

Now it's really important to understand if nothing else tonight I want you to understand this

The difference between an income statement

And about the income statement

You're going to use my analogy I talked about it this morning What did you Steve was trying to he's had some weird analogy last night apparently also happen to mine

Last night, love using the few not there, right, So in fact only in a minute but the the thing to remember is the income statement captures financial data around what you did what you did over a period of time Okay. This is really key So

income statement what you did

And it's a period of time So this income statement When you see it at the top It's going to say Income Statement of war And it's going to give you a period of time So it's one march March right now This might be the income statement or

it could say just income statement for February

But I'm going to say income statement for February one through 28 2019 This is for a period of time Now

you know what are the most common For those of you who've done a little bit of business what are the most common periods of time that you've seen for profit and loss statements or income statements

So quarterly

monthly monthly quarterly and usually here Yeah that's those are the most common but you

could do it for any period of time you want It could be 20 minutes Okay any period of time you want you could do an agency report but the very most common monthly quarterly yearly Remember the shorter it is the smaller sample size essentially so if you do it for 20 minutes it's probably not going to give you a lot of data Okay so I exaggerate but the key is that it's for a period of top This is what we did over a period of time The reason I bring that up is because the balance sheet

is going to measure not what you did but rather

what you have

happened one point in time

Okay

I'm not very good at this

So what do you think I mean by what you have at a point in time And can you see the difference over a period of time I did this I generate this revenue I use these expenses and I ended up with this profit that's what I did over that period of time But at one point in time at any one point in time This is what I had That's the difference And

you're famous instructor here she gave you this analogy that I've tried to sell myself but I would become so wealthy

And I would feel guilty I should feel I should feel good so go ahead and give them your So

yeah so the analogy we came up with is if you're looking at a video versus a snapshot you know so that video is giving you you know 30 seconds a minute 20 minutes and that photo is only giving you a split second and time so your profit and loss is like is like watching a video of something and your balance sheet is like a photograph of something and they tell you know they can tell to two very different stories Absolutely

absolutely And it's important empty like that analogy Is that the best thing you've heard tonight

copyrighted they'll steal it

Okay so and it's it's very important as this starts to unfold you'll understand why it's important that you understand both of them Okay All right

The

the income statement we have what I will call good news and bad news What's the good news

You have money coming in right that's the good news

The bad news is I got a bad mark

Alright so that's the good news What's the bad news

We got money going out we

gotta pay your bills

you gotta pay the bills Okay so you got a plus you got minus notice how you Mark was good Okay Well when we talked about what you have on the balance sheet Very very similar you got good news And you got bad news Right Some what you think is on that balance sheet and specifically tell me what you think would be some of the good news

Inventory Is it is it is inside on those categories you are correct

So again bank balance bank balance and what is that bank balance represent cash cash on the balance sheet you have that you have inventory you have that And both of those fall under a particular category

who said that you were loud no cookie

Got it brother assets That's the good news Okay Assets

Right What's the bad news we're going to plug some assets in here You also probably have

liabilities those are the two cat major categories while there's another one too but for right now

good news and bad news I've got assets Bad news I got I've got live good so let's let's write a few things in here Some of the assets I heard cash inventory or well Okay I will tell you this on your balance sheet Again as it represents what you have And by the way let me back up

your income statement or p&I is what you did And it's going to say income statement it'll have your business name your statement for the period Okay the balance sheet is going to say your business name and it's going to say balance sheet

As of it's going to have one point in time

As of March 1 Okay And it can be any point in time It can be any point time it does not matter Okay your account could call you you're using QuickBooks right and say run me a trial balance Balance Sheet from your balance sheet for this afternoon any point in time Now the most common ones are you know December 31 or January 1

But you can run for any point in time Okay to see what you have As of March 1 Okay When we do assets We do them in order of liquidity

The most liquid is at the top Okay so what's the most liquid We already heard it have

cash

The usually the most secondly because it turns liquid very quickly

inventory is going to be off with that third There's another one there Billings yes and what do we call those

