

Impact of Mismanaged Finances

What are the consequences for SMEs & Entrepreneurs?



Introduction

For any business, good financial management is the foundation to reaching profitability. But as a start-up or small business, your first thought inevitably goes towards growing the top line and this emphasis can lead to major issues later if you under invest in your financial management framework.

It is frequently the case that as soon as businesses begin to grow, their accounting systems and processes fail to scale and evolve at the same rate which leads to costly errors and drains resources.

With the added UAE VAT compliance requirements to be considered, the risks are greater if inadequately managed.



What could cause mis-management of your finances?

As with any business issue, the first step is always to look for potential risks, identify the root cause of your issues and understand how to control them.

Every business has its unique organisational procedures and specific way it set up its financial model. This may have evolved overtime or started with some planning and hasn't been refreshed for some time. From our experience, there are some common causes of mismanaged finances:

 **Time Constraints** – When you're overwhelmed with running the business, it is easy to focus on the urgent issues and defer your finance responsibilities. De-prioritising those accounting tasks and reviews may seem necessary, but the more you delay, the less accurate your financial management.

 **Resource Constraints** – If you cannot afford to hire senior financial people, you will not have the personnel or the resources to deal with the bigger financial picture. And if your bookkeeping is focused on hygiene and compliance tasks, they won't be proactive enough to help you provide a resolution if you face challenges.

 **Process Discipline** – Your financial model and system has to be clearly defined. For example, if you mix your business and personal finances, this makes the managing your company financials far more complex and difficult.

 **Technical expertise** – Finance can get complicated especially with the changing regulations from VAT. Therefore, do you believe you have the right experience, training focus and IT capability to deal with an evolving financial system?

 **Budget & Tracking** – Financial planning and performance reviews are essential to conserve your precious cashflow. If you have not set and regularly measuring performance against budgets, it is likely you may face challenges in adapting to changing market conditions.

What effect can mis-managed finances have?

Why is this a critical issue for urgent attention? In summary, if you are not in control of your finances then you are not fully in control of the business.

What effects can this lead to?

- **Poor quality and slow financial information** If your financial information is poor, you don't have the reliable data you need to manage your business effectively. Without accurate numbers at your fingertips, you cannot make informed decisions, your forecasting and projections are incomplete, and you may fail to act on potential opportunities and risks.
- **Cashflow problems** Negative cash flow is one of the biggest causes for new or smaller businesses failing within the first two years. In recent research by CB Insights, [29% of failed start-up founders blamed a lack of good cash flow](#). Improving your management of liquidity helps to secure your long-term future.
- **Compliance & Personal Risks** As a director of the company, poor financial management can also impact directly on you. If compliance rules are not met, specifically under the VAT Executive Regulations, this could mean fines and penalties for the business and possibly for you.
- **Credit Worthiness** Information may need to be available to banks, investors and creditors. Poor compliance results and fines can have a negative effect on your credit and attractiveness to investors
- **Ability to adapt** Mismanaged finances to lead to a lack of agility, and inability to seize on opportunities in the market. Your business needs a competitive edge and having resources to capitalise on opportunities can make the difference.

Innovations in cloud technology and automation present enormous opportunities to create a sophisticated financial management model with minimal costs. Best practices are now embedded in platforms to reduce costs and deliver quick results. With the right support, any business has the potential to enhance and improve their financial operation.

Getting Back In Control

If your business is experiencing any of these issues, what is the best strategy to ensure your business is set on a more sustainable trajectory?

-  **Harness Expertise** – As a business owner you should value your time and where to focus your expertise. If you get involved in executing complex financial changes, this can divert your focus and you may not be fully qualified to correctly and quickly fix issues without expert support.
-  **Plan For The Future** – a cloud accounting system is an excellent way to improve your financial overview. Ensure you implement right systems in place with correct set up and reporting from the start. This will avoid getting into a potential difficulty, while creating detailed financial reporting and forecasting to plan your future direction.
-  **Pause & Fix** – if you've been through your finances and found issues, it is vital to take control and fix them permanently with some care. Do not be tempted to 'sticky tape' them: it's vital to also review and update the processes that lead to these issues and to ensure it cannot be repeated.
-  **Invest time now** – you need to schedule a realistic amount of time to work on the problem and make your financial reporting an asset. Allocating sufficient time and focus will save you time, stress and issues later. Finally, ensure you have the best system, tools and people in place to crack the problem, or it will cost you more when extra resources have to be brought in later.

Partner With SimplySolved

Serving over 100+ clients we know the challenges and concerns our clients faced in taking the first step towards outsourcing their accounts and VAT.

With our experience and quality-based approach supported by a dedicated account manager, a team of experts, defined processes, platforms and insight, you'll be better placed to receiving your real-time information at your fingertips, expert advice on tap, and the time you need to grow your business.





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SimplySolved is ISO 9001 accredited and FTA Tax Agent providing quality driven services in accounting, consulting, Tax, HR, ERP and software implementation as a trusted partner to over 100+ clients spanning multiple industries.

Our innovative and proven modular services are designed to enable individuals and businesses of all sizes, including Large Enterprise Tax Groups, to cost effectively manage their Financial & Tax reporting and derive key business insights to the business performance.

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