

Five Common Accounting Mistakes of Home-based Businesses

Operating a home-based business requires dedication and planning, not the least of which is putting into place an accounting system that fits the particular business. For some home businesses, the system will be relatively simple. For others, with more complicated inventory controls and payroll schedules to manage, the system will be more complex. In every case, there are certain specific accounting mistakes that are common to home-based businesses. This article lists these common mistakes and tells how to avoid them.

1. Probably the most common accounting mistake among busy home-based entrepreneurs is neglecting to systematically and regularly put aside enough money for estimated taxes, which normally must be paid April 15, July 15, September 15, and January 15. If you find yourself scrambling around for money to meet estimated taxes – or if you frequently decide not to send in estimated taxes – you need to reconsider your accounting systems.

2. The second most common accounting mistake is not keeping complete expense receipts for tax purposes. When you're buying business items while traveling, or while hurriedly picking up supplies, it's easy to misplace sales receipts, or neglect to notate the transaction properly in your checkbook. Not having sales receipts could prove costly if you were ever audited, and not keeping proper checking records can make tax-time calculations difficult.

There are several simple ways to avoid this problem. First, consider making all business transactions on a charge card set up solely for that purpose. This card would never be used for personal, non-business purchases. Your monthly account statement for the card would serve as an accurate accounting, enabling you list dollar amounts and types of purchases for your own record supplies, delivery, meals, etc.). Some credit card companies even offer special credit cards for small business. These usually supply a free year-end total for tax purposes. If you're worried about running up debt on the card, discipline yourself to write out a check for the amount of each purchase immediately after arriving home.

If you find that you can't maintain the discipline required to immediately write out a check, or too often don't have enough money in your checking account to cover purchases, you'll soon find that your card's balance is getting uncomfortably high. In this case, stick to writing checks for your business purchases. But don't put receipts in the bag with the items you've purchased, or in your pocket. Instead, store the receipt right in the checkbook. It will then be very noticeable when you arrive home, where you can put it immediately into a file folder reserved for the purpose. At the time of purchase, make a notation in your checkbook for the purpose of each check. This will help you tally different expense categories at year-end when you're calculating your taxes.

3. Another common accounting mistake home-based businesses make is not recording the source of checks deposited. This is especially problematic if you're taking out business loans, because at the end of the year it may be difficult for you to determine which deposits were payments received for services, and which were for loans. (Of course, you could sort this out by going through your loan records, but analyzing each deposit is time consuming.) To avoid this problem, simply write in your checkbook the source of each deposit, recording the payer and

check number for each check. This will help keep your records straight at year end. If some deposits contain too many checks to notate separately in you check book, you'll have to write down the details on a separate piece of paper and record it along with your other checking account records.

4. Many home-based businesses do not have adequate systems in place for billing customers, and for keeping records of overdue payments. Since these two activities are integral to a business, you'll need to set up a method to determine with great accuracy and timeliness exactly whom you've billed, and when their payments are overdue.

5. It's surprising how many home-based entrepreneurs don't have a system that allows them to easily and accurately keep track of billable hours spent working for customers. This is particularly damaging to a small business, because it usually results in having to estimate the time spent on projects. Inevitably, these estimates will be low (most small businesses don't want to offend customers by overcharging.) To keep track of billable hours, setup a reliable system that allows you to easily record the time spent on each job. Of course, no system will be accurate if you, yourself, do not make a point of recording the exact amount of time spent on each job.

There are several ways to set-up systems to avoid each of the five mistakes. Perhaps most advisable is to work with an accountant who is experienced with helping small businesses. An accountant can help you establish systematic procedures, and can suggest appropriate software and other tools that will make your financial life simpler.