

# Risks of DIY small business accounting

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Should you do it yourself or leave it to the professionals?



## Your quick guide to avoiding the risks of do-it-yourself (DIY) accounting

**W**e're happy to see you here, digging into another educational resource developed to offer you valuable information on the risks of doing your own business accounting.

If you own a small business, it can be tempting to save money by handling your own accounting. However, this can be one of those situations where you get what you pay for. When it comes to finances, it's best to have a trusted pro in your corner. This helpful guide outlines five reasons why not using an accountant for your business could create issues that put your business— and even your personal finances in jeopardy.

We're here to help, so if you have questions or would like to consult with a member of our team, please reach out to our firm today.



## DIY accounting: Yea or nay?

Next to time, money is the hardest thing to have enough of when you're a small business owner.

So, it's not surprising that, according to the 2019 *Onpay Small Business Finance and HR Report*, approximately 70 percent of small business owners don't work with an accountant, preferring to do the bulk of the accounting work themselves or with the help of an employee.

If you do your own accounting now and it's working for you, congratulations. Keep in mind, however, that especially as your business grows, there are some definite risks you run without an accounting professional to guide you.

"It's going fine! I don't need to pay an accountant," you might protest. And that will hopefully continue to be the case. But unless you or the person doing your books has the financial training and knowledge to

understand everything that's needed or what might be missing, what happens when you run into a problem?

You could miss an important tax or payroll deadline, a payable could go unpaid or—perhaps most intimidating—you could be subject to an audit by the IRS. That's when

it really becomes clear that adding and subtracting numbers isn't all an accountant brings to the table.

To help you understand the risks of being your own accounting department, read on for five possible pitfalls of DIY accounting.

““ **The 2018 Accounting Today Small Business Accounting Insights Survey found that 72 percent of respondents were ‘very satisfied’ with their accountant.** ””



## Risk #1: Disorganized, not-current books

As a business owner, you have dozens and dozens of tasks clamoring for your attention every single day. And it never ends. So, it's understandable if, at the end of an exhausting workday, you decide you'll do the bookkeeping tasks in the morning when your head is clear. The trouble is, all the other things you didn't do the day before still need to be addressed, and before you realize it another day is gone. And another. And another...

When you're too busy to do the bookkeeping, it's easy to lose track of your cash flow, unpaid invoices, bill payments—and to fall more and more behind, until you're left scrambling at tax time to reconcile your books. When that happens, it can cause:

- Wasted hours and lots of frustration as you try to remember what you did
- Unpaid receivables
- Lack of consistency in recording transactions
- Math mistakes
- Missed small/cash transactions that can add up
- Lost invoices or paperwork you'll need down the line
- Overpayment of taxes at tax time, thanks to incorrect balances

And there's always the possibility of an IRS audit if things don't add up. Plus, when you're focused on accounting, you don't have time to focus on the important parts of your business that only you can handle.

