How to Manage Cash Flow for Your Arts Business

Toolbox Teleclass Transcription

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Professional Program

Track 3: Nuts & Bolts: The Fundamentals of Business

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Introduction

Welcome to the Foundation Toolbox Tele-class, February 2012. This class is about How to Manage Your Business Cash flow.

In Money Management: Building Your Financial Foundation and the e-book workbook, I teach you how to apply the 7 SPECIAL steps to your personal finances. Now I want to start by saying that this is really meant to be a follow-up to the Build Your Financial Foundation call, which is the 7 steps that I use with my private clients to get their finance...help them get their finances in order, and it was out of that class actually that the e-Book, *Build Your Financial Freedom e-Book workbook* came out of that class as well, so and that's Money Management: Building Your Financial Foundation.

THOSE SAME STEPS CAN AND SHOULD ALSO BE APPLIED TO YOUR BUSINESS FINANCES. In that class, I teach you how to apply the 7 special steps from the S.P.E.C.I.A.L Road Map to Success specifically to your finances. Now when I work with clients privately, in general, they are simultaneously applying these 7 steps both to their personal finances as well as their business finances.

And that's really what I recommend in order to kind of get a handle on your business finances. So I recommend the same series of steps to apply to your business finances as well as to your personal finances.

SINCE THE MECHANICS OF DOING THAT IS ALMOST IDENTICAL, I'M NOT GOING TO REPEAT THAT IN THIS CLASS.

That's not really what this class is about. What this class is about is how to think about your business finances, and how business finances and personal finances are different and should be managed differently. So I'm going to be talking in a bit more detail about that.

LISTEN TO THAT CALL, IF YOU HAVEN'T ALREADY, THEN IF YOU HAVE SPECIFIC QUESTIONS OF HOW TO APPLY THOSE METHODS TO YOUR BUSINESS FINANCES, PLEASE FEEL FREE TO BRING THEM TO THE ASK DEBRA RUSSELL CALL, EMAIL COACHING OR LASER COACHING SESSION (WHICHEVER YOUR PROGRAM LEVEL GIVES YOU ACCESS TO).

So I do recommend that you go back and listen to that call if you haven't already, and you know, if you have specific questions, download the workbook and work through that process, and of course you can send me your question. If you are a Foundation member you can send financial questions through the Ask Coach Debra call.

If you're a Professional or a member you can submit one question a month via email, and then of course if you are in the professional mentorship you can have a 15-minute session with me and if all you want to talk about during that session are your finances that's fine too. So that's how to get more specific questions answered.

I AM NOT AN ACCOUNTANT, LAWYER AND THIS SHOULD NOT BE CONSTRUED AS LEGAL OR ACCOUNTING.

Now before I get into the details, I have to tell you I am not an accountant. I am not a lawyer. This should not be construed as legal or accounting advice. This is how I handle my business finances and how I work with clients to handle their business finances.

A lot of this knowledge was passed down to me from my mom, who is a CPA and who specializes in small business accounting, as well as non-profit accounting. So she has a lot of knowledge in that area, but mostly this comes from my own experience of running my business and working with clients and running theirs.

THERE MAY BE SOME TERMS THAT YOU AREN'T FAMILIAR WITH. IT IS VERY IMPORTANT THAT YOU UNDERSTAND THE JARGON ASSOCIATED WITH BUSINESS FINANCE.

There may be some terms in this class that you aren't familiar with. I expect that should you find a term that you're not familiar with, just Google it, because nothing that I'm talking about here isn't a fairly well understood or common-use term in business finances.

So if there's a term that you don't understand, Google it, and if you're not sure if you're hearing the term correctly, go ahead and add a question in the comments section and I'd be happy to answer it there, because I do know, you know, I have a little bit of a twang and sometimes people don't understand me clearly.

IT WILL EMPOWER YOU WHEN WORKING WITH EXPERTS SUCH AS ACCOUNTANTS, LAWYERS, INVESTORS AND BANKERS.

So, it's really important that you understand the jargon associated with business finance, both for your own comfort level, but also when you then sit down and work a CPA or work with a manager or a lawyer, investors, bankers. When you're working with these people and they throw out terms like ROI, and you don't know what ROI stands for and if you go on to Google and you try to Google AROAI you know or something like that you're not going to find anything. ROI for example stands for Return On Investment. It is the letter R-O-I and if you want a lot more information about that, for example, you would go to Google and put in the letters R-O-I.

R as in Robert, O as in Open, I as in Investment, so Return On Investment, and that's you know in terms of someone's going to invest with you what do they get for it? You know or if you're investing in your businesses, you're investing in your marketing, what return are you seeing in terms of hard members as well as kind of the softer members.

Trading Money for Time Debra

So I want to talk about some basic concepts here. The first one, and I think this is the one that a lot of new small business owners or people who haven't been thinking of themselves as small business have been thinking of themselves as self-employed, get stuck in and that is the concept of trading money for time. You know getting paid by the hour or getting paid by the gig or even getting paid by the contract. This generally is referring to trading money for time.

Cash Flow Quadrant concept and how you want to be living on the right side of the square

Now in the *Cash Flow Quadrant* book by Rich Dad Poor Dad, Kiyosaki, he talks about the 4 squares, the 4 quadrants of the business square. And so, the 4 quadrants are, you know, the top left quadrant is business owners. The top right quadrant are employees. The bottom left quadrant are investors, and the bottom right quadrant are the self-employed.

Trading time for money is a thinking pattern of the left side of the square. It's what employees and the self-employed people do. And they are trapped by it.

And I recommend as a heed that you, as much as humanly possible, live in the left side of those quadrants, either as the business owner or the investors. That the right side of the quadrant: the employee, meaning that you're getting W-2 income or the self-employed, which is 1099 income, tend to be limited in the amount of income they'll bring in and limited by your time, because both of those quadrants are pretty much living in the time for money.

And you're trapped in that because you only have so much time. So even if you expand the amount of money per hour that you're making, as long as you're living there, you're trapped by the amount of time you have in the day.

IN ORDER TO CREATE FINANCIAL FREEDOM AND A SUSTAINABLE BUSINESS MODEL, YOU MUST STOP THINKING OF YOURSELF AS SELF-EMPLOYED

In order to create real financial freedom and a sustainable business model, you have to stop thinking of yourself as self-employed.

MY FAVORITE DEFINITION OF SELF-EMPLOYED – YOU'RE AN EMPLOYEE, WITH CRAPPY BENEFITS AND TERRIBLE PAY AND A MANIAC FOR A BOSS!

My favorite definition of the self-employed person is that you are an employee, and you're an employee with terrible pay, crappy benefits, and a maniac for a boss. Terrible pay, crappy benefits, and a maniac for a boss!

So as long as you're thinking in that gig-to-gig, time-for-money concept, you are living within that trap. And I want you start to begin to think of yourself as a business owner and an investor.

Now in business ownership and investing, you are thinking in terms of, and there are two major concepts here. You are thinking in terms of increasing the return on investment.

Now whether you're a business owner and you're return of investment are in terms of your product line and your marketing investment or you're an investor and you're thinking in terms of other people's businesses. Either of those are going to be an area in which you can begin to free yourself from the time for money model.

Even as a business owner, as an artist where you're doing some of your income is coming from your performances, the more that you can use the multiple streams model to leverage your products and expand the product funnel and the numbers of different ways of a single concept or a single product bring income in, the more you're freed up from the time for money trap.

If you create a song and that song, yes, you are performing live, but you also have it on CDs and you also have it on downloads, and you also have it signed for television and commercial income, and you're also, you know, receiving plays radio and internet radio.

And getting money from your PRO (your performance rights organization) as well as, you know, independent sales on those things. You know, the more you're doing that, the more you don't have to be showing up to perform, because your work keeps making money even while you sleep, even while you're on vacation, even while you're spending time with your family and your friends. Those products continue to make you money, and so you want to be thinking in those terms all the time.

