



**EMyth**

# Financial Management that Supports Your Vision Guide

*Managing money to build your future*



FINANCE

# Financial Management that Supports Your Vision

## Key Points

You must regularly review your financial situation if you want to have a successful business.

Making money isn't the primary purpose of your business, but it is the fuel that gets you closer to your Vision.

Money is also a tool that helps you measure how well your business is doing.

You need a good accounting team, but you cannot leave the financial decision making up to them.

How you think about money, your attitude and assumptions, and how you feel about it is critical to financial management.

## Four Elements of Your Financial System

1. Collecting & Organizing financial information
2. Reporting
3. Forecasting
4. Financial Analysis

## Members of Your Financial Team

### Business Owner/CEO

As the leader of your company you are ultimately responsible for the success or failure of the business. Success requires using the financial information provided by the rest of the team to make sound decisions.

### CFO

The CFO provides the financial leadership for the company. He or she works very closely with the owner or CEO to set financial goals for the company, advises the CEO on trends that may impact the business, analyzes the financial reports to find ways to improve the company, and helps establish and monitor the systems and processes used by the accounting department.

### Controller

The controller oversees the personnel in the accounting department, prepares reports, and makes recommendations to improve the financial outlook of the company.

### Bookkeepers

Bookkeepers are the technicians on the accounting team who handle the day-to-day tasks of entering transactions into the financial software, making deposits, paying bills, etc.

### CPA

Your CPA's primary responsibility is to advise you on tax-related matters.

## Adjusting Your Attitude Toward Money

As a business owner, you think about money a lot. You talk about it. You worry about it. You plan for what you will do when you have more of it.

But how often do you actually look at it and, of equal importance, how do you feel when you are looking at your financial information?

You must understand that quantification is typically neglected because of our tendency to avoid looking in the mirror. So when you are looking at your numbers you're facing the truth. That can be scary. You can escape most forms of quantification if you like, but not with money, since the tax collector and our accountant both say we have to do it. So do we. But are we really willing to look at the truth?

Every profit and loss statement and balance sheet tells a story. Each tells a story about the choices and assumptions you make as a leader and whether those assumptions, beliefs, attitudes and ways of approaching business situations are correct or not. Do they fit with reality? Do they work? Business is a laboratory. We make assumptions about a new product, a new sales process, or a new delivery method. Then we try it. Numbers tell the story and guide us to understanding whether those assumptions are valid or not. They also help us know when to leverage those results into even greater ones based on the discovery.

Now, when we talk about looking at your money, we are not talking about opening up the cash register and staring at a pile of twenties — we're talking about looking at and analyzing your financial reports. While a few business owners — usually the successful ones — regularly review their financials, the vast majority avoid it. These reports are too complicated, they say. Too boring. Too frightening. And, after all, the accountant keeps track of all that stuff.

But if you really care about knowing the truth about your business, you must work through your frustration, lack of skill, or technical limitations with numbers and look at reality. If you really want to know the truth about what is occurring in your business, you need the truth found in the numbers. It's scary to risk that our assumptions might be invalidated. But, if you want the truth, you'll review the financial results! You will never run a successful business if you don't regularly review your financial situation.

Fortunately, good money management is not as complicated, boring, or scary as you might think. Through the processes included in this module, you'll begin to:

1. Understand the relationship between money and your business activities.
2. Create and implement, on a regular, ongoing basis, a few straightforward money management tools and strategies.

## Your Business Is More than a Money Machine

How do you develop the right attitude towards money? It starts with understanding the relationship between yourself, money and your business.

Numbers go to the heart of our sense of self-worth. Because money is a symbol of value there is confusion between financial worth and actual self-worth.

Money is a symbol of value. When value moves from one person to another, we exchange money to represent that movement as a way of keeping score. Financial management is the attention to the movement of value in business and life. The widespread avoidance of financial management in our world is not because of our discomfort with numbers, it's the fear of looking in the mirror and bravely asking, *'What value am I actually creating in the world?'*

You really must be clear here. Money is not a value indicator of ourselves as human beings, of our worth and value for being here in this world. Whether you have one dollar or a million dollars, your value as a human is the same. But the value you bring to the world can be measured in money. See the difference? Reflect deeply on this, and talk to your coach if this confuses you or causes feelings of upset.

