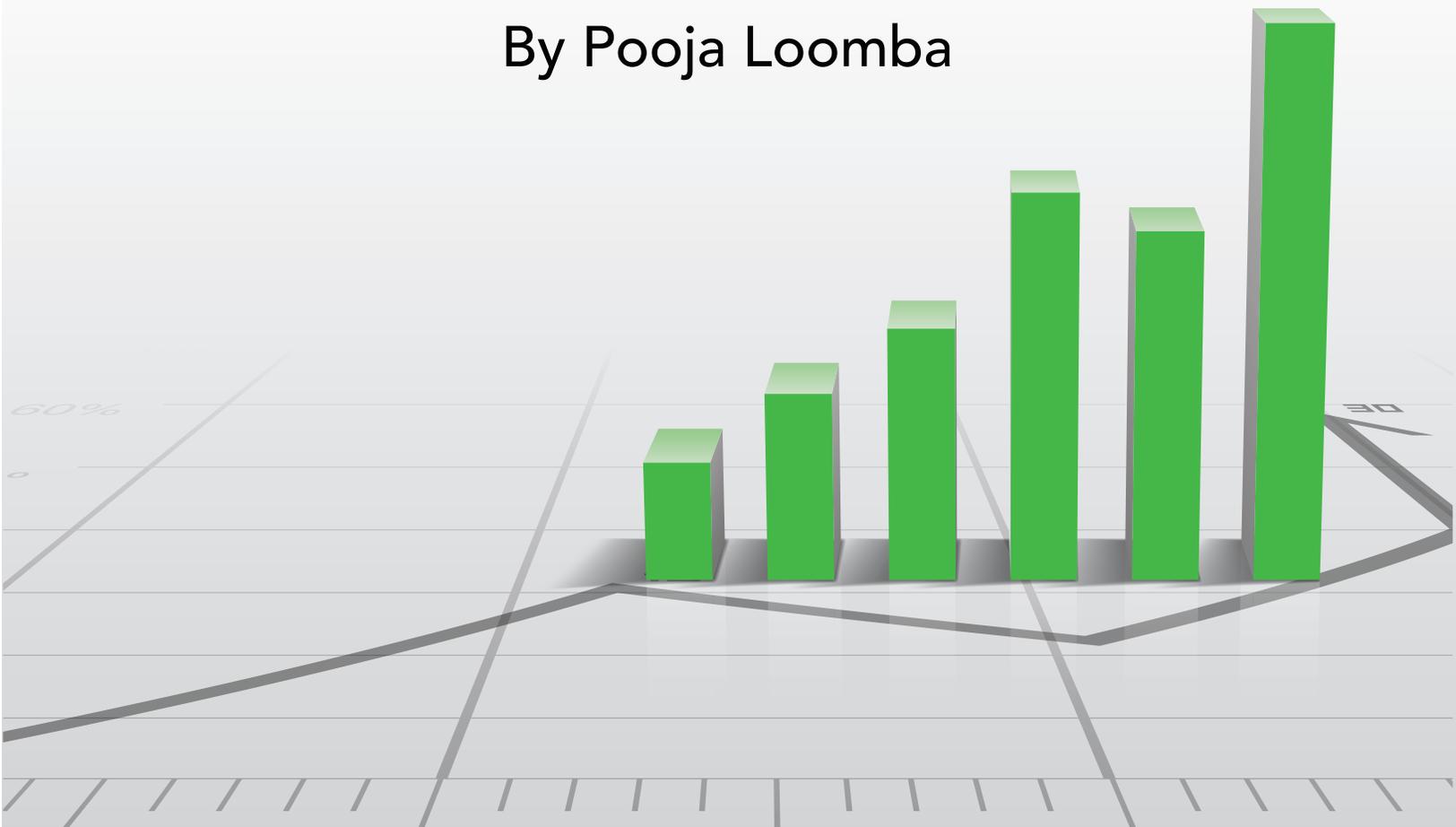




The 7 Most Common Mistakes QuickBooks Users Make

Are you making any of them in your QuickBooks?

By Pooja Loomba





Do the balances in your QuickBooks file seem off to you?

Are you unsure about whether you are using QuickBooks correctly in your small business?

Do you want to avoid paying excess taxes on bad numbers in your QuickBooks file?

If you answered yes to any of these questions, then it could be that your QuickBooks file contains one or more common errors that are made by many QuickBooks users like yourself. These common errors can cause a lot of problems in your business and with your taxes, such as:

- Distorted account balances that are not accurate and cannot be relied upon
- Overpayment of taxes due to reliance on overinflated profits
- Inability to get a loan because it looks like you are in debt more than you are
- Inaccurate decision making in your business based on numbers that you think are right but are not
- Chaos when collecting money that is owed you when the accounts receivable detail is wrong
- Thinking you are overspending when you aren't and vice versa

These consequences can cost you a significant amount of money. Here are seven common pitfalls that we see all the time in new clients' QuickBooks accounts.

1) A Balance in Undeposited Funds

Undeposited Funds is an asset account that is listed in your Chart of Accounts. If it has a balance of any amount besides zero, then that's a problem that needs to be corrected.

To see what the balance is in that account, view your Balance Sheet report and look for an account called "Undeposited Funds." If it's listed with any kind of balance, there could be a problem that needs to be fixed. A red flag should go up in your mind.

The consequences of having a balance in this account are that your accounts receivable will be overstated. Invoices will show in your accounts receivable that have already been paid. Your income will also be overstated: you may think you are making more revenue than you are.

