

THE TUNE-UP TOOLKIT

ACCOUNTING & FINANCE

The Business Tune-Up with Barney Cohen



WHY ARE ACCOUNTING & FINANCE IMPORTANT?

SLOW DOWN!

*This is an elementary introduction to the subject.
Focus on understanding the concepts.*

A QUICK TIP

Whether you do the accounting and finance in your business yourself, have an employee that handles these functions, or outsource them, you need to be very familiar with the basic principles.

“War is ninety percent information.”

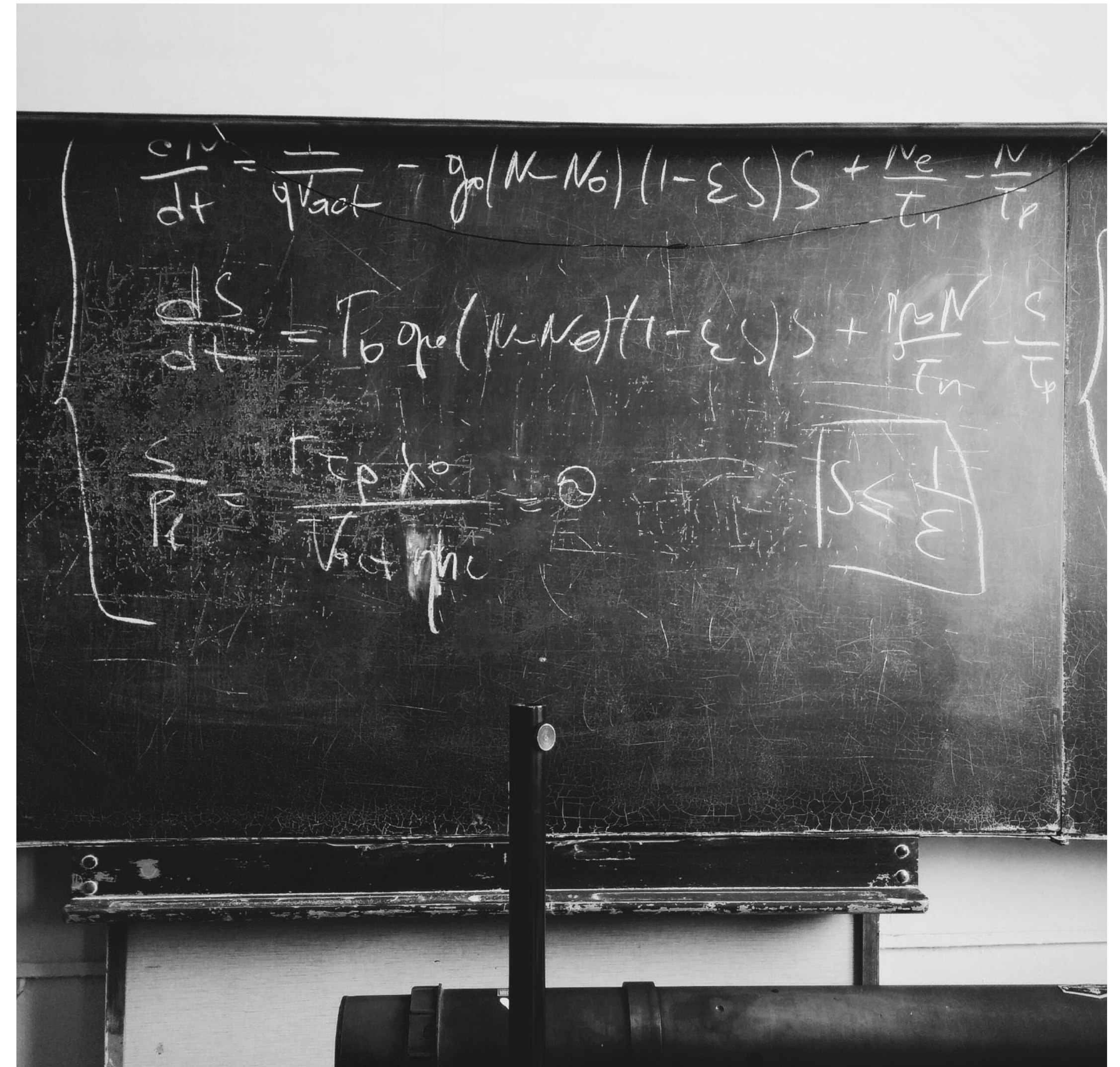
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WHAT'S ABOUT TO HAPPEN