Money is a reflection of your values, assumptions and the decisions and actions based on them, but they are not a reflection of your value as a human being. If you believe money creates your value, when you look at your financial statements you'll feel you're looking in a mirror of your own value as a human being. It's personal, as money is a measure of the success of what you do, but it's not who you are. *If you look at it as a measure of who you are, there is no way to look at financial statements without pain.*

We all have issues with money, because money is a symbol of value and value is tied up with issues of love. What we love is what we value. If you think you have love completely figured out, then maybe you have money figured out, too. But if you're willing to admit there are probably

things to learn about love, then you probably have some issues with money to look at as well.

There are three basic styles that demonstrate our relationship to money: the Monk, the Spender and the Hoarder.

**The Monk** is detached, wants nothing to do with money. They may have a lot of it, but they live minimally in some way.

**The Spender** can't keep money in their pocket. They spend it as fast as they get it. They'd rather spend money than keep it.

**The Hoarder** doesn't spend enough. They'd rather have money than spend it.

There are usually combinations of these at work, but one is typically primary and leads one's attitude towards money.

Take the time to explore how you relate to money. Think about the styles above. As a business owner you handle money every day and can't live in denial around it like an employee can; for your relationship with money is magnified throughout the business like one of those distorting circus mirrors. Expect to resist. Expect to be frightened. Look for how you may be challenged and where fears arise. Talk to your coach. As much as you want to put the right systems and structure in place in your money center, you also want to have the right attitude toward money and have your healthy relationship to money trickle downstream into every aspect of your business.

Some business owners view their businesses in only financial terms. This approach can work, but it is a very limiting way of doing business, for it tends to squeeze the joy out of being a business owner. Other people are intimidated by the financial side of business and, therefore, avoid financial management. *"As long as the bills get paid, I don't worry about finances,"* is their casual disclaimer. This approach may work temporarily, but is

also limiting because it ignores the great potential that lies within the business. Both approaches are short-sighted and diminish the chances of achieving your Vision

The right attitude recognizes that your business should make your life better. You didn't go into business just to pay the bills. You could do that with any job. You went into business to reach your Vision and realize the fullest potential of your Values, Passion and Purpose. The money that your business makes is both the fuel that helps you get there and a gauge that measures your progress towards your goals.

Remember: profit is a measure of the ability of your business to efficiently produce value. A business takes resources and applies intelligence, systems and operational efficiency and turns those resources into a greater value for your customers. A dry cleaner takes in dirty clothes, turns them into clean clothes through systems and operations, and then sells them for more than the dirty clothes were worth. The dry cleaner creates value. Customers spend money to receive value. Any desire on the part of the business owner to make money should be

a desire to produce efficient value that is relevant to the marketplace.

This is how real wealth is created in the world. So making money isn't the primary purpose of the business; money follows value. Produce value and the money follows. If you pursue money alone, the customer doesn't matter. But if you pursue value you respect the customer and look for ways to add more value and serve them better.

A common mistake is either over-valuing money and feeling disconnected from your customers, or over-focusing on service to your customers and trusting that the money will follow. The best approach is to create a sustainable, balanced model for maximizing value for your customers through efficient production. The financial view of your business — as long as it's not your only view — is an essential element of management. Always keep in mind that a successful business is one that moves you toward your Vision. And in order to be successful, your business must make a profit.

## The Leadership and Management Financial Perspective

*The E-Myth Revisited* identified three separate roles as a business owner: The Entrepreneur, The Manager, and The Technician. In the early stages of your business, you probably need to spend time in all three roles. But as your business matures, you need to spend more and more time with your Entrepreneurial and Managerial hats on.

In this process and the others in this module, we've divided the content into two sections: **The Leadership Perspective** and **The Management Perspective**. **The Leadership Perspective** speaks to The Entrepreneur. It gives you the big picture view that you need to lead your company.

**The Management Perspective** sections go into more detail about supervising the personnel and processes in your system. If your company has grown to the size where you have accounting staff, many of the tasks covered in these

sections will be handled by your CFO and/or controller. However, as a business owner, you still need to know what they're doing, so that you can use the information they provide to make solid decisions.

If your company is still very small, you may be handling the management duties, and even some of the daily bookkeeping responsibilities — the Technician's role. If you need to dive deeper into a particular topic in order to handle these tasks, ask your coach about EMyth's Technical Guides. These provide some of the "nitty-gritty" details about how to set up your financial systems and create regular reports. So it's important to keep the three roles in mind as you develop your financial acumen. The entrepreneurial leader wants to realize the vision behind the idea that started the business, while the Manager wants to look at the numbers and know the truth. The

Entrepreneur and Manager are in constant dialogue over what is important. New ideas and entrepreneurial brilliance are not going to come out of a spreadsheet, but the spreadsheet must be respected to make certain there is enough fuel to reach the vision. A dynamic tension exists between the Entrepreneur and Manager; vision and financial management must be balanced.

