



9 bookkeeping mistakes you're probably making



WELCOME

Time and time again, businesses continue to succeed for one fundamental reason. It doesn't matter how much money they start with, access to talent, ability of their leadership team or their luck.

Yes, these factors make it easier, just as it helps to have a product or service demanded by the consumer.

But throughout our 30 years in business, we have found that none provide the key to small business success. Perhaps, when combined they give you the best chance, but the critical factor we've seen in any successful business is the ability to properly plan finances and forecast spend. It's those that have financial systems in place allowing them to keep accurate, up-to-date records that succeed in the end. If you do not have control over

your finances, they will control you. The primary reasons for financial failure are poor cashflow and lack of a financial cushion. As a small business owner, it is vital to be aware of your finances to make sure you can pay your employees, buy the tools needed to do the job, and have some money set aside for hard times.

Those businesses have the advantage over competitors when it comes to planning and flexibility – being able to respond quickly to market changes, staff levels, suppliers, creditors or debtors, and even to legislative changes.

And the businesses we've seen fall over are the ones whose owners simply do not understand the numbers side of their business.

Getting the basics right is one of the most critical success factors.

Having systems that allow you to stay on top of your fundamentals – accurately, simply and accessibly – puts you in prime position for success, no matter the size or complexity of your business.

This all poses the question:

What are the best ways to keep your financial records up to date that are simple to use and easily accessible?

There's a strong chance some of your fundamentals are not in place if you find your business isn't performing as well as predicted.

We've dived into the 9 bookkeeping mistakes to avoid if you want to run an efficient and successful Australian small business.



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01 FAILING TO RECONCILE YOUR RECORDS TO YOUR BANK STATEMENTS

The first small business mistake? Failing to complete a bank reconciliation. It is one of the first things your business accountant and tax auditor will want to see. It is an easy way of ensuring your finances are up to date and indicates the quality of your records.

Non-reconciled records:

- Are a headache for your accountant and will require more time to analyse.
- You may pay more than necessary to the Tax Office because you missed something like a tax-deductible expense.
- Cause dramas when you have a tax audit. More time will be spent by the tax inspector looking into your affairs because their suspicions will be raised by the lack of care taken in maintaining your records.

Get reconciled

You need to make sure you are taking time every month to reconcile (match) your records to bank statements. We recommend performing this task at the end of the month as this allows you to identify any mistakes. These mistakes could range from sending a transaction to the wrong account or missing transactions entirely. So, at the end of each month try to match your records to your bank statements – your life will certainly be easier for it.



02

NOT DOING THE BOOKS OFTEN ENOUGH

A bad habit that many small business owners often fall into is failing to dedicate enough time to the books. This can stretch for months at a time and generally culminates around key reporting dates like BAS or end of financial year.

Bookkeeping is an important asset for your business. Just checking the books on a yearly basis means you'll likely miss important information and at that point, it's far too late to solve any problems.

Checking the books on a regular basis provides you with the time to conduct a financial health check. Are you making profit? Is there an increase in revenue? Have your costs increased and why? Creating financial reports helps you to track how well you are progressing against your budget and goals.

We understand that this is not the most enjoyable part of running your own small business. But by realising what an asset having up-to-date books can be, you can treat it as a priority and an opportunity to progress your business.

The Six-P formula

This mistake is committed by business owners who are generally less organised. Think about the six-P formula: Proper Prior Planning Prevents Poor Performance.

According to professional development expert, [Brian Tracy](#), every minute you spend planning can save you 10 minutes later in the day. It may seem counterproductive to use precious time planning your work, but it pays off in the long run. Knowing what to prioritise and when you should work on it, is a crucial step to improving your productivity.

Some pointers to help you plan:

- Schedule meetings, appointments and tasks a week in advance.
- Check the following day's calendar at the end of each working day and plan to address all priorities.
- Review each day's performance. If you often can't achieve everything on your list, you are probably scheduling too much.

These habits will help you to complete the most important tasks of your day and keep your bookkeeping on track.

03

NOT SEPARATING PRIVATE AND BUSINESS EXPENSES

If there's one way of getting into the bad books of the ATO, it's jumbling together business and private expenses. It is more important than most people realise that these expenses are separated.

Yes, you can reduce your assessable income by claiming many of the expenses that happen during the running of your business as deductions. But it becomes a problem for many people when they use business and private accounts for both purposes.

To ensure that you avoid all the problems that this can cause, there are a few steps to take.

