

# Guide to Finance Management Success for Businesses



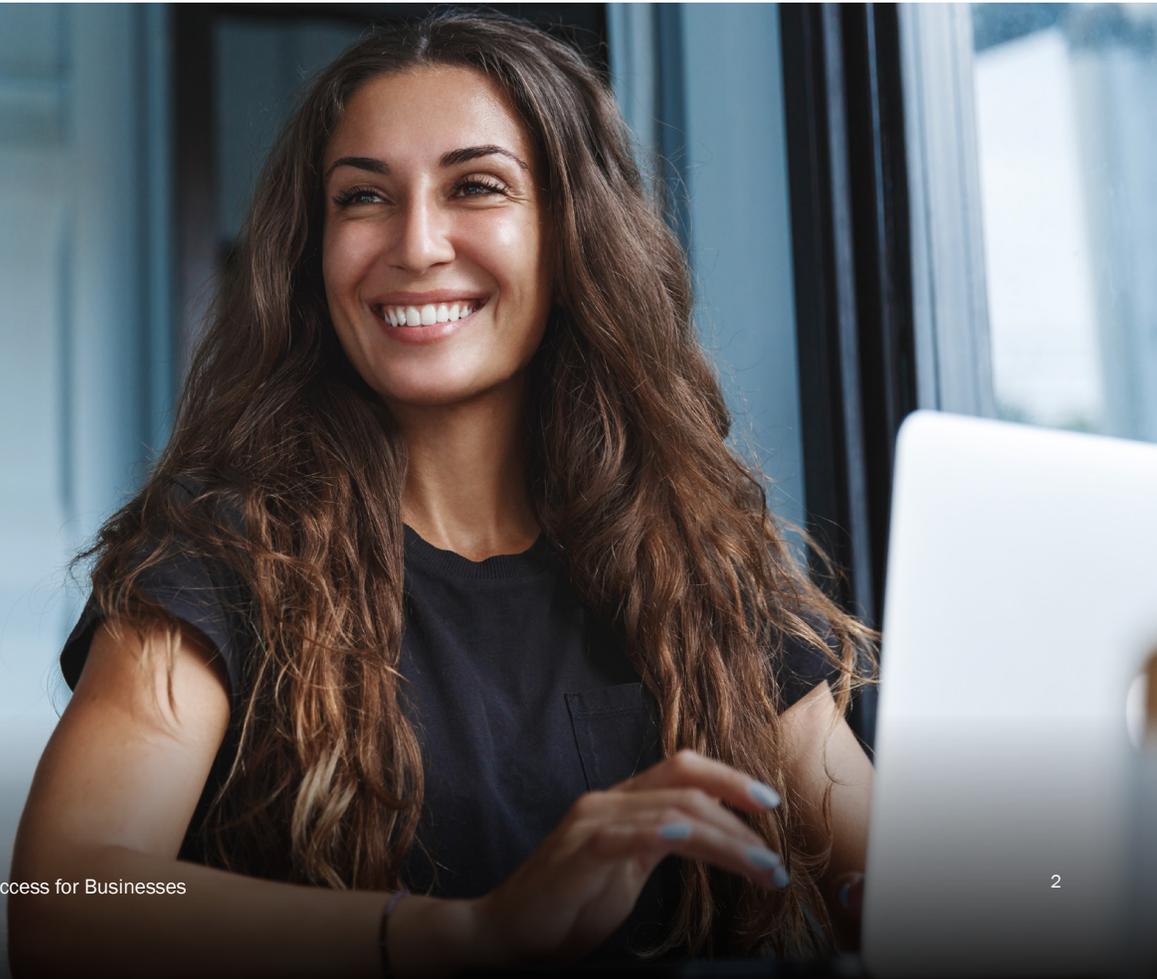
Success Starts Here.



First State  
Community Bank

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# Introduction

Prioritizing finance management from day one is a crucial factor in your business's success. When you proactively, rather than reactively, manage your company's finances, it's easier to keep the company stable and solvent, maintain cash flow, and avoid tax problems.

