8 Xero Setup Things Most People Forget

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Is your Xero account configured correctly? An incorrect Xero setup can lead to widespread bookkeeping and financial reporting issues down the road.

After spending 6+ years working in Xero day in and day out with clients, we've noticed some common mistakes that eCommerce businesses in particular make.

In this post, we're taking a closer look at 8 of the most common Xero Setup mistakes and how to fix them.

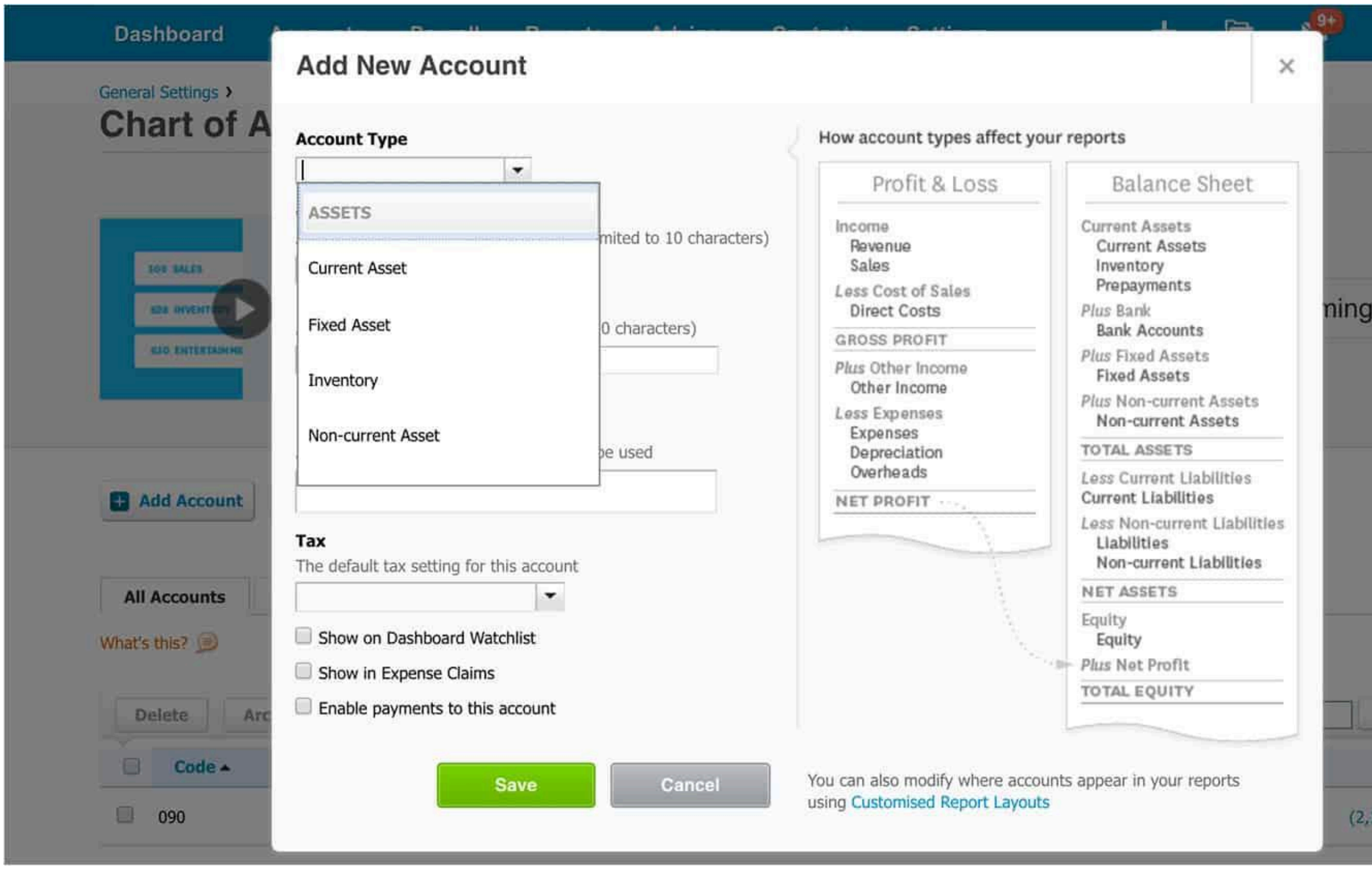
1. Not Allowing for Immediate Online Payment

