

What to expect from your accountant for a franchise

In a tough economic climate, franchising is still a good investment option for entrepreneurs and can offer great returns with reduced risk as opposed to building a business from scratch.

The reduced risk, however, does not mean one can afford being less hands-on. The “business in a box” selling point can be misleading and undermines the effort it takes to keep the ship afloat. The most common areas of neglect are admin and finance.

Take an example of a franchisee entering the fray for the first time. These are often individuals who are entrepreneurial in spirit but have been in a corporate environment for a period of time. They have been admiring their favourite brands and dreaming of taking the big step since reading their first business book.

When the big day arrives, all focus is placed on operations. This is completely understandable as all the training is operations focused. The franchisor expects and assumes that the admin and finance will be taken care of by the franchisee, but this is not always the case. It is surprising that there isn't more focus from franchisors on what it takes to run a successful franchise from a financial perspective.

The following is what you should expect from your accountant (outsourced or in-house):

Income Statement

In general, understanding profitability is not the challenge but rather the finer details, and the following two are very common:

- How to calculate gross profit and knowing what factors influence this number. Think stock control and pricing!
- If the business is VAT registered, the income statement figures will be presented excluding VAT. Linking your VAT payment to the profit/loss on the income statement is key here.

Take as much time as you need and ask your accountant as many questions until you understand these two concepts. They are two of the biggest factors that have a bearing on your cash flow. Once you grasp the concept, don't be scared to dig deeper if your GP% seems inaccurate or if your VAT payment seems high. **Ask for the calculation and review!**



Balance Sheet

The balance sheet is a section of the management pack that is largely ignored. Simply put, if your balance sheet is incorrect, your income statement is incorrect. And if your income statement is incorrect, you are trading blind! Each balance must be understood and underpinned by supporting documents. As a business owner, having enough time to review in this much detail every month may be challenging. I recommend, at the very least, zooming in with your accountant on a quarterly basis. **Some of the common issues in the franchise world include:**

1. Cash control balances (time delay between sales as per system reports and money in the bank)
2. Inventory control balance (must be confirmed by regular stock counts)
3. Creditors (ask if your creditors reconcile to statements).

Cash Flow

The cash flow statement is the link between your income statement and your balance sheet. It is a summary of how your business's cash flowed in a given period. It starts with your profit/loss and ends with your closing bank balance. It is worth reading and understanding! Ask your accountant what each line item means and where the figures come from.

Compliance

"Assumption is the mother of all..." - Travis Dane

Compliance is a major part of doing business in South Africa. **Avoid surprises and ask your accountant for the following quarterly, 6-monthly or at least annually:**

1. Tax clearance for all registered tax numbers
2. Workmen's Compensation letter of good standing
3. Confirmation of UIF submissions. Although UIF contributions are paid to SARS, a separate return must be filed with the UIF.

Summary

Your financial role as a business owner does not end when you employ an accountant. If you are serious about making your investment work, take the time to understand your numbers. Study the reports mentioned in this article. The more time you spend with them, the better your chances of succeeding. They are ultimately your blueprint to success!

