



**41** Four Steps to  
**Financial Fitness**  
For Your Business

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Selling products and services is exciting if you own a business. Every time a customer says, “Yes, I’d love to do business with you” it feels thrilling to be an entrepreneur. The not-so-exciting part is handling the financial paperwork that comes with being self-employed. Like it or not, you’re responsible for keeping track of the numbers and knowing where your business stands financially. Even if the term “accounting” doesn’t sound sexy, the benefits of knowing where you are—and where you want to go—are huge. Benefits that equal profits are hot. Every wildly successful entrepreneur from Donald Trump to Estee’ Lauder started at the beginning—with a plan. They kept track of where they were and where they wanted to go. The purpose of this book is to get you started, help you chart your course, and give you all the tools you need to get financially fit—and stay that way!

## It’s okay to say the “F” word.

Let’s start by saying the “F word right now. Go ahead, say it! Ready?

1... 2... 3... FINANCIAL FITNESS! There! You said it! No matter how tempting it is to put off or skip the financial part of your business that seems overwhelming, burdensome, intimidating or just not fun—the good news is—you don’t have to put it off, stress about it or dread every minute you’re thinking about it. Financial fitness for your business is totally achievable, and after you read this book—you’ll know why you can’t skip this very important key to your success.

## Don’t swim without a life jacket

- Get started
- Always know where you are
- Know where you need to go

These three simple elements will help you grow a healthy business.

The steps to knowing where you are and where you’re going aren’t difficult; you just need to follow them. And don’t worry—it’s not the end of the world if you know that you’ll never get around to doing this stuff yourself. As a business owner and a decision maker, you always have the option of outsourcing the job to a qualified professional who will do it fast and efficiently. If you keep the following items up to date and organized, you will be less likely to take an uninformed turn in the wrong direction.



## 4 STEPS TO FINANCIAL FITNESS

**1. Earnings.** Know how much you have earned. Sounds simple doesn't it? Believe it or not, many business owners have only a vague idea of how much they have really earned. Not knowing this factor can easily weaken your ability to generate your fullest profit potential. Always keep a good understanding of how much your company has earned in a given period. Read on to find out how you'll know exactly how much money you're earning.

**2. Expense.** Know how much you have spent. Do you know how much it's really costing you to run your business? Not knowing what you have spent in comparison to what you have earned can lead to a lot of wasted money, overdraft fees, or worst of all, bankruptcy. Having an accurate record of all your costs will help you decide what changes you need to make.

**3. Bank balance.** Know your bank balance. Knowing your real-time bank balance means keeping track of how much money you have withdrawn and deposited and what your actual balance is, regardless of what the bank shows it as being. Certain items can take several business days to post to your account.

**4. Keep accurate records.** You need to know what is considered a business expense and what constitutes a personal expense. Accounting for the expenses as personal or business as they occur will make tax time much easier on your bank book and your nerves when it's time to figure your tax liabilities.

### *Just say YES! To KNOW*

Uhhh, let's face it. When you're spending money sometimes it feels better NOT to know exactly what's traveling out of your bank account. Sometimes in order to stay excited you'll prefer to keep your eyes glued to the income and your mind in a tiny bit of denial about the expenses. So, before you think about not keeping track of expenses, know this. Somebody HAS to know--you know? During heavy spending times when you're investing back into your business, if you need some "ignorance is bliss" time, we get it. Just be sure to throw those receipts in a shoe box or shopping bag--and hand them over to a numbers whiz so he or she can know what you'll need to know when you're over the hump and ready to open your eyes. So somebody will know what needs to be known... and did we mention the word "know" is the first thing you need to say "yes" to. This is the last time we'll mention the word "know". Now let's move on to a tastier word... MONEY!



## Forecasting Your Financial Future; I see money

Consider your business like a human body. In order for that body to be healthy in the future, you need to maintain it right now. Think of your books (as in bookkeeping) like they're the blood stream of your business. If the money is not flowing smoothly and controllably to all sections of the business body, deficiencies and other problems are likely to occur. If blood flow is restricted in a human body, this could result in health disasters like strokes or heart attacks. It's the same for a business body. If you don't have a clue of how much you're earning versus the amount you're spending, you can't get a true picture of your company's profitability. In other words, you won't be able to tell if you're making money on what you're selling. For example, if you're selling a product for \$10.00, and customers are buying it, you might think it's great. But if you find out six months later that it's costing you \$11.00 to sell your \$10.00 product, you just had a stroke!

