

ACCURATE BOOKKEEPING & ACCOUNTING

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Business Tips

Dear Business Owners,

It's been several months since I last wrote so I thought it time to review purchasing policies. An important part of your business is the internal controls in place for material purchases.

Before anything else, do you have a purchase order system? If not, begin one. That is how you track the order placed to the delivery receipt to the vendor invoice. Where applicable, it is a good idea to fax/email your orders **with prices** and PO number and to get a confirmation. You have recourse when discrepancies appear. As far as PO tracking, consecutively numbered PO's work, though I personally prefer to tie it to the job where possible. This can be done by using letters denoting the customer ID and then a number tying it to the job or date (ex: ONS091008). This serves two purposes. First, it makes it much easier to remember and to find them when issues arise. Second, and more importantly, it ties your costs to the job so that you can match all expenses to revenues for that job and know that your mark-ups are correct and the job is profitable.

Whether you are comfortable with Excel or like to hand-draw your own spreadsheets, I have found that a master spreadsheet listing all regular vendors and 4-8 criteria works best. Along with this, it is helpful to use spreadsheets for each individual vendor. Use one for each vendor you have used 3 times or more in the last 12 months. Then, set up criteria headings such as "quality, timeliness, correct pricing, and completeness of order." If you have other criteria, list them also. Those stated are pretty universal though all businesses have issues specific to them.

<u>Ford Motor Co.</u>	<u>Quality</u>	<u>On time</u>	<u>Pricing</u>	<u>Complete</u>
3/14	good	yes	correct	yes
3/17	good	yes	correct	yes
3/21	good	1 day	wrong	shortage
3/29	breakage	yes	correct	yes
etc.				
etc.				
etc.				

On the individual vendor spreadsheets, make a notation under each heading for each and every order that comes in. Just as your customers are concerned with your service, you want to know if your vendors are giving you the service you pay for. Once again, this will insure you are paying the agreed upon prices and not different, computer-generated prices on the invoice sent to you. Big money is lost in many businesses due to the small business owner or manager assuming the pricing is always correct. Someone needs to check it.

As far as the master spreadsheet, this is a “control sheet” you can use to compare vendors. Who is doing their job for you and who is not? I’ve also found it to be helpful to know how much business you are doing with each one. It makes it much simpler when a problem comes up and you can say, “I spent over \$50,000- on merchandise with you last year. It seems we shouldn’t be arguing over \$20-!” Both reduced costs and better service should come more regularly when you have full knowledge of the benefits you provide your vendor and are able to use that leverage.

Vendor	Contact	Phone	Purchases	Terms	Other
ACME Motors	Ace	xxx-xxxx	\$ 8,000	30 days	
Ben's Auto	Ben	xxx-xxxx	\$ 7,350	30 days	
Ford Motor Co.	Henry	xxx-xxxx	\$ 53,123	1%, 15, net 30	
4					
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8					
9					

The other reason for tracking this is to get better terms. Again, if you can say to a vendor, “With my volume, how about 1-2-3% discount terms for 15 days payment?” Or, if they don’t give discounts, “How about 45 or 60 day terms?” Any time you can “save your money” or “use their money,” you are that much better off.

Hope this has been helpful. Good business!

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