- ▶ Reviewing the basic principles and functions of accounting and finance
- ▶ Exploring the relationship between accounting and finance and how they rely on each other
- ▶ Understanding the attributes of a good accounting and finance person
- ▶ Understanding the importance of the 'Chart of Accounts' and how it can help you manage your business better
- ▶ Learning the role and function of the three key documents included in a financial statement

When you strip away all the
accounting and finance
jargon, you're left with

**SIMPLE
MATH.**





WHAT IS ACCOUNTING?

A Backward-Looking View Of
The Money In Your Business

A hand holding a pen is writing on a document. A magnifying glass is positioned over the document, focusing on the text. The background is a blurred image of the same scene.

DEFINITION: A PROCESS THAT MAKES
ALL YOUR TRANSACTIONS ARE
RECORDED CORRECTLY.

ACCOUNTING

A GOOD ACCOUNTANT

- ▶ Is extremely careful and organized
- ▶ Is skillful with numbers and spreadsheets
- ▶ Makes sure all transactions are accounted for
- ▶ Accurately and consistently keeps a company's books
- ▶ Implements a system of financial controls

The complexity of your
accounting system is driven
by whatever it takes to tell

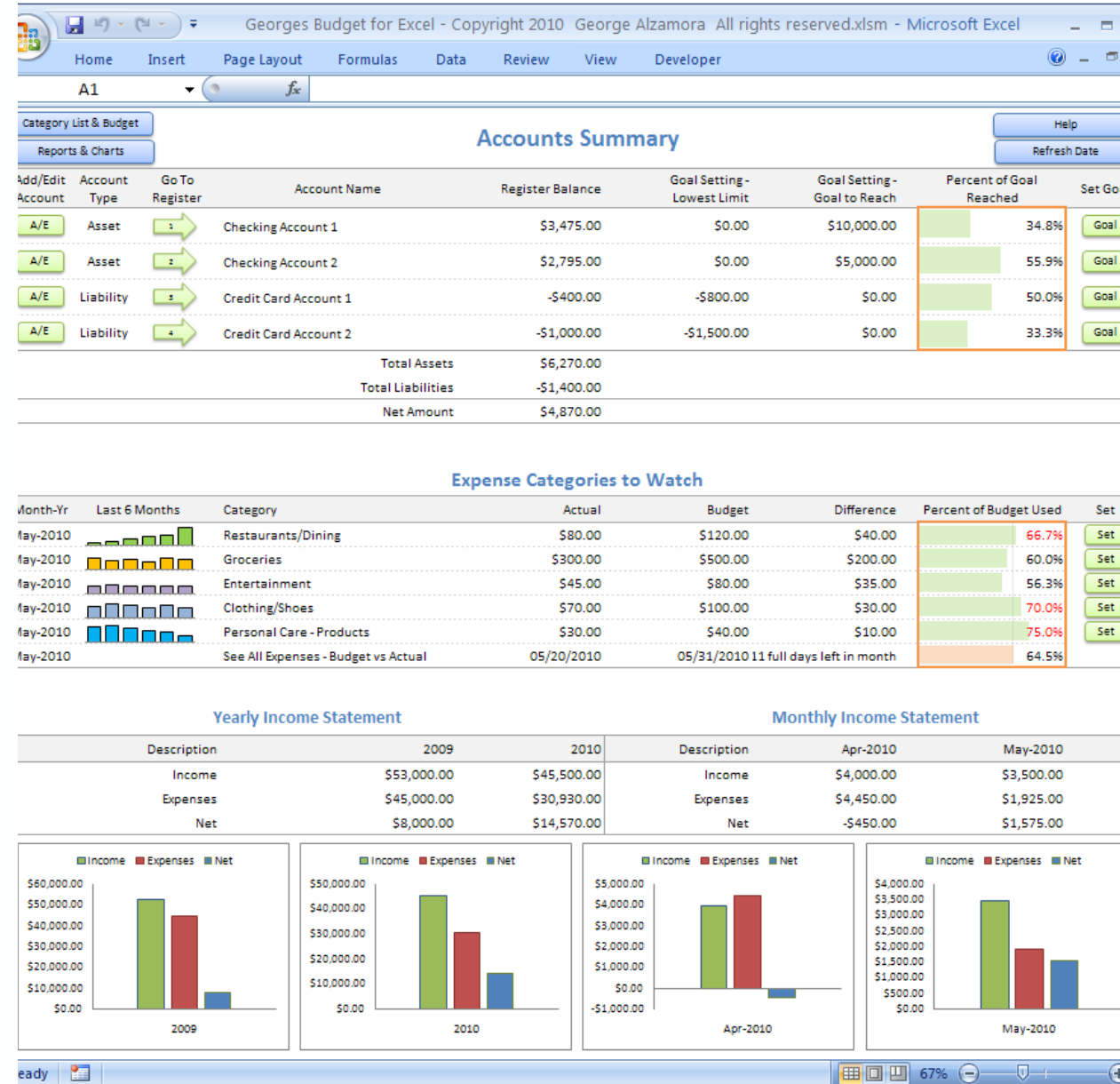
**YOUR BUSINESS'S
FINANCIAL STORY.**



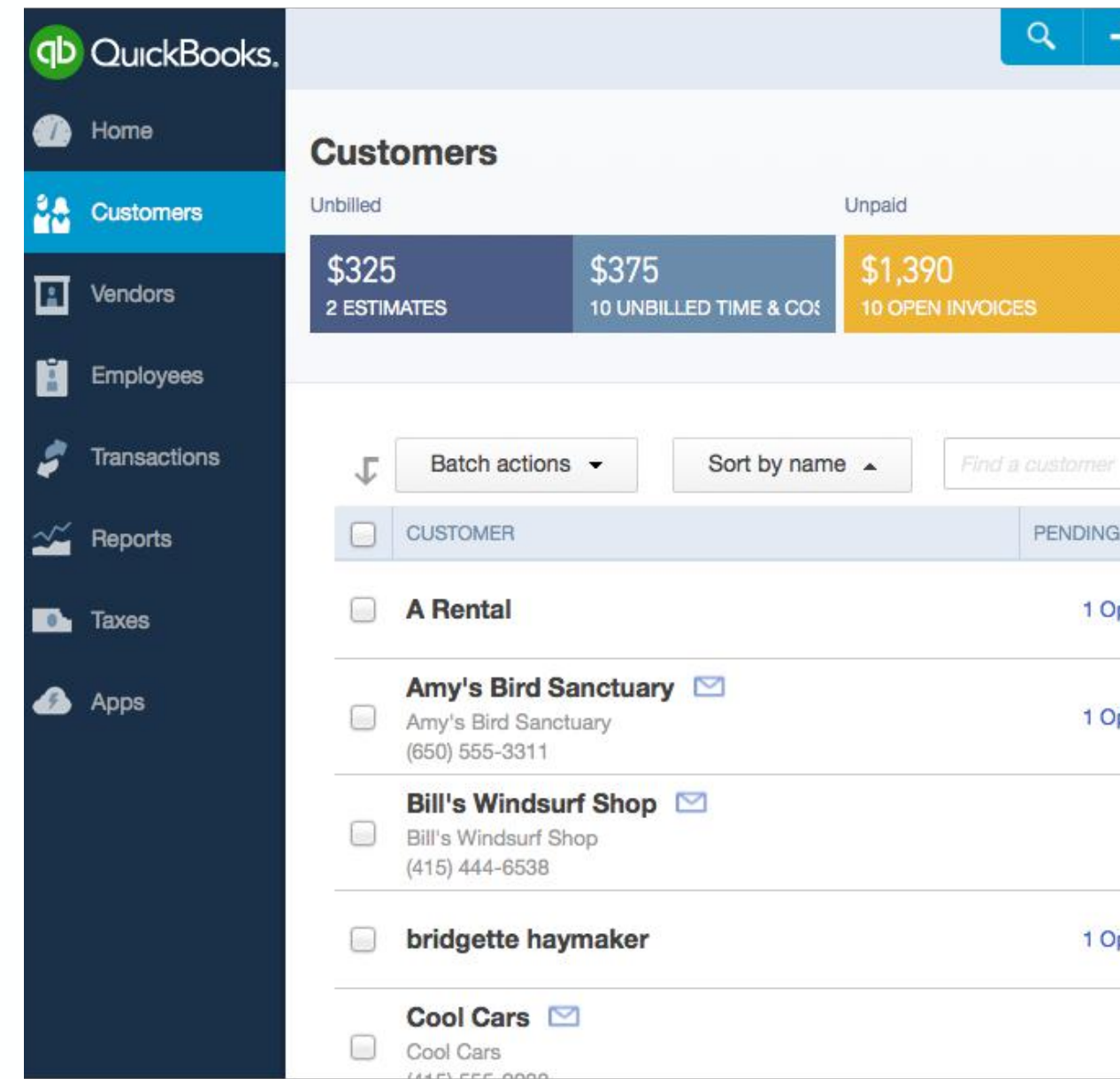
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OPTIONS FOR GOOD ACCOUNTING SYSTEMS

