

# A Guide to Financial Management for SMEs

September 2012

This document has been compiled by



on behalf of



**BUSINESS IN YOU**

## Good financial management is critical to the success of any business. Without it, a business can be set for failure from the start.

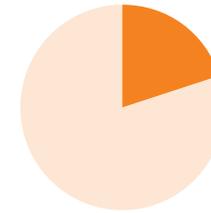
Around 400,000 new businesses start-up in the UK annually, but one-third of start-ups ceased trading within three years. It's not a lack of customers or products that will destroy a business – it's a lack of cash.

Financial decisions made at an early stage can be the most important, as well as the most difficult. The ability to have the right finances in place and plan financial matters effectively can help a business grow and adapt to a changing economic environment.

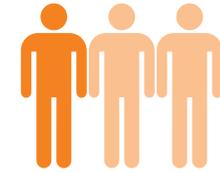
In collaboration with the UK Government's Business in You campaign – the ICAEW, ACCA and Ernst & Young have produced this publication to highlight the importance of financial management across the various stages of business development. It draws attention to the financial questions a business owner needs to consider and the sources of qualified external advice that will help a business grow.

We hope this publication, with its range of insights, helps business of all sizes to reach their growth potential through good financial management.

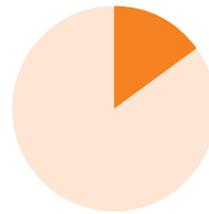
## According to independent research:



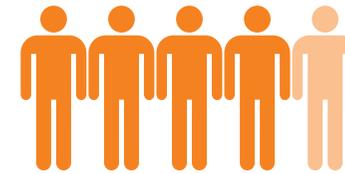
Only 20% seek advice before applying for a loan.



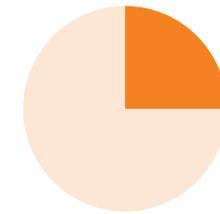
Only 1 in 3 has a business plan.



15% didn't apply for finance despite wanting it.



4 out of 5 financial decision makers have no formal training in financial matters.



Only 25% of small businesses consider themselves strong at accessing external finance.

Prepared by:

### ICAEW

Fatima Hassan, Public Policy Manager, ICAEW  
Henry Irving, Head of Audit and Assurance Faculty, ICAEW  
Clive Lewis, Head of Enterprise, ICAEW

### ACCA

Glenn Collins, Head of Technical Advisory, ACCA

### Ernst & Young

Andrew Hobbs, Associate Partner, Regulatory & Public Policy, Ernst & Young  
Zishan Nurmohamed, Senior Manager, Assurance, Ernst & Young

## Four stages of business development

There are **four key stages** in the development of a start-up. At each stage, a business owner will need to consider an element of financial management which will help their business stay healthy and achieve its potential.





## 1 Pre start-up

- This can be the most critical stage in the success of a business idea.
- Researching the market and assessing potential demand for your product or service should be undertaken now.
- Each business should produce a business plan incorporating financial forecasts.



## KEY QUESTIONS for an entrepreneur to consider at this stage

- 1 Have you developed a business plan and financial forecasts?
- 2 Have you spoken to a qualified professional business advisor when developing your business and financial forecasts? (E.g. accountant, lawyer, bank manager)
- 3 Is your business plan backed up by a marketing and product development plan?



## Start-up

- Taking into account financial forecasts, this is the stage where a business plan is implemented.
- Cash management is key – small businesses fail when they run out of cash.
- This is the stage where business owners will consider securing finance to grow their business – strong financial management is vital for a good credit rating.



## KEY QUESTIONS for an entrepreneur to consider at this stage

- 1 How do you manage your day-to-day cash flow?
- 2 Have you developed an HR and management plan? (e.g. organisational structures)
- 3 Have you investigated what support and reliefs are available to you? (e.g. do you operate within an Enterprise Zone or do you have access to a grant?)
- 4 How do you monitor performance and keep business costs to a minimum?
- 5 Are you claiming all the allowances you can against taxation?



