

How to Fix Your Financial Statement Fiasco

Accounting Practices for the New Year

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As a business owner, you're most likely going into the New Year with new goals for your company – plans for expansion, plans to offer new services or products, etc. Maybe your thought line is “out with the old, in with the new”. That's a good attitude to have especially when it comes to your day-to-day and monthly accounting processes. If the handling of your financial statements is in a state of disarray, there's no time like the New Year to clean up your policies and procedures.

Why should you take the time to do this?

It's just good accounting to have solid policies in place and your financial statements in order because you need an accurate picture of what your company is doing. Are you making money on a daily, weekly, month-to-month basis? You want to know at any point in time where you stand. You never know when you're going to have to give your financial statements to a third party – possibly a banker, someone who's interested in buying your company or a vendor who's going to be a supplier. You don't want to give out your financial statements without knowing what's in them and you always want them to be clean and up-to-date.

You also want to ensure that you can be audited. If your information is a big mess, it's going to be very costly and very time-consuming for an audit. And if you're thinking *my CPA can just do it for me while performing the audit* – not so fast! He or she can help *guide* you, but cannot clean up your accounts *for you* because CPAs must remain independent.

What's the worst that could happen?

The worst thing you can do is not have any of your cash accounts reconciled. Why? Because you can't answer important questions such as *where is my money going? Can I buy new equipment? How am I going to expand my business?* You have no idea because you do not know how much money you have to spend on these activities.

Contracts

The first step to getting your financials in order is to figure out what type of contracts you've entered into such as lease agreements, sales agreements, purchase agreements, operating agreements, articles of incorporation and debt agreements. You'll then want to make sure these agreements are being accounted for properly.

Equity

Next, look at your equity. You want to know who has contributed money to the company and who is taking money out of the company. Try to nail down what types of equity transactions have taken place.

Accounting Software

With accounting software, you want to know what you're using and how it's being used. Is someone entering transactions on a daily basis? How are those transactions getting inputted? You want to make sure that all transactions entered are getting captured in the accounting software and the general ledger. If you don't feel comfortable that this is happening, you need to put processes and controls in place so that any transactions that are occurring are known by whoever is handling the accounting for your company.

Monthly Processes and Procedures

Putting monthly processes and procedures in place will ensure all accounts are being reconciled on a timely basis. Start with cash – make sure you have all of your monthly bank statements and that you have reviewed them prior to reconciling your cash accounts. Next, review your accounts receivable aging report. You'll want to look at old accounts for issues such as why they're not being collected. If you have inventory, be sure you are doing monthly or quarterly inventory counts and that you are reconciling those counts to your general ledger. Review your prepaid expenses and accrual accounts – have you paid any expenses in advance or do you owe anyone money? You basically just want to go down the balance sheet and ensure all your accounts are reconciled and current.

Profit and Loss Statement

You'll want to go over this on a monthly basis to check that revenues are being recognized correctly. It's the same with your expenses. Be on the lookout for issues with inconsistencies and missing expenses or expenses that are possibly being doubled up in the same month.

If you need help getting started or developing a process, contact your Henry & Horne, LLP professional adviser for guidance.

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