Excel



Quickbooks



Outsource to a bookkeeper or accounting firm



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BIG IDEA

GREAT BUSINESSES DO EVERYTHING WELL

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GAAP

Generally Accepted Accounting Principles

A hand holding a magnifying glass over a document with financial data. The background is a grayscale image of a hand holding a magnifying glass over a document with financial data. The text is overlaid on this image.

DEFINITION: A STANDARD
FRAMEWORK OF GUIDELINES FOR
FINANCIAL ACCOUNTING.

GENERALLY ACCEPTED ACCOUNTING PRACTICES



WHY DO WE NEED GAAP?

GAAP provides an
easily-understood

**FINANCIAL
SNAPSHOT**

of your business to others.



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BOOKKEEPING

Keeping Good Records

CASH

- ▶ Simpler
- ▶ Transactions are recorded as cash comes in
- ▶ Revenues are recorded when received
- ▶ Expenses are recorded when paid
- ▶ More desirable from a tax standpoint

ACCRUAL

- ▶ More complex
- ▶ Transactions are recorded as they occur
- ▶ Revenue is recorded when an order is placed
- ▶ Expenses are recorded when things are purchased
- ▶ May be less desirable from a tax standpoint

WHICH METHOD IS BETTER FOR MY BUSINESS?

Small businesses

ALMOST ALWAYS START WITH
THE CASH SYSTEM

As your business grows

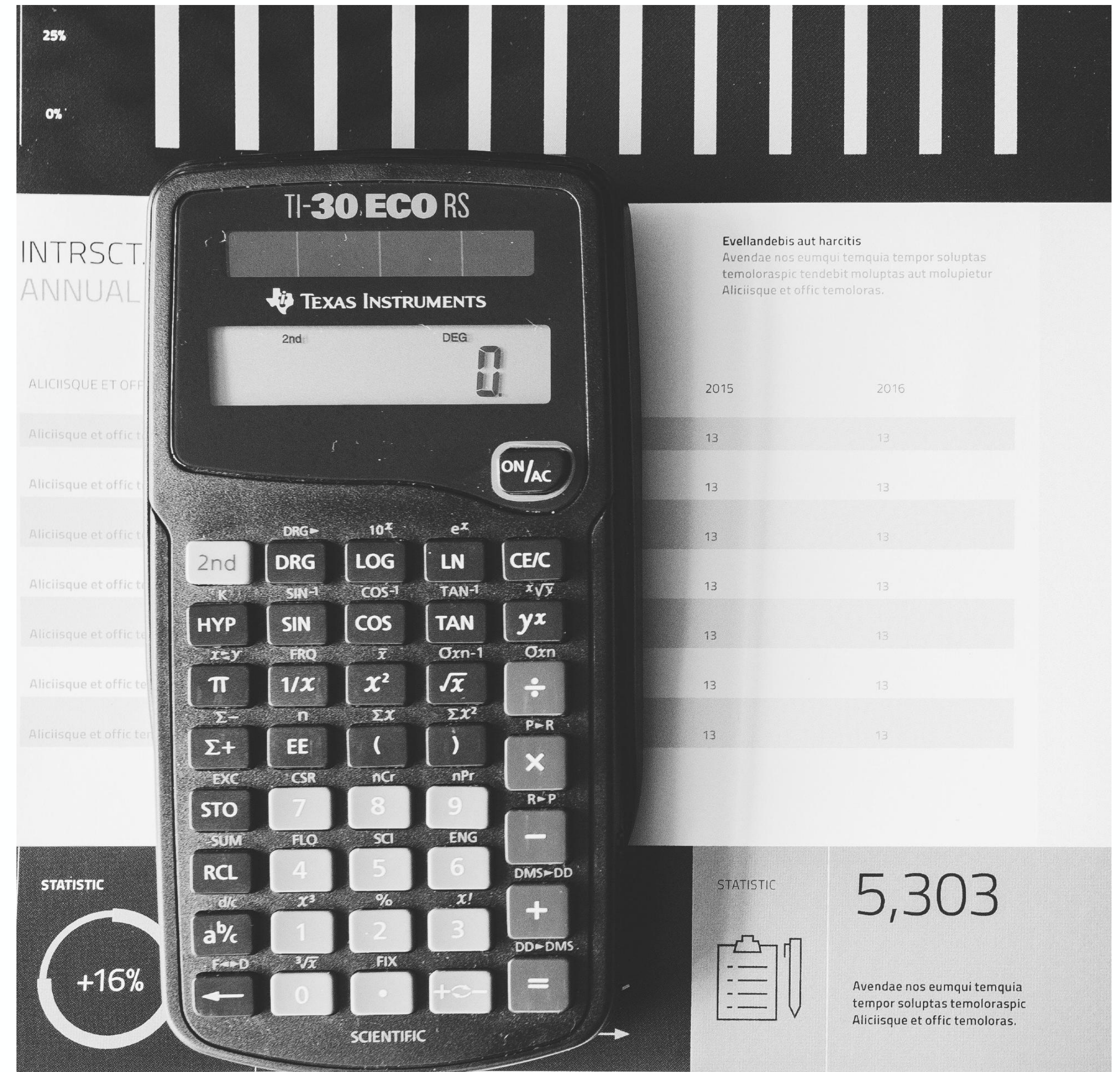
YOU MAY SWITCH TO
