

Do You Speak “Finance”?

By **Jeff Lockhart** / January 25, 2022



An Assistant who speaks the language of finance and accounting is more marketable and more mobile, says Jeff Lockhart

It's difficult to argue against the commonly held belief that “finance is the language of business.” While it might not seem to be important in the early stages of your career, finance and accounting become amplified as you move into the higher levels.

Senior leaders must provide financial justification for the decisions they make and must make those decisions based on numbers that come from other people. Since these numbers may well pass across your desk, wouldn't it make sense that you understand a little of what these numbers mean and what would be the right questions to ask, if you want to maximise your effectiveness as EA?

“Accounting” and “Finance” – Aren't They Just the Same Thing?

Accounting

Accounting can be considered a universal language: the numbers on a company's financial statements mean more or less the same thing across borders.

Like any language, accounting has its own set of terminology. Those in key financial positions within a business must learn accounting language and, specifically, learn the meaning behind unique terms to use them properly and effectively on a daily basis. Equity, book value, gross margin, COGS, cash flow, diversification, EBIT, liquidity, present value, and a general ledger are all common accounting terms, but not everyone knows what these terms mean.

The accounting department is responsible for recording and reporting the cash flow transactions of an organisation. Key accounting responsibilities include paying suppliers, processing customer payments and paying staff – and all the wonderful financial reporting that goes with it. Their role is all about maintaining financial controls, to make sure that the company reduces its exposure to risk of loss. The functions performed by accounting departments serve as the foundation for all financial business communication within any organization.

Reports generated by the accounting department provide important financial information to assist executives in their decision-making. When mergers or business deals take place, the parties involved can easily understand the health of any organization in any industry by looking at these reports.

Finance

Closely associated with accounting is finance and financial management. While accounting is backward-looking, finance is forward-looking and therefore critical to strategic decision-making. Finance departments advise on the use – and mobilization – of financial resources to meet the organization's growth objectives and to maximize shareholder return.

The finance department is also responsible for assessing value, monitoring rates of return, and the management of the organization's cashflow to ensure there are enough funds available to meet day-to-day payment obligations. Finance departments also calculate the ongoing cash needs of the organization in the present and forecast what those needs should be in the future. If we don't have enough cash, how do we raise it? Loans? Share issue? Something else? What if we have “too much” cash – is that a problem? While most of us would love to have that “too much money” ourselves, it can represent a major challenge for a business. If cash isn't “working” for our business, then our shareholders would expect to see it coming back to them! It really is all about getting the balance right!

Remember that more businesses fail because of a lack of cash, rather than a lack of profit.

The ability to speak the language of business – of finance and accounting – is a main factor in achieving success in the business world. Those who know the language of finance and accounting are afforded a big-picture understanding of business. Any organization, in any industry, in any country in the world, can be described and analysed by an income statement and a balance sheet.

In future articles we shall start to explore some accounting and financial terms that are relevant in the Assistant world and why your executive fixates on some and not on others.

An Assistant who speaks the language of finance and accounting is more marketable and more mobile. As with any other language, fluency in finance is a valued skill and a way to break down walls of miscommunication in your own organization.



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