

10 Consequences of Bad Bookkeeping in Your Business

5 min read



Key Takeaways

- You Don't Know Your Numbers, So You Don't Know Your Business: You should be able to rely on key performance indicators (KPIs) that are most important to your business.
- You Suffer Cash Flow Problems: Without sound bookkeeping practices, you will undoubtedly run into cash flow challenges.
- Your Expenses Have Run Amok: A messy back office causes all sorts of problems when it comes to expense tracking, expense approval, and reimbursement.

As your business grows, you inevitably have more fires to put out, issues to deal with. One of the worst is when you have cash flow or other financial problems. There's a few reasons why that happens, but one thing we see so very often is the unfortunate effect of having an inefficient back office.

Having an optimized accounting system and an efficient back office is essential to operating a successful business. It should be a source for actionable insights to help you make data-driven decisions.

Avoiding all the consequences of operating with bad bookkeeping and accounting practices is more important than many business owners realize.

Here are 10 warning signs your back office will keep you stressed and your business stagnate..

The Impact Of Messy Books

1. You Don't Know Your Numbers, So You Don't Know Your Business

To know your business — what drives it, how much each department costs, how much it makes, how much it costs to make every dollar of revenue that comes in, how sound it is financially, and more — you absolutely have to [know your numbers](#). You cannot know your business's numbers, nor have a clear understanding of your business's financial health, without a sound bookkeeping and accounting system and efficiently run back office.

Without a strong back office, you'll be wading through inaccuracies, receiving outdated reports, and you won't be able to rely on the data.

A robust back office is one that allows you to get timely, accurate financials, have confidence in your numbers, and keeps your cash flow moving smoothly.

You should be able to rely on key performance indicators (KPIs) that are most important to your business. It allows you to set strategic goals, make data-driven decisions to move toward your goals, and to ultimately achieve your goals so that you can start setting new ones.

2. You Suffer Cash Flow Problems

Without sound bookkeeping practices, you will undoubtedly run into [cash flow](#) challenges. Whether your days paid outstanding drags out longer than expected, you fall short on available credit, incur overdrafts on accounts, or see your cash flow completely dry up, keeping your books in order can help you get a hold of your business's cash flow.

Having your expenses and payables accurately tracked, automations that get invoices out on time and handle collections efficiently, will give you a clearer picture of your company's cash flow at the present moment. This will even improve your ability to predict cash flow problems before they occur.

With a better bookkeeping and accounting system, your business's budgeting will improve and help you prevent cash flow problems before they happen.

3. You Can't Strategize

Strategy is essential to successful business operation.

As a business owner, you must have a vision for the future of your business and a plan or [operating framework](#) that will help you get there — a well-functioning, efficient back office has to be an essential part of that operating framework.

Whether you're trying to set goals for the next year, quarter, month, or week, an inadequate accounting strategy will hold you back. Not only does a badly run back office prevent you from achieving your goals, but it can also make it difficult to simply set goals, track benchmarks, and measure progress.

4. You Miss Tax Deadlines

Tax time is a massive headache when your back office is out of order.

If your records aren't consistently updated on a regular basis, when tax times approaches, your business will inevitably have a huge tangle of receipts to sort through. As a result, what could have been a simple job turns into a towering task of nearly impossible proportion that will require a great deal of employee labor hours. Ultimately, you risk missing your filing deadlines, making mistakes on your tax documents, incurring tax penalties, and triggering IRS audits.

An efficient bookkeeping system will ensure your business is [tax-ready](#) no matter the time of year.

5. Your Expenses Have Run Amok

A messy back office causes all sorts of problems when it comes to expense tracking, expense approval, and reimbursement.

Without an adequate system for approving expenses, filing receipts, categorizing expenses, and allocating costs, you'll have no idea what your expenses actually are. Without a clear snapshot, you won't know how much your business is spending (or on what you're spending). As a result, your expenses will likely take on a life of their own, and you'll be at risk of having them reach monstrously unaffordable proportions.

Simple [technology solutions](#) exist for saving receipts, approving, tracking, and categorizing expenses, and reimbursing employees for out-of-pocket costs. With an expert to show you

how to put these systems in place and make the most of them, you'll create an efficient way to keep track of all your company's expenses while bolstering your back office.