THE ACCRUAL SYSTEM



DOUBLE-ENTRY BOOKKEEPING

- ▶ Makes sure your accounting is accurate
- ▶ Invented in the 1400's in Venice
- ▶ Records a credit and a debit at the same time

The wonderful byproduct of
DOUBLE-ENTRY
BOOKKEEPING
is that everything always
adds up to zero.



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WHAT IS FINANCE?

A Forward-Looking View Of
The Money In Your Business

A grayscale background image showing a hand holding a pen, poised to write on a document. The document contains various financial terms and percentages, such as '200% N', '100% N', '20% N', '16% P.O.', '29% N', '40% N', '9-10-10', 'mistura', 'simples 20% P.O.', 'tripla (16% P.O.)', 'ônio (29% N)', 'lacial (40% N)', 'Crador', 'K.O.', 'utiliza rates qu', 'Tuencia per', 'mo do', 'As', 'As', 'As'.

DEFINITION: A FUNCTION THAT ASSESSES IF THERE IS ENOUGH MONEY IN THE BANK FOR BOTH TODAY AND TOMORROW.

FINANCE

A GOOD FINANCE PERSON

- ▶ Is always looking forward
- ▶ Looks at the big picture
- ▶ Asks “What If...?” questions about the finances of the business and then models the answers to those questions
- ▶ Maintains relationships with banks and other lending institutions
- ▶ **Makes sure the business doesn't run out of cash**



ACCOUNTING & FINANCE

How Are Accounting And Finance Related,
But Different?

Accounting and finance
are both
INTERTWINED
and critical to the success
of a business.



