5 Common Money Mistakes Small Businesses Make

By Nicole Fallon, Business News Daily Assistant Editor/ *April 29, 2014 04:50 am EST*

Many new entrepreneurs make critical finance management mistakes, some of which could end up costing them their business. / Credit: Money bomb image via Shutterstock

Plenty of factors can contribute to a business venture's demise. Sometimes it's a lack of consumer interest; other times it's a matter of bad marketing tactics. But perhaps the most deadly contributor to startup failure is not knowing how to manage your business finances.

"In many instances, [financial mistakes] are due to poor financial planning on the front end of starting the business," said Marc Price, business author and director of operations at ExpertBusinessAdvice.com. "Entrepreneurs underestimate the true costs of launching the business. Subsequently, working through initial growing pains that may transpire after the doors are open can be threatened without proper funding."

As an entrepreneur himself, Price knows how easy it can be to get your business into a financial pitfall. The co-author of "Business Finance Basics" (Nova Vista, 2014) shared five common financial management mistakes small business owners make, and how to avoid these errors.

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- **Not having enough cash reserves.** Entrepreneurs know that they'll probably need money to invest in the setup of their business, but it may take several fiscal quarters to realize a steady income from the company, let alone to make a profit. So start with adequate operating cash. Don't fool yourself with wishful thinking that the money will somehow be there.

- **Being plastic dependent.** Some small business owners are forced to turn to credit cards for early stage survival, especially when they haven't planned properly. Credit cards carry high interest charges and annual fees. Whether through a small business loan, a capital infusion or your own funding, ensuring sufficient operating capital can save you from getting into credit card debt.

- **Mixing personal and business finances.** It's tempting to cross the line, but keep these two entities completely separate. It makes it easier for accounting, budgeting and reconciling both sets of books, and assists in determining actual profits and losses for the business.

- **Shorting yourself on compensation.** In the early stages of business, it may seem like a solid decision to redistribute any and all of your profits back into your business. But not compensating yourself along the way could harm your personal finances and financial good standing.

- **Not having an organized accounts receivable system.** Print your payment terms on the back of every invoice, and follow a clear process in collecting payments. Make sending prompt reminders part of your business.

Price said his best advice to new and aspiring entrepreneurs is to learn from fellow business owners and financial professionals.

"Learning from others can never be underestimated," he told Business News Daily. "Make it a habit to reach out to other small business owners and ask for advice and opinions on their own previous experiences. Additionally, seek out industry professionals [such as lawyers, accountants, bankers and real estate experts] to help guide you through the labyrinth of the endless financial pitfalls that could be looming. This process greatly mitigates your failure rate and puts you on a proper path for financial success."

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