By default, invoices sent by Xero cloud accounting software won't be able to be paid online immediately. It's a no-brainer to accept online payment, and it's a 5-minute job.
By adding 'Payment Services' to Xero:

- You can email an invoice to a customer.
- They can also use the payment button to pay
- you online immediately. This reduces the risk of being paid late or not at all.

To set this up, you will need a Payment Service.
We recommend using both PayPal and Stripe, which can be quickly configured via Settings / General Settings / Payment Services.

2. Not Setting Up Your Xero Chart of Accounts Properly



The Xero Chart of Accounts is a list of all of the accounts that transactions can be allocated to. For example, telephone expense is an account within the Chart of Accounts.
Xero comes with a standard Chart of Accounts. It's pretty common for users to forget that they have the option to customise it to suit their business.

Most of Bean Ninjas' clients are online businesses like coaches, consultants, info products, e-commerce, SaaS, and others. So, it doesn't make sense to have 5 different lines for office expenses. For example, office expenses, printing and stationery, subscriptions, general expenses, and light and power.

I prefer to only have accounts within the Chart of Accounts, where we are reporting on these items separately.

For example, I like to have one line called "office expenses," and some other key expense lines might be:

- Contractors

- Wages
- Marketing
- Software subscriptions

If you don't have them set up with the right names, you run the risk of items being incorrectly coded. As a result, reports won't be as clear about how your business is performing.

You can update the Chart of Accounts in the **General Settings / Chart of Accounts** area in Xero.

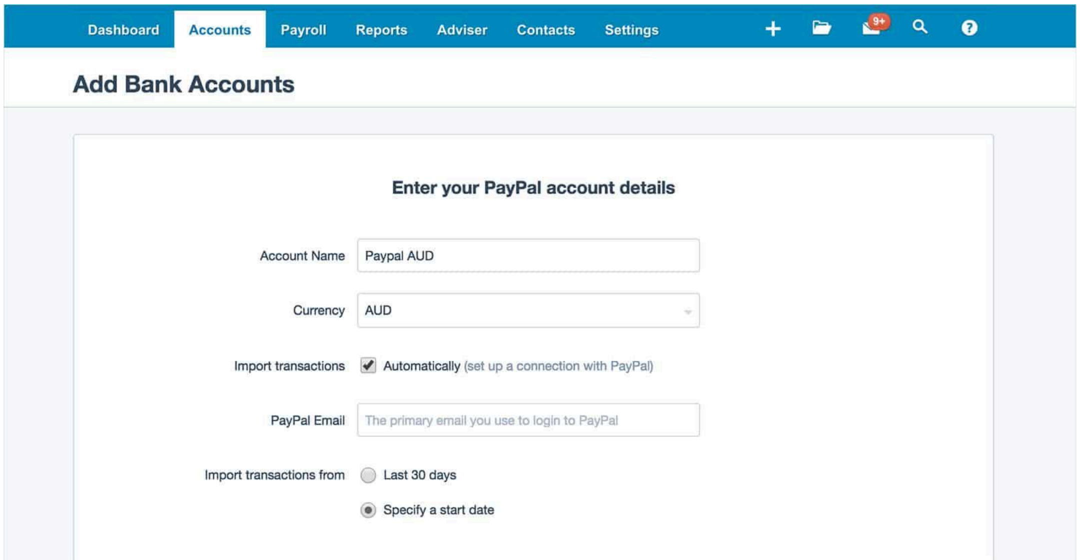
If you are adding or editing accounts, it is important to get the following settings right:

- Account type (e.g., sales or current liability)
- Tax type (e.g., GST on expenses or GST free)

If you're unsure about the settings, make sure to check with your bookkeeper or accountant as part of your Xero Setup process.

