



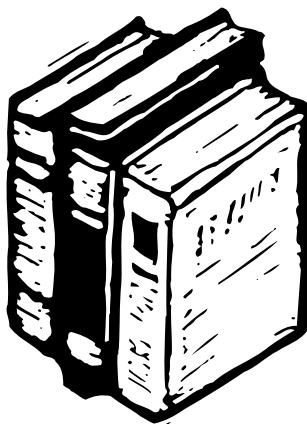
## Bolster Your Books with Better Accounting Practices

*By Mindy Williams*

**T**ake a long look at the patriarch agencies and you'll see the secret to their longevity: great creative working in tandem with sound financial management. It might sound elementary, but the best agency managers have figured out how to balance the energy used to produce outstanding work while operating at a profit. (Either that, or they're just damn lucky.)

As a financial manager for a creative business, you've got a tough job. Not only are you a key player in ensuring the success of the agency, but you have to be certain that the agency's financial processes are working smoothly and that your accounting practices are efficient and accurate.

You already know that Clients & Profits has all the tools you need to manage your accounting. We've collected some of the best accounting practices here to help you fine-tune what you are already doing, add new processes to your toolbox, or put a new spin on old methods.



---

*Continued on the next page*

## BETTER FINANCIAL ACCOUNTING



*Continued from previous page*

### The eyes have it

Creatives aren't the only ones who can give something a quick glance and know if it's right. Busy accountants (who isn't?) don't always have time to check everything in detail. So take a minute once a week to look over the agency's financial statements for any irregular amounts. The balances should be reasonable and consistent with your shop's regular numbers. Any inconsistencies should be a red flag for closer inspection.

Always review your work before posting it by printing a proof list. These reports give you a chance to fix any errors before they permanently affect the G/L. "I've made the proofing process mandatory," says Terry Broghner, controller for Barry Rayner. Terry and his staff print proof lists to check entries against the G/L. If the work looks good, they post the transactions. So make a habit of reviewing each batch of work instead of waiting until the end of the week or month. It will be easier to catch—and correct—mistakes.

### Keeping in balance

If you proof before posting, keeping your G/L in balance should be a cinch. Remember, Clients & Profits updates the G/L as soon as you post entries, so the account balances on financials are always up-to-the-minute accurate. To make sure everything is A-OK, print a trial balance

every week (remember, financials can be printed anytime, not just at month end.) The trial balance shows total assets, liabilities, and equity—which should always add up to zero. This confirms that your books are in balance.

Don't forget about your vendor and client agings. The totals on A/P and A/R agings

should match the same balances on your Balance Sheet. If not, someone has made a bad entry in either the checkbook or in client payments (use the G/L Auditor to audit the numbers). Skipping this step can mean hours of extra work in the long run. "We hadn't been balancing our agings to our Balance Sheet for almost two years," says Peggy Johnson, president of AdFarm. Once they realized how necessary this step was, they went back through the process for each month. "It was a huge undertaking," she says. "Now we do it every month."

### Put your computer to work

For those JEs that you need to make each month (e.g., prepaids, amortization, depreciation, etc.), set up the entries as recurring G/L entries. You'll save time, since Clients & Profits will automatically add them for you each month. Recurring entries show up on proof lists and post to the period for which they are scheduled. You should see these entries in the totals on the Balance Sheet.

Rather than manually reconciling your bank account, let Clients & Profits do the

*Continued on the back page*



## Why use Clients & Profits for financial accounting?

A recent survey on [www.clientsandprofits.com](http://www.clientsandprofits.com) asked agencies what they like about using Clients & Profits for financial accounting. Their answers illustrate why so many shops use it as their one, and only agency software:

- With Clients & Profits, you can set up flexible accounting periods that conform to your fiscal year
- Easily perform month-end and year-end closings
- Create up-to-the-minute, in-depth financial reporting at any time during the month or year
- Print year-over-year financial reports for easy comparison of the shop's performance
- Create fiscal budgets for income, job costs, and expenses

How do you compare?

- January is beginning of fiscal year for 74% of shops that responded to the web survey
- 82% print proof lists before posting always or most of the time
- 94% check financial reports always or most of the time
- 70% print comparative financial reports to compare current financials to last year's
- 98% use financial reports in Clients & Profits to run their shops better (which, of course, isn't surprising!)