It sounds really nice job

Not to say that because I didn't

realize No Okay

accounts receivable It Does everybody know what accounts receivable war So you invoice

They owe you money Okay and you're going to hold on to that

they're going to pay what terms to I usually hear

30 is usually common And did they all pay and that

didn't even hesitate even though Let me think it was like

And then of course there's supposed to be a penalty be enough charge on the negatives

Okay we've got Okay the next one I'm going to go ahead and put his inventory

What else do you have good news What's the good stuff you've got in your business What else can happen if say again if you own the building so you might have property right land or the building Absolutely

Yeah

What else about equipment Absolutely

fixtures

Ok I will call put that into building The great when you say fixtures we could be talking about shelving Yeah I'll put that in in there and I'll put computer and equipment But yes anything that you own that has value Okay it's going to be a part of those those assets Right and again they are in order of liquidity So these might be a little bit depending on the nature of your business and your building You know those might be a little out of order They're usually usually see it in this order right here You'll also see maybe in here you'll see slump investments Some of them are short term and long term investments

Okay you've got all your assets and you've got

all of this here And it adds up to the

Let's talk about liabilities

Liabilities what are the liabilities that you have within a typical business would have accounts and it's the exact opposite of receivables right accounts payable

And I'll put I'll put that

What else what everybody's

Exactly So I'm going to break that up into short term notes and long term notes the short terms are do sooner Okay and then the long term are are are they have the longer Okay so

any pictures cast as

Kelly mentioned there's

any thing else that you can think of

There's some things I want to that I'm going to add that I don't want to have Yeah and anything else that you can think of

Under liabilities

Okay

Yes But I want to come back to that that's a part of another discussion and it's an important one Okay but you are absolutely right

withholding so we're going to come back to that Good good for I don't know if I have anything else here

deferred sales

And let's go back to that with this because there's there's some similarities there but you're absolutely right So the main ones the big ones that you'll see are these assets and these liabilities Okay And let's say that the liabilities total to

40

Okay

Well now we have a problem

Because one thing I do remember from college All 50 years of it or write the balance sheet is supposed to balance That's like the day one So now we got brought What's the problem How do

we fix this

really paying attention

between the two Did you

hear what she said The differences equity OK so the balance sheet will you have and let me say this sometimes you'll see a balance sheet that looks like this Sometimes oftentimes you'll see a balance sheet with the assets over here and the liabilities over here Okay

Yeah sometimes here and sometimes here I think I usually when I'm doing mine I usually do it over here And on this side are also the live bill or the equity

So what is the equity

What's the equity in this in this business

The assets have to equal liabilities plus owner's equity

Thank you

Except this this right here has to balance this has to be insane as this And and in a minute here I'll show you why and how that all works

This is what you have at any one point in time you can say I have this much cash in a bank I'm holding this many accounts receivable I have this much inventory Okay I own this building This equipment And I'm and I hope these investments This is what I have but I also have a note from this is maybe a line of credit that I owe I owe money on my line of credit I owe my suppliers this much and I owe a mortgage on the building

will get into too much detail but I have some other notes here

All right But since I have more good news 50 than I have bad news 40 I have 10 worth effectively

Okay Now

when you go to the bank and you want to borrow money for your business they'll ask you to fill out one of these One of these sheets and they're trying to determine your network

Love it I was a banker for five years I camera three your network your network It's all here Okay The reality is your network is a whole lot more than whatever you find on piece of paper or

your network your network for your business is this right here

Okay That's the network for your business

your objective is what with network

Increase make the law Okay You want that network to go live Let's say and I'm going to go through a scenario for this moves north okay But let's say at this point in time your this is your Baptists your balance sheet and you want to go on a vacation it's going to cost you five Right