## The Leadership Perspective

Becoming the financial leader of your company first requires that you develop the right mindset toward money. In this section, we look at how money is both the fuel that runs your business and a gauge that helps you evaluate your business.

Secondly, you need to put a good financial team in place. In this section, we talk about the proper relationship between you and your accounting team.

Finally, we consider why you need a financial system.

## Money Fuels your Business

Money is the indispensable fuel that powers your business. If over the long term your business uses more money than it generates, then you don't have a business at all — at least not for long.

You need money to hire employees, purchase equipment, and buy inventory and supplies. And, you need money from your business to help you achieve your Vision.

Money in your business is a lot like gas in your car. The point of having a car is not to put gas in it. But if you don't put gas in your car, you'll never get where you want to go.

You might not like to pump gas or think about the

price of gas. But you know that if you don't pay attention to the gas in your car on a regular basis, you may get stranded. In the same way, you need to accept the idea that you must pay attention to the money in your business on a regular basis or you're going to have some serious trouble.

You don't plan a trip based on how much gas you have. You first plan where you want to go, and then make certain you have enough gas. It's all a matter of perspective: being clear on the goal and having the necessary fuel to get there.

## Money Measures Your Business

Not only is money like the gas in your car, it's also like your speedometer and other gauges. Looking at your financials helps you measure the worth of your business. Of course, the true worth of your business includes both money and intangibles, such as personal satisfaction, freedom, lifestyle, contribution to society, and prominence in the business community. However, these intangibles are difficult to measure, and they likely have different value to outsiders than to you. That's why the primary measure of the worth of your business is always monetary.

Quantification is essential for business owners to know what results their businesses are producing. Understanding the monetary impact of your business provides one of the best

methods of quantification. You have to capture the financial information, make sense of it, and use it to manage your business.

Quantification doesn't have to be complicated or scary. After all, you don't run away shrieking every time you glance at your speedometer. Why should you run away from looking at your business financial reports? You don't need to become an accountant. But you do need to master some basic knowledge that enables you to take control of your finances. You can't truly be in charge of your company until you can understand and direct what happens with the money your company takes in and pays out.

## Remember, Your Financial Team Works for You

Another important aspect of the right mindset for financial management is a proper understanding of the relationship between you and your financial team. In the Management Perspective section, we cover the roles of a CFO, controller, bookkeeper, and CPA in detail. For now, it's enough to realize that each of you have different roles to play.

You are the ultimate decision maker for your business. This is an important point. It's surprising how many small business owners abdicate financial decision making to their accountants because they dislike or are intimidated by "that whole finance thing." You can and should be the driving force behind the financial decisions and outcomes of your business, with your financial team as your advisors. This collaboration will give you the results you want.

It is not an exaggeration to say that most small business financial problems are caused by the abdication of finan-

cial management functions to technicians who are not qualified to the job. In other words, do not expect your accountant to proactively do financial management for you. For example, many accountants know about tracking cash, but most do not offer to help you do it unless you ask. They are waiting for you to manage them. If you are not clear about what results you want, or are uncomfortable in the domain of finance, you will not be able to get the results the business needs from the professionals you hire. There is simply no escaping the high-level responsibility of defining the results you need.

Related to this high-level responsibility is the perspective you bring to money. It is important that you look at the money aspects of your business as an owner and as a manager, but not as an accountant. That perspective doesn't diminish the importance of a CPA and other financial advisors, especially since you can't ignore the tax and regulatory standards with which your business is expected to comply. Nevertheless, it's critical to re-

member that your financial systems exist primarily as a management tool, and secondarily for tax and regulatory purposes. Do not make the mistake of expecting technicians trained in tax compliance to proactively manage your business for you.

This process teaches you how to understand the information and advice from your financial team, and how to work with them to make better business decisions. It shows you how to capture, understand, and use the information your company generates to make sound financial decisions.

## Why You Need an Accounting and Financial Management System

In order to manage anything — a business, a government, a family, or an athletic team — you need systems for observing what is going on, for understanding what you observe, for making decisions about it, and for implementing your decisions.

