

BUSINESS SENSE

Next Level Tools for Entrepreneurs & Small Business Owners

FINANCIAL LITERACY SERIES

Functional Detail on Different Levels of Enterprise Accounting

Why is this important?

A strong finance team that consists of a CFO, controller, accountant and bookkeeper can grow your business in ways you've never imagined. Of course, the actual number of employees on the finance team is dependent on the needs and profitability of your business. While you may know the direction you want your business to go in the future, a finance team has the expertise to break that long-term vision down into practical steps with a realistic timeline, and to assist you in developing the systems critical for internal controls, whether inventory, purchasing or process quality. The most important approach to addressing your business' financial needs is to have self-awareness and transparency to determine if you're investing appropriately in this crucial part of your business. This decision has ripple effects on your profitability, your ability to borrow money, and your daily stress level. While you may find yourself preoccupied with the big picture, remember it's the small things that will get you there, and a good finance team always has its eyes on the details.



Vermont Sustainable Jobs Fund

Different Levels of Enterprise Accounting

The difference between a CFO, controller, accountant, and bookkeeper reflects a degree of knowledge of accounting and the ability to make independent judgements about creating and interpreting financial information, as well as knowledge of financial, but non-accounting, issues.

Many organizations need a controller's skills but can't afford to employ an additional bookkeeper or accountant. As a result, almost any of the more advanced positions can be inclusive of the less advanced ones. However, a small accounting staff creates challenges to internal controls. Since owners and managers have absolute responsibility for the integrity and safety of the financial records of the business, it is essential that this issue be addressed.

Internal controls and accounting procedures prevent embezzlement and the less nefarious confusion that is the

result of their absence. If the financial staff is not up to the task of creating these documents, a consultant can be employed to create the documents and train the staff to assure their use. Trust is NOT an internal control.

Though not strictly financial in nature, start-ups and other small businesses need to have people who can develop systems for inventory control, purchasing and process quality. Systems development often falls to the Office Manager/Bookkeeper who may be the least skilled for systems development. A good working knowledge of Microsoft Excel is an essential skill for any financial or office management staff. It is not sufficient for the accounting staff to be dependent and/or limited to off-the-shelf accounting software for all needs.

Knowledge of Generally Accepted Accounting Principles (GAAP) by the in-house staff person responsible for the finances of the firm is preferred. However, if the staff person has a good grounding in fundamental accounting principles - consistency, materiality, and conservatism, then this could be sufficient in the accounting realm.

Even more important to most small businesses is a questioning mind, a problem-solving attitude, and a propensity for systems development. Questions like, "What should we be tracking?" and "How can we best do that?," are more important than knowing the finer points of GAAP. However, until the business can have a CFO on staff, it is critical to have a good accounting firm on call, and a good relationship between the finance staff person and the CPA.



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What follows are the basic tasks performed by four types of financial personnel.

Bookkeeper:

Has an ability to accurately enter data, create a financial statement, and the knowledge to correct anomalous, out of balance entries. Should know and understand the difference between cash basis and accrual method, and which is to be used for the business. A good working knowledge of Excel including the use of formulas is essential.

1. Maintains books of original entry, including:
 - Accounts Payable journal
 - Accounts Receivable journal
 - Payroll journal (either detail, if done in-house, or periodic entries into the General Ledger)
 - Expense journals
2. Enters monthly repetitive journal entries, e.g., depreciation, accruals, and reversals, etc.
3. Reconciles bank accounts, accounts payable and accounts receivable.
4. Prepares and deposits payroll taxes.
5. Runs A/P and A/R aging statements to assure prompt payment of the former and timely collection of the latter.
6. Prepares draft financial statements.

If the business is unable to afford accounting staff more knowledgeable than the bookkeeper, the bookkeeper should be in regular (i.e., monthly) communication with the CPA firm to review accounting results so that management can be alerted to issues that may become problematic. It is neither advisable nor prudent for the owner/founder to leave a bookkeeper to make decisions on his or her own without any oversight.

