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Basic Finances

by Gerard R. Dodd and friends of The Maine Idea

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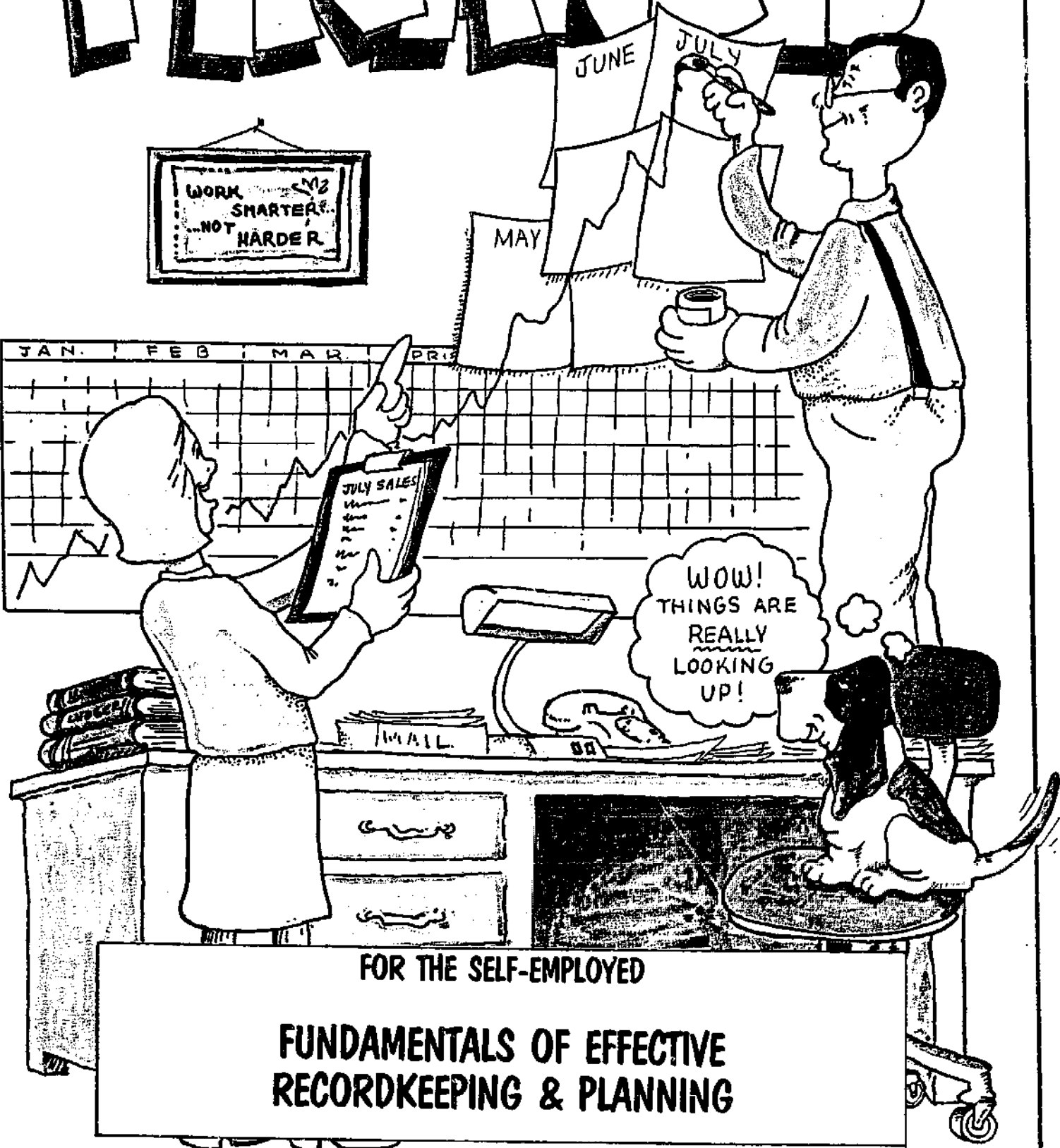
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# BASIC FINANCES

WORK SMARTER...  
...NOT HARDER.



FOR THE SELF-EMPLOYED

FUNDAMENTALS OF EFFECTIVE  
RECORDKEEPING & PLANNING

#### WORKBOOKS IN THIS SERIES:

<b>VOL. I</b>	<b>The Business Review</b>
<b>VOL. II</b>	<b>The Business Plan</b>
<b>VOL. III</b>	<b>Basic Finances</b>
<b>VOL. IV</b>	<b>Basic Marketing</b>
<b>VOL. V</b>	<b>Managing Time &amp; Personnel</b>

#### FRIENDS OF THE MAINE IDEA

Among those who made an **outstanding contribution** to these workbooks are: Sheila Denton, Maria Gasbarrone, Ron Goldstein, Mindy Loveitt and Paul Nevin (The Maine Idea), Bill Burrus, Jeff Ashe and Bill Taffel (ACCION International), Gerry Mitchell, Roland Hallee and Lynn Carlow (Royal Printing), Tim Sample (The Sample Studio), Ed Armstrong (C. P. Snowman & Co.), Lester Clark (Clark's Heating Oil), Barbara Luce (Rocky Luce Chimney Sweep), Dick Parkhurst (Oakes & Parkhurst Glass), Dick Peck (Peck's Welding), Puck Purnell (OBERON), Ron Serina (POP's Advertising), Nancy Whitman (Goose Eyed Shuttle), Carlton McGary & Joel Stevens (Key Bank), John Moulis (Bank of Maine), Les Stevens (State Development Office), Roy Taylor (Piscataquis Economic Development) and, of course, Annie Blair without whose help, encouragement and love this second edition could have never occurred.

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**MANAGEMENT WORKBOOKS FOR SELF-EMPLOYED PEOPLE, VOL. III**

# **BASIC FINANCES**

by  
**Gerard R. Dodd  
and friends of  
The Maine Idea**

**DODD-BLAIR & ASSOCIATES, P.O. BOX 644, RANGELEY, ME. 04970**

The contents of **Management Workbooks for Self-employed People** are derived from a wide variety of sources, including direct experience with micro-businesspeople throughout Maine. The information presented is intended only for use as general management guidelines. These workbooks stress self-help, but are not a substitute for competent professional assistance. Although the material has been prepared meticulously, the publisher is not aiming to provide legal, accounting or other professional services and cannot assume responsibility for errors and omissions.

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*To the 22,000 self-employed people in the State of Maine.  
May these workbooks serve you and help you continue being  
the backbone of our community.*

**A MICRO BUSINESS...**is the smallest economic venture — usually owner-operated with few employees and less than \$200,000 annual sales. Most craftspeople, service people, small farmers, “mom and pop” shops, cooperatives, and alternative businesses are micro businesses.

The terms “self-employed person,” “small time operator” and “micro (or mini) businessperson” are used interchangeably in these workbooks.



S.S. MANAGE IT BETTER

Tim Sauph

**ACCURATE RECORDS HELP  
YOU SET GOALS AND  
MOVE TOWARDS THEM!**



## Introduction

Sound management is based on facts, not guesswork. Before you can know where you're going, you need to know where you've been! Effective recordkeeping (when combined with conscientious monthly analysis) will give you the information needed to make decisions about the future of your business. It will help you plan, organize and control what has to be done. It will help you trim costs, save on income taxes, keep track of payroll records, sales tax, etc.

It is only by taking firm control of the financial aspect that you will be able to turn a high quality product or service into a thriving, stable business. The simple discipline of recordkeeping will make you a more cost-conscious and effective manager.

