

# Don't Fumble Your Financial Statements

## *Best Accounting Practices for Your Business*

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No matter what industry you're in, you want to be proactive in managing your business. You want things to run smoothly and efficiently, particularly when it comes to your company's financial statements. They're a window into your business. If they're dirty, there's no visibility. The last thing you want is a red flag in this area. That's where best practices come in to play. Businesses need a good set of internal controls as well as reliable processes and procedures that will result in accurate financial information that is delivered to key management on a timely basis. Best practices, particularly for accounting, play a key role in helping businesses succeed – impacting everything from making good decisions on expansion to determining whether a vendor is charging too much. Following is a list of best accounting practices that small to medium-size businesses should have in place.

**Documentation.** Sometimes small businesses grow faster than expected and important tasks such as documenting all significant policies and procedures get lost in the hustle and bustle of trying to keep up with growing business demands. But if you're not documenting this information, you run the risk that there may be only one or two people in the organization who know all of the policies and procedures and they don't even have it on paper – it's just in their heads. If they leave the company, it's hard for someone else to come in and takeover if that person doesn't have all of the necessary information. It's also important to document policies and procedures so that there's no ambiguity. For example, having an employee handbook makes it clear to your team members what is expected of them.

Companies should also document agreements with customers, vendors, shareholders, etc. A lot of small businesses have verbal understandings with these groups, but it's key to put those arrangements in writing so that, again, there's no ambiguity – all parties are clear on what's expected of them.

**Segregation of duties.** The duties performed within a business's accounting department should be segregated. This includes authorization, custody, recordkeeping and reconciliation. If you have different employees handle these duties, it will help in avoiding errors in financial information as well as deterring fraud.

**Accounting software.** A lot of times, companies will have accounting software that no one knows how to use properly. Make sure you provide adequate training to all employees who work with the software so that they are using it to the fullest extent of its capability.

**Additional lending or raising capital.** If a business needs additional lending from a bank or wants to raise capital, most of the time some sort of financial statements from a Certified Public Accountant (CPA) will be required, most likely an audit. A lot goes in to an audit, so it's important to talk to your CPA well in advance of needing a financial statement audit so you can be prepared for what is needed for the process.

**Agreements.** There are two agreements businesses should have in place that are key in helping to protect the company and its interests. The first: employment agreements. These should clearly outline covenants not to compete and should also contain nondisclosure statements. This prevents employees from leaving to start a similar business.

Second, if the company has shareholders, it should also have a funded buy-sell agreement in place so that there's no ambiguity over what happens if a shareholder leaves or passes away.

Many businesses get along just fine with a controller, but when a company experiences significant growth or wants to expand, sometimes it makes sense to hire a Chief Financial Officer to help navigate through the growth, expansion and succession of the business such as a sale to another company or a succession to children or other family members of the owners. Remember, your business can't move forward without a successful plan to make it happen.

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