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THE HIGH PRICE OF AN INCOMPETENT BOOKKEEPER: Part 1

What they don't know is going to cost you

By Marty Koenig and Susan Commins

Every small biz I've worked with has one thing in common: They aren't so good at keeping good books. I've looked at hundreds of companies and their books. It has simply never happened where I walk into a company and everything in their accounting/finance department is perfect. Not that perfection is the goal, but 99.9 percent of the time there are serious issues with the way they run the accounting functions.

Here's the problem: There are lots of people that call themselves bookkeepers or accountants, but most of them aren't very good. They may know how to enter data, reconcile accounts, do invoicing, etc., but there's so much more to managing business finances. Just because they say they're QuickBooks Certified, Peachtree Certified, whatever, does not mean they are an expert bookkeeper. Geez, I was QuickBooks Certified and you wouldn't want me as your bookkeeper.

Here's a story on a recent client whom I'll call POA. When I arrived as their part-time CFO, I dug into their books and their bookkeeping practices, workflows and data flows in and out of the accounting system. I looked at the "what goes where, when and why." I looked at how well they manage their cash cycle.

POA had five bookkeepers in three years. The current one then, I'll call her Sherry, was a contractor from a local CPA firm that offers small biz income taxes and bookkeeping services.

Both biz owners knew there was something wrong with the books. They had seen the reports every so often, but they kept wondering if the numbers were really true. They had no trust in the numbers. Neither did I!

The owners had continued to go along for several years, wondering about the numbers, and making spending and hiring decisions based on bad data. They believed that if they paid a bookkeeper \$40.00 to \$50.00 an hour, the bookkeeper should know what they're doing, especially if the bookkeeper was recommended by their CPA.

When I started with POA, I led meetings with the owners, meetings with Sherry the bookkeeper, meetings with the CPA firm, just to try and make sense out of the mess.

I spent some time trying to teach the bookkeeper how to put data into the right places, and why. I tried to teach her to go back and clean up the books. After some time, it was taking too long. I couldn't do my

job as their part-time CFO and I just couldn't help the company by telling them the story behind the numbers. Nor could I craft for them the cash story of the future. I started looking for a more qualified bookkeeper.

After a bunch of phone interviews, I found one that I thought was competent. I didn't tell the owner what her hourly rate was, just that for the first month or two it would cost more to get the books cleaned up, and that it was not an option not to get that done. Then it would cost about the same as they had been paying, just with much faster work, and better quality, with a bookkeeper that knows what she is doing.

When I brought in Susan Commins from All About Accounting, LLC to meet my client, they recognized each other. Three years prior, the owner said he had interviewed her and liked her, but her hourly rate was too high. He had gone with someone else because she had a cheaper hourly rate.

Zoom forward three years, and guess what? That low hourly rate cost the company a bundle. Have you heard of negative return on investment? That's what POA had experienced. The money they had spent on bookkeepers over the years was like they threw money out the window. Sherry, and the "cheaper" bookkeepers before her, had made such a mess that it was now going to be very expensive and time-consuming to get things right.

THE HIGH PRICE OF AN INCOMPETENT BOOKKEEPER: Part 2

When your books are a mess, your business looks like a hobby

A recent client had determined that they wanted to sell their company in a couple of years. That is one of the reasons they needed to get their books in order. Nobody is going to buy a company where it takes three weeks to prepare a balance sheet and income statement (and even then the numbers were suspect)...a tell-tale sign the business didn't have their act together.

When your books are screwed up, your company isn't an actual business, but looks and acts like a hobby. A buyer will more likely pay you a very small, and undervalued, amount, if anything, for your "hobby." Fortunately for my client, whom I'll call POA, bringing in Susan Commins to clean up the books and continue the bookkeeping was a life-saver and helped make the business much more valuable to potential buyers. Her speed and her understanding of accounting concepts, as well as her QuickBooks proficiency, made her very cost-effective.

Susan is a QuickBooks expert who has been providing QuickBooks bookkeeping services to businesses for the past 20 years. Unfortunately, she found the story of POA a very common one.

"One-hundred percent of the businesses that hire me after they've used "less expensive" bookkeepers, including bookkeepers referred by their CPA's, have nothing but a mess on their hands and need their books to be cleaned up," she says.

The costs can be significant when you tally up the wasted money paid to the incompetent bookkeepers, the wasted time by those bookkeepers, the aggravation and frustration for the business owner's inability to get accurate financial information, the costs of paying for the clean-up, to name just a few of the issues. If the company file is not setup correctly and the person doing the books is not trained properly from the get-go, the business is already at risk. Ever wonder why a large percentage of

businesses don't survive after five years? Everyone has an answer to that, but my answer is poor accounting and forecasting/budgeting for cash flow.

