

Tracking Financial Activity

09/19/05

How do I track financial activity by day, by week, by month, by quarter? What kinds of accounting support do I need?

We track financial activity to tell how well our companies are doing at making money – past, present and future – and to identify additional opportunities to get better at making money. Here's the bottom line. Get your records up to date. Put in place controls to limit opportunities for error. Audit for accuracy.

Bookkeeping can be a tedious chore. As a general rule, you want to enter things daily; it's easier than trying to remember what happened a month earlier. Sometimes I hear from business owners that their financial information is several weeks old, sometimes months old. That's crazy. With today's accounting and automation tools, your records should be up to date, within 24 – 48 hours.

If your recordkeeping is getting behind, look for opportunities to streamline. One client of ours recently found they would save a clerical position by automating their payroll systems. Another company found that by allowing a stay-at-home mom to do data entry from home in the evenings, they got their records up to date overnight. She drops by the company in the afternoon to pick up data entry. In the evening, when her kids have gone to bed, she dials into the accounting

system remotely through a secure uplink, and does the data entry. When she's done making entries, she cues reports to print in the President's office. The next day, while her kids take a nap, she calls in to answer questions and review open items. The next afternoon she drops off the completed data entry, picks up additional work, and the cycle repeats itself.

Try this model, to split up financial activity into layers of complexity. Data entry is done daily by someone in a clerical position. Weekly a part time bookkeeper reviews debits and credits for accuracy. Monthly, your accountant dials into the system, to review ratios and profitability of the business. The owner's assistant produces reports weekly, and monthly, which she and the owner review together, to be sure they are regularly checking on how things are going.

Bookkeeping is the core of any financial system. But remember, garbage in, garbage out. Be sure to develop a strong set of internal controls, and check points. You want to minimize mistakes, and avoid opportunities for theft. Each year, businesses lose millions of dollars; money that was diverted because internal controls were not strong enough.

At least monthly, and if the volume warrants, weekly or even daily, someone besides the data

entry clerk needs to proof what's been entered, to make sure it makes sense. Errors in the present can skew numbers in the future, since the present numbers become the basis for future planning. The easiest way to proof is to print a trial balance, and scan through it.

You want the person who logs in client payments to be different from the person who takes deposits to the bank. Require second signatures on checks over a specific limit. One company recently lost a substantial amount, because an employee was buying things on the company credit card, and then issuing payment from the company's checking account. No one else had checked what came in for charges on the credit card. You, as owner, or your auditor, want to open all bank and credit card statements, check the signatures on all checks, and at least spot check all automated transactions.

Invoices, issued sequentially, help you track what clients are billed for, and whether your company has been paid. If an employee or department keeps losing invoices, check into the matter. Make sure that the income isn't being diverted. One retail operation has a big sign at the cash register, telling customers that if they are not given a receipt at the time of transaction, the meal is free; all they have to do is ask for the

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manager to request the free meal. This helps prevent a clerk from pocketing a payment instead of ringing up the transaction.

Use purchase order numbers to control buying. Too many companies allow anyone to pick up the phone and order what they need, when they need it, without any approval or double checking. This is like giving out blank checks – a bad idea. Tell your vendors that no payments will be issued without a valid purchase order. Have accounting issue the purchase order numbers. A manager in each department can approve purchase orders before they go to vendors for fulfillment.

Even if you totally trust your employees, your vendors can make mistakes. One of our clients found that a vendor consistently upgraded purchase requests from lower priced items to higher priced ones. Another client found that the employee in charge of purchasing office supplies was treated to an all expenses paid weekend trip by the primary office supply vendor – who is traditionally not the low-cost supplier in the market. You need to make it clear that your employees and vendors are expected to search for cost lowering opportunities, all the time.

Cross-check work by using periodic audits to identify weaknesses in your system of controls, and to insure everyone

understands the importance of keeping clean, accurate records. Your accounting firm can help you set them up, and get them done. As one business owner observed, you respect what you inspect – and so does everyone else.

Finally, your greatest control comes from knowing the company is performing as expected. You want to see a need and react fast enough to do some good. You do this by comparing forecasts to actual performance, and by reviewing ratios. Don't know what ratios to look at? Check out the books I recommend for advice.

Looking for a good book? Try the McGraw Hill 36-Hour Course for Non Financial Managers, by Robert A. Cooke. Combine it with Finance for Non-Financial Managers, a Briefcase Book, by Gene Siciliano.

Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at www.AskAndiBlog.com. Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.

*If you are a business owner and you have a question or would like to discuss some aspect of your business, call **1.877.238.3535** or send an email to AskAndi@StrategyLeaders.com.*