A Financial Checklist for the Small Business (Part 1)

Today I am writing the first of a series of columns dedicated to the financial aspects of a small business. SCORE Counselors are often asked “Why do small businesses fail?” The answer is that there are many reasons, not just one. Success in business is never automatic. It isn't strictly based on luck - although a little never hurts. It depends primarily on the owner's foresight, organization and skills. Even then, of course, there are no guarantees. We all know that new and old businesses alike do fail.

The latest statistics from the Small Business Administration (SBA) show that "two-thirds of new employer establishments survive at least two years, and 44 percent survive at least four years." This is a far cry from the previous long-held belief that 50 percent of businesses fail in the first year and 95 percent fail within five years.

Brian Head, Economist with the SBA Office of Advocacy, noted that the latest statistics are a much more accurate assessment of new business success rates, and that "as a general rule of thumb, new employer businesses have a 50/50 chance of surviving for five years or more."

One can read a whole bunch of books and articles about this topic. Each one usually sets forth their best shot at identifying the five to ten reasons why businesses fail. So, I am going to add my observations to the pile. Based on the data of research, published articles on the topic, and my observations through my SCORE counseling, I have come to the conclusion that one of the biggest contributors to business failure is how the small business deals with the financial aspects of their business. Therefore, I am devoting a few columns to “A Financial Checklist for Small Business”. Here we go….

First, let’s talk about the general bookkeeping and accounting practices of the business. Record keeping is vital to the survival and success of any business. According to analysis of the SBI cases, problems with record keeping constituted the second-largest problem area. Whether the business used a single- or double-entry system did not appear to be as important as how the system was executed. Timely and accurate record keeping is essential. Here is today’s checklist:

1. How does the owner prepare the books? The small business owner who understands bookkeeping, records the transactions and prepares the financial statements has an intimate knowledge of the business. Knowledge of these accounting and financial aspects makes the owner credible with lending institutions. It also keeps the owner out of financial trouble and helps him or her stay focused on ways to make a profit.

2. If the owner doesn’t do the books, how is the bookkeeping service provided? The owner who
does not understand the essentials of bookkeeping needs to hire a trusted professional. Even then, the owner needs to understand financial statements. Failure to understand essential financial statements is an indication that the owner has surrendered managerial responsibility. It is generally wise to have the professional bookkeeping service prepare taxes when the service is already keeping the books. The owner who does not do the record keeping is rarely in close enough touch with the records to adequately prepare tax forms. The business owner who delegates so much financial responsibility to others should think seriously about using a CPA.

To learn more about the financial management of a small business, contact America’s free and confidential source of small business mentoring and coaching, "Counselors to America’s Small Businesses." These volunteer counselors provide free, confidential business counseling as well as training workshops to small business owners. For example, next Tuesday night SCORE’s Spring Small Business Seminar will be on this very topic: “QuickBooks for Small Businesses” and will be taught by Bobbi Olson who is a QuickBooks user and a consultant to small businesses.

________________
Dean L. Swanson  
South East Minnesota SCORE  
c/o Rochester Area Chamber of Commerce  
220 South Broadway, Suite 100  
Rochester, MN 55904  
*Dean is a volunteer SCORE Counselor.

________________