A stroke is the end result of lots of little warning signs that if left unchecked—can later lead to failure. The warnings signs that your business is headed for trouble could be in the form of bounced checks, money deficiencies, and loss of potential income. Like your body, it's worth taking some time to look at the warning signs and find out what's causing them. A healthy body (your business) with unrestricted circulation (up to the minute bookkeeping) equals financial fitness.

When you fuel your body with all the specific foods it needs, you can operate at peak performance. The care and feeding of your enterprise is pretty much the same. Read on and you'll find out exactly how to fuel your business so you can jump on the fast track to success and be at the top of your game.

### Healthy Profits—How to Get There

Selling is not a hard thing to figure out if you know your product and you have confidence in it. The most important thing to know about selling—from the standpoint of earning healthy profits—is to know exactly what your products or services are costing you to sell. If you know how much you're spending to sell something, you'll be able to figure out what to charge for it. Beyond the obvious costs, a lot of expenses are subtle. They can eat away at your profits before you realize it. In order to know what your stuff is worth, the first thing you need to ask yourself is: How much is this costing me?

Travel and transportation are the biggest hidden costs. Anything that causes movement from one place to another needs to be factored into your prices. These costs

include shipping, gas, plane fares, taxi's and tips. Unexpected breakdowns, repairs, and damage control (fixing a problem) is also a cost that you'll never know when will happen. We call that the "Oops Monster". He can take a healthy bite out of your profit unless you add the "oops" factor to your costing. For example if your service involves driving places, how many times will you miss your exit, get lost or end up driving more and using more gas? Who knows? But your price should include extra funds for times when the Oops Monster sticks his foot into your path and trips you.

## **Receipts, Receipts, Receipts!**

The best way to know your costs and what you'll charge for your product or service is keeping receipts for everything you spend money on for your company.

Receipts are like laundry. You need to throw them in something so you can deal with them later. Don't toss your receipts in the hamper and wash them. But PLEASE throw your receipts in a bag. Or a shoe box. If a bag or a shoe box looks unprofessional to you, get one that looks like a brief case. Throw all your receipts in that brief case, so you can definitely look important, and deliver it to your bookkeeper. You won't have to worry about all that filing stuff, and adding up numbers. To keep your expense records amazingly up to speed, just pretend you're a secret agent playing a scene in the movie, Mission Impossible. Put on your dark glasses, hand the case to your bookkeeper, and accept the next mission: check out the cool spreadsheet your bookkeeper creates out of that pile of paper in your bag or shoe box that looks like a brief case. And remember; be on the lookout for expenses you might forget about. Whenever you go to the store to buy personal items, and you end up grabbing a few items for your business, circle the items on the receipt and save it.

You can have fun running a profitable business. Keeping your receipts organized is a key factor to maximizing your profits. And it's not as much work as you think. Remember when we told you that receipts are like laundry? Well now it's time to throw in a load.

### **Hunt it down and pick it up**

Find all of those stray receipts floating around in your purse, wallet, notebook, glove box, file folders or under the couch. Have fun with it. Send the kids on treasure hunt; bribe your friends with dinner or whatever it takes to find those puppies. Then have a drink and relax. Part one is done. Once you've gathered them all together, you're ready to move on to the next step.

### **What color is my laundry?**

Examine each receipt and determine whether it is a personal expense or a business expense and separate them accordingly. Now you have two stacks. Put the personal

receipt pile away and concentrate your attention on the business stack. You're already nearing your third step and you're making headway.

### **Sort and separate**

Separate the receipts into categories. These categories would include supplies, advertising and promotional expenses, travel and meals with clients. Once you have those separated into their categories, you can set them aside for the time being.

## **A word about Bank Statements**

Collect your bank and credit card statements. You (or your bookkeeper) will be matching the receipts up with the statements. For any items on the statement that you do not have a receipt for, you will want to note whether it was a personal or business expense and what the expense was for. This will negate the possibility of adding an expense twice.

## **The Best Filing Systems for your Receipts**

Now you have all your information sorted out. How will you keep your receipts organized for future use? There are three main types of filing systems used. However, if you have your own system and it works for you, then you'll want to stick with it.