## Small business

- This is the stage where the business has overcome the start-up stage.
- A small business should seek qualified independent financial advice before accessing finance to grow their business. Audit, assurance and management accounting will be helpful.
- Think about the information you provide. For example, a small company may file abbreviated accounts at Companies House. Abbreviated accounts do not provide credit reference agencies with the information they need to build up a picture of a business' suitability for credit.



## KEY QUESTIONS for an entrepreneur to consider at this stage

- 1 What is the next stage for your business? Does your business plan and financial forecasts reflect the next phase of company growth?
- 2 Are you monitoring cash flow and do you have a person responsible for chasing customer payments? Have you established a procedure for dealing with late payments from customers?
- 3 Do you have a system of budgeting sales and expenses, and do you compare this with reported performance?
- 4 Does the business have enough finance to meet its needs? Is accessing finance a problem? If so, what are you doing to address this?
- 5 Do you produce regular management accounts which are made available to credit agencies?

## 4 Small to medium-sized business

- This is the stage where a small business may grow in size. As a result, they will have a wide group of stakeholders who often require audit and assurance of their business' finances.
- Some small businesses may consider accessing a wider range of finance including an Initial Public Offering (IPO), private placement or private equity sale. Typically a three year track record of clean audited accounts is key and audits taken at earlier stages of a start-up's development will be more beneficial to this process.



### KEY QUESTIONS for an entrepreneur to consider at this stage

- 1 Is your finance team managed by a professionally qualified accountant?
- 2 Does the Board regularly review the risks the business faces (such as over reliance on a few customers for sales)?
- 3 Are budget and cash flow projections produced and discussed by the management team?
- 4 Are monthly management accounts produced in time to be useful in assessing the performance of the business?
- 5 Are accounts audited or subject to an assurance report for all key stakeholders?
- 6 Do you hold regular meetings with finance providers to review business plans and financing options?

# Audits and small business growth

Depending on the size of your business, you may be obliged to have a statutory audit.

However, even if you are not obliged, audits can support small business growth.

Companies with no more than 50 employees are likely to be exempted from a statutory audit if they satisfy two additional tests – their turnover is below the current threshold of £6.5 million or have a balance sheet total of no more than £3.26 million.

- 1 Small companies who prepare their own accounts often need support to address financial and business issues including cash management, debt advice and management structures.
- 2 The close involvement of an auditor provides companies with comfort when faced with tax, regulatory and access to finance issues as they grow in size. A prime example is the confidence an audit can provide to a credit rating score.
- 3 Small companies grow, and may find themselves subject to a statutory audit requirement as staff numbers and turnover increase.
- 4 Businesses who do not have an audit but are seeking to build confidence in their financial information should consider having an external assurance report.

# Key sources of qualified business advice for SMEs

**ICAEW Business Advice Service.** Members of the ICAEW Business Advice Service offer an initial consultation at no charge to businesses and start-ups.

[businessadvice.service.com](https://businessadvice.service.com)

**ACCA and Barclays** have joined forces to launch a new website offering free, impartial financial advice to small businesses across the UK.

[www.accaglobal.com/en/business-finance.html](https://www.accaglobal.com/en/business-finance.html)

**BIS Finance Fitness** aims to get Government and business working together more effectively to ensure SMEs find it easier to access the finance they need.

[bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/finance-fitness](https://bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/finance-fitness)

**Ernst & Young Entrepreneur of the Year programme.**

[ey.com/UK/en/About-us/Entrepreneur-Of-The-Year](https://ey.com/UK/en/About-us/Entrepreneur-Of-The-Year)

**Business in You** provides access to business support tools and real life examples of entrepreneurs to help companies start and grow.

[businessinyou.bis.gov.uk](https://businessinyou.bis.gov.uk)



The information in this publication is intended to provide guidance on some of the challenges faced by businesses at various stages of development. It can only be very general. For a more in-depth consideration of the issues appropriate professional advice should be taken.