However, these are only a few of the reasons why finance management for businesses is vital. This guide takes a deeper dive into the essential topics small business owners need to understand to help their companies thrive.

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# Small Business Accounting Basics

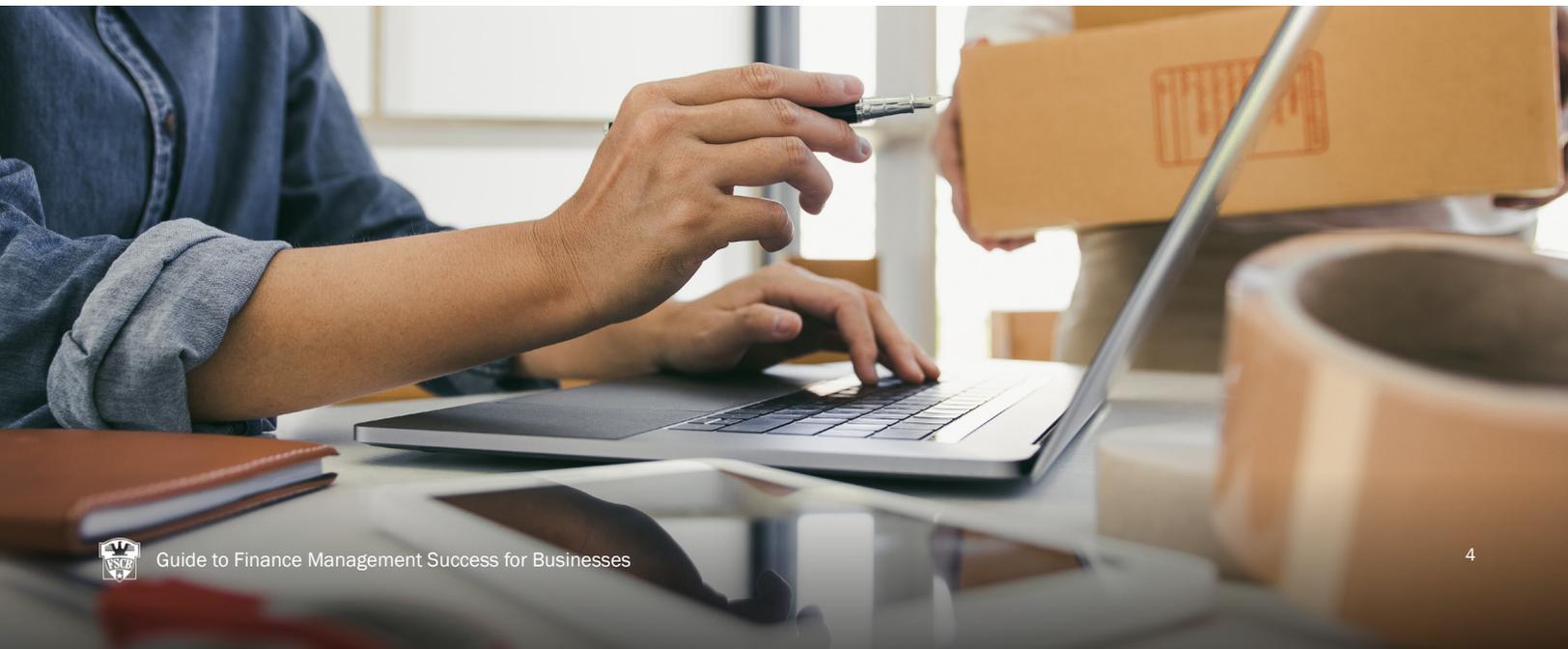
Of course no business strategy is one-size-fits-all, but there are a few basic accounting tools and documents that are common to all businesses. Knowing how each of these pieces works—and how they work together—is essential for creating a rock-solid [financial management strategy](#).



## Accounting Software

Even the smallest company will benefit from stepping away from the spreadsheets and using technology to manage its business finances. The right [accounting software](#) can increase efficiency and accuracy by automating tasks, such as:

- Paying bills
- Tracking expenses
- Managing invoices
- Reconciling accounts
- Processing payroll
- Generating reports





## Balance Sheet

When it comes to business finances, it's hard to manage what you can't see. That's where your balance sheet comes in. A balance sheet provides a snapshot of your finances at any given point in time.

