

COMMON BOOKKEEPING MISTAKES COST MONEY, TAKE TOLL

As Published in *The Virginian-Pilot*

Bookkeeping errors are the most common problems CPAs discover when auditing an organization or processing its tax return. These costly mistakes occur when businesses use an employee who is simply good at math, or the owner wants to do it him or herself, instead of engaging a professional knowledgeable in accounting procedures and law.

While many bookkeepers are well trained and competent, others simply keep the books as they “think it should be done.” Below are some of the more common bookkeeper miscalculations or oversights I’ve seen over the years.

Employees as Subcontractors: Misclassification of workers can cause problems with the various taxing authorities and the Department of Labor. Many bookkeepers have difficulty determining the correct classification of a worker, i.e., employee or sub-contractor. As a result, some workers are treated as independent contractors when they should be treated as employees. There are different tax forms that must be completed for each of these classifications. The problem is further complicated when an employer neglects to collect the required information for subcontractors at the beginning of a job. By the time the error is realized, the sub-contractor has completed the job, making securing the information difficult.

Bonuses: Paying employees a bonus as a cash payment and not running it through payroll. In this case, necessary taxes are not withheld, potentially causing problems at the end of the year.

Payroll Taxes: Improper calculating and recording of payroll taxes for employees.

Expenses: The tax deduction on meals and entertainment is different from travel and lodging. If audited, businesses that do a poor job of separating the meal and entertainment expenses from travel and lodging expenses could face significant tax consequences.

Reconciling the Books: Failure to reconcile the books with the bank statement at the end of each month. This is often compounded by firms holding checks or cash receipts for deposit, resulting in inaccurate reflections of income. Balancing the books with the bank statement is a great way to catch common mistakes like failing to record a voided check.

Sales Tax: Some retail businesses have a tendency to include sales tax in their total sales figures. The sales tax should be deducted to reduce the final total figure and therefore lower the tax burden.

Inaccurate Records: Often bookkeepers say, “I’ll remember what that’s for,” when making an entry. Then at tax time when there are hundreds or thousands of entries and the memory is a little hazy, they forget. It’s better to take a few minutes at the time the expense is incurred to write a clear description. Simply keeping accurate records of bank deposits and their nature, as well as accurate descriptions of what checks are written for, can help avoid these issues.

Capital Expense Deduction: Trying to expense large items that need to be capitalized is also not advisable. Even though the capital expense deduction has increased to \$100,000, many firms surpass that total with multiple purchases but still try to expense items since no single purchase exceeded it. The limit is for the total, not the individual purchase.

Assets and Liabilities: Assets are not classified as income, and liabilities are not expenses. Confusing these can cause you to be taxed on items that should not be or take deductions that are not allowed.

Businesses that cannot hire a professional bookkeeper should ask their CPA to do an audit or review their accounting procedures. This will keep you on the right side of the law and might even save you money on taxes.

###

