

# NUMBERS, NUMBERS, EVERYWHERE! (MASTERING YOUR COMPANY NUMBERS)

TUESDAY, NOVEMBER 10, 2020



## MIKE BULL



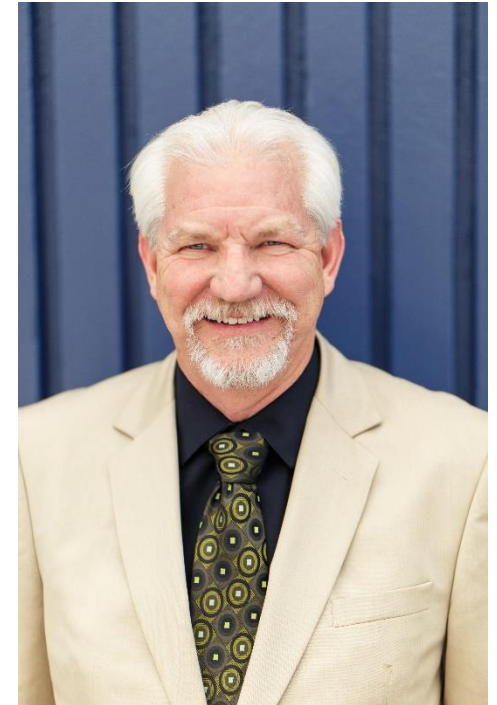
Mike has been a small business owner for over 20 years. His experience is in the manufacturing and distribution industries. Most recently he spent 5 years as a small business consultant. Mike has spent time in all areas of business including production, administration, sales, marketing, supply chain management, and customer service. Making businesses strong and healthy is his main goal.

Mike completed his bachelor's degree in Psychology and Marketing at Northern Arizona University and his MBA from Boise State University.

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**Counseling**



**Training**



**Research**

## Guidance Areas

- Funding Assistance
- Business Plans
- Financial Review
- Market Research
- Marketing/Sales
- Business Operations
- Growth Strategies
- Export/International Trade
- Exit Strategies

# REQUEST COUNSELING



## How to request counseling:

- Complete the **Request for Counseling Form**
- Sign-up on our website:  
**[www.maricopa-sbdc.com](http://www.maricopa-sbdc.com)**



# WHAT ARE WE GOING TO BE COVERING TODAY?



- I. Basic Accounting Reports
- II. Basic Accounting Terms
- III. How to use numbers to make decisions

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"I am quite certain that there was absolutely no 'cooking' of the books. Reheating, however..."

# FIRST THINGS FIRST

## SEPARATE BUSINESS AND PERSONAL FINANCES



- Maintain a bank account specifically for the business.
- Don't be tempted to use the business debit/credit card for personal expenses!
- This keeps all business income and expenses separate, which simplifies recordkeeping and tax filing.
- Use Accounting software.
- If audited by the IRS, the burden of proof is on the owner to disclose business income and expenses.
- Mixing business funds with personal funds can “Pierce the corporate shield”

## People in business usually fall into one of two categories:

- Those who are fascinated with numbers
- Those who are frightened by them

If you're in the first category, you were probably delighted to see this webinar offered.

If you are one of those in the second category, however, you're probably intimidated by the very prospect of sitting in this webinar.



## INTRODUCTION



- KEYS TO BUSINESS SUCCESS:
- If you shy away from dealing with numbers, it's easy to get into financial trouble.
- Learn to pay attention to your ongoing financial situation. It will help you avoid unpleasant surprises.
- Even if you leave the number-crunching, bill paying, and financial data entry to someone else, familiarize yourself with how to read and understand your financial statements. (Outsource the work, not the knowledge)
- Numbers help you make better business decisions and retain more control over your operations.

## NUMBERS REPRESENT YOUR DECISIONS



- Take heart: Numbers are neither magical, mysterious, nor menacing.
- They merely reflect other decisions you have made previously in your business planning.
- If you decided to advertise each week in your local newspaper, there's a number attached to that decision.
- If you projected sales at a certain level, there's a number attached to that decision as well.
- Numbers are *not* just details: They are the vital signs of any business; you must understand your company's numbers to realistically assess the condition of your business. (Numbers are the language of Business, learn to speak it fluently!)

