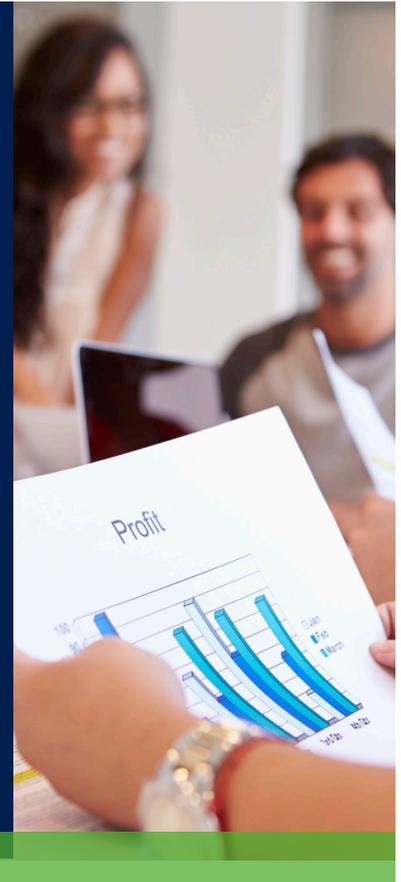




# The 5 Critical Mistakes Business Owners Make With Their Accounting



No matter where you are as a business owner in your business life cycle, your accounting is always critical. In fact Warren Buffet says, "Accounting is the language of business and you have to learn it like a language. Your accounting reports are like your scoreboard for your business." Buffet goes on to say, "If you can't read the scoreboard, you don't know the score. If you don't know the score, you can't tell the winner from the losers." Chances are if you are reading this, you may have some concerns about your accounting process or are wondering how to prevent problems with your accounting process. Either way, you are in the right place and a solution is on the way.

*"EWH has established a month to month accounting plan that is tailored to my business. This allows me to see the BIG PICTURE in regards to cash flow, expenses, sales, and income. The associates at EWH are professional yet personal. If you don't know 'what the money is doing' EWH will help you pick up the pieces and get you running."*

*- John Olson, Owner of Olson Construction (La Crosse, WI)*

Below are contributions from 12 CPA's on our staff who have worked with thousands of small businesses and our Business Development Partner, who has sat one-on-one with over 6,000 business owners in his career, helping small business owners find solutions for their accounting needs.

Not keeping your records organized, accurate, or up-to-date can lead to serious financial consequences; from lost profits to mismanaged cash flow.

Please review the following **5 Critical Mistakes** and see how many apply to your business.



# #1 Underestimating the Need for Proper Recordkeeping

- Poor recordkeeping leads to a mismanaged checkbook: not knowing what your cash balance is and the account bouncing with accumulating overdraft fees. As little as 5-8 NSF fees can cost you more than your accounting would each month.
- Lack of understanding cash flow and managing your payables and receivables.
- Receivables not being collected on time, making it difficult to pay bills or accumulate cash for other business needs creating a “cash flow crunch”.
- Not being in touch with where your payables are and falling behind on your bills: How much you owe, who you owe, when you owe it and not knowing what to tell people who call about invoices.
- Lack of a business structure and an accounting system that keeps your documents organized prevents you from having a budget to control spending. Having a structure keeps your business on track, profitable, and aids in maintaining a healthy cash flow.
- Lack of understanding how to use a debit/check card in a business can lead to unintentional overspending, doubling the amount of accounting work and your accounting fees. In addition, it can make having an audit trail in place more difficult.
- Underestimating the complexities with credit cards, especially when multiple cards are involved can lead to your records being messy and incorrect, not to mention keeping your audit trail intact. Having a simplified process for your credit cards is vital.
- Lack of an Audit Trail – receipts and invoices must be organized to ensure a proper audit trail is in place, making certain all of your deductions are allowed.

## #2

# View Accounting as an Unnecessary Service, Allocating Little or No Money for Basic Level Service

- Many business owners think they need an accounting service just to file their sales tax, payroll taxes or income taxes at the end of the year. Unfortunately, this misunderstanding can very easily lead to challenges.
- They are looking to reduce expenses and keep costs low, which is a great objective, but they've lost sight of the fact that you want to cut the fat, not the meat. Your accountant will bring the meat to the table leading to healthier meals. Then you will understand why your accountant is actually an *investment* even though it shows up as an *expense* on your accounting reports.
- **The Truth is:** A good accountant will provide you with professional business guidance and insight so you can make more intelligent business decisions. Most business owners make mistakes on the easy things. Regrettably it's the fundamentals that are not taught to the business owner. A good accounting firm can provide you with leadership and professional, qualified guidance, helping you understand that not having an accountant can cost you more than having one.



What is costing you more; the cost of your solution or the cost of your problem?

## #3 Don't Know How to Interview an Accountant or Accounting Service

This can be difficult task for a business owner. How do you know the right questions to ask? What do you look for? In an area of your business that you're not familiar with, we have listed a few sample questions to ask when interviewing:

- ✓ What type and size of clients do you work with?
- ✓ Are you a CPA, and if so, how long have you been one?
- ✓ Who will be working on my account?
- ✓ Are phone calls and routine business and tax meetings included?
- ✓ How do you charge for services?
- ✓ If my firm grows, can you grow with me?
- ✓ Do you have a system for processing my information?
- ✓ If so, can you walk me through it step-by-step?

## #4 Made a Poor Choice When Selecting an Accounting Service

Too many business owners try to cut costs in the wrong areas. However, any business that is only focused on cutting costs will eventually cut them loose as well. In reality, not having a **good accountant** can easily cost you more than you thought you were saving by not having one. One mistake on a payroll, sales tax or tax return can be devastating. Some business owners hire individuals or firms because of the relationship to your family or they just want to give you “a deal”. Although they mean well, they rarely have the expertise to deliver the professional and high quality service you need and deserve. Make sure the firm you select is reputable, experienced, and has the professional checklist of skills you’re looking for. When you as the owner don’t know a lot about taxes and accounting, you need to make sure the person you hire does. A few extra dollars a month can go a long way.

The following accounting arrangements will most likely yield poor or costly results:

-  Friend does it for free
-  Family member studying accounting
-  1 man office
-  70 year old ex-IRS agent
-  Owner does it themselves
-  High-priced regional or national firm

## #5 Managing Their Business Through Their Checkbook

With only 50% of business owners receiving a financial statement, it's not a surprise that merely 3% of them are able to read their financial statements. Most business owners manage from their checkbook because they live day-to-day. As long as money is in the checking account they think things are okay. This can lead to a number of mistakes including not understanding the difference between your profits and your cash flow. Have you ever found yourself saying "Where has all the cash gone?"

Your accounting reports, not your checkbook, can help you spot patterns and concerns along the way, so you can prevent them before they occur. Most small business owners end up closing their doors by waking up one day and realizing they've run out of cash. Had they been reading their monthly accounting reports, it would have *increased the odds* that they'd have seen their mistake ahead of time or the accountant could have pointed them in the right direction. This would have allowed them to anticipate and solve challenges before they occur which is one of the most important skills any business owner can have.



At EWH, accounting is our dream job! We enjoy it, are great at it, and take care of it so small business owners don't have to. Whether you are located in Madison, LaCrosse, or the Greater Milwaukee area, contact us to learn more about how EWH Small Business Accounting can help your small business with a **free consultation!**

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