If you are using Xero, our full list of items to consider is included in our Xero E-Commerce Business To we olkit, which you can grab below.

3. Not Having Multiple PayPal Accounts Setup

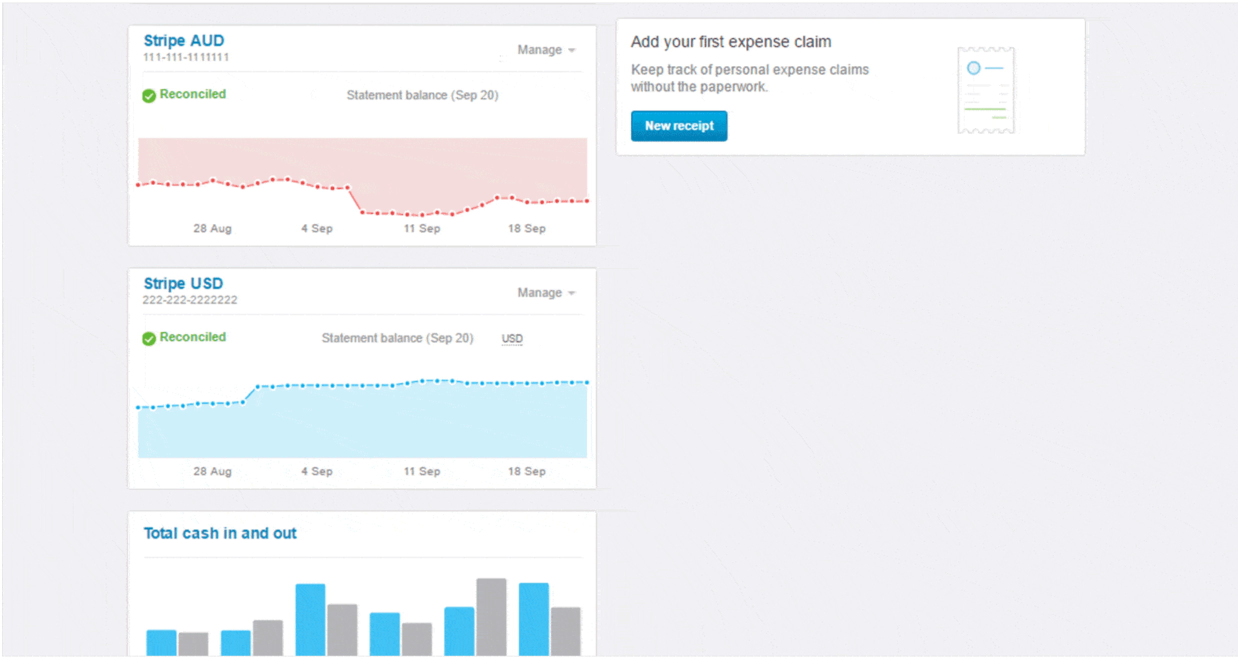


A lot of people know you can connect PayPal accounts to Xero, but it can present problems when you accept multiple currencies. This is solved by having a PayPal account set up in Xero for each currency.

If you only have one PayPal account, some transactions won't be imported into Xero. So, if you accept say AUD and USD, connect it up to Xero with two accounts, and you will solve the missing data issue.

Check out this help doc to learn more about setting up PayPal accounts in Xero as part of your Xero Setup process.

4. Incorrectly Configured External Payment Gateways



If you are using an external Payment Gateway like Stripe, these funds are transferred into your business bank account as daily batches rather than individual transactions. This means individual sales and processing fees aren't accounted for fully.

There are a few options for how to treat this in Xero. If you want every transaction in Xero, you can use their Stripe integration to push this data into Xero.

This option works well for businesses that do need that level of detail in Xero; however, it can also create additional work if there are heaps of transactions. Reasons why you might need to do this are wanting to split sales into different sale types in Xero or if you are giving credit terms to your customers and need to match up individual payments to specific invoices in Xero.

