Financial Management
Ask SCORE

A Financial Checklist for the Small Business (Part 6)

Today, I end this series of financial checklists for the small business owner with maybe the biggest challenge of all. How effective have you been in projecting your company’s cash flow?

Most small businesses use a cash basis rather than an accrual basis of accounting. Though a cash basis is easier and takes less time to maintain, it often gets the business into trouble, because the business has incurred expenses for which there is no proper accounting until the bill is paid. By keeping track of accounts receivable and accounts payable, it is relatively easy to project cash flow needs. Here is my last set of challenging questions for the Business Owner:

✓ **Are you able to meet your payrolls without problems?** When a business has a problem meeting its payroll, drastic action is generally needed to save it from financial ruin. Generally, the owner-manager has not been watching the books closely enough. When this happens, it is a sure sign that general business practices are poor. On the other hand, an ability to meet the payroll is usually a sign that the business is at least in a fair state.

✓ **Is money set aside for expansion, emergencies and/or opportunity based purchases?** Few small businesses have the advantage of being cash rich. Many fail simply because they do not have money set aside for emergencies -- they operate too close to the margin. Having an emergency fund should be considered a necessity rather than a luxury. Having an expansion fund, or a special fund set aside to take advantage of opportunities, not only reduces stress for the owner, but can often provide an operational advantage for the business.

✓ **Is short-term financing used when needed?** A small business should borrow money only when needed or when analysis proves it will be profitable to do so. Short-term financing is essential to a seasonal business. But poor analysis turns short-term loans into long-term debt, putting the business in a precarious financial position. Incorrect use of short-term financing has been a major problem for a number of failed businesses reported in research cases.

✓ **Does your business have a line of credit established with a bank?** Having a predetermined line of credit means the business is a good credit risk. It is a sign that the business is well managed. A pre-established credit line provides operational flexibility and, when used properly, can provide a source of funds to meet emergencies or to take advantage of investment opportunities. Another advantage of developing a line of credit is that it establishes a relationship between the business and the bank, facilitating later acquisition of long-term financing for expansion, etc.

✓ **Does the business owner understands the role of financial planning in today's highly...**
In competitive lending markets? In order to obtain credit in today's tight money markets, financial planning is essential. Lenders want to know as much about the person to whom they are lending as they do about the business. My last three items in this checklist provide the information that lenders need to know about your business.

✓ Is the owner's personal resume is prepared and current? A well-written and professionally prepared resume is an indispensable document for obtaining small business loans in today's market. Obtaining a small business loan takes personal salesmanship, and the owner must demonstrate competence to run the business. A well-prepared resume informs the loan officials that the owner is qualified to manage the business and repay the loan on schedule.

✓ Has the business owner prepared and updated a personal financial statement? Even when the business is incorporated, most lending institutions assume they are lending money to the owner personally. Having a well-prepared personal financial statement can increase the probability of obtaining a loan.

✓ Does the business have a written business plan? A written business plan is a road map that tells a loan officer what the business is, where it is going and how it is going to get there. Without a well-developed business plan, it is unlikely that a loan will be obtained. In addition, it provides the owner with a reference point to gauge the progress of the business. How will you every really know if your business is doing what you set out to do unless you write it down and frequently look at.

To learn more about financial management of a small business, contact SCORE for free and confidential business mentoring and coaching. We are "Counselors to America’s Small Businesses."

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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.