focus on building your business.** No more wasting your valuable time on things that aren't making you money!

More than likely, the business you started isn't an accounting firm so accounting is probably not your strong point—and that's ok! There are plenty of numbers folks (like us) out there who actually enjoy that sort of thing.

Don't risk damaging your business trying to do things outside of your skill set.

Mistake #2: Failing to Keep Receipts

Similar to the first mistake—but much easier to mess up day-to-day—is the mistake of not keeping up with your receipts.

How many times have you stopped in a store to quickly purchase a ream of paper for the printer or a last minute item one of your employees needs? It's not a big purchase, and it wasn't anything you were planning to pick up. In fact, you were on your way to something else more pressing so you tossed the bag in your backseat and kept going. Who knows where the receipt ended up? Oh well, it was only a few bucks. No big deal.

No...*big* deal!

EVERY transaction needs to be accounted for, no matter how small or insignificant.

- The IRS will find them very significant if they ever need to audit.
- Receipts can help you quickly discover errors in reconciliation...saving you time and money.
- You may be able to use them to find possible deductions when you file your taxes.

Go Digital and Be Consistent

1. Take advantage of being able to scan your receipts directly into your accounting software or to your accounting firm.
2. **Here are several recommended scanners** that can help you digitize your receipts and keep them in order.
3. Write on the receipts. By making notes before you scan them in, you'll be able to jog your memory more easily if there are questions down the road.
4. Find a method that works and stick with it. It really doesn't matter how you categorize your receipts (date, vendor, type, etc.). What matters is that you simply do it that way every single time. Make sure your team is trained that way too so there's no confusion.

This leads us directly into the next mistake:

Mistake #3: Forgetting to Record Cash Payments

When you make a cash payment for any materials or supplies for your business, it's easy to forget about them later. Failing to accurately record an expense means that you will overstate your income once you file your taxes, causing you to pay more money.

The best way to keep track of your cash expenses is to make it a deliberate habit to create a receipt on the spot. You may think that you'll remember a particular expense or will just take care of it later, but you will overestimate your ability to remember once the moment has passed.

Although it is easier to manage business expenses digitally, it sometimes isn't the best option when it comes to cash. You could use your phone to create a note for each cash transaction, but your phone gets used for many other things as well. The odds are good that you'll close that app in the course of your day and forget to record that expense properly when you get back to the office.

A better solution in this case would be to keep a small old fashioned receipt book in your car or bag. Then you'll have a physical tangible piece of paper that you can tear out as soon as you record your cash transaction. It will serve as a much better reminder when you have time to enter it in your accounting software later.

Like tracking your receipts, if you fail to set a consistent process to keep an account of your cash expenses, you lose money that could have been spent on your business. Find a system that works for you and use it the same way every time.

Mistake #4: Not Backing up Your Financial Data

This one often gets overlooked entirely. With the first two, we usually are at least aware that we should be doing them. However, it is entirely possible to go months (or even years!) without simply backing up our digital files.

No doubt you've heard horror stories from people who have had their hard drive crash only to be told that the data isn't recoverable; irreplaceable information and family memories...gone. Or maybe someone you know has fallen victim to thieves or malicious hackers. (Hopefully, you've never had to encounter any of those things!)

When it comes to your business and the employees who are counting on you, you can't afford to have that happen.

Have multiple backup plans

The easiest thing you can do today to create instant peace of mind is to back up your data...all of it. Then do it again and keep that backup somewhere else.

Step 1: Purchase two external hard drives.

1. Keep one at your business and keep the other at home. (If your business operates from home, keep the second one somewhere you can trust.)
2. Set your system to back up automatically.
3. Switch the hard drives out once a week. That way if the worst should happen, your physical hard drives are never more than one week off.

Step 2: Back up to the cloud.

There are several reputable companies that allow you to securely backup your devices to their offsite servers in real time. They are worth every penny as additional insurance against crashing, hacking, or both of your hard drives failing at the same time.

(The US Chamber of Commerce has **a helpful article** on this as well.)

Mistake #5: Hiring the Wrong Team Members

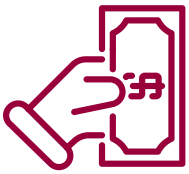
Eventually, your business will grow and demand more of your time. No one can do it all themselves. And no one reaches the top alone. Sooner or later, you're going to need to hire employees to take some of the load off of your shoulders. Otherwise, you'll never really be able to focus on the things you can do best to grow your business.

It pays to be patient and wise when it comes to bringing on a new employee. A good hire can make your business. A bad hire can break it.

- **Hire when you can afford it.** Make sure your revenue streams and your retained earnings are strong enough to support someone.
- **Hire when you really need the help.** If your team is busy (even bordering on overworked), profits are high, and revenue prospects are steady you can justify adding employees.
- **Hire when you're losing money doing tasks someone else could do.** Your time is too valuable to spend it on menial tasks. Bring on part-time help or consider outsourcing to a firm like ours that can offer **a wide variety of business services**.

A great new assessment tool from Patrick Lencioni helps you see if a new hire will be a good fit and uncovers the natural strengths of your entire team. You can check it out at **workinggenius.com**.

When it comes to your financial records, no employee, friend, relative, or acquaintance will worry about your books as much as you will. That's why you should always hire a professional accounting firm to carry that load for you. They carry a fiduciary responsibility to worry about your books, and can get in a world of legal trouble if they are negligent in any way. Partnering with a good firm like CRS CPAs is one of the best hires you'll ever make!