Related: Avoid Stripe and Xero Headaches: Step by Step guide

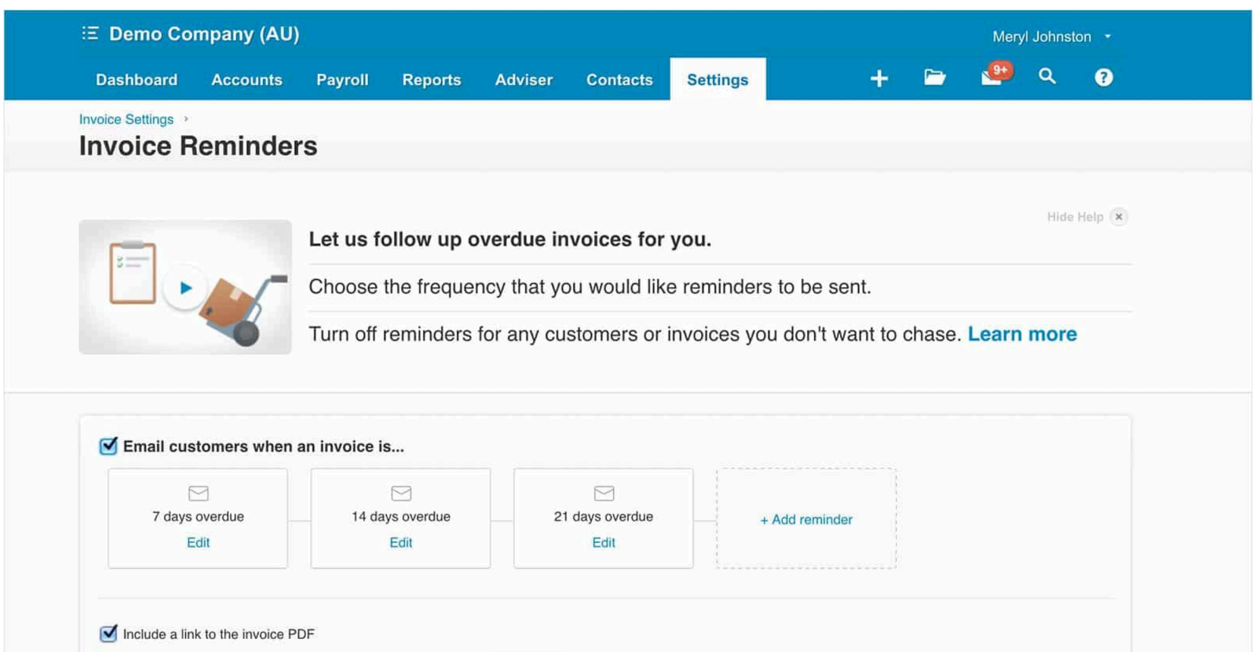
If you don't need this level of detail, we have a shortcut for you. Following these steps will help you to calculate the sales tax on transactions in Stripe, which your bookkeeper can then add to Xero with a manual journal.

- Log in to Stripe
- In the "Balance' tab, click 'Filter,' 'Date' and 'Date is Between' and input the first and last day of the previous month
- Still in the filters box, click 'Type' and ensure 'charge' is selected

- Click Done
- Open each charge and check the flag icon/country name
- In a spreadsheet list each charge that is from Australia – the total amount in Australian Dollars
- Ignore fees – we will pick them up from a different report
- If a sale has been refunded, please record both the sale and the refund in the spreadsheet – precede the refund amount with a minus (-) sign to ensure it is not added to the total
- Send the spreadsheet to your bookkeeper or accountant

Deciding whether to bring in every transaction from your Payment Gateway or to use a shortcut method will depend on your reporting needs; if you're unsure, discuss this with your bookkeeper or accountant.

