EVERGREEN BUSINESS SOLUTIONS

5 BOOKKEEPING MISTAKES THAT COST YOU MONEY

INTRODUCTION:

AT EVERGREEN BUSINESS SOLUTIONS

We feel like we've seen it all when it comes to bad bookkeeping, and yet clients always find a way to surprise us. There is what seems like an infinite amount of ways for inexperienced bookkeepers to screw up a client's bookkeeping - from not understanding the balance sheet or profit and loss statement, to simply not knowing how to clean up old legacy issues, or troubleshoot unusual problems.

Unfortunately for the business owner this results in lost time and money to clean up their books. Higher fees at tax time can add up if your tax accountant has to spend time on clean up, or worse yet, fines and penalties from the CRA when things go awry. Sometimes we see a worst case scenario from a CRA review or audit that leads to stress, penalties and a strong desire to toss the whole business out the window.

Here are 5 costly mistakes that we've seen far too often:

1

UNDEPOSITED FUNDS AND CLEARING ACCOUNT MISMANAGEMENT

YOU'RE NOT ALONE

If you feel like you just read hieroglyphs. These two accounts are misunderstood by many business owners and bookkeepers alike. They are often the cause of complex and costly clean up.

The purpose of the undeposited funds account is to be a “holding bucket” for customer payments. For instance, if you use apps like Jobber or Square which generates invoices, AND collects payments, they will mark a customer invoice as paid, and put the offset into Undeposited Funds.

You can imagine it as a drawer in which you keep checks until you take them to the bank. If a customer was to give you a check for your work, you would acknowledge the payment, but not necessarily see the money in your bank account right away. Software does the same thing, by acknowledging that payment is received, but is not deposited not in your bank yet.

When the Invoice is created, the transaction should look like this:

Credit	Sales	(100.00)
Debit	Accounts Receivable	100.00

When payment is accepted by Jobber, Square,
or Quickbooks Payments, the payment is recorded as:

Credit	Accounts Receivable	(100.00)
Debit	**Undeposited Funds**	**100.00**

A few days later, actual cash arrives into your bank account, which should be treated as:

Debit	Cash	100.00
Credit	**Undeposited funds**	**(100.00)**

WITH THE EXAMPLE ABOVE

Notice how the Undeposited Funds account ends up with a balance of zero at the end of the entire transaction.

When the money comes in, often net of credit card fees, the idea is to deposit the money into the bank and then offset to Undeposited Funds instead of the Accounts Receivable account.

However, if the owner or bookkeeper is not experienced with the logic of Undeposited Funds account, they can accidentally claim the bank deposit as Income. This leads to Income being recorded twice, and an ever growing balance on the balance sheet called Undeposited Funds.

For you, the business owner, the outcome is awful in two ways:

1) Your income is now overstated, or double counted – leading you to think your business is doing better than it is, and also paying much more in income tax if this problem is not resolved at tax filing time.

2) You are also likely paying double the GST to Receiver General – which is money out of your pocket, since you're remitting GST that you didn't actually collect.

If you find yourself in this situation, there are one of two ways to fix it.

1) If you're a smaller business that generates a modest volume of invoices each month, up to 50 or so, then you can manually unrecord each incorrect bank deposit from the bank feed, and deposit the funds into the Undeposited funds account.

2) If you're a larger business, with some volume to your billings, and the number of transactions would be too cumbersome to process individually. You should make use of this little trick. Create a dummy bank account in your software to collect all the incorrectly booked deposits. Do a journal entry to deposit all the funds to an income account. This will lower it to a proper level. To ensure the GST is adjusted correctly, we would highly recommend consulting with a skilled accounting professional. The sales tax module can cause huge errors if used incorrectly.

YOUR TAKE AWAY

- Reconcile EVERY balance sheet account regularly
- If you notice an account balance growing over time, investigate it
- Know how software handles workflow and transactions

2

USING TECHNOLOGY IN A WAY THAT CAUSES PROBLEMS

WHEN GOOD APPS GO WRONG

There are cases of both under and over utilizing apps that connect to your accounting file, and using the right technology in a way that actually causes problems instead of solving them.

