



Accounting Basics for Small Business

Presented By Gabriel Salas
Managing Partner

- Graduate from UTSA with degree's in Finance and Political Science
- Chairman Emeritus of The Investment Society at UTSA
- 12 years of experience in Accounting, Finance and Human Resources
- Experienced working in the Legal, Energy and Service/Manufacturing industries
- Founder and Managing Partner of Interlagos Consulting
- Currently working as Interim CFO in the HVAC/Plumbing Industry.

Introduction

- Assessing your current accounting systems.
- Evaluating your fixed costs.
- Pricing and establishing margins.
- Managing A/P and A/R.
- Reading financial statements.
- Review and closing discussion.

Today's Topics

- Choose a software that will easily grow with your business.
- Take the time to setup your Chart of Accounts and ask your CPA to review it. (This is very important).
- Determine what data is important to you and be sure that you have set up your software to provide it in a relatively easy to produce report. (Job Costing, Sales Tracking, etc...)
- Always keep your Accounting Software on a secure server.
- Edit the permission's for each user and do not allow for logins to be shared.

Assessing your current accounting software

- If you are not very good with numbers, hire someone to do it.
- Develop an adequate set of internal controls
- Develop budgets and future forecasts after your first year of operations.
- You must know all of your fixed costs
- Carefully build your Chart of Accounts
- At what point financially are you required to expand/reject new business?

Accounting “Needs”.

- How much revenue do you need each month to cover your overhead?
- Rent
- Utilities
- Subscriptions/Services
- Insurance
- Payroll
- Production/service cost

Fixed Costs

- **Revenues – Costs = Fundamental Basis**
- Economy Pricing: No frills low price, minimal amounts spent on marketing and promotion.
- Penetration Pricing: Pricing set low with the hope of gaining marketshare.
- Skimming Pricing: Charging high prices initially, then eventually reduces due to saturation of market (Tech)
- Premium Pricing: Utilized when there is a substantial competitive advantage and industry is safe to charge higher prices. (Luxury brands).

Pricing and Margins

- Utilize the bill feature in your accounting software
- Run weekly Payables reports
- Calendar your Fixed Costs
- Build rapport with your vendors
- Develop benchmarks for your expenses.
- Monitor your Business credit card transactions with set internal controls.

Managing A/P

- Run A/R Aging reports weekly
- Use multiple means of communication to contact customers.
- Clearly state your methods of accepted payment.
- Have your customer indicate their preferred method of payment.
- Utilize secured and proven credit card processing programs.
- Protect customer's billing information. (VPN's, Secured Cloud Storage platforms, etc...)

Accounts Receivable

- Financial Statements are really just score cards for your business.
- A strong balance sheet is more than having more assets than liabilities.
- A strong balance sheets will have the following attributes:
 - Intelligent working Capital - The optimal level of current assets minus current liabilities.
 - Positive cash flow - “Business Oxygen”, cash to manage short term goals, cash reserves.
 - A Balanced Capital Structure - The balance of debt and equity funding
 - Income generating assets – Assets that assist in achieving financial goals. They should be reviewed regularly to see if they are not performing.

Financial Statements

Balance Sheet
January 31:

(Dollars in thousands)	2005	2004	2003	2002
Assets				
<u>Current Assets:</u>				
Cash and Cash Equivalents	\$272,640	\$82,540	\$321,390	\$281,750
Receivables	12,090	3,480	7,550	2,740
Inventory	738,630	857,090	668,200	464,440
<u>Prepaid Expenses</u>	<u>54,880</u>	<u>54,030</u>	<u>39,670</u>	<u>33,630</u>
Total Current Assets	1,078,240	997,140	1,036,810	782,560
<u>Property, Plant & Equipment (at cost):</u>				
Land and Buildings	531,270	383,350	312,670	151,140
Fixtures and equipment	476,460	411,230	251,920	219,740
Leasehold improvements	16,460	15,120	12,340	9,080
Construction in progress	---	46,370	32,800	6,740
<u>Less Accumulated Depreciation</u>	<u>(248,430)</u>	<u>(183,890)</u>	<u>(135,020)</u>	<u>(99,470)</u>
Property, Plant & Equipment, net	775,760	672,180	474,710	287,230
Total Assets	<u>\$1,854,000</u>	<u>\$1,669,320</u>	<u>\$1,511,520</u>	<u>\$1,069,790</u>
<u>Liabilities and Stockholders' Equity</u>				
<u>Current Liabilities:</u>				
Accounts Payable	\$377,970	\$244,150	\$259,040	\$212,223
Advance Payment on Orders	4,460	2,030	3,500	4,530
Income Taxes Payable	70,800	53,020	103,970	53,940
<u>Other Current Obligations</u>	<u>154,510</u>	<u>139,950</u>	<u>148,790</u>	<u>117,900</u>
Total Current Liabilities	607,740	439,150	515,300	388,600
Long-Term Debt	78,000	84,130	76,740	86,670
<u>Stockholders' Equity:</u>				
Common Stock; 20.1M, 20.1M & 20.0M				
Shares, respectively, at par	2,010	2,010	2,000	2,000
Additional Capital, net	311,360	307,810	293,080	223,080
Retained Earnings	983,810	875,160	624,400	341,666
Less Treasury Stock, at cost		(38,940)	---	---
Total Stockholders' Equity	(128,920)	1,146,040	919,480	566,740
Total Liabilities and Equity	<u>\$1,854,000</u>	<u>\$1,669,320</u>	<u>\$1,511,520</u>	<u>\$1,069,790</u>