ACCOUNTING

Today looking backwards

- ▶ Accuracy is key
- ▶ The goal is a correct set of books
- ▶ Highly organized

BOTH

Today

- ▶ Strong math skills
- ▶ Need accurate information
- ▶ Rely on each other

FINANCE

Today looking forward

- ▶ Imagination is key
- ▶ The goal is to model the possible future
- ▶ Highly creative



BARNEY'S RECORD SHOP

ACCOUNTING & FINANCE *For example...*

Accounting

IS MORE EASILY OUTSOURCED

Finance

IS LESS EASILY OUTSOURCED



CHART OF ACCOUNTS

All of Your Transactions Need a Home

A hand holding a magnifying glass over a document with financial text. The background is a grayscale image of a hand holding a magnifying glass over a document with financial text. The text on the document is partially legible and includes terms like "mistura", "20% N", "10% N", "mistura 6-10-10", "atual (40% N)", "simples 20% P.O.", "triple (16% P.O.)", "K.O)", "crador", "utiliza rates qu", "Tuencia", "mo do", "ulas. A", "mo do".

DEFINITION: A COMPLETE LIST OF EVERY ACCOUNT IN YOUR BUSINESS.

CHART OF ACCOUNTS

BIG IDEA

EVERYTHING NEEDS A HOME

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Your Chart of Accounts

PROVIDES
A HOME

for every dollar that enters
or leaves your business.



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A GOOD CHART OF ACCOUNTS

- ▶ Provides valuable information to run your business
- ▶ Can tell you exactly how much items cost or how much revenue a product is generating
- ▶ Relies on the accuracy of the data that is recorded

A QUICK TIP

Get someone with some skill or expertise in accounting to help you with the initial set-up of your Chart of Accounts.

SLOW DOWN!

*Getting your Chart of Accounts right will save
you a fortune in time and money*

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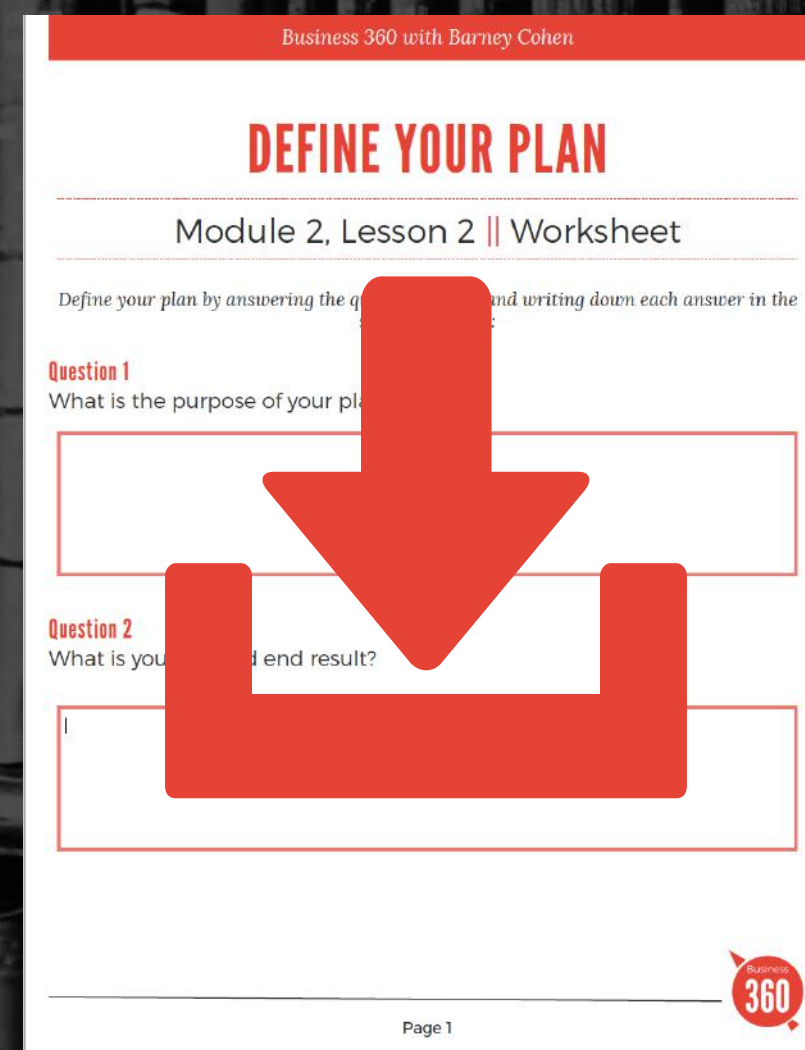
A QUICK TIP

Update your Chart of Accounts regularly, and review it at least once a year with your accountant or bookkeeper.