## READ YOUR FINANCIAL STATEMENTS



- Get in the habit of reading your financial statements at least monthly, and make sure you understand what you read.
- Make your financial statements a good summary, not an over burdensome list of details.
- Track items such as sales receipts on a daily or weekly basis.
- Don't wait for reports to come back from the accountants before knowing your financial position.
- Determine a few key numbers that you like to keep track of. You don't have to memorize the whole report.

## SET POLICIES AND STICK WITH THEM



- Set financial policies in place and stick with them, in good times and bad. Many businesses, even big companies, get in trouble through inadequate billing and collection procedures. Stay on top of your finances.



- The difference between cash and accrual accounting lies in the timing of when sales and purchases are recorded in your accounts. Cash accounting recognizes revenue and expenses only when money changes hands, but accrual accounting recognizes revenue when it's earned, and expenses when they're incurred.

## WHAT SHOULD I USE, CASH OR ACCRUAL?



- How about both?
- Most computer software programs will easily toggle from one to the other and back again.
- Most accountants will suggest “cash” at tax time.
- Most businesses manage better by using “Accrual”





## PROFIT AND LOSS STATEMENT (ALSO CALLED AN INCOME STATEMENT)



Covers a designated period of time  
Demonstrates the ability to generate profits

Shows:

- Revenues (Income) (2 – 5 revenue streams)
- Cost of Goods Sold (preferably that match up to the revenue streams)
- Gross Profit (\$) or Gross Margin (%)
- Fixed (indirect) expenses
- Net Profit

Sample Company - Profit & Loss



Income

- 4101 · Turf Sales
- 4103 · Envirofil Sales
- 4125 · Additional Services
- 4201 · Installation Sales
- 4190 · Discount

Total Income

Cost of Goods Sold

- 5101 · Turf Expense
- 5103 · Envirofil Expense
- 5105 · Additional Services Expense
- 5160 · Contract Labor - Install

Total COGS

Gross Profit

Expense

- 5300 · Installation Expenses
  - 5317 · Fuel & Propane
  - 5340 · Business Licenses and Permits
  - 5350 · Repairs & Maintenance
  - 5375 · Supplies - Install
  - 5380 · Small Tools

Total 5300 · Installation Expenses

5700 · Sales Expenses

- 5701 · Sales Labor
- 5710 · Trade Show Expense
- 5720 · Promotion & Advertising

Total 5700 · Sales Expenses

5900 · Admin Expenses

- 5911 · Rent Expense
- 5915 · Computer & Internet
- 5917 · Telephone Expense
- 5919 · Insurance Expense
- 5925 · Bank Service Charges
- 5928 · Legal
- 5934 · Trash Service
- 5955 · License & Fees
- 5975 · Office Supplies

Total 5900 · Admin Expenses

Total Expense

Net Ordinary Income



## BALANCE SHEET



- Covers a moment in time
- Demonstrates cumulative financial health
- Shows Assets, Liabilities, Owner Equity and Net Worth

# ACCOUNTING EQUATION (BALANCE SHEET)



<b>Assets</b>	<b>=</b>	<b>Liabilities</b>	<b>+</b>	<b>Owner's Equity</b>
<b>Current Assets:</b>		<b>Current Liabilities:</b>		
Cash		Accounts Payable		Owner's Capital
Accounts Receivable		Notes (loans) Payable (under 1 year)		Owner's Draws
Inventory		Employment Taxes Payable		Common Stock
<b>Fixed Assets:</b>		Sales Tax Payable		Retained Earnings (Accumulated Profits)
Building		Credit Card Debt		Net Income (Current Profits)
Equipment		<b>Long Term Liabilities:</b>		
Land		Loans Payable (over 1 year)		

Sample Company Balance Sheet

ASSETS

Current Assets

Checking/Savings

1105 · Bank of America

1100 · Accounts Receivable

Total Accounts Receivable

Total Current Assets

Fixed Assets

1600 · Inventory

1700 · Equipment

1790 · Accumulated Depreciation-Equip

Total Fixed Assets

TOTAL ASSETS

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

20000 · Accounts Payable

Credit Cards

2503 · Amex Blue

2505 · Spark (Capital One)