Balance sheets show three critical pieces of information about your business:

- Assets:** The things the business owns (can be tangible like computers or intangible like brand identity)
- Liability:** The money the business owes
- Equity:** The amount of money the owners have invested in the business



## Profit and Loss Statement

A profit and loss statement provides valuable information about the company's finances that can be used to drive informed business decisions. Essentially, your profit and loss statement tracks profitability over time and your breakeven point, or the amount of revenue needed to cover the company's total expenses.

Profit and loss can also be used for forecasting, which is useful for making big decisions about the future of the business. Creating projections for best-case, worst-case, and most-likely scenarios will help you decide whether to expand, scale back, or hold your course for the next few years.

# How to Keep Your Cash Flow Flowing

Cash flow, or the money coming in and going out of your company, can make or break your business. In fact, your ability to maintain healthy cash flow is one of the biggest factors in whether your business will succeed.

Here are four ways to help ensure your business doesn't run out of cash:



## Create a cash flow statement.

A cash flow statement helps you maintain accurate cash flow records so you can easily see whether you have enough cash to cover day-to-day operations and take action fast if there is a problem.



## Choose appropriate payment terms.

Most businesses don't receive full payment immediately for every good or service they provide.

Set your payment terms (e.g., 15, 30, 60, 90 days) based on the amount of cash flow needed to maintain your day-to-day operations. And don't forget to factor in late payments, because they can have a significant impact on cash flow.

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### **Be careful who you do business with.**

Starting a new business relationship with an unknown customer can be risky. Unfortunately, there is always a chance that you will deliver goods or services and never get paid.

One way to mitigate this risk is to make a credit check part of the customer onboarding process. It might make things a little awkward, but at least you will have some insight into the customer's debt history.



### **Set and enforce expectations with customers.**

In an ideal world, we could seal all of our business deals with a handshake. But in reality, you need to mitigate your financial risk with a written, unambiguous declaration of terms and conditions.

Provide your customer with a document that clearly outlines everything from what, when, and how you will deliver to what will happen if you aren't paid for the delivery of these goods or services.

# Small Business Financing Options

*Debt* isn't a dirty word. In fact, for many companies, debt is an essential part of doing business. The trick is to borrow responsibly and use your debt as a tool, not as a crutch.

Business financing normally falls into one of two categories: equity or debt. Equity financing is when an investor gives a business money in exchange for partial ownership (equity) of the company. Debt financing is when a business owner borrows money from a creditor and then pays it back over time with interest.