At a minimum, it cost POA over \$20,000.00 just for the clean up over a period of 1 ½ years. Because POA was an online retailer, they purchased thousands of dollars of products from vendors and had thousands of dollars of credit card deposits every day. They also used several credit cards and Lines of Credit for their business. All of these transactions needed to be entered into their bookkeeping software, which was QuickBooks. Just getting the Accounts Payables cleaned up took many, many hours over a 1½ year period.

Because the main product vendor's bookkeepers were also incompetent, the clean-up was much more complicated and expensive. Without an accurate A/P, bills were duplicated and paid twice, and credits weren't entered correctly, which directly impacted cash flow. There was no way anybody could verify how much was really owed to their biggest vendor.

The prior bookkeepers also weren't entering the deposits correctly. In addition, they were printing out hundreds of unnecessary pages (costing thousands of dollars in printer toner and paper) every week. The credit card balances and Lines of Credit balances were also incorrect and not paid timely, costing the business extra finance charges and late fees. Even their payroll had errors that caused their payroll taxes to be paid incorrectly - another potential costly situation since there are usually penalties assessed by the taxing authorities.

Unfortunately, many small biz owners don't know the difference. They assume since they were referred to a bookkeeper by their CPA, or they have a great resume, or they are a relative, that they are competent. Here is just one example of a story that made my (Susan's) blood boil: a CPA had met a QuickBooks bookkeeper through a highly regarded networking group but had never actually worked with her. Because the networking group had a requirement to provide a certain number of leads to others every single week, without doing any due diligence on her work, he took her at her word that she was a QuickBooks "expert."

Not only did he eventually discover that she did not know what she was doing in QuickBooks after he had referred her to many clients, he never called those clients to tell them that this person was found to be incompetent. Do you think I'll be referring any business to that CPA? If he can't do some simple checking before he refers someone he doesn't know...one that can do costly damage to a company...then he doesn't get my referral. Nor should he get anyone else's.

These small biz owners kept paying this referred bookkeeper until they realized this person had just compounded the mess and caused even more cleanup work. These clients then had to pay me to clean up their books for their tax returns to be prepared.

THE HIGH PRICE OF AN INCOMPETENT BOOKKEEPER: Part 3

Here's what you need to know about hiring somebody good

Another caveat for business owners - if you send a mess to your CPA to prepare your income tax returns at the end of the year, your CPA will need to clean up that mess first, which can be very expensive!

That is what happened to my client, POA. There was no way POA's owners could get accurate financial information, not for their own understanding of how their business was doing, nor for any potential

interested buyers of their business or to get their income tax returns done correctly. Their frustration level was extremely high when Marty brought me in to clean up the books.

Here is what every business owner needs to know when hiring a bookkeeper:

1. Most messes that have been created by previous incompetent bookkeepers CAN NOT be cleaned up. Every successive incompetent bookkeeper just adds their own mess on top of the prior bookkeeper's, compounding the chaos in the books. A bookkeeper that understands this will set up a new company file from a date certain and bring over balances, etc., in order to have a clean file in which to work. It is only a waste of time and money to try and clean up the "old" mess.

2. A business owner should always question the bookkeeper and check references during the interview process. Here are some very important questions to ask:

- a. Do you reconcile the books to the bank statements every month? What happens if you find discrepancies?
- b. Do you provide monthly financial statements to the business owner? Are they accurate?
- c. Are you familiar with the reporting capabilities of QuickBooks (or the accounting software being used)?

The same questions should be asked of the bookkeeper's references:

- a. Does your bookkeeper reconcile the books to the bank statements every month and what do they do if they find discrepancies?
- b. Are you receiving monthly financial statements and do they look accurate?
- c. Are you receiving other important reports from your bookkeeper and do they look accurate to you?

Here are some traits to look for when hiring a business bookkeeper that will save a lot of money and keep costs under control.

1. Detail oriented;
2. Very organized;
3. Speed;
4. Must understand accounting "concepts" - sees and understands the big picture of the business - not just a data entry person;
5. Must understand how to use the full functionality of the accounting software package including entering A/P, A/R, entering deposits correctly, Payroll, etc.;
6. Needs to know how to get the pertinent reports for the business and understand them in order to help the business owner understand them.

Are you going to be a responsible business owner so you understand the financial management of your business? If you say, "I don't want to know," then you've got a hobby and you will always have chaos in your books.

The combination of a good CFO and a competent bookkeeper will provide you with a greater ROI and significantly reduce the stress of creating a successful business that will last for years and/or will increase the value to a potential buyer. Accurate financial statements, which need to be reviewed monthly and be completely accurate, will help business owners get a handle on their business, tell them where they need to cut costs, show them how they can grow their business and educates them as to what their business is doing.

