Business Financials

Companies of all sizes benefit when they prioritize financial reporting within their organizations. Financial reports help provide timely and accurate guidance to help management drive business to profitability. The benefits of financial reporting include access to capital, operational oversight, and risk management. A list of financial reports include:

Minimum Financial Reports:

- Balance Sheet
- Income Statement (aka Profit & Loss Statement)
- Cash Flow Statement

Supporting Schedules:

- Accounts Receivable Aging
- Inventory List
- Accounts Payable Aging
- Financial Ratio Statement

Dos:

- **Appropriate**: reporting and controls should match the complexity of the business. The larger and more complex the business, typically the more reporting and controls. Size may determine if statements are Compiled, Reviewed, or Audited. Work with your CPA and banker on what controls are relevant.
- **Relevant**: proper reporting should address the systems and processes specific to your business. Different types of businesses require different types of reporting. For example, a restaurant may want to focus on food cost and labor as a percentage of sales, while a commercial contractor may want to track work-in-process costs to the bid amount.
- **Timely**: regular reporting through timely and accurate financial statements is key for both the owners use and partners, such as lenders and other investors.
- **Accuracy**: CFO, bookkeeper, or CPA who is responsible for ensuring adequate skill and accuracy in preparing and reviewing the financial statements.
- **Summary Dashboard:** a well-designed management dashboard makes regular review easy. Summarize critical variables that are most relevant to your industry and business. For example, a wholesale company may want to see inventory daily, weekly or bi monthly to keep track of inventory levels.
- **Controls:** a good and appropriate set of controls will drive proper financial oversight, Controls should be reviewed and adjusted for adequacy regularly. For example, a restaurant chain may have one person count the cash and make deposits, while a completely different person input sales figures into their accounting system.
- **Review Controls:** an awareness of fraud risks and an understanding of the company's key financial processes. When monitored with appropriate oversight, which includes the business owner's regular review, these types of risks are normally averted. Examples include dual approvals/controls for cash transactions. Smaller companies

typically have fewer people making dual approvals/controls more challenging to achieve.

Don'ts:

- **Excessive:** don't create financial statements and controls that are burdensome and unhelpful for the end users. End users include the business owner, management and partners like your banker.
- **Informal**: poorly documented information based on an established routines doesn't help you.. Don't do something just because you've always done it, if it isn't helpful.
- **Poor Oversight:** under-staffed, under-skilled, or not adequately reviewed financial statements and controls can lead to poor financials.
- **Ignoring Financial Statements:** not reviewing or taking time to understand what the financials are telling you wastes the good information, and jeopardizes your business's future. Financials are only a dashboard providing insight to what is going on. They are neither good nor bad. They are merely a tool to see how the business is performing.
- **Inaccurate Financial Statements:** financial statements are only useful if they are accurate and up-to-date. Bad or outdated information leads to bad decisions.
- **Withholding Information:** withholding financial information or providing inaccurate financial information to partners, such as your banker won't help you. This is a red flag, and in some cases may violate loan covenants or be considered fraud.

If a business is approaching financial crisis, special spending controls and additional owner oversight may be appropriate. One very important step is to ensure that the business keeps current on its payroll and taxes (all forms of tax, including payroll tax), or the liability for unpaid amounts can come back on the business owner. In a business failure situation, these taxes must be paid before the company's funds are fully depleted.

A company's financial reports are gauges that allow you, the owner, and other important partners,—such as your bank and CPA—to assess what is happening to your business (good or bad). The sooner you involve them, the better. Financial reporting must remain relevant and informative and should not impose unnecessary or costly burdens that do not add to the end user's understanding or ability to run the business.