

5 Important Things QuickBooks Does Not Tell You About Your Business

Sheri Neuman, CPA | Bridgewater Certified Public Accounting
1299 Fourth Street, Suite 500 | San Rafael, Ca 94901
415.528.5400 phone | 877.858.5577 fax
Info@Bridgewatercpas.com | www.Bridgewatercpas.com

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QuickBooks is a great product. In fact we use it in our practice on a daily basis.

There are many things QuickBooks does that are great. Some of those items are: invoicing, keeping track of Accounts Receivable, our checkbook, Accounts Payable, and keeping multiple checkbooks in one place.

However, there are several extremely important things QuickBooks does not tell you. Ignoring just one of these items can create problems in your business.

These oversights can hamper your business by decreasing cash flow thus creating what is called a tax spiral and various other problems. In addition, by ignoring these five things, you may find yourself undercapitalized at the wrong time.

The following five items, while not conclusive, are merely five of many items that need to be addressed in your business. These are in no particular order as one item may mean more to one business operator than another.

1. QuickBooks does not give you quarterly or any ongoing advice as to your tax liability.

Often when you own a business, you will either pay yourself a salary, pay yourself dividends or likely both. When you take dividends, you will normally be subject to federal, state, and sometimes local tax liability that is not deducted anywhere in your business.

A good business owner will often have their CPA or Accountant calculate what is owed quarterly. This will help with cash flow at year-end as well as eliminate any crazy surprises come tax time.

There are some who like to live on the wild side and just hope they won't owe come tax season. Others, who have good control and budgeting, will use their advisor to calculate these estimates to pay in throughout the year.

Or they set aside the amounts so they are not scrambling at the last minute to come up with dollars they don't have.

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2. QuickBooks has its limitations when it comes to asking for advice on a particular transaction.

The IRS is auditing more small businesses. In some estimates the number is increasing from 1% to 3%.

They can do this because the IRS is one of the only areas in government that employments is expected to grow in the double digits. Often times eliminating an audit for a business owner is as simple as keeping “clean” books.

This means that rents, receivables, and miscellaneous expenses are correctly recorded and not just thrown into a catch all account, like opening adjustments, reconciliation adjustment, miscellaneous, etc. Doing this is a great way to set yourself up for audit.

In the long run, you may be correct, but the tens or hundreds of hours you take gearing up for an audit or visiting with the agent will be a distraction from your day to day work and will ultimately be reflected in your income which then hurts your outcome.

The old saying work on your business, not in it, could not be more appropriate.

3. QuickBooks report features can be utilized to give great information to a business owner.

However, QuickBooks gives a traditional cash basis financial statement and an accrual basis statement. Many owners simply work out of their checkbooks and this is fine to some extent.

However, if you are like most business owners, it is not just important to understand where you have been, but understanding where you are going tomorrow, next week, and next month is just as important.

Reading financial statements in an accrual or cash basis may sound simple, but it is the art of understanding these statements and making solid business decisions about them is where the “art” comes in to play.

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Using an advisor or virtual CFO who sees many different types of businesses will help you to see problems often before they arise. We have a saying that two heads are always better than one.

Having a QuickBooks Advisor will help you to see these issues, and the advisor will be someone you can bounce ideas off of from time to time.

Many small business owners cannot afford to hire a Controller, but having access to one is just as important in making sound financial decisions.

4. QuickBooks does not do a great job of reconciling year end amounts and closing the books.

A good CPA or Accountant will understand the importance of not just closing the books, but reconciling accounts like long-term debt, depreciation, checking, distributions, and many other accounts.

Not reconciling these accounts can create problems that roll over from year to year. I have seen many new clients that we look at their books and some of the items never reconciled will go back over three years and it results in financial statements that are not accurate or kept up to date.

These mistakes can cause problems when preparing a tax return that can draw attention to your return with the IRS.

5. QuickBooks file size and damaged files that go undetected until it is too late.

We have seen many instances where a client has backed up their QuickBooks file only to one day find out that the backup is not working, or that both the file and the backup have been damaged. Also, a backup of your server file is not the same as using the QuickBooks backup tool. The latter fixes problems when you use it.

It is always good to keep a backup that has been tested at some point off site and with someone who understands QuickBooks. QuickBooks online can alleviate some of these issues, however, the online version is limiting and does not have the robust features that a normal QuickBooks will have.

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Periodically running a Portable Backup and then restoring it will solve many of the damaged file problems that build up over time in QuickBooks. It will also decrease your file size.

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Our firm advocates the use of QuickBooks, and we have a plan for all of our clients to not just use QuickBooks, but to make it a tool for running their business.

These items mentioned above are just some of the problems you may encounter using QuickBooks. You need to be able to address not only the issues above but the other dozens of limitations QuickBooks has to maximize your QuickBooks experience.

QuickBooks, or any other package, is a really just a tool, not a brain. In fact bad mistakes happen every day to good people who use QuickBooks with the intention that it will solve their accounting problems and tell them about their business.

Take the next step, call me at 415.528.5400 so I can assist you in QuickBooks endeavors and give you solid advice that will help steer you in the right direction, not just for one trip, but each & every day you operate your business.

Sincerely,
Sheri Neuman, CPA
Bridgewater Certified Public Accountants

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