You want to take five dot \$5 out of your business where you're probably going to take it

properly cash right because all of these add up to 50 now is most of your money is tied up in receivables and inventory and routing and everything else well maybe you don't have five in cash But if you do let's say in this case you do you take five out of cash Well in order and you put that in your pocket because you can take on vacation to Wally world like Wally world have made that show vacation Did you ever see that might not have a bunch of the first time that really wasn't a good thing for 11 year old I didn't realize it was I thought it was funny like I thought it was just one of the fun movie because I hadn't seen for years but there's some things in there I did not want it Long story short you take you want to take \$5 out of your business So you can take the kids Wally world Okay cash goes down five you take it out and put it in your pocket what happens to this number goes from 50 to 45 that goes down Well now I got 45 here

but I still have 50 here what's going down

your equity is gone down now the fact week instead of five Okay and as business owners we do that now How many of you pay when you're teaching them to take pay their bills to pay a salary for themselves right Yes Okay and some business owners don't someday And that's your choice A does a very good argument for taking the time to sell the most Panthers recommend that as well so

that you could do that you can take money out of your business or you might add money into your business because you need cash to run the business Well now your personal finances just went down by \$20 because you put 20 cash but your equity went up there Okay

That's basically how a balance sheet works and I'm going to show you how the whole process gets together but what are your questions so far balance sheet

What you have at one point in time That's the good news That's the bad news And this is the difference between good news and the bad news So this is really good news And your objective is to increase the wealth the value of the business and your own you know well as Okay Now of course if you have shares then that's where those are going to go starts If you have stocks you have they're going to be here That separately If you have bonds and that's going to be here Okay and liabilities

Okay Are we okay so far Okay so let's walk through what actually happens your objective is to increase this number right here That's it Because when you're ready to retire you you want to have money here at equity Okay so that you can draw it out or sell the business because that's what it's worth We're going to try to move this number north But this is what you have what do we need to do in order to make this number go north Well we either better increase this or decrease this because we need some of this

That's our objective pretty basic stuff So what do I have to do I've got to either sell more stuff or

Well let's just say this generally speaking I don't know too many exceptions you're going to need to get out and sell more stuff that's part of what you're here to learn Not tonight You got to find who are your customers what value are you bringing with your product or service what is the market willing to pay for your product or service How do you reach them Is it through social media is it true newsletters is it through word of mouth who is willing to pay for your product or

service How do you communicate that value to them how do you get them in the door how do you get them

to buy stuff from you So you have a whole lot there And that's essentially where it starts You've got to find people were willing to give the month So you better find something's worth selling that has value to those people That's where earlier I heard you guys talking about a discussion about that the one book about marketing and we need to go I like to fish and my grandfather I remember many years ago said to me it's a heck of a lot better and official five fish that are hungry than 100 fish that are hungry

So guess what when you're out there advertising is expensive right marketing is expensive depending on how you do it not tonight's lecture on that but you can make sure you're connecting with the people who want your service So if you're only connecting with 100 people but they're all looking for what you provide its benefit connecting with 1000 people who really couldn't give a rip you're not bringing value to them Okay so that all that whole discussion it all starts there and I know that Steve Stephanie and all of the people that they bring in are going to help you make this number go up

Okay But it's not enough to make it go up It's you got to make it go up greater than your variable costs whether the cost of goods sold or whatever Okay I've worked with companies where I made this number go down And this number go up in the same time

because there were things they were selling that they weren't making money And they didn't realize

Okay now you can't cost cutting your way to greatness so you can only do that so far Once you find the losers you get out and then you know you got to find winners but you're going to figure out the best ways of growing this so this month You know this went to you added Let's say you made 30

Yeah so hot with these are you

know I'm on lot Thank you You're welcome

Okay this month you went from 24 to 30 you just grew revenues because of all that hard

working social media in customer You know customer

Understanding who's going to pay for stuff and did all that that's a lot of work for for an entrepreneur You know what else you did during the month you shopped around for suppliers right because you're like you know what

I'm paying too much for those jalapeno poppers right I love those things All right I'm gonna do a better deal or maybe I'm going to buy the quantity I'm going to do something And I'm going to do everything I can to get this down All right well or maybe it stayed the same but but based on revenue of 30 Now let's make it different nine So also that's your that's your job as a business owner everything up your case you haven't figured that out I know you already yet So you're out there working with supply chain and try to get that down

