10 Most Common Bookkeeping Mistakes You Need to Avoid

For the small business owner, bookkeeping is often seen as one of the necessary evils that we all must face. The tedious and mundane task of bookkeeping can often take up hours and hours of time. The is the primary reason that well over one-half of all small business owners do not keep their finances up to date on a monthly basis. Bookkeeping, as mundane as it may appear, is actually the #1 Secret Weapon when it comes to Business Management and Growth. It is only with accurate and consistent measurement of the Company financials and other key indicators that we as business owners can effectively manage and expand our businesses. Here are the 10 Most Common Bookkeeping Mistakes You Need to Avoid:

1. **Wasting Too Much Time** Many business owners try to do bookkeeping themselves or do not have the professional help they need. Although we all know that time is money, many business owners do not put enough VALUE on their time. How you value your time is extremely important to your business. Leave the tedious and time consuming task of bookkeeping to the professionals. A bookkeeper will know what to record, how to record it, and most importantly, the accounting changes that affect a business on an ongoing basis. This alone can not only save you time, but it also free up more of your time so you can focus on growth and taking your business to the next level.

2. **Improper or Poor Record Keeping** Improper or poor receipt and record keeping is common for businesses. It is easy to lose receipts or forget about those small expenses that seem insignificant. Maintaining accurate records on a monthly basis and with a proper filing system can save you time and money on your income taxes. It can also provide the necessary documentation in the event that you are audited by the IRS. In case of a potential audit, accurate records of income and expenses could end ups saving you thousands of tax dollars in dealings with an IRS auditor.

3. **Improperly Categorizing Expenses** If you or someone you have hired does not have the knowledge of formal bookkeeping practices, this can become a problem. Accurately tracking income and expenses in the correct categories ensures proper measurement of profitability. Knowing the different tax treatments of each income and expense category can result in significant tax savings as well.

4. **Not Reconciling Bank Accounts** Not having separate bank accounts for personal and business activities can become an issue. If you are audited, you may need to provide
complete records of business related activities that are separate from your personal expenses. Make sure that your bank statements are properly reconciled every month. This will help to minimize errors and identify potential issues.

5. **Not having Back up** We live in a world of heavy dependence on technology where issues can suddenly arise. There is always a chance that something could happen to your data and you need to be prepared. It is important for every business to back up their data to avoid potential losses.

6. **Neglecting Sales Tax** With many businesses, not reporting sales tax and not accounting for it is a common error in bookkeeping. Oversight in collection and reporting of sales taxes can result in significant amount of fines and penalties due. Alternatively, incorrect data entry may result in a higher total sales amount and overstated sales taxes due.

7. **Not Classifying Employees Correctly** Businesses often have a combination of both employees and independent contractors. Make sure these are properly classified to avoid misfiling and overpayment of taxes to the government.

8. **Bad Petty Cash Management** Business owners often operate with a small amount of petty cash, but have little or no knowledge on how to track it. Be sure to set up a system which allows you to track the cash kept on hand for the business and what it is being used for. Buying a petty cash lock box from your local office depot and obtaining receipts for all disbursements is a great way to start.

9. **Poor or Lack of Communication** It is important to have strong communications between the bookkeeper and employees of the Company. Keep your bookkeeper involved and integrated with what’s going on inside the business. This helps the bookkeeper to create financial statements which reflect the true operational needs of your business.

10. **Neglecting to Track Reimbursable Expenses** Many small business owners pay for expenses out of their personal funds. As time passes, there is increased risk that these expenses get overlooked. Failure to account for these reimbursable expenses can result in lost money as well as lost tax deductions. Create a company policy to make it easy for the Company to easily and consistently track and record reimbursable expenses.

Now that you have read through the 10 Most Common Bookkeeping Mistakes, take a look at your business and determine whether any of these apply to you. NOW is the time to make some easy changes to upgrade your bookkeeping system and turn that mundane task of bookkeeping into your #1 Secret Weapon for Business Management and Success!

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