TBR White Paper

Financial Management | Bookkeeping Evolution

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Accounting accuracy, cash management and financial reports for management team analysis are linchpins of financial management integrity for a business. Keeping a proper set of books is the basis for the value of a company as well as the key to its credit-worthiness and solid managerial decision-making.

It is important when faced with bringing financial data into compliance we understand what is required and maximally what is achievable and for what purpose. Identifying the stage we're in and a plan to address our needs is the next step to greater financial stability.

SMALL BUSIENSS – *what business owners need to know*

Four Stages of Bookkeeping Development

1 – Mom and Pop; books are kept informally and may not necessarily be kept in a useable format. Primarily this would be characterized by lack of balance sheet, income statement, profit or loss or cash flow projections. Focus is all on managing out of the bank account.

2 – Start up; books are still kept informally. Information may be tracked using spread sheets or even a software program like QuickBooks. Focus is primarily "after the fact" accounting, characterized by playing catch-up. Accounting software has not been set up to accurately reflect the needs of the business. Often the "bookkeeper" has little or no formal training, the owner of the business is directing their efforts. They may have a resource they look to make critical balance sheet decisions, but are not actually creating a set of books, only further complicating the situation.

3 – Initial Growth; Books are kept a little more formally. Focus is still on "after the fact" bookkeeping and playing catch up. If the business is growing, therefore demanding a more refined set of practices, this step is the step where companies most often struggle. Wasting time, money, paying more in taxes and over complicating their lives by not making adjustments in their methods soon enough. Depending too much on anecdotal information to establish practices or being at the effect of less qualified individuals to establish methodologies. Businesses often wait until they are penalized by the IRS or Board of Equalization before they take action. Businesses often also fall pray to "empire building" or being held hostage by bookkeepers at this stage.

Although this "protective act" can mask more sinister problems like embezzlement, its often more likely to be about the bookkeeper being at the top of their skill level. Being held hostage by the person who knows more than the owner about their own finances, owners often abdicate their responsibility to a less than qualified person, because they know more than the themselves. But not enough to deliver the proper service to the business.

Bills may be getting paid, and invoices being sent so there appears to be a handle on the money. But when further research is conducted the underpinnings of the system have not been properly established.

This is the stage where business owners can become complacent, deny the issues, or feel overwhelmed, then accept the status quo as business as usual. The business then is not able to efficiently produce and their business and personal finances suffer.

This is also the stage where business owners can make the decision to build their company's value, improve their credit-worthiness, build greater cash reserves, and wealth. Not just continue flowing cash through hoping to keep enough for themselves.

At this stage owners may be looking to involve others in ownership or undertaking a suitable expansion plan or maybe even selling the business. Without making the choice to bring books into compliance at this stage all the hard work and time invested will not be properly valued or compensated.

4 – Mature or best practices compliance. The owner, management team and or stockholders require certain information be present to evaluate the performance of the business. Emphasis is on planning for the future and the free flow of information for use in decision-making. Establishing expectations, communicating them and their comparative results are also hallmarks of this phase. Characterized by a refined set of checks and balances, involvement of a highly skilled outside professionals, hiring a qualified staff accountant or CFO to oversee financial integrity of the business, an established set of generally accepted accounting principals, externally benchmarked, simplicity of systems, ease of access to timely and accurate information to make decisions by, and improved cash flow management.

Ownership recognizes at this stage they require more control over their finances and business and want others more qualified to be in charge.

Both ownership and circumstances demand shoring up financial-managerial talent. Hiring qualified people as either consultants, trainers or staff members is crucial to evolution of financial management practices for an operating business. Developing a proper set of books and bringing them into a higher level of compliance is critical in order to sell, expand the business, add stock holders, add locations, merge, acquire or go public.