

Build Better Bookkeeping Habits

Your Bottom Line Depends on Knowing the Numbers

As a business owner, you probably love working for yourself, making decisions, and adapting to the challenges that business throws at you.

But how do you feel about your business accounting? Do you understand your company's financial health? Finances can feel hard to manage. You know you're making sales, bringing in money, and paying your bills, but you have little insight into the reality of your books. Are you actually profitable? Where is the money going?

For example, maybe you've grown your business from \$3 million in annual revenue to \$7 million, but your inventory grew right along with that and now you have no more cash than you did when you had a much smaller business.

One of the most important financial tasks you can do for your business is reconciling your books. That means taking your end-of-month bank statements and matching them to the reports generated from your accounting software. You can do this yourself or have someone else do it, but it's essential for maintaining your business's health.

We know it can be tedious to have to go through your accounts and check for accuracy or find and fix mistakes when you have so many other (more interesting) things to do. But we still recommend it to every client we work with, and we do it ourselves!

Find Missing Money

Who have you billed? Are your customers sitting on invoices they aren't paying? Here's where you can use reports from your accounting software to compare against invoices you generated for your customers or against deposits

into your bank account.

Getting paid for your work is an essential part of running a successful business. Are you missing out on money because you don't even realize your customers haven't paid?

Find Mistakes and Prevent Fraud

A business that doesn't reconcile regularly ends up with a pile of mistakes at the end of the year. These mistakes muddy up your financials so you don't know exactly where your business stands and get in the way of closing the books. It can be a nightmare to untangle.

Getting paid for your work is an essential part of running a successful business.

Maybe your bank made an error on entry, or maybe one of your employees mis-entered a check amount. It's easy to make a data entry error, but if you're doing regular reconciliation, you can find and fix the problem quickly.

If you don't fix the issue, your numbers will be off every month (and mistakes usually compound).

Say your employee mis-entered a deposit of \$110 as \$100 one month. That's a small thing that could be corrected, but no one takes the time to figure out why your account is off \$10. The next month there's that error, plus an additional error when a \$200 check is deposited into your bank account but not entered into your accounting software. Now after two months you're \$210 off.

At this point you decide to dig into the problem, but it's going to be harder to figure out what happened. You're going to be looking for a \$210 error, but you need to be looking for \$10 and \$200 in

two separate months.

This is just a small example of how mistakes (and frustration) can build if you don't do regular reconciliation.

As more and more mistakes pile up (because we're human after all), fixing errors can feel like finding a needle in an ever-growing haystack.

For the most part, these are all honest mistakes. However, having accountability around your books also helps to keep bad actors from defrauding your business. If no one ever looks at your bank statements or checks them against financial reporting, it can be easy for one person to funnel money from your accounts into their own.

Closing Your Books Every Month Is Essential To Your Business' Financial Health

Why You Need To Make Reconciling Your Books a Priority

Make Sure Your Bills are Paid On Time

Your business has monthly bills, quarterly bills, and vendor invoices that show up after you've bought inventory or supplies. Maybe you've set things up to be auto-charged to a credit card or auto-deducted from your bank account.

At the end of the month, it's important to know what happened with your money. What money was taken out of your account? Were your bills paid? Are there bills that weren't paid, and when are they due? Do the same with your credit card statement. Can you or your bookkeeper match everything charged to cards with a receipt or invoice? As with your customer invoices, it's helpful to record vendor invoices in the software even if you don't need to pay them right away.

Forgetting to pay invoices can cost



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Manage Your Cash Flow

Having enough cash on hand is important, but you also don't want to keep more cash in the business than you need to, especially if you have other good things to do with those funds. When you reconcile and review your books in depth every month, you can generate reports that allow you to see your cash flows. You can track and manage your expenses to

understand where your money is going. You can see things like bounced checks and catch small problems before they become bigger ones.

Reconciling your books every month gives you confidence that you understand what's going on in your business.

Generate Accurate Financial Reports

You, your team leaders, and your accountant all need reliable numbers for different reasons. When you reconcile your books, you can generate accurate information for everyone from your sales team to your purchaser. And of course your accountant needs to get a clear look at your books for tax reasons.

Your bank or other creditors also need to know that you're financially healthy, especially if you rely on credit for slow

periods of business or if you need to borrow money for capital improvements.

All of these people rely on having accurate reports that show the financial health of your business. But you won't be able to generate accurate reports without reconciling your books.

Why Does This Matter for You, the Business Owner?

Reconciliations are tedious, and it can be tempting to say, "that's just for the bookkeeper to worry about." However, a team typically values what their leader values. And if you as a business owner understand why having a strong reconciliation process in place is important for your business, you are better set up to give your finance team the leadership they need to build this process out well. **PB**

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