### Accounting services most likely to be used by small business respondents in 2019

*(from Accounting Today Small Business Accounting Insights Survey)*

**65% Tax services**

**41% Tax planning**

**36% Bookkeeping**

**23% Business planning**

**22% Payroll**

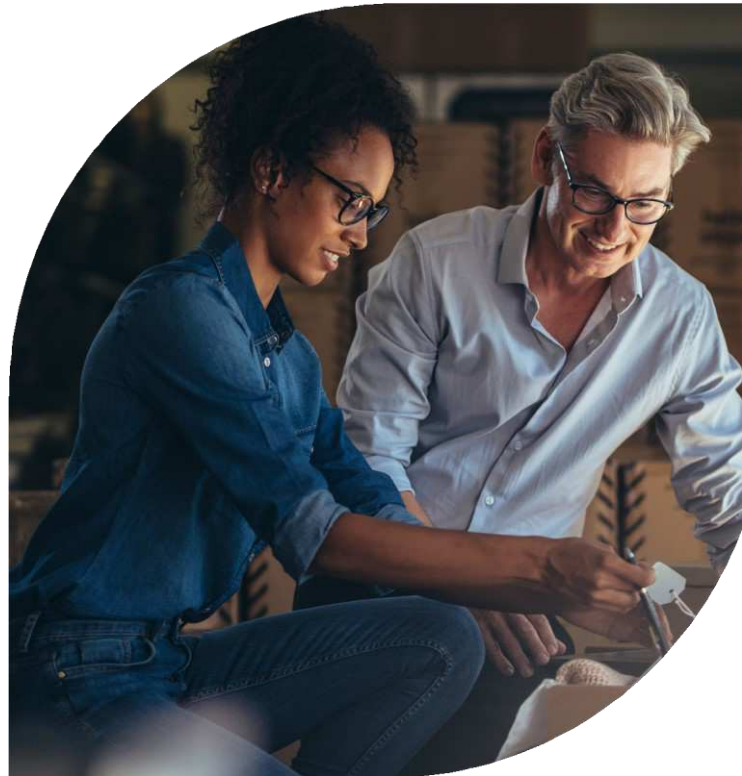


## Risk #2: Missed deadlines

It sometimes seems that tax and payroll tax deadlines are the lifeblood of government agencies. After all, there have already been so many of them in 2021, like:

- January 15 – Quarterly estimated taxes due; payroll tax deposit for December due
- January 31 – Form W-2 due to all employees; employer's quarterly federal tax return due; submit W-2 forms to the Social Security Administration; submit all 1099 forms to the IRS; file Federal Unemployment Tax (FUTA) Form 940 for the previous year; deposit FUTA taxes owed through December
- February 15 – Payroll tax deposit for January due
- March 15 – Payroll tax deposit for February due; S Corp and Partnership income tax returns due
- April 15 (or in 2021, May 17 due to pandemic delays and June 15 for TX and other states declared winter storm disaster areas by FEMA) – Business and personal income taxes due
- April 15 – First installment of estimated taxes due; application of extension for person, partnership or LLC tax return due; payroll tax deposit for March due
- April 30 – Employer's quarterly federal tax return due

And that's just through the end of April. There are close to two dozen more deadlines through the other eight months that may affect you, depending on your situation. And we all know the government doesn't mess around; you miss a deadline and you'll owe fees and penalties your business may not be able to bear. Accountants are deadline savants—they have to be. They'll make sure whatever deadlines affect you are met.



## Risk #3: Poor business decisions that affect the future of your business

How can you make a good business decision without knowing the state of your financial health? An incomplete or bad picture of your finances can imperil the hiring of new employees, the growth of your business, even your marketing budget.

This is where an accountant can swoop in and help save the day, with reports, charts and graphs that not only point the way to your future but answer your questions and inform anyone who needs to see your financials. For instance:

- Need advice on your business plan? Accountants can add financial projections and other reports as needed for a more realistic and professional plan.
- What about your company structure? Are you in the right structure for your situation? Is it time to switch from sole proprietor to a corporation or LLC? How do you make sure you won't lose your personal assets (e.g., your house) if you default on a debt or lose a business lawsuit? All questions your accounting professional can help you answer.
- Do you know how to manage your Key Performance Indicators (KPIs)? Accountants can supply you with information detailing your business's KPIs (targets that help you measure progress against your strategic objectives) at any time, helping you stay on track.
- Do you need a loan? Is it time to take on investors? Are you thinking of buying another business or selling yours? Together with your attorney, an accountant can help you determine where you stand and what's best for your situation, as well as provide you with the financial information you need for your applications or presentations.

Even once you're growing beyond your wildest dreams, an accountant can handle payroll, employee taxes, utility payments, receivables, property tax payments and more for you, leaving you free to concentrate on what you do best: Making your business grow even more.