The best way to demonstrate this is by using some real-life examples. We had one client who connected their Square terminal to their QuickBooks Online Account – seems like a good idea on the surface, right? After all, the two are meant to integrate, and simplify life. Except in this case, the client was a Café, and Square tends to create about a dozen transactions to record a single sale, with a great amount of detail attached. One customer buying coffee and a pastry payed by credit card, with a tip, would create no less than 12 minuscule transaction line items. With the hundreds of sales each day, not only did their data volume become too much to handle gracefully, but troubleshooting became virtually impossible when the inevitable syncing errors occur. Just five days worth of syncing to Square created thousands of transactions that were impossible to unravel. The client had to stop the sync, use a paid app to delete the transactions, and hired us to prepared a summary journal entry to record the sales in an appropriate and manageable way.

HANDYMAN USING JOBBER

Jobber is a pretty robust app, but there are a few things it does not do well. When it comes to integrating with Quickbooks Online, one of the things that it can go wrong with is recurring contract billing. In Jobber, the process to create a recurring invoice has to be done at the end of the month, manually, and the customer has to be invoiced. Many customers would send in their payment by e-transfer, and there would be no invoice to match it to, if the billing process was not followed. Over time just a few customers with monthly contracts would clutter up the system and require hours of clean up.

It was the same story with customer deposits – Jobber can create quotes and accept a deposit, but in Quickbooks there was no corresponding quote. The deposit would sit orphaned until the job was invoiced at the end of the project and an invoice was generated. On larger projects this really skewed the AR, and the owner thought he had less receivables to follow up on than he did.

A2X TO MAP SALES DATA

A different client used the app A2X to map their sales data from their Shopify store to Quickbooks. The set up of A2X had not been updated in some time, and all transactions were simply dumped into the generic Shopify sales account. This client had sophisticated reporting requirements, with commissions paid on some products, but also had a timing issue with revenue earnings, causing a problem with accurately determining their profit and loss. The clean up project required a few steps: setting up new product accounts in the chart of accounts, as well as corresponding general ledger codes for discounts, and cost of goods sold. Then mapping the product SKU's in A2X to the new Quickbooks accounts. Then updating the bad data that went into Quickbooks to the correct general ledger accounts.

THE MORAL OF THE STORY

Is it's very important to learn the nuances of how your shiny new software is to be used for billing, point of sale, or job management and how it should interact with your accounting software. It's too easy to accidentally create hours of bookkeeping clean-up from preventable problems. At Evergreen we really take the time to thoroughly check early software integrations to ensure everything is working as intended. Otherwise the old cliché about garbage in = garbage out will apply, and you will be in the dark about your financial situation.

YOUR TAKE AWAY

- Test each app thoroughly
- Trace each app transaction and see where in your financial statements they end up
- Know how to undo a transaction
- Consider a backup tool like Chronobooks or Rewind before connecting a new app

3 UNEARNED REVENUE ACCOUNTING

This is not a situation that occurs for every business owner, but it's important to treat it properly when it does occur. We have a client that has a number of interesting revenue streams. She sells courses delivered digitally, hosts workshops several times per year, sells other digital services, as well as selling some physical goods. For the digital products the shopping cart opens for set periods each month, and the services are provided at a later date – there may be several workshops at different dates, or the digital course may last several months. Since accounting principles dictate that revenues must not be recognized until the services are delivered. We have to deposit many of these customer pre-payments into a deferred revenue account. Carefully set up a tracking sheet for each type of payment and product to determine how much revenue should be recognized each month. Setting up the necessary and complex Excel spreadsheets is really only interesting to accountants, but the owner really appreciates knowing that each segment of their revenue is performing and the reporting is accurate.

A similar issue can occur when a client sells gift cards. Gift cards create a situation where the business owner receives the money right away, yet has to deliver services. From an accounting perspective this is a liability – a service that the business has yet to deliver. The gift cards sold get recorded as a liability on the balance sheet, and as they get used to pay for goods and services, then the income can be recognized and the liability can be drawn down.

What happens sometimes is that people purchase gift cards and never use them, or they get lost or stolen. They don't technically expire, so if they are not used, they will keep building as a liability on the balance sheet, in an ever increasing amount.

Where gift cards that never expire, accounting regulatory bodies have to recognize the fact that the balance can't keep growing forever, so every year management is allowed to recognize a portion of gift cards that are unlikely to be cashed as income. For any clients that sell gift cards, it's important to take stock of the annual balance and using your experience and knowledge of your business to suggest what percentage of gift cards are not likely to ever be redeemed. A good time to do this is when doing your annual inventory count.

