

Be in control: getting the most from your accounting records

In this day and age it is usual for most small businesses to operate their own in-house accounting packages. The ease and convenience of tracking sales and purchase invoices, and debtor, creditor and bank balances are obvious benefits, let alone the fact that BAS preparation and other legal compliance requirements virtually demand that reasonably sophisticated accounting systems and records be maintained. Modern accounting packages such as MYOB and Quickbooks are relatively inexpensive, reasonably comprehensive, and user friendly. Certainly you don't need to be an accountant to operate them.



But as with a lot of technology that is increasingly accessible these days, it is often the case that some businesses stop short of taking full advantage of the benefits that can, and should, be derived. I am perpetually surprised by the number of businesses I encounter who regard their accounting system as no more than a record keeping system, rather than as a powerful tool which can aid in monitoring, analysing, managing and controlling virtually every aspect of the business. After all, all the information is already there. It only requires that it be extracted and used.

Each of the accounting packages comes with the ability to readily produce standard form management accounts and all manner of other financial and operating reports. Many have capacities that allow business managers to purpose build their own reports.

There are very real benefits in setting up your system to better provide you with meaningful management reports. At the outset you should identify the key result areas of the business, and the key measures that will act as performance management indicators. Once these have been determined, you should seek to structure your chart of accounts and reporting formats to suit. For a relatively inexpensive cost, your accountant, or software support, should be readily capable of assisting in the technical aspects of this operation. They might also provide some valuable guidance as to other useful management reporting tools that can help to better guide your response and planning decisions.

Structured management reporting not only allows you to know exactly where your business is at any point in time, it also allows you to watch for trends. Amongst other things, this will allow you to better understand, and plan for, any issues of seasonality associated with your business. Unseasonal trends will direct you to those areas of your business requiring attention. Successive periods of similar negative trends usually suggest that action by the owner may be required to arrest deteriorating situations. They may be pointers to the impact of new initiatives by your competitors, or declining economic circumstances. They might also be indicative of declining product lifecycle, or a drop off in internal customer care or service standards.

Positive trends might lead to opportunities for growth. On the flip side, this might also indicate that some thought needs be given to the possibility that extra funds for new working capital could be required.

Variance analysis by looking at comparisons with budgets, and with previous period's results, gives particularly insightful indications as to current business performance and trends.

As you become more comfortable with using your management information, you will find it additionally useful to do some basic ratio analysis; sounds technical, but its really just basic arithmetic, and sound business practice. How consistent is the gross margin? If it's falling, then perhaps it's time to look at increased pricing to cover cost rises, or to look at more competitively costed purchasing. How's the inventory turnover rate? This can be a good indicator of potentially redundant stock lines, or overstocking. Is the ratio of wage cost to sales rising or falling? This could be a guide to productivity issues. What's our debtor turn? Is it taking longer to collect our money? These are just a few "fingertip" indicators that can help in being better in control. There are numerous others available. One very important but relatively little used example, is the liquidity ratio which measures the trend in the business cash flow to be able to continue to meet creditor payments.

The information is already there. And already paid for! It's simply a case of thinking about what you need, retrieving it, and using it!

Cheers

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