Other Current Liabilities

2200 · Payroll Liabilities

2540 · Employee Reimbursements and Loan

2550 · Sales Tax Payable

Total Current Liabilities

Long Term Liabilities

2400 · Loan from Owner

Total Liabilities

Equity

3000 · Opening Balance Equity

3200 · Retained Earnings

Net Income

Total Equity

TOTAL LIABILITIES & EQUITY



- Contains all lines (accounts) found on either P & L or Balance Sheet

Sample Company - Profit & Loss

Income	
4101 · Turf Sales	1,000
4103 · Envirofil Sales	
4125 · Additional Services	
4201 · Installation Sales	
4190 · Discount	
Total Income	
Cost of Goods Sold	
5101 · Turf Expense	
5103 · Envirofil Expense	
5105 · Additional Services Expense	
5160 · Contract Labor - Install	
Total COGS	
Gross Profit	
Expense	
5300 · Installation Expenses	
5317 · Fuel & Propane	
5340 · Business Licenses and Permits	
5350 · Repairs & Maintenance	
5375 · Supplies - Install	
5380 · Small Tools	
Total 5300 · Installation Expenses	
5700 · Sales Expenses	
5701 · Sales Labor	
5710 · Trade Show Expense	
5720 · Promotion & Advertising	
Total 5700 · Sales Expenses	
5900 · Admin Expenses	
5911 · Rent Expense	
5915 · Computer & Internet	
5917 · Telephone Expense	
5919 · Insurance Expense	
5925 · Bank Service Charges	
5928 · Legal	
5934 · Trash Service	
5955 · License & Fees	
5975 · Office Supplies	
Total 5900 · Admin Expenses	
Total Expense	
Net Ordinary Income	

Sample Company Balance Sheet

ASSETS	
Current Assets	
Checking/Savings	
1105 · Bank of America	
1100 · Accounts Receivable	1,000
Total Accounts Receivable	
Total Current Assets	
Fixed Assets	
1600 · Inventory	
1700 · Equipment	
1790 · Accumulated Depreciation-Equip	
Total Fixed Assets	
TOTAL ASSETS	
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
20000 · Accounts Payable	
Credit Cards	
2503 · Amex Blue	
2505 · Spark (Capital One)	
Other Current Liabilities	
2200 · Payroll Liabilities	
2540 · Employee Reimbursements and Loan	
2550 · Sales Tax Payable	
Total Current Liabilities	
Long Term Liabilities	
2400 · Loan from Owner	
Total Liabilities	
Equity	
3000 · Opening Balance Equity	
3200 · Retained Earnings	
Net Income	
Total Equity	
TOTAL LIABILITIES & EQUITY	



## STATEMENT OF CASH FLOWS



- Covers a designated period of time
- Demonstrates the ability to pay bills
- Contains both Income Statement and Balance Sheet Items



# 4138



## WHAT AFFECTS CASH FLOW?



- Cash on Hand
- Accounts Receivable
- Accounts Payable
- Inventory
- Credit Cards
- Loan Payments (Interest vs Principle)
- Sales tax and payroll liabilities
- Depreciation

**You can show a profit, and still run out of cash!**

## OTHER FINANCIAL FORMS



- **Sources and Uses of Funds.** Shows where money needs to be spent (Uses), and where that money will come from (Sources). Used for start ups, adding a new line of products, adding new services, anything that is going to require that more money be invested in the business. A potential investor or loan officer will want to see this.
- **Break-even Point.** Shows the point at which sales equal costs and you begin to make a profit. Very flexible tool. Advisable for all internal planning.
- **Startup Costs.** For a new business shows the initial investment necessary to begin operations.
- **Assumption Sheet.** Shows those reading your financial statements how you determined the figures used. A good adjunct to other forms.

