

Demystifying Financial Foundations – Income, Assets, Cash Flow SCORE Kansas City

For the Life of Your Business

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AGENDA

Key Topics to be covered in this workshop

- Why it is important to have a understanding of Finance/accounting
- Key Finance/Accounting Partners – Do it yourself or hire
- Financial Management good for personal and business
 - Financial terms/the language of business
 - Balance Sheet
 - Income Statement
 - Cash Flow Statement
 - Cash Forecasting
- Business decisions and are the main items you control – Know your cost - Cost/Volume/profit Tool
- Summary

What is Financial Management / The role of a CFO?

Financial Management includes:

- Planning Hiring? Expanding? Borrowing?
- Directing Investing? Spending?
- Monitoring Making money? Growing sales?
- Organizing Expenses? Sales?
- Controlling Cash flow? Inventory?

of the monetary resources of an organization.

Most activity for any business turns into a \$\$\$\$ event that must be measured

What are the Benefits of Financial Management?

Financial management helps you:

- First, if you are making a profit or achieving your goals.
 - ❖ If you make a profit, the only macro decisions you can make include pay yourself, pay your employees, pay your vendors, put it into the business, pay down debt, or give it to charity
- Using the data to make decisions to grow profits
 - ❖ Decide on your prices
 - ❖ Decide when to use vendors v. do it yourself/employees
 - ❖ Decide on how to fund growth (how much to pay yourself or put back into the business v loans)
 - ❖ Decide which products, services, and markets are profitable.
 - ❖ Decide on new capital purchases .
- This requires that you measure/account and predict results

Key Partners at start of business and throughout

Banker – Funding

Accountant – CPA / Bookkeeping

Lawyer (Legal and Tax) – CPA and Legal often work side by side in set up.

Part time CFO (sometimes called a fractional CFO if there is not a need for full time CFO)

WHY:

- **Form of legal structure to manage personal liability / tax strategy**
- **How you file your tax return (avoid, never evade taxes)**
- **How you fund the business (your money or someone else's – borrow)**
- **CFO – Helps to analyze the data for decision making**

Your Banker – What do they look at and require

1. Character – credit history, past loan behavior, integrity
2. Capacity – ability to repay, cash flow, DSCR- (debt service coverage ratio or the net operating income / total debt service or monthly debt payment
3. Capital – Owner equity in the business, or your financial ‘skin in the game’
4. Collateral – Assets that back the loan.
5. Conditions – Macro industry trends, macroeconomic environment

History: 2-3 years personal tax returns, 2-3 years financial statements (balance sheet and income statement), Debt schedule showing the debt you have and capacity. **Both personal and business (if available)**

Forecast: 1-2 years of financial statements with assumptions used, details on the cash/cost of the funding ask, a narrative of how you will use the cash, and the collateral to secure the loan. **A 6th C – Confidence – with back up for your assumptions – be prepared to answer questions**

Accounting and Finance Partners – Lots of Detail

CPA (not necessarily a CFO)

- Expert in accounting policy, tools, taxes
- Required in set up/taxes

Bookkeeper

- Track all income and expenses
- Set up bank account to aid in tracking
- Tool to use in tracking (QuickBooks, etc.)
- Chart of Account –
 - How do you want to track/manage your business

CFO (not necessarily a CPA)

- Partner with CEO (owner) who analyzes all the accounting data/cash and provides input on how to improve the business. CEO decides using CFO input



For small businesses, the key decision is do you hire or do it yourself – Would you rather?

- Banker – always good to build a relationship because you never know when you will need cash to get through a rough period or grow
- Would you rather spend your time doing the Financial Management functions (CFO) or spend time with Marketing/Sales/Strategy to grow the business?
- CPA/Tax - Legal Attorney – You can set up right and pay expensive CPA/Attorney fees, or not pay, and set up wrong and pay for it in the long run
- We all work for someone who sold something, which is the reason you are in business. It's your idea, your connections that are the genesis of the business.
- You determine where to spend your time that you are good at to have the “high class problem” of too many customers.