## WHY RATIOS MATTER

By Rebecca Cox

Clients & Profits ratio analysis reports are powerful tools to help you better manage your business. They let you analyze liquidity, solvency, and profitability ratios to pinpoint problems before they become disasters—and take steps to improve financial solvency and your bottom line.

Clients & Profits has 11 liquidity ratios that allow you to compare balance sheet items over time. Ratios are used by financial analysts to compare your performance with comparable companies in other industries. Banks, for example, use liquidity ratios when evaluating loan applications.

The most common ratio is the *current ratio* (current assets divided by current liabilities), which red-flags any potential problems. Generally, a healthy business has a current ratio of 2:1. If it's lower, you'll have trouble meeting current debts. Track it over time and investigate changes. If current assets aren't increasing at the same rate as current liabilities, it's a sign of potential problems.

*A/R turnover* and *average days in A/R* are two other important liquidity ratios. Average

days in A/R should be higher than your credit period plus 15 days. If these two ratios are increasing, it's time to review credit and collections policies.

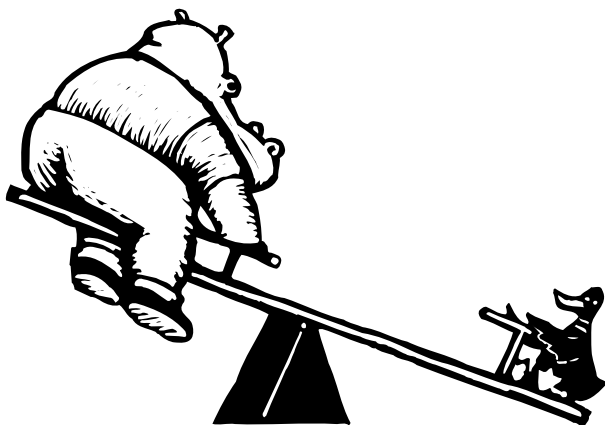
Six solvency ratios help to analyze your agency's debt load. *Debt to asset* ratio should not be higher than 50 percent. If it is, you may have trouble meeting your debt obligations.

Seven profitability ratios, including *return on equity* (net income divided by owner's equity), calculate earnings on investment. It should be at least as high as bank interest on CDs.

Compare your ratios with the industry to see how your agency measures up. Dun & Bradstreet and Robert Morris Associates publish directories that list ratios by industry. Also, advertising associations such as AAAA and the Second Wind Network publish ratio and financial information about their members.

---

*Rebecca Cox has been a Clients & Profits consultant since 1995. Contact her at (402) 742-5234 or [rebecca@rebeccacox.com](mailto:rebecca@rebeccacox.com).*



## Overhead allocation is not over your head

For Clients & Profits Pro users, the Overhead Allocation worksheet and Client P&L Analysis work together to divide the cost of running your business among your clients. They incorporate a client's job costs with a portion of shop overhead to show the true cost of servicing your clients.



The first step in preparing the updated Client P&L Analysis is the Overhead Allocation Worksheet (from the G/L window choose Edit > G/L Tools > Overhead Allocation Worksheet). Staffers with billable time for the period are listed. Enter in direct service costs (salary + cost) for each billable employee. (The resulting amounts applied to each client appear in the Direct Labor column on the Client P&L Analysis.)



Choose one of four formulas for distributing overhead expenses to clients, after direct labor and direct expenses are taken out. They are: (1) Agency Direct Service Costs (2) Agency Billings (3) Agency Income, or (4) Agency Direct Client Hours.)



The Client P&L Analysis takes information from allocation worksheet and distributes labor costs in the Direct Labor column. Direct Expense column shows any costs from expense, other income, or other expense G/L accounts posted to a specific client.



The Client P&L Analysis allocates the balance of administrative expenses using the formula you chose earlier. (Total administrative expenses, other income and expenses minus allocation of direct labor and direct expense equals the balance available to allocate to clients.) Total Income, Job Costs, Net Revenue, Direct Labor, Direct Expense, Overhead Allocation, and Net Income on the Client P&L Analysis equals your monthly Income Statement.

# TRIAL BALANCE AND DETAILED G/L

Together, these key financial reports keep you in-the-know about your books

08/20/98, 9:51

Trial Balance is printed for one or all periods. You're able to review balances for a single **accounting period** which is especially helpful when closing the month. To print for all periods, choose the Year-to-date Trial Balance which provides your entire fiscal year at a glance.

