

HOW TO KEEP YOUR ACCOUNTS HEALTHY

A look at the key tasks to do to help keep your business accounts in good shape!



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Introduction

Do you know what you should be doing on a regular monthly cycle to keep your books in good shape?

Here are the key monthly tasks to help keep you on track.

In recent years there have been huge advances in technology in the accounting sector which have played a transformative role in helping businesses to adapt, change and grow. This includes aiding survival during the pandemic.

Digital tools like online accounting software (such as Xero & QuickBooks Online) are being adopted at a greater pace than ever before, assisting with enhanced real-time management information, an array of bookkeeping efficiencies, and aiding seamless collaboration with accountants, colleagues and clients.

We greatly recommend using online accounting software to help with all previously manual tasks as outlined below.

Monthly Processes:

1 Cash and bank reconciliations

Sometimes your current bank account balance is not a true representation of cash available to you, especially if you have transactions that have not settled yet.

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Performing a monthly bank reconciliation is the process whereby you match the business's accounting records to the corresponding information on a bank statement. The goal of the bank reconciliation process is to find out if there are any differences between the two cash balances. If there are any discrepancies, you have to recheck your company's accounting records as appropriate.

Online accounting software makes the bank reconciliation process extremely simple by matching bank statement items to an existing transaction in the software such as an invoice or a bill.

Keeping an eye on cash is so important (cash is king!) and so making sure the figure in your accounts is right is really important – as well as knowing where the next cash is coming from (section 2. below) and where the cash is going (section 3.).

Managing cash can be a challenge and we talk about looking ahead in section 6 but can also be useful to use simple solutions such as moving quarterly tax and social security funds into a separate account each month.

2 Invoicing and income

When it comes to invoicing your customers, knowing when to send the invoice is critical. If you raise the invoices too late, you may run into cash flow problems.

A clear understanding between you and the customer is also important so that invoices issued are not unexpected in terms of timing or amount.

Various ways to invoice;

- In advance – if you are buying lots of expensive materials for projects (deposit).
- Monthly recurring – if you are offering a recurring service.
- At a pre-agreed milestone – if a big project (stage payments).
- After the work is complete – make sure you send a timely invoice.

Many businesses now use online automated invoicing which links seamlessly to online accounting software (Xero/QBs). Benefits include, invoices can be emailed, with a payment button, invoice reminders can be easily sent, aged receivables can then be easily managed.

Keep an eye on your rates or fee levels to ensure that they remain appropriate for the level of services or materials that you are providing. Sometimes costs can creep up and businesses can be late to amend their invoicing meaning that profits are squeezed.

If you are a business that accumulates work in progress (where work is done first – perhaps over a period of time – and invoiced later) then it can be helpful to keep a track of this value as it helps you to understand how profitable your business is.

Keep a good level of communication with customers as this can help in particular where the scope of the work that you are carrying out drifts beyond the initial agreement, snagging problems arise or indeed where the customer has their own cashflow issues in settling your invoice. A strong relationship with the customer means that these obstacles can often be overcome without resorting to more formal action.

Consider using contracts to help define scope and services and to help resolve disputes when they arise. They can also provide you with protection if the worst happens and relationships with customers deteriorate for whatever reason.



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3 Suppliers

Consider maximising available credit periods with suppliers giving you the ability to conserve cash flow, whilst ensuring that you have a constant supply of goods even when your finances aren't stable.

Also important is having a good rapport with your suppliers to allow conversations to take place if ever you need to ask them for leeway in services, delivery periods, costs, or timing of payments.

Where the supplier offers early payment discounts consider using these to keep your business costs down as these can add up over time.

4 Checking stock levels

Stocktaking can seem to be a laborious task which many businesses undertake only once a year in order to provide a figure for their year-end accounts. However more regular stock-taking can improve the health of your business in two key ways.

Firstly, regular stock management can prevent over or under ordering which can lead to selling stock you do not have, creating delays for customers or holding stock too long so that it becomes unsellable. This can adversely impact business performance and customer service.

Secondly, knowing what stock you have used and what you have left provides you with business intelligence as it lets you know what profit you have made in any given period. If you don't carve out the cost of the stock you still have left then it can make your profit look lower than it is.

There are an increasing number of tools on the market to assist businesses in stock management.

5 Time tracking

Whether your business charges for time or not this can be a useful tool for any business.

If you are charging for time, then it ensures all time is captured and none is forgotten about or lost. It can be surprising how long something takes versus how long we thought it would take. Also, if there are ever any queries about how long was spent on a service then the records are there to explain and justify.

If the business is not charging for time then it can still be a really useful management tool to see where the most time is being spent within the business and perhaps highlight where efficiencies can be made, where it is worth investing in a new process or piece of software, and also to help with calculating appropriate fees and rates that the business charges.

6 Regular cash flow monitoring and forecasting

Small business owners have to make difficult financial decisions almost every day and cash flow forecasting can be a useful tool for business planning by enabling businesses to track the expected cash movements over a period of time in the future.

It can be done in many ways from sketching out on paper, to spreadsheets or indeed online forecasting tools linked to your online accounting software.

It can also range from fairly broad-brush to very granular if you have a lot of transactions or uneven payment flows and every business will be unique in terms of what level of monitoring is required.



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Cashflow forecasting can be used to model a variety of scenarios such as:

- Planning your quarterly tax and social security payments
- Plotting loan repayments
- Estimating new sources of income
- Planning for an upcoming large expense such as moving premises or buying machinery
- Deciding whether to hire new staff members and the impact of increased wages
- Deciding whether to use hire purchase or buying outright or renting/leasing equipment

7 Using financing

For many, it feels uncomfortable borrowing money but in many cases, this can be a wise business move. For example, purchasing a vehicle via hire purchase can be a good way to preserve cash and spread the cost of the vehicle over the time that you will be using it.

In other cases, borrowing a sum of money for a specific capital purchase or push in business growth can make sense if there is a good chance of increased revenue generated thereafter. It is just important to ensure that the business plan around borrowing makes sense and is affordable.

A credit card can be helpful both for practical reasons (having a card to hand when you are out and about) but also to help smooth over any bumps in cash flow if you have irregular income flows. For many, an option can be arranging an overdraft facility with the bank if, again, the business is subject to uneven cashflows.

8 Other reporting

It is useful to look at some other reports on a regular basis, many of which are generated automatically if you are using online accounting software:

- Debtors/customer owing report – who owes you what and when is it due.
- Creditors/supplier invoices due report – what do you owe and when is it due.
- Profit and Loss report – you can select any time period (week/month/year etc.) and see how profitable the business is.

9 Real-time information and apps

The benefit of a simple online accounting platform is that, if you keep your accounts healthy and up to date, you can see in real-time what you are owed and what you owe and what your bank balance is. Using mobile app functionality, you can also invoice on the go – or take a snapshot of receipts when you are out and about which then go straight into your accounting software to be matched against the banking later. These tools allow you to save time and become more efficient whilst at the same time becoming more informed.

10 Outsourcing

Many small businesses can find it challenging to keep on top of some of the essential tasks outlined above required for business success.

Outsourcing some or all your accounting function can offer you excellent time-saving efficiencies whilst saving money and reducing stress. This can allow you to focus on why you started the business in the first place. If you like keeping control of things yourself it is also possible to receive outsourced training to give you the skills to move forwards.

It can also be beneficial to have regular catch-ups with your accountant to look at the figures and business problems together and help find suitable solutions. Two heads are better than one!

Questions? If you have questions on any of the above, please contact us.

