



## First Things First: The ABCs of Core Financial Operations

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It's an old cliché, but it's true: You have to learn to walk before you can run. This comes to our minds sometimes when Los Angeles and Southern California business leaders ask us to help them with advanced financial initiatives like making financial projections, performing cost analysis and managing inventory. All too often, we soon discover that these clients have not yet covered the basics of business financial operations. Or in other words, they're trying to run before they can walk.

### Start Off Walking

There are a few key elements that lie at the heart of financial operations for any company. We refer to them as the ABCs of business financial operations:

**Accounting System** — It all starts with having a complete accounting system in place — this is the core component of financial operations. It's sometimes surprising how many companies are trying to operate successfully without even a basic, off-the-shelf accounting system in place.

Business accounting systems can be simple and cheap, or complex and expensive. The type of system you need depends primarily on the complexity of your company's finances and operations. Most businesses don't need to buy fancy industry-specific accounting systems — they can usually configure a standard, off-the-shelf accounting system to meet their needs. Many systems offer inexpensive add-on modules that can help companies customize them to their industry-specific needs.

It's important to note that installing an accounting system isn't the end of the process — it's just the beginning. Once installed, the system must be configured correctly so that it generates the financial information your company needs, in the format you need it in, quickly and easily. It's also critical that you install all software updates whenever you're prompted to do so.

**Books** — Once you have an accounting system in place, the data that is loaded into it comprises your financial books. These books should enable your accounting staff to generate financial statements in accordance with generally accepted accounting principles (GAAP) that satisfy traditional compliance requirements for lenders, tax returns, etc.

In addition to standard financial statements (balance sheet, cash flow statement and income statement), the books should also enable your accounting staff to generate specialized reports that enable you to see inventory aging and turns, schedules of aged receivables and payables, and other critical financial data. These reporting capabilities may be built into the accounting software, or the software may need to be customized in order to generate them.

**Chart of Accounts** — This is simply a listing of all of your business accounts, in the right order and including the proper sub-accounts. Everything in your books should be linked to an item in your chart of

accounts, which drives all financial recording and reporting. Therefore, it's important to make sure that the chart of accounts is set up properly right from the start.

### **Two More Important Cs**

In addition to the chart of accounts, there are two more Cs that should be mentioned:

- 1. Controls** — These are the policies, procedures and processes that govern data entry. Without adequate controls, your accounting system is vulnerable to GIGO: garbage-in, garbage out.
- 2. Consistency** — Controls must be applied consistently and systematically. So on the expense side, similar expense items should always be charged to the same account. You wouldn't charge some expenses to dues and subscriptions and other similar expenses to continuing education, for example.

### **Now You Can Run**

Once you have addressed the ABCs of your business operations, then you can move forward with other, more advanced financial initiatives. These may include:

- Making detailed financial projections
- Preparing investor packages
- Performing cost analysis
- Improving cash management
- Boosting cash flow
- Securing funding (via either debt or equity)
- Making inventory projections
- Improving inventory management
- Measuring and improving operational and financial performance

### **Concluding Thoughts**

When it comes to financial operations, Los Angeles and Southern California business executives need to learn to walk before they can run. This means making sure that your operational ABCs — Accounting System, Books and Chart of Accounts — are covered before you try to move forward with more advanced financial initiatives. An outsourced CFO services provider can help you get your core financial operations in order so you can increase the financial sophistication of your business — and boost your overall financial performance.

### **About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with executives on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 626.683.8840.

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