10 Tips for Managing Small Business Finances

THE UNCONVENTIONAL CA

Contents

Introduction

THE UNCONVENTIONAL CA

Introduction

Education and organization are two keys to ensuring your business is financially healthy.

- Properly managing your finances stabilizes your company and makes your business less likely to fail.
- To manage your company's finances, make sure to pay yourself, keep good credit, monitor your books and plan ahead.
- Debt funding for small businesses means interest fees alongside repayments, while equity funding excludes interest but may come with less control over your company affairs.
- This article is for business owners looking for advice on how to manage their company's finances.

Managing finances can be a challenge for any small business owner. Often, the reason your small business is successful is because of the skills you bring to making your product or providing your service. If you don't have a lot of experience with managing business finances, it can feel like a chore and you could be slipping into bad financial habits that could one day harm your business.

The importance of managing your business finances.

The most important step for any business owner is to educate themselves. By understanding the basic skills needed to run a small business – like doing simple accounting tasks, applying for a loan or drafting financial statements – business owners can create a stable financial future and avoid failure. In addition to education, staying organized is a major component of sound money management. There is nothing more terrifying, costly or risky than showing up at your accountant's office at the end of the year with a shoebox of receipts and nine of your last 12 bank statements. It is impossible to overstate the importance and benefit of properly tracking your financial information throughout the year.

Key takeaway: Managing your business finances is important for creating a stable financial future in which your company is less likely to fail.

10 Tips for Managing Small Business Finances

THE UNCONVENTIONAL CA

1. Pay Yourself

If you're running a small business, it can be easy to try and put everything into day-to-day operations. After all, that extra capital can often go a long way in helping your business grow. Small business owners shouldn't overlook their own role in the company and should compensate themselves accordingly. You want to ensure that your business and personal finances are in good shape. Many SMB owners, especially at the outset, neglect to pay themselves. They [believe] it's more important to get the business up and running and pay everyone else. But, if the business doesn't work out, you won't have ever paid yourself. Remember, you're part of the business and you need to compensate yourself as much as you pay others.

2. Invest In Growth

In addition to paying yourself, it's important to set aside money and look into growth opportunities. This can allow your business to thrive and move in a healthy financial direction. Business owners should always keep an eye on the future.

A small business that wants to continue to grow, innovate and attract the best employees [should] demonstrate that they are willing to invest in the future. Customers will appreciate the increased level of service. Employees will appreciate that you are investing in the company and in their careers. And ultimately you will create more value for your business than if you were just spending all your profits on personal matters.

3. Don't Be Afraid of Loans

Loans can be scary. They can lead to worrying about the financial repercussions that accompany failure. However, without the influx of capital, you may face substantial challenges when trying to purchase equipment or grow your team. You can also use loan proceeds to boost your cash flow and thus face fewer issues paying employees and suppliers on time.

4. Keep Good Business Credit

With poor business credit, getting approval for all financial transactions and acquisitions can be more difficult. To keep good credit, pay off all your debt funding as soon as possible. For example, don't let your business credit cards run a balance for more than a few weeks. Likewise, don't take out loans with interest rates that you can't afford. Only seek funding that you can quickly and easily repay.

5. Have A Good Billing System

Every business owner has a client that is consistently late on its invoices and payments. Managing small business finances also means managing cash flow to ensure your business is operating at a healthy level on a day-to-day basis. If you're struggling to collect from certain customers or clients, it may be time to get creative with how you bill them.

"Too much cash tied up in unpaid invoices can lead to cash flow problems. If you have a chronic late-paying customer, which we all do, instead of badgering them with repeated invoicing and phone calls, try a different approach. Change the payment terms to '2/10 Net 30.' This means if the customer pays the invoice within 10 days, they receive a 2% discount off the total bill. If not, the terms are full payment due in 30 days. [Read article: What to Do When Customers Won't Pay Their Bill]

6. Spread Out Tax Payments

If you have trouble saving for your estimated tax payments, make it a monthly payment instead. That way, you can treat tax payments like any other monthly operating expense.

7. Monitor Your Books

This is an obvious practice, but a very important one. Do your best to set aside time each month to review and monitor your books, even if you're working with a bookkeeper. It will allow you to become more familiar with the finances of your business, but also provide you with a window into potential financial crime.
Do not neglect bank reconciliations and spending some time each month on reviewing outstanding invoices. Failing to do this, especially if a bookkeeper is involved, opens up the business to wasteful spending or even embezzlement.

8. Focus On Expenditures But Also ROI

Measuring expenditures and return on investment can give you a clear picture of what investments make sense and which may not be worth continuing. Small business owners should be wary of where they spend their money. Focus on the ROI that comes with each of your expenditures. Not doing this means that you can lose money on irrelevant or bad spending bets. Know where you are spending your hard-earned money and how that investment is paying off. If it isn't paying off,
cut back and spend a bit more on the initiatives that do work for you and your business.

9. Set Up Good Financial Habits

Establishing internal financial protocols, even if it's as simple as dedicating set time to review and update financial information, can go a long way in protecting the financial health of your business. Keeping up with your finances can help you mitigate fraud or risk. As a small business, we are often strapped for time, money and have vastly inferior technological capabilities, but it shouldn't prevent any small business owner from implementing some sort of internal control. This is especially important if you have employees. Weak internal controls can lead to employee fraud or theft, and can potentially get you into legal problems if you or an employee are not abiding by certain laws.

10. Plan Ahead

There will always be business issues that need to be addressed today, but when it comes to your finances, you need to plan for the future. If you're not looking five to 10 years ahead, you are behind the competition.

Key takeaway: To best manage small business finances, pay yourself a salary from your company's earnings, plan ahead, pay off debt in a timely manner and focus on your return on investment.

Types of Business Finances

It is important to remember that business finances aren't just about your earnings – they're about how you spend your money and where you get it. When it comes to where you get your funding, you should understand the two main funding categories:

Debt Funding

Debt funding is a loan that your company repays with added interest. Through debt financing, you can quickly access capital that you might not otherwise be able to get for weeks or even months. Bank loans, government loans, merchant cash advances, business credit lines and business credit cards are all forms of debt financing, which you must repay even if your company fails.

Equity Funding

Equity funding, unlike debt funding, does not require repayment if your business fails. However, you will likely have to grant your funders a seat at the decision-making table. Venture capitalists, angel investors and equity crowdfunding are all forms of equity funding.

You can learn more about the difference between debt and equity financing by setting up a meeting with TheUnconventionalCA team.

Key takeaway: Debt funding comprises various traditional loans that require interest payments, whereas equity funding comes with fewer financial risks but requires more ceding control to other parties.

Contact Us

info@theunconventionalca.org

https://theunconventionalca.org

THE UNCONVENTIONAL CA