2) Confusing Bill Payment and Check Writing

It's very easy to confuse the two functions of bill paying and check writing in QuickBooks. Each of them affects your account balances in different ways and should be used in different circumstances. If you mix and match the two, your balances can be off. It will look like you haven't paid your bills when you have.



When you use the wrong function at the wrong time, both your accounts payable balance and your expenses can be overstated.

When that happens, you won't know if you can afford to spend on more business expenses or not. You may end up making bad business decisions because your numbers are wrong.

Run a Balance Sheet report and look at your accounting payable balance. Do you feel you owe fewer bills than the amount shown? If so, a red flag should go up in your mind again.

3) Unnatural Account Balances



There is a natural order to accounting, believe it or not! Assets should have debit, or positive, balances. Liabilities should have credit balances. If the opposite is true, then that might signal a problem.

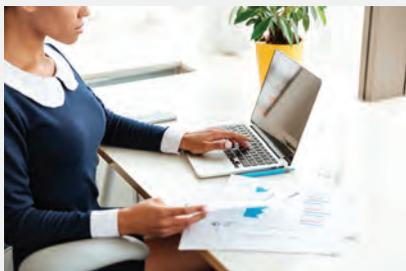
The same thing is true for expenses and income. Let's take an example. Let's say you purchased an item for \$500, then returned part of it for a \$100 credit. The \$500 was properly recorded in the Office Supplies account. The \$100 credit was recorded in the Legal account and there are no other transactions in that account, so it shows a \$100 credit balance. Expenses should have debit balances, not credit balances. This results in a negative expense, and your tax return will be a little off if it is not corrected.

There are many other situations with “contra” transactions and accounts that need to be reviewed and verified. Using contra accounts is an advanced accounting concept where many people need help from accounting professionals to ensure it’s being done right.

To see if you have any negative expense balances, you can run an Income Statement report. But for this one, it’s better to consult a professional that can review all of your accounts for abnormalities.



4) Uncategorized Transactions



Transactions form the records for your entire accounting system. Each time a transaction is entered, it needs to be coded to two accounts which make up the infamous debit and credit in a double-entry bookkeeping system. If you leave one side uncoded, the result is an uncategorized transaction.

For example, if your accounting system is connected to your bank account, transactions come in, and we know one of the accounts they need to be coded to is your bank account. But you often need to manually match, approve, or code the other account involved in the transaction. If that’s left undone, you have a mess.

You can’t deduct uncategorized expenses on your tax return! IRS wouldn’t like that very much at all. If you don’t code your transactions correctly, you may end up paying too much in taxes. And no one wants to do that.

Uncategorized transactions can affect the balances of many of your accounts:

- It can affect your asset accounts: bank, accounts receivable, and others.
- It can affect your expense accounts and your tax deductions.
- It can affect your income accounts.
- It can affect your liability accounts: credit cards, accounts payable, and others.

If transactions are left uncategorized, any of the balances above will be wrong.

5) Incorrect Sales Tax Treatment

Paying sales tax is a necessary evil for most business owners, but it can be worse if it's not booked correctly. Many people inaccurately record sales tax as an expense. It's not, and this can overstate expenses and overstate your liability accounts related to sales tax.

6) Unreconciled Items from Prior Periods and Years

Many accounts need to be reconciled monthly. Your QuickBooks software includes built-in reconciliation reports. Sometimes there are items on these reports that should have been cleared in a different way.

Many things can cause reconciliation problems:

- Timing differences, which are normal and OK
- Items that should be cleared that weren't
- Items that were cleared and shouldn't have been



Often if you're anxious to get something to balance, you can "force" the issue by entering a journal entry that "plugs" the balance. But that's a shortcut that shouldn't be taken because it will be costly to fix later on. It reminds me of the boy standing near a wall with water pouring out of a hole, and the boy using a finger to try to "plug" the leak.

If this has happened in your books, the core transactions will forever be wrong until they are corrected. The plug needs to be removed, and entries need to be cleared correctly for the reconciliation to work.

7) Large Balance in Miscellaneous Expense



If you have a large balance in an account labeled Miscellaneous, your tax professional will probably throw up their hands. You can't deduct miscellaneous expenses on your tax return just like you can't deduct uncategorized expenses as we talked about in an earlier point.

Any transaction in a miscellaneous account needs to either be re-classified to a more specific expense account or coded to a new account created to reflect the correct type of expense.

Your Books

Did you recognize any of these mistakes in your own QuickBooks records? If you did, you're certainly not alone. The good news is that they can be corrected so that your books are clean and your numbers are accurate. We do this all the time for clients just like you!

Complimentary Diagnostic Consultation

The first step is to contact us to set up your complimentary 30-minute session with us. We can discuss these issues with you and set you on the path to clean books.

You're going to feel great when you know your QuickBooks accounts are cleaned up and ready for the tax professional as well as for your own use. You can now rely on your numbers to make great business decisions. You can feel confident about the accuracy of your accounting records.

Hi There!

My name is Pooja R Loomba. I am a CPA and Advanced Certified QuickBooks Proadvisor specializing in QuickBooks cleanup. During last 14 years of working with QuickBooks, I have helped 100s of clients in cleaning up their QuickBooks files and providing clear financial insights with Bookkeeping and advisory services.



I'd love to give you 45 Minutes of my time for free where we can discuss the pain points in your QuickBooks file.

There's no obligation whatsoever. At the end of the call, you can decide to tackle QuickBooks issues on your own or hire us to do it for you.

So don't wait anymore and book a 45 Minutes consultation with me here....

<https://calendly.com/ploomba/45min>

I look forward to speaking with you and helping you get an accurate/reliable set of books that can help you make sound business decisions.