YOUR THINKING AND BELIEF, UNTIL EXAMINED AND TRANSFORMED, WILL KEEP YOU ON THE LEFT SIDE OF THE QUADRANT

Your thinking and belief until examined and transformed will keep you on the left side of the quadrant and what that means is the minute you stop showing up, you stop making money.

COMMON MISCONCEPTION - YOU CAN'T AND SHOULDN'T GET SOMETHING FOR NOTHING –

And there's a common underlying misconception, which is that you can't and shouldn't get something for nothing, that somehow residual income and passive income is wrong on an ethical or moral basis.

THAT GETTING MONEY FOR TIME IS THE MORAL WAY.

That getting money for time is the right way or the moral way, but the truth is you're not getting something for nothing, are you?

THAT THERE IS SOMETHING SINFUL ABOUT MAKING MONEY WHEN YOU AREN'T ACTIVELY WORKING

That's a misconception! Whether you're getting a continuing and ongoing return on the product that you created, it's still product that you created. It's still money for people that people are happy and willing to invest in their own enjoyment as a result of your creation.

And if you are investing in other people's businesses, then you're making income based on your smart investment strategies, because those businesses are successful, and those businesses need your investment. That's how they become successful.

BUT YOU'RE NOT GETTING SOMETHING FOR NOTHING. THAT'S A MISCONCEPTION.

Now if you do something like a Kickstarter program where your fans invest in you, it's the same concept. So you need to kind of let go of any underlying beliefs that you might have around this, you know, getting something for nothing. That that's somehow wrong or that somehow that's what you're doing, because it isn't, okay?

I LIKE TO THINK OF IT AS A NUCLEAR EXPLOSION.

I like to think of it is as a nuclear explosion;

IN A NUCLEAR EXPLOSION, YOU HAVE A GEOMETRICALLY EXPANDING CHAIN REACTION. ONE TINY ATOM SPLITS AND SENDS OUT A FEW ELECTRONS IN DIFFERENT DIRECTIONS.

In a nuclear explosion you have a geometrically expanding chain reaction. One tiny atom, one tiny atom splits and sends out a few electrons in different directions.

THOSE HIGHLY CHARGED PARTICLES COLLIDE WITH NEW ATOMS WHICH SPLIT AND SEND OUT SEVERAL MORE ELECTRONS, EACH, IN NEW DIRECTIONS AND SO ON AND SO ON.

And those highly charged particles collide with new atoms, which split and send out several more electrons. Each in new directions and so on and so on.

YOU PRODUCE A SINGLE CREATION – A SONG, A PAINTING, A SHORT STORY – AND SEND THAT OUT INTO THE WORLD AND IT IMPACTS ONE PERSON WHO SHARES IT WITH SEVERAL MORE WHO SHARE IT WITH SEVERAL MORE, AND SO ON.

If you produce a single creation--a song, a painting, a short story, and send that out into the world, and it impacts one person, who shares it with several more, who share it with several more, and so on and so on and so on.

AND THE MORE WAYS YOU PACKAGE THAT SINGLE CREATION, THE MORE INITIAL ATOMS IT SPLITS AND THE MORE EXPANSIVE IT BECOMES. THIS IS ONE OF THE FUNDAMENTALS IN THE MULTIPLE STREAMS CONCEPT.

The more ways you package that single creation, the more initial atoms it splits, the more expansive it becomes. This is one of the fundamentals from the Multiple Streams concept, but this is how a single creation of yours can continue to pay you for years to come.

YOU ARE NOT TRADING TIME FOR MONEY. YOU ARE COLLECTING ENERGY (IN THE FORM OF MONEY) FROM THE INFINITELY EXPANDING ENERGY OF YOUR CREATION.

You are not trading time for money. You are collecting energy in the form of money from the infinitely expanding energy of your creation.

AND BY COLLECTING THIS ENERGY AND TURNING AROUND AND REINVESTING IT IN YOUR BUSINESS, YOU SERVE THE WORLD! HOW?

And by collecting this energy and turning around and reinvesting it in your business, you serve the world. How?

BY BECOMING AN EMPLOYER FOR YOUR EMPLOYEES AND A CUSTOMER FOR YOUR VENDORS, YOU ARE ALLOWING OTHERS TO ALSO BENEFIT AND CREATE PROSPERITY IN THEIR LIVES.

By becoming an employer for your employees and a customer for your vendors. You are allowing others to also benefit and create prosperity in their lives. So the more successful you become, the more success you create in the world for others. I'm going to say that again because I think this is a key concept that shifts you out of the self-employed or employee mindset and into the business owner and investor mindset.

The more success you have, the more success you can create in the world for others, okay?

GOOD DEBT VS. BAD DEBT

FOR THOSE OF US WHO WERE RAISED IN THE MIDDLE CLASS AND PARTICULARLY THOSE OF US WHOSE PARENTS GREW UP IN THE DEPRESSION – WE'RE TAUGHT ALL DEBT IS BAD.

The next concept I want to talk about is good debt vs. bad debt. For those of us who were raised in the middle class, and particularly those of us whose parents grew up in the depression, we've been taught that all debt is bad debt.

BUT IF YOU LOOK AT THE MOST PROFITABLE AND SUCCESSFUL COMPANIES, THEY ARE ALL FOUNDED TO SOME DEGREE ON DEBT.

But if you look at the most profitable and successful companies, they are all founded to some degree on debt. And there are two concepts that go into this that are really important.

HOW DO WE RESOLVE THIS PARADOX?

One is the idea of what the debt is based in and the other is the quantity of debt or the percentage of debt to equity.

FIRST YOU NEED TO UNDERSTAND THAT SUCCESSFUL COMPANIES ARE LEVERAGING THEIR ABILITY TO GROW AND BE PROSPEROUS THROUGH THE USE OF OPM (NO, THIS ISN'T THE POPPY TALK)

So first you need to understand that successful companies are leveraging their ability to grow and be prosperous through the use of OPM, which stands for Other People's Money.

OPM – OTHER PEOPLE'S MONEY!

THEY ARE NOT USING THEIR OWN CAPITAL AND CASH RESOURCES TO EXPAND THEIR BUSINESS – THEY ARE USING OPM TO MAKE THOSE EXPANSIONS, RESERVING THEIR OWN WORKING CAPITAL TO RUN THEIR DAY-TO-DAY BUSINESS OPERATIONS.
Very often they are not using their own capital and cash resources to expand their business, they are using other people's money, investors, as well as creditors, to make those expansion, reserving their own working capital to run their day-to-day business operation.

IT'S VERY SIMPLE – THERE'S GOOD DEBT AND THERE'S BAD DEBT.

And it's very simple, there's good debt and there's bad debt. There's absolutely good debt and then absolutely bad debt. There's absolutely areas that you do not want to create debt around.

THIS HAS NOTHING TO DO WITH THE SOURCE OF THE MONEY (I.E. THE HOLDER OF THE DEBT)
This actually has nothing to do with the source of the money (i.e. the holder of the debt).

WHETHER ITS CREDIT CARD DEBT (ALSO CALLED UNSECURED DEBT),

A LOAN FROM THE BANK OR A PERSONAL LOAN FROM FAMILY OR FRIENDS.
Whether that source is investors or creditors, such as credit cards or bank loans or you know, bank-o mom and dad.

IT HAS TO DO WITH WHAT YOU USE THAT MONEY FOR.
This has to do with what the debt is being used for and what its leverage against. So whether it's credit card debt, which is also considered unsecured debt, whether it's a loan from the bank or a personal loan from family or friends that are debt against some kind of equity that you hold, mortgage or other property. It has a lot more to do with what you use that money for, as well as the debt to equity ratio.

GOOD DEBT IS AN INVESTMENT IN YOURSELF OR YOUR BUSINESS. SOME EXAMPLES OF GOOD DEBT COULD BE:

So a good debt is an investment in yourself, meaning your skill basis or your business. Some examples of good debt could be:

EDUCATION – EXPANDING YOUR SKILL SET EXPANDS YOUR ABILITY TO INCREASE YOUR INCOME

Education. Expanding your skill set which expands your ability to increase your income.