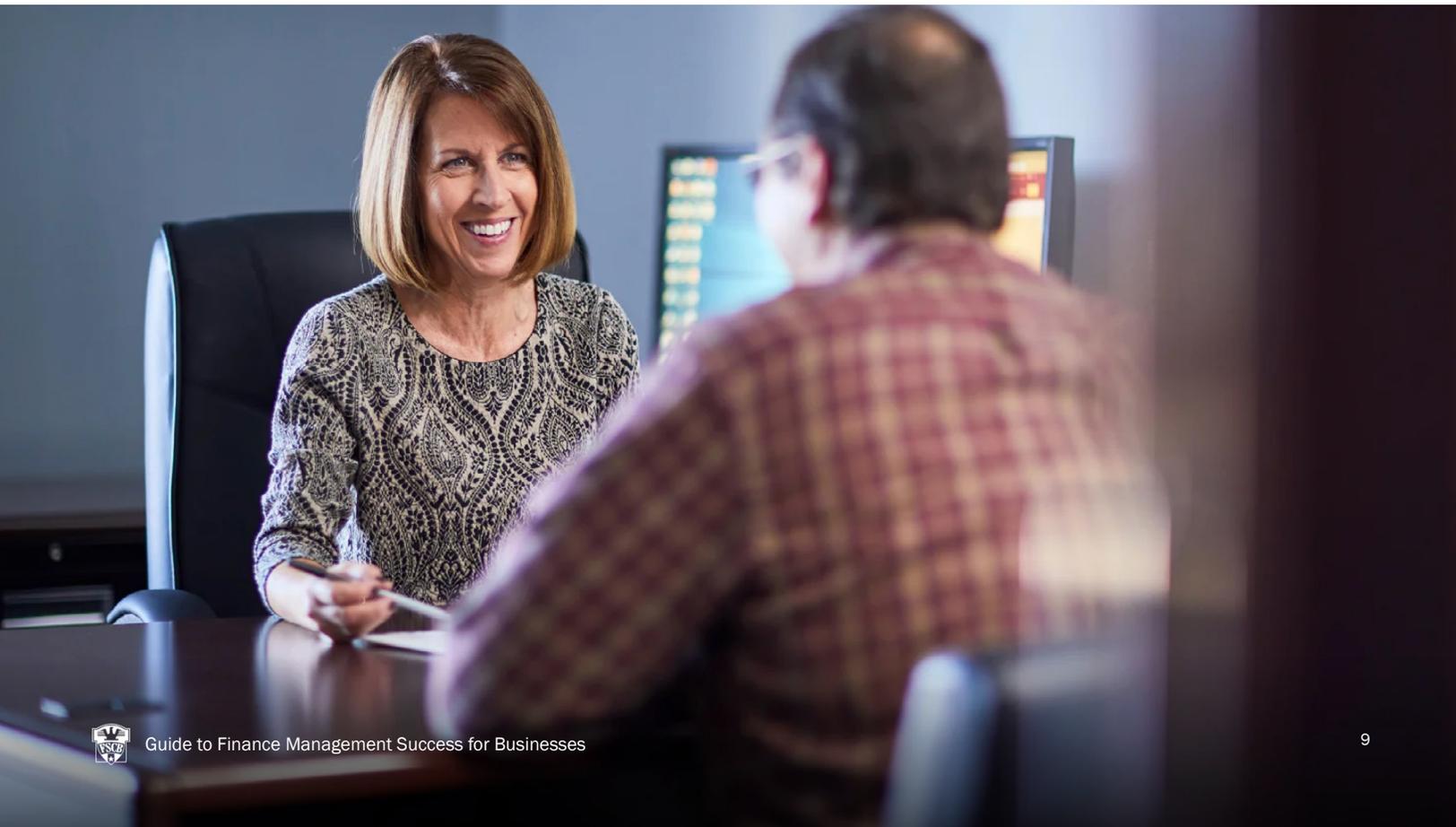
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Both are valid sources for financing. However, some business owners aren't willing to relinquish even partial control of their companies, so they opt for the more traditional route of [debt financing](#), such as:

- ☑ Traditional bank loans
- ☑ Small Business Administration loans
- ☑ Online loans
- ☑ Microloans
- ☑ Business credit cards

These are all valuable resources for small businesses, but it's important to remember that borrowers must qualify for loans and credit cards. There are several factors that can affect your eligibility for different types of debt financing, including your credit history, cash flow, number of active loan applications, and how long you have been in business.



# Tips to Avoid Common Finance Management Pitfalls

There is no official roadmap to successful finance management for businesses, but avoiding some of the most common mistakes can set you down the right path.

Here are five tips to help you manage your finances effectively and bypass potentially expensive roadblocks:



## **Keep personal and business bank accounts separate.**

Combining your personal and business finances is begging for trouble come tax time. Establish [separate checking accounts](#) from day one to avoid any errors or red flags later.



## **Set aside tax money every month.**

Speaking of taxes, get in the habit of setting aside 30 percent of your earnings before interest and taxes each month. This will ensure you have enough cash saved to cover your [quarterly tax payments](#).



## **Get a business credit card or line of credit.**

Keep a credit card or line of credit available for cash flow emergencies. You don't need to use the credit for day-to-day expenses, but it's important to have credit ready and waiting when you need it.



### **Use accounting software.**

Let your accounting software do the heavy lifting (and the boring jobs), so you know your billing, cash flow, payroll, vendor invoicing, and other essential accounting functions are accurate and up to date.