- **Don't throw away your receipts**
So they can be found easily, keep business receipts in a folder or binder and organise them in chronological order – as soon as possible after you have made a transaction. It is also a good idea to write a description on the back, so you can remember what it was for. Nowadays many people find it more reassuring to scan each receipt and store them on a computer.
- **Use a separate credit card for your business**
Maintain separate credit cards for both personal and business expenses. They reduce the confusion and make life a lot easier if the Tax Office comes around.

- **Understand what is and isn't a business expense**

One of the first things you will need to grasp when separating your expenses is knowing how to define a business expense. Confusion is common for things like travel, food and entertainment expenses. The [ATO website](#) has some handy information about what counts as a business deduction. If you need more help, we recommend seeking out an accountant to assist you.

So now that you know that you need to keep your business and personal expenses separate, it is also very important to realise that records of all business transactions must be kept for 5 years from the completion of the transaction. This includes expense claims.

Stay organised, maintain accurate records, and create a method that's easy for you to keep these deductions separate.

04

ALLOWING CUSTOMERS TO BUY ON CREDIT AND THEN NOT FOLLOWING UP

This mistake may result in waiting weeks to be paid! The best scenario is to take payment as soon as an agreement has been made. But much too often, small business owners allow for a period of credit which negatively affects their bottom line. If you fall into this behaviour, then here are few hacks you can try to get paid quickly:

- **You're not a bank, so don't give credit if you don't have to**
You are basically giving your customers an interest free loan whenever you extend them credit. This is not good, especially if you are taking out a bridging loan whilst you wait for the money to come through. It can also mean that your cash supply dwindles to a dangerously low amount.
- **Get your invoices out on time**
It's crucial that you send out your invoices as soon as possible. This is your formal record for money owed to you and evidences work that has been carried out. Make sure it contains your business name and ABN. Make it very clear when the payment is due.
- **Know your customers**
In some circumstances, it is inevitable that you will offer credit to certain customers. The best way to ensure that you get paid quicker is to develop a good relationship with them. If they're a new customer, do a reference check to determine whether they generally make timely payments.
- **Make it easy for customers to pay you**
Be open to accepting payments from a range of options, so that customers find it easy to pay you.
- **Set up your terms and conditions for payment at the start**
Outline the rules. With new clients, establish these at the beginning of the relationship, so that everyone knows what the expectations are.
- **Be professional and polite**
It is often underestimated how important this is. Look at the invoice options and templates available on your bookkeeping software for invoice personalisation. It helps you to appear more professional and put together.
Note: don't forget to add a polite comment to the invoice, for example, "We thank you for doing business with us at [enter business name here]".

- **Keep your financial records organised**

Regularly look over your payments and invoices, both those that are still outstanding and those that have been paid. It is good practice to refer to them. The easiest method for you to check an outstanding account or to understand when customers normally pay you, is to use invoicing software.

- **Follow Up**

Sometimes, even after following all the above steps, customer's payments will be overdue. Start your follow up process immediately. The steps you take will depend on the rules you determined at the beginning of the relationship and the process you have established as a business.

If you have failed to set out rules around payments before going into business, it is standard practice to use a combination of letters, emails and phone calls to notify customers of overdue payments. Try to utilise all communication channels to ensure they have been appropriately informed.

As we have outlined, poor cashflow is often the cause of many business closures, so above all, avoid setting up customer credit lines.





**YOU'RE HALF WAY!
GO GET IT.**

05

FAILING TO RECORD CASH PAYMENTS

When you're out and about, cash is an easy form of payment – that's undeniable. However, when used for business expenses it can create problems. You receive a receipt put it in your bag, pocket or car and it is lost forever.

So, in this situation, when you then go to make a record of that expense, you have a problem. Bad records can mean lost tax deductions worth thousands of dollars. It is vital therefore, to find easy ways to keep accurate expense records.

How to avoid this mistake

Keep an ordered system for your tax invoices and receipts. This ensures that the correct numbers are being entered into your accounting software and you will have everything ready to go when claiming deductions at tax time.

What do I need to keep in order to claim a deduction?

To claim a GST credit for purchases of more than \$82.50 (including GST), you must hold a tax invoice. To claim a GST credit for purchases of \$82.50 or less (including GST), you need either a tax invoice, receipt, cash register docket or invoice. If none of these options are possible, you need to write down the name and ABN of the seller, the date that the purchase occurred, a description of what you bought and how much you paid for it.

Find out what can be claimed by visiting the [ATO website](#) or consult with your accountant.

