

Financial Management 201 – Trouble-shooting Tips

As a business consultant, I see lots of financial reports. Most of them have a few “Slinky knots” in them...accounts that are just wrong. In my consulting work, I start by helping my clients get to KFP – a Known Financial Position. From there, we can see the impact of operational, marketing and sales behaviors.

Got an accounting mess on your hands? It happens! Here are a few tips and tricks for finding and fixing the “Slinky knots” in your accounting program.

Financial Fix Tips and Tricks...

- **It’s probably YOU.** I often hear something along these lines, “That number wasn’t there yesterday. It must be a QuickBooks problem.” That weird dollar amount in your financial reports probably has a very simple explanation. Somebody, maybe you, entered that information. You will have to do some digging. Follow the flow of information from the entry point to the Income Statement (aka Profit & Loss or P&L) and/or Balance Sheet.
- **Stay current with your financial reporting.** I recommend a weekly review of the Balance Sheet and Income Statement. Some contractors I know get daily reports. That’s great! Once a year at tax time is just not going to cut it. Get to KFP and run the financial reports at least once a week. It is so much easier to find and fix a mistake that happened in the last few days than trying to track down something goofy from six months ago.
- **Go line by line down the Balance Sheet and Income Statement** and look for “weird” things. If you are just getting started with this process, I can help. Or, your accountant may help you learn what’s “weird” and what’s right. What a great opportunity for him or her to add value to your relationship. KFP means that every account is RIGHT. It reflects what you have in Assets, what you owe in Liabilities and what you own in Equity. The Sales account should equal what you have sold for that period of time. The Expenses should reflect what you have expensed for that period of time. Here’s a list of “weird” things that may need some fixing...
 - A dollar amount that is positive when it was negative last time (or vice versa.)
 - A negative Asset. (Unless it is Accumulated Depreciation or Amortization. Those numbers are “contra” accounts and serve to reduce the value of the associated assets.)
 - A negative Liability.

- Pay particular attention to your Payroll liabilities. I recommend using a Payroll service like ADP or Paychex. The number one reason: The service handles the liability so you don't have to. The service will tell you what the cash requirements are to pay your team and Uncle Sam. They will do the tax payments for you. The Journal Entry to enter Payroll is much easier if you don't have to keep track of the appropriate liabilities and payments.
 - A negative Sales account (unless it is the Customer Refunds or Discounts...contra accounts.)
 - A negative Expense account. Now, an account may *look* weird but be *right*. For instance, if you enter a rebate for your Insurance it will show up as a negative expense for that month. Drill down and make sure.
 - An account that is very different from last week or last month. If all of a sudden your Advertising expense went from about \$2,500 per month to \$300,000 this month, drill down. Something may have been miscoded.
 - Have your accountant help you make the weird things right with an appropriate Journal Entry or reversing entry.
 - Find out how it got weird, if you can, and update the data entry procedure. Written procedures are KEY to staying at KFP.
 - If you don't know how it got weird, at least get it to right. If it is a small dollar amount, create an adjusting entry and watch to make sure it doesn't get weird again. If it does...look through the previous week's transactions for that account to find the entry. This is forensic accounting! ☺
- **Run a transaction register report and look for patterns.** Look for the detail trial balance or the General Ledger journal to find the "guts" of every transaction. Sometimes you can "drill down" by clicking on the account. Look for patterns and entries that look different from the other entries in that account.
- **Study up on double-entry accounting** and gain understanding of how debits and credits affect each type of account. The Help feature in your software is a good place to search for help. So is YouTube.
- **Look for before-and-after differences.** If you are not sure of what is happening at a particular data entry point, try this:
 - Run the Balance Sheet and Income Statement.
 - Enter ONE transaction. Run the Balance Sheet and Income Statement again and see if you can see where the dollar amounts ended up. (Make sure no one else is in the accounting system while you do this.)
 - This is a street smart way to discover the "set up" behind the data entry screen.
- **To recode, delete or reverse a transaction?** It depends on your accounting program. With a basic off-the-shelf program like QuickBooks

™ or Peachtree ™, you can drill down to the transaction that needs to be fixed and recode it. Or, you can delete the transaction entirely and try again. With a more sophisticated industry-specific program, you may have to enter a transaction that reverses your original transaction and then re-enter the transaction properly.

- **Be careful with your initial company set up.** That's where a lot of the behind the scenes accounting is created. If you are entering Service Sales and the dollar amount is showing up as Service Agreement Sales there may be an "item" or other set up instruction that is sending the information to the wrong sales account. Go to Company Set Up or the Items list and do some investigating. Figure out the default debits and credits and which accounts are affected. Update the "set up" and see if that fixes the problem.
- **Get bossy with your software support team.** Call for help as you need it. If you don't understand what they are telling you to do, ask again for a clearer explanation. If they want to fix something for you, sit in as they do the correction so you can "follow the flow" of the debits and credits and learn from the experience. The more you know about your particular accounting software the less intimidated you will be by the accounting processes.
- **Be assertive with your CPA or tax preparer.** At the end of each month, take the time to make sure that your financials are right, and "agree" with the financial information your CPA is sending to Uncle Sam. Work together to enter the year-end Journal Entries needed to bring your accounting system up to accurate.
- **Learn to trust your intuition.** As your understanding of double entry accounting increases, trust your gut feeling that a dollar amount is wrong or "weird." So often, I help someone fix a "Slinky knot" and they respond, "I thought that might be the problem!" If you have that thought, follow it and see what you uncover.