6. You Have Invoicing Mistakes (and You Might Not Even Know It)

When it comes to invoicing your clients properly, there's a lot that your receivables department needs to get right: accurate pricing, timing, collecting, and follow-up. At an even higher level, invoicing properly also requires accurate and thorough time tracking and cost allocation.

With an inefficient back office, there's no way to know whether you're providing clients with accurate up-front estimates followed up by accurate invoices. You also won't know if you're collecting payment on time, or if you're even charging the right price for your services.

With a robust accounting system in process, you can optimize your prices and send invoices that are always accurate and timely. Additionally, you can automate your collection process and update your [payment systems](#) to ensure it's easy for your clients to remit payment as soon as possible.

7. You're at High-Risk for Internal Fraud

A messy back office without securely designed bookkeeping and accounting processes and policies puts your company at risk of suffering losses due to [internal fraud](#).

Without smart policies and sound processes that enable adequate separation of powers/duties and proper checks and balances, your small business risks enormous loss (the kind of loss that can force you to close for good) due to internal fraud schemes.

No matter how highly you regard your employees, all small businesses are vulnerable to internal fraud. Implementing proper checks and balances, separation of powers, and enlisting the help and oversight of external accounting professionals can all help you avoid this costly small business problem.

8. You Don't Know Your Costs, So You Can't Optimize Pricing

If your back office function is doing a poor job of tracking expenses and keeping track of your employees' time, you won't truly know your costs.

Without this, as a result, you won't be able to make strategic pricing decisions. There's no way for you to clearly measure your profit margins and no way to [optimize pricing](#) to produce strong margins. With poor pricing models, you'll inevitably suffer cash flow problems, and you won't be able to realize your business's true potential.

An efficient back office should implement tools to track your employee time and expenses while accurately allocating those costs (both direct and indirect) to individual jobs. As a result, you'll be able to optimize your pricing, strengthen your [profit margins](#), and [improve your cash flow](#).

9. You Can't Improve Your Workplace Culture

A badly run back office leads to a badly run business.

When neglecting to address these challenges, your company's workplace culture will undoubtedly suffer. Your employees might face uncertainty in their job security, might not feel adequately compensated or recognized, they'll face frustrating and unnecessary challenges in their daily responsibilities, and you won't be able to control it. When your employees suffer, so will your bottom line.

Although human resources and bookkeeping might not seem at all related, having a strong back office will allow you to take control of your human capital management strategy to improve your company's culture while maximizing happiness and [profitability in your people](#).

10. You Incur Unnecessary Expenses

When your books aren't in order, you'll inevitably lose money to unnecessary expenses by incurring bank fees (for overdrafts or falling below your minimum allowable bank balance) and late fees with vendors and lenders alike.

Additionally, a messy back office also makes it exceedingly difficult to operate in compliance with regulations and tax laws, which means you'll likely also incur penalties due to non-compliance, record keeping or reporting exceptions, and inaccurate tax reporting — not to mention the direct and indirect costs associated with a messy audit.

Having an orderly back office thanks to sound bookkeeping, accounting systems, and [technology](#) means you'll avoid unnecessary audits, avoid the stress, and save your business in losses due to avoidable fines and late fees.

Automation and Outside Expertise Can Help You Keep Your Back Office in Order

Hiring an entire in-house staff of bookkeeping and accounting experts costs enough to sink a small business. Plus, working in an environment with little opportunity for upward

progress is not the ideal employment situation for a team of expert bookkeepers and accountants.

In spite of these challenges, there's still hope for small and medium-sized businesses to create expertly designed and efficiently operating back offices in their businesses. The solution: outsourced bookkeeping and accounting service providers. Let the professionals do it. They are trained and it will cost you less in the long run.

With an outsourced solution, your business can access the knowledge and experience of well-seasoned finance professionals while paying an affordable price for only the services you truly need. You'll have someone to help you optimize your system and processes, while helping you interpret your timely and accurate financial reports.

As a result, you'll be able to set actionable goals and create an operating framework designed to orient your entire organization around achieving those goals. You'll avoid the pitfalls of operating with a poor bookkeeping system and leverage every asset your business has to continuously move toward success.



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