Questions ?

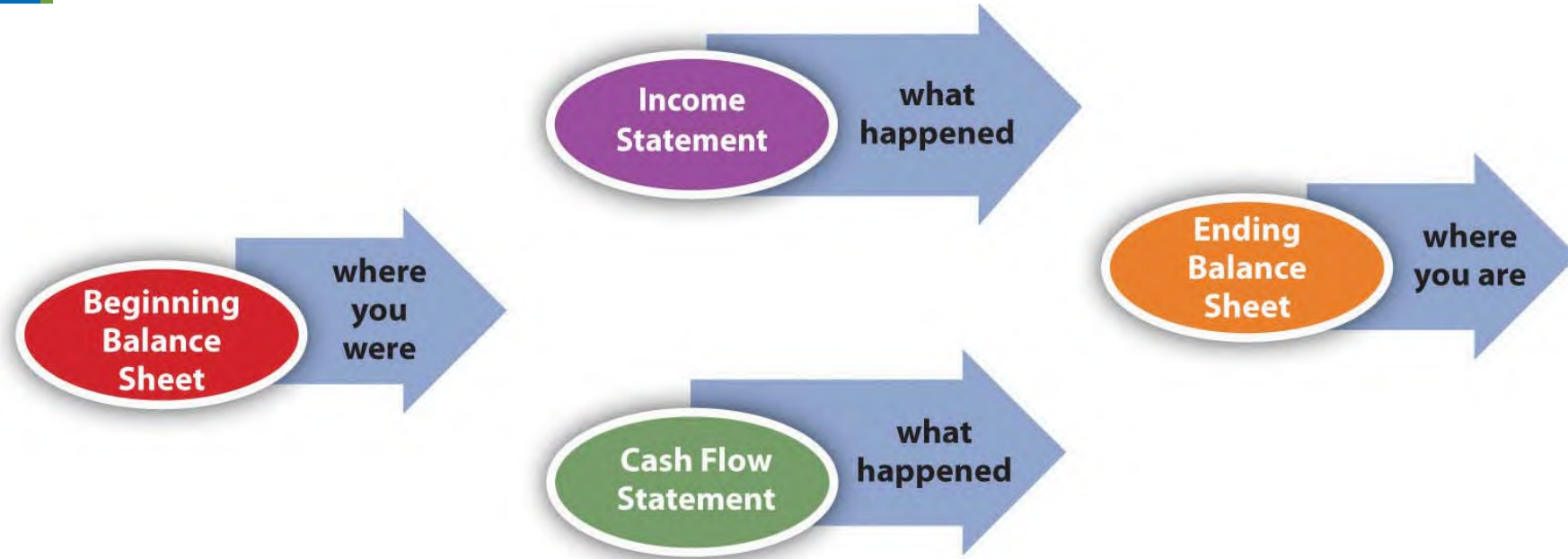
Financial Statement Terms – The language

Assets:	Anything you OWN that can be converted into cash such as cash, accounts receivable, inventory, office furniture, equipment, vehicles,
Liabilities:	Anything you OWE such as accounts payable, notes payable, long-term debt
Capital/Net Worth:	The difference between what you OWN less what you OWE , plus your earnings, what you retained of earnings v. what you distributed, plus paid-in capital
Revenue:	What you MAKE such as sales, income
Variable costs /Cost of Goods Sold:	What you SPEND to make the product or service that varies with the revenue you make
Fixed cost/expense :	What you SPEND on the business that don't vary with sales revenues/sales over relevant time frame
Earnings before taxes:	$\text{Revenue} - \text{Variable costs} = \text{Gross Margin} - \text{Fixed Cost} = \text{Earnings before taxes}$ - What you MAKE less what you SPEND before taxes
Income taxes:	State and Local income taxes
Net Income:	Earnings before taxes – taxes
EBITDA:	Earnings before interest, taxes and depreciation/amortization – cash generated by the business
Free Cash flow:	EBITDA less required capital expenditures, you can do whatever you want with it

