

Financial Management 201 - Trouble-shooting Tips

When I was a college student, I got an 'A' in my Accounting 101 and 201 classes. Then I entered the "real" world and almost SUNK the family business because I had no idea what I was doing with the "real" accounting. You see, the examples in the college text book used financials that were correct. That means, the dollar amounts in the accounts could be trusted, and were assumed current and accurate.

The "Real" World...

Well, when I took a swing at entering my accounting data I made a big "Slinky knot" mess out of my Peachtree accounting file. Oops. I didn't learn how to FIX my accounting in college. That would have been useful! I learned what I know from falling in holes and climbing out of them.

As a business consultant, I see lots of financial reports. Most of them have a few "Slinky knots" in them... accounts that are just wrong. The data in those accounts are the result of mistakes in data entry. In my consulting work, I start by helping my clients get to KFP – a KNOWN Financial Position. Let's get the accounting correct. That's the first step. From there, we can see the impact of operational, marketing and sales behaviors. The good news is that you can always improve your financial situation once you know what it is. I am kind of like Super Nanny. I show up, we work together to clean up the accounting and we put simple systems, routines in place to help you stay at a KFP.

Sometimes, we clean stuff up and then it gets messy again. Just like Super Nanny, I go away after my consulting visit. It is up to my clients to maintain the systems we put in place. I can always come back and I often help over the phone. However, the key to staying at KFP is your willingness to learn enough about the accounting systems to enter data properly and to fix things when they get balled up.

If you are the owner of a very small shop, you might be the Financial Manager of your company (as well as the Service Manager and Marketing Manager and Salesperson, etc.) That's the way it goes. If you dream of being a bigger shop, take heart that every big company was once just your size. The way out...is through. Take responsibility and do a good job as the Financial Manager. Quit looking for a magical solution (accounting fairy?) who will handle the accounting for you. Learn how to do it yourself and document your basic procedures. This will help you hand off the accounting duties successfully.

In larger shops, sometimes the accounting duties get handed to...

- The Financial Manager
- The Office Manager
- The owner's wife, mom, daughter (other relative)
- The Bookkeeper
- The Secretary
- The "Girl in the Office"

Whatever YOUR title, if you are the one who is responsible for the financial information at your company, I am here to help you. The following are a few tips and tricks for finding and fixing the “Slinky knot” messes in your accounting program.

Financial Fix Tips and Tricks...

- **It’s probably YOU.** I often hear something along these lines, “That number wasn’t there yesterday. It must be a QuickBooks problem.” That weird dollar amount in your financial reports probably has a very simple explanation. Somebody, maybe you, entered that information. In every accounting software program, there are debits and credits. Sometimes the debits and credits are not visible from the data entry screen. You will have to do some digging. Follow the flow of information from the entry point to the Income Statement (aka Profit & Loss or P&L) and/or Balance Sheet. (In my lengthy career, there have been only 2 cases where the accounting program was corrupt. Chances are...YOU are the problem. Start trouble-shooting from that assumption.)
- **Stay current with your financial reporting.** I recommend a WEEKLY review of the Balance Sheet and Income Statement. Some contractors I know get daily reports. That’s great! Once a year at tax time is just not going to cut it. Get to KFP and run the financial reports at least once a week. It is so much easier to find and fix a mistake that happened in the last few days than trying to track down something goofy from six months ago. Also, you can fix the mistake in the current month. That is better than having to re-open a previous month and adjust it. Once I “close” a month, I don’t like to open it again.
- **Go line by line down the Balance Sheet and Income Statement** and look for “weird” things. If you are just getting started with this process, I can help. Or, your accountant may help you learn what’s “weird” and what’s right. What a great opportunity for him or her to add value to your relationship. KFP means that every account is RIGHT. It reflects what you have in Assets, what you owe in Liabilities and what you own in Equity. The Sales account should equal what you have sold for that period of time. The Expenses should reflect what you have expensed for that period of time. The financial reports should be current and true. Here’s a list of “weird” things that may need some fixing...
 - A dollar amount that is positive when it was negative last time (or vice versa.)
 - A negative Asset. (Unless it is Accumulated Depreciation or Amortization. Those numbers are “contra” accounts and serve to reduce the value of the associated assets.)
 - A negative Liability.
 - Pay particular attention to your Payroll liabilities. I recommend using a Payroll service like ADP or Paychex. The number one reason: The service handles the liability so you don’t have to. The service will tell you what the cash requirements are to pay your team and Uncle Sam. They will do the tax payments for you. The Journal Entry to enter Payroll is much easier if you don’t have to keep track of the appropriate liabilities and payments. I attached a sample JE for entering Payroll. Follow the flow of debits and credits. You could create a sample transaction for your Payroll procedure and reference it every time you enter Payroll.
 - A negative Sales account (unless it is the Customer Refunds or Discounts...contra accounts.)
 - A negative Expense account. Now, an account may *look* weird but be *right*. For instance, if you enter a rebate for your Insurance it will show up as a negative expense for that month. Drill down and make sure.

