

Big Cost, Big Mistake

Most of the businesses that I deal with have wage costs of between 30% and 45% of sales. This makes wages one of the biggest costs of running a business. Why then is so little attention given to wages when completing monthly financial statements?

Even businesses which have monthly financial statements produced for them by their external accountant are getting misleading and unhelpful reports because wages are not being properly accounted for. Let's look at an example.

Say you pay your wages weekly on a Tuesday for the previous Monday to Sunday. Assume your business is only actually open Monday to Friday. Therefore in August 2011 you would have had 23 business days and 5 paydays which equates to payment for 25 working days. If you have not been making wage accruals you will have 23 days of revenue but 25 days of wage costs. . The problem is magnified if you have fortnightly pays. In a month such as August could have 3 paydays covering 6 weeks (30 working days) of wages with only 23 days of revenue.

With wages being such a big cost you will be skewing your financial result. This means the report will not provide an accurate picture of how your business is performing and will not be useful for decision making purposes.

Additionally, holiday pay now adds 8% to the cost of wages. If holiday pay is not being treated correctly each month your costs could be being over or under stated leading to an incorrect and unhelpful report. The same principle also applies to ACC, especially in industries with high levy rates.