Financial Management Tools

Financial Statements

- Balance Sheet
- Income Statement (Profit and Loss)
- Cash flow statement
- Cash Forecast



- A balance sheet is always at a point in time
- An income statement is for a “period” of time.
- Cash flow statement, primarily required by large Corporations (SEC requirement), is a reconciliation of your checkbook
- A cash forecast is separate but critical for a small business.
- All are interlinked
- **Based on what you measure. You can only manage what you measure**

Example of a Personal Balance sheet

Personal Assets (Cash and things you can turn into cash). What you OWN

Checking account	\$	10,000
Investments	\$	20,000
Car	\$	15,000
Contents	\$	5,000
Misc	\$	5,000
Home	\$	200,000
Total Assets	\$	255,000

Personal Liabilities - What you OWE

Credit cards	\$	3,000
Future taxes	\$	4,000
Car Loan	\$	15,000
Student Loan	\$	10,000
Home Loan	\$	170,000
Total Liabilities	\$	202,000

Net Worth - Difference between what you OWN and what you OWE

Net Worth	\$	53,000
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- Your business idea should drive increase in net worth over time, but usually not at the start.
- Always good to track periodically to look at trends and if you are improving or not.
- Can be measured at any point in time. Trends help tell the story.
- Having this information helps you think through how you will fund your business (my money from your net worth, or someone else's money via a loan).
- If net worth is negative, may be a hard sell to get a loan; important to have a relationship with your banker.
- You can choose how you track (chart of accounts), that makes sense to you.
- **You can only manage what you measure!**

Example of a Balance Sheet for Business

Assets		Liabilities and Capital	
Current Assets		Current Liabilities	
Cash	\$1,000	Accounts Payable	\$500
Accounts Receivable	\$2,000	Notes Payable	\$1,000
Inventory	\$1,500	Other	\$500
Other	\$700	Subtotal	\$2,000
Subtotal	\$5,200	Long-term Liabilities	\$1,000
Long-term Assets		Total Liabilities	\$3,000
Office furniture	\$1,000	Capital	
Vehicles	\$3,000	Earnings	\$300
Subtotal	\$4,000	Retained earnings	\$900
Less Accumulated Depreciation	\$1,000	Paid-in Capital	\$4,000
Subtotal	\$3,000	Total Capital	\$5,200
Total Assets	\$8,200	Total Liabilities & Capital	\$8,200

- Your business idea should drive increase in net worth over time, but usually not at the start.
- Always good to track periodically to look at trends and if you are improving or not,
- Can be measured at any point in time. Trends help tell the story. Required for tax returns
- Having this information helps you think through how you will fund your business. For loans it usually requires a 2 year forward looking view.
- Net Worth often is negative in the beginning given the income statement impact (more expenses than revenue) – “deep pockets”
- You can choose how you track (chart of accounts), that makes sense to you.
- Working capital can be a source of funding.
- **You can only manage what you measure!**

Income Statement – Example for Personal Income Statement

Cash In (Revenue)

Pay check net of taxes	\$	3,000
Your business draw/wage net of taxes	\$	10,000
Interest/dividends	\$	200
Misc (gifts)	\$	300
Total cash in	\$	13,500

Cash out (Expenses)

Credit cards	\$	6,000
Debit cards	\$	1,000
Venmo/zelle/cash	\$	1,000
Checks	\$	500
Home loan	\$	1,500
Car loan	\$	400
SH	\$	300
Total cash out	\$	10,700

Net Income - Difference between revenue and expenses

Net income	<u>\$</u>	<u>2,800</u>
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Free Cash flow - The excess of what you make v. what you spend on required items to apply to discretionary items

- At a minimum track your expenditures by method of payment and over time
- Evolve it to track how you want (Needs v. wants v. discretionary line items)
- Analyze it to think of ways to improve it
- Free cash flow – Make more than you spend (and save)
- If seeking loans, banker will seek this type of information and tax returns
- You can choose how you track (chart of accounts), that makes sense to you.
- You can only manage what you measure!