**“An incomplete or bad picture of your finances can imperil the hiring of new employees, the growth of your business, even your marketing budget.”**



## Risk #4: Not being aware of the latest tax deductions, law changes or new programs

Pop quiz for business owners who prepare their own taxes:

- 1 What is a PPP loan, and how does it work?
- 2 Do you qualify for the R&D Tax Credit, and why or why not?
- 3 Do you really understand the Small Business Healthcare Tax Credit, and if so, how does it work?

If you can thoroughly answer all three questions, you don't need to read the rest of this section. If not, these are the types of things you miss out on without an accountant to help you wade through tax law changes, tax credits, government loans and other assorted programs that could benefit or negatively affect—your small business, such as:

- Special programs and loans for life- and business-changing situations like pandemic or natural disaster assistance
- New tax credits and deductions that apply to your business
- Consequences of the latest tax law changes
- Potential tax hikes

Even in a turbulence-free tax year, accountants are always on the lookout for ways their clients can save money or free up cash to reinvest in the business. And it's their job to learn the ins and outs of every new initiative or law change so they can point you in the right direction when and if you decide to apply for business grants, loans, and programs.

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## Risk #5: Facing the dreaded A word

**AUDIT.** One five-letter word that fills every taxpayer with terror (not to mention stress and anxiety). Even more so if your records aren't up to date or in the best of shape. Because IRS auditors have seen it all, what you know is a clerical error can look very much like fraud to an auditor. And if you don't have the records to back up your claim? You're looking at paying penalties (usually civil)—and they'll even charge you interest on those fines.

So...what are the kinds of things that can trigger an audit, and what kind of penalties would you be looking at?

Depending on the infraction, it could look something like this:

- **Filing taxes late**—For each month you don't file, you'll be charged 5 percent of the taxes you owe, up to 25 percent. Plus, if you file more than 60 days after the due date, you'll face additional penalties.
- **Underreporting income**—Depending on the case, substantially underreporting your income can cost you a penalty of up to 40 percent of the taxes you owe.
- **Miscalculating employee taxes**—If you have employees and miscalculate or underreport your payroll taxes, it can cost you 100 percent of the taxes you didn't pay.
- **Submitting tax forms late**—If you don't issue W-2 forms to employees or 1099s to contractors by the January 31 deadline, the fine can be \$50 or \$100 per form depending on when they're filed, with a maximum fine for small businesses of \$187,500 per year.

There are other penalties for understating or misstating the value of property, reportable transactions, gifts or an estate. Of course, working with a good accountant will greatly reduce the risks of any of these things happening, because your books and records will be organized, accurate and up to date—and you'll be busy growing your business and being glad you don't have the burden of accounting and taxes on your shoulders anymore.

### How does your business handle accounting and finances?

*(from the 2019 Onpay Small Business Finance and HR Report)*

41% I do everything myself

30% I have an employee who does accounting and finances

17% I use both internal employees and an external accountant

13% I use an external accountant



## One last piece of advice

None of the risks included in this eBook are meant to scare you, but they are meant to make you think about how much more security an accountant can bring to your business team—and how much easier she or he can make your life. You don't have to employ an accountant full-time, or even on a retainer.

It may be that all you need is just a few hours of their time for them to help set you on the path to a successful, profitable and well-organized business. Or, you may decide that it's worth it to entrust them with additional financial matters as you grow.

If you need to search for an accountant, please remember: You get what you pay for. Just because someone says they do accounting work for a low fee, it doesn't mean they're good at it. Ask friends, other business owners and trusted acquaintances for referrals. Check their online reviews (Google). And be willing to spend a little more for good quality work. A good accountant will be just as invested in your growth and success as you and your employees—and, we think you'll discover, an indispensable part of your team.

**“ If you need to search for an accountant, please remember: You get what you pay for.”**

We hope our guide has answered some of your questions about the risks of DIY business accounting. Now that you know an accountant can be both an affordable resource and an integral part of your team, take look at the state of your books and consider whether working with an accountant is the next logical step for your business.

## Would you like help with your small business accounting?

Contact us today! Simply click the **GET IN TOUCH** button and complete the brief form or give us a call. Remember, we're here to help.



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