

# KEEPING BUSINESS COSTS UNDER CONTROL

By Dawn Brown

**C**ash outflow is one of the most common problems in small to midsize businesses. The biggest challenge is control.

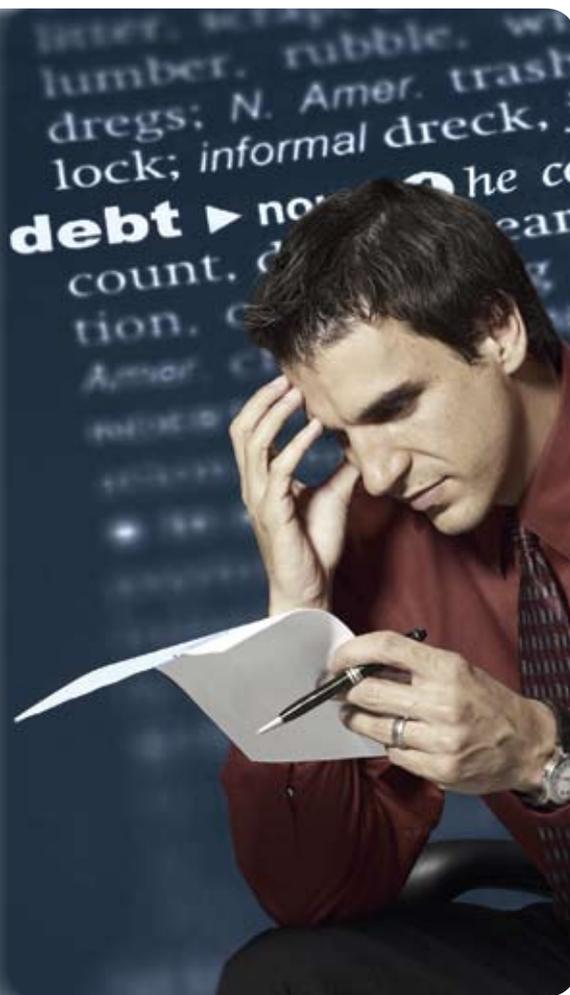
The use of credit cards has become prevalent in small to midsize companies. They can be a valuable management tool if used properly. They can extend one's cash, offer travel incentives with reward programs or offer cash-back rebates. The biggest advantage of using credit cards, however, is just plain convenience. That's why it is important to keep them on a short leash.

It is not unusual for a business owner to give key employees credit cards to purchase materials as they need them. This can work for and against the well-being of a company. Granted, this is a convenient tool, but it is also a tool that can get out of control quickly. Those little white receipts get lost. A foreman's truck can be a black hole for paperwork. It is not unusual for a personal purchase to slip in on to the corporate card in error.

The best managers limit the number of cards, have strict reporting rules and review each credit card bill as it is received.

Credit cards can help extend the outflow of cash. Some vendors prefer payment by credit card. They see it as getting their money while they can. The fees associated with credit card processing are better than dealing with bad checks or not getting paid at all. It may be a good idea for a company to set up accounts with vendors and pay them that way.

Some companies use a "cash back" credit card to pay materials suppliers. This allows the company to take advantage of the supplier's prompt payment discount and to get a rebate from the credit card company.



If a company is using credit cards this way, the ultimate goal needs to be to pay the credit card off on time or it will lose all it has gained in interest charges.

When it comes to debit cards, companies should avoid using them. These cards, although they look like credit cards, are much more dangerous. A debit card is basically a blank check. Companies can lose control over when the debt is paid with these cards, and debit cards lack the account security of credit cards.

Secondary to the control issue is the account processing issue. Companies should make sure that their accounting and bookkeeping staffs have the proper procedures in place for processing credit cards.

Every accounting system processes credit card purchases differently. The bookkeeping staff must understand the company's credit card policy and the process involved in accounting for these purchases internally. They need to understand how the accounting program processes purchases so that they can enter the data properly and give the owners an

accurate view of these purchases. A lack of understanding of the whole process is the main factor in having a financial egg that needs unscrambling.

Credit cards also affect job costing. Depending on the accounting system and process, timeliness of posting credit card purchases is the biggest problem. With the constant problem of lost receipts, often one does not know the purchases made for 25 days, and then it takes another week or two of investigating to determine which jobs to charge. Costs are posted in one period and revenue in another, leading to inaccurate reports.

ABOUT the  
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Account security is another important issue pertaining to the use of credit and debit cards. Identity and credit card theft are rising in the United States. With credit cards, there is some security; there is a middleman to help with fraudulent transactions. Unfortunately, with debit cards, the money has already left the bank.

