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The 5 Most Common Financial Mistakes

And how to find them in your business

Table of Contents

> First Things First

> Common Errors Among Finance Teams

> Where Will You See These Errors

> The Fallout of Finance Errors

First Things First

Mistakes and inaccuracies can feel like part and parcel of running a financial team. In fact, according to ***BlackLine research***, more than half of all financial executives aren't fully confident that their reports are always error-free. What's more, 70 percent of survey respondents said their organizations have made important decisions based on inaccurate data.

Knowing how serious the consequences of these errors can be, worry and doubt seem as much a part of the job as spreadsheets and conference calls. Fears feel inevitable—but they don't have to be.

The truth is, the vast majority of financial reporting errors are avoidable. You don't have to be afraid of them. You simply need to take the time to create detailed, department-specific process plans. How?

Before you start, though, you need to understand the types of errors you're trying to avoid.

Common Errors Among Finance Teams

Errors are so common in finance, and particularly in accounting, that accountants have created ***5 broad categories*** to classify them. The more familiar you are with each, the more effectively you can design preventive strategies.

1 Omission

Omission errors happen when a team fails to enter a particular transaction. These errors are easily avoided if teams get into the habit of recording transactions immediately upon receipt.

2 Commission

Commission errors, sometimes known as clerical errors, happen when a transaction is posted to the wrong account. Specific practices such as double-entry recording are highly effective in preventing this type of error because they require employees to be methodical in their transaction entry routines.

3 Reversal

Reversal errors mean that a debit transaction is mistakenly recorded as a credit. These errors are most avoidable when teams make categorization a routine part of the transaction recording process.

4 Principle

Principle errors usually occur when a team member fails to understand how to properly categorize an expense. A capital expenditure may be mistakenly categorized as a revenue expenditure or vice versa. These errors are easiest to prevent when teams have checks and balances built into their processes, allowing team leaders to identify and rectify knowledge gaps before they cause problems.

5 Subsidiary

Subsidiary entry errors involve incorrect amounts, such as a $5,000 debit entered as $500. Reconciliations usually identify these errors and prompt teams to correct them, but controls and verifications prior to that point can further minimize their impact.

Any of these errors can happen to any finance team. That said, the effects of each one will look different depending on what the team is working on.

Where Will You See These Errors?

In any circumstance where the receipt or payout of funds is involved, errors are both common and potentially damaging. Here are some of the areas that can cause you the most trouble.

Reimbursement Approval and Processing

- Missing documentation
- Lack of itemization on receipts
- Failure to get timely approval
- Personal expenses mixed with business expenses
- Incorrect use of ***per diem vs actual*** expense reporting

Accounts Receivable

- Inaccurate invoices noticed or not by the customer
- Delayed payment due to error correction
- Correct invoices entered incorrectly
- Payments that don't match invoices
- Calculation errors on balance sheets

Purchasing

- Purchases made before approvals come in
- Approvals made in error
- Purchases that exceed budget allocation
- Incorrect items or quantities purchased
- Entry errors ***when ordering online***

Accounts Payable

- ***Mistakes made*** in manual data entry
- Invoices paid before product receipts come in
- Dual payments resulting from duplicate invoices
- Missed payments
- Increased invoice processing time

This is just a small selection of the errors that you commonly see in organizational buying and selling. Each error has many possible consequences. Some are minor, but some can do major harm to a business.

The Fallout of Finance Errors

In the world of finance, no error happens without consequences. Even if the error is caught almost immediately, you'll still interrupt the flow of business, inconveniencing your supplier or customer.

- **Billing Errors and the Customer Relationship**
- **Payment Errors and the Supplier Relationship**
- **Internal Strife**
- **Administrative Costs**
- **Tax Liability and Valuation Errors**
- **Poor Publicity**
- **Fraud Enforcement**

Billing Errors and the Customer Relationship

When your team sends an incorrect bill to a customer, one of two things will happen. Either the customer will catch the error before they pay, or they won't catch it and you will need to correct the error later. It's difficult to say which possible outcome is more damaging.

If the customer notices the error before they pay, you have to generate a corrected invoice or credit. This puts a burden on the customer and can confuse their accounts payable department. Imagine what would happen if your AR team got two different invoices for the same service. Would they try to pay both? How long would it take to straighten things out? Most importantly, how would you end up feeling about a company that sent you the wrong invoice, causing all of that confusion in the first place?

Whether the customer comes to suspect that your company is unreliable or dishonest, you have a lot of relationship repair work to do in this situation. Unfortunately, there's no guarantee that any of that work will keep you in business with that customer.

If the customer doesn't notice the error before they send payment, you have different problems. First, the payment you receive will either be too low or too high. A significant underpayment can mess up your bottom line, so you might have to request payment of the difference. Customers don't like being asked to pay more, so they might choose to sever the relationship. Your other alternative is to accept the loss and notify the customer accordingly, which might be less damaging but still hurts your reputation.