The trial balance can be printed for one **profit center** at a time, or all profit centers to show consolidated results for the entire company. A profit center allows you to track separate divisions, offices, or client groups within your shop all in the same database. You're able to print financial reports for each profit center separately or all profit centers together.

Accounts are subtotaled by customizable **classes** and **subclasses**. Every G/L account will belong to a class (assets, liabilities, equity, etc.).

Account 999998 is the **suspense** account. A transaction that isn't able to post correctly due to an incorrect G/L account number posts to the Suspense account which keeps you in balance. But any balance in Suspense must be investigated. Then a correcting journal entry is made to move the amount to the right account.

Account 999999 is the accumulated **Earnings Year-to-date** account. No transaction is directly posted to this account. It is the balance of Income accounts minus Job Cost and Expense accounts for the current year.

Clients & Profits Sample DATA  
**Trial Balance**  
 For period 3 - March  
 Profit Center: ALL

Acct:	Description:	Beginning Baln:	Current:
220000.00	Sales Tax Payable	0.00	0.00
221000.00	Sales Tax Payable	-13,203.41	3,729.37
221100.00	Sales Tax Payable - Out-of-State	-175.20	175.20
221300.00	Sales Tax Payable - Other	0.00	0.00
222000.00	Client Deposits/Advances/Retainers	-99,672.87	-57,375.00
240000.00	Note Payable - Bank of America	-160,000.00	24,000.00
240001.00	Notes Payable	0.00	0.00
241000.00	Notes Payable - Wells Fargo	0.00	0.00
243000.00	Notes Payable - Furniture/Fixtures	1,030.35	-1,030.35
247400.00	Notes Payable - Phone System	-33,628.96	-2,194.24
248000.00	Media Payables	-9,825.72	265.56
260000.00	Unearned Rent	-123,067.00	0.00
270000.00	Deferred Taxes		
		<b>-821,392.96</b>	<b>7,860.50</b>
<b>Equity</b>			
300000.00	Common Stock	-1,000.00	-24,000.00
301000.00	Paid-in Capital	-31,570.54	0.00
302000.00	Retained Earnings	-235,611.38	-98,093.79
999998.00	Suspense	-52,153.65	70,065.43
999999.00	Current Earnings - 1998	-59,186.82	15,293.68
		<b>-379,522.39</b>	<b>-36,734.68</b>
		<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS, LIAB., &amp; Equity</b>			
<b>Income</b>			
113000.00	A/R Discounts	0.00	0.00
401000.00	Income - Creative	-298,768.95	-107,830.30
401000.02	Income - Creative	-101,876.95	0.00
401001.00	Income - Media	-750,403.08	-39,636.40
401002.00	Income - Studio	-18,083.99	-25,688.40
401004.00	Income - Public Relations	-15,978.55	-18,263.00
401300.00	Income - Output (Service Bureau)	-8,736.14	-7,753.00
401400.00	Interest Income	-1,956.18	-102.00
806000.00	Fee Income	0.00	0
		<b>-1,195,803.84</b>	<b>-199,274.00</b>
<b>Job Costs</b>			
500000.00	Print Media Costs	255,000.44	23,840.00
500000.02	Print Media Costs	210,789.55	10,100.00
501000.00	Broadcast/Radio Media Costs	210,769.49	2,100.00
502000.00	Direct Costs - Production	9,727.00	14,000.00
504000.00	Direct Costs - Creative	491.70	6,000.00
504100.00	Direct Costs - Studio	314.25	7,000.00
504200.00	Direct Costs - Public Relations	500.55	3,000.00
504300.00	Direct Costs - Output (Service Bureau)	254.00	3,000.00
505000.00	Free-lancers	52,734.75	3,000.00
505100.00	Illustration Buyouts	735.00	1,000.00
506000.00	Outside Services	2,367.00	3,000.00
506600.00	Web Programming	2,203.00	3,000.00
506660.00	Printing	160.00	1,000.00
507000.00	Copywriting	3,775.00	1,000.00
509000.00	Market Research/Focus Groups	12,613.99	1,000.00
510000.00	Photography	3,364.30	1,000.00
511000.00	Typesetting	0.00	1,000.00

ending Baln:

0.00
-9,474.04
0.00
0.00
-157,047.87
-136,000.00
0.00
0.00
0.00
0.00
-35,823.20
-9,560.16
-123,067.00
<b>-813,532.46</b>
-25,000.00
-31,570.54
-333,705.17
17,911.78
-43,893.14
<b>-416,257.07</b>
<b>0.00</b>

Every G/L account prints on a Trial Balance showing three amounts— Beginning Balance, Current and Ending Balance.