Everyone we've talked to agrees that these tools are needed: a reliable system for recording daily financial transactions, a good accountant who understands your needs, cash flow projections and monthly analysis of your real situation. Conscientious use of these tools will produce a more efficient, smoother functioning enterprise. You'll be able to analyze your financial situation with greater accuracy and expand with confidence, knowing you're in control.

***SIMPLE RECORDKEEPING AND CONSCIENTIOUS FINANCIAL PLANNING ARE BASIC  
TO CUTTING EXPENSES AND OPERATING A MORE PROFITABLE ENTERPRISE!***

# STEPS TO BETTER FINANCIAL CONTROL



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 ...Bankers & Accountants



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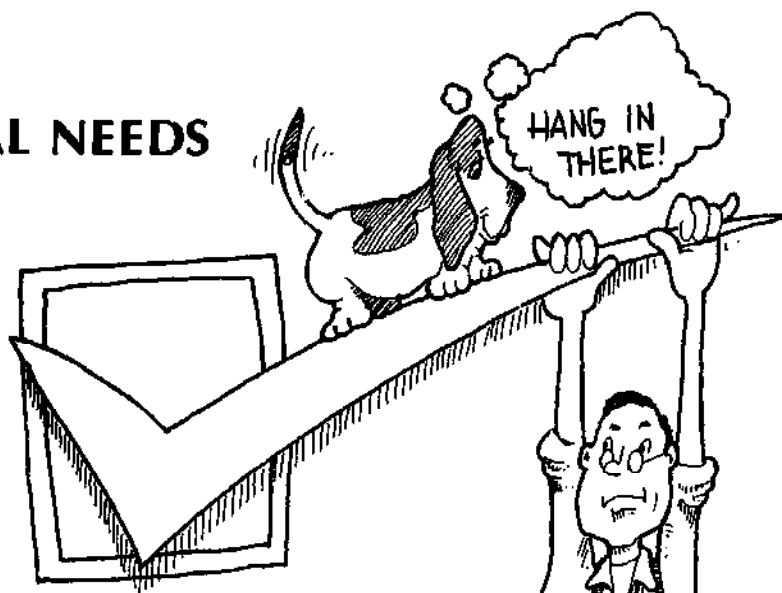
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**ANY Step You Take is a Step in the Right Direction!**

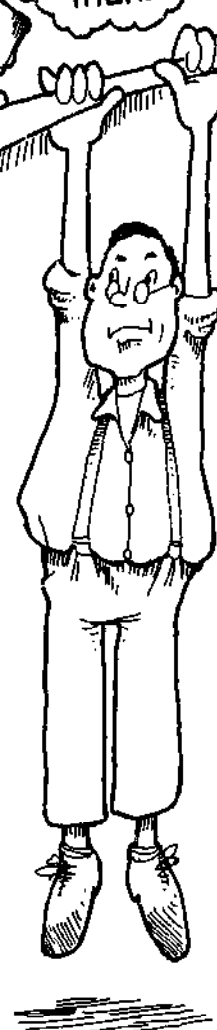
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# MY OVERALL FINANCIAL NEEDS

## A CHECKLIST



	Right NOW	6 Mos. Later
<b>AN ACCOUNTANT...</b> ...who truly understands my situation. ...who gives my work the priority it deserves.		
<b>A BOOKKEEPING SYSTEM...</b> ...I can understand and be comfortable with. ...that is appropriate to my situation. ...that separates my personal and business expenses.		
<b>A SYSTEM FOR PLANNING INCOME &amp; EXPENSES</b>		
<b>A SYSTEM OF MONTHLY FINANCIAL ANALYSIS...</b> ...regular business meetings ...Balance Sheet and Profit & Loss statements ...comparison of real and projected cash flow		
<b>A COLLECTION SYSTEM...</b> ...a written credit policy ...timely billings and collections		
<b>INVENTORY CONTROL</b>		
<b>STANDARDIZED PURCHASING PROCEDURES</b>		
<b>TAX CONTROL AND PLANNING</b>		
<b>BETTER BANKING RELATIONSHIPS</b>		



**GOOD INFORMATION & BUSINESS ADVICE  
IS  
AVAILABLE NEARBY!!!**



**STEP I:**



**GET THE RIGHT OUTSIDE HELP  
AND USE LIMITED RESOURCES  
WISELY**

# BANKERS

Bankers and banks are all different. Some take the interests of the small operator seriously, others don't. If you are lucky enough to find the right banker, s/he can be a tremendous resource!

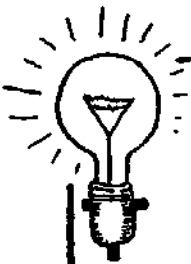
Bankers are good at financial analysis. They are familiar with cash flow projections and should be able to advise you on yours. Bankers can often provide valuable information on...

- ...general economic conditions
- ...regional and industry trends
- ...marketing and new product opportunities
- ...leads to other financial and non-financial help  
(including introductions & references when needed)
- ...credit checks and information on customers and suppliers.

Your banker can help you see how your business fits in. S/he should have a vested interest in your success!

Bankers are also helpful in assessing credit patterns in your area. Consumer credit payments tend to lag around Christmas, pick up as tax refunds are distributed, and then fall off again during the summer. Knowing this, you can plan accordingly. Get your banker's advice on your credit policy. S/he can explain how credit cards may be an attractive alternative to actually offering credit yourself. You may avoid some cash flow problems and some time-consuming collection.

***SHOP AROUND UNTIL YOU FIND A BANK YOU LIKE!***



## ACCOUNTANTS

An accountant can save you time, energy and money....and help give you the self-confidence you need to take control of the management of your business. Accountants are trained to advise you on taxes, financial systems and special bookkeeping problems. They can help you...

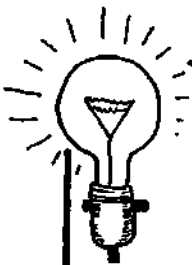
- ...set up systems and controls
- ...prepare and analyze cash flow statements
- ...deal with personnel and business taxes
- ...prepare credit applications
- ...find sources of financing.

Shop around for the right accountant for you and your business. Compare fees, services and quality. Find someone you feel comfortable with and check references before making a final decision. Does s/he work with other micro businesses? Are they pleased with him/her?

Some accountants charge by the hour (or fraction thereof) while others prefer a monthly retainer. Whichever, know what you're paying for and be sure your needs are being met.

Use your accountant wisely as a member of your management team! Explain how s/he fits in. Don't waste money having the accountant do things you can learn to do yourself — keep accurate, up-to-date records. Get help setting up the system and learning how to do a monthly analysis of your situation.

***AN ACCOUNTANT SHOULD BE USED FOR MORE THAN JUST TAXES!***





## **BE OPEN TO OUTSIDE HELP AND USE COMMUNITY RESOURCES**

**THINK ABOUT YOUR BUSINESS ASSISTANCE NEEDS.** Is your team complete? Could you use the help of an accountant, lawyer, banker, marketing advisor, management counselor, technician, etc.??? Where will you find such help?

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Your local library, chamber of commerce or service organization (Rotary, Kiwanis, etc.) may know sources of assistance in your area. If not, check with state government agencies and the Small Business Administration for referrals.