Income Statement – Example for Business

Income statement example

TEDDY FAB INC. STATEMENT OF INCOME Year Ended December 31, 2100	
Revenues	\$ 1,000,000
<u>Cost of goods sold</u>	<u>200,000</u>
Gross profit	800,000
Operating expenses	
Selling, general, and administrative expense	357,700
Interest expense	20,000
Depreciation and amortization expense	5,200
<u>Operating income</u>	<u>417,100</u>
Interest income	20,000
Net earnings before taxes	<u>437,100</u>
Income tax expense	<u>240,000</u>
Net income	<u>\$ 197,100</u>

- Track your revenue and expenses in way that makes sense to you
- Evolve it to track to help you improve results
- Analyze it to think of ways to improve it
- Free cash flow – Make more than you spend over time
- If seeking loans, banker will seek this type of information and tax returns .
- As a business owner, with net income you can
 1. Pay yourself
 2. Pay your employees/contractors
 3. Pay down debt
 4. Invest in growing your business
 5. Give it to charity
- You cannot manage what you do not measure

Example of Cash Flow Statement – Publicly Held Companies

Cash Flow from Operating Activities	
Net income	\$23,000
Add: depreciation expense	4,000
Increase in accounts receivable	(6,000)
Decrease in inventory	9,000
Decrease in accounts payable	<u>(5,000)</u>
Cash provided (used) in operating activities	<u>25,000</u>
Cash Flow from Investing Activities	
Capital expenditures	(28,000)
Proceeds from sale of property	<u>7,000</u>
Cash provided (used) by investing activities	<u>(21,000)</u>
Cash Flow from Financing Activities	
Borrowings of long-term debt	10,000
Cash dividends	(5,000)
Purchase of treasury stock	<u>(8,000)</u>
Cash provided (used) by financing activities	<u>(3,000)</u>
Net increase in cash	1,000
Cash at the beginning of the year	1,200
Cash at the end of the year	<u>\$ 2,200</u>

- This statement is only for Publicly held companies (SEC). Nothing more than a bank account reconciliation.
- Required because Public companies must do “accrual” accounting
- Small businesses generally use cash basis accounting.
- Accrual accounting requires adjustments to the income statement and balance sheet to match revenue to expenses as earned.
- Cash basis accounting is as the name implies you account for transactions as cash is spent and cash comes in from products/services
- How would you use this information? Look back at the year and what will it tell you did with your cash.

Cash Forecasting

Day of Month	August		Sept		October				
	10000	Beginning balance	8000	Beginning Balance	2000	Beginning Balance			
1	0	10000	0	8000	0	2000			
2	0	10000	0	8000	0	2000			
3	0	10000	0	8000	0	2000			
4	2000	Cash in	12000	2000	Cash in	10000	2000	Cash in	4000
5	0	12000	0	10000	0	4000			
6	-3000	Expense 1	9000	-5000	Expense 1	5000	-5000	Expense 1	-1000
7	0	9000	0	5000	0	-1000			
8	0	9000	0	5000	0	-1000			
9	0	9000	0	5000	0	-1000			
10	0	9000	0	5000	0	-1000			
11	2000	Cash in	11000	2000	Cash in	7000	2000	Cash in	1000
12	0	11000	0	7000	0	1000			
13	0	11000	0	7000	0	1000			
14	-1000	Expense 2	10000	-1000	Expense 2	6000	-1000	Expense 2	0
15	0	10000	0	6000	0	0			
16	0	10000	-2000	Quarterly payment	4000	0	0		
17	0	10000	0	4000	0	0			
18	2000	cash in	12000	2000	cash in	6000	2000	cash in	2000
19	0	12000	0	6000	0	2000			
20	0	12000	0	6000	0	2000			
21	-2000	Expense 3	10000	-2000	Expense 3	4000	-2000	Expense 3	0
22	0	10000	0	4000	0	0			
23	0	10000	0	4000	0	0			
24	0	10000	0	4000	0	0			
25	2000	cash in	12000	2000	cash in	6000	2000	cash in	2000
26	0	12000	0	6000	0	2000			
27	0	12000	0	6000	0	2000			
28	-3000	Expense 4	9000	-3000	Expense 4	3000	-3000	Expense 4	-1000
29	0	9000	0	3000	0	-1000			
30	0	9000	0	3000	0	-1000			
31	-1000	Safety/stuff happens	8000	-1000	Safety/stuff happens	2000	-1000	Safety/stuff happens	-2000
Balance End of Month	8000		2000		-2000				