Here are 2 useful tips to help you keep on top of your receipts and stress-less at tax time:

Keep an Envelope

It can be an envelope, folder or binder, but put all your cash receipts somewhere you'll remember. It is a good idea to keep this near your computer, so that you can put them in the envelope while you record them into your accounting software.

Take a Photo

A good habit to get into, regardless of how often you lose receipts, is to use your phone to take a photo of the receipt every time you make a payment with cash. Save them to the Cloud or upload them into your computer to make sure that they are permanently saved. Create a specific folder for your yearly receipts to find them quickly.

06 INCORRECTLY ACCOUNTING FOR GST

The Goods and Services Tax (GST) has been in effect since 1st July 2000, but despite an Australian Tax Office education campaign, many small business owners still struggle to understand what is required of them. The different processes - such as when to charge and claim back GST - can be confusing. If you have the right tools to help you with the process, you will see that accounting for GST is rather simple.

The following breakdown is meant for general information only and you must consult an accounting professional for advice.

If you run a business and have a turnover of \$75,000 or more (\$150,000 or more for non-profit organisations) here are the five main things you need to be aware of:

1. Firstly, register for GST.
2. Work out whether your sales are taxable (subject to GST) and include GST in the price of your taxable sales.
3. Issue tax invoices that comply with the GST rules. When you make a taxable sale of more than \$82.50 (including GST), your GST registered customers need a tax invoice from you to be able to claim a credit. And likewise, when you have GST that you can claim back. Tax invoices must include certain information. There are also additional rules for sales of more than \$1000 that you need to be aware of.

4. You must account for GST on either a cash or non-cash basis as advised by the ATO and set aside the GST you have collected, so you can pay it to the ATO when it is due.
5. You must lodge activity statements within the time periods set by the ATO.

To find out more about this visit the [ATO website](#).

07 NOT RECORDING ENOUGH INFORMATION ABOUT TRANSACTIONS

It's not just receipts, bank statements and computer records small business owners take to their accountants at tax time. They also bring along a bad memory! In our experience, many business owners rely solely on their memory to track financial transactions.

It is essential to record enough information about a transaction, so that anyone can easily understand what occurred and why. For taxation purposes, you are legally obligated to keep records that specify and explain all transactions in your business. This includes all documentation relevant for determining your tax liabilities.

Previously, business owners struggled to achieve this if they forget to record the payee's name or the amount paid on their cheque stubs. They could find out from bank statements (when they arrived), but they would still be in the dark as to who had paid. The only way to find out was to pay for the information in the bank branch.

Today, with most transactions taking place online, the situation is very different.

Despite that, it is still possible to be caught without all the correct information when reviewing your records with an accountant.

For anyone who has found themselves in this situation, it can be alarming and is always difficult to track down the relevant records when it happens.

Picture this scenario

Your accountant is preparing your end of year accounts and tax returns, and asks what a transaction of \$2000 in July of the previous year was for. You don't remember what the transaction was for, so you must hunt down the invoice. You know that you had paid it to an office supplies company, and that it was for \$2000, but other than that, you just have no idea.

Your accountant tells you she needs to know whether the purchase was tax deductible or whether you need to depreciate it. Following a full hour of rummaging, you finally find the invoice and can see that it was for a replacement photocopier. Had you just recorded this information straight into your accounting program in the first place, this problem would have been avoided altogether.

08

NOT KEEPING PROPER RECORDS FOR EMPLOYEES

The best time to record this information is right away while it's still fresh in your mind. Doing so saves you both time and anxiety should your accountant ask you about it later. Plus, it can save you money down the track, because every second your accountant spends chasing up missing information about transactions, are seconds you will be billed for!

If you ever get audited, it could be very embarrassing – not to mention unnecessarily costly – if you're unable to answer questions about your transactions and tax liabilities that an inspector might ask.

Record, record and record!

Besides from transactions, not recording the type of insurance against insurance payments is another common issue. To save yourself a lot of time, make sure you record the property's name, the type of cover it has, and the details of the person.

There are plenty more examples, but the key thing to know is: you should be recording all the details if the transaction wouldn't be immediately obvious to anyone who isn't already very familiar with your business. In the end, taking this small step can save you hours with your accountant, remove stress from your end of financial year and save your skin in an audit.



Surprisingly, it is common for a small business owner to take on their first employee, make sure they're paid, but forget to consider other entitlements such as leave, superannuation etc.

Most businesses do keep records about their employees, but not everyone is aware of the full list of requirements when it comes to maintaining employee records.

It is in your best interest to keep accurate records and hold onto them for at least seven years. If you don't, you may be faced with fines and penalties that your business just doesn't need.