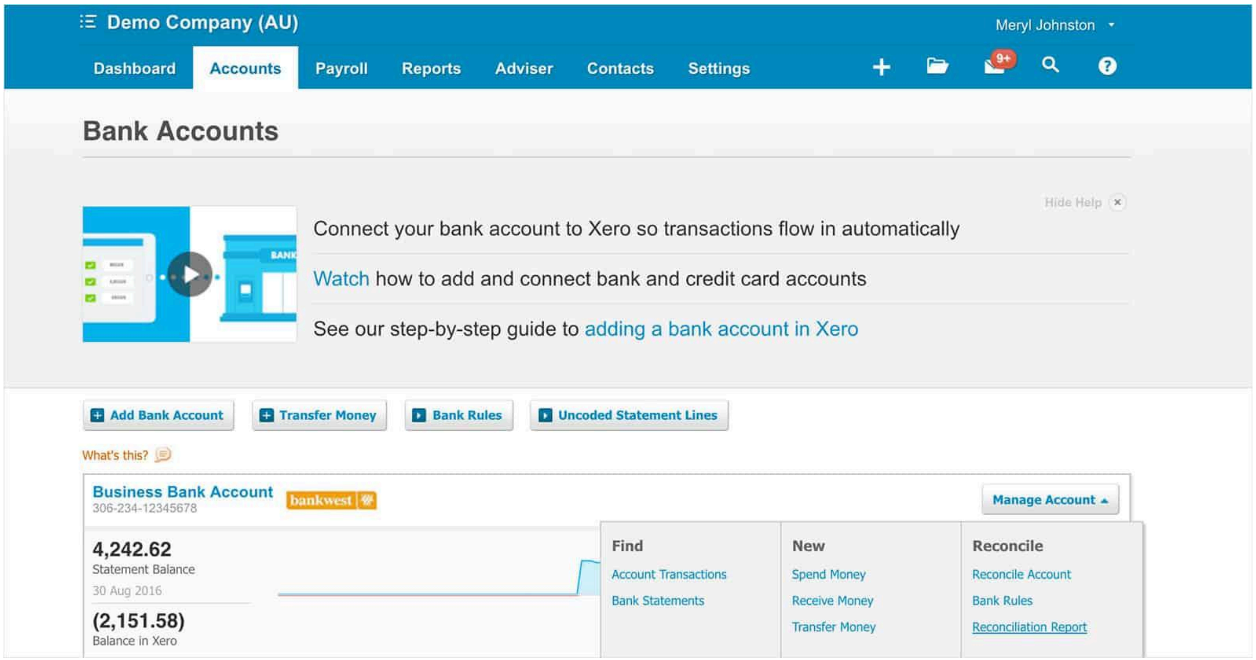
5. Not Following Up Unpaid Invoices Automatically



Following up, customers who owe you money can be a big time waster and forgetting to do it is costing you precious $$. Why not automate this with Xero's invoice reminder feature? Automated invoice reminders allow you to prepare custom email templates to go out when invoices are a certain number of days late. Xero's default reminders are sent at 7, 14, and 21 days after each invoice due date.

Invoice reminders can be activated by going to Accounts / Sales then Awaiting Payment. You can customise the email text that is used when the invoices are followed up.

6. Forgetting About Bank Reconciliations



The bank reconciliation process is a key check to pick up missing transactions or duplicated transactions in Xero. Because Xero automatically matches statement lines with the accounting record, a lot of people think they can skip this step. This is a crucial process and still needs to be done with Xero to make 100% sure that Xero has imported your bank statement lines properly.

You can do this by running the Reconciliation Report in Xero under Accounts / Bank Accounts / Management Accounts / Reconciliation Report and comparing it with your bank statements on a particular date (usually the last day of the month / quarter).

