

The Dreaded Financial Management Lecture!

By Trish Thomas, Owner of Akamai Consulting, LLC

As scary as the numbers can be, it is crucially important that business owners and managers develop basic financial management and analysis skills. Read further as we explore the systems and practices that will help you build a healthy company.

All leaders need assistance and advice when handling money, but expecting someone else to actually *manage* your financial outlook for you is asking for trouble. These simple tips will help you develop a sound fiscal management system for your organization that will balance time constraints with your need to understand your complete financial picture.

For starters, there are a few key people that can be incredibly useful resources. If you have a board of directors or advisory group, appoint an experienced finance manager to be your 'treasurer' and allow them to give you guidance. Every small business and start-up firm also needs an accountant - but don't count on them to completely take over the management of your money. Accountants are wonderful for helping you set up a bookkeeping system, generate financial statements and watch for errors; however, you are still ultimately responsible for understanding your financial position and the ramifications that management decisions will have on your bottom line.

Second, go ahead and invest in a good software package to help you manage your money. QuickBooks, Quicken and Microsoft Money are all tried and true tools that are widely compatible with other programs. Software can greatly reduce the time required to enter and manage accounting transactions or generate financial statements, plus it is handy for printing reports, sending files to your accountant and managing how staff members are allowed to access your financial data.

Third, you need to build a strong relationship with your business banker. Even if you don't have a lot of money in the beginning, open a business checking and savings account and get to know the people in your local branch. Bankers can be a great resource for loans and advice, plus you'll need their help if you ever have a problem.

So now we've come to the nuts and bolts of this article – bookkeeping basics. The main thing to remember with managing money is that everything – and I mean everything – hinges on good recordkeeping! If your deposits, checks, credit card charges, cash expenditures and accounts are not tracked accurately, then the entire process is corrupted. So please, keep copies of everything, enter transactions regularly, and stay on top of your finances so that your accountant doesn't want to strangle you at tax time. With that said, let's take a quick glance at the principles of bookkeeping that you will need to master to be a successful entrepreneur:

Classifying Accounts. Different types of financial transactions are assigned to different accounts so that they are easy to track and understand. You can create your own chart of accounts or use a standard format, but you do need to understand the different classifications of your income and expenses.

Retaining Records. There are many varying levels of record retention and documentation that are required by the I.R.S and state law. Be sure you know what proof you are expected to keep and always err on the side of caution when maintaining your financial records. Better safe than sorry!

Controlling Access & Accuracy. All companies should have financial controls in place to ensure that transactions are recorded and maintained accurately and that employees don't accidentally or intentionally corrupt financial data. There is no way to go into all the options available in this article, but every entrepreneur should definitely get familiar with financial controls.

Budgets. A budget lays out what you expect to spend and earn over a given time period. All amounts are categorized according to the type of business activities so that you can plan your finances and then track whether or not you're operating according to the plan. Budgets are also useful for projecting how much money you'll need for buying a facility, hiring a new employee, changing suppliers or adding services. There are yearly operating budgets, project budgets, cash budgets, and many more.

Cash Flow. Probably the single most important financial statement for a new business is the cash flow statement. As the leader of a new company, your biggest challenge may be managing your cash flow (cash received minus cash spent). The entire purpose of cash flow management is to always make sure that you have enough money to pay current bills.

Accounts Payable and Accounts Receivable. This one is extremely basic, but we'll still touch on it. Accounts payable are simply all the people you owe money to and accounts receivable are all the people who owe you money.

Profit and Loss/Income Statements (P&Ls). These statements show much money you earned and subtract how much you've spent, resulting in a clear picture of how much money you've made or lost. P&L's offer you the nature of your overall profit and loss over a period of time and allow you to see clearly how well the business is operating.

Balance Sheets. These statements depict the overall status of your finances at a given point in time. The balance sheet totals your assets and subtracts your liabilities to compute your overall net worth.

Finally, you put all of the information and reports above together, and analyze your financial outlook. Financial analysis can tell you a lot about how well your business is performing and what areas need to improve. Without analysis, you will end up staring at a bunch of numbers that make no sense to you on various financial statements. Every business owner and manager should set aside at least a few hours every month to conduct financial analysis. This may include a cash flow analysis, budget analysis, balance sheet analysis and income statement analysis. There are a myriad of tools and techniques to help you with financial analysis (for example, break-even analysis, profit analysis, and ratios analysis).

Just remember that the point of good fiscal management is not that it exists for its own sake, but rather that you use it to move your company in the right direction. Understanding the numbers can help you see whether you'll have enough money to operate in three months, how much to charge for a product, whether costs need to be lowered or whether you can afford a new staff member.

Don't be afraid! Dive into your finances, and you'll be amazed at the power of the knowledge you will gain and the impact it will have on your business.