

## MONEY SENSE: LITTLE FINANCIAL EXPERIENCE? START HERE

**S**uccess in the business world, regardless of your job, requires an understanding of finance. Companies hire people for their primary skills, like marketing or technology, but the ultimate objective is to be profitable. Understanding the key factors that help the organization achieve its objectives is paramount to advancing the visibility of your department, your business unit and your career.

### **\$ Acquaint yourself with financial terms**

You can't understand finance if you don't understand the terminology. Many terms are used interchangeably; for example, a profit and loss statement is the same thing as an income statement and liability is another word for debt.

### **\$ Don't ignore financial reports**

Financial statements are the report card for an organization's performance. They highlight how profitable the company is, where it is making its revenues or incurring costs and illustrate the fi-

nancial position of an organization. Reports exist for all levels of an organization.

You must know how to read these to understand where money is being spent or generated and to accurately assess if your unit has been successful in its objectives. If you know what to look for, you will be in a better position to achieve those objectives.

If your company is public, the financials are published every quarter, but if you work for a private company, you may not have access to them.

### **\$ Learn about cost allocations**

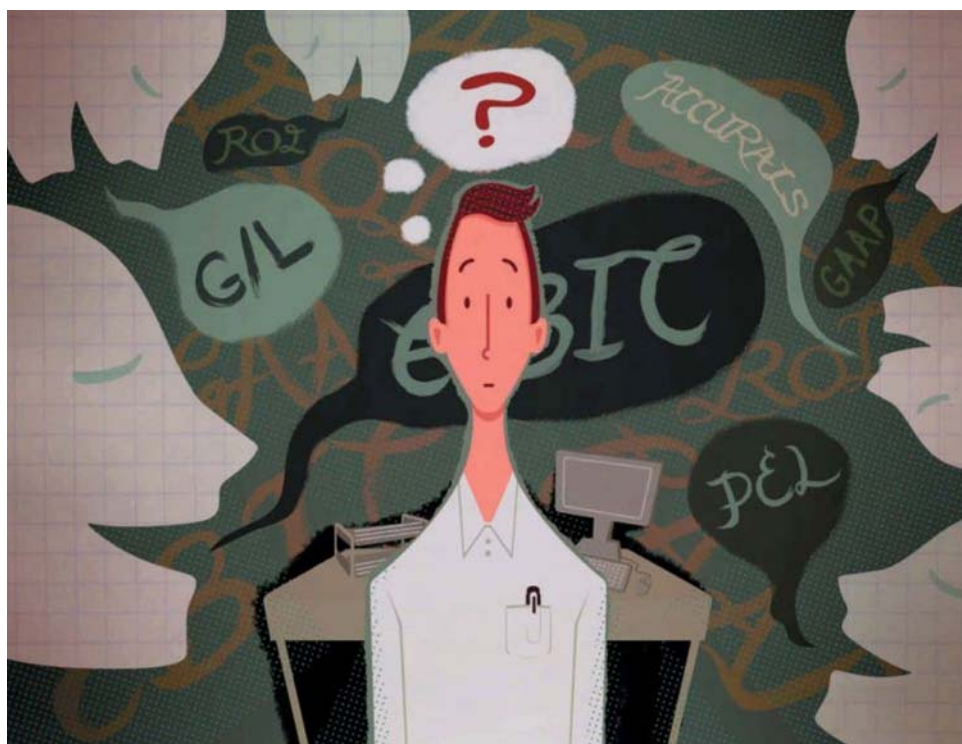
In many companies, individual departments are often charged a portion of general operating costs for the company. These costs, called overhead, can include anything from utility bills and property taxes to the president's salary. Property taxes, for example, might be prorated to individual departments based on the amount of square footage a department occupies.

Many business professionals are evaluated on

the profitability of their products but don't necessarily understand all the charges assigned to their areas and the reasons behind them.

By understanding the assumptions underlying the charges you can question the amounts being charged to your area if they are inaccurate. Be forewarned: if you are successful in lowering the amounts charged to your department, another department will have to absorb these costs.

Illustration: Charlene Chua



**\$ Build a business case**

A business case is a request for money. Employees need resources in order to accomplish their goals but the process of obtaining these resources can often be a long and arduous one. Most organizations ask employees to put together a formal business case, ranging

from a few pages to several hundred, to request funds. The company then evaluates all the requests to determine which projects it should invest in.

The most solid business cases are usually the most successful. Generally, if an employee can prove that

their project is beneficial to the financial success of the company, there is a greater likelihood their project will be accepted.

Most senior executives have a portion of their compensation tied to financial performance. If you understand the financial picture of the organization and can do something to contribute to your boss's bonus, you're more likely to move your career forward. **HR**

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## FIVE KEY TERMS

**Accruals:** Revenues or expenses incurred by the business that are not yet invoiced. These transactions must be recorded in the financials when they occur, not when the invoice is processed.

**EBIT (Earnings Before Interest and Tax):** Since individual executives cannot influence interest or taxes, their performance is often evaluated on this measure.

**GAAP (Generally Accepted Accounting Principles):** A set of principles or rules that govern how various business transactions should be recorded in the company's financial records.

**P&L (Profit and Loss statement):** A report illustrating revenues and expenses for a set period of time.

**ROI (Return on Investment):** Net income divided by the amount of investment.

*For more financial terms, visit [www.HRThoughtLeader.com/hrpmextras](http://www.HRThoughtLeader.com/hrpmextras).*