Ask Andi
Trusted Advisor to Business Owners

Making Time for Finance
5.28.13

We have a billing accuracy and timeliness issue. It's hard for me to tell what's going on with our income, expenses, profits, loans and bank accounts. I don't trust what I'm looking at, but I'm not sure how to fix it.

Thoughts of the Day:
As data gets entered into the accounting system, it is subjected to interpretation. In addition many companies have employees doing data entry who have not been formally trained in accounting practices, potentially leading to misclassification of expenses. Errors can pop up in unpredictable ways and lead to misrepresentation of what's going on.

When it comes to data entry, there is potential for error everywhere:

- prices to charge to clients
- acceptance of bills from vendors and credit card companies
- assignment of costs to proper cost categories
- recording of expenses against cost centers
- use of balance sheet versus income statement accounts

It is essential to make sure that reports are accurate and meaningful to the people who rely on them to interpret how the business is doing.

Start with approvals for entry into the accounting system. So often the accounting staff gets blamed for errors when the problem lies further up the chain.

As transactions become more automated, they move faster, with less of a paper trail. Charges from credit card firms and bank accounts get dumped into accounting systems as part of the reconciliation process. Vendors can send in bills that slip past traditional controls. A clerk in accounting may not know what's legit and what's in error.

Look at the steps bills go through. Decide who gives approval and who indicates what accounting categories are to be used. Make sure that both line management and accounting experts are involved in oversight.

Proof entries by category: revenue, cost of goods sold and overhead for the Income Statement; assets and liabilities for the Balance Sheet. Assign people responsibility to review sections of transactions. Correct transactions that double up – 2 months of rent in one month, nothing in the next.

In many companies invoices to customers automatically generate as soon as products are shipped, or as billable hours are input. Make sure sales and customer service

oversee charges going to customers. Set up a system to of line management review in order to identify red flags, to catch and fix problems before they hit customers' desks.

Separate reconciliation from data entry. When doing reconciliations formally record all questions for review and correction. Treat errors as teaching opportunities. Reduce errors by setting up memorized transactions. Identify and routinely focus on high-error rate categories.

Educate staff involved with data entry. If they do not have accounting training, make that part of their development plan. Once they have the basics down, encourage additional courses to increase their ability to contribute. Promote people who are persistent about getting reports to be accurate, weed out people who are just going through the motions.

Turn to accountants and business analysts for help setting up routines. Ask them to show you how to use the General Ledger, Transaction by Account and Reconciliation reports to proof entries. Set up periodic audits to spot check data.

Share reports with line managers and ask them to send in questions. They can spot things that, "don't make sense" from their perspective. Create a form that managers can use to send back inquiries, which will allow people in accounting time to review questions and make corrections.

Don't send the company down a path doomed to failure because plans are based on inaccurate information. Encourage people to question reports, rather than standing pat that once a report is printed it's correct. Insure that everyone up and down the line believes that the numbers are correct. Then you can confidently use historical data as a foundation for planning the future of the business.

Looking for a good book? Financial Statements, A Step-by-Step Guide to Understanding and Creating Financial Reports, by Thomas R. Ittelson.

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