

COMMON ACCOUNTING MISTAKES THAT COULD RUIN YOUR BUSINESS



▶ LET'S FACE IT, WE ARE HUMAN, AND HUMANS MAKE MISTAKES.

As accounting advisers, BDO sees all kind of accounting mistakes being made. Usually we can spot them before they cause too much trouble, but if left uncorrected, some accounting mistakes could have a significant effect on your business's financial health.

The following are the top ten common accounting mistakes that we see small business owners make.

1. Budgets: Failing to prepare one, failing to compare actual performance to budget, and failing to update assumptions.

How do you know how the business is performing if you've got nothing to compare it to? Not only is it important to have a budget, but you need to compare your actual results to it on a regular basis.

2. Failing to properly reconcile accounts.

Bank accounts, Accounts Receivables, Accounts Payables and Payroll should be reconciled at least monthly, as a cross check to ensure all transactions are accurately and completely recorded.

3. Miscoding transactions, or making judgement errors.

Some common miscoding or judgement errors include:

- Classifying Fixed Assets as expenses, or vice versa. This impacts the balance sheet and profit and loss, and could mean your tax is incorrect
- Not Amortising Business Start-up Costs. The Australian Taxation Office has strict rules concerning the deductibility of preliminary business start-up costs
- Misclassifying current liabilities as non-current. Incorrectly classified liabilities affect your ratios which might affect your banking covenants. It might also mean you are reporting an inflated working capital position
- Getting GST wrong. This includes claiming or charging GST when you shouldn't, not claiming it when you should, and not splitting out transactions when only part of the transaction is taxable.

4. Mixing personal with business funds.

A separate bank account and credit card should be set up for the business and should be used for business-specific transactions only.

5. Not tracking Accounts Receivables.

It is important that businesses have a policy to review Accounts Receivables and to follow up overdue debts. This is important for maintaining a healthy cash flow position.



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6. Not seeking Professional Accounting and Legal Advice.

Before starting a business, see your accountant and/or lawyer to advise on the most suitable structure, including the best way to minimise tax.

7. Doing it all yourself.

Employing a competent bookkeeper will free up your time and will allow you to focus your time on both the day-to-day managerial aspects of the business, and the long term strategic decisions.

8. Mixing personal with business funds.

This could be an entire article on its own, but the most common errors we see are:

- Not understanding superannuation requirements for contractors
- Not accounting for long service leave, particularly with casual employees
- Errors in salary sacrifice arrangements
- Failing to recognise fringe benefits and register for Fringe Benefits Tax
- Paying employees under the wrong award
- Incorrect calculation of overtime and time worked on public holidays
- Incorrectly calculating Superannuation on time other than ordinary time earnings.

9. Not embracing a Cloud Based Accounting System.

The 'cloud' is here, and businesses should be on it. The key features of cloud accounting are automated bank feeds, automatically recorded recurring transactions, multi-user access so that your bookkeeper and accountant have real-time access, and having a better chance of recovering information if your system is damaged.

10. Inconsistent or Irregular Reporting of Financial Data.

Accounts provided to decision makers should be as accurate and up to date as possible. Often accounting adjustments are posted at year end, which results in the interim accounts not showing the full picture. As well as improving the financial basis for decision making, having accurate accounts can help in the detection of fraud.

If you think you might be making any of these mistakes in your business, feel free to contact the team of business advisers at BDO (NTH QLD) today. We can assess the situation and help you get things back under control before it's too late.



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