

# 4 Common Business Accounting Mistakes and How To Avoid Them

---



While most business owners are not accountants, having some familiarity with your accounting systems can save your business from cash flow issues, tax penalties, and other distressing consequences.

Here are four common accounting mistakes and how to avoid them:

## **Submitting the Reconciliation of Receivables Late**

There are three steps needed to account for a transaction:

- Issue the invoice to create a receivable
- Receive the payment
- Record the amount against the receivable

If reconciliation is late, the information in your revenue account will not match your receivables report, which can lead to inaccurate ledgers.

To avoid this issue: Reconcile your receivables at the moment of payment. If this is not feasible, schedule a weekly or monthly reconciliation process.

To simplify the process, use accounting software that automatically applies payments to receivables.

## **Forgetting To Record Cash Expenses**

You may do most of your purchasing using your credit or debit card, but it is essential to remember when you spend cash on business purchases. Whether you are buying office supplies or a bagel for a client, these transactions can lead to inaccuracies, which may result in overpaying your taxes.

To avoid this issue: Minimize how often you use cash for business expenses.

Even with small purchases, default to a card or account, so these expenses are recorded.

If using cash is non-negotiable, you can:

- Set up a system to record expenses at the time of purchase
- Use accounting software that allows for quick entries
- Set up a weekly reminder prompting you to recall any cash purchases

## **Relying on an Accountant Who Is Not a Professional**

Unless your friend is a professional accountant, you should not rely on their services to monitor your business's expenses. Neither should you try to do it yourself or listen to the faceless masses of the internet. No matter how competent they seem, their advice can lead to financial risks for your business.

To avoid this issue: Consult with a professional accountant immediately, even if you have begun the accounting yourself. A professional will prepare your business for more complicated financial situations.

If you do not want, or have the budget, to hire a full-time professional, consultations and accounting software should be enough to sustain your

business's finances. If your business begins to bring in much revenue, consider hiring an accountant.

Do extensive research before making any decisions to ensure you make the best choice for your business.

## **Not Understanding Your Accountant**

After finding the right accountant for your business, you still have some work to do. To minimize misunderstandings, or catch possible mistakes, familiarize yourself with accounting jargon.

To avoid this issue: ask your accountant to explain concepts without jargon or to explain what a particular word or phrase means in your business's context.

Keeping explanations focused on your business's needs can help you ask better questions and understand more information.

You have worked hard to start and grow your business. Becoming aware of the many common accounting mistakes will keep your business's finances in excellent condition.