## ACCOUNTING TERMS



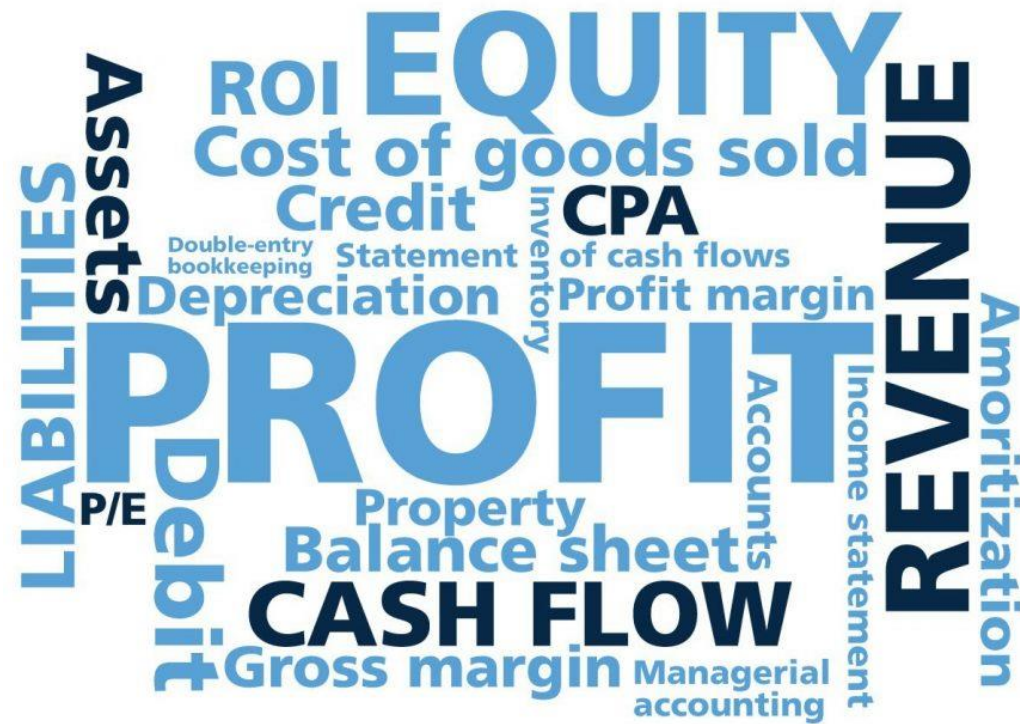
- **Collateral** - Assets pledged in return for loans.
- **Debt Financing** - Raising funds for a business by borrowing, often in the form of bank loans.
- **Equity Financing** - Raising funds for a business by other people investing and being granted partial ownership in return.
- **Debt Service** - Money being paid on a loan; the amount necessary to keep a loan from going into default.

- **Disbursements** - Money paid out.
- **Net Worth** - The total ownership interest in a company, represented by the total amount of assets minus the total amount of liabilities.
- **Working Capital** - The cash available to the company for the ongoing operations of the business.

## ACCOUNTING TERMS



- **Accounts Payable.** Obligations owed to others; list of outstanding bills.
- **Accounts Receivable.** Obligations owed to your company by others; a list of outstanding invoices.
- **Assets.** Anything the company owns having a positive monetary value.
- **Cash.** Immediately available money in the form of currency, checks, or bank deposits.
- **Cost of Goods.** Expenses directly associated with producing and making a specific product. Companies differ as to which expenses they attribute to cost of goods, but generally items such as source materials, direct labor, and freight are included.



## MORE ACCOUNTING TERMS.....



- **Current Assets.** Assets that can be converted quickly, with relative ease, to cash; these assets are designed to be turned over in the normal course of doing business, such as bank deposits, inventory, and accounts receivable.
- **Current Liabilities.** Any bills, debts, or obligations occurring in the ongoing course of business; any debt due within the next year. Includes accounts payable, accrued payroll expenses, and loans and credit lines with less than one year's maturity date.
- **Depreciation.** The wear and tear on fixed assets—not a cash expenditure, but an ongoing expense of the business as equipment wears down. A tax deduction.
- **Equity.** Ownership of a company, usually distributed by means of shares of stock. A person who owns part of a company is said to have an equity interest in the company.
- **Fixed Assets (or Property, Plant, and Equipment).** Assets that are the ongoing means of doing business; such assets are generally cumbersome to turn into cash; includes buildings, land, and equipment.
- **Fixed Costs.** Ongoing expenses or overhead of a business that occur regardless of the amount of sales. These expenses usually include items such as rent, utilities, and salaries.



