The 9 Biggest Bookkeeping Mistakes Small Businesses Make (and How to Avoid Them)



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The road to business failure is paved with unrecorded business transactions and poorly organized books. Well-kept financial records will put you on the path to success and provide the foundation for business growth. Bookkeeping shouldn't be a distraction that keeps you from doing things needed to grow your business.

By avoiding the nine pitfalls listed below, you can arrive safely at your destination: a profitable, flourishing business.

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1. Ignoring your bookkeeping

You've just got to do it. If you don't keep your books straight, every possible outcome is disastrous. You could have tax problems that strangle your business. You could be fined, assessed a penalty, or have the IRS place a lien on your business.

The solution: Just do it.

2. Procrastination

When you keep putting your bookkeeping tasks off to the side for later, you're eventually faced with a mountain of receipts

to work through. That’s a recipe for disaster – deadline pressure only makes a costly error more likely.

The solutions: Find a way to make bookkeeping a habit. Mark it on your calendar and keep the appointment. Whether you hire a bookkeeper whose sole responsibility is to properly record your income and expenses or use software to quickly capture and organize receipts and financial documents, you are saving time that could be used better.

3. Errors of size or importance

Fittingly, small business owners often focus on the big stuff – the most important things to keep the business moving forward. This strategy is less helpful when it comes to bookkeeping. If you’re being audited, you will need to produce receipts for all expenses, no matter the size.

The solution: Maintain everything. To keep it all organized and save space, take advantage of solutions that let you capture and organize digital versions of your financial documents simply and effectively. With the actual data automatically captured for your tax accountant or bookkeeping program, there’s little risk of transcription errors and an increased likelihood that you have what you need.

Related: **Finding the Right Solution for Your Bookkeeping Needs**

4. Not preparing for the worst

If you keep your books physically, those files and receipts are subject to damage from fire, floods, coffee stains or being misplaced. If your books are kept in a spreadsheet, your hard drive could crash, your laptop could be stolen or lost or you could accidentally delete vital data. Anything that you have one copy of could disappear forever.

The solution: Back everything up. If your business is small

and simple, printing or copying vital records and keeping them off-site is clunky but workable. If your books are in computer files or spreadsheets, always make a backup copy to an external hard drive, thumb drive, or cloud-based platform. Capturing financial documents and storing them in the cloud or in remote digital storage means you will have the data you need and the supporting documents behind that data – this will also make it easier to recover should a disaster happen.

5. Improperly classifying people who work for you

As a small business owner, you may have to hire people as temporary help – either for a brief and finite period, or part-time on a continuing basis. You may outsource a single project. It's important to accurately record your relationship with them, for both your tax status and theirs. For employees, you must withhold federal income taxes and remit them to the IRS. Contractors are responsible for their own taxes, but what you pay them must be recorded and reported to them as well as the IRS.

The solution: You could read the IRS website thoroughly, but that might make for sleepless nights. A small business accountant can help. That accountant will love when signed time cards and contractor invoices have been captured and saved in a single digital repository like Neat. This will help them record each amount in the proper accounts and allocate to the right people (inside or outside your organization).

6. Not reviewing your books and accounts

Entering your invoices, receipts and checks into your books is a job only half done. Whatever you enter into your accounts should be checked. The fancy word for this is reconciling.

While it’s rarely difficult, it’s tedious and sometimes even intimidating. It’s important because it will help find errors, both large and small. If you accidentally added a zero to an invoice when entering it, you might think you’ve got more money coming in than you do. An error in inputting a receipt might cause you to take a bigger deduction on your taxes than you are entitled to and leave you open to fines and penalties. Missing an error in your checking account could lead you to lose track of the actual funds you have available.

The solution: Review and reconcile. Do it regularly or insist that your bookkeeper do so. If you’ve captured and organized your invoices and receipts digitally, this is an easy task to stay on top of.

Related: Why Accounting Skills Are Indispensable for Entrepreneurs

7. Mixing business and personal

Misidentifying a personal expense as a business expense and then deducting it could lead to IRS fines, penalties and worse. Alternatively, misidentifying a business expense as a personal expense means you don’t take all the deductions to which you’re entitled, and therefore you’ll pay more tax than you should.

The solution: Maintain separate banking accounts and credit cards for personal and business use. Take advantage of tools that make it easy to identify business and personal expenses when reviewing/reconciling expenses — including when you have both types of expenses on a single purchase receipt.

8. Not properly setting up

bookkeeping accounts and expense categories

You can’t improve what you don’t measure. Every decision you make about your business will be better made by having accurate information available.

The solution: Set up the income and expense categories for your books with analysis in mind. Loans have monthly payments but may have a larger final payment. Expenditures for raw materials may change seasonally. A below-average sales month may indicate a problem making payments in 30 or 60 days. Once those accounts are set up, scan or photograph paper receipts and save emailed receipts to the proper bookkeeping account.

9. Not staying on top of the business

Doing nothing about bookkeeping isn’t the only bad way to run a business. Doing the books but not looking at the results could be even worse.

The solution: Regularly look at essential accounting reports like cash flow, balance sheets and expenses, whether you pay your accountant to produce them or run them automatically from your financial management platform. When you have up-to-date financial records, you have the fuel you need to drive your business ahead.

Related: 10 Reasons You Should Hire a Bookkeeper for Your Startup

Final words

Owning a business presents you with a lot of opportunities, including opportunities to make mistakes. Success is often

dependent on avoiding the obvious ones and minimizing other errors whenever possible. Take this list to heart and you'll be well on your way to operating your business profitably and growing it purposefully.

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