### **How I paid for this**

The first filing system for receipts involves filing with consideration to how the item was purchased. Set up three folders or envelopes. Label them "Credit Card", "Debt Card" and "Cash". Drop your receipts in either the credit, debt or cash envelope according to how you paid for it. If you forget to do this, it can always be done later. But of course, now is better than later. Completing a cycle of action feels more empowering than having unfinished filing weighing on your brain. Either you or your accountant should file receipts on a regular basis.

### **What kind of expense is this?**

The second filing system files by the type of expense. This will require more folders, but it might save you sorting time in the long run. All expense types go in their own folders such as travel, travel food, supplies, postage, gas, etc. When you get ready to work with the receipts you will need to then separate them by months.



### **It's that time of the month**

The third system files receipts by month. Every month you start a new folder and fill it with that month's receipts. When it comes time to work with them, you will need to further sort them into the types of expenses they are. This is probably the easiest one to use. It doesn't require a lot of thinking. Just start a new folder or envelope every month and you're good to go!

Whatever filing system works best for you is the one you should use. You want to make this as stress free as possible so you won't feel overwhelmed or tempted to procrastinate on this important aspect of owning a successful business.

If you have a problem getting started or you feel like it's too stressful, definitely hire someone to organize everything for you in the beginning and show you how to work within the organization set up. This is the best investment you can ever make. And save the receipt.

### **Pick a card**

In the process of sorting your receipts, take note of where your money is coming from. If you are using multiple personal credit cards to make business purchases, you will want to change your habit to using only one credit card for business expenses. This will make business expenditures easier to track.

### **What are your spending habits?**

Have a separate business account. Opening a separate account will allow you to write checks and use ATM debit cards specifically for your business. This, coupled with your credit card spending report or statement, will help you illustrate and understand the spending habits of your company. Understanding your spending habits will help you not only help you forecast your coming expenses, it will also help you shave expenditures that may not really be necessary. Streamlining your spending will save your company money and gives you a better roadmap to where your financial future is headed.

### **Call for help when you need it**

Sometimes it takes a superhero to get you through the rocky roads. If the road seems impossible, don't call Grumpy Bookeeper Bob. Call Ninja Superhero Accountant Annie. Now that you know who to call, what you're about to read next won't be daunting. It will be your safety net.



# Tracking Your Income and Expense

## Keeping Track on the Money Trail

Tracking income and expenses gives you a clear view of your company's financial health.

## T is for Taxes

Tracking income and expenses prepares you for tax time at the end of the year. Sole Proprietors will need to file a Schedule C Profit and Loss from Business. And guess what you'll need so you can file your Schedule C and your P and L statement? That's right, folks... all those receipts, credit card and bank statements you tossed in your bag or box that looks like a brief case. Ninja Warrior Superhero Accountant Annie put all the numbers from them into a cool spreadsheet.

## Income and the Schedule C

To see an example of what it looks like when you're tracking your income, see the attached spread sheet called the Dunkin' Dog Wash Sales Report. This revenue model will help you in filling out Part I of the Schedule C on your tax return.

### Income Received

PURPOSE: Business Start UP

STATEMENT NUMBER:

Date	Customer	Address	Purchased Items	Returns	Amount Billed	Refund Given	Amount Due	
10/25/2009	Joan Brown	123 Main Street San Diego	Large Dog Washing		\$ 50.00		\$ 50.00	
10/31/2009	Kathy Smith	1895 Park Ave San Diego	Samll Dog Washing		\$ 25.00		\$ 25.00	
11/5/2009	Nick Green	1333 Balboa Ave San Diego	2 Large Dog Washing		\$ 100.00		\$ 100.00	
11/17/2009	Ester Madison	1287 University Ave San Diego	1 sm 1 lg Dog Washing		\$ 75.00		\$ 75.00	
11/17/2009	Paul Mansfield	2876 Park Ave San Diego	2 Cat Grooming		\$ 150.00		\$ 150.00	
11/25/2009	Joan Brown	123 Main Street San Diego	Large Dog Washing		\$ 50.00		\$ 50.00	
11/28/2009	Tina Snow (referral JB)	124 Main Street San Diego	2 Large Dog Washing		\$ 100.00		\$ 100.00	
12/2/2009	Kathy Smith	1895 Park Ave San Diego	Small Dog Washing		\$ 25.00		\$ 25.00	
12/2/2009	Nick Green	1333 Balboa Ave San Diego	2 Large Dog Washing		\$ 100.00		\$ 100.00	
12/3/2009	Shelly Porter (referral NG)	1335 Balboa Ave San Diego	2 Cat Grooming		\$ 150.00		\$ 150.00	
12/10/2009	Tim Morgan	8th Street San Diego	2 sm Dog Washing		\$ 50.00		\$ 50.00	
12/22/2009	Ester Madison	1287 University Ave San Diego	1 sm 1 lg Dog Washing		\$ 75.00		\$ 75.00	
12/22/2009	Paul Mansfield	2876 Park Ave San Diego	2 Cat Grooming		\$ 150.00		\$ 150.00	
12/27/2009	Joan Brown	123 Main Street San Diego	Large Dog Washing		\$ 50.00	\$ (5.00)	\$ 45.00	
							\$	
					\$ 1,150.00	\$ (5.00)	\$ 1,145.00	
10% discount for referrals								
							NOTES:	