- No less than 3 month rolling forecast
- Always contingencies (stuff happens) safety net estimate
- Use your history to aid in forecasting
- Update regularly with cash balance
- Think through how to fund deficits
- If you have excess cash, what do you do with it (not earning much in the bank).
- **Don't forget to forecast your tax liabilities**

After you track, you are in a better position to forecast/budget

- Forecasting is helpful in being proactive v. reactive
- Every forecast is wrong, just by what degree. However, the lack of forecasting limits your ability to make good decisions and get ahead of issues before they happen.
- A forecast is a very useful tool to determine if you are achieving your goals (how much do you want to pay yourself)
- You generally forecast your sales forecast first as it will tell you where you need to invest to grow to meet your goals (hire, buy more equipment, increase inventory, etc.)
- If you track information at the level you want, it becomes much easier to do a forecast.
- Forecast are always built on assumptions, because no one knows what the future will be. It is key to validate your thought process behind each assumption.
- History is a pretty good indicator of the future and something to “benchmark” against (measure what you want to manage);
- History does not always repeat itself....stuff happens, therefore good to have a forecast that also contemplates worse case, best case, and “base case” scenarios.

Questions ?

Cost/Volume/Profit Tool

- A useful tool to help you think through how much you have to sell to achieve your profit goals (what you pay yourself).
- Useful for deciding what “lever” to pull to aid in improving the business results (sell more, increase/decrease price, lower unit cost, lower fixed costs, etc.)
- **Requires cost to be split between those that vary with sales and those that are fixed (do not vary with sales).**
- The concepts apply to both product and service businesses. For this to be useful, cost is split between variable (goes up/down with revenue), and fixed cost (does not vary with revenue).
- For service businesses, you decide if your cost is variable to the revenue (time linked to billable hours) or fixed (the income I want to earn).

Financial Management Practices

Types of Expenses

Variable Expenses

Expenses change directly with sales.

The cost to deliver one unit of product or service.

Direct labor (hourly), raw materials, packaging, unit transport, payroll taxes and costs per employee.

Variable costs are not optional

Fixed Expenses

Expenses you pay independent of sales.

Remain the same over a given period of time.

Rent, brick and mortar location, salaries (not hourly), advertising, insurance, write-off of equipment

Income Statement (Profit and Loss)

+Sales

- Cost of Goods Sold

= Gross Profit

- Fixed expense

= Net Profit

Income Statement (Profit and Loss)

+Sales



- Cost of Goods Sold


= Gross Profit

- Fixed Expenses

= Net Profit

- Income from your products
- Income from your services
- Prices you charge for shipping and handling
- Does NOT include taxes charges.

Income Statement (Profit and Loss)

$$\begin{array}{r} +\text{Sales} \\ - \text{Cost of Goods Sold} \\ \hline = \text{Gross Profit} \\ - \text{Fixed Expenses} \\ \hline = \text{Net Profit} \end{array}$$


- Direct material – including freight and other charges
- Direct labor to produce product – outside or contract
- Packaging and cost to ship product

Income Statement (Profit and Loss)

$$\begin{array}{r} +\text{Sales} \\ - \text{Cost of Goods Sold} \\ \hline = \text{Gross Profit} \\ - \text{Fixed expenses} \\ \hline = \text{Net Profit} \end{array}$$



- Rental space
- Cart lease payments
- Transportation and utilities
- Insurance
- Salaries
- Marketing
- Permits and Licensing

