Top Ten: Accountancy Blunders SMEs Make

We understand how challenging running a business can be and how easy it is to get into bad habits. Therefore, we have highlighted the most common accountancy blunders SMEs make to ensure you are running your business efficiently and not making the same mistakes.

1. Leaving it Too Late

As a business owner, one of the worst things you can do is to leave your bookkeeping to the last minute. You need to ensure that you are on top and in control of your finances. Poor management of your accounts often results in: penalties for late filing, penalties for incorrect information and ultimately, bad business decisions.

2. Out of Date Software

Businesses are becoming more and more reliant on technology, and with that in mind, keeping your software updated should always be a priority. Online bookkeeping packages are a great way for you to keep in control of your finances. For example, Xero is a cloud-based software that gives you access to real-time financial information, allowing you to save time and make better business decisions through being able to access up-to-date financial figures at any time and from any place.

3. Out of Date Information

Making decisions based on past information alone, such as financial accounts, is not always the best way to go. Whilst you should always refer to past data, it does not take into account external factors and so is not always accurate in telling you how your business will perform in the next year. Instead, using software, such as Xero and/or CrunchBoards, which use real-time information, will help you to produce more reliable and accurate forecasts for your business.

4. Inexperienced Team Members

Many businesses, especially smaller ones, struggle to cover the cost of an accountant, relying on existing employees to take on the task. Although this may seem like an economical idea in the beginning, it could be a lot more expensive and time consuming later down the line. Consider hiring a professional to manage your finances, as they will be able to provide you with advice that often proves invaluable, such as tax planning ideas and strategies, as well as personal finance solutions.

5. Save all Receipts

When it comes to filing tax returns, it is advised that you keep a copy of your receipts. As a small business, keeping receipts always counts as proof, and trying to file a return without proof, can be extremely time consuming for you, your accountant and HMRC.

Using Software such as 'Receipt Bank' can help to remove the hassle of receipts, bills and invoices through extracting the important information and publishing the data directly into your accountancy software. You can even do this via your smartphone if you are on the go!

6. Absence of a Petty Cash Fund

It is important to ensure that your company has a petty cash fund. This way, when smaller purchases are made by employees for business purposes, nobody will have to dip into their own pockets. If you have a petty cash account and keep track of your transactions out of that account, it becomes easier for you to track tax-deductible expenses, journal entries you should make and separate personal from business expenses.

7. Lack of Communication

Communication is key. Make sure that you have a system in place that you, your employees and accountant understands and follows. Ensure that all expenses are made explicit by employees; fees are clear between you and your accountant and that any mistakes down the line are always easy and quick to resolve. Communication is a massive factor when it comes to accounting; however, many SMEs fail to have a proper system in place.

8. Not Classifying Employees Correctly

When it comes to your employees, you must ensure that you classify them correctly, particularly independent contractors, consultants and freelancers as it can sometimes be difficult for external parties to see who is an employee and who is not. Failure to classify employees correctly can often result in tax complications, so make sure you get it right first.

9. Inaccuracies

If a business has inaccurate and messy accounts, it is common for their accountant to charge a higher rate than normal to sort out the chaos. Evidently, this is not beneficial to the company as they are being forced to spend money to resolve a problem that could have been avoided. Make sure that your accounts are reliable and always have valid and true information.

10. Inconsistencies

Having a coherent structure is extremely important for a small business. Make sure either yourself or an employee have a basic understanding of your finances and what needs to be done when processing your accounts. Inconsistencies in your business accounts can make it extremely difficult to recover any expenses so it is best practice for everyone involved to follow the same process. You may find that not having a structure makes it very difficult to operate efficiently and that your accounts are not reliable enough for future predictions.