**You'll use these two reports together to double-check key financial totals:**

- (1) On the trial balance, the ending balance is should equal the beginning balance plus the month's activity.
- (2) The current balance for each account on the Trial Balance should equal the debits - credits as shown on the Detailed G/L.

**Total Assets, Liabilities & Equity:** All zeros means you are in balance. Any balance must be investigated.

Transaction details appear, such as reference number, date, and description. When expanded, it also prints job, client, and vendor numbers.

The Detailed General Ledger (Expanded) report shows all transactions posted into the G/L. **You'll use the Detailed G/L (Expanded) to review transaction details, and debits and credits, for each account.**

11/09/98 12:11, Page 43  
Clients & Profits Sample DATA  
**Detailed General Ledger (Expanded)**  
For period 2 - February  
Profit Center: ALL

Ref:	Date:	Description:	Job:	Client:	Vendor:	Debit:	Credit:
AP#516335352	02/14/97		ATT-155	TT	--	13.00	0.00
AP#516335352	02/14/97		BEN-127	BEN	--	23.00	0.00
AP#516335352	02/14/97		CBT-101	TB	--	13.00	0.00
AP#516335352	02/14/97		ATT-153	TT	--	13.00	0.00
AP#516335352	02/14/97		CBT-103	TB	--	13.00	0.00
AP#516335352	02/14/97		ABI-112	ABI	--	20.00	0.00
AP#516335352	02/14/97		ATT-127	TT	--	13.00	0.00
AP#516335352	02/14/97		ATT-133	BEN	--	42.50	0.00
AP#516335352	02/14/97		BEN-136	BEN	--	23.00	0.00
AP#516335352	02/14/97		BEN-136	TT	--	13.00	0.00
AP#516335352	02/14/97		ATT-225	CB	--	0.00	0.00
AP#516335352	02/14/97		BAC-134	TT	--		
AP#516335352	02/14/97		ATT-225	TT	--	238.50	0.00
#512100-2							
TOTAL:						238.50	503.00
Ending Balance:							503.00
Beginning Balance:						1,494.41	
513000.00		Billable Travel				1,052.18	0.00
AP#BRA2/16	02/16/97		ATT-126	TT	--	441.00	0.00
AP#BRA2/16	02/16/97		ATT-126	TT	--	3,459.29	0.00
AP#BRA2/16	02/16/97		ATT-126	TT	--	47.00	0.00
AP#BRA2/16	02/16/97		ATT-126	TT	--	418.00	0.00
AP#BRA2/16	02/16/97		ATT-126	TT	--	1,550.32	0.00
AP#BRA2/16	02/16/97		ATT-126	TT	--	0.00	0.00
#513000-2	02/28/97					6,967.79	0.00
TOTAL:						6,967.79	0.00
Ending Balance:							8,462.20
Beginning Balance:						500.00	
516000.00		Output				0.00	0.00
#516000-2	02/28/97					0.00	0.00
TOTAL:						0.00	0.00
Ending Balance:							500.00
Beginning Balance:						500.00	
555000.00		Commissions					
TOTAL:							
Ending Balance:							0.00
Beginning Balance:						0.00	

You'll use the **reference number** to look up the transaction where it was added, such as in A/R, A/P, or the Checkbook.

You'll use the **job number** to find the job that the transaction was added for, and review that cost there.

You'll use the **vendor number** to find the vendor that the transaction was added for, and review that cost in the vendor's ledger or in A/P.

## FINANCIAL ACCOUNTING QUESTIONS AND ANSWERS



### Q. Are the journal entries in our General Ledger saved forever?

No, they're purged when the year is closed. However, the original A/Ps, A/Rs, checks, and client payments can still be viewed in their respective areas of your database...at least until you purge them, which shouldn't be done for at least 3 or more years.

### Q. When should I change the current accounting period?

Advance the accounting period on the first day of the new month so that staffers' time entries and other work are automatically assigned the right period. For you accounting types to continue working in the prior period, simply edit it during data entry. (You trust yourself more than them, right?)

### Q. What is a ratio?

Ratios are mathematical formulas. They show the relationship between the amounts of two things, expressed as a quotient. In C&P, the Ratio reports examine your shop's ability to meet its cash requirements, measure how well it's utilizing its resources, and determine your shop's overall financial health.