Financial Management Practices

Income Statement (Profit and Loss)

+Sales

- Cost of Goods Sold

= Gross Profit

- Fixed expenses

= Net Profit



The Accounting Game

Darrell Mullis and Judith Orloff



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Income Statement

Sales

\$25.00

- Beginning inventory \$0.00
- Purchases
 - Sugar \$2.00
 - Lemons \$10.00
- Total available for sale \$12.00
- Ending inventory \$2.00
- COST OF GOODS SOLD \$10.00



- GROSS Margin

\$15.00

Income Statement

GROSS PROFIT \$15.00

Expenses (fixed costs)

- Glass Rental \$2.00
- Advertising \$1.00
- Rent \$2.00

TOTAL EXPENSES \$5.00

NET PROFIT (pay yourself) \$10.00

You can think of net profit as a “fixed cost” in what you want to pay yourself

Financial Management Practices – Income Statement

COFFEE Cup SALES

Price	\$ 2.00
Sales Volume - Month	3,200
Total Sales	\$ 6,400

VARIABLE COSTS (Cost of Goods Sold)

Coffee costs	\$ 0.50
Cup	\$ 0.05
Other supplies	\$ 0.10
Variable cost per unit	\$ 0.65
Total Variable Cost	\$ 2,080

Sales

- Cost of Goods Sold

= Gross Profit

- Overhead/Fixed cost

= Net Profit



Financial Management Practices – Income Statement

Kansas Coffee

COFFEE Cup SALES

Price	\$ 2.00	
Sales Volume - Month	3,200	
Total Sales		\$ 6,400

VARIABLE COSTS (Cost of Goods Sold)

Coffee costs	\$ 0.50	
Cup	\$ 0.05	
Other supplies	\$ 0.10	
Variable cost per unit	\$ 0.65	
Total Variable Cost		\$ 2,080
Per Cup Margin	\$ 1.35	
Gross Profit		\$ 4,320

+Sales

- Cost of Goods Sold

= Gross Profit

- Overhead/Fixed cost

= Net Profit



Financial Management Practices – Income Statement

Kansas Coffee

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Price	\$ 2.00	
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Variable cost per unit	\$ 0.65	
Total Variable Cost		\$ 2,080
Per Cup Margin	\$ 1.35	
Gross Profit		\$ 4,320

FIXED COSTS EACH MONTH

Rental Space	\$ 1,200	
Cart Lease Payment	\$ 750	
Transportation and Utilities	\$ 625	
Insurance	\$ 450	
Salaries	\$ 1,295	
Total Fixed Costs per Period		\$ 4,320

+Sales

- Cost of Goods Sold

= Gross Profit

- Overhead

= Net Profit



Financial Management Practices – Income Statement

Kansas Coffee

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Transportation and Utilities	\$ 625
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Total Fixed Costs per Period	\$ 4,320

Net Profit \$ -

+Sales

- Cost of Goods Sold

= Gross Profit

- Fixed Expenses

= **Net Profit**



Financial Management Practices – Income Statement

Kansas Coffee

COFFEE Cup SALES

Price	\$ 2.00	\$ 2.00
Sales Volume - Month	3,200	4,000
Total Sales	\$ 6,400	\$ 8,000

Increase Sales

VARIABLE COSTS (Cost of Goods Sold)

Coffee costs	\$ 0.50	\$ 0.50
Cup	\$ 0.05	\$ 0.05
Other supplies	\$ 0.10	\$ 0.10
Variable cost per unit	\$ 0.65	\$ 0.65
Total Variable Cost	\$ 2,080	\$ 2,600
Per Cup Margin	\$ 1.35	\$ 1.35
Gross Profit	\$ 4,320	\$ 5,400

Increase COGS

Increase Margin

FIXED EXPENSES EACH MONTH

Rental Space	\$ 1,200	\$ 1,200
Cart Lease Payment	\$ 750	\$ 750
Transportation and Utilities	\$ 625	\$ 625
Insurance	\$ 450	\$ 450
Salaries	\$ 1,295	\$ 1,295
Total Fixed Costs per Period	\$ 4,320	\$ 4,320