**RECORDKEEPING MAKES YOU MORE  
COST-CONSCIOUS AND IS THE  
BEST WAY  
TO CUT COSTS IN A BUSINESS  
OPERATION!!!**



**STEP II:**

**SET UP A BOOKKEEPING SYSTEM  
THAT WORKS FOR YOU AND  
YOUR BUSINESS**



Perhaps you're like many others who think that bookkeeping is simply keeping your receipts in a shoebox 'til tax time! Many businesses that thrive today started that way...but somewhere along the line, a more reliable way of keeping track of money was established.



Any growing company eventually comes to a point where management and bookkeeping become an essential part of making a profit. To run a profitable business, there are certain things you need to know with reasonable accuracy — which expenses can be deducted from your income taxes, how much your overhead is, how much you're taking out for living expenses, what you're spending on materials and supplies, etc. Without a bookkeeping system, it's impossible to control these outlays.

---

Do consult with an accountant before committing yourself to any bookkeeping system. You want to be sure the system you choose is appropriate to your needs. The accountant can help you get set up properly from the start which will save you time later.

---

On the next few pages, we present the two most common "single entry" bookkeeping systems used by micro businesses. They both operate on exactly the same principle, but approach it in different ways. The most rudimentary system is an Income Ledger, a business checkbook and an Expenditure Ledger. The "one-write" bookkeeping system is a bit more elaborate and costs more to set up, but those who use it are generally ecstatic about it!

## RECIPE FOR BASIC BOOKKEEPING

### Ingredients:

- (1) BUSINESS CHECKBOOK
- (1) INCOME LEDGER\*
- (1) EXPENDITURE LEDGER\*
- (1) INTERESTED OWNER/MANAGER

\* A **ledger** is a book in which the monetary transactions of a business are posted.

THE FINAL  
INGREDIENT  
IS  
YOU!

*Tim Sample*



## BUSINESS CHECKBOOK

This is an essential part of getting yourself organized and “being in business.” It helps separate your personal and business expenses which is vital if you are to keep track of the money flowing into and out of your business. Using your personal checkbook is not good enough! One major advantage of a business checkbook is larger checks and stubs which give you more space to write and do calculations.

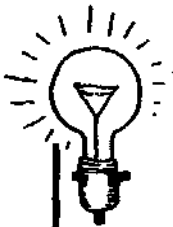
You need a separate business checkbook to handle business accounts in order to plan for growth and control expenses — no matter how small your company is. If you don't separate business and personal expenses, you'll never know how well your business is doing and you'll complicate your life at tax time (...and probably lose legitimate deductions).

---

As a sole proprietor, it's your right to take money out of the business, but please don't take cash directly out of the till! Instead, write yourself a check from the business checking account. That way, you'll always know exactly how much you've taken out each week or month...and, maybe, you can cut back on some unnecessary personal expenses.

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### ***SEPARATE YOUR PERSONAL & BUSINESS EXPENSES!***



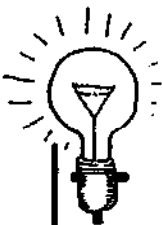
# INCOME LEDGER

This is a record of your business income. It is a detailed, daily listing of all incoming cash from sales, collections on accounts, and other sources. You'll need this information for tax purposes, but the Income Ledger can also help you manage better. As a control mechanism, it can help you analyze who your best customers are and what your best selling products or product lines are.

Your Income Ledger needn't be terribly elaborate. Use a notebook or some lined paper for it. Organize your receipts in categories which help you analyze the success of your sales efforts and planning. A simple journal will look something like this:

**SMITH & SMITH SUPPLY CO.**

DATE	RECEIVED FROM	TAXABLE SALES	SALES TAX	NON-TAXABLE SALES	TOTAL SALES
1	cash sales	10 50	53		11 03
1	D. Baker-pd on acct.	25 00			25 00
4	Steve's Electric	225 00	11 25		236 25
4	cash sales	22 30	1 11		23 41
4	H. Brown - service call			20 00	20 00
5	cash sales	16 40	82		17 22
5	R&R Construction	190 00	9 50		199 50



## EXPENDITURE LEDGER

This is simply a ruled piece of paper with enough columns to break down your expenses into categories or "accounts." Pads of ledger paper can be purchased at any stationery store for this purpose.

A good deal of thought should go into determining those expense categories which fill your needs. Those you select will be used over and over again in your recordkeeping and analysis. You'll use them not only for your Expenditure Ledger, but also to set up your Cash Flow Projection, your Profit & Loss Statement and Balance Sheet. You should become so familiar with these accounts that they are second nature to you!

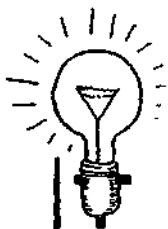
### TYPICAL EXPENSE CATEGORIES

Check those you need!

- |  |   |
|--|---|
| <input type="checkbox"/> Raw Material/Merchandise        | <input type="checkbox"/> Telephone                  |
| <input type="checkbox"/> Owner's Drawings                | <input type="checkbox"/> Postage                    |
| <input type="checkbox"/> Salaries                        | <input type="checkbox"/> Freight                    |
| <input type="checkbox"/> Payroll Taxes & Benefits        | <input type="checkbox"/> Business Supplies          |
| <input type="checkbox"/> Sub-contractors                 | <input type="checkbox"/> Repairs/Maintenance        |
| <input type="checkbox"/> Professional Services           | <input type="checkbox"/> Dues & Publications        |
| <input type="checkbox"/> Advertising Expense             | <input type="checkbox"/> Insurance                  |
| <input type="checkbox"/> Car/Truck Expenses*             | <input type="checkbox"/> Taxes/Licenses             |
| <input type="checkbox"/> Building Expenses/improvements* | <input type="checkbox"/> Interest Paid/Bank Charges |
| <input type="checkbox"/> Equipment Purchase*             | <input type="checkbox"/> Miscellaneous              |
| <input type="checkbox"/> Rent                            | <input type="checkbox"/> Other:                     |
| <input type="checkbox"/> Utilities                       |   |

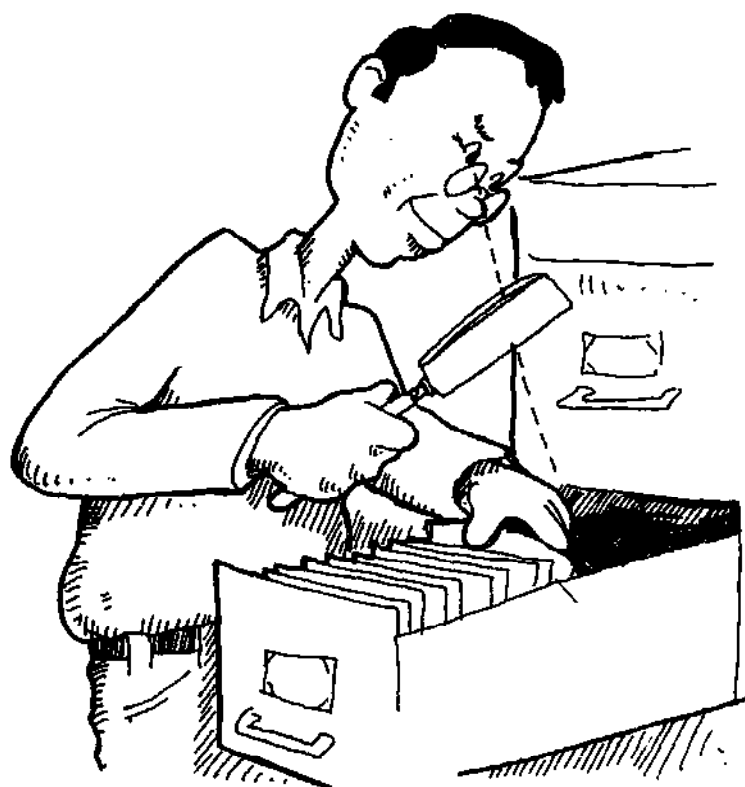
\*Purchases of equipment, vehicles or furniture are generally depreciated over time.