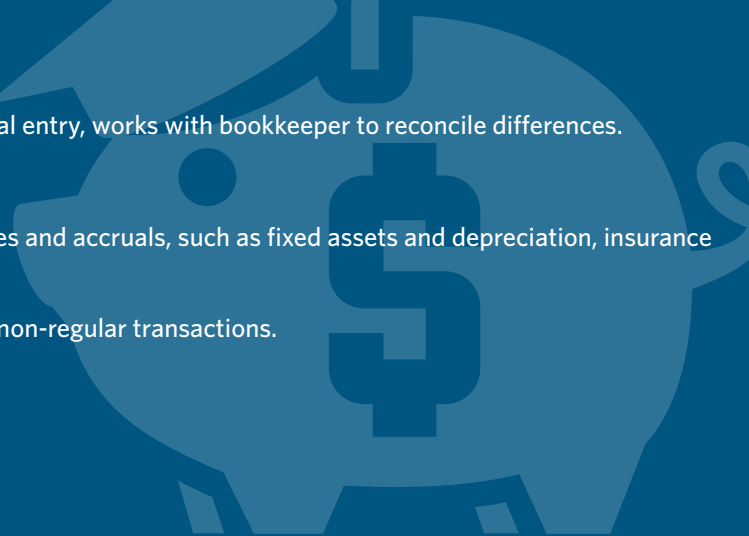


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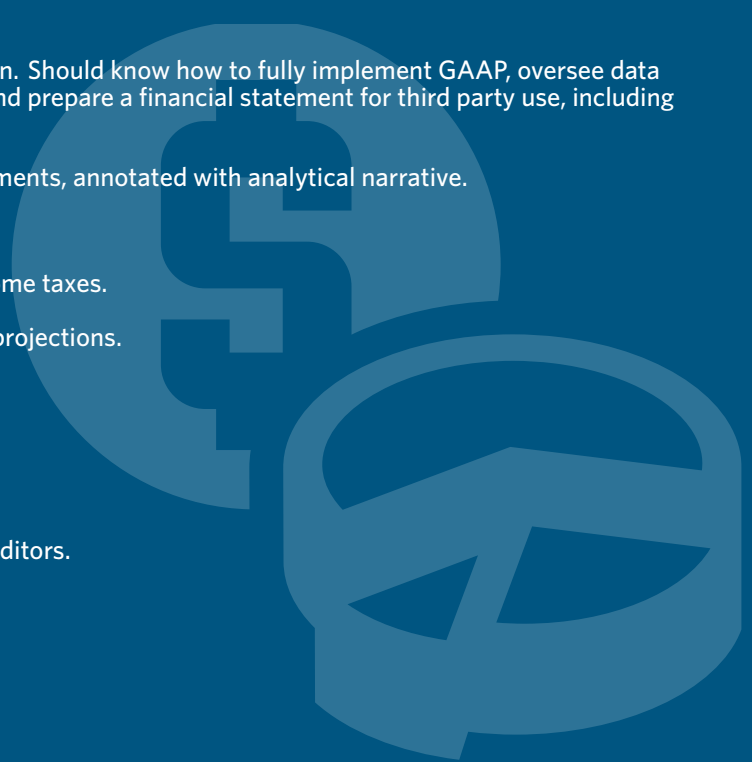
Accountant:

Has an ability to apply some knowledge of GAAP to financial statements, analyze results and spot errors and questionable results.

1. Primary responsibility for the general ledger.
 2. Supervises bookkeepers and/or accounting clerks.
 3. Reviews general ledger balances vs. books of original entry, works with bookkeeper to reconcile differences.
 4. Reviews payroll and payroll tax filings.
 5. Sets up schedules for various monthly journal entries and accruals, such as fixed assets and depreciation, insurance expense, etc.
 6. Prepares non-recurring journal entries based upon non-regular transactions.
 7. Makes loan payments.
 8. Maintains cost accounting system.
 9. Prepares estimated tax deposits.
 10. Prepares financial statements for review. Like the Bookkeeper, the Accountant generally needs appropriate oversight with regards to decision making.
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Controller:

Functions as the chief accounting officer of an organization. Should know how to fully implement GAAP, oversee data processing outcomes, close a complicated set of books, and prepare a financial statement for third party use, including shareholders and lenders.

1. Finalizes, approves, and issues periodic financial statements, annotated with analytical narrative.
 2. Reviews for proper application of GAAP.
 3. Manages taxes and tax filings, including company income taxes.
 4. Prepares budgets, monthly budget reports, cash flow projections.
 5. Manages and adjusts cost accounting system.
 6. Manages information technology systems.
 7. Closes books annually and prepares annual report.
 8. Serves as primary liaison with outside accountants/auditors.
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Chief Financial Officer (CFO):

This position may or may not have an accounting background. Obtains financing via banks, share offerings, public market transactions, etc.; invests company excess cash; oversees pension matters; projects and manages cash flow. Basically, the position makes sure there is liquidity with which the company can operate. Encompasses controller's function, but much more accountability for fiscal security of the enterprise.

1. Relations with banker(s), outside shareholders.
2. Planning for, and acquisition of, debt and equity capital.
3. Management and investment of cash.
4. Management of insurance coverage and policies.
5. Supervision of entire financial function, including positions listed above.
6. Long-range and strategic planning with CEO and management team.
7. Generates financial ratios for CEO; assists with analysis and strategic direction opportunities and decisions.



Business Sense is a no-fluff source of information that gets right to the heart of what small business owners need: essential tools and informational resources to help their businesses grow. Written by our team of business coaches, this series shares their decades of experience in areas such as financials, operations, sales and marketing, human resources, leadership, and governance. Business Sense is designed to provide entrepreneurs and small business owners in various sectors, including agriculture, forestry, waste management, renewable energy, and environmental technology, with recommendations and practical advice to help their businesses not only survive but thrive.

Our business management coaching and Business Sense Resource Guide are designed to accelerate the growth of the enterprises we work with and expand the leadership capacity of the entrepreneurs who own and manage these businesses.

Let Us Help You and Your Business

The Vermont Sustainable Jobs Fund provides tailored business management coaching, entrepreneurial support, and training to position Vermont-based entrepreneurs and small business owners in our designated market sectors for growth and long-term success. We partner with state government, private sector businesses and nonprofit organizations to build a thriving economic, social and ecological future for Vermont. Learn more at [VSJF.org](https://vsjf.org)



Vermont Sustainable Jobs Fund

Accelerating Sustainable Economic Development

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