Investing in your craft. Getting to be, you know, getting better at what you do is going to allow you to create better product and create better opportunities for yourself, but also expanding your skill set in your business skill, which is why you're here in this calls, which is going to make you a better business person and more effective in your business, which will also be able to expand your opportunities and your reach and your ability to respond to those opportunities.

CAPITAL INVESTMENT OR EXPENDITURE - EQUIPMENT, SOFTWARE, BUSINESS VEHICLE OR OTHER LARGE SCALE ACQUISITION THAT HELPS YOU TO RUN YOUR BUSINESS – THIS IS CONSIDERED A CAPITAL EXPENSE AND IS FULLY TAX DEDUCTIBLE. YOU CAN ALSO DEDUCT THE YEARLY DEPRECIATION OF THESE ITEMS FROM YOUR TAXES

Another area of good debt is capital investment or expenditure, such as equipment, software, a business vehicle or other large scale acquisition that helps you to run your business. This is considered a capital expense, and it's fully tax deductible. You can also deduct the yearly depreciation of these items from your taxes.

So, if you spend a lot of money on your recording equipment, for example, you not only can deduct that from this year's taxes, but you can probably amortize that deduction over time and again this is not accounting advice.

This is something you would want to work with your accountant to see what makes the most sense and you have a lot of traces around that. You can choose to deduct the entire amount this year. You can choose to deduct it over, I think, it's 3 years, but it depends and I'm not an accountant, so you need to talk to an accountant over that.

And you can depreciate what that-- the value of the equipment over time and deduct depreciation, because for example, let's take a car. A car loses value over time, but the older the car is the less value it holds, and if it is a business--if it's an automobile that is strictly for your business, you can deduct that decrease in value or depreciation from your taxes over time. And again, you would want to get specific recommendations from your accountant on the best way to do that.

THE INVESTMENT IN THE CREATION AND MARKETING OF PRODUCT THAT YOU WILL SELL (SUCH AS THE RECORDING AND DUPLICATION OF A CD AND TOURING TO PROMOTE IT)
In accounting terms this is considered "COGS" or cost of goods sold.

You can also consider the investment in the creation and marketing of product that you will sell such as the recording and duplication of the CD, touring to promote it. Those kinds of things can also be a good investment or good debt.

However, and that's a big HOWEVER, I don't recommend doing a huge CD pressing in advance and hoping to sell it.

In this day and age, people are much more likely to download, and this to some degree depends on your niche, on who your market is, and how they like to get their music, but you can also do a lot more print-on-demand kinds of situations or smaller runs.

For example, if you're self-publishing a book, you can do print-on-demand and that will reduce the amount of capital or the amount of debt you would need to invest.

In accounting terms, this is considered COGS. C-O-G-S, which stands for Cost Of Goods Sold, and it actually occupies a different category in your business budget. In most accounting, you deduct your cost of goods sold from your gross in order to get your adjusted gross, and then you deduct your expenses out of that adjusted gross in order to get you net income for a particular month.

PURCHASING REAL PROPERTY (= REAL ESTATE) FOR PERSONAL USE, BUSINESS USE OR AS AN INVESTMENT
When purchasing real property, in other words, real estate for personal use, business use or as an investment, that's also an area that is generally considered a good use of debt.

It is not considered a good use of debt to create a negative amortization loan in order to make that investment. In other words, and these are some of the sub-prime loan concepts that were really popular that led us to destruction. A negative amortization loan is one in which you end up owning more at the end of each month on the loan.

And very often those loans include balloon payments, so with, you know, mortgage rates so low right now, you shouldn't have to go into one of those kinds of instruments in order to purchase property. And if you do, you probably shouldn't be purchasing, you should be leasing or renting. It's just, you know, it's just bad business to do that.

INVESTMENTS THAT CREATE POSITIVE CASH FLOW OR AT LEAST BREAK EVEN (INCLUDING THE PAYMENTS ON THE DEBT YOU INCURRED TO PURCHASE THEM) – E.G., COMMERCIAL REAL ESTATE THAT GENERATES MORE IN RENTAL INCOME THAN IT COSTS TO OWN AND MAINTAIN

Another kind of good debt are investments that create positives cash flow or at least break even, including the payments on the debt you incurred to purchase them. In other words, commercial real estate that generate more in rental income than it cost to own and maintain.

So when you're doing those numbers always include an additional 10% a year for cost in order to maintain that property, and so that, you know, if you're using other people's money to finance commercial real estate, as long as the numbers work out so that you are earning or at least breaking even on that investment.

It is not a good idea to invest in the stock market with OPM because it is not generating cash flow. It's also very high risk.

It is really-really-really not a good idea to invest in the stock market with other people's money or with credit card debt, because it's not generating cash flow and it tends to be very high risk, okay?

I would also include investing in undeveloped property, unless you have a quick turnaround on that, because again, it's not generating income, so you're always going to be paying out on that.

BAD DEBT IS WHAT MOST PEOPLE REFER TO AS CONSUMER DEBT –

USING CREDIT TO BUY CONSUMABLE ITEMS THAT DO NOT CONTRIBUTE TO THE GROWTH OR EXPANSION OF YOUR BUSINESS OR YOUR NET WORTH. SOME EXAMPLES OF BAD DEBT COULD BE:

Bad debt is what most people refer to as consumer debt. But I'm going to expand it, so using your credit card to buy consumable items that do not contribute to the growth or expansion of your business or your net worth. Some examples of bad debt could be:

Living expenses such as food, clothing or rent
Living expenses, such as food, clothing or rent

Entertainment
Entertainment, vacation

Day-to-day cost of doing business items such as office supplies, utilities, Salary for your employees
Day-to-day cost of doing business items such as office supplies, utilities, salary for your employees

Vacations, toys or what Rich Dad calls doodads
Vacations, toys, and I would include in toys, luxury equipment that you can't pay in cash. If you've got 4 guitars and you really, really want that vintage Gibson, but you don't have the cash to buy it, don't buy it. It's a toy! It's not really what you need for your business.

If you've got the cash to buy it, great! Buy it! But don't go into debt to buy it. *Rich Dad* calls those "doodads," and it's a very bad idea to go into debt in order to buy doodads.

Your personal vehicle (as opposed to a business vehicle which creates a tax deduction…)
Also your personal vehicle (as opposed to a business vehicle which creates a tax deduction) going deeply into debt to buy your personal vehicle is not a great use of debt--of other people's money.

IT'S NOT BAD TO BUY THESE THINGS – IT'S JUST BAD TO CREATE DEBT IN ORDER TO DO IT!

If you can easily and effortlessly pay more than the minimum on the loan, if you can negotiate a really low interest rate on the loan, like they're showing some 0.9% or 1.9% interest rates on car loans right now, as long as you have no pre-payment penalty, in other words you don't get penalized for paying it early, and as long as the interest is real interest, not compound interest, okay?

And if you're going to do that I always recommend rounding up to the nearest round number, so that on your payment so that always paying more than the minimum. So let's say your payment on your car is $175, round it up to $200. Pay of $200 every month. You're going to pay it off early and you won't owe as much interest on it. You'll save money on the interest.

I ALSO BELIEVE THAT THE BIGGEST MISTAKE THAT BUSINESS OWNERS MAKE WITH REGARD TO DEBT IS CREATING DEBT WITHOUT A REAL WORLD PLAN TO REPAY IT.

I also believe that one of the biggest mistakes that business owners make with regard to debt is creating debt without a real world specific plan to repay it. If you're going to go out and spend $25,000 to record your next album, you better have a tour set up that's going to more than re-compensate you for, recompense you for that investment.

IN TODAY'S WORLD OF KICKSTARTER, YOU CAN ALSO CREATE ALTERNATE WAYS OF RAISING CAPITAL THAT DO NOT INVOLVE INCREASING YOUR DEBT LOAD, EITHER SECURED OR UN-SECURED.

In today's world of Kickstarter, you can also create alternate ways of raising capital that do not involve increasing your debt load either secured or unsecured, okay? So if you don't know what Kickstarter is, go ahead and Google it.

