

# Growing Smart: Accounting and Finance Considerations for Growing from 5 to 20 Employees



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Growing a company from 5 to 20 employees is a significant milestone that represents a transition from a small startup to an emerging small business. While this growth is a positive indicator of product-market fit, increased demand, or operational success, it also introduces a range of accounting and finance complexities. To maintain financial health and support sustainable growth, business owners must be proactive and strategic in addressing several key issues during this transition.

## 1. Cash Flow Management

When growing your team, payroll becomes one of the most substantial and recurring cash outflows. A business owner must closely monitor cash flow to ensure there is enough liquidity to meet payroll, pay vendors, and invest in necessary tools and infrastructure.

- **Tip:** Implement cash flow forecasting tools that project inflows and outflows over 3-6 months.
- **Watch for:** Delayed receivables from customers, which can cause cash shortages despite having healthy revenue on paper.

## 2. Payroll and Benefits Administration

With a larger team, payroll processing becomes more complex. Issues such as overtime, bonuses, tax withholdings, and compliance with federal and state labor laws become more critical.

- **Action Steps:**
  - Consider adopting a professional payroll service (e.g., Gusto, ADP, or Paychex).
  - Begin offering benefits like health insurance, 401(k) plans, and paid time off—this attracts talent but adds cost and compliance requirements.
  - Track accrued benefits such as PTO or sick leave, especially if local labor laws mandate accrual-based tracking.

## 3. Accounting System Upgrades

A business with 5 employees may have relied on spreadsheets or simple accounting software like Wave or basic QuickBooks. With 20 employees, these tools may no longer suffice.

- **Recommendation:**
  - Upgrade to cloud-based accounting platforms with scalable features (e.g., QuickBooks Online Advanced, Xero, or NetSuite).
  - Consider integrating payroll, invoicing, expense tracking, and inventory management into a unified system to reduce errors and increase efficiency.

## 4. Cost Control and Budgeting

As headcount grows, so do expenses—both direct and indirect. These can include equipment, software licenses, office space, utilities, and employee perks.

- **Best Practices:**
  - Create departmental budgets to monitor spending.
  - Implement approval workflows for purchases and expense reimbursements.
  - Regularly review budget vs. actuals to identify cost overruns early.

## 5. Tax Compliance and Planning

Tax obligations grow more complex as your business grows. Beyond income tax, you must manage payroll taxes, sales tax (where applicable), and possibly new local taxes depending on office location.

- **Considerations:**
  - Hire a tax advisor or CPA to ensure full compliance.
  - Evaluate the tax implications of employee benefits.
  - If operating in multiple states (remote teams), understand nexus rules and multi-state payroll tax requirements.

## 6. Internal Controls and Fraud Prevention

With more employees handling money, data, or sensitive customer information, the risk of financial mismanagement or fraud increases.

- **To Do:**
  - Establish internal controls such as separation of duties (e.g., the person who writes checks shouldn't reconcile bank statements).
  - Implement approval hierarchies for expenses and purchases.
  - Use secure accounting software with audit trail features.

## 7. Financial Reporting and KPIs

At this stage, your company needs timely and accurate financial statements—not just at tax time, but monthly or even weekly. Key financial performance indicators (KPIs) provide insights into profitability, efficiency, and growth.

- **Key Reports:**
  - Profit & Loss Statement
  - Balance Sheet
  - Cash Flow Statement
- **Suggested KPIs:**
  - Gross Profit Margin
  - Burn Rate (if not yet profitable)
  - Revenue per Employee
  - Customer Acquisition Cost (CAC) vs. Lifetime Value (LTV)

## 8. Access to Capital

Growing companies often require capital to invest in people, technology, and infrastructure. Whether you're bootstrapping or seeking outside funding, you need a financial plan.

- **Options:**
  - Business line of credit
  - SBA loans
  - Equity financing (angel investors or venture capital, if high growth)
- **Note:** Having clean, audited financials improves your ability to secure funding.

## 9. Strategic Financial Planning

Beyond managing day-to-day finances, you must think ahead. Financial planning helps ensure that your current growth supports long-term sustainability.

- **Strategies:**
  - Develop a rolling 12-month financial forecast.
  - Build different scenarios (base, best-case, worst-case).
  - Set aside an emergency fund to absorb unexpected costs.

## 10. Outsourcing vs. In-House Finance Team

With a 5-person team, it's common for the owner to handle bookkeeping or rely on a part-time accountant. At 20 employees, financial responsibilities should be more structured.

- **Options:**
  - **Outsource:** Many companies use virtual CFO services for high-level oversight.
  - **In-House:** Hire a bookkeeper or staff accountant and eventually a finance manager.
- **Hybrid Approach:** Outsource strategic functions (e.g., tax planning, forecasting) while managing bookkeeping internally.

## 11. Accounting for Deferred Revenue and Accruals

If your business involves subscriptions, service contracts, or project-based billing, you may need to shift from cash accounting to accrual accounting.

- **Implications:**
  - Revenue is recorded when earned, not when received.
  - Helps match income to related expenses more accurately.
  - Often required for businesses seeking loans or investments.

## 12. Legal and Regulatory Considerations

Increased headcount can trigger additional legal obligations such as employee handbooks, mandatory training, and workers' compensation.

- **Financial Angle:**
  - Budget for HR legal support or consider hiring an HR consultant.
  - Ensure adequate business insurance is in place (e.g., general liability, EPLI).

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## Final Thoughts

Growing from 5 to 20 employees is more than just hiring more people—it’s a transformation in how the business operates financially. A founder’s informal, intuitive approach to money may need to evolve into a structured, data-driven financial strategy.

By investing in systems, professional support, and proactive financial management, business owners can not only handle the complexity that comes with growth but also set the stage for future expansion. Neglecting these areas can lead to cash flow problems, compliance issues, or even business failure—while addressing them can support a thriving, resilient company.

### ASK YOUR MENTOR

1. What if any accounting/finance infrastructure did you have to improve as you grew your business?
2. How did you decide when to do that?
3. Which financial reporting do feel is essential for running a business? Why?
4. Is there anything that you would have done differently? What would have you made a priority sooner?
5. Have you hired someone to specifically focus on accounting? If so, what did that process look like?
6. What accounting improvement provided “the biggest bang for your buck?” Why?
7. What have been some of the most difficult financial decisions that you have had to make for the business? How did you make those decisions?
8. How did you trust God with the finances?
9. Can you think of any other big ideas about using accounting/finance to help a business grow that I should consider?
10. What have been some helpful resources you’ve used related to the topic of this article?

### Reflect & Respond/Self-Rate- MENTEE

Rate the degree to which you are doing these things in your business. 5 = In place or doing it well

	1	2	3	4	5
Cash Flow Management					
Payroll and Benefits Administration					
Accounting System Upgrades					
Cost Control and Budgeting					
Tax Compliance and Planning					
Internal Controls and Fraud Prevention					
Financial Reporting and KPIs					
Access to Capital					
Strategic Financial Planning					

### Go Do

1. Ask God, “What do you think I should prioritize the above?” Listen. What would it look like to trust God with this?
2. Practice. How I will practice or what I will do with this over the next month: