

# HOW TO: MANUFACTURING BOOKKEEPING

## DO YOU OWN OR RUN A MANUFACTURING COMPANY?

Like businesses in all industries, your manufacturing business must keep accurate accounts in order to stay compliant with the tax office and avoid any trouble or nasty fines. Accurate accounts also allow you to know with certainty what your business's financial position actually is.

In addition to requirements common across all industries, manufacturing businesses have a number of unique bookkeeping and accounting needs. For example, it's important to measure costs per hour of production and operational efficiency in order to ensure that your business is running optimally at all times.

If you own or manage a manufacturing company, then the guidelines below are a good indication of what you need to be doing to ensure you get the most out of your business's books.

## DAILY OR WEEKLY BOOKKEEPING

The more regularly you maintain your business's books, the better. The complexity of the day to day operations of any manufacturing business mean that regular bookkeeping is vital to understanding how your business is going at any given time.

**0-10 Employees:** If your company is smaller, there may not be enough bookkeeping work to justify daily attention. Most bookkeeping reports can be run on a weekly basis to ensure any discrepancies are identified and attended to.

**10+ Employees:** Higher staff numbers usually mean you will need to run daily reports to ensure that any problems are identified as soon as possible, before they begin costing your company money.

## MANAGEMENT REPORTING

As is the case in any business, it's important to develop a strong business strategy for increasing your profitability, and ensure your cash flow forecasting is correct. These measures will help ensure the longevity of your business.

A cash flow forecast is an estimate of the money you expect to flow in and out of your business. Irrespective of the size of your business, cash flow forecasting on a weekly basis helps you plan ahead for occasions where cash may become tight before easing at a later point in time (for instance, cash may be tight mid-month, but there will be enough again at the end of the month). This ensures you're able to pay your employees and suppliers in a timely manner.

In order to meet your target profit ratios, it's also important to keep your manufacturing company's costs to a minimum. A budget and variance analysis allows you to do this.

Budgeting involves planning your costs for a particular period of time, and allocating sufficient funds to cover these. A variance analysis is then used to compare your budget with the monies you actually spent over the duration of each period.

**0-10 Employees:** We recommend you use a monthly budget and variance analysis to adequately manage your business's finances. We also recommend weekly cash flow forecasting.

**10+ Employees:** With the higher turnover of a bigger business, the potential for costs to rapidly spiral out of control increases. Along with weekly cash flow forecasting, we recommend a weekly budget and variance analysis, as this will enable you to identify discrepancies and address the causes ASAP.

## UTILISATION OF LABOUR

Manufacturing businesses often run 24 hours a day. As such, it's extremely important for your business to be able to avoid manufacturing down time, which results in increased costs.

As such, utilisation of labour cost reports are a key KPI within any manufacturing business. Analysing utilisation of labour costs allows you to understand when utilisation of labour drops, and, more importantly, why. Reporting costs per hour and operational efficiency are the stepping stones to understanding how and when changes to labour costs should be made. In a recent case study, understanding these reports and making small changes in production schedules produced a 26% increase in efficiency based on the previous processes.

**0-20 Employees:** We recommend monthly analysis of your utilisation of labour costs.

**20+ Employees:** We recommend weekly analysis of your utilisation of labour costs.

## AGING DEBTORS

Having a correct debtors' ledger is vital to maintaining an accurate cash flow forecast. An incorrect debtors' ledger can result in an underestimate of incoming cash, or far worse, can lead to an overestimation of cash which can result in a cash shortfall for your business.

Failure of debtors to pay in a timely manner causes undue cash pressures on your business. After all, you must continue to pay your suppliers or manufacturing will eventually grind to a halt.

In the case study mentioned above, our bookkeeper's search for opportunities to improve the business's profitability and efficiency led them to identify time taken to receive payments as an area for improvement. After making an accurate debtors ledger available, continual monitoring and process improvement saw the company reduce their average debtors aging from 64 days to 40 days – a considerable improvement and not far off the 30 day terms on invoices.

**0+ Employees:** A business of any size can take advantage of closely monitoring their debtors list. Reviewing aged debtors on a fortnightly basis ensures that outstanding payments are followed up on a regular basis.

## PAYROLL MANAGEMENT

Understanding how shift cycles impacts utilisation is an important step in maximising profitability. As such, it's imperative that you have your payroll and scheduling on point.

Employment and taxation **laws are specific in their requirements surrounding penalty rates and the handling of superannuation** in respect to overtime payments, an all too frequent occurrence in the manufacturing industry.

Regardless of your manufacturing company size, you will benefit from **an integrated workforce management solution that manages scheduling, time sheeting, and payroll**. This will allow you to process your payroll more efficiently, and help you ensure your profit margins are not negatively impacted by common problems such as overstaffing, understaffing, or having to pay unnecessary penalty rates.

# IMPLEMENTING EFFICIENCIES

Some bookkeeping tasks can be completely automated, saving you time and money, and ensuring that your data and reporting is timely and accurate.

**0+ Employees:** Automated tasks that can be used in manufacturing companies of all sizes include setting up secure bank feeds so manual data entry is not needed, and the automation of payroll so superannuation and tax liabilities are accurately recorded.

## EXPERT ASSISTANCE

If you would rather leave bookkeeping and financial management to the experts so that you can concentrate on your business, EzyAccounts can help. Our local bookkeepers are all highly-trained and qualified, and have the necessary experience to help you to implement bookkeeping solutions that are unique to the manufacturing industry and get the most out of your business's books. To learn more, call us today on 1300 313 397.

**We recommend the following bookkeeping packages for manufacturing businesses of different sizes.**  
(For a tailored recommendation, contact us today.)

### 0-5 EMPLOYEES

- Monthly bookkeeping (on- or off-site)
- Full payroll management
- BAS lodgement
- Rolling 12 month cash flow forecasting, showing weekly monetary movements
- 12 month forecasted budgeting, with monthly variance analyses
- Monthly analysis to facilitate utilisation of costs

### 6-20 EMPLOYEES

- Weekly bookkeeping (on- or off-site)
- Full payroll management
- Staff scheduling assistance (if required)
- BAS lodgement
- Rolling 12 month cash flow forecasting, showing weekly monetary movements
- 12 month forecasted budgeting, with weekly variance analyses
- Monthly analysis to facilitate utilisation of costs

### 21+ EMPLOYEES

- Weekly bookkeeping (on- or off site)
- Full payroll management
- Staff scheduling assistance (if required)
- BAS/IAS lodgement
- Rolling 12 month cash flow forecasting, showing daily monetary movements
- 12 month forecasted budgeting, with weekly variance analyses
- Weekly analysis to facilitate utilisation of costs

