

19 Understanding Managerial Finances

A company must perform well financially to stay in business. Thus, failure to understand a firm's financial position can be deadly. Managers must have accurate, meaningful, and timely information if they are to make good decisions. This is particularly true of financial information about a firm's operations.

An inadequate accounting system is a primary factor in small business failures. Owner-managers of small firms sometimes believe that they have less need for financial information because of their personal involvement in day-to-day operations, but they are only deceiving themselves.

Rarely are small business owner-managers expert accountants—nor should they expect to be (*or even want to be*). But every one of them should know enough about the accounting process, including financial statements, to recognize which accounting methods are best for their company.

Financial Management

An accountant is not the same as a financial manager. Eric Krell uses the following analogy: An accountant is like a skilled laboratory technician who takes blood samples and other measures of a person's health and writes the findings on a health report (in business, the equivalent of a set of financial statements). A financial manager for a business is the doctor who interprets the report and makes recommendations to the patient regarding changes that would improve health. **Financial managers** examine the data prepared by accountants

