Sharpen up Your Business Bookkeeping for the Coming Year

From one-person entities to Fortune 500 companies, no business can escape the dreaded task of bookkeeping. While it’s definitely not one of the more glamorous parts of the job, bookkeeping is at the heart of small business success, which means errors can be crippling.

To avoid the financial headaches that come with bookkeeping mismanagement, it’s important first to be aware of the pitfalls that can ensnare you. Here are some of the most common bookkeeping mistakes small business owners make when approaching their company’s finances:

- **Neglecting to save receipts under $75.** While they may not be required by the IRS, receipts under $75 provide backup documentation for the many of the deductions you might claim. Although keeping them in a folder or box is still necessary in the case of an audit, most online and digital accounting programs have accompanying apps that allow you to snap a picture of your receipt and associate them with the appropriate register entry. If you’d rather keep your receipts separate, there are plenty of third-party apps to choose from, as well.

- **Failing to track reimbursable expenses.** Neglecting to track your reimbursable expenses is like flushing money down the toilet. Not only can you lose money, but you can also lose tax deductions, which is essentially the same thing. Again, there are plenty of expense-tracking apps and programs available to make this process easy and consistent. Try to get into the habit of tracking your expenses as you accrue them—the longer you go without tracking, the more likely your expenses will become overlooked. Tracking reimbursable expenses is just as important as saving your smaller receipts—one allows you to maintain a paper trail in the event of an audit; the other allows you to track the financial health of your business.
• Failing to properly classify employees. With so many independent contractors, consultants and freelancers around these days, it can sometimes be difficult to determine who is on staff and who is not. Don’t neglect this, however. Misclassifying employees and contractors can have significant consequences, including tax penalties and lawsuits.

  Not communicating. Whether you choose to hire a part-time bookkeeper or outsource the work to a professional, communication is the key to effective bookkeeping, because it keeps everyone on the same page and minimizes errors. One of the more common mistakes, for example, is paying someone a bonus and not reporting it to the bookkeeper. Another is buying supplies and not providing telling the bookkeeper or supplying receipts.

• Neglecting to reconcile. Reconciling your books with bank statements is a fundamental aspect of determining your financial health. It’s important to make sure it’s done properly and consistently. Reconciling your books helps you identify how much money you have on hand at any given time, and it also allows you to discover bank errors before they become major problems. Reconciliation can be complicated, however, which is why hiring an experienced bookkeeper is highly recommended.

• Not having a paper backup. When it comes to audits, a paperless office can actually be a major liability, especially in the event of technical problems. Taxing authorities like the IRS want to see a paper trail that includes clearly visible documentation and a well-organized system of paper backups. Apps that save your receipts can make day-to-day operations easier, but it’s still important to keep a backup of your financials for at least seven years.

  Petty cash unreconciled. Every small business that uses petty cash should have a dedicated custodian, who can manage it and approve purchases. This ensures accountability and limits the potential for fraud, theft and abuse. To that end, businesses should have clear policies regarding petty cash purchases and every purchase made with petty cash should have an accompanying receipt for the expense to maintain clear documentation for deductions come tax time. The receipts and remaining cash should equal the original dollar amount designated to the fund. When the fund is exhausted, a
check can then be written to cash to set up the full amount again. Not having a petty cash policy, custodian or receipts can create headaches for your bookkeeper and may result in serious problems when taxes are filed. **Mis-categorization or overcategorization.** Maintaining a clear and organized chart of accounts is critical for your bookkeeping. While most expense categories are fairly standard and straightforward, the mistake many business owners make when doing their own bookkeeping is creating duplicate categories or failing to enter expenses into the appropriate category. Use general bookkeeping guidelines for standard categorizations and create as few new categories as possible. A professional bookkeeper can help you clean up your books and ensure your chart of accounts are lean and clean.

- **Trying to do it yourself.** Most small business owners hate doing their own books yet insist on doing it themselves. Competent, professional bookkeepers have the required skills to do the job quickly and efficiently, and they have the necessary expertise to locate subtle errors that might otherwise be missed. As professionals, they’ll also be aware of the tax changes that could affect your day-to-day financial practices. In the long run, having a second set of eyes on your financial records is extremely beneficial and will save you time and money.

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