YOUR TAKE AWAY

- **Learn the basics of accounting for your industry**
- **Contact a qualified bookkeeper to be set up correctly at the outset**
- **Have year end processes and tasks to ensure clean books**

4 NOT MONITORING YOUR CASH FLOW

CASH FLOW IS KING

And taking the pulse of the cash flow of your business is critical. More businesses are sunk by a lack of cash flow management than just about anything else. Very few owners know how to accurately forecast their cash flow needs in the upcoming weeks and months ahead.

If the owner is merely guessing, they may commit too much cash to payables and then realize they are short on payroll funds. Or they may have several vendors, and all of them want to get paid. You may have to make tough decisions about whom to pay when, and risk fracturing the relationship with your suppliers.

Keeping up with receivables is a large part of cash flow management. The business forecast relies on your profit margin to pay your bills. Where money earned is great to have, but money collected is infinitely better. You need a process that regularly reaches out to customers whose invoices are being paid late, and gently remind them that they are past due. You also need to dedicate resources to the few customers that will have disputes. "Want to work out a payment plan, or simply stop paying?" Studies show that the longer receivables go uncollected, the less likely they are to ever be collected. Being proactive is key. Possible remedies to collect delinquent AR include steps from multiple reminders, and phone calls to discussing payments, up to sending a demand letter drafted by an attorney. Knowing where businesses run into trouble most often is half the battle.

Preventive measures include signing a contract before beginning work, billing in small increments to avoid depending on any one customer for too much money, or not doing any work if bills are sliding from current to past due. Try taking a deposit for work upfront. In general managing the collections function can be a part time job for a growing and busy company.

There are some industries such as staffing companies, transportation, and some manufacturing and technology industries that benefit from a practice called invoice factoring. The company receivables are sold to a third party for a cash advance. As soon as the work is completed and the customer billed, the factoring company will advance cash to your firm to keep operations running with confidence. Then the factoring company collects the money from your customers and takes on the delays of collection while you get immediate cash flow to keep the firm running. The downside is the fee charged for this service, and the fact that invoices that go unpaid are still deducted from your advance if payment is never collected.

FORECASTING CASH FLOW

When it comes time to forecast cash for future expenses, we have yet to see a tool or an app that does everything we need it to do smoothly. Most cash flow tools on the market are either too complex, too simple, or need a college degree to learn how to use. Even accounting software is not much help with predicting cash flow needs. There really isn't anything that beats a very simple, yet effective, Excel dashboard prepared by Evergreen that shows the weekly spending and highlights any gaps. This provides the business owner with an unparalleled peace of mind.

If the owner is merely guessing, she may commit too much cash to payables and then realize she's short on payroll funds. Or when you have several vendors, and all of them want to get paid, you may have to make tough decisions about whom to pay when, and risk fracturing the relationship with your suppliers.

If the owner is merely guessing, she may commit too much cash to payables and then realize she's short on payroll funds. Or when you have several vendors, and all of them want to get paid, you may have to make tough decisions about whom to pay when, and risk fracturing the relationship with your suppliers.

YOUR TAKE AWAY

- **Cash flow is king – monitor it regularly**
- **AR management is critical to the company's financial health – take it seriously**
- **Get a business line of credit before you need one**
- **Invoice regularly**
- **Get paid faster by offering mobile payment solutions**
- **Review weekly cash flow forecast to understand coming expenses**

5

INABILITY TO READ AND UNDERSTAND YOUR FINANCIAL STATEMENTS

THIS IS A CRITICAL AREA

You are flying in the dark without knowing what your balance sheet and profit and loss are telling you, and how they work together. Both owners and some bookkeepers often struggle with this. The health of your business depends on a certain level of financial literacy, and if you don't have it, you're doing your yourself and your business a disservice.

Your bookkeeper should be committed to providing monthly financial statements with simple analysis that tells you how the business is doing and what the numbers are telling you. This is often called a dashboard and will be explored in depth in a future article. You simply cannot make good business decisions without accurate and timely financial data. Having this information is critical to your business health.

Here is a brief overview in plain language of your financial statements:

Profit and Loss:

This is the lynch pin document of your business. If prepared carefully and correctly it can tell you how much money your business brought in. How much it costs you to provide the product and service that you do, and how much cash is left over to either grow the business or keep as income.