As the owner of a business, you know that dealing with the unexpected and the unpredictable is a fact of business life. The ability to guide your company through times of uncertainty is an asset well worth cultivating. Great leadership requires the ability to control what is in your power to control, to give people clarity, direction, and a sense of security, to chart a course and set goals

your employees believe are attainable. Your accounting and financial management system is a fundamental business control.

Imagine how much more secure you and your employees would feel knowing that you have access to the information you need about your money. This is what a sound financial management system does for you. Once it's developed and you have a basic understanding of how it works, you will be able to rely on it to produce accurate information about how your business is performing. It will become one of your most potent starting points for decision making and action.

## The Management Perspective

In the Leadership Perspective which starts on page 5, we covered the “whys” of financial management. You learned how the Entrepreneur needs to approach money management and what you need to change about your attitude in order to get there.

**Now, you are going to take off your Entrepreneur's hat and put on your Manager's hat.** In this section, we discuss the components of a financial system and the roles of the people on your financial team.

## The Roles Within Your Financial Team

For businesses large and small, accounting expertise is indispensable. Where you get that expertise depends on the size and maturity of your business. In the beginning, your only financial advisor may be a certified public accountant (CPA) who prepares your taxes. However, as your business grows, you will likely hire a bookkeeper. You will also eventually need people to fill the roles of chief financial officer (CFO) and controller.

Here's a brief overview of the roles required for your accounting and financial system. If your company is still small, you may be handling one or even all of these roles yourself. That's fine, but remember to give yourself time in each of the roles. You don't want to spend so much time entering transactions that you don't have time for strategic thinking. But you also don't want to put off the day-to-day duties of the Technician because you're spending so much time on the big picture.

**CPA:** No matter what the size of your company, you need a CPA to provide tax advice. In most cases, this person is someone who works for an accounting firm or an independent contractor, not someone who is a direct employee of your company. If your CPA has a lot of business experience, he or she may also be able to provide advice related to other aspects of financial management. **But be careful!** Your CPA's primary area of expertise is taxes. A better source of advice for non-tax issues is your CFO.

**CFO:** A CFO needs to be able to think like the Entrepreneur and also like the Manager. He or she works very closely with the CEO or business owner to analyze reports, examine current trends, and set future financial strategy. Typical duties of a CFO include the following:

- ▶ Setting goals, objectives, and strategies for the financial management of the company
- ▶ Overseeing the activities of the accounting department

- ▶ Implementing proper auditing procedures and internal controls
- ▶ Analyzing financial reports and making recommendations based on those reports to the CEO or business owner
- ▶ Advising upper management on how economic conditions or trends may impact the business
- ▶ Supervising investment and loan activities

**Controller:** The controller is the manager of the accounting department. Along with the CFO, the controller provides advice to the CEO or business owner about the financial operations of the company. Typical duties include the following:

- ▶ Assisting in the creation of a company budget, cash plan, and other financial planning documents
- ▶ Preparing the monthly, quarterly, and annual financial reports
- ▶ Supervising accounting personnel and overseeing the daily operations of the department
- ▶ Recommending benchmarks for measuring a company's financial success
- ▶ Preparing the financial analysis for contract negotiation and investment decisions

**Bookkeeper:** Your bookkeepers are the technicians on your accounting team. This group includes accounts payable and accounts receivable staff and the other accountants who handle the day-to-day tasks of tracking the flow of money through your business. Their duties typically include the following:

- ▶ Entering daily transactions in your accounting software
- ▶ Making deposits
- ▶ Paying bills

- ▶ Sending out invoices, statements, and collections notices
- ▶ Assisting with the preparation of financial reports

Finally, don't forget that you as the business owner or CEO are also a very important part of the finance and accounting team. Listen carefully to your team's advice, but don't be afraid to ask your accountant to answer questions and explain in detail options that are available to you. Remember, your accountant works for you.

## What to Look for When Hiring Your Accounting Team

**CPA:** You want an experienced CPA who has worked for other companies in your industry or in similar industries. Don't automatically hire the person who does your personal tax returns to prepare your business returns, because they may not be the best person for the job. Get referrals from other business owners that you respect. Talk with the person to make sure you feel comfortable with them. Ask for references and check them. Of course, you also want to make sure your CPA has all the appropriate licenses and credentials for your state.

