

Abstract: Small businesses encounter many challenges and opportunities. This article helps business owners through growing pains by addressing two key areas: 1) financial and tax reporting and 2) working capital.

Next-level growth: Unlocking your business's full potential

After successfully navigating the start-up phase, your business has a strong foundation for growth. At the growth stage, business and financial advisory services become essential. Focus on these two key areas to elevate your company to the next level.

1. Financial and tax reporting

Businesses in the growth stage usually have more sophisticated financial reporting needs than start-ups. As a result, those who previously relied on cash or tax-basis accounting methods may need to graduate to accrual-basis methods and start following U.S. Generally Accepted Accounting Principles (GAAP).

Lenders and investors may require CPA-prepared financial statements, which include the following (listed in increasing level of assurance):

- Compilations,
- Reviews, and
- Audits.

Audited financial statements are the gold standard in financial reporting, required for companies regulated by the Securities and Exchange Commission (SEC). However, compiled or reviewed financial statements may suffice for many closely held businesses in the growth stage.

Audits involve a higher level of scrutiny to ensure financial statements are free from material misstatements and comply with GAAP. This process includes analytical testing, asset inspections, third-party verifications, and evaluations of internal controls, with auditors reporting any weaknesses.

Once a business is profitable, federal (and, in many cases, state) taxes typically apply to company income — or, if it's not a C corporation, the income passes through to owners and is taxed at the individual level. Regular tax planning meetings with financial professionals are crucial to identify strategies for reducing tax liabilities and preparing for tax law changes. These meetings help optimize your tax position both now and in the future, ensuring your business stays financially sound.

2. Working capital management

Cash shortages are common for businesses during periods of growth. The main culprit is the “cash gap” — that is, the time between:

- When your business must pay suppliers and employees, and
- When it receives payment from customers.

For businesses that make or build products from scratch, the time to convert materials and labor into finished goods, sales and (finally) cash receipts can be significant.

A line of credit can alleviate seasonal or temporary cash crunches. Before approving credit applications, lenders typically request financial statements, tax returns and updated business plans. In addition, business owners in the growth phase normally must sign personal guarantees for business loans.

You also may need to apply other cash management techniques that target the following three components of working capital:

1. Receivables,
2. Inventory, and
3. Payables.

Professional advisors can assess your working capital metrics, benchmark performance against competitors, and recommend strategies to improve your business's financial efficiency and competitiveness. These might include accelerating collections, optimizing inventory levels, maintaining safety stock, and negotiating better supplier terms.

Ask the pros

Companies need guidance from experienced professional advisors as they mature. Do-it-yourself accounting, tax and business planning can result in frustration and missed opportunities. Discuss strategic growth plans with us if you haven't done so already. We can help you determine the optimal path forward based on your business and personal situation.