REVEAL
YOUR PATH TO PROFIT

01

RECONCILE All Balance Sheets Accounts:

The Balance Sheet is the least looked at financial report even though it is the foundation of your business finances. Your Balance Sheet is the key to understanding the liquidity and sustainability of your business. It is also your best tool to confirm everything has been recorded to your Profit & Loss/Income Statement. If your balance sheet doesn't reconcile, you're missing something somewhere.

Make sure your bookkeeper is reconciling every balance sheet account each month and take a look at what's in them.

- *Do you have old transactions in the outstanding items on your cash reconciliation?*
- *Does your AR Aging show old invoices that aren't getting paid?*
- *Are you making a dent in your debt?*

02

EVALUATE Revenue Streams:

We get to pull two of the three profit levers here but only if you do the work. By understanding your revenue streams, you provide yourself with the opportunity to improve your profit and change the format of your financial statements so they give you the information you need at a glance.

Take an in depth look at your revenue streams and cost of goods sold. How do you make money, and what does it cost in time and money to provide that product or service? Don't forget to value time in this step. Identify the most profitable products or services and restructure your accounts to show you revenue streams.

Now pull those profit levers...do you need to raise your rates? Or can you increase profit by focusing your marketing more on the product or service that is most profitable?

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03

VALIDATE Expenses:

Now we get to pull the third profit lever. The one everyone thinks of first...cutting costs. Before you go cutting costs, you need to understand them. When you validate the purpose of each expense it makes the decision of what and where to reduce spending easy.

Review all of your business expenses and categorize them as:

- *Required costs - the things you HAVE to have in order to run your business e.g. cell phone and internet*
- *Personal perks - the things you run through your business because your tax preparer/CPA told you to but they don't add value to your business e.g. your kids on payroll*
- *Investments - everything else. If it's not required and it's not a personal perk, it's an investment*

Now ask yourself, what is each investment giving back to you in time, money, or both. If it's not, and it's not a marketing expense that takes time to show value, then why are you paying for it?

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04

ESTABLISH and Maintain a Budget:

Here we go! You now have all the information you need to build a budget. This is going to be your roadmap on the path to profit. It will tell you where you are, where you're going, and when you're off track.

*Think of your budget like a **SMART** goal. It needs to be Specific, Measurable, Achievable, Relevant, and Time-Bound.*

*You are going to assign a $ amount to each account in your P&L (**Specific**) and for each month (**Time-Bound**). How much do you plan to spend?*

*Make this as detailed as possible (**Measurable**) with $$$s assigned to every expense and account. We even recommend keeping track of the details within the account.*

Cell phone $200 plus Internet $100 = $300 per month in Communication expense.

*When you're trying to determine how much to budget, you need to balance what you know (historical cost and revenue trends) with your goals. You want your budget to be as close to actuals when they happen as possible (**Achievable**). Don't budget a huge jump in sales without also knowing how you plan to make that happen.*

*Last but not least, do not "set it and forget it". A budget is only useful when it is being used. That means revisiting and revising every single month (**Relevant**). We'll explain that a little more in the next step.*

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05

ANALYZE Variances:

Your budget paints the picture of your business future. You want this picture to be as accurate as possible. The best way to make it accurate is to compare it to the actual financial results. Identify the differences, and figure out why they're different.

Expect and embrace the differences. They help you understand the story your finances are telling and provide you with the opportunity to change your expectations (update the budget) or take action in your business (hire that new associate to increase capacity for billable hours because you know you have the work available). Compare your budget with actuals every month and make the necessary adjustments in your budget or your business.

06

LEVERAGE Cash Flow:

Cash is King...Having a budget is important but it doesn't show you everything and we know Cash Flow Statements make no sense. We're going to help you forecast your cash flow just like your budget. In fact, we're going to use your budget to build the cash flow forecast.

The key difference between your budget and your cash flow forecast is timing. Your cash flow forecast needs to reflect when money will actually hit the bank. Think about credit cards. If you put most of your expenses on a credit card like every business owner I know, then your current month expenses will be on your cash flow forecast in the next month because that's when you actually pay the credit card bill.

In addition to the timing updates, your cash flow will have three key components that will never show up on your budget: debt payments, profit distributions, and savings for taxes and operations/emergency fund. All three of these should be factored in to your forecast to make sure you know when cash gets low.