***HAVE YOUR ACCOUNTANT REVIEW YOUR WORK!***









## ***RECORDKEEPING IS THE BEST WAY TO CUT EXPENSES***

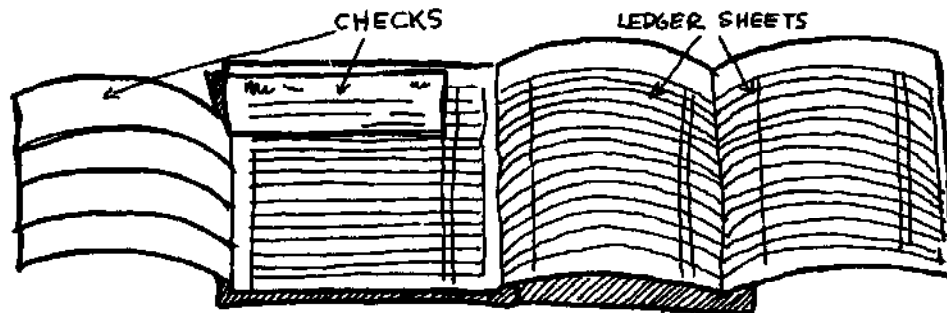
The final ingredient in our recipe for basic bookkeeping is YOU, the owner/manager. Without your active interest and concern, no recordkeeping system can be very useful. The financial management of your business is NOT something that should be delegated and forgotten. Stay on top of things! Once you set up a bookkeeping system, USE IT to see how you are spending money and to think of ways of cutting costs.



## ANOTHER BASIC RECIPE: ONE-WRITE BOOKKEEPING

If you write more than 20 checks a month or are thinking of expanding, we strongly recommend looking into the "one-write" system. It's practically automatic bookkeeping, and CAN save you time and money.

The major advantage of the one-write is that you use **one book for everything!** You don't need a separate checkbook, expenditure ledger, and payroll book. All the work is done in one place, which saves confusion and assures you greater accuracy. Many micro businesspeople we know find the one-write bookkeeping system ideally suited to their needs.



It's easy to use! It consists of checks printed to your specifications, each check with a strip of carbon on the back. (Any bank you use will accept these checks.) When you write a check, the information is automatically recorded on your Expenditure Ledger (saving you the trouble of transferring figures from check to check stub to ledger, etc.) Later, you can break down the original entry information into the expense categories you have devised in the same ledger.

# EXPENDITURE LEDGER

Smith's DownHome Products & Services

Month of April, 19\_\_

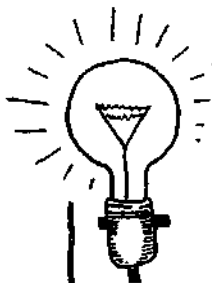
DATE	CHECK NO.	TO WHOM	TOTAL	1	2	3	4	5	6	7	8	9	10		11
				STORE MERCHANDISE	REMODELING SUPPLIES	OWNER'S DRAWINGS	SUB-CONTRACT	TRUCK EXPENSES	REPAIRS & MAINTENANCE	BUSINESS SUPPLIES	POSTAGE	ADVERTISING	MISCELLANEOUS		
												Description		Expenses	
4/2	224	Builder's Supply, Inc.	86 50		86 50										
4/4	225	Downtown Associates	350 00										Rent	350 00	
4/4	226	Harry's Lawn Care	10 00						10 00						
4/5	227	Helen Smith	250 00			250 00									
4/8	228	Anywhereville Electric	42 25										Electric	42 25	
4/8	229	Bring Your Own Telephone Co.	127 49										Telephone	127 49	
4/9	230	Best Insurance Co.	65 70										Insurance	65 70	
4/12	231	Builder's Supply, Inc.	272 00		249 50					22 50					
4/12	232	Joe Smith	250 00			250 00									
4/12	233	You Name It Lumber & Supply	396 32		337 42				58 90						
4/12	234	Builder's Supply, Inc.	126 40						126 40						
4/13	235	Tom's Electric	152 72				152 72								
4/14	236	Joe Good Accounting Service	50 00										Prof. Serv.	50 00	
4/14	237	Smalltown Auto & Truck Service	94 74					94 74							
4/14	238	Anywhereville Post Office	24 30								24 30				
4/16	239	B & D Equipment Co.	237 40										Equipment	237 40	
4/16	240	Gas Credit Card, Inc.	270 92					270 92							
4/16	241	Helen Smith	200 00			200 00									
4/21	242	Royal Printing Service	76 20									76 20			
4/21	243	Smalltown Chamber of Commerce	75 00										Dues	75 00	
4/21	244	The Daily Telegram	110 25									110 25			
4/22	245	Builder's Supply, Inc.	496 20		480 50					15 70					
4/22	246	Acme Plumbing	229 95				229 95								
4/25	247	Big & Big Appliances, Inc.	592 65	592 65											
4/26	248	Helen Smith	220 00			220 00									
4/27	249	Anywhereville Post Office	35 10								35 10				
4/27	250	Big John's Freight Co.	54 60										Freight	54 60	
4/29	251	Bean, Burnhim & Bitehim, Attmys	90 00										Prof. Serv.	90 00	
<b>TOTAL</b>			<b>4986 69</b>	<b>592 65</b>	<b>1153 92</b>	<b>920 00</b>	<b>382 67</b>	<b>365 66</b>	<b>145 30</b>	<b>38 20</b>	<b>59 40</b>	<b>186 45</b>		<b>1092 44</b>	
			<b>PROF. SERVICES</b>	<b>EQUIPMENT</b>	<b>RENT</b>	<b>UTILITIES</b>	<b>TELEPHONE</b>	<b>FREIGHT</b>	<b>DUES &amp; PUBLICATIONS</b>	<b>INSURANCE</b>					
<b>Miscellaneous Tally</b>			<b>140 00</b>	<b>237 40</b>	<b>350 00</b>	<b>42 25</b>	<b>127 49</b>	<b>54 60</b>	<b>75 00</b>	<b>65 70</b>					
			<b>TOTAL EXPENDITURES FOR MONTH</b>										<b>4986 69</b>		