## STILL MORE.....



- **Gross Profit.** Revenue minus Cost of Goods Sold.
- **Liabilities.** Any outstanding obligation or debt of the company.
- **Long-Term Liabilities.** Loans and other debts that come due in more than a year's time.
- **Net Profit.** Amount of income after deducting all costs of doing business, including administrative overhead and other fixed costs. (Bottom Line)
- **Profit.** Amount a company earns after expenses.
- **Pro Forma.** Financial statements based on projected future performance rather than actual historical data.
- **Retained Earnings.** Net worth amount the company keeps internally for ongoing development of the business rather than distributing to shareholders.

## KEEP RECORDS OF ALL DEPOSITS



- Helps to distinguish between different types of deposits:
  - Income
  - Owner investments
  - Loan proceeds
- In an IRS audit, the IRS will request copies of bank statements. If deposits total greater than income reported, the IRS may assume that you didn't report all income.

## TRACK EVERY EXPENSE



- Improves financial awareness.
- Get the most deductions possible.
- Keep documentation to support all expenses!

**If you can't measure it,  
you can't manage it!**

## FUN EXTRA CREDIT FORMULA



- Break-Even Point - refers to the amount of revenue necessary to cover the total fixed and variable expenses incurred by a company ...
- Break-Even =  $\frac{\text{Fixed Costs}}{\text{Gross Margin}}$
- Break-Even =  $\frac{\$5,000}{40\%} = \$12,500$
- Break-Even =  $\frac{\$5,000}{60\%} = \$8,333$

## ADD DESIRED PROFIT TO YOUR FIXED EXPENSES

- Break-Even =  $\frac{\textit{Fixed Costs}}{\textit{Gross Margin}}$
- Break-Even =  $\frac{\$5,000 + 5,000}{40\%} = \$25,000$
- Break-Even =  $\frac{\$5,000 + 7,500}{60\%} = \$20,833$

## OTHER METRICS TO USE

- Revenue per productive hour -  $= \frac{\text{Total Revenue}}{\text{Total Hours}}$
- How many estimates/ quotes per sales order =  $\frac{\text{Number of Estimates}}{\text{Number of Sales}}$
- Revenue per click =  $\frac{\text{Total Revenue}}{\text{Total clicks}}$
- Accounts Receivable Turn Over =  $\frac{\text{Credit Sales}}{\text{Average A/R}}$
- Customer Acquisition Cost =  $\frac{\text{Sales \& Marketing Costs}}{\text{Total New Clients in Period}}$

### Find your numbers:

- What are the most meaningful numbers?
- What do you want to change? (are you committed to that change?)
- Track them, communicate them, know them, use them!



# ACCOUNTING SOFTWARE PACKAGES



- 1. [Intuit QuickBooks Online / Quickbooks Desktop](#)
- 2. [FreshBooks](#)
- 3. [Wave](#)
- 4. [Sage 50cloud](#)
- 5. [Xero](#)
- 6. [Zoho Books](#)
- 7. [GoDaddy Bookkeeping](#)
- 8. [Kashoo](#)
- 9. [AccountEdge Pro](#)
- 10. [OneUp](#)

# ACCOUNTING SOFTWARE INFO



1. Cost of software
  1. 1 time or monthly?
2. Online or desktop or ?
  1. Is it accessible from anywhere on any device?
3. Can you start small and then grow?
4. Is it really “double entry”?
5. Job costing?
6. Credit Card processing?
7. Estimates or Quotes?
8. Accounts Receivable
9. Accounts Payable
10. Inventory
11. Bank and credit card reconciliation

## FIND WHAT WORKS FOR YOU



Compare / Contrast 3 different packages:

- On line or computer (desktop)
- Price (monthly or 1 time)
- How many users?
- Special features
- What features will you use?
- Will it grow with you?

THANK YOU!!



Questions?