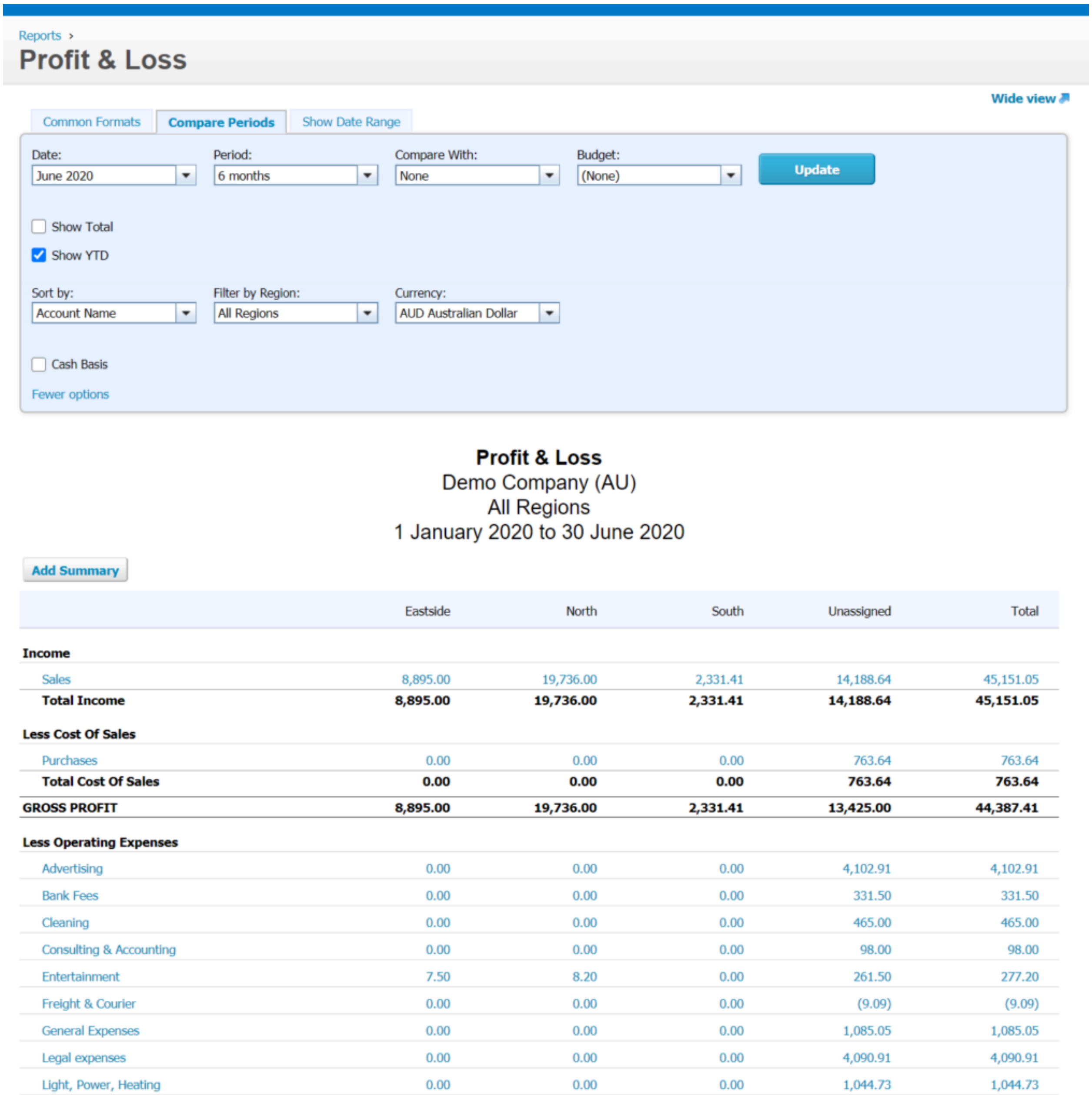
The 'Balance in Xero' and the 'Statement Balance' may match, but I also like to compare the 'Statement Balance' to a copy of the Bank Statement as the 'Statement Balance' in Xero isn't always correct.

If there is a difference between Xero and the Bank Statement, then there are missing transactions that need to be imported or duplicate transactions that need to be removed.

For more information about this refer to this longer post on bank reconciliations.

Related: Common Xero Mistakes For Small Businesses

7. Failing to Understand Cash vs. Accrual Accounting



Reports ›

Profit & Loss

Wide view

Common Formats | Compare Periods | Show Date Range

Date: June 2020

Period: 6 months

Compare With: None

Budget: (None)

Update

Show Total

Show YTD

Sort by: Account Name

Filter by Region: All Regions

Currency: AUD Australian Dollar

Cash Basis

Fewer options

Profit & Loss

Demo Company (AU)