Income = invoices billed
Less: Cost of Good Sold = subcontractors, labor, materials and inputs to earn income
Gross Profit: How much is left over after paying for Cost of Goods Sold
Less: General and Admin expenses: office expenses, insurance, legal fees, fuel and other costs that are not directly related to providing goods and services to your customers
Net Profit: What is left for the business to keep as profit or to invest in business growth

Balance Sheet:

Shows you what assets the business has, and what liabilities it has, as well as any shareholder activity. This financial statement can often answer the question of 'If I earned all this money, where is the cash? Why don't I see any money in my bank account?' The balance sheet will tell you if the money is not in the bank account. It is likely either in Accounts Receivable, i.e. not yet collected. In the assets of the business, such as vehicles, equipment and machinery, OR taken by the owner as a Shareholder Draw.

Knowing how to read your financial statements will give you the tools to know your business inside and out, leading to unparalleled growth and understanding of your company's performance.

YOUR TAKE AWAY

- **Income statements show you how profitable your company is**
- **Balance sheets show you where the money went**
- **Knowing how to read both is a necessary skill**

CONCLUSION:

Evergreen Business Solutions

Accounting is a large and complex field full of both steady principles, and a lot of flexibility. It is absolutely critical to business growth and health, and we are here to help small business owners who already have more than enough on their plate. If you're stressed out by bank statements, receipts, and spreadsheets, or find that Quickbooks isn't "quick" enough. We are here to help. We are a hard-working small business bookkeeping firm and we want to make your finances easy for you. We are here to help your business grow and prosper by giving you the information you need to succeed and giving you the gift of time to focus on what's important – Your business strategy and operations.

BONUS:

USE THESE 10 EXPERT TIPS TO HELP YOU WORK FASTER, AND AVOID MISTAKES!

Evergreen Business Solutions

Save time with Attachments – Stop misplacing hard copy invoices or storing your documents in three different places. You can attach your Payable invoices and other important paperwork right in Quickbooks. This is especially useful when it comes to paying vendor bills – you can see the bill and know exactly what you're paying for.

Automate Emails for Invoices - Financial Statements and Sales – you can email your invoices and send invoice reminders as well, right from Quickbooks. If you have clients for whom you do recurring work, you can set up recurring invoices on a regular basis. You can set up Quickbooks to automatically generate a sales report and a collection report weekly.

Set up Bank Rules – If you have common recurring expenditures like utility payments, rent payments and regular supplier. You can set up rules in Quickbooks to automatically categorize them. To do this you'll need to set up the GL coding, and a tax code, and then the software will automatically recognize it for you.

Track Time in QBO – You can enter and approve employee time sheets. Allocate employee time to projects. Run payroll and create invoices with ease by entering time data in Quickbooks.

Accept payment in QBO – To help speed up the all-important collecting of payments, you can enable 'accepting payments by credit' card right in Quickbooks. It's a fast and convenient solution so your customers don't have to send a check which may go missing, or search for a way to pay you.

Connect the bank feed – Every time we see a business that doesn't connect their bank feed in Quickbooks we are puzzled. It's a great time saver that shows your current bank and credit card balance, and each transaction that went through your bank. These transactions should be matched to your source transactions in Quickbooks and make reconciling the bank much easier.

Set up the Sales Tax Module – Using the sales tax module allows the software to keep track of your GST and PST automatically and makes preparing remittances much easier. As well as providing an audit trail in case of CRA review of your GST account.

Use Classes to track divisions – A Class in Quickbooks is like a division. if you have more than one product line you can set up a Class for each of them. Then run a profit and loss report by class to see which division is performing the best. This requires careful data entry management but can provide wonderful insight for your business.

At Evergreen we flag recurring transactions with a class, and then run a profit and loss by class report to help you manage cash flow.

Use the Projects feature – If your work is project based, such as a construction renovation, with a start and finish, the projects feature can be an extremely useful tool to track the costs and revenues for each separate project.

Use third party apps - Integrating with Quickbooks online to work smarter, not harder. The apps section of Quickbooks online is a robust eco-system of tools that help you accomplish just about anything that the business needs to do. From tracking mileage, to accepting cryptocurrency for payments. Just like Apple – You know ‘there is an app for that’.

Some of our favorite apps are:

Plooto, for bill payments and AR collection.

Receiptbank, to make your business 'audit proof' and paper free.

Harvest, for time tracking.

A2X, to migrate e-commerce transactions from Shopify to Quickbooks.

Wagepoint, for payroll processing.

Driversnote for mileage tracking.

Monday and **Asana**, for project management.

Keep in mind to test all integrations before committing to a tool to avoid the problems described in our Using technology in a way that causes problems section.

Happy Bookkeeping and Business Building!