It's a great way to get your fans to help you finance your next project, and you also, you know, if you have the capacity to create a really fun video, you can also get a lot of strangers interested in what you're doing and in that way expand your fan base.

So you can actually use kick-starter to market yourself, but you need to make a really good video in order to do that. The danger with Kickstarter, by the way, is that if you say that your project you want to raise $5,000 for your project, if you raise $4,999 by the deadline on your project, you get nothing. You get nothing. So you better be ready to really market the crap out of it, okay?

And if you aren't confident that you can hit your goal, make a smaller goal. Do more than one Kickstarter campaign and see how you do. You can always do another one, okay?

SEPARATING PERSONAL FROM BUSINESS

Now one of the most important things that you can do as a business owner is separating your business finances from your personal finances. Now that doesn't mean that you have to get a business account or that you have to register your business with your county or state or city, depending what's required in your area. You don't have to. I think it's a good idea. It's not that expensive.

You also don't have to create a corporation or an LLC if where you're at right now doesn't really justify it.

It is extremely important to separate your business finances from your personal finances

However, it is extremely important to separate your business finances from your personal finances. And there are quite a few reasons for doing it.

The first reason is that when you go to do your taxes, being able to quickly and easily identify which expenses are your business expenses and run those numbers for taxes becomes a lot faster and easier.

If God-forbid that you ever get audited and you can show that you're only running business expenses through your business account and business credit card. You will be taken a lot more seriously by the IRS, even if you're running in the red. So even if your business is not making or grossing a profit, you still will be taken much more seriously, much more likely judged as a business.

There's lots of businesses run in the red theoretically from time to time or in particular at start-up. That's not what determines whether or not you are a business or a hobby. What determines whether or not you are a business or a hobby is if you are running your business like a business.

If you're using good accounting practices, so one of those good accounting processes is to not run your personal money through your business and not run your business money through your personal, okay?

So you can set up a free personal checking account and just use that as your business account. You can even get a personal credit card but only use it for your business expenses, okay?

What does this look like operationally?

So what does this look like operationally?

At least 2 checking accounts – one business and one personal (whether the bank knows it's a business account is less important).

At least 2 checking accounts-- one business and one personal. Whether the bank knows it's a business account is less important as long as you know it is and operated it that way.

Now you will need a business account if (1) you are using merchant account to take credit card payments; (2) if you are running your business as a DBA under a different name then your personal name. Now the work around on that is if you include your last name in the DBA.

So for example if I am Debra Russell, certified business coach, and the name of my business, my DBA, by the way which stands for Doing Business As, is Russell Coaching Services. Most banks will allow you to open a business account as Russell Business Services or your name, you know, music, John Doe Music, whatever it is, and they let you open a business account without registering as a business, because your name is associated with that name.

Some of those rules have gotten tighter since 9/11 because of homeland security issues. Frankly, it's so easy to register as a business. You go to your local county clerk or city clerk and you fill out a couple of forms and you pay them like $30 or $40, and you're registered, and then you take that form and you go to your bank and then you open a bank account.

There are banks that offer free checking for businesses. I use Capital One. You just need to do a bit of research. The smaller banks are much more likely to let you open up a free business checking account. I wouldn't even waste my time with Chase, Bank of America, Wells Fargo. you know, the Top 3, because they're going to charge you, but a lot of your local banks won't.

Credit unions, some will let you open business accounts. Some won't. It depends on the credit union. So you just need to do a bit of research. So you want to have 2 checking accounts: one for business, one for personal.

AT LEAST 2 CREDIT CARDS – ONE BUSINESS AND ONE PERSONAL

And you NEVER use your business credit card to pay for personal items or your personal credit card to pay for business items.

You want to have two credit cards. One for business one for personal, and never use your business credit card to pay for personal items or your personal credit card to pay for business items. Unless, you set it up as a loan.

In accounting term, if you're not set up as a corporation or a partnership, you are considered a sole proprietorship, okay? And as a sole proprietor, you can loan money as the owner to your business. It is called an owner investment. And it doesn't need to be set up as a legal loan, like you don't need to charge interest to whatever, but you do need to track it as an owner investment. And I recommend you pay it back.

So if, for example, you have a larger credit limit on your personal credit card than you do on your business credit card and your setting up a tour, where you're not going to get paid in advance and you just need to have some credit to cover that gap and you don't feel comfortable putting on your business account, because you just don't have a big enough ceiling, debt ceiling, in order to do that, go ahead and put it on your personal account, but make sure that you pay it out of the income from the…out of the income from the tour and pay it first.

So always pay that off as quickly as possible. It's not a good idea to carry that debt on your personal account. It just makes accounting much more sloppy.

WHILE CASH MAY BE HARDER TO SEPARATE, IF YOU KEEP GOOD RECORDS – RECEIPTS AND CASH LOG – YOU CAN ACCOUNT FOR THE CASH APPROPRIATELY

Cash may be harder to separate. If you keep good records, meaning receipts in cash log, you can account for the cash appropriately.

Petty cash account for business expenses

You do want to set up a petty cash account for your business expenses, and you always want to keep track

Depositing or accounting for cash income

and deposit or account for your cash income, so that if someone buys a CD from you using cash, don't just put that money in your pocket. Account for it and report it, okay? It looks good to be reporting income. You look like a more viable business, okay?

AT THE END OF THE MONTH, YOU HAVE YOUR BUSINESS ACCOUNT PAY YOUR SALARY TO YOUR PERSONAL ACCOUNT.

At the end of the month, you have your business account pay your salary to your personal account. In other words, at the end of the month or every two-weeks or however you want to set it up, you pay yourself from your net income or not.

If you got a day job and that day job is basically paying your expenses, you could leave your net income in your business to pay down debt, to be running in the black. It's not a bad idea.

To create a cushion so that if you have a couple of months where your income is low because your business is cyclical, you have that cushion, and I'm going to talk a bit more about that in a minute.

IF YOU ARE OPERATING AS A SOLE PROPRIETORSHIP, PARTNERSHIP OR LLC, THIS IS CONSIDERED AN "OWNER'S DRAW" AND IS CONSIDERED 1099, SELF-EMPLOYMENT INCOME OR 1065 PARTNERSHIP INCOME. AND GENERALLY REPORTED IN YOUR SCHEDULE C

If you're operating as a sole proprietorship, partnership or LLC, this payment is considered an "owner's draw." It's considered 1099 self-employment income or 1065 partnership income, and it's generally reported in your Schedule C.

IF YOU ARE OPERATING AS A CORPORATION – THIS IS SALARY AND IS TAXABLE VIA W-2.

If you're operating as a corporation, this is salary and is taxable via w-2. Okay? And you need to pay your payroll of taxes and all of that stuff.

WHY IS IT IMPORTANT TO SEPARATE BUSINESS FROM PERSONAL? IF YOU DON'T DO THIS, YOU HAVE ABSOLUTELY NO WAY TO DETERMINE THE PROFITABILITY OF YOUR COMPANY AS A WHOLE OR OF INDIVIDUAL ACTIVITIES OR PRODUCT LINES.

So I want to talk a bit more about why it's important to separate business from personal. See, if you don't do this, you have absolutely no way to determine the profitability of your company as a whole or of individual activities or product lines within your company.

IT BECOMES MUCH HARDER TO UNDERSTAND WHERE THE MONEY IS COMING FROM AND GOING TO

It becomes much harder to understand where the money is coming from and going to.

IT BECOMES MUCH HARDER TO MAKE RESPONSIBLE AND PROFITABLE DECISIONS BOTH PERSONALLY AND PROFESSIONALLY.

And it becomes much harder to make responsible and profitable decisions both personally and professional.

AND IF YOU ARE LOSING MONEY IN YOUR BUSINESS – IT MAKES YOUR BUSINESS LOOK LIKE A HOBBY TO THE IRS – WHICH MEANS ALL THOSE TAX DEDUCTIONS GO AWAY!!!

And if you are losing money in your business, it makes your business look like a hobby to the IRS, which means that all of those tax deductions that you get--as a business--go away!