**AT THE END OF EACH MONTH:**  
 (1) RULE OFF (2) TALLY UP COLUMNS (3) SEPARATE OUT MISCELLANEOUS ACCOUNTS

USE INFORMATION AS REQUIRED IN CASH FLOW (REAL COLUMN) PROFIT & LOSS, BALANCE SHEET



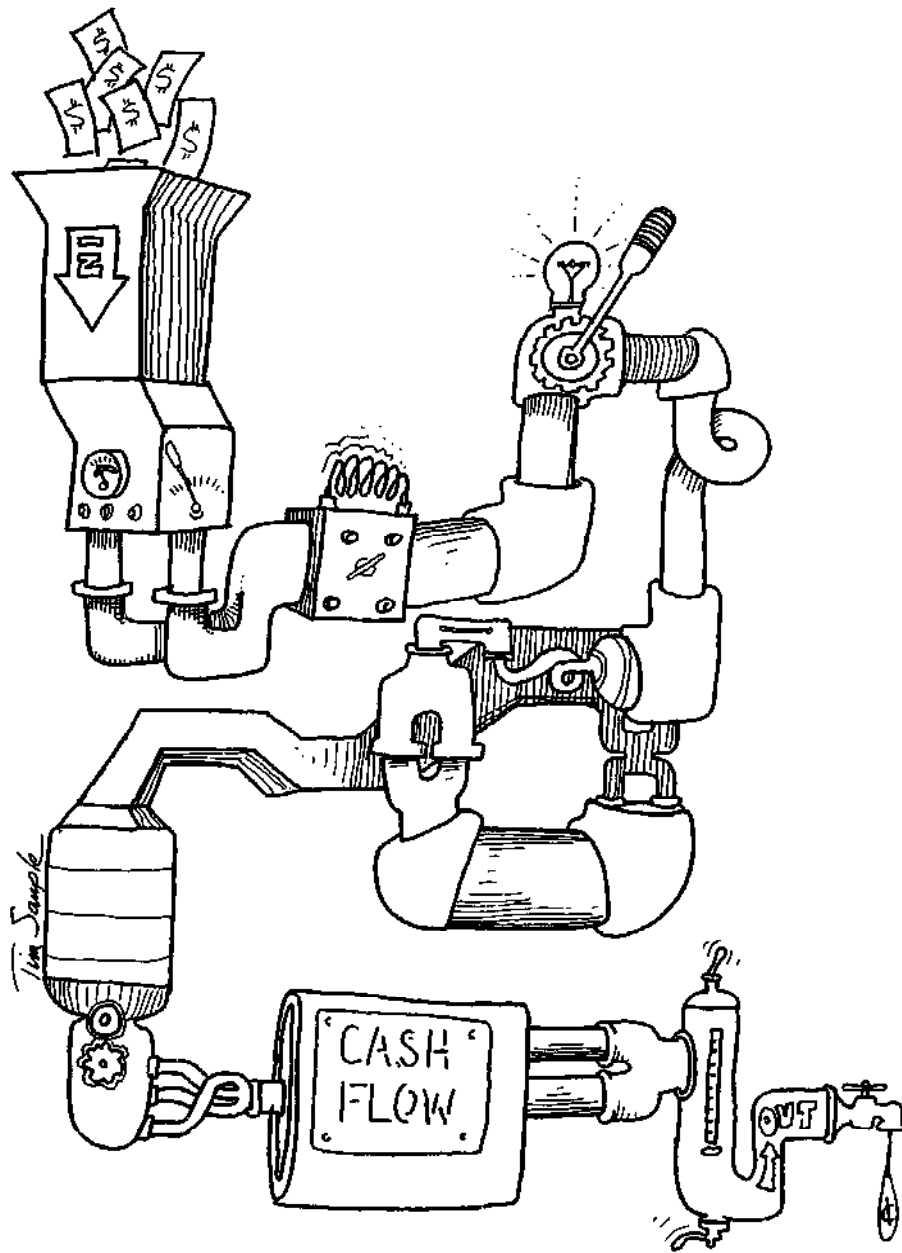
***ONCE YOU HAVE A BOOKKEEPING SYSTEM, USE IT!***



One-write systems are now sold under a variety of brand names. A simple start up package ranges from \$70 to \$100. The major distributors in Maine are:

Veribest Systems Co.  
P.O. Box 560  
121 Mill St.  
Auburn, Maine 04210

Safeguard  
AFCO Business Systems  
P.O. Box 100  
Newton Center, MA 02159



**CAREFUL ANALYSIS OF YOUR REAL AND PROJECTED  
CASH FLOW WILL IMPROVE YOUR CHANCES OF SUCCESS**

**A CASH FLOW PROJECTION TELLS YOU  
HOW MUCH CASH IS NEEDED,  
WHEN IT WILL BE NEEDED,  
AND  
WHERE IT WILL COME FROM!**



**STEP III:**



**KEEP FOCUSED ON THE BOTTOM  
LINE USING CASH FLOW  
PROJECTIONS AND ANALYSIS**

## THE CASH FLOW PROJECTION

It shows the flow of cash into and out of a business. It tells how much cash is needed, when it will be needed, and where it will come from. One of its major uses is to alert you to potential cash shortages enough in advance for you to budget accordingly.

Everyone agrees that the Cash Flow Projection is an essential planning tool for a new or growing business. It can dramatically increase a business' chance of success and profitable operation. It forces you, as the manager, to be more realistic and disciplined in your thinking by always focusing your attention "on the bottom line"...on the economics of your situation. Doing Cash Flow Analysis and Reprojection MONTHLY helps you review the assumptions used in projecting income and expenses.

***WE CONSIDER THE CASH FLOW PROJECTION VITAL  
TO IMPROVED MANAGEMENT!***



**EFFECTIVE MANAGEMENT IS MORE THAN REACTING  
TO PROBLEMS AND CIRCUMSTANCES**

---

## **PROJECTING YOUR CASH FLOW...**

Be conservative when you project your Cash Flow. Give yourself a safe margin by projecting low income and high expenses. Of course, the objective is to be precise but, as with any other planning tool, the Cash Flow Projection is only a guide that provides "benchmarks" against which to measure your progress.

Do your projections in pencil so that you can correct and change them as you go along. With practice, you'll learn to project with greater accuracy. Here's how to get started.

---

### **1st CAREFULLY EXAMINE THE CHART**

Notice that each monthly column is divided into "Projected" and "Real" to facilitate your monthly analysis. The income and expense categories are to be listed to the left. To simplify matters, the Cash Expenditures should correspond with your Expenditure Ledger; the Cash Receipts may correspond with your Income Ledger.

---

### **2nd SET MINIMUM CRITERIA & HAVE REALISTIC EXPECTATIONS**

You should get to the point where you are projecting a full 12 months in advance, but this may not be practical at first. For a while, you may want to project only three or four months until you get used to the system. As you gain experience, project for longer periods.

It's vital that you give the system a chance to work. You can expect your initial projections to be way off target. It takes most people at least three months to begin seeing results.



---

***OPEN HERE FOR CASH FLOW WORKSHEET***

---

**3rd GATHER TOGETHER YOUR BOOKS & PAST RECORDS**

If you have past records on which to base your projections, GREAT! If not, don't be deterred; you'll just have to do a little more educated guesswork in the first months.

---

**4th GET STARTED — USING PENCIL SO YOU CAN ERASE!**

Since they are more straightforward, work up your expenses first. Certain costs such as rent, salaries, etc. will be almost the same every month. Others such as heating will vary according to seasonal and business changes.

Project your Cash Receipts next. Since very few of us know where our money will come from, this can be risky and difficult. Do it anyway! Make an educated guess! It may be helpful to use categories like "100% Certain", "Probable", "Balance to be Obtained." You may need to develop a sales strategy with specific monetary goals. One way or another, you will make certain assumptions about your ability to reach the market. Be sure to record your calculations in a notebook so that you can refer to them later on.

---

**5th TALLY UP THE COLUMNS**

Subtract the Total Cash Expenditures from the Total Cash Available to find your Cash Position. (The Cash Position at the end of one month is the Cash on Hand at the beginning of the next.) The Cash Flow forces you to deal with the economic realities of your situation.

