

BUSINESS FINANCE

IGNORANCE OR NEGLIGENCE?

Having the right information about your business is important. For the financial aspects of your business, there are certain key indicators that you, as a business owner, should have readily at your disposal. You should have in easy reach information about:

- how much cash you have
- your payables (what you owe others)
- your receivables (what others owe you)
- your profitability

This is not intended to be a complete list, but it is a good place to start.

Suppose you have ignored your business finances and know none of this information. That happens more often than people outside of the business think. I recently worked with a client who was headed down the path of running out of money before contacting me. They had no idea that they were potentially facing insolvency if they did not take immediate action.

Q: Is this a situation of ignorance or negligence?

Clearly, they are claiming ignorance as they just did not know they were running out of money. The person trusted with managing company finances proved to be bad at their job. A year ago, they were unaware of information that was easily discernable and knowable that clearly indicated that cash flow problems were on the horizon. If they had known, they could have sounded the alarm bells and bought a lot of time to correct course. This would have saved everyone in the organization a lot of stress, to say the least. Instead, they went along, ignorant of the reality they were already living in, and even recommended using what precious cash they had to invest during the past year into the business, rather than operate in cash preservation mode.

However, not knowing is not a valid excuse and will not allow you to avoid claims of negligence. Cornell Law School's Legal Information Institute defines negligence as:

...the failure to behave with the level of care that a reasonable person would have exercised under the same circumstances

One could easily argue that we would expect a reasonable person to know whether they are running out of cash or not (as opposed to being ignorant). Your employees depend a lot on you knowing how to run your business including your ability to manage company finances (or delegate that responsibility to someone who can do this for you).

So, I would argue it is a combination of both. Just because you do not know (ignorance) the exact financial state of your business does not remove your fiduciary responsibility to manage company finances (negligence). If company finance is a concern of yours or is not your strong suit, you might want to consider delegating that responsibility to a fractional CFO, which is an affordable option many business owners are turning towards. If you are interested in exploring what that might look like for your business, please reach out to me at (805) 300-4798 and we can have a conversation about it.

Jeff Solomon is the founder and owner of [CFO On The Go](#), a fractional CFO practice. CFO On The Go provides affordable, part-time CFO services to multiple companies allowing business owners and decision makers access to high level, financial leadership.



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