### Q. How do I handle payroll in C&P if we use a payroll service?

If you use a payroll service, you'll receive summary information with each payroll run.

Enter it as a balanced journal entry directly into your General Ledger. If it's direct deposit for everyone, you simply enter a single JE. If anyone in your shop doesn't participate in direct deposit, enter their payroll information as a separate journal entry because you run the risk of their check not clearing in a timely fashion. You have to be able to mark those entries as cleared when you do the bank reconciliation. (Remember, you can clone previously-made journal entries, and edit them before posting to save time!)

### Q. How do I handle payroll in C&P if we do it ourselves?

Simply enter the payroll as separate balanced journal entries directly into your General Ledger. Since all staffers get their own check, they may not clear the bank at the same time. (Cloning JEs would help here, too!)

You may want to consider buying CheckMark Payroll Software. All payroll-related activities are handled through CheckMark, then imported directly into your Clients & Profits General

Ledger as unposted journal entries with no rekeying of information. This saves time and cuts down on data entry errors. Their phone number is: 800/444-9922.

### Q. Are the 1099s based on amounts from A/P invoices?

No. The 1099s come from the amounts paid to vendors via the checkbook. 1099s are cash basis for tax purposes.

**Ratios show the relationship between the amounts of two things, expressed as a quotient.**

**In C&P, the Ratio reports examine your shop's ability to meet its cash requirements, measure how well it's utilizing its resources, and determine your shop's overall financial health.**



## GUARANTEED GREAT IDEAS!

### Accounting Tips from Real Clients & Profits Users

These Clients & Profits users share their tips on how they manage financial accounting better:

**Clone journal entries to save time** "I clone JEs all the time," says Kym Tedesco, accounting consultant for ParkerWhite. "When I'm doing the bank reconciliation, I add monthly bills for the next month (like insurance). I work from the previous month's proof list, find the JE in the G/L, clone it, and change the date to the correct month. If you took that feature away, it would be a nightmare for me!"

**Fiscal planning through budgeting** "We had lots of growth in the past few years, so I've entered budgets for our job costs and expenses," says Johnna Baker of Image III. "We realized we were spending too much and really needed to better plan our expenditures. In the near future, we'll work on budgeting income, so we can know if we're meeting our sales goals."

**Lock accounting periods** "I lock accounting periods to prevent people from entering work into closed months, including myself!" says Erik Kulvinkas of NetFaction.

**Print comparative reports.** "We use the comparative Balance Sheet and Income Statements regularly," says Marjorie Garrick of Griffith Phillips Creative, Inc. "We see at a glance if we are advancing our income without increasing our expenses. Our goal is to increase sales while trying to keep expenses under control."

**Cash Flash** "The Cash Flash report is an easy way to keep track of day-to-day financial information," says Suzanne Conklin of Howard Miller Associates, Inc. "The ability to e-mail those important balances to top management makes it a great timesaving tool."

## ARE YOU READY TO CLOSE THE YEAR?

By Robert Roll



While you may be months away from actually closing your fiscal year in Clients & Profits, you'll be a lot happier if you start doing the work now. Or better yet, work on keeping your financials up to snuff all the time.

If the real work—balancing the books, reconciling accounts, and verifying agings—is done every month throughout the year, closing the year should be a simple process.

When you close the year, you can't leave anything undone. Make sure all of the transactions for the year are entered and posted, then give everything a final going-over. Make sure your books are balanced, accounts reconciled, and agings verified. (In fact, Clients & Profits won't let you close the year until this work is done.)

Once you're ready to close the year, print all of the desired and required year-end reports before you run the Close Year feature in C&P. That's because after the year is closed you won't be able to run them.

Since closing the year is permanent (that is, it permanently purges journal entries from the General Ledger in preparation for

the new year's work) it is a good idea to make an archival copy of the current year's database before closing the year. You'll then have a permanent snapshot in time of the database that can be opened later when someone needs it. (Consider burning a copy or two of the database onto a CD so it can be stored off-site for extra security.)

The best way to close your books is to start now. You'll make your life much easier in January (when 1099s and W2s are due, too). Your tax planner will think you're magic, your boss will think you're an angel, and you can avoid those long, caffeine-filled nights alone at the office. So bite the bullet now and put those best accounting practices to work today!

