

TIP OF THE MONTH - TO ERR IS HUMAN, BUT ARE ACCOUNTANTS HUMAN?

Small business owners have a lot to do, and time simply does not allow them to be expert in all the areas required for running a business. Our expertise is based not only on our training, but more importantly on many years of experience of many different businesses in various stages of development. There are a few common mistakes that we see all too often. If you recognise any of these, correcting them will help you be more productive and profitable in your business.



1. MANGLING THE PAPERWORK



Maintaining receipts are challenging for everyone, but HMRC requires that you have proof of business expenditure. We often say ‘completeness first, organisation second’ as one is necessary and the other highly desirable and cost – effective. “Shoe-box accounting” or “Carrier Bag” systems can work, but these days it is not difficult to do better and with the upcoming “Making Tax Digital” Revenue requirements, likely to be essential. At the end of the day, you’ll want to create a process to keep all your receipts all in one place so they don’t get lost and are easy to retrieve.

You may like to scan your records, or have us do it and this can save cost and clutter.

Some accounting systems and/or document management applications allow you to upload the receipt and attach it to the transaction in your accounting system. This is a great solution, and if you’re interested in this, please ask us about it, we are into this stuff.

2. IGNORING THE ACCOUNTING REPORTS (WHAT REPORTS?)

There is information available in accounting systems, but many business owners don’t take the time to know how to access the available reports or are uncertain about how to interpret them. McLean Reid can help you select and understand reports that are relevant to your business. One of our previous tips suggests a ‘one page report’ that we or you can produce that can help you take action toward profitability.

Some of the things you can do using reports available from most computerised systems include:

- Identifying your highest selling services or products
- Identifying your top customers or the demographic of top customers
- Evaluating or at least measuring your marketing or business development spend

- Pointing out trends compared to prior years, or to targets that you may have set but are not really sure are being met or not (these may not have been formalised, but they could be).
- Checking up on profit margins per product or service to make sure you are priced correctly.
- Managing aging receivables or speeding up collections from customers; we help a lot of people with this.
- Measuring employee profitability, if relevant. In fact, anything you want to manage you are probably already measuring, and if you can't measure it you can't manage it ... if you are measuring it, the next step is?



Being proactive with your accounting may help you spot opportunities in your business that you can act on, as well as to spot and correct problems long before they bite you in the traditional way.

3. MIXING BUSINESS AND PERSONAL EXPENSES

In your bank accounts and on your credit cards, mixing business and pleasure is to be avoided when possible. All businesses should have a separate bank account, and all business transactions should go through there. It takes an accountant much longer to correctly book a business deposit that was deposited into a personal account, or to reclassify business expenditure to private.

Taking out a separate credit card and putting all your business transactions on it will save your bookkeeper a lot of time, whether that is you or us, or a third party. The credit card doesn't even have to be a business credit card. It can just be a personal credit card that's solely used for business. If you have employees making credit card charges, sometimes a separate card for them helps you control fraud. Of course they should have a card! They are important!

The hardest area in which to separate business from pleasure is cash transactions. Be sure we know about these. We can either set up a petty cash account or a reimbursement process so that you can get credit for cash expenditures that are for the business. And be sure to claim everything you can, and to ask us if you are in doubt; on the other hand, don't take liberties that could cost you (we have a flyer "Don't Rip Off Your Own Business", ask for it).



So there are three areas where book-keeping/accounting errors can be avoided and benefits obtained. Mistake number 4 is not to address at least one of the above 3!