

Counting Noses Susan Briggs, CKO



Counting Noses

Accounting and Financial
Management Guidelines
for the Pet Services Industry

Susan Briggs, CKO



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CHAPTER 1: INTRODUCTION

The number five reason small businesses fail is poor record keeping and financial controls. By purchasing this book, you have the information to avoid this issue with your business. Starting and operating a successful small business is definitely hard work with many challenges.

According to the *Small Business Book of Lists* the top 14 reasons small businesses fail are:

1. Mistaking a business for a hobby
2. Poor planning
3. Entrepreneurial excitement
4. No diversity
5. Poor record keeping and financial controls
6. Lack of experience in running a business or in the business industry
7. Poor money management
8. Wrong location
9. Competition
10. Procrastination and poor time management
11. Ineffective marketing
12. Ineffective sales techniques
13. Poor customer service
14. Entrepreneurial burnout

Knowledge is power, so use this list to educate yourself and improve the odds that your business will be a success. This book will touch on many of these topics and will definitely provide tools to avoid numbers two, five, and seven!

The small business owner must see the whole business picture and understand how all the parts fit together. This requires that you understand the financial part of the picture and even some of the accounting details. Don't let your banker understand your business better than you; they look at the financials and very quickly get a snapshot picture of the financial health of your business.

When you understand the financials from your business, you have tools and information to make sound decisions and not guesses. You will be planning and taking action with confidence.

It's important to eliminate all preconceived negative mantras you may have about finance and accounting. In this book we've included the information you need for the pet industry and divided it into manageable sections. Chapters are organized so you

get to take some breaks from the accounting and math details.

Financial management allows you to spot and take advantage of opportunities for your business. Knowing finances eliminates unpleasant surprises, as you have early warnings of problems. This provides time to take action and fix problems before they become a disaster. As the business owner, you are responsible for the actions of your bookkeeper and accountant. You need to monitor their performance and understand what they are doing for the money you pay them!

Financial management encompasses a lot of functions for your business, including:

- Raising capital
- Maintaining financial health
- Earning profits
- Managing cash flow
- Minimizing fraud
- Minimizing tax burden
- Forecasting cash needs
- Monitoring key performance indicators
- Ensuring value of business at exit

Many pet center owners go into business because they have a passion for pets. You should also be passionate about being an entrepreneur, because that is your primary responsibility once the doors open.

If you have not started your business, take a moment to reflect on the following questions to confirm your passion for being an entrepreneur:

- Do I have the patience, persistence and self-confidence required to be a business owner?
- Can I get others excited about my vision so they buy from me?
- Am I able to quickly recover from setbacks and not take things personally?
- How will I support myself until the business is profitable?
- What weaknesses do I have that may get in the way, and what will I do about them?
- What does your intuition tell you?

Now review the following list of traits of successful business owners to see how many describe you:

- Good at planning
- Organized
- Good reader of people and successful at hiring

- Have ability to delegate
- Ability to oversee work and manage people
- Set goals and standards
- Determination

If you are an owner of an existing business, does it show any of the following financial warning signs?

- Declining sales or loss of market share
- Ongoing cash-flow problems
- Poor financial record keeping
- Increasing expenses not related to growing sales

This book was written to provide information and tools for both new and existing business owners in the pet services industry. It is never too late to learn and implement good financial management tools. Your business will benefit as your financial knowledge grows and you implement tools from this book.

Throughout the book, key learning points, performance indicators and chapter summaries are highlighted in text boxes. Focus on these key concepts as you expand your knowledge base.



The Nose Knows...

- Key learning point
- Key performance indicator



Paws to Remember...

- Summary of chapter key points

Operating a business does not mean you have a passion for money or are greedy. Making money as a small business owner doing what you love is fulfilling a dream.

To truly fulfill this dream you must learn and understand financial management. You

can learn the financial side of business. This statement is worth repeating: *You can learn the financial side of business!* Pause and start this book once you have cleared your mind and believe in that statement. Managing finances will probably never be your favorite responsibility. It's definitely not mine, even though my educational background is accounting. That's the reason I traded counting beans for counting noses at my pet care facility.

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CHAPTER 2: THE BASICS

As owner or manager of your business it is very important that you have a good understanding of accounting basics, the inputs to financial management. Most of us started our business to pursue a passion and to make a profit. The only way to ensure that goal is met is to understand the financials; they tell the story of the financial health of your business.

You do not have to become an expert in accounting or financial management. A lot of business owners freely state they hate numbers and really don't understand them. Well, you don't have to love numbers, but you do need to learn and understand what they are telling you about your business.

ACCOUNTING 101

We'll start with accounting since it is the language of business. Accounting is the process of recording business transactions, summarizing and reporting them. It is a universal language used by all the different types of businesses around the world. There are many accounting rules and standards that get very complex, but that is why we pay CPA's (certified public accountants).

In the United States the accounting rules and guidelines are known as GAAP or Generally Accepted Accounting Principles. All businesses that publish financial statements are following GAAP. You can think of GAAP as simply the commonly accepted ways of recording and reporting accounting information. The Financial Accounting Standards Board is the organization that is the highest authority in establishing generally accepted accounting principles for public and private companies, as well as nonprofit entities. Pet service companies often publish statements to lenders who expect that GAAP rules be followed.

As business owners we get to stay with the basics and leave the GAAP compliance to our accountant or CPA. Early accountants used books or ledgers to document all business transactions. This is why you often hear these terms used by your accountant or CPA. Today, there are accounting software programs available that serve this purpose. Business owners do need to learn the basics of the accounting and finance language so they understand how business transactions are reported in their financials.



The Nose Knows... The Accounting Equation:

1. $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
2. $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$

Take a close look and you will see that the two formulas represent the same concept. This formula is the key principle of record keeping and forms the foundation of our language. It is also the foundation for the financial statements that are explained in Chapter 5. Accountants typically present the information as shown first. For business owners the second formula often makes more sense. As you learn the accounting language feel free to focus on the second formula. Key principles to remember about the formula:

- It must always stay in balance
- To remain in balance, each transaction will have at least two entries (the reason for "double-entry bookkeeping")
- Every business transaction will fit into this formula and must be recorded into the accounting system

ACCOUNTING PRINCIPLES

Accounting has adopted important principles or rules that provide consistency. The most important is "the entity concept." This chapter reviews several that provide the foundation for accounting guidelines

The Entity Concept

A separate set of books (accounting record) is kept for each business entity. An entity is each legally set-up business, and most small businesses operate under one legal business entity. There are some business that will operate with multiple legal business entities, and the entity concept requires that a separate set of books or accounting records be set-up and maintained for each.

As you start recording business transactions, it is important to keep in mind the entity for which you are accounting. We are entering data for our Pet Services Business or Purely Positive Pet Care (the example used in this book). We look at all business transactions from the view of Purely Positive Pet Care and not our bank, supply vendors or customers.

Confusion on basic accounting terms is a result of our experiences dealing with our bank. When the bank "debits" our accounts they are taking money out. When we put

money in they "credit" our account. Remember this is because the bank is recording transactions for its entity.

Full 152 page ebook available for purchase in our online store.

www.crystalcanine.com/store

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