Constant Fixed

Increase Profits

Net Profit	\$ -	\$ 1,080
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Financial Management Practices – Income Statement

Kansas Coffee

COFFEE Cup SALES

Price	\$ 2.00	\$ 2.00	\$ 2.25
Sales Volume - Month	3,200	4,000	4,000
Total Sales	\$ 6,400	\$ 8,000	\$ 9,000

VARIABLE COSTS (Cost of Goods Sold)

Coffee costs	\$ 0.50	\$ 0.50	\$ 0.48
Cup	\$ 0.05	\$ 0.05	\$ 0.04
Other supplies	\$ 0.10	\$ 0.10	\$ 0.08
Variable cost per unit	\$ 0.65	\$ 0.65	\$ 0.60
Total Variable Cost	\$ 2,080	\$ 2,600	\$ 2,400
Per Cup Margin	\$ 1.35	\$ 1.35	\$ 1.65
Gross Profit	\$ 4,320	\$ 5,400	\$ 6,600

FIXED COSTS EACH MONTH

Rental Space	\$ 1,200	\$ 1,200	\$ 1,200
Cart Lease Payment	\$ 750	\$ 750	\$ 750
Transportation and Utilities	\$ 625	\$ 625	\$ 625
Insurance	\$ 450	\$ 450	\$ 450
Salaries	\$ 1,295	\$ 1,295	\$ 1,295
Total Fixed Costs per Period	\$ 4,320	\$ 4,320	\$ 4,320

Net Profit	\$ -	\$ 1,080	\$ 2,280
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Financial Management Practices – Income Statement – Service Companies

	Base Case	Increase your rate you bill, but less hours	Increase hours you bill with lower price	Increase what you pay yourself per hour	Comments
Revenue					
Billable hours	140	120	160	140	
Rate	\$ 100.00	\$ 110.00	\$ 90.00	\$ 100.00	
Total Revenue/Sales	\$ 14,000	\$ 13,200	\$ 14,400	\$ 14,000	
Variable Cost					
Billable hours	140	120	160	140	
Rate	\$ 60	\$ 60	\$ 60	\$ 70	You, contractor, or employee
Total variable cost	\$ 8,400	\$ 7,200	\$ 9,600	\$ 9,800	
Gross profit per hour	\$ 40.00	\$ 50.00	\$ 30.00	\$ 30.00	
Total gross profit	\$ 5,600	\$ 6,000	\$ 4,800	\$ 4,200	
Fixed cost before taxes/owner Withdrawals					
Marketing consultant	\$ 500	\$ 500	\$ 500	\$ 500	
Insurance	\$ 300	\$ 300	\$ 300	\$ 300	
Wages you pay	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	You, contractor, or employee
CPA/Lawyer/Bookkeeping	\$ 500	\$ 500	\$ 500	\$ 500	
Rental	\$ 300	\$ 300	\$ 300	\$ 300	
Other fixed cost	\$ 400	\$ 400	\$ 400	\$ 400	
Total Fixed cost	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	
Net profit before interest and taxes	\$ 600	\$ 1,000	\$ (200)	\$ (800)	
Interest on loans	\$ 300	\$ 300	\$ 300	\$ 300	
Net income before taxes	\$ 300	\$ 700	\$ (500)	\$ (1,100)	
Taxes	25% \$ 75	25% \$ 175	30% \$ (150)	30% \$ (330)	
Net income available for withdrawal	\$ 525	\$ 825	\$ (50)	\$ (470)	Consult your CPA on how to structure between wages and withdrawals; different tax treatment to your business and personal taxes

Financial Management Practices – Income Statement – Service Companies – Taxes and sub - s