All Regions

1 January 2020 to 30 June 2020

Add Summary

	Eastside	North	South	Unassigned	Total
Income					
Sales	8,895.00	19,736.00	2,331.41	14,188.64	45,151.05
Total Income	**8,895.00**	**19,736.00**	**2,331.41**	**14,188.64**	**45,151.05**
Less Cost Of Sales					
Purchases	0.00	0.00	0.00	763.64	763.64
Total Cost Of Sales	**0.00**	**0.00**	**0.00**	**763.64**	**763.64**
GROSS PROFIT	**8,895.00**	**19,736.00**	**2,331.41**	**13,425.00**	**44,387.41**
Less Operating Expenses					
Advertising	0.00	0.00	0.00	4,102.91	4,102.91
Bank Fees	0.00	0.00	0.00	331.50	331.50
Cleaning	0.00	0.00	0.00	465.00	465.00
Consulting & Accounting	0.00	0.00	0.00	98.00	98.00
Entertainment	7.50	8.20	0.00	261.50	277.20
Freight & Courier	0.00	0.00	0.00	(9.09)	(9.09)
General Expenses	0.00	0.00	0.00	1,085.05	1,085.05
Legal expenses	0.00	0.00	0.00	4,090.91	4,090.91
Light, Power, Heating	0.00	0.00	0.00	1,044.73	1,044.73

Accounting can be done on a cash or accruals basis, and it is very important to understand the distinction.

Cash accounting means that transactions are recorded in the accounting system when the transfer of cash occurs. Whereas accrual accounting means the transaction is recorded when the transaction itself happens.

As an example, Bean Ninjas client Black Hops Brewing invoices their wholesale customers on 1 July 2016, and the customer pays on 30 August 2016.

Cash basis – the sale would be recorded on 30 August as that is when the cash is received.

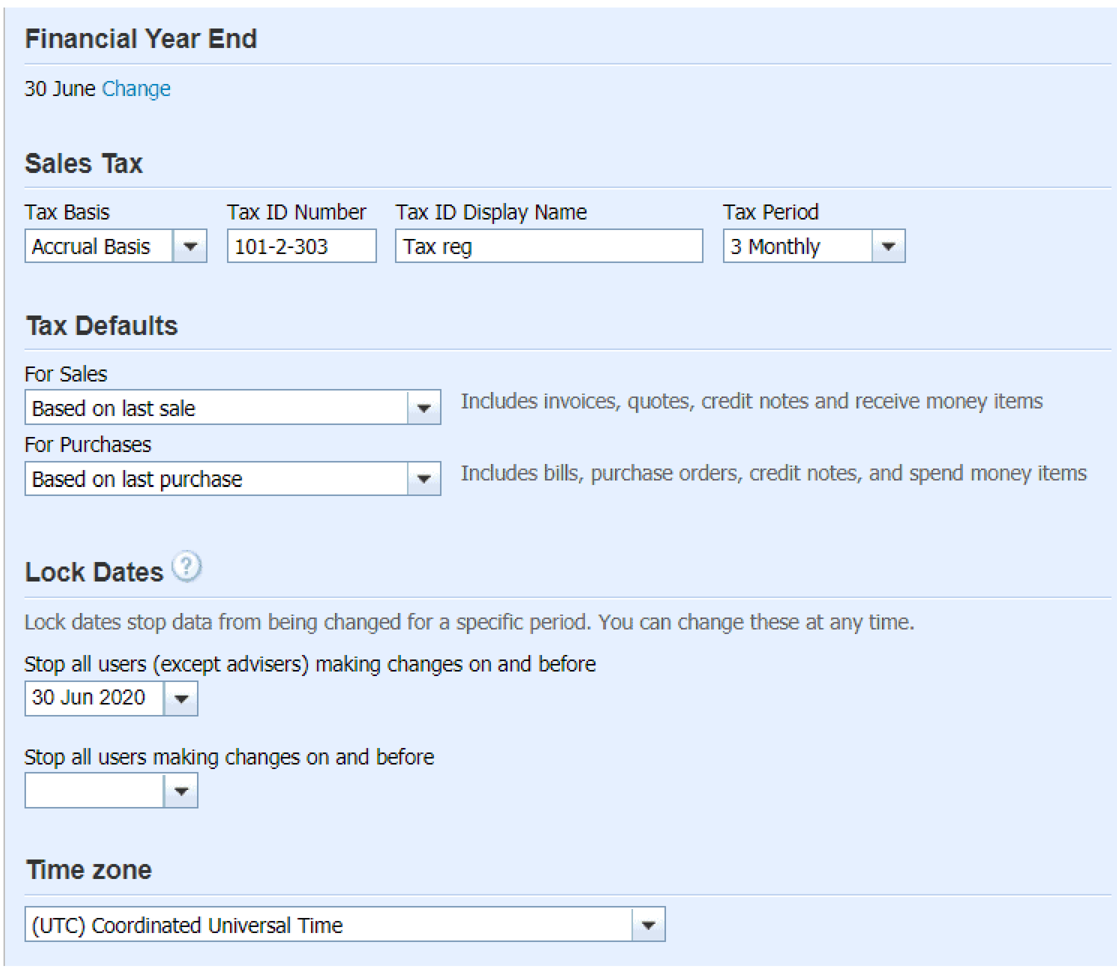
Accrual basis – the sale is recorded on 1 July 2016 as that is when the sale itself occurred.

