Accounting Tips: The Devil's in the Details

Accounting starts with the basics of money in – money out. But tracking that money can be fraught with problems, most often due to human error. It's easy to be distracted in our busy business world and then lose focus on the accounting task at hand. That's when these tiny errors often happen. Tiny errors, huge impact. For example:

Entering the Wrong Amount – Your eyes can easily be tricked out when you have a long list of numbers to enter. You can enter info from the wrong line because your eye may wander from line 9 to line 11 and suddenly your entire spreadsheet is off. Or you may hit the wrong key unknowingly. Or you may transpose a number if you're going too fast.

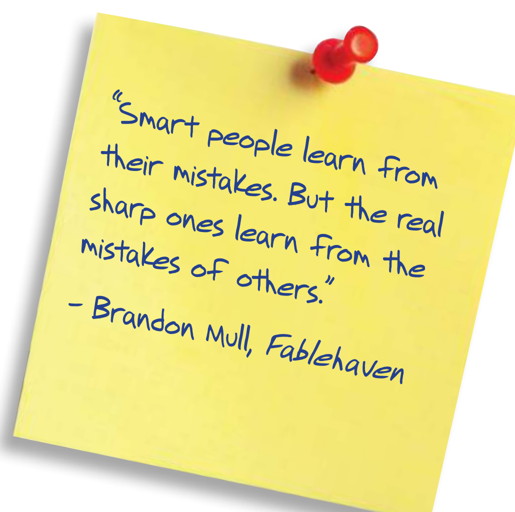
Posting in the Wrong Account – It's not unusual for someone to accidentally record or post something to the wrong account. It may have been an account that was either above or below the one that should have been selected. This kind of mistake can be avoided by focusing attention on one account and posting all entries for that account before moving onto the next one.

Not Catching Software Mistakes – You may have to keep a sharp eye on software nuances that could result in posting mistakes. For example, different software systems might enter this number differently: 146800. If a system automatically enters commas and decimal points, then you would end up with $1,468.00; the intended amount to be entered. But, if your system requires manual entry you could end up with a posting of $146,800.00; clearly not the right amount. So, make sure that you know your system well and that anyone posting in the system is following the same process.

Confusing Accrual Accounting with Cash Accounting – These two different systems of accounting can lead to a big misunderstanding of what your true cash flow is. Accrual accounting matches costs against revenue in "accounting time," while cash accounting tracks money in and money out in real time. The problem with cash accounting is that you may have cash that is not actually yours because you have a bill against it which hasn't come in yet. This is a problem many small business owners have and causes major issues in managing their money. For example, an advertising agency received $250,000 in advance for a media purchase they were making for a client. When they didn't get a bill from the media company for two months they began thinking they were cash rich and both partners bought new cars. Because the media company was late in sending out the invoice, the ad agency didn't have the media money when it was due. This one mistake began a downward spiral for the ad agency and within two years they were out of business.

Keeping Accounts Receivables Clean – It's not a sale if you don't collect the revenue, so keep up to date on your A/R. If you are paying vendor bills against a project and not collecting the money, your cash flow will be impacted. If you have to tap your line of credit as a result, then you are also paying interest against borrowed money and eroding your profit on the project. Become an A/R cop and enforce payment terms. Don't be your vendor's banker.

These simple errors are avoidable when an organization is vigilant about its finances. Most accounting errors are a result of human error or lack of knowledge about how a system works. Working with an accounting firm like RBF can help your organization track down errors and find solutions to keep them from happening again. Your financial health is our greatest concern and giving you help with the details, as well as the big picture, is our mission.



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