

Accounting Basics for Business Owners

by Steven Cohen

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Breathes there a business owner who relishes the prospect of reviewing the books? Likely not. Owners are too busy tending to what got them into business in the first place. They have to be in order to attract and retain those all-important clients and customers.

Caterers need to be preparing tasty canapés. Landscapers must be designing plot plans and artful flowerbeds. Doctors and dentists must be curing sore throats and fixing recessed gums.

So who's minding the financial store? The best guess is no one. And that's where we come in.

A Little Help for Our Friend

A few years back, a friend with a health care consulting business, asked my wife, Tami, who is an accountant, to take a look at the books. They were a mess. She straightened them out.

At the time, Tami and I were running a technology services business that we had co-founded in 1993 and were about to close. All of those unattended ledgers appeared to be a business opportunity. So we launched Exact Accounting Services Inc. in 2001 to do for other small businesses what Tami had done for our friend.

We've since worked with 200 such businesses, mostly service companies and professional associations. What we've come to believe as a result is that all owners – whether or not they have training in accounting or are even interested in it – must acquire at least a layman's understanding of the field. They must be able to attend to accounting without becoming accountants.

Why Accounting Literacy Matters

A literate owner is better able to deal with the professionals whose job it is to assure the integrity of the books, and thus save time and money. A harried owner with shoeboxes full of receipts and invoices at the annual review is a CPA's nightmare. Better to have the books in order so that costly CPAs can tend expeditiously to preparing the tax return.

A financially literate owner, moreover, is more likely to be in control of the business. Understanding accounting and the software tools that have computerized ledgers – QuickBooks is our pick for companies with under \$10 million in revenue and 50 or fewer employees – means that owners can spot problems early: the customer who hasn't paid; the vendor that has billed too much; the black ink that is turning red. Caught early, problems are more likely to be resolved.

Fraud is another issue that can be nipped in the bud if owners are knowledgeable about the books. A half dozen of our clients have had such issues. Fraud usually starts small, with \$20, \$200, or \$2,000 missing from the coffers. Early detection can save a company from insolvency. Remember that back payroll taxes and penalties are still the responsibility of owners whose companies have gone under because of fraud.

Getting Savvy About Accounting

Becoming literate should start with the owner retaining an accounting professional who isn't necessarily a CPA but who has proficiency in both bookkeeping and the specific software program the company uses. This duality is key. It won't work for the accountant to be unfamiliar with the software, or for a tech savvy non-accountant to install the program.

Programs must work for your business, rather than for the other guy's. Don't make the mistake of choosing a program because others are using it. If you aren't an accountant, have your accounting professional install it. The investment of about three hours or more depending on the complexity of the setup will usually run about \$500 and up and will guard against problems in the future. If you've already set it up yourself and you aren't an accountant, have a professional check the work.

Next, invest in training and technical support. You can take a course, but courses are lengthy and cover unnecessary material. Better to have your professional train you on site. You'll learn only what you need to know and in a shorter time.

Further steps involve savvy use of the software. You shouldn't give the administrative password to any employee. That's like handing over the keys to the vault, because it allows access to sensitive areas of the program. You alone should have that control. Others should have limited access.

You need to always keep the so-called "audit trail" feature on, because that allows tracking for deletions and changes to transactions, which is the chief way to spot fraudulent activity. Back up your accounting data, and store the backup disks off-site or use an online backup service.

Beyond Accounting Software

Literacy involves treating the software as a tool and acting as well to install safeguards that are common sense. From the material generated by the program, owners should learn what various pieces of data mean, such as the profit and loss statement and the balance sheet. That way, they'll have an understanding of the financial health (or lack thereof) of the business.

Other safeguards include steps such as making copies of all checks that come in. It's also a good idea to have different people make deposits and write checks. For larger disbursements, some companies require the signatures of two officials.

You can't do it all as a small business owner, but you must do some of it. The most critical area in which you must attain acumen is the financial. Savvy overseeing of your books will enable you to build a company that thrives. And it's literacy that enables you to do that.