Building Financial Competence

What step is your business at?

Community Economic Development Fund

Why this is important

One of the key predictors of success for a small business is whether it has developed the ability to accurately judge its results using standard accounting practices. Put another way, does the owner know the score of the ballgame the company is playing? Without this discipline, the business owner makes decisions without complete information, often leading to bad judgements.

Building financial competence for a small organization requires not just hiring outside specialists, but a commitment by owners and front-line managers to continual sophistication of processes and sharpening the accuracy of information collection.
This booklet is designed to help identify the steps on the path toward competence. They are grouped into 12 stages for convenience of discussion and evaluation, but it is common for a business to have accomplished part of the examples in a stage, but not others.

Business owners should be vigilant about falling backward by abandoning established best practices or shortcutting prudent policies when pressed for time or resources.

Finally, unexpectedly strong sales and cash flow can fool a business owner into ignoring the importance of developing financial competence. Where it doesn't disguise the absence of profit, it can distract from analyzing other important indicators on the dashboard.

A dedicated approach to climbing the rungs of the ladder as outlined, however, should provide a business owner with confidence that they can and are measuring what matters in their pursuit of financial success.

1. Disorganized Cash Management

("Managing out of the hip pocket")

- Relies on what currency is on hand to judge results and status.
- Does not use a bank account or co-mingles personal and business income and expenses.
- Limited or inept planning.

2. Basic Cash Management

("Managing out of the checkbook")

- Keeping track of all cash inflows and outflows using a checkbook or simple spreadsheet.
- Ensuring there are sufficient funds to cover expenses.
- Basic budgeting and planning to avoid overdrafts.

3. Understanding Basic Accounting Concepts

- Learning fundamental accounting principles such as debits and credits, the accounting equation (Assets = Liabilities + Equity), and the importance of double-entry bookkeeping.
- Recognizing the difference between cash and accrual accounting.

4. Implementing Bookkeeping Systems

- Setting up a basic bookkeeping system using software like QuickBooks, Xero, or a similar tool.
- Recording transactions regularly, including sales, expenses, assets, and liabilities and/or hiring a bookkeeper to perform this work.
- Reconciling bank statements with recorded transactions.

5. Tax Compliance and Planning

- Understanding and complying with tax obligations, including sales, payroll, and income tax.
- Working with a tax professional to optimize tax strategies and ensure timely filings.

6. Engaging with Professional Advisors

- Collaborating with accountants, financial advisors, and bookkeepers for ongoing financial management and growth strategies.
- Continually updating financial knowledge and staying informed about basic small business accounting regulations and best practices.

7. Generating Basic Financial Reports

- Producing simple financial reports internally (with accounting software) such as income statements (profit and loss), balance sheets, and cash flow statements.
- Understanding the components and purpose of these reports and reviewing them regularly.

8. Learning Basic Financial Analysis

- Analyzing financial statements to assess the business’s performance and financial health.
- Understanding key financial metrics and ratios (e.g., gross profit margin, net profit margin, current ratio, etc.).
- Using these insights to make informed business decisions.

9. Budgeting and Forecasting

- Creating detailed budgets and financial forecasts.
- Comparing actual performance against the budget and making adjustments as needed.
- Planning for future growth and financial needs.

10. Advanced Financial Management

- Developing and implementing internal controls to safeguard assets and ensure accurate financial reporting.
- Managing working capital effectively, including inventory, receivables, and payables.
- Understanding and managing business credit and debt.

11. Comprehensive Financial Statements

- Working with a CPA to obtain accurate and comprehensive financial statements, including detailed notes and disclosures.
- Statements comply with relevant accounting standards.
- Using financial statements for strategic planning, securing financing, and reporting to stakeholders.

12. Business is Bankable

- Business owner has cultivated a strong personal credit report and conservative debt levels.
- Business has developed strong profits and cash flow and reasonable debt levels.
- Business or owner has accumulated assets for collateral.
- Can produce credible cash flow forecasts as part of a business plan.

Community Economic Development Fund

Nonprofit community lending organizations, just like banks and credit unions, provide responsible, affordable small business lending.

CEDF is an independent, nonprofit, mission-driven Connecticut economic development organization. We provide loans primarily in low-to-moderate income communities and predominantly to low-to-moderate income small business owners who are not able to obtain bank financing.

We focus on towns and cities designated by the State of Connecticut. (CEDF.com/eligibility) In other CT towns we lend to borrowers who meet a family income ceiling. Our pricing is comparable to a bank and quite reasonable. CEDF can be more flexible and creative to look at the big picture for an applicant with regard to credit scores, time in business and collateral.

We assign Business Advisors, who are seasoned, successful, former small business owners, to work with each of our borrowers. They serve as relationship managers and coaches in management, marketing and finance to encourage business growth and reduce risk, typically in monthly meetings.

The CEDF Business Education Center offers learning in a variety of formats: Seminars, webinars and workshops, online courses, podcasts and published content at WeTeachSuccess.org.

Ready to apply? Questions for a loan officer?
Visit CEDF.com/inquiry

CEDF

Community Economic Development Fund

965 East Main Street
Meriden, CT 06450

Phone: 203.235.2333
Toll Free: 888.835.2333
Fax: 203.235.2913
www.CEDF.com