**CFO:** As the most senior member of your team, your CFO should have many years of accounting and finance experience. This position requires very strong leadership and strategic thinking skills, as well as strong accounting skills—a combination that can be difficult to find. It helps to hire someone who has worked in your industry or a related industry, and someone who is involved in industry trade groups or other organizations is likely an even better choice. A CFO must also have good communication skills, particularly if they will be making regular presentations in front of investors or board members. CFOs often hold advanced degrees, such as an MBA, and may also be CPAs.

**Controller:** As with your CFO, your controller should not be a new graduate, but someone with at least several years of accounting experience. A controller needs superb organizational skills, as they will be juggling many tasks at once. Because they will be responsible for preparing reports, you want someone who pays attention to detail. However, the controller also manages the personnel in the accounting department, so you also need someone with good interpersonal skills. A controller usually has at least a bachelor's degree in accounting, finance, or business and may hold professional certifications as well.

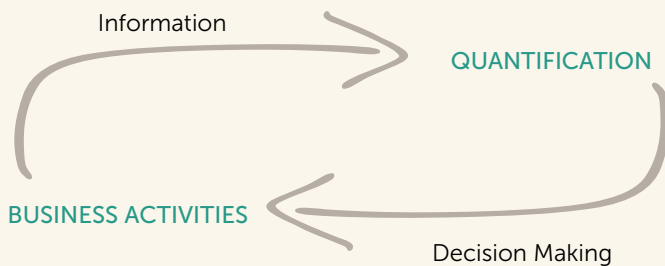
**Bookkeeper:** Those on your bookkeeping staff are the most junior members of your accounting team. If you only have one bookkeeper, you need someone with experience, but if you have several employees in your accounting department, experience might not be as important a qualification. Above all else, a good bookkeeper shows meticulous attention to detail. Your bookkeepers will be entering all of your accounting transactions, and you want people who will make sure everything is done the right way. Be sure to ask for and check references, because you need a bookkeeper who is trustworthy. Your bookkeeper may or may not have an associate's or bachelor's degree.

# The Elements of Your Accounting and Financial Management System

Your accounting and financial management system is made up of tools and activities that collect data about every financial transaction your business makes, organizes the data in a logical, usable way, and produces reports that interpret the raw data into usable information.

Your accounting and financial management system has four basic elements:

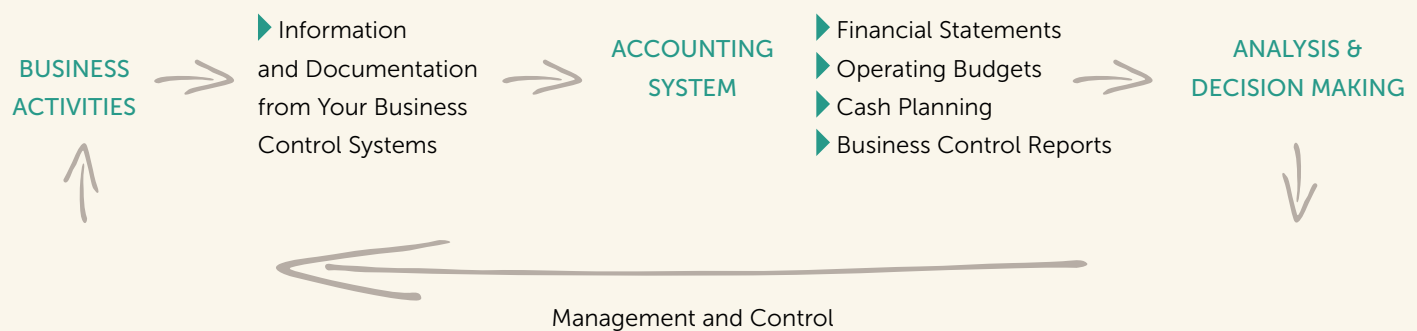
1. Collecting and organizing financial information
2. Reporting
3. Forecasting
4. Financial analysis and management



Your accounting and financial management system starts with your basic business activities. Your business activities generate documents and information that should be collected and organized by your accounting and financial management system. The information is then used to help you manage and improve your business.

Every business should have an efficient accounting and financial management system to collect all the business' financial information, classify and organize it, and summarize and present it in the form of financial statements and reports. These reports are used for decision making by both you and other managers in the business and people outside your business, such as investors and lenders. Accounting and financial management systems in all businesses have a lot in common, but can also be tailored to meet the specific needs of your business.

## OVERVIEW OF THE FINANCIAL MANAGEMENT PROCESS



# Overview of Key Documents in Your Accounting and Financial Management System

What kind of information do you need to track in your accounting and financial management system? Here are some of the documents your accounting team will use or prepare:

## ► Source Documents

Forms generated by your ongoing business activities with details about every transaction.

