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Accounting – a necessary evil or contributor to profitability

The true purpose of the accounting department is to communicate information

Measuring the Effectiveness of your Accounting Department

Hopefully you are not one who views the accounting department as a “necessary evil”, or maybe, at least you would not admit to it.

The truth is, I know many managers and dealers who do view accounting this way. They say “it’s an overhead expense that I am required to have but it doesn’t contribute to the bottom line”. “I can’t even have a normal conversation with them, these people speak an unintelligible language that consist of things like debits, credits, accruals and prepaid expenses and they don’t know anything about operations but it doesn’t keep them from complaining that they (operations) can’t do anything right”.

Sound familiar? Maybe you’ve had these thoughts your self. If so welcome to the club and please keep reading. I am not going to try to convert you or get you excited about debits and credits; however, my guess is that once you start to see how an efficient, effective accounting department really does contribute to overall profitability of your company you may take a different view.

Information Means Profits

In my opinion the true purpose of the accounting department is to communicate information. That is useful information, not just data. This information must be specific and tell useful things about the company. Keep in mind that proper utilization of your DMS should result in the automatic production of accurate data and at the speed of your company’s transactions.

Everything works wonderfully fast and effectively when the information is accurate at the point of transaction. But, inaccurate data at the point of transaction slows down processing considerably and a transaction which includes inaccurate information when it is consummated into the company’s General ledger necessitates an accounting product called a “correcting entry”.

So if you follow me on this, every correcting entry could represent an instance of prior inaccurate reporting of operational results. As such its value is only in that it fixes something that should not have happened to begin with. Having to make a correcting entry cost you money to perform and more important could cost you huge with not performed.

Ok, think about this one. Have you every heard an operational managers say “my grosses were good until accounting lowered it, I don’t know what they do in there but it sure cost me money”, or something along those lines. Without accurate, contemporaneous feed back as to the results of their processes the operational people could be working under a misconception as to their results. And when they think they are producing more than they actually are producing it will cost you money.

This brings me to my point. I believe that the value of the accounting department is not measured in how good they are at correcting transactions but in how good they are at preventing correcting entries by helping operations get it right at the point of transaction.

A common pitfall of accounting staffs is that correcting entries become so common place that they don’t see it as a problem. Also, correcting entries require much valuable staff time. Reminds me of a joke my CPA told me the other day.

An accountant is having a hard time sleeping and goes to see his doctor. "Doctor, I just can't get to sleep at night." "Have you tried counting sheep?" "That's the problem - I make a mistake and then spend three hours trying to find it."

Please agree with me that what we don’t want to perpetuate is a circumstance that requires accounting to perform too many correcting entries. Which brings us to the final question; we know that there will always be correcting entries but how many correcting entries are acceptable.

Please consider establishing a ratio of correcting entries to non-correcting entries that is acceptable for you dealership as a beginning point for implementing what I call “the accounting department effectiveness ratio”. For example if your operations experience is that for every 100 valid postings to the general ledger the accounting staff make 10 correcting entries your ratio would be 10 to 1 and of course a ratio of 20 to 1 would be twice as good. What constitutes a good ratio? I would ask you to consider that a good ratio is proven out by superior results. So, a dealership that generates better than average profits and the accounting department is ready to print the financial statement on the 3rd or 5th working day of the new month can not be performing too many correcting entries and should have a superior ratio. But, conversely if your accounting department is struggling to get the F/S ready by the 10th they are probably saddled with too many correcting entries caused by too many problems at the point of transaction causing them to score a low with an inferior ratio. You might consider including this metric (number of correcting entries) in your 20 groups comparative analysis next time you meet. Regardless please bear in mind that simply starting the process of measuring the

instance of correcting entries and establishing with everyone involved that the goal is to lower the count will get you on the road to fewer transaction consummating problems and an more effective accounting department.

For ADP Users

From the AGRJ menu select “Printing a Selected Journals Report” option for the open month dates for the report, Select the Selected option, Enter the company number, Enter the Begin and End dates for the report, Select the type of date for the Begin/End date selection, Accounting date or Posting date, Select one or more Journal report format(s), Select the journal(s) for the report. *Submitted by Jim Skeans of Jim Skeans Consulting Group LLC*

For ARKONA Users

From the GL menu select option 34 (Audit Reporting) and then select Transaction List. If you had used this report before you could select the report and run it by just changing the dates. If this is the first time running the report you will create the report by selecting a F6. It will ask you for the name you want to call the report and the dates you want to run it for. You would then just select the journal GJE to see the correcting entries in the time period. It will automatically save the report after the first time you run it and remember the settings you selected. You could run it for 1 day or any time frame you want to look at. *Submitted by Bevan Weed, Customer Support Manager, Arkona, Inc*

For Dubuque Data Service Users

You can easily view this information for any account by running Print Memo (8.1.2) for selected (one single account) or a range of accounts, choosing “R” for Recap. This will group the journals entered by type, and you can review the number of manual adjusting entries that were entered. To view the detail, just reprint the journal to see who did the journal, and what reasons were listed in the description (8.8). It is very simple, quick and detailed. *Submitted by Diane Callahan, Vice President, Dubuque Data Services*

For PBS Users

There are a number of options to get the raw count of adjusting entries from the PBS system. Dashboard gives one click access to key information depending on roles established by the user. Since this isn't an everyday type activity you would have to click 1 button to run a GL list of postings by date range. Once selected, the data will show up in a format allowing you to sort by type (by clicking the heading). Although every store could be different, most would have the correcting entry identified so you would have access to the required information. It's really quite a simple process. Additional info: (all our software reporting is run by date range so you can pull information from 10 years ago in the same way you would pull information from last month which provides for analysis of improvement over time. *Submitted by Kevin Preston, Director of Marketing, PBS Systems*

For Reynolds + Reynolds Users

To Print Selected Journals From the Disk Menu access the Prt. Sel. Jnl. from Disk Menu (0312) to print a single journal. Enter the line number of the journal you want to print, enter the Start Date and End Date in MMDDYY format, or press RETURN for today's date, Enter A, R, U, S, G, J, or M to indicate the type of information you want to print. If you have centralized accounting use G, G/L prefixes, at the end of month, the recommended sort option is J for journal prefix order, if you enter R, G, J, or M, additional prompts display. Complete them according to screen directions, complete the printer command line. *Submitted by Jim Skeans of Jim Skeans Consulting Group LLC*

Jim Skeans is the president of Jim Skeans Consulting Group LLC and has been in the automobile business for more than 35 years. Jim is a former senior consultant for an international automotive consulting group and has served in all of the traditional dealership management and staff positions as well as director position with a large national dealership group.