---

***THE CASH FLOW PROJECTION HELPS PINPOINT YOUR OPERATING PRIORITIES!***

**AT THE END OF EACH MONTH....**

## **ANALYSIS & REPROJECTION**

1. After you tally up your Expenditure Ledger, transfer the figures to the "Real" column on the Cash Flow.
2. Carefully analyze MAJOR discrepancies between the real and projected.  
**What were my original assumptions?**

**Was I too optimistic?**

**How should I reproject for the coming months  
— higher, lower or about the same?**

3. Erase and reproject as necessary. (This is why you did it in pencil!)

You may be amazed at how accurate your projections become after following this process of analysis and reprojection for a few months. Using the Cash Flow in this way WILL forewarn you of coming problems. It will give you a much clearer sense of the directions and trends in your business operation. It sure beats not knowing where you'll be six months from now!

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### **A WORD OF CAUTION!**

Cash Flow is as the name implies the flow of cash...and ONLY that! It does not replace or fill the requirements of a monthly Profit & Loss Statement and a Balance Sheet. It could, in fact, give you a misleading picture of how well you're doing. To counterbalance some of its shortcomings, complete the "Accounts Payable" space at the bottom of the Cash Flow. This will help you keep track of any increase in your debt load over the month.

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***GIVE IT AT LEAST A THREE MONTH TRIAL RUN!***

# CASH FLOW PROJECTION & ANALYSIS

BUSINESS NAME: \_\_\_\_\_  
 PERIOD COVERED: \_\_\_\_\_ to \_\_\_\_\_

MONTH OF:																									TOTALS			
	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real	Proj.	Real		
CASH ON HAND																												
R E C E I P T S																												
TOTAL CASH AVAILABLE																												
E X P E N D I T U R E S																												
TOTAL EXPENDITURES																												
ENDING POSITION																												
ACCOUNTS PAYABLE (end of month)																												

**COMPARING YOUR PROJECTED AND REAL CASH SITUATION HELPS YOU TO BE MORE REALISTIC ABOUT THE FUTURE!**

**MOST OF THE INFORMATION YOU NEED COMES  
DIRECTLY  
FROM YOUR BOOKKEEPING SYSTEM**



**STEP IV:**

**USE THE OTHER TOOLS OF THE TRADE —  
BALANCE SHEET AND PROFIT & LOSS**

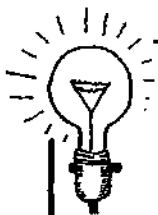
## **BALANCE SHEET AND P & L WORK TOGETHER AS A UNIT**

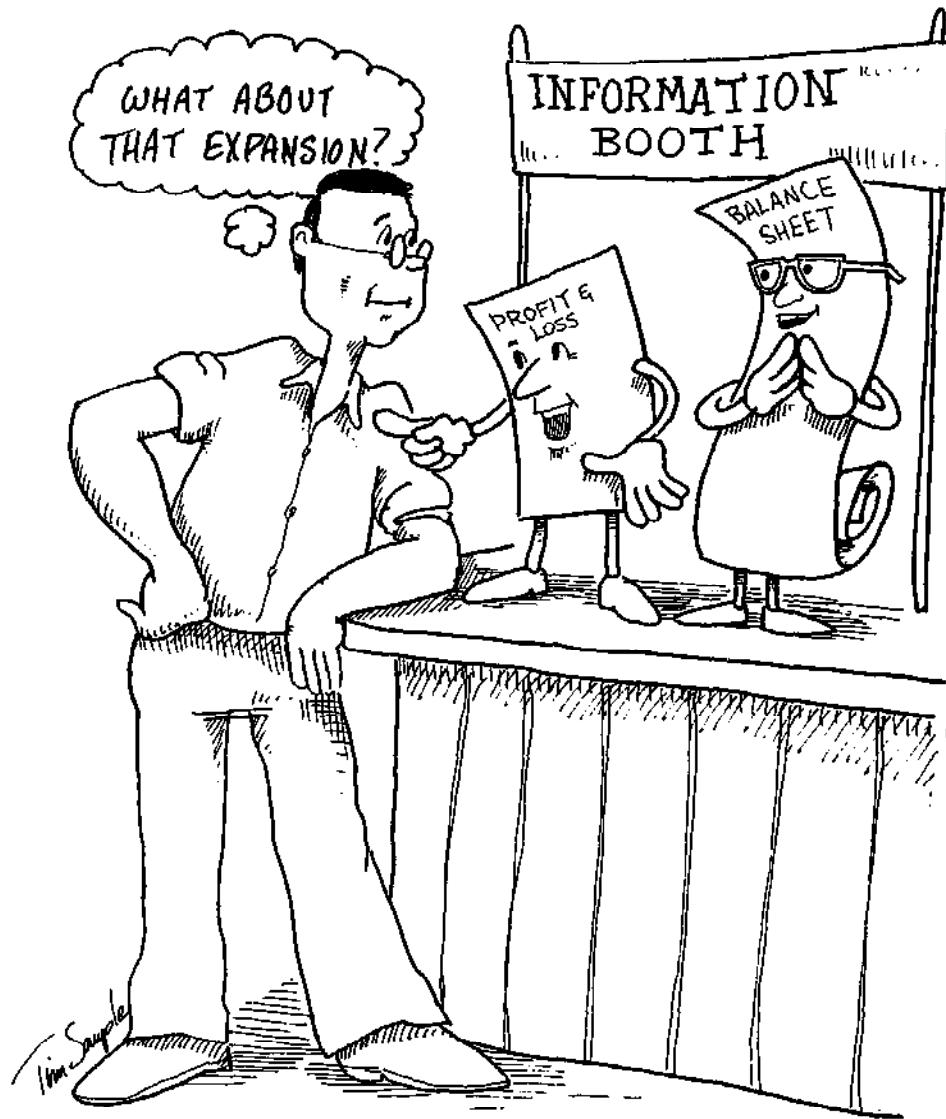
These are the basis for financial analysis and decision-making — one of the businessperson's most important tools. Through careful, on-going analysis of your Balance Sheet and P & L, you can detect weak spots in your operation and work towards improving them. You can get a sense of just how well (or poorly) things are going from month to month. "Can we pay the bills if things don't go as we expect?" "Do the records show that the business is strong enough to qualify for a loan?"

**PROFIT & LOSS STATEMENT**...also called an Income Statement, is a summary of business transactions over a period of time (usually a month or a year). It shows the difference between your income and your expenses for the period. It helps you analyze how the business got where it is and gives you an idea of what may be expected in the future.

**BALANCE SHEET**...presents the financial picture of a business on a given date — its assets, liabilities (debts) and ownership. It is usually prepared as of the last day of a month and answers the question, "How did we stand financially at that time?" It shows you whether you own the business or whether your creditors do!

***COMPARE THEM MONTHLY! CAN YOU SEE ANY PROGRESS?  
ANY CHANGE FROM NORMAL SHOULD TRIGGER THE QUESTION, "WHY?"***





**THE BALANCE SHEET AND P & L  
WORK TOGETHER TO HELP YOU MAKE DECISIONS**

## COMPONENTS OF THE PROFIT & LOSS

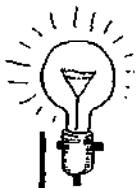
The P & L allows you, as manager, to compare your business' sales volume and costs to those of previous months. You can keep track of whether your expenses are increasing or decreasing, and see whether the business is showing a continuous profit.

### PUTTING TOGETHER A PROFIT & LOSS:

1. Determine your Total Sales of merchandise or services (from your Income Ledger).
2. Subtract the Cost of Goods Sold to get the Gross Margin.
3. Add up all business expenses and subtract them from the Gross Margin to get the Net Profit (or Loss).

