Book Review: Financial Intelligence for Entrepreneurs; What you really need to know about the numbers by Karen Berman and Joe Knight, with John Case

One of the exciting things about starting a business is the range of activities that are required for it thrive: understanding your customers, dealing with suppliers, and working with employees towards unified goals. Entrepreneurs also need to know how to manage their business’s money, and even profitable businesses can fail if they don’t have a firm grasp on their financials. This book aims to give readers the background to avoid common pitfalls, communicate effectively with accountants, and ensure business success. In this review, we’ll try to figure out if it will help you and your business.

Overview

Businesses deal in money all day long, and the language used to describe business activities reflect that: cash, profit, revenue, and “the bottom line” are all commonly used. Given their popularity, you might assume that people understand how these words actually reflect the health of their business. This book describes the meaning of common business terms, teaches how important figures are calculated, and explains how to read, and ask serious questions about financial statements, ratios, and the overall financial stability of a business.

One important point that the book stresses is that when accountants are creating financial documents, there are many choices they are making that directly affect figures like profit. Is that a Cost of Goods Sold, or an Operating Expense? How does a term of depreciation affect other figures? Explaining where these choices are likely to happen and how to notice them is an important goal of this book.

Accounting Basics

One of the strengths of this book is clearly explaining the specialized terminology of accounting in everyday language. The first part of the book is step by step explanation of important terms and the financial reporting documents they appear in. These explanations are supported by descriptions of how they affect small businesses, examples of real companies’ financial figures and statements, and stories and anecdotes that illustrate how huge famous companies’ financial fudging eventually led to disaster. By providing a number of ways to understand the content, and keeping things brief, the authors do a good job here of making a dry subject quick and relatively enjoyable. They also stress that even though these numbers are based on reality, they are subject to several decisions. Knowing how those decisions are being made and impacting a company’s listed profit can have a big difference in how a company is managed.

Ratios, and Assessing Financial Performance
Once the authors established the skillsets of understanding financial numbers and being able to talk about them, they get in to some tools for assessing a company’s health and wealth: financial ratios. Here, the authors explain how to generate useful analysis of your company’s finance. If your profits are generally growing, but your operating margin percentage is steadily decreasing, that should be a clear warning sign and call for further investigation. This section also explains leverage ratios, liquidity ratios, efficiency ratios, and return on investment, while emphasizing the process of figuring out which ratios are most important for your business.

**Financial Literacy and Wrap-up**

The ending chapters of the book still have some important tips, such as having monthly sessions at your company on the important figures employees should understand. The authors suggest offering these regularly, as it takes time for these concepts to take hold, and some people will want to take them repeatedly. This last section also stresses having a strategy for implementing these ideas and gives advice for putting that strategy in place. Lastly, there are more examples and even exercises in the back of the book.

**Should you read it?**

Many people will be much better able to understand financial terms, talk to their accountants, and make informed decisions about their company’s future after reading this book, and I highly recommend it for anyone who feels unsure of themselves when looking at a balance sheet. For people that are fairly comfortable with these concepts and run businesses, though, this book could prove helpful as a refresher, or a reference. Those readers that have a background in accounting can probably skip this book, though it might have some ideas for explaining these concepts to people you work with.

*Terence O’Neill is the Entrepreneurship Librarian at Michigan State University, where he works to connect entrepreneurs to resources that will better inform their business decisions. Through a background in libraries and community education, Terence has worked to support business and innovation internationally and throughout Michigan.*