

Internal Control of Revenues and Expenses - by Dan Sautner

As a business owner, you have now found out that only you can control how the business operates. Part of this control relates to the finances of your company. This article seeks to discuss the ways for you to pay attention to the revenues and expenses of the business you are operating. The bottom line is the bottom line. Any business is like an old row boat, with a large number of small leaks. Each leak in itself is not important or dangerous to the well being of the craft, but the sum of many leaks leads to disaster. As a business owner you have to have a way to watch for the leaks, and a way to stop them.

Cash

Let us first start with the cash coming into your business - my favorite kind of cash. Part of your business must include some kind of system to record sales and account for cash receipts. Today the cash register systems (point of sale) offer a variety of control features. Use whatever you have to come up with a total cash collected, and balance your cash drawer to this amount. In a retail situation where you have a number of floor staff handling the register, you are in jeopardy of leaking some of the cash. The cash drawer should be balanced once per day against the cash register total. It is a simple exercise where you count the entire drawer and match it to the internal tape maintained by the register. Beware of cash over and cash short situations. At the very least, these are indicators of poor customer service; at the worst, they are signs of an organized attempt by dishonest people to remove your cash.

Inventory & Supplies

The next area of control is in the supplies and inventory that you have on hand. A steady gross profit margin is usually the easiest control to have and this is achieved through regular inventories and a monthly profit and loss statement. If you achieve a stable gross profit margin consistently, then you are likely in control of your stock. Other ways include secure storage and display areas. Obviously, you cannot restrict access to the point where customers are unable to get at it, but that access should be visible so that this important asset does not develop legs. In your storeroom, keep supplies neat and organized. Keep this area secure with limited and controlled access. Keep track of the supplies that you use so that abnormal usage can be spotted. Make sure that your employees understand that shrinkage will not be tolerated.

Accounts Receivable

Essentially, you should not have accounts receivables. Accept credit cards instead. In the service retail situation, giving credit to customers is unlikely to increase your business volume, so why bother? My attitude has always been if customers are unable to get a credit card to use, why should my business extend credit? The cost to accept credit cards, the vendor charge, will be much less than the running of your own credit department.

Purchases

When paying your bills, be very careful that you are paying only for goods and services actually received. Inform your vendors that orders can only be placed by authorized personnel, and thoroughly check every shipment of goods you receive into your shop. Ensure that you are receiving what you ordered and it is in acceptable condition before you sign the shipping receipt. When studying your invoices, double-check the mathematics. These computer print-out bills can look very formal and correct, but check the addition and cross multiplication. Computers may not make a mistake in adding, but programmers do sometimes make mistakes on the instructions that they give. Pay particular attention to goods purchased for resale and use. These purchases may or may not be subject to sales tax, and careful attention on your part will save you money.

Pay your bills on time. While this may not be the time on the invoice, set a policy that your cash flow can live with. Always match the received date to the invoice date and take the later of the two. Set aside a portion of your week or month to do this task. Try not to hastily pay a bill because someone is trying to exert pressure. Paying of bills results in money leaving your business, and this is the worst kind of money.

Sales

We all work too hard to ring sales up in our cash registers, and when you consider how little of the total sale actually ends up in net income, you can appreciate how little mistakes can hurt you. Make sure that all services are billed to the customer. Often it is easy to overlook that small item, especially if several of your staff were involved in providing the service to the customer. Have some kind of system that records each service rendered to the customer, and make sure this reaches the final billing. At the billing stage make sure that the bill is calculated properly. If using an electronic cash register (point of sale) system, periodically review the "price look up tables" to ensure that they conform to your current pricing structure. A customer will usually check to see if he is over-billed, but few are looking for under-billings during this glance at the charges. Periodically review your billings to check the math and the services billed. If you have a number of people doing billing in your company, make sure that you can track mistakes back to the person so that appropriate action can take place.

Summary

All of the above can be generalized into the issues of the completeness, the accuracy and the authorization of every transaction your company makes. We appreciate that you cannot be there every moment for every transaction. You can, however, set up simple procedures for yourself and your staff. Ask yourself the following questions:

- 1) Are my sales complete and accurate? How do I achieve this within my system? Am I sure that every product delivered and every service provided is at the price I have specified?
- 2) When I pay a bill, am I getting the services and products I ordered, for the price I agreed to, and have I fully received the billed items?

3) Am I keeping control of my assets? Am I getting full value for the resources I give away in order to improve my net income?

These are the basic questions that need to be answered by each company in business today. Take a moment and see if you can plug a few of those leaks. Do not fall for the temptation of thinking that if you have never had a problem, no problem will ever occur. Do not depend solely on people to catch mistake or not make them in the first place. After all, making mistakes is what humans are all about.