



# The Perils of shoe-box accounting

SMALL BUSINESS GUIDES

*Contractors are a fertile sector and need bookkeeping support; they either delay their billing, too slow to chase outstanding debts or simply shove everything in the 'shoe box'*

Independent freelancers and contractors cite flexibility, independence, higher incomes as factors that are important to them continuing in their roles. In a study late last year looking at a different definition of what we call 'successful contractors' or freelancers, we found they were people that had been doing it for at least eight years and made at least \$100,000-plus a year. When asked to rank the attributes they felt were important to being successful as an independent worker, they ranked your professional skills and expertise first, your personal attributes - which had to do with diligence, efficient working habits and dealing with the insecurity of being an independent contractor - as the second most important attribute. And when asked what were the most pressing challenges faced with being a contractor, first was the - again - the insecurity of being an independent contractor and freelancer and, second, the lack of resources and support that IT people had when employed in companies or organisations.

Debra Lewis CEO of the Bookkeeping Institute of Australia says that bookkeepers, increasingly, are doing work for contractors and freelancers - particularly the successful ones. She believes that success in business, whether it's the business of being a contractor or operating a small business, is also about building a 'virtual' support team. "You need to outsource the things that you can't do or

won't do or where the costs of outsourcing are less than the value of your billable time.

*"We see people trying to do everything; small business owners are notorious for this. The smart ones know when and how to delegate."*

## Avoiding stress

Busy contractors often face an additional challenge and that is the stress that comes from juggling too many tasks. Errors, slippage and cortisol being pumped through the body are not good for business. (When stressed, the body releases a flood of adrenaline, hormones and cortisol. These are preparing you to fight or run. The heart beats faster, blood pressure rises, you start to sweat and you are alert and ready to react instantly. Each time you turn on this reaction, you are hurting yourself at a cellular level. This hormone change starts a flood of free radicals in our bodies, causing cellular damage). Debra Lewis says that not only do contractors risk being over-whelmed by taking on too many roles but that mistakes made in keeping the books can be costly.

Symptoms of poor bookkeeping [either by do it yourself owners who tried to save money or those used inexperienced bookkeepers or family members]:



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- Incorrect cash balances: This can lead to costly overdraft fees and bounced cheques [embarrassing]
  - 'Open Door' fraud where business owners (and contractors) giving access to their bank accounts, including the ability to pay purchases on their behalf. While this may be convenient, it may be a high risk which could cost thousands of dollars.
  - In the case of contractors employing others, the entering net payroll as wages and then realising you have a massive tax liability in the middle of the year
  - Unbilled or late-billed invoices, or vendor bills that got lost and surface in the middle of a cash flow crisis
  - Not managing cash flow over the Christmas/New Year period
  - Short-changing yourself by under quoting
  - Claiming GST credits without valid tax invoices
  - Claiming GST credits where the supplier is not registered for GST
  - Paying incorrect super contributions – not paying super contributions on time
  - Missing deadlines for PAYG or BAS – resulting in fines
- Success as a contractor should never be compromised by something as simple as being diligent around accounts and finances.