## The Sales Report

Tracking Income and Returns on the Sales Report is simple. Enter in the date of the sale and the client information. Add the description of what your client purchased and the amount paid. Breaking down the different types of services or goods sold can help you later on in doing a revenue model.

In the example above, Dunkin Doggies gives a discount to any customer who refers another customer. Discounts can get complicated later when you're preparing your taxes if you haven't recorded those transactions. Trying to go back and figure it out at the end of the year could be horribly time consuming. The Schedule C part of your tax return requires Gross Receipts and Returns and allowances. The revenue model and the sales report are your friends. Get to know them well.

## The Expense Report

Here is another pal you'll want to get to know. Tracking expense will help track the money you are putting into the business in order to get it started and running. It will also allow you to analyze the costs of your product or services. Tracking helps you decide if your prices are going to cover your costs.

An expense report will assist you in filling out Part II of the Schedule C on your tax return. The bottom line is your expense report is a comprehensive list all of the expenses you incurred in the normal course of business. If you have employees who are also spending out of pocket for such things such as travel, food, gas, etc., they will also need to turn in expense reports listing what they purchased and how much they spent.

### Expense Report

PURPOSE: Dunkin Doggies

PERIOD: From \_\_\_\_\_  
To \_\_\_\_\_

Date	Description	Advertising	Insurance	Professional fee	Office Expense	Meals	Travel	Supplies	Phone	Total
10/25/2009	Doggies Shampoo							\$ 50.00		\$ 50.00
10/31/2009	Paper, pens, sales Rec book				\$35.89					\$ 35.89
11/5/2009	Towels, Brushes							\$127.65		\$ 127.65
11/17/2009	Printing for flyers	\$ 50.00								\$ 50.00
11/17/2009	Tub, hose, steps							\$350.98		\$ 350.98
11/25/2009	Liability Insurance		\$100.00							\$ 100.00
11/28/2009	Cell Phone								\$80.00	\$ 80.00
										\$
										\$
		\$50.00	\$100.00	\$	\$35.89	\$	\$	\$528.62	\$80.00	
Notes:									Total	\$ 794.52



Operating and administrative expenses are costs incurred in the course of doing business. These costs could include rent, office supplies, utilities, travel, etc. Meals are deductible on your company taxes for many reasons. If the meals costs are incurred during travel, you will want to group them with travel expenses. If you are taking your client out for a meal in the process of making a sale or marketing, you might want to include this as an advertising expense.

**Funding:** how does it factor into your operating expense?

Start-up businesses are normally funded by either the owner or by other sources such as loans. The obvious reason for this is that in most cases, no sales have taken place yet which means no cash has been generated by the company itself. Because there is not cash provided by the company, the company costs are born by the owner. You need to document the day to day, month to month costs in order to receive that money back from the company as a payback, rather than spontaneously spending money to get things done without accounting for it.

Ready, set... go!

So now you're on your way. This book helps you get started on the road to financial fitness for your business, teaches you how to know exactly where you are, and how to target where you need to go. With these four simple steps—knowing your Earnings, tracking your Expenses, keeping tabs on your Bank Balance and having Accurate Records at your fingertips, you'll have the most important tools for maximizing your profits. As the old saying goes, "Chance favors the prepared." You've read this book. You know what you need to do and where to get help when you need it. Now get ready for success!