**COST OF GOODS SOLD...**is the total price paid for the products sold plus any freight costs. It can be computed by adding the current month's purchases to the beginning inventory for the month (an estimate) and then subtracting the ending inventory for the month.

**EXPENSES...**come directly from your Expenditure Ledger once you've done your monthly tallies. The expense categories will be the same except that you may want to group some items together. In some P & L's, expenses are divided into "selling expenses" and "general & administrative expenses" which could be helpful in keeping track of your marketing efforts.



# PROFIT & LOSS STATEMENT

Company: \_\_\_\_\_ For Month (Year) Ending: \_\_\_\_\_

<b>TOTAL SALES:</b>		\$ _____
<b>LESS COST OF GOODS SOLD:</b> (or services)		
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	\$ _____
<b>GROSS MARGIN</b>		\$ _____
<b>LESS EXPENSES:</b>		
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	
* _____	\$ _____	\$ _____
<b>NET PROFIT (LOSS)</b>		\$ _____



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## COMPONENTS OF THE BALANCE SHEET

Although certain details may vary, all Balance Sheets contain the same general information. It's called a Balance Sheet because the Total Assets **always equal** the Total Liabilities (debt) plus Your Net Worth (equity).

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**ASSETS...**are anything the business owns that has a monetary value.

**LIABILITIES...**are the claims of creditors against the assets — the debts.

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Too much debt is dangerous; too little could indicate overly cautious financial management which results in lower sales.

**CURRENT ASSETS...**can be readily converted into dollars through your normal business activity — cash, accounts receivable, inventory, etc.

**FIXED ASSETS...**have a long-term use in the business — vehicles, equipment, buildings, property, etc. — and are usually not for resale.

**CURRENT LIABILITIES...**are short-term financial obligations (a year or less) — accounts payable, taxes, wages, notes and bank payments, etc.

**FIXED LIABILITIES...**are long-term debts or parts of debts that are NOT due for payment within a year — equipment or building loans, mortgages, etc.

**YOUR NET WORTH (EQUITY)...**is simply the assets less the liabilities. It represents your part in the business — what you are due to get back for your time, energy and capital outlay.

Keep your calculations in a notebook where they can't get lost! This will simplify the task of up-dating the Balance Sheet from month to month.

## BALANCE SHEET

Company: \_\_\_\_\_

As of (date): \_\_\_\_\_

ASSETS (owned by the business)	LIABILITIES (owed by the business)
<p><b>CURRENT:</b></p> <p>* Cash on Hand           \$ _____</p> <p>* Accounts Receivable \$ _____</p> <p>* Inventory               \$ _____</p> <p>* _____ \$ _____</p> <p>* _____ \$ _____</p> <p style="text-align: right;">\$ _____</p> <p><b>FIXED:</b></p> <p>* Property                 \$ _____</p> <p>* Equipment               \$ _____</p> <p>* _____ \$ _____</p> <p>* _____ \$ _____</p> <p>* _____ \$ _____</p> <p style="text-align: right;">\$ _____</p>	<p><b>CURRENT:</b></p> <p>* Accounts Payable       \$ _____</p> <p>* Notes Payable           \$ _____</p> <p>* _____ \$ _____</p> <p>* _____ \$ _____</p> <p>* _____ \$ _____</p> <p style="text-align: right;">\$ _____</p> <p><b>FIXED:</b></p> <p>* Mortgage                \$ _____</p> <p>* Long Term Loans         \$ _____</p> <p>* _____ \$ _____</p> <p>* _____ \$ _____</p> <p style="text-align: right;">\$ _____</p>
<b>TOTAL</b> \$ _____	<b>YOUR NET WORTH</b> \$ _____
<b>TOTAL</b> \$ _____	<b>TOTAL</b> \$ _____
<p><b>OBSERVATION &amp; ANALYSIS</b></p>   	

*Remember, the Balance Sheet and the P & L work together. Add the Cash Flow Projection and Analysis and you've got the best possible combination!*

## YOUR MONTHLY ANALYSIS

### THE MANAGEMENT END OF RECORDKEEPING

It's important to do your financial recordkeeping and analysis in a timely manner — preferably during the **first five business days of the month** (right after you get your bank statement). Once you get the hang of it, four to six hours should be enough to tally the books, post your cash flow, draw up a P & L and Balance Sheet and do some overall analysis. Initially, it may take longer and not really tell you anything terribly important. Don't give up!

You will gradually begin seeing trends and getting ideas of how to trim costs. You'll develop a stronger sense of your business' strengths and weaknesses which **WILL** help you make better decisions about expansion and/or maintenance of your efforts.

***THIS IS FINANCIAL MANAGEMENT!***



***WEEKLY BUSINESS MEETINGS  
HELP YOU STAY ON TOP OF THINGS***

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**NOW FOR AN OVERHAUL AND A GENERAL  
TUNE UP!!!**



**STEP V:**



**TAKE OTHER MEASURES TO  
TIGHTEN UP**

Tightening Up!



## CUSTOMER CREDIT

When you operate on a tight budget, tying up limited working capital in customer credit can be a major problem. Consider the pros and cons. Offering credit may attract new customers and increase sales, but it also may increase costs — bookkeeping, billings, bad debts, etc. You may avoid this either by not giving credit or by only accepting major credit cards.

If you opt for giving credit, be selective about to whom you give it. You must decide who is worthy of credit and who is not. Cash sales ARE necessary. You CAN turn away business if need be.

The real key to not losing your shirt is a credit policy. The principal components:

1. Terms and conditions which are clearly expressed verbally and **IN WRITING**;
2. A **SIGNED** application form which commits the customer;
3. Careful screening and credit investigation;
4. An efficient system for controlling accounts receivable.

**TERMS AND CONDITIONS...**can be anything you consider practical — you're calling the shots! How much down payment will be required? How much time will be allowed before a late charge is applied?



## WRITE A SIMPLE CREDIT POLICY

### GENERAL CREDIT AND SERVICE POLICY

**S & S Electric** is a small family enterprise with limited resources. We emphasize top quality work and materials which meet the latest requirements of the National Electrical Code.

Due to limited working capital and our own obligations to creditors and suppliers, we are restricted in the amount of credit we can extend.

#### TERMS AND CONDITIONS:

1. One-third down payment is required upon initiation of work. The remainder is due when the job is completed.
2. In the event of a substantial delay between job initiation and completion, interim billing will be necessary.
3. When credit is extended, the following conditions apply:
  - (a) A credit application must be completed and approved prior to work initiation. Credit references will be checked.
  - (b) Credit cannot be approved in excess of \$500.00.
  - (c) Credit shall be allowed for a maximum of 30 days. A discount of 5% shall be granted to customers paying their bill within ten days of work completion.
  - (d) In case of non-payment, all additional goods and services will be discontinued and a late charge will be added to the unpaid balance. Additional collection costs and reasonable attorney fees may also be added.

Thank you for understanding our situation. We appreciate your patronage and hope to continue being of service to you!

Joe & Helen Smith

***Post it and hand it out! Don't be hesitant to explain the reasons for it!***

## CREDIT APPLICATION

DATE \_\_\_\_\_

NAME: \_\_\_\_\_

ADDRESS: \_\_\_\_\_ PHONE \_\_\_\_\_

PREVIOUS ADDRESS: \_\_\_\_\_

HOW LONG LIVED AT BOTH: PRESENT \_\_\_\_\_ PREVIOUS \_\_\_\_\_

OCCUPATION: \_\_\_\_\_

HOW LONG WORKED THERE: \_\_\_\_\_

CREDIT REFERENCES (Name, address, phone)

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

I understand that in the event payments are not made within the 30 days required, late charges will be added. Collection costs and reasonable attorney's fees will be added to the unpaid balance. If delinquent, repossession of durable goods may be done at will and without notification.