You're going to figure out how do I provide more services that are value to my people You know I think you know the finance team I don't want to say can charge them but you know they're they're sleek there's other things you can add value for your clients and that's for everybody here whatever you can do You're looking at doing that OK

so now all of a sudden you won't go through all of this but let's say you're at that goes from 25 to 50 Okay good And we've got to remember that

most of this is overhead right

So most of that is not going to go up as you sell more stuff you've already captured that in your cost of goods sold and services don't usually dependent on your services especially for you guys You know your get the higher the individual person so that you will definitely carry a capture your variable labor costs up here for sure just like you would cost of goods sold Okay

Lot of these might not change now all of a sudden you know I'm getting this out and I have All right we just went to 32 this month Hey that's a like that number We just went from seven to 32 which by the way

something that a lot of people don't understand I think maybe they don't teach too much your college I don't know you have to tell me

you know early in the month that we talked about this before you're paying a lot of overhead

And often I'll just break it up in a month but it's a marker here doesn't really matter Until you pay that overhead your margins can be really really small But then once you do that once you pay that Now your margins are bit so here's my point The first dollar you make in a month you might only be able to put in your pocket five cents The last dollar you make in a month You might put 50 cents in your pocket

Because early you're paying all your fixed costs early paying all your overhead Here's why I say that is that every extra dollar of revenue is is is really valuable a lot more valuable to some degree than the earlier dollars now you don't break it up that way but my point is you can increase your revenue by 10% and increase your profit by 40%

You see what I'm saying That makes sense Think about that

You can increase your revenue by only 10% and have an impact your bottom line by 40% because you're paying your overhead And once that overhead is paid for additional dollars you have a larger margin

I don't want to speak over your heads but is that clicking with at least some of you That's that's really key when you're talking about growing I think your business you got a couple locations you have two locations You know you you no doubt when you're paying a lot of overhead

So you know every dollar revenue you grow It's the margin gets bigger and bigger and bigger Okay so that's why what these guys are teaching you about growing revenue is really it's really important

Okay Does this make sense Okay

At the end of the month

I have 32 I made \$32 this month

Okay pretty good month right which is it's not red flag Okay we did everything right we we generate more revenue At we negotiated better rates for our supplies The results more services maybe we knocked out a few costs here We did better Okay

What do I do with this so this that's this side That's what we did for that month 32 what do I do with that How does that connect with this

Eventually eventually equity yes But where does it probably go first

Probably cash or

accounts receivable Okay Now I'm not going to get too much into the inventory inventory was already captured in this Okay so this inventory gets reduced but I don't want to I don't want to muddy water Okay right now This 32 is probably going to be cash for receivables Generally that goes up 32 so now our number is 82

And in the process Let's assume under this scenario out this scenario This scenario Scenario now That's what happens when it's 830 at night

We didn't take on any more debt

So guess what this just went up by 32

No surprise right If this number is black because we lowered expenses we lower these expenses we increase revenue Then it ought to come out at good news Right

things ought to get better It's your comp plan of common sense But that's how the That's how the income statement connects with the balance sheet

Right You take what you did over a period of time and every month You got different numbers every month you have different numbers

but you take the bottom line Hopefully it's flat that's going to get moved over to the balance sheet under assets Okay You will adjust your you might have to adjust this and I get I don't want to get too far into that You might have to adjust this you might have had to borrow money

maybe on your line of credit in order to

run through your operations You'll adjust this and hopefully if you did a good job Guess what your equity goes up

That's how those to connect

What are your questions on that

doesn't mean that it doesn't make sense

Okay Now here's where it gets

us what gets a little bit difficult

brought something up earlier number that someone was want the one who saved appreciation

for

us You also see yeah you also said that table

Okay so let's let's simplify this Okay

payroll is one of my expenses right

now

Let's say you pay once a week It's

pm on Friday

And on Thursday they asked you the town halls I need you want about trial balance and send it over On Thursday he wants you to run this Okay