Practical example SUB S decision ----CONSULT YOUR CPA - SUB S

Revenue	\$	450,000	
Cost of goods sold (variable)	\$	25,000	Could be wages as part of billable hours
Gross margin	\$	425,000	
Wages	\$	50,000	Reasonable to save payroll on employee taxes up to maximum wage limit on FICA + medicare so roughly 7% in taxes
Fixed cost other	\$	30,000	Some of this cost could be sub S OR taken on your personal return create a second k-1 and throw it in there (see below)
Net income	\$	345,000	Note, the Sub s does not pay taxes on this, but this total amount is add to your K-1 for your personal return
Distribution	\$	100,000	Distribution to cover taxes and cash flow needs yet keep cash in the business to grow/run
	\$	245,000	Retained earnings (you can draw against later and it will not be taxed as it is taxed in the year it is earned (\$345K)

	Matt	Mike	
	0.51	0.49	Ownership
K-1 from Sub S	\$ 175,950	\$ 169,050	from net income above
Create your own K-1 for unreimbursed expenses	\$ 20,000	\$ 30,000	For personal expenses; Mike wants the latest I-phone and computer, Matt wants the lowest cost ones, etc
Income to be taxed on your personal return	\$ 155,950	\$ 139,050	Taxable at your marginal tax rate (consider your spouse
Your Marginal tax rate	0.2	0.3	Marginal tax rate (Mike is married and has a spouse that earns a lot)
Personal taxes	\$ 31,190	\$ 41,715	
Distribution	\$ 51,000	\$ 49,000	YOU DECIDE>...not taxed as it has already been taxed in the \$345,000

Wages	\$	50,000	\$	20,000
Payroll taxes		7%		7%
Taxes paid	\$	3,500	\$	1,400
YOU SAVE THE DIFFERENCE			\$	2,100

You can take cash as wages or distributions – but could impact your social security in the future

YOU DO NOT PAY TAXES ON THE DISTRIBUTION, ONLY THE NET INCOME OF THE SUB S

SUB S CAN BE MORE COMPLICATED, REQUIRE MORE FILING AND HAVE RECURRING COST BUT USUALLY THE SAVINGS IN PAYROLL TAXES MAKE IT A GOOD OPTION FOR YOUR BUSINESS STRUCTURE

Decisions, Decisions – Cost Volume Profit Analysis helps

- Do you raise or lower price
- What will price do to volume
- What will change in price do relative to competition's reaction
- Can you lower your unit costs for the variable items
- Do you find different vendors to lower cost, but will it impact the quality of the product.
- Sure, fixed costs are constant over time, but they can change also. Can you lower those costs?
- Recommend this type of analysis upfront, to see if your business meets the “reasonableness test” and with the assumptions you applied to predict the future, you can reasonably achieve your financial goals

Questions ?

Financial Management Practices – Summary

- **Benefits of Financial Management** – most activity your will do have \$\$\$/financial implications
- **Financial Partners and others (CPA, Bookkeeper, CFO, Banker and Lawyer –Tax/Business)**
 - You decide, would you rather have a partner do the work or do you want to do the work?
- **Financial Management tools**
 - **Financial Terms** (Assets – OWN, Liabilities – OWE, Net Worth (Assets – Liabilities), Revenue/Sales – MAKE, Expenses (What you Spend to get the revenue, Income – What you make v. what you spend)
 - **Balance sheet**
 - ✓ Assets – Liabilities = Net worth (at a Point in time)
 - **Income statement**
 - ✓ Revenue – Expenses (good to split between variable v fixed for CVP analysis)= Net Income before taxes - (for a PERIOD in time)
 - ✓ What you make (revenue) less what you spend (expenses) = net income
 - **Cash Flow Statement**
 - **Cash Forecast**
 - ✓ No less than 3 month rolling view of cash
- **Cost/Volume/Profit Tool**
 - Aids in decisions you make to grow profits
 - Test your business idea to determine if the assumptions used about the future will achieve your financial goals
- **You cannot manage what you do not measure. But if you don't analyze what you measure and use it for decision making why do it?**
 - You can decide how you track revenue and expenses to aid in decision making within some minor constraint for what is required for taxes

Thank you