

Do you understand your finance director?

Jean Pousson provides some tips to Executives and Senior Managers



Jean Pousson

I have been running finance training programmes for well over 20 years both within the UK and internationally to all levels of management and directors and it never ceases to amaze me as to the lack of understanding that this discipline presents. This can manifest itself in not fully grasping terms and jargon, which is easily fixable, to a complete lack of understanding of basic concepts. I have seen company directors and pension fund trustees who have admitted that they place total reliance (ie blind faith) in finance experts.

Ignorance is no excuse. And in today's increasingly litigious society this argument does not wash well in courts. Indeed, we have seen many examples of director

disqualifications where the sole defence (ie against the proposed disqualification) was that they trusted the finance director completely.

Very often some very basic concepts are not understood at all. For example are you aware that even though your company is increasing sales and is profitable, the company could still be declared insolvent?

Obviously there has to be personal responsibility from managers and directors to educate themselves properly as part of their continued professional development. There are numerous courses on the topic and one to one coaching is also possible.

Find below a quick and dirty check list that you might find helpful.

- How quickly after month end are your management accounts ready? How quickly after year end are your statutory accounts ready? Lengthy delays could indicate that all is not well.
- Who oversees the finance director? Large organisations will have an internal audit committee and the Combined Code issues guidelines as to the workings of such a committee. (see the Smith report at www.frc.org.uk). Smaller companies do not have this privilege and it is

therefore imperative that on the Board or the management team there is at least one other person with good finance qualifications.

- Use your auditors well. If something concerns you there is nothing stopping you to tell the external auditors to show more vigilance in certain areas.

- Watch out for over complicated organisational and financial structures. These are often facades to distract attention away from what is really going on.

- Can you explain the levels of borrowings in your business? A business that ticks over, where nothing much has changed ie there has been no acquisition, restructures, disposals etc... only needs to borrow money for three reasons ie 1. There is a loss. 2. There is a working capital requirement. 3. Capital Expenditure. Loose rationales eg to fund growth, to finance the operations of the business etc... need more clarity. And remember it is cash that repays loans not profits!

- Show me the money. Jesse James the famous bank robber was once asked why did he robbed banks. His answer? That is where the cash is! A company's bank statements does not lie. Track the cash. Can you reconcile the cash

flow with the accounting results?

- The following are idiot proof questions (ie you will never be embarrassed for asking) to put to the Finance Director should you be uncertain about some proposed business decision.
 - Is this allowed for in the Companies Act?
 - Is this in line with current accounting standards?
 - What will be the impact on profitability?
 - What will be the impact on the balance sheet?
 - What will be the impact on cash flow?
 - And finally. Any tax implications?

To finish off have a look at the following statements and answer them with a simple true or false.

- Deferred income is shown in the balance sheet as an asset.
- Total borrowings cannot exceed shareholders funds.
- The cash figure in the balance sheet is a good determinant of liquidity
- Goodwill in the balance sheet would boost profits.
- The tax figure in the profit and loss is the tax paid to the Revenue Authorities.

How did you find these questions? The answers are all false by the way! Good luck out there.

Letters that get results

Business letters (and emails) have a purpose other than recording information. They are intended to win back goodwill, sell something, request payment, get compensation, explain a service or product. Your letter is competing for busy people's time. How can you get your letter read and acted upon? This is how:

“Talk” to the reader. Write in a conversational way but avoid colloquialisms, slang and jargon. Good standards of grammar and syntax must be maintained. For example: *Dear Mr Bough. Your telephone was not answered when I tried to contact you yesterday, nor have I received a reply to my letter of 31 January. Did you receive it? How do you wish to solve this problem concerning...*

Use less words. Instead of: *On examining our records it appears that your account is still outstanding and overdue and your indebtedness to us is £455.17... (20 words).* Write: *Today your account shows an amount overdue of £455.17... (8 words).*

Instead of: *Further to your recent tariff notification letter it has come to our attention that the turnover is now in excess of the (name of bank) Small business Tariff, so in this connection I am enclosing a copy of the tariff which will now be applicable to your Business Account... (This is an actual letter, 46 words and unclear).* Write: *You will be pleased to know our charges are being reduced because you now fall outside our Small Business Tariff. The new Tariff is enclosed... (25 words).*

Use short words

<u>Instead of:</u>	<u>Use:</u>
Transmogrify	Change
Metropolis	City
Pusillanimous	Timid

Concise sentences and paragraphs. Keep sentences short, about 18-24 words. Give each subject its own paragraph. Use sub-headlines to highlight the content of paragraphs and bullet points or numbers to separate ancillary items.

A sentence is a thought or idea. A paragraph is a collection of related thoughts and ideas. There is no rule as to how long a paragraph should be. It has become fashionable to use one sentence paragraphs, but if it is overdone, a letter can look a bit immature – almost patronising to the reader.

As a guide, a single topic may cover two or more paragraphs but a single paragraph must never deal with two or more unrelated topics.

Put the reader before yourself. Avoid starting paragraphs with “I”. Instead of: *I acknowledge receipt of your enquiry and*

*I am pleased to enclose herewith our brochure. I trust you will receive it in good time... . The writer referred to himself four times, if you count the “our”, and the reader twice. In this alternative the reader is mentioned three times and the writer not once: *Many thanks for your enquiry. The brochure you requested is enclosed and so you should get it in good time...**



Bruce Bosworth

How to finish. The end is the end. You do not need to tack on a worn out phrases such as: “If you have any enquiries regarding this matter, or indeed any other matter relating to your mortgage, please do not hesitate to contact this office.” Customers will if they have to; they do not need to be told.

Other ways to close your letter are to state your next action or to request action from the reader.

Remember

- Make your letters (and emails) look good.
- Personalise letters. Address the reader by name and not as Dear Sir/Madam.
- Identify yourself by name.
- Sign your own letters. No PPs.
- Write what you mean and mean what you write.

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