If the customer overpays, you'll naturally need to reimburse them. They'll get their money back, but they'll still know that you messed up. Think about what you'd do if you were overcharged by a service provider. You'd probably check every bill after that to make sure it was correct, and you might even start shopping around for alternatives.

When someone in your billing department makes an error, you run the risk of becoming that service provider.

Payment Errors and the Supplier Relationship

Your accounts payable department can make mistakes too, flipping the script so you end up overpaying or underpaying a supplier. Either situation is just as damaging to a customer relationship as a billing error.

If you overpay, the supplier may charge a fee for fixing the error. They have every right to ask, too, considering the inconvenience involved in issuing a credit.

If you underpay, you have to make up the difference, but that might not repair the trust between you and your supplier.

Then there are errors that result in a missed payment. They're even more difficult to rectify. Whether the supplier believes that the non-payment was just a mistake or actually an attempt to get around paying, you still have a breach of trust to deal with. In some cases, a supplier might raise your rates to make up for the perceived risk of doing business with you.

Internal Strife

Non-finance executives depend on finance teams to keep them informed of the company's well-being. The information is critical to making complex business decisions. When they find out that they haven't been getting accurate information, tensions arise.

In this situation, a dip in morale is the best-case scenario. Things get worse if your CEO starts to distrust your team. If that happens, jobs are at risk.

Administrative Costs

Invoicing errors can do ***significant damage*** to asset accounts. If you charge a customer incorrectly, the error causes a discrepancy between inventory counts and account totals. You then have to invest employee hours—or your own time—in rectifying these errors and bringing your accounts back into balance. Every hour costs money, and that's to say nothing of the productivity loss if other tasks fall off of your team's radar.

The costs can be so big that they ***make the news***.

In 2012, Groupon neglected to figure refunds into its fourth-quarter earnings, eventually posting losses that increased by more than $20 million.

In 2017, someone at Uber made a mathematical error and cost the company $45 to $50 million.

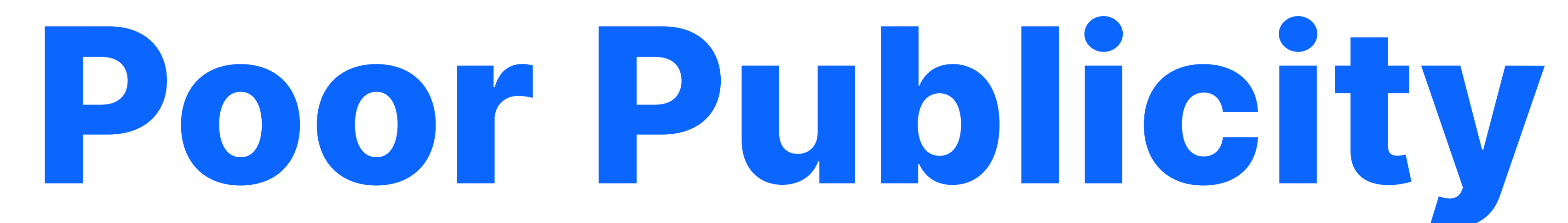
In 2019, Kraft Heinz publicized an upcoming $181 million restatement of its 2016 and 2017 financial statements, raising suspicions about the company's ***new leadership***.

Tax Liability and Valuation Errors

Some errors sneak by, remaining on the books without being identified. In these cases, the errors ***can affect the valuation*** of your company. When expenses are reported higher or income is reported lower than it should be, the company will seem to be less valuable than it actually is. Perceived under-profitability damages investor relationships and makes it more difficult for a company to get funding.

Conversely, under-reported expenses or over-reported profits can make a company seem to be more profitable than it is. Higher profit margins mean more tax liability, and if the company doesn't have that profit to show, tax costs could be prohibitive.

Then there are the costs of fixing the newly identified error.



Poor Publicity

In some cases, finance errors result in the ***need for an accounting restatement***, which often causes a company's stock to drop. Lower stock prices are a clear sign that investor faith in the company has decreased, and few things put the future of a company at greater risk. Consider what happened when Valeant Pharmaceuticals inaccurately claimed more than $58 million in income—critics pointed to the error as a sign of dishonest practices, and stock prices dropped by 86 percent.

This kind of reputational damage affected 42 percent of respondents to BlackLine Research's survey. A further 41 percent said that inaccuracies prevented them from securing the capital that they needed. The relationship between accounting mistakes and funding is easy to understand - funders are naturally reluctant to back an error-prone company.

Fraud Enforcement

When restatements due to inaccuracies increased in 2018 for the first time in 12 years, the US Securities and Exchange Commission (SEC) also reported a 70 percent increase in total penalties charged. Experts believe that this number is likely to increase even more as the SEC steps up its application of data analytics.

In conclusion...

If you need to manage your Accounting process, count on Pipefy.

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