Control of credit cards is important, but companies should not take their "house accounts" for granted. One benefit of having accounts with vendors is the control of having a cross-check with an invoice to a job. Vendors often ask for purchase order numbers or job names, and they are conveniently listed on the invoice. The pick-up or delivery ticket may still be in the black hole truck, but the invoice will at least tell where the materials went and who picked them up or ordered them. Small and midsize companies often lack a formalized purchasing process; if so, they should institute one. This saves man-hours in processing the invoices and gives much-needed control over who buys what from the vendor.

#### ACCOUNTS PAYABLE CHECK-UP

People are creatures of habit. Some companies deal with a specific vendor because they always have. Some might not be getting the best deal possible. Asking for a volume or prompt payment discount may be needed. These factors should be considered periodically. Companies should review their purchasing habits with the managers and staff, and get their input.

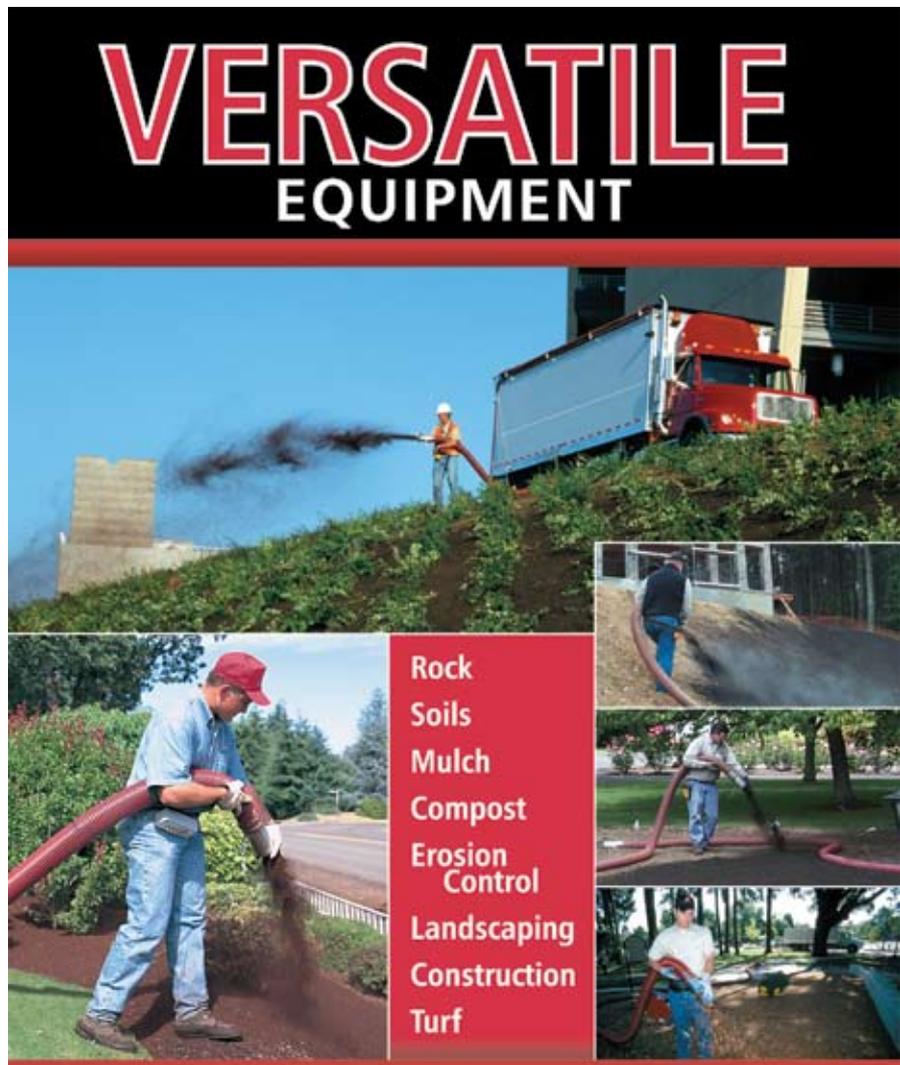
Another thing companies should review is their mobile phone plan. Many mobile phone companies are willing to cover the hardware cost and transfer fees, and customize a plan to get companies to switch. Many companies are paying for more minutes than they use on their current plans.

Companies should also ask if they are getting the best possible insurance rates. It takes time and effort, but may be worth it to compare carriers.

Another question to ask is if the company is subscribing to the same service from multiple vendors. Some might laugh at this question, but it is not unusual for employees to be able to subscribe to services, such as e-mail, on their own. Soon a company is paying multiple vendors for the same service.

Reviewing all of these items will benefit cash flow. The review process is often viewed as a cumbersome task, but money saved is money earned. ♦

“THE BEST MANAGERS LIMIT THE NUMBER OF CARDS, HAVE STRICT REPORTING RULES AND REVIEW EACH CREDIT CARD BILL AS IT IS RECEIVED.”



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