What the heck is Pre Accounting, Kev?

Pre accounting is a term I use to describe all the accounting things that happen before you get to actually record them into your accounting system.

So far I have shared a lot on the subject based on tried and tested methods of handwritten books and I'm not expecting you to write up books by hand, technology is here and we now have cloud based systems and it won't be long before we are going to be forced to use them because of Making Tax Digital.

But unless you understand a bit about the underlying principles, all the fancy tech systems in the world ain't going to help you.

Technology is also beginning to shape the pre accounting process, let me explain:

Before computers, a business owner might use a simple pen and pre printed sales pad for sales invoices, or a sheet or notebook next to the till recording each sale as they happened.

Those actions, writing up a sales invoice or recording till takings with pen and paper are an example of what I call pre accounting in other words they are the live interactions and information that you gather at the moment in time the transaction take place.

Equally, when you purchase something, historically you may have written a cheque and recorded the cheque details in the little cheque stub or you supplier would give you their sales invoice that they just wrote out by hand. Today you can utilise the power of technology to your advantage.

Take for example the contactless card payment system.

Go to the post office and pay for some postage, touch your business payment card on the contactless machine and that action is a pre accounting process, because if you are smart, your accounting system can now be connected to your bank and that payment for postage can now be fed into your accounting system under the nominal heading postage without any human interaction, once set up. No problems getting the wrong change, no bits of paper to keep, not even a four digit code to enter, you just touched your card on the contactless payment machine and the data is accurately now in recorded your profit and loss.

Her is another example. I see many people using computers to type up quotations (proposals/action plans) and sales invoices in something like Word or Google Docs. A few years ago this was a smart thing, but not anymore. Why not change this and create the quotation in your accounting system, add to it your notes and create a project. When the quote is accepted, simply press one button and you now have a sales invoice, emailed to the customer with your merchant account right on the PDF so they can pay you now by card. Then track the actual job costs against your budget (your quote is just a budget for the job) and learn from your data without doing any extra work, just by changing the pre-accounting process.

Or what about being more disciplined about your expenses, use your business account for business expenses and private account for private expenses, stop messing them all up. Then capturer mileage claims and those unavoidable out of pocket expenses on an App that takes a photo of the receipt and all the data magically now appears in your accounts. I reckon mileage claims are worth hundred if not thousands of lost tax free money to most business owners, because up until now it's too much of a ball ache to record the data properly.

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Pre accounting is looking carefully at the process you go about creating transactions in the first place.

What can you do if your supplier emails you an invoice, for many it just gets lost as it slips off the inbox screen with millions of other emails.

How about, redirecting them to a dedicated email account that with clever use of technology reads the data on the PDF, populates all the fields correctly and prepares a batch file for a one button input of hundreds if not thousands of transactions straight into your accounting system, it can even learn new rules over time if you teach it

Technology should save you time

Because the technology industry is rolling out different Apps and tools to solve problems, it can be confusing, I can think of at least a dozen ways I could get data into an accounting system, but would only choose two for specific businesses and maybe two or three for another business, I certainly wouldn't use them all.

This is why understanding the Pre Accounting process for your business is important because you want to then see if you can find a piece of technology to help you save time.

You will save time in two ways:

1. Just capturing the data in the first place
2. Reduced risk of error

Take a sales invoice written up in Microsoft Word, what can go wrong? I've seen everything from, the numbers don't even add up, the wrong VAT amount, to the wrong customer, incorrect invoice number and lost copies because someone saved the current invoice over the top of the old one!

Typing up a sales invoice in an digital accounting system won't be very much quicker than Word, but once done that's the who job done - The accounting and bookkeeping has also been down at the same time and the system will look after you for VAT and duplicate numbers and help you capture the data in a structured way.

However, technology should save you time, so don't implement it for the sake of technology, sometimes there can be a work around.

As an example you might use something like an online shopping cart, it will be full of sales dat and data for Money in. You may not even want to or have to connect the system to your accounting systems and you may not need to copy every single sale into your accounting system. You might simply post a total each month. If you want to see the detailed breakdown, nip across to the reports in your shopping cart database. You must build out the process and understand where all the data is being generated, but don't become confused as quite often there will be duplication.

If you take your shopping cart, it will be connected to a merchant account, both merchant account and shopping cart will contain the same sales invoice data, customer details and dates paid etc, you might also have an online CRM system in the background all connected via your website, and guess what that CRM database is probably collection the same information. Boom, you now have the sales data captured 3 times and just to add there will be tiny delays as money transfers from Merchant Account to your bank account which could skew your results.

A simple way to help you understand your system is to flow chart it all out, identify data "silos" and see if you can use that data to speed up the process and cut down human interaction as it's nearly always the connection between the chair and keyboard that makes the mistakes, even if you are a pro!

Don't break your own rules

Once you have established how your system can be adapted to save time and reduce risk of error, you now should apply some rules to your business.

That may require you to train staff, write a small instruction handbook/user guide or create a staff training video.

Inevitably any software you use will be upgraded, version 2 will usually be better than version 1, so your own personal guide or handbook can easily be updated and communicated to your team when necessary.

Sometimes with software, you might only use parts of a piece of software in conjunction with your process.

As an example I have a client who has bank statements that can't be read by the usual bank feed in the accounting software, so we use another piece of software I found to scan in the printed statements and it converts it to a CSV file, which we then auto feed into the accounting software.

I have others use a phone APP to take pictures of invoices the system reads eth invoice and prepares a batch for posting. One of the rules is that this is for purchases only, not sales and another we use the same system for cash and credit card payments only.

Sometimes, people get hung up on paying £9 plus VAT a month to scan a few bank statement, but my team is worth more than £9 and if I do it I will make a mistake, which could take hours to find.

Putting it all together

When you look carefully at the pre accounting process of your business, you might just discover a few clues as to how you can do things better.

Years ago, I was told that accountants will never get paid in advance or get paid by credit cards, even my own staff at the time didn't believe it, many experienced and qualified accountants!

Today, you can only be a client if you pay in advance, or by card. I did this because I looked at my systems, instead of working first, keeping a timesheet, then spending hours adding up the time and typing up a sales invoice, posting it in the mail and waiting for a cheque to arrive in the post, which I then had to drive 6 miles to park the car and walk to the bank, before returning home…

I found technology that could send out an action plan via email with a merchant account option to pay now and a direct debit system to collect payments. More importantly, it changed my focus on what I deliver to my clients. It's now based on value, meaning my clients get a better service and get results based on what I do, not the time it takes.

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If you change the structure on how you process your sales and expenses, you may also discover you can use technology to improve dramatically your cashflow, imagine having no debtors, no stock and no work in progress?

The hidden benefits of having a rigid process is it creates rules, rules create discipline which in turn help position you as someone who isn't a push over and that is a very attractive and powerful part of being a successful entrepreneur

What did we learn?

- There's a lot that happens before data hits your accounting systems that you can do to save time and effort up front
- There are lots of Apps and tech to choose from, understand what you need and study your own process
- Once you build your process, create rules and train your team how to use the technology
- Technology can help you understand you can do it better and help you force the issue
- When you create rules around money and finance and how you operate, there is a hidden benefit in helping towards improving your positioning
- Cloud based applications can talk to each other through API or CSV files, this not only saves time but reduces the risk of error, don't be scared of it, it's often only data input.
- Pre Accounting is your own process, just because you've always done a particular way, doesn't mean you can't evolve to new better ways, you just need to invest some time, learn a few new skills and the pay back can be huge

Next Module - The 5 Step Process - Step 1