There is a range of information that must be kept for each employee as required by the Fair Work Act, as well as certain things you must report to your employees and the Australian Tax Office.

These include, but are not limited to:

- **General Information** – such as the employer's name and ABN, the employee's name, employee's Tax File Number (TFN), commencement date, and basis of employment.
- **Pay Records** - such as the rate of pay and details of any bonuses, loading or penalty rates.
- **Hours of Work Records**
- **Leave records**
- **Superannuation contributions records**
- **Termination Records**

What information do I need to provide to an employee?

As an employer you are obligated to provide your employees with a pay slip within one working day of pay day. This pay slip must include all details of payments, deductions and superannuation contributions for each pay period.

To find out exactly what must appear on your pay slips, you can visit the [Employer Obligations Fact Sheet](#) provided by Fair Work Australia.

In order for your employees to prepare their tax returns, you must also provide them with a PAYG payment summary at the end of the financial year.

09

USING PROGRAMS THAT REQUIRE YOU TO UNDERSTAND BOOKKEEPING

What are my obligations to the ATO?

- You must record Pay As You Go (PAYG) withholding payments on your business activity statements.
- You must submit an annual report to the ATO reporting PAYG withholding.
- You must report and pay Fringe Benefits Tax.
- You must pay superannuation guarantee contributions for each eligible employee and contractor.
- Report using Single Touch Payroll (STP). This simply means that employers are required to send their employees' tax and superannuation information to the ATO each time they run payroll and pay their employees.

You can use this [Employer Obligations Checklist](#) published by the ATO in order to help you meet your tax and superannuation obligations.

It is crucial to have a system in place, so you can ensure your employee records are correct.

Fairwork.gov.au provide a range of free templates for things such as pay slips and weekly time and wages to help you get organised. There is a lot of work in organising pay slips, calculating tax, paying superannuation and keeping all the other information in check. With the right payroll software, you will have a fast, accurate way of doing the right thing as an employer.

Keep your staff happy, keep the ATO happy, and give yourself peace of mind by maintaining the right records for your employees.

Most owners of small businesses have never had any formal training on [double entry accounting](#). Many accounting programs assume that small business owners have a proficient level of accounting knowledge.

Small businesses thrive when their owners and operators can focus on the productive activities that drive their business forward. Do you understand debits and credits? Journal entries? The difference between assets, liabilities, revenue, expenses and equity? No? You shouldn't need to and you're not alone.

Bookkeeping mistakes occur when business owners have access to the software to keep double entry accounting records but lack the depth of knowledge and experience required to operate these specialist accounting programs.

Most small business owners simply don't have the time or resource to take accounting courses or learn how to use complicated software. But they still need accurate, reliable records.

Thankfully, you can choose a system simple enough to help you understand and manage your business.

Choosing a [simple accounting program](#) has many benefits, here are our top four:

1. It saves you time

Knowing exactly what you need to do to when you open your program, to record and manage your accounts saves time.

2. It saves you money

You shouldn't need to invest hours of your time in expensive training courses to keep accurate records. You also won't have to hire a bookkeeper to do something you can easily do yourself in little time.

3. It means less stress at tax time

Your records will be ready to go at tax time if you're keeping on top of them with a simple system. This saves you from struggling to find documents like receipts your accountant needs to compile your taxes. All you must do is export the information straight to your accountant.

4. Your accountant will love you

A simple accounting program eliminates mistakes from your bookkeeping, and the high quality of your records makes assisting with your taxes much easier.

Using a program that helps you to easily and quickly get your books in order will free you up to focus on the things that are most important to your business.



INTRODUCING:



Cashflow Manager has been the preferred record keeping solution for thousands of small business owners across Australia & the UK since 1990 for one reason: it is simple, easy to use accounting software.

The Power of Simple Things

Our world is constantly changing – becoming faster, busier, and more complex every day. As a small business owner, it can sometimes feel daunting to meet these changes head on; whether its updated reporting requirements from the ATO or new payroll obligations as an employer. We instil self-belief and exist to make life simple for all small business owners.

You can count on Cashflow Manager to:

- Streamline your reporting to the essential requirements, so you can focus on what matters: your business.
- Help you to spend less time sorting things out and more time doing what you love.
- Help you to use your money to grow your business, not waste it on things you don't need.
- Take away financial complexity and make business reporting straightforward.

And for small business owners, we believe simplicity all begins with an easy to use bookkeeping solution.

**For a free 30 day, no obligation trial of our software,
head to www.cashflow-manager.com.au**