\_\_\_\_\_  
Customer Signature

CREDIT APPROVED SUBJECT TO THE FOLLOWING CONDITIONS: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
Approved by

When you analyze the completed credit application, try to determine the applicant's stability. Check the references and find out whatever you can about the person's character. Has the person moved around a lot? Do they pay their bills on time? Look for inconsistencies.

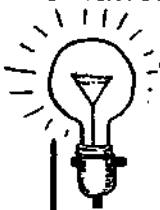
## THE MATTER OF COLLECTIONS



No matter how hard you try, there will always be slow paying customers who drain your working capital. To speed up collections, invoice promptly, keep the terms tight and have an effective follow-up system. Your best collection process is in-house. Remember, slow paying customers have interest free use of your money!

An **Aging Statement** is useful for keeping track of receivables. It simply lists all of the accounts overdue in three columns — 30 days, 60 days, 90 days. Some effort should be made to collect from each person on the list — a new billing, a personal letter, a phone call, etc. This is one way of planning and controlling collection efforts.

Be prompt in initiating collection! When the terms are set, payment is due. If you wait longer, customers may think you don't care or aren't paying attention. The older your receivables get (60-90 days past due), the less they are worth, and the less likely they can be collected in full. If a big account is long overdue, you may try Small Claims Court or initiate other legal action. This can be a time consuming process which may not be practical for smaller accounts.





Tightening Up!



## INVENTORY

The biggest concern here is to know for sure you're targeting your customers' needs. Ideally, you want to avoid tying up capital in excess stock while, at the same time, maintaining a balanced assortment of merchandise. Remember the 80/20 Rule of Thumb: 80% of your sales come from 20% of the normal product line.

For effective inventory control, you can either periodically count stock or count your daily sales. Whatever system you use, you're looking for up-to-date information at the least cost. To count sales, consider using a cash register tape, sales slips or a price ticket which is detached from the item when sold. Good stock records provide the information you need for ordering fill-ins.

The key to inventory management is to know what and how much to order, when to order and what price to pay — then make sure you can move the products properly to produce a profit!



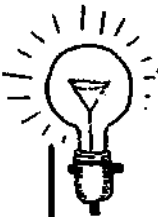
***AS MANY AS ONE IN EVERY FIVE FREIGHT BILLS CONTAINS AN OVERCHARGE!***

# PURCHASING

Suppliers can vary tremendously. On the one hand, having one or few major suppliers may qualify you for cumulative quantity discounts, special favors or valuable advice. On the other hand, having a wide variety of suppliers protects you by keeping your buying options open — you can shop around! Compare your suppliers frequently to be sure you're getting the best possible deal.

## A FEW PRINCIPLES:

- **Know your needs precisely.** Plan carefully and know exactly what you need — type, quality, brand, size and quantities.
- **Locate various sources of supply.** Normally, closer to home is better, but never stop shopping! Keep your options open!
- **Negotiate prices and terms.** By keeping informed of current prices, you can often get better deals. Purchase in bulk when you can. Buy package deals and get any "extras" you can for give aways and special promotions.
- **Develop good relations with suppliers.** Be considerate of salespeople, prompt in paying your bills and fair in your dealings. Even though your business is small, earn your supplier's respect.



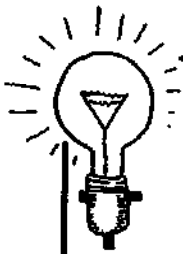
***ALWAYS GET THREE ESTIMATES ON LARGER PURCHASES!***

Tightening Up!



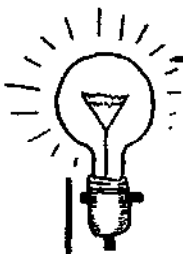
## PAYABLES POLICY

Know and utilize the terms your suppliers offer. Pay your bills at the best possible time — taking advantage of early payment discounts and avoiding interest on overdue payments. If for some reason you can't make a payment on time, forewarn the supplier. Remember, s/he's running a business too!



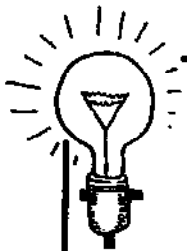
## PETTY CASH

Keep track of out-of-pocket payments which are too small to pay by check. Set a maximum limit for CASH payments (maybe \$10), and establish a petty cash fund of \$20 to \$50. Keep the money in a separate box together with receipts for every purchase made. Periodically, replenish the amount spent (posting your Expenditure Ledger to "business supplies").



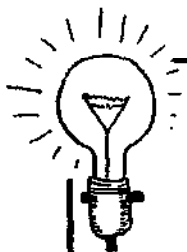
## BARTERING

Exchanging goods and services is often a way of cutting expenses. In these days when cash is in short supply, bartering can be a very attractive way of doing business. It is wise to keep accurate and clear records of bartered transactions for your own control. At the end of the year, consult with your tax advisor about these transactions.



## ENERGY

Some simple organizational changes could save you a lot of money in energy costs. Target your market more to the immediate geographic area. Consider ways of reorganizing routes and delivery schedules for greater fuel economy. Make your shop more energy efficient — insulating, weatherstripping, doors and partitions, etc.



# PLAN FOR BETTER FINANCIAL CONTROL

**OVERALL OBJECTIVES** (What you hope to achieve and the time frame)

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## COMPONENTS OF THE PLAN (Which ones do you need?)

- OUTSIDE HELP
  - ...Accountant
  - ...Banker
  - ...Other
  
- BASIC BOOKKEEPING SYSTEM
  - ...Business Checkbook
  - ...Review accounts breakdown
  - ...One-write system
  
- CASH FLOW PROJECTION & ANALYSIS
  - ...Three month trial period
  - ...Monthly analysis & reproject
  
- BALANCE SHEET AND PROFIT & LOSS
- CREDIT POLICY & COLLECTIONS
- INVENTORY CONTROL
- PURCHASING PROCEDURES
- TAX MANAGEMENT & CONTROL
- OTHER:

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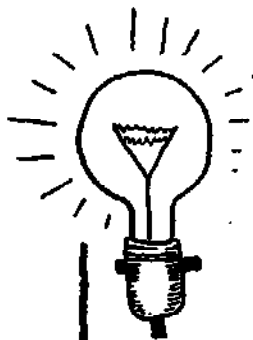
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## OBSERVATIONS & PRIORITIES

***NOW INCLUDE THESE THINGS IN YOUR YEARLY ACTIVITY PLAN!***



**PLANNING AHEAD CAN JUST ABOUT ALWAYS  
SAVE TIME & MONEY**



**EVERY HOUR SPENT PLANNING WILL SAVE YOU FOUR LATER ON!**

We all know that hard economic times hit the "little guy" the hardest! This makes it particularly important for the micro-business owner to cut costs, increase sales, and control cash flows. To survive in today's economy, you just have to **MANAGE** things better!

We hope this workbook has made the sometimes confusing task of managing the finances of your business a little easier to tackle. **THE NEXT STEP IS UP TO YOU!** If you are sincerely interested in making your business a success, begin making changes today!

***WORK SMARTER, NOT HARDER!***