Example Balance Sheet 1

**Example Company
Balance Sheet
December 31, 2017**

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	\$ 2,100	Notes payable	\$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	89,000	Total current liabilities	61,000
Investments	36,000	Long-term liabilities	
Property, plant & equipment		Notes payable	20,000
Land	5,500	Bonds payable	400,000
Land improvements	6,500	Total long-term liabilities	420,000
Buildings	180,000		
Equipment	201,000	Total liabilities	481,000
Less: accum depreciation	(56,000)		
Prop, plant & equip - net	337,000		
Intangible assets		STOCKHOLDERS' EQUITY	
Goodwill	105,000	Common stock	110,000
Trade names	200,000	Retained earnings	220,000
Total intangible assets	305,000	Accum other comprehensive income	9,000
Other assets	3,000	Less: Treasury stock	(50,000)
Total assets	\$ 770,000	Total stockholders' equity	289,000
		Total liabilities & stockholders' equity	\$ 770,000

The notes to the sample balance sheet have been omitted.

Example Balance Sheet 2

- Improve inventory management by reviewing inventory levels and know when to discount to liquidate older items.
- Review your procurement strategy and purchasing schedule.
- Review your receivables and see if you need to pursue new collection strategies.
- Sell lazy and unproductive assets
- Maintain a forward focus and identify your current threats.
- The level of detail is based on your Chart of Accounts

How to improve Balance Sheet

- All P&L's are based on one formula- Sales minus costs equals profit.
- They help you understand the profit margins of your business.
- Cost of Goods Sold (COGS) – Cost of components, labor and production facility.
- Cost of Service (COS)- Cost of Labor plus cost of fuel plus cost of other supplies.
- Gross Profit – Sales minus COGS

Profit and Loss Statement

**Larry's Landscaping & Garden Supply
Profit & Loss
October 2011 through September 2012**

	<u>Oct '11 - Sep 12</u>
Ordinary Income/Expense	
Income	
Landscaping Services	57,860.36
Markup Income	815.00
Retail Sales Service	383.03
	6,640.00
Total Income	65,698.39
Cost of Goods Sold	
Cost of Goods Sold	4,220.25
Total COGS	4,220.25
Gross Profit	61,478.14
Expense	
Payroll Expenses	37,820.65
Automobile	738.05
Bank Service Charges	73.50
Delivery Fee	15.00
Insurance	1,835.00
Interest Expense	470.91
Job Expenses	2,427.25
Mileage Reimbursement	0.00
Professional Fees	375.00
Rent	2,400.00
Repairs	45.00
Tools and Misc. Equipment	735.00
Uncategorized Expenses	0.00
Utilities	655.55
Total Expense	47,590.91
Net Ordinary Income	13,887.23
Other Income/Expense	
Other Income	
Misc Income	762.50
Interest Income	91.11
Total Other Income	853.61
Net Other Income	853.61
Net Income	14,740.84

P&L Example

- What was the most interesting thing you learned from today?
- Has this caused you to reevaluate your strategy regarding your businesses accounting practices?
- Do you have a better understanding of your financial statements?
- How likely are you to reevaluate your pricing strategy?
- Do you know what your monthly Fixed Costs are?

Review and Closing discussion

Thank you for Attending.