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White Paper: “Bookkeeping Inadequacies That Can Ruin Your Business”

When it comes to a restoration company’s bookkeeping practices, the business will only operate as efficiently as the processes that are in place. Proper bookkeeping is essential to the health of any company. If it’s done poorly, it can ruin a business gradually through higher costs; suppliers, subcontractors, and other vendor services that become reluctant to work with a company; and most importantly- lost profits. A reliable bookkeeping system is the basis on which all of a company’s vital financial data is built.

During peak periods caused by microbursts, surge events, and catastrophic events your jobs are coming in on a rapid basis and money should be flowing at the same pace to meet the demand. This is a time when many restorers let their bookkeeping process get behind with the intent to catch up when things slow down. This is a bad decision that will have major consequences when lean times come, and they certainly will! An effective accounting system will keep you alive and provide the necessary financial data, i.e., cost containment, profitability, and the cash flow necessary to continue to provide services to your clients and customers.

Effective bookkeeping requires your company to enter transactions on a daily basis and you must be disciplined to ensure that no items are missed or forgotten. Mistakes can cost your company money and cause issues with important financial matters, such as paying bills, receiving customer payments, and estimating and managing jobs.

Bad bookkeeping can ruin your business in a number of ways. Here are some issues relevant to inadequate bookkeeping processes:

Hiring the Wrong Person

- Whether it is a family member, an inexperienced office temp or even the business owner who hires themselves to do the bookkeeping, the wrong person can create financial problems that go beyond just making uninformed decisions. In fact, trying to save money or help a loved one out can actually lead to audits or penalties. Hiring the wrong person can create issues that haunt your business for many years to come.

Lack of Accountability

Perhaps now is a good time to have a meeting with your office staff and map out all the roles and responsibilities, including the primary and secondary activities required to maximize your accounting system. Be a systems thinker.

- The problem with finding the right bookkeeper for a small business, even outside of cost, has to do with management of the bookkeeper, which in many situations is not done at all. As a result the bookkeeper does whatever the bookkeeper is going to do on whatever schedule the bookkeeper is going to do it.

  The lack of accountability and direct management in these situations leads to poorly motivated or poorly trained bookkeepers, who, to be fair, aren't being properly guided to provide bookkeeping that helps a small business grow.

Poorly Structured Chart of Accounts

- Almost universally, troubled companies have a poorly structured chart of accounts that inhibits good financial management. The cornerstone of your restoration company's accounting system is the Chart of Accounts no matter what service lines they offer. It serves as an information catch-all that should be designed for easy understanding and implementation by the company's bookkeepers, estimators, project managers, supervisors, and field personnel. By segregating operating, marketing, general and adminiS-trative expenses, various performance criteria can be effectively analyzed resulting in better and more confident decision making. Without a properly structured Chart of Accounts, it is impossible to provide meaningful information for you and your management staff.

Failure to Account for Work in Process (WIP)

- Calculating the true gross profit for your company depends on your bookkeeper understanding and implement-ing "WIP accounting" that results in a periodic adjustment to the financial statements to accurately reflect your jobs in process.

Improperly Categorizing Income and expenses

- Without knowledge of formal bookkeeping practices it will become a problem in scaling your business profitably to the next level. Accurately tracking income and expenses in the correct categories ensures proper measure-ment of profitability. You should use general bookkeeping guidelines for standard categorization that is relevant to the disaster restoration industry that follows generally accepted accounting practices (GAAP). Separate registers for each bank account and credit card, as well as properly classifying categories and sub-categories, make a big difference.

Making Data Entry Errors

- Data entry errors will happen from time to time and you cannot prevent all data entry errors so the preventative measure is to have a policy to perform various reconciliations timely to ensure that data entries are detected quickly and can be corrected. For example, you will want to perform monthly bank reconciliations, as well as accounts receivable and payable reconciliations. You can also run budget-to-actual variances to identify possible errors in classifying revenues or expenses, or run customer receipts or vendor payment reports periodically to ensure that all receipts and disbursements seem reasonable. Unusual transactions should be reviewed to confirm that no data entry mistakes were made and that the transactions are accurate.

Failure to Stay Current With Your Financial Reporting

- I recommend a weekly review of the Income Statement and Balance Sheet. Receiving your financial statements once a quarter or yearly at tax time is just not acceptable. It is so much easier to find and fix a mistake that happened in the last few days than trying to track down something strange 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.

Not performing Basic Account Reconciliation

- One of the key elements of a good bookkeeping system is to consistently reconcile the books with the bank statements, credit card statements, and any other statements each month. Many restoration businesses either fail to or improperly reconcile on a regular basis. A major benefit of reconciling the bank statement is ensuring that the cash on your company's books equals the amount of cash shown by the bank. Reconciling your accounts every month also helps to minimize errors and identify potential issues that in many instances can be corrected in the current month.

No Back-Ups

- The heavy dependence on technology brings with it the chance that something could happen to your data. Data needs to be backed-up and kept in different locations to avoid potential losses. Experts recommend that you back up your accounting data daily. This is even more important if you are operating in a paperless environment.

Mixing Business and Personal Finances

- One of the most common bookkeeping mistakes restoration business owners make is to mix their business and personal finances. Keep these separate and distinct to provide a more accurate track record of what was really used for business and what specifically related to personal use only.

What Should You Do Now?

- Your accounting team can, and is honor-bound to help you find and fix your in-house accounting so that you operate from a creditable financial position. That's the first step and from there you can see the impact of operational, marketing, and sales behaviors.

- Perhaps now is a good time to have a meeting with your office staff and map out all the roles and responsibilities, including the primary and secondary activities required to maximize your accounting system. Be a systems thinker.

- Learn more about implementing a high-performing bookkeeping system.
- Act now to save money and schedule a 30 minute complimentary call to discuss your business and what constraints may be holding you back. Email BDA to schedule a complimentary call, which is a $497 value, any time during the upcoming blog posts.

BDA'S mission is to serve business owners and corporate executives that suffer from sleepless nights, making little to no money, and having people problems. We help them increase year-over-year performance and profits, build high-performing teams, and get some time back for themselves. ◆

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