AND BOTTOM LINE – AS WITH ALL OF OUR RECOMMENDATIONS IN TONIGHT'S CLASS – THESE ARE FOUNDATIONALLY GOOD BUSINESS PRACTICES.

Bottom line, as with all of my recommendations in tonight's class, these are just foundationally good business practices. And I want to recommend that you always follow good business practices, because the more you do that the more likely you're going to become and stay profitable.

ON AN ENERGETIC LEVEL, IT ALSO SAYS TO THE UNIVERSE (AND TO YOUR MIND), YOU'RE NOT REALLY ALL THAT SERIOUS ABOUT YOUR BUSINESS AND YOU ARE DEFINITELY NOT READY FOR THE BIG TIME!

Also, on an energetic level, it also says to the universe and to your own unconscious mind that you're really serious about your business, and that you are really ready for the big time. That you're really ready for success. If you merge money, business and personal, what it says is that you're really not taking your business seriously.

You're not thinking about it as a business. You're not serious. You're not for real, and you are definitely not ready for the big time, okay? I have a lot more to get to so I'm going to just move through this quickly.

BUDGETING

IN ACTUALLY CREATING YOUR BUDGET(S) YOU WILL BE USING THE INFORMATION THAT YOU DISCOVER IN WORKING THE S.P.E.C.I.A.L. METHODOLOGY IN THE STARTING POINT ASSESSMENT STEP.

When budgeting, the next concept I want to talk about is budgeting. In actually creating your budget, you'll be using the information that you discover in working the S.P.E.C.I.A.L. methodology in the starting point assessment step.

So in the S.P.E.C.I.A.L. methodology the S is the starting point assessment. The P is picture the end result. You're going to take the numbers that you get from your starting point assessment and create a budget, which becomes part of your Picturing the End Result. It becomes part of your vision for your business.

AS MUCH AS HUMANLY POSSIBLE, USE ACTUAL NUMBERS FOR YOUR BUDGET – NOT GUESSES OR APPROXIMATIONS.

As much as humanly possible, you want to use actual numbers for your budget, not guesses, not approximations, not yeah-with-something-around. You want real numbers.

THIS IS ONE OF THE BIGGEST MISTAKES THAT PEOPLE MAKE WHEN CREATING BUDGETS, THEY GUESS, AND THEY GUESS TOO LOW – OFTEN WAY TOO LOW, OR LEAVE THINGS OUT.

And by far the biggest mistake people make when creating budgets is that they guess, and they guess too low. Often way to low and/or they leave stuff out, in particularly they leave out cash.

YOU NEED TO TRACK ACTUAL EXPENSES AND INCOME FOR AT LEAST A COUPLE OF MONTHS TO GET ACCURATE NUMBERS.

Need to track actual expenses, every penny, and income. Every penny for at least a couple of months to get real, accurate numbers.

WHEN I REVIEW MY BUDGET WHICH I DO QUARTERLY, I RUN THE ACTUAL NUMBERS FOR THE LAST 6 MONTHS-1 YEAR AND CREATE AN AVERAGE FOR THE MONTHLY BUDGET NUMBER.

When I review my budget, which I do quarterly, I run the actual numbers for the last 6 months to 1 year. When I first did my business and personal budgets, I ran the numbers for as much as I had, which was about 5 years.

So basically, you run the numbers, you get a total. Let's say you've spent, you know, $1,000 on gas for the year -- business gas if you are touring musician for the year. Let's make it $1,200 so it's easier to do the numbers. $1,200 on business car expenses for the year, you divide that by 12, that means you've spent $100 a month.

If you've got 5 years' worth of data, you come up with a total for 5 years, and you divide it by 60, which is the number of months in 5 years, okay?

UNLESS:

There is a consistent monthly increase,
There is a fixed number

The exception to this rule is if you know that there's a consistent monthly number, fixed number, or you know, "Well, my insurance just went up, so I know that this month, even though over the last few years I spent $225 a month, this year I know it's going up to $275, so I just need to budget that amount."

THERE ARE 3 PRIMARY BUDGETS OR METRICS THAT YOU WANT TO PLAN AND TRACK REGULARLY

And there are 3 primary budgets or metrics that you want to plan and track regularly.

OPERATIONS BUDGET – THIS IS YOUR DAY-TO-DAY OPERATIONS AND INCLUDES RENT, UTILITIES, OFFICE SUPPLIES, POSTAGE, MARKETING, INSURANCE, QUARTERLY TAXES, ETC.
First of all, there's the operations budget. This is your day-to-day operations, including rent, utilities, office supplies, postage, marketing, insurance, quarterly taxes, etc. If you're not sure what categories should be line items on your operations budget, one of the best things you can do is go to Microsoft.com and search Microsoft.com for their Excel templates.

People basically have created templates and uploaded them for free, and most of them are free. You can download them, and if you look for business budget or you look for income and expense reports for businesses, you're going to find other people's business budgets.

Now, the numbers won't apply to you, but the category may just. And it may make you think differently about your budget categories, and it may help you figure out what are the best categories to use.

Another place to get category information is from the IRS, because the IRS are going to tell you what are the line items that you can deduct from your taxes as a business owner, and that may help you also in thinking about this. So that's your operations budget.

PROJECT PRODUCTION BUDGET – THIS BUDGET IS PART OF THE PLANNING FOR ANY PROJECT. WHETHER YOU ARE RECORDING A CD, CREATING A NEW PORTFOLIO OF PAINTINGS, HANGING A SHOW, TOURING. EVERY PROJECT NEEDS A BUDGET THAT INCLUDE THE COSTS FROM CONCEPTION TO FRUITION (= THROUGH PRODUCTION + PROMOTION AND MARKETING)
The second budget is your project production budget. This budget is part of the planning for any project. Whether you're recording a CD, creating a new portfolio of paintings, hanging a show, touring, every project needs a budget that includes the costs from conception to fruition, which means through pre-production, production, promotion, marketing fulfillment.

You want to come up with those numbers in advance of doing the project, because that's the only way you're going to be able to know how much money you're going to need in order to complete a project.

Also, particularly for something like a tour or a show, you need to know how much it's going to cost in order to know what to charge for it. What to ask in your contract negotiations, okay? Don't set yourself up to lose money. Set yourself up to win!

Product Income tracking - While the accounting of this happens as you go, this is a critical piece of your month-end, quarter-end and year-end analysis.
The third kind of budget that you want to be thinking about is your product income tracking. While the accounting of this happens as you go, this is a critical piece of your month and quarter and then year-end analysis.

You want to track:

COGS (Cost of Goods Sold) – what it costs to create and bring to market the goods you're selling
Cost of Goods Sold - what it cost to create and bring to market the goods you're selling.

Income from product by the piece
The income from product by the piece.

Where and when the sales happen and the source of those sales
As well as where and when the sales happen and the source of those sales.

These analyses will help you determine:
You want to do this because these analysis are going to help you determine:

Where are you making money
Where you're making money;

Where are you losing money
Where you're losing money;

Which marketing is working or not working
Which marketing is working or not working

Which product is selling
Which products are selling in what format.

All of these numbers are going to help you do more of what brings in income and less of what loses you money. And I promise you that having a business accounting software, like QuickBooks or Quicken, is going to hugely help you run these numbers, because these are all standard reports that business owners run, and that means that they are reports that already existing in one format or another in those programs.

You might need to tweak them a bit and customize them for what you're trying to look at, but there are ways to run those reports already existing within the software. Whereas if you're using a shoe-box methodology or even an Excel document, running those numbers become a lot more complicated, okay?

It's a Business Expense, but is it Tax Deductible?

So the next concept that I want to talk about is, "Is it a Business Expense?" Now the mistake that people make is that they think that it is not tax deductible, it isn't a business expense.

Any tax-specific info I'm giving is US-centric – if you're in another country, your rules will be different.

Now any tax-specific information I'm going to give to you is going to be US-centric, because that's the only tax code I'm familiar with. If you're in another country, your rules are going to be different.

And not tax professional

And again, I am not a tax professional.