Are you closing the year for the first time? There's an easy step-by-step tutorial on the Clients & Profits web site: [www.clientsandprofits.com/support/close\\_year](http://www.clientsandprofits.com/support/close_year)

---

*Robert Roll has been a Clients & Profits consultant since 1994. He can be reached at (415) 775-9395 or at [robertr@sonic.net](mailto:robertr@sonic.net).*



### Short & Sweet: Closing the month with C&P

While there is no formal month-end closing requirement in Clients & Profits, there are several best-practice steps good management take to organize their books:

- Make any month-end journal entries as soon as possible, including WIP entries, depreciation, accruals, write offs, payroll, etc. (Many JEs can be scheduled using recurring or reversing entries.)
- As soon as the bulk of the last month's work is posted, change the accounting period in Preferences so that staffers' time entries and other work are automatically assigned to the right period. To continue working in the prior period, simply edit it during data entry.
- Print the Trial Balance, Balance Sheet, Income Statement, Comparative Statements, YTD G/L, Client Invoice and Vendor Invoice Agings and store them in a 3-ring binder.
- Look for out-of-balance amounts on the Trial Balance and Balance Sheet. If so, go to the G/L Auditor (it's in the G/L tools) and print the Out of Balance and Accounts Total reports.
- Verify that the Client Invoice Aging equals the total of A/R accounts on Balance Sheet. Then do the same thing for Accounts Payable.
- Reconcile your bank accounts as soon as statements arrive. Be sure to print the reconciliation report before saving the bank rec.
- Review the Balance Sheet and Income Statement, particularly comparative ones for unusual balances and major changes from last year, then research any discrepancies.

## BETTER FINANCIAL... (con't)



*Continued from page 2*

work (you'll find the bank reconciliation in checkbook's check tools.) Just choose the bank account to reconcile then enter the statement ending balance. Clients & Profits lists the account's outstanding items that need to be cleared. Just click the check box to clear amounts, then save—it's that easy!

### Keep the cash coming

Cash flow is crucial to running a successful agencies. Keep cash coming in by invoicing often and following up on collections. There's several invoicing options to easily bill before a job starts, part way through, or when the work is completed—whichever way (or combination of ways) works best to keep cash flowing in.

Also, make a routine of reviewing your client aging weekly to be sure someone is keeping up with collections. "I work on collections daily," says Caitilin Ashley, owner of Ashley & Associates. "I make calls right from the Client Aging report," she says, making short work of the task, since client contact information and receivables print right on the report. (Here's a good tip: Give your collections effort some weight by including payment terms and late fees in your client contracts.)

### Cover your bases

Print hard copies of the Detailed G/L report and other financial statements each month, then organize them in binders. If you're ever audited by the IRS, you'll need those hard copies. If you ever have a computer disaster, you've always got those hard copies.

Safeguard your data by making a daily back up of the database. A good backup plan includes at least one week's worth of back ups (two are better), with an extra copy

stored out of the office. "Our off-site service picks up our daily backup, which includes our C&P database and everything on our network," says Beth Flinn, senior accountant for The Townsend Agency. "With as much work as we do in a day—let alone a week—we are serious about backing up." Also, make sure that back ups are restored periodically so you know that they can be opened and accessed. Be sure that more than one person knows how to make and restore back ups, too.

"Before using Clients & Profits, we knew we were missing crucial financial information," Caitilin says. "C&P has had our whole effort from day one—and it shows in the vital feedback we get from it. I really don't want to remember what it was like before we started using C&P." Following these best accounting procedures will help you do things better, faster, and more profitably. And who doesn't want that?

---

*Mindy Williams is a senior member of the Clients & Profits Helpdesk. Additional contributions were made by Judith Hector, Bonnie Burlew, and Brenda Lohr.*

CLIENTS & PROFITS is job production and accounting software designed especially for creative businesses. Since 1986, more advertising agencies have chosen Clients & Profits over any other agency management software for Macintosh and Windows. Over 2,200 ad agencies, graphic design firms, and corporate marketing departments use Clients & Profits to track jobs, costs, and billings every day. For more information, send email to [info@clientsandprofits.com](mailto:info@clientsandprofits.com).

### CLIENTS & PROFITS®

The Triangle Building  
4755 Oceanside Blvd. Suite 200  
Oceanside, CA 92056  
(760) 945-4334

Presort Standard  
U.S. Postage  
**Paid**  
Permit 751  
San Diego, CA



[www.clientsandprofits.com](http://www.clientsandprofits.com)

**Attn: Controller, CFO**