Both pieces of information are useful to Black Hops. The cash sale allows them to stay on top of cash flow, but to work out whether their sales function is performing, the accrual report is more relevant.

Small businesses will often start by reporting on a cash basis, as that is what makes sense. Accrual accounting is a more advanced method but becomes important as a way of matching the revenue and expenses to determine margins.

Xero runs on an accrual basis, but you also have the option to run reports on a cash basis. You do this by selecting the ‘cash basis’ option in the report settings. Refer to the screenshot above.

8. Failing to Lock Dates for Previous Financial Periods



Xero is a cloud accounting system, which means that data is live. This means that there is the potential for data to be deleted or for users to go back and make errors in periods where reports and tax have been finalised. If you don’t do it, you can potentially change the historical record of what has already been reported to the tax authorities.

You can prevent this by using the ‘lock dates’ feature of Xero. Locking dates should become part of your process each time a reporting period is finalised (usually monthly or quarterly). To do this, go to Settings / General Settings / Financial Settings. Then in the Lock Dates screen, select a date in the ‘Stop all users making changes on and before.’ If you had recently completed the June 2016 quarter, then you would enter 30 June 2016, so that no changes could be made to data on or before that date.
Onwards to Xero success!

Xero Setup FAQ

What banks are compatible with Xero?

Many banks work with and are compatible with Xero. In the United States, for example, you will find that Wells Fargo, CNB, SVB, Novo, and Capital One are all compatible in addition to a few others. CIBC is the first in Canada to become compatible with Xero.

Does Xero do payroll?

Xero can manage a multitude of tasks that you have to do, including payroll, pensions, and finance. It also updates your accounts automatically. With Xero, payday filing is easy. Once you establish a connection with Inland Revenue, the filing happens automatically every time you complete a pay run under Xero Payroll.

Is Xero better than QuickBooks?

If you want to compare similar plans, you will quickly find that Xero is actually cheaper and more affordable than QuickBooks. However, if you don’t need the payroll function, then they are similar in pricing. All plans with Xero, including their starter plan, include payroll and can process 1099s.

How are payments recorded on Xero handled?

When you enter the payment in either the receive a payment or make a payment section, they are recorded, and a payment transaction is created in the Xero bank account. Once the payments are deposited and accepted by the bank, you can reconcile the payment transactions with the bank statement lines.

What does Xero Integration actually do?

Xero integration with your CRM allows you to create and update customer information in Xero from the CRM. You can then create invoices from Opportunities in Xero. Additionally, Xero Integration is available for customers worldwide and isn't limited to a specific area.

Is there a free version of Xero?

There is no free version of Xero, but there are free Xero alternatives.

How do you match the tax rate label to what is on Xero?

If you wish to see the default tax rates in Xero, go to the Accounting menu, select Advanced, and click on Tax Rates. You can then edit some of the default tax rates that are required by your specific taxing authority.