RESOURCE GUIDES



Chart of Accounts Template



TUNE-UP CHALLENGE

Review your current Chart of Accounts and see if you know what every account represents. If not, get with your bookkeeper and reorganize your Chart of Accounts so that it works for you.





FINANCIAL STATEMENTS

A Picture in Time

FINANCIAL STATEMENTS

- ▶ Income Statement (or Profit & Loss Statement)
- ▶ Balance Sheet
- ▶ Statement of Cash Flow



Income Statement or P&L Statement



PRICE OF CD:		\$10
COST OF CD:	-	\$7
<hr/>		
GROSS PROFIT:	=	\$3

THE BUSINESS TUNE-UP

Income Statement or P&L Statement

TOP

	Month 1
Revenue	
Cost of Goods Sold (COGS)	
Gross Profit	
<hr/>	
Expenses	
Payroll	
Rent	
Supplies	
Utilities	
Other	
Total Expenses	

MIDDLE

FIXED EXPENSES

Always stay the same

- ▶ Reoccurring and predictable
 - ▶ Rent
 - ▶ Insurance

VARIABLE EXPENSES

May vary from month-to-month

- ▶ Changes depending on events
 - ▶ Hourly payroll
 - ▶ Marketing

A hand holding a magnifying glass over a document, symbolizing financial analysis. The background is a grayscale image of a hand holding a magnifying glass over a document, with some text visible on the document. The text on the document includes "mistura", "100% N", "200% N", "mistura 6-10-10", "atual (40% N)", "simples 20% P.O.", "tríplo (16% P.O.)", "K.O)", "crador", "utiliza partes qu", "Tuencia", "mo do", "ulas. A", "o do", "crador".

DEFINITION: A CLEAR AND CONCISE
PICTURE OF YOUR BUSINESSES
WEALTH.

BALANCE SHEET

Balance Sheet

A grayscale background image showing a hand holding a pen, poised to write on a document. The document contains various financial terms and percentages, such as 'mistura', '100% N', '200% N', 'mistura 6-10-10', 'lacial (40% N)', 'simples 20% P.O.', 'tríplo (16% P.O.)', 'K.O.', 'crador"', 'utiliza-se para', 'Tencidas para', 'mo de', 'lilas. A', 'utiliza-se para', 'mo de', 'lilas. A'.

DEFINITION: A PICTURE SHOWING
WHERE EACH DOLLAR COMES
FROM AND HOW IT'S SPENT
IN YOUR BUSINESS.

CASH FLOW STATEMENT

	Month 1
Cash Inflow	
Revenue	
Capital	
Loans	
Cash Outflow	
Salaries	
Loan Payments	
Other Expenses	

STATEMENT OF CASH FLOW

- ▶ Allows you to find opportunities to reduce costs and increase revenues
- ▶ Provides trends in business activity
- ▶ Alerts you to upcoming cash shortages
- ▶ Shows your cash position currently, in the past, and in the future
- ▶ A cash flow statement is NOT a Profit & Loss statement, though they may be similar

Cash Flow

WHAT IS A BUDGET?

- ▶ Contains specific information for a certain period of time
- ▶ Forward-looking function
- ▶ Estimates revenue and expenses
- ▶ Often produced yearly
- ▶ Typically built based on data from previous years
- ▶ Good accounting enables an accurate budget

WHAT JUST HAPPENED

- ▶ You understand the role and relationship of accounting and finance for your business
- ▶ You know what to look for in a good accountant or finance person
- ▶ You have a basic knowledge of the three documents that make up your financial statements
- ▶ You know the importance of a good Chart of Accounts and how to use it to get good data about your business



START NOW  **SEE RESULTS**