

Words LISA MARTIN – Go Figure

Seeing red? Take steps to get back to black



Eggy about numbers and finance this year? Do you see red, black or nothing at all when you look at the accounts of your business? Do the numbers make sense to you?

If you are a business owner we all agree it can be a comprehensive day, what with client relationship management, staff management, meetings, marketing, estimating, networking, a lot of words ending in -ing, let alone talking, listening, communicating. For some the art of 'being' with people comes naturally and when you are passionate about why you got into business and love spreading the word, the thought of quietly sitting down with the bean counter and going over the black and white stuff can seem worse than pulling your toenails off one by one!

Let's be fair, the finances of your business are important and they need to be done regardless of how boring it might seem. Just as in life, you need money coming in to pay for your day-to-day lifestyle, so too does your business. So do you understand the mechanics of your business and how the administration works to ultimately get money back through the front door?

Newer businesses are probably more aware of the day-to-day happenings than more established businesses only because the business owner is probably doing the book keeping! However, if you have now grown to a size where you are running a team of six-plus ask yourself this, is your finger still on the pulse? As the business grows systems are born to accommodate growth, but are they robust systems willing to withstand the test of rapid growth? Have you sought out advice and expertise or just reinvented the wheel within your own business? Do you have a standard operating procedure document or a substitution operations policy in case key people get run over by a bus? Have you created a double checking system with strong internal controls, or do you rely on stuff getting it done right first time? Because we all know that when people are involved, miscommunication happens and this does not always happen – right?

As we start 2011, what should small and medium businesses be doing to make good on their financial resolutions? A lot of business owners might have decided they'd like to improve their financial transparency and stop doing their accounts badly.

One of the first steps to take is getting some expert advice from an external accountant or specialist bookkeeper. Consider it an investment in your business intelligence. There's no excuse for not understanding — or learning how to understand — what's happening on your business' bottom line.

Here are some guidelines for business owners to adopt in their business.

The mail should be opened, date stamped, categorised

in piles and the business owner/boss should see ALL of it prior to distribution. Never allow a junior in the office to determine what the boss sees or does not see.

The business owner should sight the original monthly bank statements and sign them off. The boss should be visually aware of monthly activity incoming and outgoing. Bank reconciliations should be actioned by accounts staff and then signed off by the owner. Likewise creditor payment schedules should be sighted and signed off by the owner so they can reconcile in their own head the value of payment batches on a monthly basis.

Payroll systems are a must! IMS, iPayroll, Smart Payroll, Ace – use a system that can record leave balances as this is an area of expense that the business owner must be aware of. The largest expense items for any business owner are: staff, accommodation and IT – so a system is essential! Staff timesheets should be entered and reconciled to payroll records and each payroll process should be approved and authorised by the owner or supervisor to ensure a second pair of eyes. Adding time, fiddling the leave records, not entering sick leave or deductions are all possible so to reduce the risk introduce a double checking mechanism to ensure transparency and accuracy.

The boss should review leave balances and make sure staff take leave. Encourage the 'gatekeepers' to go on holiday and train others to do their role in their absence. If you are not around to 'cover up', the risk of 'fiddling' reduces dramatically.

“One third of your earnings should go straight into your savings account.”

ALL correspondence and assessments from Inland Revenue must be opened and signed off by the business owner. This way you can be sure PAYE, GST, Income Tax and so on, are all paid on time and interest and penalties are not accruing – IRD debt is your debt – be proactive! Over time this can really build up so the boss needs to know.

It is essential to have processes and procedures around the company use of:

- Taxi cards
- Petrol cards
- Company credit cards
- Petty cash.

The leakages around spending on these can add up and you do not want to encourage a culture of 'this is

the way it is done round here', especially if that means spending the boss' money willy nilly because 'it's just there'!

Make sure you go over the aged debtors report regularly to see who owes you money and make sure debt recovery happens. Sometimes staff feel embarrassed to ring your clients up and ask for money, but they would certainly hold court if you couldn't make payroll one week!

Make sure you go over the aged creditors prior to payment runs and sign them off, especially the bank account details of the suppliers matching the invoices. Get an idea of bank balance plus debtor recovery minus payroll and creditors equals working balance. Know your key numbers and break-even point for accrual accounting and profit as well as cash flow tracking for at least six weeks out.

Putting money aside is another regular piece of advice that always bears repeating. Whether you're earning \$15,000 or \$150,000 a month, one third of that should be going straight into your savings account. That's the minimum you need to put aside to cover GST and income tax. It's not your money.

I lose my mojo if I feel out of control of what I can control, if your business finances get you down and you are not as proactive as you would like as a business owner, order a complementary assessment from the people who can help – get a new edge for 2011 – you deserve it!

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GIVE YOUR BUSINESS A NEW EDGE!**



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t. 04 499 8460 m. 021 730 279
enquiries@gofi8ure.co.nz www.gofi8ure.co.nz