Financial statements tell the "Story of the Business" -- where it is at and where it needs to go, so the owner can understand their business and use the information to be successful. Bank lenders and investors expect you to understand what's going on in your business.

THE HIGH PRICE OF AN INCOMPETENT BOOKKEEPER: Part 4

It costs less to take care of things

Here is what every business owner needs to know when hiring a CFO:

1. Are they just a number cruncher who appears socially awkward, or are they clearly a people person with proven leadership skills and someone that people want to follow?
2. How technical and systems oriented are they? If they don't know what IM is, or aren't comfortable in information technology, find someone else.
3. Are they strategic and visionary? Many CFOs stuck in the number cruncher mentality find it difficult to visualize the big picture, and look strategically at the business. This makes it hard for them to be a trusted advisor to the owner/CEO if they can't see the forest through the trees.
4. Do they have broad industry experience? If they've spend their entire career in a few industries, they can have a myopic view of the world. Find one that's worked in at least half-dozen industries, that way they bring experience that may not have been applied to your industry, giving your company a competitive advantage.

When you don't have a good bookkeeper and a good CFO, there is an exponential increase in costs. You can see that for a smaller company, it costs less to take care of things. That's because there aren't as many transactions and the complexity is typically less.

As your company grows, it becomes more costly and time-consuming to get the books right. And when you do, your accounting people can provide you with the true story of the business. Then you will look and act like a real business, which makes your company worth more when you go to sell it or leave it to your heirs.

Conclusion:

After hiring a competent bookkeeper, we were successful dialing in to near perfection the whole accounting process. As their part-time CFO, I could do my job much better and provide extreme value to them. We were able to help our client POA see and understand the story of the business. The owners didn't have to spend hours and hours a week with their nose in the books, keeping them from spending time growing their business.

Together, Susan and I optimized it all - from forecasting and ongoing cash flow projection and budgeting to managing debt, accounts payable/receivable. Helping POA keep their spending on track with the budget allowed them to hire new people as needed. They didn't have to guess whether they could afford that.

The results of POA finally having a good bookkeeper and CFO speak for themselves:

Compound Annual Growth Rate = 50.5 percent

EBITDA Multiple upon selling POA in Feb. 2011 = 19.1 percent

Return on their investment in great bookkeeping and CFO help = 583 percent. In other words, POA's sale value was increased by \$1 million by investing the time and money into cleaning up their books.

The real world is not the businesses that make headlines like Facebook and Twitter, or the other social web companies that get valued at billions for doing and producing almost nothing. The real businesses of today are made up by you and us - the other 27 million small biz owners.

As business owners, we are the ones that cause 80 percent of net gain in employment. We are the ones that own 99 percent of all businesses in the US. We don't make the headlines. But we want to grow to where a company or investors will someday buy our businesses for a nice amount. Not for billions, but millions would suffice.

That way, we can build our next big thing or spend more time and money with our friends and families. That's our version of success, and it starts with a great CFO and a competent bookkeeper.

Marty Koenig is Founder and CEO of CxO To Go LLC. He loves what he does for a living, because he gets to work with so many great, world-changing people and help them succeed in their business. His team is dedicated to building financial, operational, strategic, technological excellence for small/mid size business owners and entrepreneurs. Marty has over 29 years of diversified experience in private and public companies, from startups and mid-size firms to multinational Fortune 30 companies including AT&T, General Electric, NCR Corporation and StorageTek. Marty performs in roles such as CFO, COO, COO and CIO for his private clients, and he has been nominated for Denver Business Journal 2011 CFO of the Year. Marty is an author, educator, and speaker. See his and his partner's recent books at Buchanan Publishing or visit www.cxotogo.com . Read his professional blog here. His private email is mkoenig@cxotogo.com.

Susan Commins, owner of All About Accounting LLC, is a recognized QuickBooks expert and a business management consultant that specializes in the financial management of businesses. Susan's business management experience includes 20+ years: first as a law firm administrator in Los Angeles, California, then as the owner of a law firm/business management consulting firm in Los Angeles and Sedona, Arizona, before relocating to Denver in 2005. Susan specializes in improving cash flow, cash management, and profitability for all types of businesses using QuickBooks as the financial management tool. She believes that "Smart Business Management through Smart Accounting" is what makes a business successful and profitable, especially in these difficult economic times. She creates all the reports that make it easy for business owners to make educated financial decisions to enhance profitability. Susan has been using QuickBooks since its genesis as DOS.1.0. Her website is <http://www.AllAboutAccounting.net>