### **Implement a filing system.**

Disorganized record keeping can lead to late payments, missed opportunities, or worse. Using a physical or an electronic filing system will help ensure business-critical documents like permits, contracts, HR records, bank statements, and tax receipts are easy to find when they're needed.

**Let your accounting software do the heavy lifting (and the boring jobs)**

# Financial Terms Every Small Business Owner Should Know

To manage your business finances effectively, you need to be able to talk the talk. Here are some common financial terms you need to know:

**Accounting period:** The twelve-month period during which a business's accounting functions are performed and analyzed.

**Accounts payable:** The bookkeeping record of money owed by a business to its suppliers.

**Accounts receivable:** The amount of money other businesses or customers owe a business.

**Accrual accounting:** Accounting method that records income and expenses when they're earned or incurred, not when cash enters or leaves the business.

**Accrued expenses:** The expenses a business has incurred but hasn't paid because the expenses haven't been invoiced or aren't yet due.

**Assets:** The tangible and intangible items of value a business owns, including machinery, computers, intellectual property, and brand identity.



**Balance sheet:** A financial statement that shows a business's assets, liabilities, and shareholder equity.

**Bottom line:** The last line on a balance sheet that shows total profit or loss.

**Cash accounting:** An accounting method that records income when it is received and expenses when they are paid.

**Cash equivalents:** Assets that a business can convert into cash, such as checks, certificates of deposit, and treasury bills.

**Cash flow:** The relationship between cash entering and leaving a business.

**Gross profit:** Turnover minus the cost of sales and direct costs.

**Income:** Money that a business receives in exchange for supplying goods or services.

**Inventory:** Materials or product stock that a business buys to resell or to manufacture products for sale.

**Liabilities:** A business's outstanding financial obligations, including accounts payable, accrued expenses, loans, mortgages, and advance payments from customers for goods and services.

**Markup:** How much a business adds to its costs to reach the selling price.

**Net profit:** Gross profit minus indirect costs and expenses.

**Operating expenses:** Fixed costs associated with a business's core operations including rent, sales, and administrative expenses that are not related to production of goods or services.

**Petty cash:** Small amounts of cash a business keeps on hand for day-to-day purchases.

**Profit and loss statement:** Income statement that shows the company's profits for a given time period and how they compare with prior periods.

**Revenue:** The total amount of money a company earns after discounts, returned goods, and other related deductions.

**Turnover:** The total value of sales made in a defined time period.

**Working capital:** The amount of money your business needs for day-to-day operations.

**Year-end:** The end of a company's accounting or financial year.

### Sources:

- [20 Financial Terms that Every Small Business Owner Should Know and Understand](#)
- [Financial Speak 101 for Small Business Owners: A Pocket Dictionary of Financial Words](#)



# You're on the Path to Finance Management Success

No one ever said managing your finances would be easy, but for small business owners, it's definitely worth the effort. Now that you know how to speak the language, avoid common pitfalls, get financial help when you need it, and protect your cash flow, put it all into practice and watch your business's financial health flourish.

**At First State Community bank, we partner with local small businesses to provide the financial services they need to thrive. We would love to help you reach your finance management goals.**

Download **How to Choose the Right Bank for Your Small Business** to learn about our business services and the benefits of working with a community bank.

[Download Now](#)



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## About First State Community Bank

Whether you're seeking a line of credit, a personal loan, credit card transfer options, or financial counseling services to improve your money management, we're committed to helping you set and reach your financial goals.

Since 1954, First State Community Bank has been a leading financial resource to residents and businesses across the state of Missouri. First State Community Bank has built its reputation on an unyielding commitment to delivering the best possible service to customers and partners, from the Junior Savers who open an account with \$1 to those applying for multimillion-dollar commercial loans. Our mission is to help our customers achieve financial success on their terms, whether that means buying a new home, starting a business, or planning for retirement. We are here to help you reach your financial goals today and into the future.

**Learn more by connecting with the FSCB team  
to see how you can get started today.**

**[Get in Touch at FSCB.com](https://www.fscb.com)**