In addition, the tax law changes every year and you should work with your accountant to keep up to date.

And in addition, you know, I'm making this recording in 2012. The tax law changes day-to-day, month-to-month, year-to-year, and you know I mean they just passed the payroll tax extension or the, you know, whatever. This stuff changes all the time, and that's why you want to have a CPA that you can consult with, okay?

A lot of people thinks that whether an expense is considered a tax deductible expense should determine how you budget it.

A lot of people think that whether an expense is considered a tax-deductible expense should determine how you budget it is a business is a personal, but it's not.

No – A business expense is any money you spend to build, run, or expand your business and your capacity to run that business (i.e. continuing Ed, coaching, etc.). This class is a business expense!

A business expense is any money you spent to build, run, or expand your business. I'm, going to say that again. A business expense is any money you spent to build, run or expand your business and your capacity to run that business, which includes your continuing education, your coaching. This class, your monthly membership academy fee, is a business expense.

MAKING A DECISION ABOUT WHETHER TO INCUR AN EXPENSE SHOULDN'T BE DEPENDENT ON WHETHER IT'S DEDUCTIBLE, BUT ON WHETHER IT SERVES YOUR BUSINESS.

Making a decision about whether to incur an expense shouldn't be dependent on whether it's deductible, but on whether it serves your business needs, okay?

BUSINESS STRUCTURE – WHICH STRUCTURE IS RIGHT FOR YOU IS A COMPLEX DECISION. I JUST WANT TO GIVE YOU A QUICK OVERVIEW AND UNDERSTANDING. THERE ARE LOTS OF RESOURCES FOR THIS INFORMATION INCLUDING WWW.SCORE.ORG, WWW.IRS.GOV AND WWW.NOLO.COM

And along with that, your business structure is going to also affect whether or not something is tax deductible or not, and which business structure is right for you is a complex decision, which I'm not going to even going to try to address in this class.

I just want to give you a very quick overview and understanding. There are lots of resources for this information, including score.org, IRS.gov, nolo.com, and you know, there's just a time of these resources, and in fact if you go to your county and look into registering your business, you're going to feel lot of...they're going to also have some resources to offer you.

SOLE PROPRIETORSHIP – EASIEST TO SET UP, MOST HIGHLY TAXED, MOST VULNERABLE TO LIABILITIES, CAN USE YOUR OWN SS# - IT'S THE DEFAULT BUSINESS STRUCTURE.

So 1, a sole proprietorship; easiest to set up, most highly taxed, most vulnerable to liabilities and lawsuits. You can use your own social security number. It's the default business structure. If you register your business and you don't tell them that you are a partnership or a corporation or an S corp or whatever, they'll assume you are a sole proprietorship.

PARTNERSHIP – 2 OR MORE PARTIES, NEEDS AN EIN, AND A PARTNERSHIP TAX FILING. ACTUAL NET INCOME IS PASSED THROUGH TO THE INDIVIDUAL PARTNER AND TAXED THERE.

A partnership is two or more parties. It needs an Employer Identification Number or an EIN, and you will also be doing a separate partnership tax filing, but the partnership doesn't pay taxes, unless they're payroll taxes for employees that are employed by the partnership.

You actual net income from the partnership is passed through to the individual partner and taxed on your 1065, on your partnership employee form.

LLC – IS NOT A CORPORATION! IT IS A LIMITED LIABILITY COMPANY. IT IS A LIABILITY UMBRELLA ONLY. THE INDIVIDUAL(S) ARE TAXED AS WHAT THEY ARE – SOLE PROPRIETORSHIP, PARTNERSHIP, ETC. AND THE ACTUAL LIABILITY LIMITS FOR SOLELY-HELD LLC'S HAVE BEEN OVERTURNED IN COURTS. IT'S DIFFERENT FROM STATE TO STATE.

An LLC by the way does not stand for corporation; it stands for Limited Liability Company. It is a liability umbrella only. It does not affect how you're taxed. The individual(s) are taxed as what they are, whether it's a sole proprietorship or a partnership.

The actual liability limits 4 solely-held LLC's in other words sole proprietorship LLC's have been overturned in some courts, which means that someone sued a limited liability company, but that limited liability company was only held by a single person and the court said, "I'm sorry, you can't protect yourself that way. We're going to attach all of your personal assets in this law suit." It differs from state to state. Again, I am not a lawyer. I am not an accountant. Get good legal advice.

S-CORP AND C-CORP ARE TAXED WITHIN THE ORGANIZATION OF THE CORPORATION, THEN THE INCOME YOU TAKE IS EARNED INCOME AND YOU ARE TAXED AS AN EMPLOYEE OF THE CORPORATION VIA W-2.

An S-Corp and a C-Corp are taxed like people! Yes, corporations are people! They are taxed within the organization of the corporation, which means that the corporation pays taxes. Then the income that you take is earned income. In other words, the salary that you take is earned income, and your taxed as an employee of the corporation via the W-2. Your stocks in the corporation or any income that you make as a stockholder is taxed as a capital gains at, I think 15% for most people--as long as the law stays the same.

And it's only taxed if you're not pulling out dividends and you're only increasing the amount that a particular stock is worth, it's then only tax if you sell that stock, okay?

THERE ARE ADVANTAGES AND DISADVANTAGES TO EACH STRUCTURE. WHICH IS BEST FOR YOU IS A QUESTION FOR AN ACCOUNTANT AND/OR TAX ATTORNEY.

There are advantages and disadvantages to each structure, which is best for you is a question for an accountant and and/or a tax attorney.

TRACKING AND DON'T MAKE NUMBERS UP

IT IS ABSOLUTELY CRITICAL THAT YOU TRACK YOUR EXPENSES.

Here's the bottom line in all of this, it is absolutely critical that you track your expenses.

KEEP RECEIPTS FOR EVERYTHING, WRITE ON THE RECEIPTS WHAT THE EXPENSES WERE FOR, WHO YOU WERE MEETING WITH, AND DOCUMENT THOSE MEETINGS IN YOUR CALENDAR.
Keep receipts for everything. Write on the receipts what the expenses were for, who you were meeting with, and document those meetings in your calendar.

AND KEEP ACCURATE BOOKS, IN QUICKEN, QUICKBOOKS OR OTHER SYSTEM, WHERE YOU ACCOUNT FOR ALL EXPENSES AND INCOME. KEEP RECORDS OF ACTUAL BUSINESS MILES TRAVELED.
Keep accurate books in Quicken, QuickBooks or some other bookkeeping software, where you account for all expenses and all income. Keep records of actual business miles traveled.

BOTTOM LINE, IF YOU CAN'T PROVE IT, YOU SHOULDN'T DEDUCT IT.
Bottom line, if you can't prove it, you shouldn't deduct it.

WWW.IRS.GOV HAS GREAT ARTICLES AVAILABLE ONLINE THAT EXPLAIN ALL THE INS AND OUTS OF WHAT'S DEDUCTIBLE, WHAT'S NOT. BUT HERE ARE A FEW OF THE MOST COMMONLY ASKED QUESTIONS:
And the IRS.gov has great articles available online that explain all the ins and outs of what's deductible, what's not. But here are a few of the most commonly asked questions:

MEALS ARE NOT DEDUCTIBLE UNLESS:
Your meals are not deductible unless:

They are with another person who you are meeting with for business purposes. If you also have a personal relationship with that person, document the specific topics and purpose of that meeting.
They are eaten while traveling – traveling that requires an over-night stay (then you can use actual amount or a standard meal allowance)
Eating at your desk while you work does not count!
Meals are usually only 50% deductible
You are having a meal with another person, who you are meeting with for business purposes. If you also have a personal relationship with that person, document the specific topics and purpose of that meeting on the receipt. Your meals are not deductible, unless they are eaten while traveling and travel that requires an overnight stay. Then you can use the actual amount.

Now, meals that are meetings with other people are only 50% deductible. Meals for travel, you can either use the actual amount or a standard meal allowance, which is called the per diem (p-e-r-d-i-e-m), which is Latin which stands for per-day.

