A Financial Checklist for the Small Business (Part 2)

OK, Small business owner, how did you respond to the general bookkeeping and accounting practices suggestions in last week’s column? Remember, record keeping is vital to the survival and success of any business. According to analysis of the Small Business Institute cases, problems with record keeping constituted the second-largest problem area. That is the premise of these few articles in which I will provide a summary of the literature on the topic and set them in a “check list” form to help small business owners evaluate their own situation. This is Part two.

Does the owner reconcile bank statements monthly? A quick way to get into financial trouble is not to reconcile bank statements monthly. With a single-entry bookkeeping system, this is the only way to maintain accuracy. Even when a double-entry system is used, reconciling statements monthly is the only sure way to catch mistakes. Too many small business owners put this off because of other, more pressing, concerns. This destroys the validity of their own financial statements, causing them to make important decisions based on erroneous data.

Does the owner keep income and expense statements accurate and prepare statements monthly? The ability to track the flow of funds into and out of the business is necessary for continued viability. Cash flow problems have closed many small businesses. The monthly preparation of accurate income and expense statements is the best single way to avert critical cash shortages. This is why I like to see businesses use an accounting system like Quick Books because the software generates these reports whenever you want them and relieves the owner of the tedious task of pulling the data together and remembering how to do it.

Does the owner understand financial statements? An owner who understands that financial statements are essential for directing and controlling a business -- will more likely take them seriously. Well-prepared business statements put the owner in control of the business, facilitate relationships with lending institutions and simplify tax preparation, often saving the owner tax dollars.

Does the owner compare several monthly statements for trends? Comparing monthly and annual statements for trends provides financial data for planning purposes. Trend analysis is essential for efficient inventory control, capital budgeting, vacation scheduling, timely advertising, promotional campaigns and profit maximization.

Does the owner compare statements against industrial averages? Knowing how a business compares financially to others helps the owner who is seeking loans or expansion opportunities. Such knowledge also provides the owner with both a psychological and planning advantage, adds to the owner's awareness of how well the industry is doing as a whole and provides an early warning system for market fluctuations and trends.

Does the owner know the current financial status of the business? This sounds so
obvious, but it happens! Not knowing how the business is doing financially is a major reason for small business failures. Managing the business with relatively simple financial tools and staying constantly in touch with the business's financial status is critical if an adequate profit is to be made. Although good record keeping is time consuming and takes away from doing the actual work of the business, it is essential nevertheless if the business is to be a success.

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."

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.