- An account that is very different from last week or last month. If all of a sudden your Advertising expense went from about \$2,500 per month to \$300,000 this month, drill down. Something may have been miscoded.
 - Have your accountant help you make the weird things right with an appropriate Journal Entry or reversing entry.
 - Find out how it got weird, if you can, and update the data entry procedure. Written procedures are KEY to staying at KFP.
 - If you don't know how it got weird, at least get it to right. If it is a small dollar amount, create an adjusting entry and watch to make sure it doesn't get weird again. If it does...look through the previous week's transactions for that account to find the entry. This is forensic accounting!
 - If you do this once a week, YOU will get intimately familiar with the accounts and the dollar amounts. You will become an expert in what looks right and what looks "weird" and how to fix the weird stuff.
- **Run a transaction register report and look for the debits and credits.** Different accounting programs call this report by different names. Look for the detail trial balance or the General Ledger journal to find the "guts" of every transaction. Double entry accounting is based on the universal law of "what goes around comes around." If something goes up, something else goes up or goes down by that amount. Debits and credits are the mechanics in the accounting system that cause the dollar amounts to go up and down...and the Balance Sheet to stay in balance. There are debits and credits behind every data entry screen. You can also affect accounts directly by creating a Journal Entry. I attached a "cheat sheet" of Debit and Credit rules. I reference this several times a week.
- **Look for before-and-after differences.** If you are not sure of what is happening at a particular data entry point, try this:
 - Run the Balance Sheet and Income Statement.
 - Enter ONE transaction. Run the Balance Sheet and Income Statement again and see if you can see where the dollar amounts ended up. (Make sure no one else is in the accounting system while you do this.)
 - This is a street smart way to discover the "set up" behind the data entry screen.
- **To recode, delete or reverse a transaction?** It depends on your accounting program. With a basic off-the-shelf program like QuickBooks, MYOB or Peachtree, you can drill down to the transaction that needs to be fixed and recode it. Or, you can delete the transaction entirely and try again. With a more complicated industry-specific program like Successware, MasterBuilder, Computerease, etc. you may have to enter a transaction that reverses your original transaction and then re-enter the transaction properly.
- **Be careful with your initial company set up.** That's where a lot of the behind the scenes accounting is created. If you are entering Service Sales and the dollar amount is showing up as Service Agreement Sales there may be an "item" or other set up instruction that is sending the information to the wrong sales account. Go to Company Set Up or the Items list and do some investigating. Figure out the default debits and credits and which accounts are affected. Update the "set up" and see if that fixes the problem.

- **Get bossy with your software support team.** Call for help as you need it. If you don't understand what they are telling you to do, ask again for a clearer explanation. If they want to fix something for you, sit in as they do the correction so you can "follow the flow" of the debits and credits and learn from the experience. The more you know about your particular accounting software the less intimidated you will be by the accounting processes.
- **Be assertive with your CPA or tax preparer.** At the end of each quarter, take the time to make sure that your financials agree with the financial information your CPA is sending to Uncle Sam. Work together to enter the year-end Journal Entries needed to bring your accounting system up to accurate.
- **Learn to trust your intuition.** As your understanding of double entry accounting increases, trust your gut feeling that a dollar amount is wrong or "weird." So often, I help someone fix a "Slinky knot" and they respond, "I thought that might be the problem!" If you have that thought, follow it and see what you uncover.

If it is your responsibility to get the financial "Slinky knot" untangled, take a deep breath and know this: You can do it. You may need some help. Contact me if you feel overwhelmed and we'll set up a time to visit on the phone. This accounting stuff is just not that hard once you learn the lingo and accounting basics. One of the smartest Financial Managers I know is working with an 8th grade education.

Once you get a handle on them, you can delegate the accounting tasks. It is a blessing to have done the accounting yourself because you will never be held hostage by your bookkeeper (or "girl in the office.") You can coach someone to be even better than you were at the basic accounting tasks. And you will understand the Balance Sheet and Income Statement so much better for the experience.

Momma knows best...

My son, Max, is taking a beginning accounting class this semester. Already, he is bogged down with fancy, once-in-a-blue moon, accounting test questions. It would be so much better if his professor took this time to teach his students how to set up a simple accounting program for a business they may actually run someday. It would be so cool if he showed them how to assemble and FIX the financial reports... addressing just the basic transactions:

- Entering Sales
- Enter Web Order
- Applying Customer Payments
- Making the Deposit
- Entering Bills
- Paying Bills
- Enter Credit Card charges
- Pay, reconcile the Credit Card Statement
- Entering Payroll
- Reconciling the bank accounts

That covers about 90% of all the data entry. If those things were done properly, your financials would be pretty solid. I suggest you, dear Office Manager, work with your team to create written procedures for those transactions. You probably need an accountant to help you with the fancier transactions...

- Entering a new vehicle or other asset
- Recording the sale of a vehicle or other asset
- Regular Depreciation expense
- Beginning Balances for a new company
- Year End adjustments to reflect your Tax Return information

So, why bother teaching how to do those kinds of transactions in beginning accounting classes? I suppose the accounting teacher is just showing off? What about teaching readily USEFUL accounting information? Sigh.

And, it would be really cool if the teacher showed the kids how to READ the Balance Sheet and Income Statement. Taught them how to USE the information to create a winning Selling Price strategy. Taught them how to set Goals with a simple Budget. Showed them how to KNOW when you have become a millionaire. Accounting is the scorekeeping in the great game of business. Kids of all ages like games and like to keep score. Why not make it...FUN?

I sent Max this article and a copy of my book, ["Where Did the Money Go? - Easy Accounting Basics for the Business Owner Who Hates Numbers"](#) Sometimes Momma knows best.

YOXOXO
M