

Radio Days – 2013-03-16

Tip of the Week – What is Your Email Address?

I had a new client who had a problem when he ordered a product over the internet. He had, as so often happens with online ordering, given his email address so that he could receive vital information about his order by email.

Unfortunately he gave the wrong email address. The email address that he gave was wrong in a major way: it was with an ISP which did not exist! There are, as most people know, three parts to an email address:

1. The prefix: often the person's name or nickname (eg *toby*)
2. The "@" sign
3. The suffix: the ISP's name or the business' name (eg *tobybainbridge.com*)

This gives my email address: toby@tobybainbridge.com If you get any part of your email address wrong then you will not get your wanted emails. This is akin to not knowing your telephone number. I am often surprised that people do not know their phone numbers until I remember what Albert Einstein did when he was asked by a colleague for his phone number: he looked it up in the local telephone directory!

This, of course, is fine if you are in a place with a telephone directory!

If you in a beautiful park and you meet someone whom you would like to get to know better, it is worth knowing either your phone number or your email address so that they can contact you. If you do not know your phone number then you may never see this person again, and your life could well be the poorer for that loss.

This, of course, goes just as importantly for knowing your email address when you are buying goods or services online.

Do you know your phone number? Do you know your email address?

Starting a New Business

During the week I had two clients who had difficulty coming to grips with the way to start a new business in a bookkeeping program like QuickBooks or MYOB.

As is usual, there is a right and a wrong way to go about setting up your accounting program so that you get the best results possible. This is a story of two clients who got into trouble as a result of a change in business or change in business owner.

In these two cases, one business was using QuickBooks, the other was using MYOB. It made no difference to the result: they both needed to create a new company file for the new or changed business.

Buying an Existing Business

If you buy an existing company it is usual for the seller to get all the money from the outstanding debtors and to pay all the outstanding suppliers. This means that the buyer of the business is not stuck with a load of bad debts and that they do not have to pay all the outstanding bills.

The buyer of the company will usually want a list of all the customers and all the suppliers so that they can continue the existing relationship with all these people. The best way to get a new business to work in your favourite bookkeeping program is to create a new company file and then copy the suppliers, products and customers from the old company file to the new one. This is easy to do in both major bookkeeping programs: QuickBooks and MYOB. Both of these programs have the ability to export from the old file then import into the new file all sorts of information. This information is usually all that you need to know when you create a new company file.

In far too many cases I have seen two businesses, the old one and the new one, use the same company file. This is guaranteed to cause a major argument later when the old business has come to its natural end and the new business is ready to fly on its own.

Many people find that the option for the purchaser of a business to get some help from the previous owners is a good one. This does not mean that both the old and the new owners should share a common company file.

There are many reasons to start the new company with a new data file. These include:

- There is usually, amongst my clients, a change in ABN so this means that both the businesses (the new one getting started and the old one winding up) need to keep separate sets of books because the two different ABNs relate to the two different businesses.
- Often a buyer will start its chequebook with cheque number 1 which is the same cheque number as used by the business being purchased. This means that the first of these cheques will be lost as it is overwritten by the new cheque number 1.

In the case of my clients both of these reasons were present so it took some time to untangle the two sets of books. This is time which could easily have been avoided by thinking matters through before starting to use the new business owner's entries in the old business' company file.

Starting a New Business

Another client was told by the state government that he had to run his business as a company rather than the partnership which had been used in the past. His solution was to change the name of the business and to change the ABN in the old partnership file. He, too, ran into the problem of overlapping cheque numbers. This was the stage when he called me.

Again, it was easy to create a new data file, this time in QuickBooks. With QuickBooks it was easy to export the wanted details from the old data file then import them into the new data file. One way that QuickBooks is easier to use than MYOB in this way is that it is easy to export that the layout for forms like invoices and statements from one company then import them into the next company file.

After creating the company file for the new company it was time, yet again, to untangle the two companies' data from the old file. The way to do this is to enter the data for the new company into the new company's data file and delete this data from the old company's data file. This time, with the new company file created, there was no overlap in cheque numbers.

The next step, of course, was to change the old company's data file to restore the company name and ABN for the partnership. Again, this was necessary because the partnership had to continue running until all receipts and payments had been made.

Starting a New Bank Account

Much of this applies when a company changes bank. The new bank account's transactions need to be kept separate from the transactions entered into the old account. I remember one client who had changed bank more than once so had overlapping cheque numbers in the same account in the company file. This irritated the computer operator so much that she was almost reduced to tearing her hair out.

All of this angst could have been avoided if she had taken the simple, but not obvious, step of creating a new entry in the Chart of Accounts for the new bank account. Part of the problem was that the bank account in the Chart of Accounts was called simply *Cheque Account*: this led her to infer that all payments (both cheque and electronic) and deposits entered into all cheque accounts should be entered into the one entry in the Chart of Accounts.

Perhaps this is an excellent reason to ensure that each account in the Chart of Accounts is given a more descriptive name. As an example, rather than calling it *Cheque Account* you could perhaps call the old account *ANZ Cheque Account* and the new account *NAB Cheque Account*. This removes all confusion and should keep everything clear and separate.

Summary

It is too easy to keep using the old company, perhaps because it has worked well in the past. There comes a time, however, when a change needs to be made. There are several points which come out of this discussion:

- Always have a separate company data file for each ABN. Not doing this can cause a massive headache when running any type of report for the period when the two ABNs overlap.
- Always have a separate entry in the Chart of Accounts for each bank account. If you change from one bank to another, or if you open a new account, always create a new account in the Chart of Accounts. Not doing this will always lead to problems when you come to reconcile your accounts with your bank statement.
- If you are in any doubt always ask a competent person for help. Unfortunately, this does not always mean that asking your accountant is a good idea. I have met too many accountants who do not understand how small businesses work and how to use a program like QuickBooks or MYOB to best help a small business.

Further Information

Nothing this week.