Eating at your desk while you work does not count! And going to Starbucks and having a cup of coffee while you work on your computer does not count, and most meals are usually only about 50% deductible.

TRAVEL TO AND FROM AN OFFICE IS NOT DEDUCTIBLE – AS IT IS CONSIDERED YOUR COMMUTE. TRAVEL DURING THE DAY FOR BUSINESS PURPOSES IS DEDUCTIBLE.

Travel. Travel to and from an office is not deductible; it is considered your commute. Travel during the day for business purposes is deductible IF you can...So here's when you can deduct travel during the day:

You can deduct expenses incurred in going between your home and a temporary work location (less than one year) if it is located outside of the area you live and work and you have a regular place of work other than your home.

You can deduct the expenses incurred in going between your home and a temporary work location if you're working there for less than one year. If it is located outside of the area you live and work, and you have a regular place of work other than your home.

So, you have an office, and you're travelling to a client's office. You have an office, and you're travelling to a gig, okay? You have an office, and you're travelling to the post office, you're travelling to buy office supplies, you're going to the bank, all of those things are business travel.

You can deduct expenses incurred in going between your home and a workplace if your home is your principal place of business for the same trade or business.

You can deduct expenses incurred in going between your home and a workplace if your home is your principle place of business for the same trade or business, and then you are travelling to a client's office or gig.

ULTIMATELY YOU SHOULD CONSULT WITH AN ACCOUNTANT FAMILIAR WITH YOUR BUSINESS TO EXPLORE ALL THE LEGITIMATE AND LEGAL WAYS TO SAVE MONEY ON YOUR TAXES.

Ultimately you should consult with an accountant, familiar with your business to explore all the legitimate and legal ways to save money on your taxes. I recommend that you stay within the legal bounds. It ain't worth it to cheat.

ARE YOU READY FOR THE BIG TIME?

Now, the final thing I want to talk about is, are you ready for the big time? And I've already gone an hour, so I'm going to go through this very quickly.

SETTING UP THE SYSTEMS

First of all, you need to set up systems. Go and listen to the Create System call about how to set up systems.

DO NOT WAIT UNTIL YOU HAVE MONEY COMING IN TO JUSTIFY SETTING UP THE SYSTEMS.

Do not wait until you have money coming in to justify setting up your financial systems.

BUILD IT AND THEY WILL COME.

If you build it, more will flow in.

BESIDES, WHEN THE MONEY IS FLOWING IN, HOW MUCH TIME DO YOU HAVE TO SET UP SYSTEMS?

And besides, when the money is flowing in, how much time will you have to actually set up these systems?

E-MYTH SAYS DESIGN YOUR SYSTEMS NOW FOR THE BUSINESS YOU EVENTUALLY WANT TO HAVE (LOTS MORE DETAIL IN SYSTEMATIZING CALL)

The E-Myth Revisited says design your systems now for the business you eventually want to have, meaning design your systems for your vision. And again, there's lot of more information in the Systematizing Call.

USING QUICKBOOKS OR QUICKEN WILL TAKE TIME TO SET UP BUT WILL BE TREMENDOUSLY ADVANTAGEOUS IN THE LONG-RUN FOR A FEW REASONS:

Using QuickBooks or Quicken will take time to set up and learn, but will be tremendously advantageous in the long-run for a couple of reasons:

YOU CAN MORE EASILY DELEGATE THE SYSTEM BECAUSE IT'S A KNOWN QUANTITY.

One: you can more easily delegate the system because it's a known quantity. You're going to have an easier time finding a bookkeeper or an assistant who understands Quicken or QuickBooks than your personally designed Excel documents or shoebox.

YOU CAN HAVE AN ACCOUNTANT, QB EXPERT OR BOOKKEEPER SET UP THE SYSTEM FOR YOU.

You can have an accountant, QuickBooks expert or bookkeeper set up the system for you, even if you end up doing the bookkeeping yourself. You can have someone else set it up for you.

YOU CAN DOWNLOAD YOUR BANK AND CREDIT CARD INFO AND SIGNIFICANTLY REDUCE THE AMOUNT OF TIME IT TAKES TO INPUT YOUR DATA

You can download your bank and credit card information directly into your system and significantly reduce the amount of time it takes to input your data.

YOU CAN RUN RELEVANT REPORTS ON ALL ASPECTS OF YOUR BUSINESS IN ORDER TO DETERMINE:

You can run the relevant reports that I talked about earlier on all aspects of your business in order to determine

Where are you making money

Where you're making money,

Where are you bleeding money

Where you're bleeding money,

How are you compared to last month, last quarter, last year

How you're doing compared to last month, last quarter, last year

Evaluate new opportunities (or repeated opportunities) based on past experience

Evaluating new opportunities or opportunities that are repeating based on past experience. I will very often decide if I'm going to go to a conference again based on the amount of money I made at the conference last year or the year before.

Create real world budgets based on real cost analysis
Make educated business decisions

Create real world budgets based on real cost analysis and make educated business decisions.

CYCLICAL NATURE OF YOUR CASH FLOW

E.G., WHAT TO DO IF YOUR INCOME AND/OR EXPENSES VARY WIDELY ON A SEASONAL OR MONTH-TO-MONTH BASIS

In your business, you are probably dealing with a cyclical nature of cash flow. In other words, what do you do if your income and your expenses vary widely on a seasonal or even month-to-month basis? Okay, that's what I want to talk about next.

IDEALLY YOU WANT TO ACHIEVE A LEVEL OF INCOME THAT IS EQUAL TO OR BETTER THAN YOUR TYPICAL MONTHLY EXPENSES. IF THIS IS NOT THE CASE, YOUR CASH FLOW IS NOT JUST CYCLICAL, IT'S ALSO INSUFFICIENT.

Ideally, you want to achieve a level of income that is equal to or better than your typical monthly expenses. If this is not the case, your cash flow is not cyclical. It's insufficient.

You want to achieve a level of income that is equal to or better than your typical monthly expenses, both your business expenses and your personal expenses. If this is not the case, your cash flow isn't just cyclical. It's insufficient.

WHEN YOUR MEAN INCOME IS EQUAL TO OR BETTER THAN YOUR EXPENSES, YOU MUST BUILD A SAVINGS CUSHION, NOT EVER USED FOR ANY OTHER REASON THAT WILL MAKE UP THE DEFICIT DURING YOUR LOW FLOW MONTHS.

When your mean income, meaning your average income is equal to or better than your expenses, what you want to do is build a savings cushion. Now this is what I mean, let's say you tour during the summer and you do a lot of touring in late spring and early fall, but boy, the winter months are just dead fill for you.

So you're creating a lot of income from April to October, but from November through March not a lot.

If you average 12 months together and then divide that number by 12, so you add 12 months of income together and divide that number by 12, and that number is equal to or better than what you have to spend in order to make it through a month.

Then you're doing okay, you're breaking even, but what you have to do during the April through October months is put aside every penny that is over and above your expenses for that month.

Until you have a cushion that is equal to the amount of money you need to survive from November through March. And that cushion is never, ever, ever used for any other reasons than to make up the deficit during your low income months. So that money should be in a safe, insured interest-bearing savings account. Even if it's you know 0.4%, I don't care, safe, insured savings account that is used for nothing else than setting aside the money you need in order to make it through those slow months.

FIRST – TRACK YOUR MONTHLY INCOME OVER SEVERAL YEARS AND DETERMINE WHICH MONTHS ARE TYPICALLY HIGH AND WHICH MONTHS ARE TYPICALLY LOW.

SECOND – DETERMINE WHAT YOUR MINIMUM MONTHLY EXPENSES ARE.
Second, determine, and by the way, there may be fluctuation year-to-year, but if you have a cyclical income, you're going to see the pattern. Second, determine what your minimum monthly expenses are, and I mean if you do nothing, but the barest requirements of rent, food, overhead, okay?

