

3.7 Minding your business

Set account management procedures

You've done all the hard research and planning work, come up with an inspired marketing approach and are driving hard towards opening day. Don't let it all slip through your fingers now by overlooking your account management procedures. This is especially important for new tourism ventures which are typically small, have modest sales levels, minimal to non-existent profit margins, and seasonal revenues.

A basic understanding

It is important for every entrepreneur to have a basic understanding of bookkeeping and accounting. This doesn't mean you actually have to "do the books," but you should understand what is happening, so that you can manage cash flow and spend as much time as possible on generating income for your business. Your administrative and financial systems should be designed to minimize clerical errors, and prevent fraud, cash flow problems and other unpleasant surprises. If you are unfamiliar with accounting, consider an introductory course in the subject from Yukon College, Yukon Tourism Education Council (YTEC), dāna Nāye Ventures, or get further information from online sources such as the Government of Canada – Canada Business Service Centre at www.canadabusiness.gc.ca.

Points to consider

Although each business' control system should meet its unique needs, there are some general points to consider when developing a system:

- Simplicity – the system should be workable, simple as possible, and understandable
- Timeliness – you should be able to produce reports as soon as possible
- Cost versus Control – bookkeeping can be costly in terms of your own time or in hiring a bookkeeper. The more you are involved, however, the more you understand your business.
- Flexibility – the business' needs will change over time, so it is important that a control system be able to adapt to provide new information requirements.

If there is one thing computers do better than anything else, it's organizing numbers. And that, essentially, is what bookkeeping and accounting is all about. With the low cost of computers and software today, it would be hard not to justify their expense to the entrepreneur for accounting purposes. They will save you hours of tedious ciphering in ledger books, will easily set up your chart of linked accounts, will generate tidy reports of every sort at moment's notice, and they never make an adding error. On the other hand, if you make an entry error, it takes only a few key strokes to fix it.

Bookkeeping vs. accounting

Bookkeeping and accounting together form the accounting system for your business. What is the difference between them? Bookkeeping ensures that each business transaction (a cash sale, payment of a bill, payroll cheque) is recorded correctly, while accounting collects the bookkeeping records into financial statements and other reports.

Your chart of accounts

Developing a financial control system begins with setting up a chart of accounts specific to your business. These will include asset accounts, liability accounts, income accounts, expense accounts and others. Each financial transaction you conduct will then be recorded in the appropriate account, allowing you to track such variables as sales, expenses, costs and inventory, and to review your company's cash, profit and loss positions. If this all sounds too complex for you, do not despair. All you need is an accountant to advise you, a computer software program, such as *NetSuite Small Business* or *Microsoft Small Business Financials*, to do most of the work, and a bookkeeper to help you put it all together.

Setting up your accounts

Armed with information and resources, you are now ready to "set up your books." If you are familiar with basic bookkeeping principals, the software includes everything you need to proceed. If you are not, then here is a strategy successfully used by many small businesses at start-up: hire the services of a professional bookkeeper for an afternoon. That should be all it takes to set up your accounts and give you some fundamental training in how to enter your financial data. Then make arrangements for the bookkeeper to return for an afternoon every month – or as

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Cash-based businesses

needed—to review your entries, answer your questions, make necessary adjustments and to flag concerns. Add to that an annual or semi-annual review by your accountant and you have a formula that will keep you closely involved in your company's financial activities—aided by professionals—in a cost-effective way. Of course, if your business generates a lot of financial activity, you may have to weight the formula differently. At the extreme, you may need a bookkeeper to make all the entries, and then review the books with you every week or two.

Many tourism businesses are *cash-based*, meaning a large portion of their revenues are cash sales as opposed to sales on account (which automatically leave a paper trail). This, coupled with long hours of operation, makes them prone to cash *shrinkage*—less in the till than what the records indicate should be there. Shrinkage can be attributed to poor or error-prone record-keeping and staff theft. If this description fits your business, you will need a point of sale system—a clearly-defined process for monitoring, receiving, recording and depositing cash sales. You must also impose strict controls on who can receive and disburse cash.

Keep your records current

There are compelling reasons for you to keep your records as current as possible. This will allow you to track your sales and expenditures and compare them to your forecasts. You will be able to assess your cash position at any time and spot emerging trends. You can then take corrective action during the course of the season. If you don't learn until the end of summer that you have been losing money all along, it may be too late to make changes for that year.

Cash flow problems

There are a number of early warning signs that may indicate a looming cash-flow problem:

- inventory increasing more rapidly than sales. Carrying inventory costs money. If inventory is one of the critical factors in your business and the quantity is large, the purchase of a computer and appropriate tracking software is worth considering.
- overdue accounts receivable (money owed to you) and possibly a large number of bad debts. How do you decide who to give credit to? Are you invoicing quickly and accurately? Are you sending out statements of accounts and following up on overdue accounts?
- overdue accounts payable (bills you need to pay). Discounts should be taken advantage of and late payment interest penalties should be avoided. Are you making your payments as they become due?
- major difference between projections and actual income and expenses
- idle staff or excessive overtime. This may also indicate a management problem.
- bank lines of credit do not decrease but are always at or near their maximum. If this is the case, consider converting the full amount into a loan, payable at a lower interest rate.

FOR MORE INFORMATION

Business Development Bank of Canada

1109 First Avenue, Whitehorse, 633-7510
www.bdc.ca

Canada-Yukon Business Service Centre

307 Jarvis Street, Suite 101, Whitehorse, (867) 633-6257 or
1-800 661-0543
www.cbcs.org/yukon

Microsoft Small Business Financials

www.microsoft.com/businesssolutions

NetSuite Small Business

www.netsuite.com