Your people work for four days Right

But you didn't pay him that you don't pay him on Friday Okay So what do you think about that How are we going to deal with that

So now we're going to start talking like this right Okay Because I owe them I

I'm not going to capture it here yet I ended up stick with that On that day Patrick here but I have a liability so what you're going to find when you do your chart of accounts Not only do you have payroll expense that you're going to have a crew payroll or you know something that says I owe these people I owe these people dollars And that's going to end up being so you're going to see over here accrue payable

There's other things you see over here to How about taxes You pay taxes monthly quarterly depending on on your business

As you build up that liability That's going to be right here accrued taxes

insurance is the opposite

Most insurance requires you to pay that bill because the upcoming So you pay \$50 for your insurance Okay that you're going to that's in here You know what that's usually call

prepaid insurance And that's an asset

prepaid insurance is an asset you just you bought five months worth of insurance ahead of you That's an asset Every month that goes down you use up with that Now it's only 40 And the next month it's only 30

Okay So insurance and prepaid insurance you'll see as an asset Because you pay it in advance and then

liability the liabilities typically our table and taxes that are approved that you have not paid yet Once you pay them then you're going to see him over here This is where it gets this is where I started to see is a black Okay trying to tell you that it gets a little bit more complicated but I'm trying to at least show you That's how these to connect Okay So when somebody says to you when you're doing your chart of accounts and in QuickBooks and they say what about your payroll account well wait a second is a table or is a is a cruise table What about your insurance your insurance Well is it insurance pay insurance or is it prepaid insurance So you know or depreciation that's a big one depreciation well what about It's all we talked about you know proof depreciation or depreciation expense So it gets a little bit It's not quite as simple I'm oversimplifying here

What are your questions on any of that or how these to connect

Did I go too far

Does that make sense Okay

The key is and I usually go back The reason that that Steve and his team typically don't spend a lot of time on this

is because this is where the action is

This is it

If you sell If you keep your expenses low This is going to be a good number And this is a good number of all this stuff falls into place Okay That's why he That's why most of what you can do Steve Stephanie and an apple T Most of what you can do is going to be over here and it's probably a lot

But I need you to understand this because of any one point in time If you don't know what's going on here You're in trouble Okay if you're not building equity and you're wasting your time you're spitting in the wind

Also you gotta you gotta understand this because you don't know should I buy my building or should I rent Should I buy that equipment or should I rent Do I have too much cash Because cash is typically not an earning asset investments are earning asset You want to what do you want to do with these assets You want to get as much of a return on these assets as you can Right I mean would you hold a million dollars of asset would you hold a million dollars of passionate bank If you knew you could move it over and get 2.8% 2.85% million dollars I'll take 25% versus zero

That's why I teach the balance sheets important because if you don't keep these things early you don't make good decisions If you've got too much in receivables and not in cash that maybe you need to start calling those customers Maybe you need to start saying our terms or 10 days not 30 And you know what and I'll tell you I've had customers say to me Well then I'll move then move that move You know but if I know upgrading good value I don't worry about it you know what pretty rare So sometimes you got to make those if you don't understand what's going on here or here If you've got a lot of liabilities that you're paying very high interest in Again I don't want to complicate it but the interest expense then moves over here as an expense Well obviously your business people you know going to try to keep that interest expense as low as you can So you're going to have to manage this while you want these to be earning you want these to not be losing So you got to spend a whole lot of effort focus there He knows those expenses down

That's why this is important This is what you have That's what you do and they're connected very important in a very important way But if you focus on this lot of good things happened here but don't lose sight of this.

questions comments thoughts?

It's not rocket science How accountants do it yeah it's rocket science how the tax people do it

Yeah That's why science because they it's it's all tax law and you know you can play with numbers and everything else but for operations and that's what I'm teaching is just operations That's how it works right there.

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