THIRD – CREATE AN INTEREST BEARING ACCOUNT (I USE INGDIRECT) TO PUT YOUR SURPLUS INCOME IN THE HIGH FLOW MONTHS, UNTIL YOU HAVE ENOUGH TO COVER YOUR EXPECTED UPCOMING LOW FLOW MONTHS.
Third, create an interest bearing account (I personally use INGDirect online) to put… because one of the nice things about INGDirect is that you can create several different accounts and you can name them different things, and you have no minimum on them and you have no fees on them.

And they'll pull that money directly out of your business account or checking account.

Create that account to put your surplus income in the high flow months--the high income months, until you have enough to cover your expected income in the low income months.

I recommend using an insured account (money markets are not insured)
I recommend against using a CD to increase your interest because then the money is not accessible.
Never, ever, ever invest this money. This is your buffer.
I recommend using an insured account. Money markets are not insured.

I recommend against using a CD to increase your interest, because then the money is not accessible.

Never, ever, ever invest this money in either a business project, like a CD or in a stocks or bonds or anything like that. This needs to be accessible cash. This is your buffer.

MOST IMPORTANTLY, DO NOT THINK OF THOSE HIGH FLOW MONTHS AS SURPLUS INCOME – IT'S NOT! YOU HAVE TO MAKE SURE YOU HAVE ENOUGH SAVED FOR THE LOW FLOW MONTHS. ANYTHING ABOVE THAT BECOMES SURPLUS. REQUIRES PLANNING AHEAD! AND CURBING IMPULSE SPENDING.

Most importantly, do not think of those high flow months as surplus income--it's not! You have to make sure you have enough saved for the low income months. Anything above that becomes surplus. This requires planning ahead! And curbing any impulse spending, okay?

GETTING SUPPORT – EXPERTS, COACHING AND ASSISTANCE

And finally in order to ensure that you are ready for the big time, you want to get support.

IF YOU'RE TRULY BUILDING A SUCCESSFUL BUSINESS, NOT JUST A JOB FOR YOURSELF, DON'T TRY TO DO IT ALONE

If you're truly building a successful business, it's not just a job for yourself, so don't try to do it alone.

GET EXPERT ADVICE (ACCOUNTS, LAWYERS, MANAGERS, COACHES) ON THE AREAS THAT ARE OUTSIDE YOUR EXPERTISE

Get expert advice. Work with an accountant, a lawyer, managers, coaches, on the areas that are outside your expertise.

HIRE AN ASSISTANT (GET AN INTERN, ETC) TO HELP YOU WITH THE ADMINISTRATIVE DETAILS – FREES YOU UP TO BE AN ENTREPRENEUR, DO THE CREATIVE WORK OF YOUR BUSINESS

Hire an assistant, an intern to help you with the administrative details, which frees you up to be an entrepreneur and do the creative work of your business.

PARTNER WITH OTHERS IN YOUR FIELD

Partner with others in your field.

HIRE A COACH TO GUIDE YOU THROUGH THE PROCESS, HELP YOU DEVELOP THE SKILLS YOU NEED, KEEP YOU FOCUSED – YOU CAN'T GET THERE USING THE SKILLS THAT GOT YOU HERE!

Hire a coach to guide you through the process, help you develop the skills you need, keep you focused. You can't get there using the skills that got you here! Okay? You're going to need to develop new skills.

DELEGATE DON'T ABDICATE – DON'T THINK YOU CAN JUST HAND THIS STUFF OFF TO AN ACCOUNTANT AND YOU DON'T NEED TO UNDERSTAND IT. YOU SIGN THAT TAX FORM AND YOU'RE COMPLETELY RESPONSIBLE FOR EVERY SINGLE NUMBER ON IT. SO LEARN TO READ IT, UNDERSTAND IT, AND CHECK IT FOR ACCURACY.
Delegate, don't abdicate. Delegate, don't abdicate. Don't think you can just hand this stuff off to an accountant, and then you won't need to worry about it anymore.

You won't need to understand it. You must understand it. You must be able to read your income and expense report. You must be able to read your tax filings, because you signed for it and you are completely responsible for every single number on it.

So learn to read it, understand it, check it for accuracy. Even if you're doing amazingly well and you hired a business manager to handle the finances, you better get a business accounting from that manager every single month if not more frequently, and you have to be able to understand how to read it, because if you don't understand it then your manager can steal from you.

And I have worked with clients whose managers disseminated their retirement funds, and then you know disappeared.

FIND AN EXPERT WHO IS WILLING TO ANSWER YOUR QUESTIONS WITHOUT BEING CONDESCENDING OR IMPATIENT. THERE REALLY IS NO SUCH THING AS A STUPID QUESTION – AND IF HE OR SHE MAKES YOU FEEL STUPID, FIND SOMEONE ELSE.
Find an expert who is willing to answer your questions without being condescending or impatient. There really is no such thing as a stupid question when it comes to your money, and if he or she makes you feel stupid, find someone else. There's plenty of people out there who would be happy for your business.

FIND ONE YOU TRUST, WHO KNOWS THEIR STUFF – IN MY EXPERIENCE, DIFFERENT ACCOUNTANTS GIVE DIFFERENT ANSWERS TO THE SAME QUESTIONS, SO YOU MAY WANT TO GET ADVICE FROM MORE THAN ONE – ULTIMATELY, YOU'RE RESPONSIBLE
Find someone you trust who knows their stuff. In my experience, different accountants give different answers to the same questions, so you may want to interview a couple of different people, because ultimately, you're responsible. And you want to work with an accountant and an attorney who is familiar with your unique business.

YOU NEED SOMEONE WHO CAN TELL YOU HOW TO SAVE MONEY ON YOUR TAXES – IF YOU'RE TRACKING WITH SOFTWARE, DOING YOUR TAXES BECOMES REALLY EASY TO DO ON YOUR OWN. THE PURPOSE OF AN ACCOUNTANT IS TO KNOW ALL THE INS AND OUTS OF THE TAX LAW AS IT RELATES TO YOUR BUSINESS AND ADVISE YOU ACCORDINGLY.

You need someone who can tell you how to save money on your taxes. If you're tracking with software, doing your taxes becomes really easy to do on your own. The purpose of an accountant is to know all the ins and outs of the tax law as it relates to your business, so they can advise you accordingly.

IF YOU DO HAVE AN ACCOUNTANT FILL OUT YOUR TAXES, THEN IF YOU'RE TRACKING THE NUMBERS LIKE WE RECOMMEND, YOU'LL BE ABLE TO EASILY CHECK THE NUMBERS IN YOUR TAX FORMS AGAINST YOUR RECORDS AND KNOW WHETHER YOUR ACCOUNTANT IS REPORTING THEM ACCURATELY … OR MAKING STUFF UP, MISSING DETAILS, OR MAKING ERRORS

If you do not have an accountant fill out your taxes, then if you're tracking the numbers like we recommend, you'll be able to easily check the numbers in your tax forms against your records and know whether your accountant is reporting them accurately.

I'm sorry, if you do have an accountant, not if you do not. If you do have an accountant fill out your taxes, you'll be able to check those numbers against your records and know whether your accountant is reporting them accurately or making stuff up, missing details or making errors.

Bottom line again, you're responsible. Do not abdicate, delegate, and hold them accountable.

GETTING YOUR PERSONAL AND YOUR BUSINESS FINANCES CLEAN AND CLEAR AND SYSTEMATIZED CAN BE A BIG JOB (DEPENDING ON WHERE YOU ARE WHEN YOU START.) YOU DON'T HAVE TO DO IT ALONE. BUT YOU HAVE TO DO IT.

Getting your personal and business finances clean and clear and systematized can be a big job depending on where you are when you start. You do not have to do it alone, but you do have to do it.

I tell my clients God never gives you more than you can handle – if you want more money, you need to show that you can handle it!

I tell my clients that God never gives you more than you can handle. If you want more money, you need to show that you can handle it. So, go out. Get your finances in order. It's a good time to be doing it since, you know, tax season is coming up.

Get it done. You will feel better once you get your systems set up. I promise you. And if you feel like you cannot possibly do it alone, get in touch with me. I'm happy to work with you on it.

Have a great night! Thanks very much!