## ► Source Journals

The chronological, day-to-day transactions of a business recorded in sales, cash receipts and cash disbursements journals.

## ► Chart of Accounts

An organized, numbered list of all the ways money is used in the business.

## ► General Ledger

All journal entries are summarized and organized by account.

## ► Income Statement

Indicates a company's sales and expenses over a period of time and shows the difference between them as net profit. (Often times an indicator is used called EBITDA: Earnings before interest, taxes, depreciation, and amortization)

## ► Key Financial Indicators

Provides the company leadership with an overview of the most important key performance indicators (KFI's), from a financial perspective.

## ► Balance Sheet

Indicates a company's financial position at a particular point in time and always includes assets, liabilities, and equity.

## ► Cash Flow Statement

Summarizes and categorizes how a company generates and uses its cash over a period of time.

## ► Budget

A financial plan for managing and controlling revenue and expenses over a period of time.

## ► Cash Plan

A financial plan for managing and controlling cash receipts and disbursements over a period of time.

## ► Variance Reports

Financial reports indicating the difference between budgeted and actual results.

The financial tools listed above are most useful when produced on a regular basis. For each one you choose to use, decide how often you want it produced. A monthly schedule is the most common because it gives you a high degree of control. They should be produced in a timely manner; your income statement for the month of May won't do you much good if you don't get it until September!

Not all of these financial tools are for your own internal use. Some go to outside parties, such as the government, investors, stock-holders and bankers. These documents are often modified versions of your income statement and balance sheet, including less detail. They are typically produced on a quarterly, semi-annual, or annual basis. Does all this information seem daunting? Don't worry, we'll cover your financial system one piece at a time using terms that non-accountants can understand.

**It's time to start taking control of your money instead of letting money take control of you.**

## Good Money Management Starts with the Right Mindset

If you have been avoiding your financial statements, now is the time to stop. If you have unhealthy attitudes towards money, now is the time to change them. Making money isn't the purpose of your business, but it is the fuel that gets you moving towards your Vision. Checking your financial statements helps you track the progress towards those goals. They give you the vital information you need to make solid business decisions.

Your financial team — your CPA, CFO, controller, and bookkeepers — play indispensable roles in your financial management system. However, don't forget that it's your

job to lead and direct that team.

The financial tools you learn to use in this process exist to support you. They are the tools for quantifying your business so you can evaluate the effectiveness of all areas of your operation and then make the best possible decisions about how you will move forward to achieve your Vision.

Now that you understand the role of money in your business, you are ready to get started setting up the financial systems you need to run your company.

## Reporting

Beginning Cash Position	
Receipts	<div><div></div><div></div><div></div><div></div><div></div></div>
Disbursements	<div><div></div><div></div><div></div><div></div><div></div></div>
Net Cash Flow	
Ending Cash Position	

# Forecasting

## BUDGET

### ► Forecasts Future Income Statements

Revenue/Sales
Cost of Goods Sold
Gross Profit
Operating Expenses
Operating Profit
Non-Operating Revenues & Expenses
EBITDA
Interest, Taxes, Depreciation, Amortization
Net Income

Line Items from Income Statement  
Projected into the Future

## CASH PLAN

### ► Forecasts Future Cash Flow Statements

Beginning Cash Position
Receipts
_____
_____
_____
Disbursements
_____
_____
_____
Net Cash Flow
Ending Cash Position

Line Items from Cash Flow Statement  
Projected into the Future

## VARIANCE REPORT

### ► Compare Forecasts with Actual Results

Budget Variance Report			
	Budget	Actual	Variance
Revenue/Sales	\$	\$	\$
Cost of Goods Sold	\$	\$	\$
Gross Profit	\$	\$	\$
Operating Expenses	\$	\$	\$
Operating Profit	\$	\$	\$
Non-Operating Revenues & Expenses	\$	\$	\$
EBITDA	\$	\$	\$
Interest, Taxes, Depreciation, Amortization	\$	\$	\$
Net Income	\$	\$	\$

Cash Flow Variance Report			
	Budget	Actual	Variance
Beginning Cash Position	\$	\$	\$
Receipts	\$	\$	\$
_____			
_____			
_____			
Disbursements	\$	\$	\$
_____			
_____			
_____			
Net Cash Flow	\$	\$	\$
Ending Cash Position	\$	\$	\$