

The Benefits of Accurate Bookkeeping

Bookkeeping is a task that many or most tradespeople don't want to know about, and they see it as an obligation for taxation purposes. Yet, poor bookkeeping is the greatest cause of business owners finding themselves in financial difficulty and often going bankrupt.

As a business owner, it is not good enough to focus on the construction work and leave the bookkeeping to others. Of course, if the person has a bookkeeping or accounting qualification the situation maybe different and is certainly a good starting point, however the ultimate responsibility is with the owner / manager.

During my travels, business owners often tell me that the company bookkeeper is self-taught. I then listen to how the entries are carried out and conclude the company accounts are a mess which is often an understatement.

Over the coming months, I will present a series of business articles that cover the important functions of bookkeeping and the benefits to the management team.

It is crucial that the business owner / manager has accurate, reliable and on time reports. My research indicates that many businesses are going broke due to not knowing the true financial position of the business.

Important information that must be available on a daily basis.

- a) Cash at bank
- b) Trade creditors
- c) Trade debtors
- d) Future work
- e) Cash flow
- f) Balance Sheet information

A trap can be, that when viewing a 'trade creditors report' it will only provide the trade accounts which are outstanding, this of course is only half the story. To obtain a complete picture the Balance Sheet must be included, it will show the PAYG, Employee Super as well as the GST obligations.

Financial reports must represent the same period for each month, that is 1st to 31st, or another period that suits the business. This provides a good comparison. Where a business is showing a loss, it is easier to rectify the situation after one month than at the end of the financial year.

Reports must also be consistent in their presentation, the same layout, providing the same information. Again, it is for comparing one period with another.

The information must be accurate, yet so often it is not. The business owner should insist that bookkeeping and accounting conventions are met. However, for some reason the business owner feels an obligation to accept what they are presented by the bookkeeper, this is largely because the business owner does not take the time to learn a little about financial reporting, information that could add profit to the Balance Sheet and provide a better quality of life.

In the coming articles we will cover the Accounts Payable and Receivable, then work through to more complex matters.

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