Mistake #6: Assuming profits always mean cash flow

Imagine that you just closed a $50,000 deal that will take your business three months to make good. It's going to cost you $25,000 in labor and materials to fulfill the order, so you go ahead and figure a $25,000 profit on the deal before you've delivered anything.

Big mistake. You haven't accounted for risk. What happens if you run into an issue that causes an additional three month delay? Now the deal, rather than taking three months, will take six to complete. During that time, your costs will increase: additional labor, expense to fix whatever caused the problem, possibly additional materials to replace any that were damaged. What do you think your costs would be then?

There's really no way to know.

It's tempting to see each deal or sale as income as soon as it happens—after all, it's new revenue for your business. But doing so can give you a false sense of security and make it seem like the business is healthier than it really is.

Cash flow and profit are important parts of your company's financial picture, but they are not the same.

Cash flow is the measurement of money moving into and out of your business. It is the money that allows you to meet current and upcoming obligations such as: payroll, rent, utilities, insurance, and operating expenses.

Profit is what is left after those expenses have been paid. It means that your business is bringing in more money that it costs in order to stay in business.

In business you can always count on two things:

1. It's going to cost more than you think.
2. It's going to take longer than you expect.

Only when you have finally delivered on a contract and all the associated expenses are accounted for can you then declare "we have profit!"

Mistake #7: Failing to specify employees and contractors

Does your business pay other people to help get things done? If so, are they employees of your business, or people and companies you've hired on contract? There's a big difference between an employee and a contractor—one that you'll need to account for.

Businesses are required to withhold income taxes, Social Security, Medicare, and unemployment taxes on all of their employees. However, they are not generally required to do so for independent contractors. These individuals are responsible for paying their own self-employment taxes.

According to the IRS, "the general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work, not what will be done and how it will be done."

They use 3 basic rules to help employers understand how to classify their workers:

1. **Behavioral Control.** Do you have the right to tell that person exactly how to do their job? Are you responsible for training them and establishing evaluation methods?
2. **Financial Control.** Do you have the right to determine how and when a worker is compensated? Are you responsible for making investments in the equipment necessary for them to do their job?
3. **Relationship**. Are you in a "permanent" agreement with the worker, or are they only brought into the company as needed? Do you provide benefits beyond monetary compensation? Are the services they provide considered ongoing and essential to your business?

Understanding the difference between an employee and a contractor, as well as the accounting and tax consequences of this difference, is vital to avoid unnecessary costs and headaches for your business. Failing to understand these differences could lead to additional taxes, penalties and interest as payroll tax audits are some of the most common audits businesses undergo.

Read more from the IRS on the topic **here**. Then make sure your accounting team knows who is who!

Mistake #8: Skimping On Professional Tax Preparation Services

Taxes may seem manageable if you're an individual. Often you can file your personal taxes online with just a couple of forms in a matter of minutes. But when you have a small business, the process gets much more complicated. Hiring a professional may seem like an unnecessary expense, and you may be tempted to save a few dollars by doing it yourself.

However, you can quickly run into serious issues or make expensive mistakes that could end up costing you far more in the long run than an experienced tax professional would have cost up front. For example, if you are penalized by the IRS or overpay yearly due to bad management, you will wish you had worked with a professional.

By hiring a reliable tax professional, you can rest easy knowing that:

- You will not have to deal with the complexities that come with tax preparation
- Your chances of being audited by the IRS will drop significantly
- The preparer is updated on new tax codes that change frequently
- You will receive advice that you can implement year-round
- Mistakes you've made on previous tax returns can be amended

CPAs who work specifically with small businesses are trained in the nuances that come with these returns and are obligated to operate in your best interests. Hiring a professional to handle your company's accounting affairs is an investment that will pay off as your business grows, and you will be able to maintain accurate records from the get-go.

Hiring a professional simply saves you time, money, and stress. Your future self will thank you for it!

Mistake #9: Failure to Communicate

All of these mistakes have one common thread: communication. With yourself, your team, your customers, and your accounting service. It's the glue that holds it all together.

With your employees...
Your team is only clear on the things you communicate clearly. Dave Ramsey frequently tells his leaders, "to be unclear is to be unkind." You cannot hold people responsible for things you fail to make sure they understand. You don't have to be blunt or rude, but no one who works for you should ever have to be confused about anything you want done.

It's not fair to them for you to say something once, walk away, then get frustrated when they aren't able to read your mind. You'll probably have to say something several times before the people around you actually hear it and internalize it. Make sure you are frequently meeting with your team to remind them of core values and expectations. And pay attention carefully to make sure the work they are doing is on track with where your company needs them to be.

With your customers...
The people who are ready and waiting to hand you several "certificates of appreciation" deserve to be crystal clear on what you can do for them, what your process is, and what you need them to do. All of that can really be accomplished with a good website and marketing material. As marketing expert Donald Miller says, "if you confuse...you lose."

With your accounting team...
We can tell you as accounting professionals who have worked with hundreds of businesses over the course of 40+ years, an accounting firm is only as good as the information you give them. It is imperative that you establish clear and ongoing communications with whomever you choose to outsource your financial matters.

In order to maximize your profits and potential, avoid errors, save on taxes, and sleep easier in general, be sure that you and your accounting team have a regular communication plan. Let them know what you expect from them and what they can expect from you. Be sure to deliver on your end (remember those receipts?), and don't be afraid to ask questions (again and again if necessary). After all, they work for you and your success is important to them!

Our team at CRS CPAs understands the importance of avoiding these costly mistakes, and we have decades of experience providing proven solutions to business owners just like you.

We have a "small firm personality with big firm capability." Contact us today to find out how we can lighten your load and help you win in business.

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