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HELPING OUR CLIENTS GET AHEAD OF THE COMPETITION

A bookkeeper can share reports until they're blue in the face but if the owner doesn't understand what he or she is looking at, the connection between those numbers on a page and the health of the business will continue to be a blur.

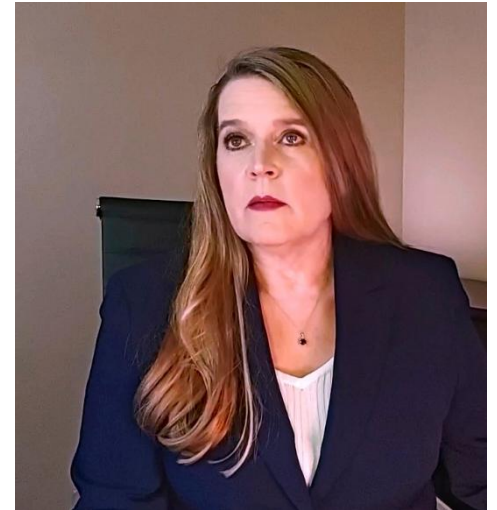
Financials Simplified

Let's take a quick look at three of the most often-used financial reports: the Profit & Loss, the Balance Sheet, and the AR Aging Summary. We've gone over these individually in past newsletters but, in case you missed them, I wanted to give a quick overview today so you can put them to use immediately before the end of the year.

Profit & Loss, known as the P&L shows the fiscal health of the company very quickly. In an oversimplified explanation, it is divided into 2 sections: Income and Expenses. After subtracting all of the expenses from the Income, you come to the "Bottom Line". This shows if you are running at a profit or a loss. If you run your P&L month over month, you can see clearly if expenses have increased or if income has decreased. This would lead the owner to ramp up collection efforts or solicit new business if income is

trending downward. If expenses have increased, the owner can see clearly if it's in wages or supplies. If the increase is wages, he or she may have to increase prices to cover the cost of labor. If the increase is in supplies, this leads the owner to see if he needs to buy from a different vendor or if there is employee theft. In short, without a review of the P&L, a business owner doesn't know how to price their work, tighten the fiscal belt if they are running at a loss, or if it is time to expand or buy equipment with the surplus.

Balance Sheet. In the simplest of terms, the Balance sheet tracks what you OWN against what you OWE. It is a SNAPSHOT of the company's financial position at a single point in time. This is very different from the P&L. Think of the Balance Sheet as a long version of the basic equation: Assets = Liabilities + Owner's Equity. Assets (cash, inventory, property) = Liabilities (credit card balances, unpaid taxes, loans) + Owner/Shareholder Equity (retained earnings). Retained Earnings are the



amount of net income left over for the business after it has paid out dividends to shareholders – these are earnings that have not been paid out but were "retained" by the company. These items must balance, hence the word, "Balance Sheet". Why are banks interested in the Balance Sheet? It shows what's in your bank account that day, it shows where your loan balances are that day, it shows how much money you've taken out of the business, it shows what you owe and what you own on that day as well as how liquid the assets are. It can also show a bank if you have more loans than assets.

Accounts Receivable Aging Report. You may hear this referred to as the AR Report or the Aging Report. This is a summary of ALL outstanding invoices due from customers broken into different aging categories or buckets based

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on the number of days since the invoice was noted as due. The A/R Aging Report shows where invoices stand FROM THEIR DUE DATE, NOT THE DATE THEY WERE ISSUED. The data mined here allows you to determine your collection efforts. Certainly, if they reach the 61-90 past due column, that would raise concerns. It's fine to send statements even at 30 days past just so that clients are aware. They may have lost the invoice and it could be a simple oversight. But once they've reached over 60 days, there's an issue. This information is vital to the health and welfare of your business. Knowing WHO owes, how much, and how long it's been outstanding is critical to a business owner's cash flow. I realize this was a quick review, but hopefully, it gave enough information to get you started. If you don't know what to look for, or what the banks are looking for, then these reports can be an overwhelming mystery. Hopefully, we've given you enough guidance to start using these important business tools.

Quick Tax Planning

Maybe you were surprised by your tax bill this year and want to mitigate taxes for next year's return. It's not too late to make some adjustments so you don't owe so much on your 2024 taxes. These helpful hints could make the difference between a liability and a refund and it's not too late to put them in action!

If you owed this tax year on your personal return, I would suggest double-checking your W-4. If you haven't adjusted the W-4 since last year and your circumstances are the same, I would complete a new W-4 with work and have them take out additional money on line 4(c) and that will be paid to the IRS each pay period. You could also make an estimated tax payment by going to IRS.gov > Make A Payment.

If your business had profits that are going to affect your personal return, you could do several things: Take a look at your P&L. If you are clearing more than you did last year, you may want to increase

your estimated tax payments to ensure you don't underpay your taxes. You may also consider capital investments such as buying equipment.

Speak with your financial advisor about setting up a retirement account for you and your employees. Not only will you be saving for retirement, but your staff will also be saving for their retirement, and you get a nice matching deduction. If you don't want to set up a structured corporate retirement plan, contribute to your IRA to lower your personal taxes.

IF MONEY IS YOUR HOPE FOR INDEPENDENCE, YOU WILL NEVER HAVE IT. THE ONLY REAL SECURITY THAT A MAN WILL HAVE IN THIS WORLD IS A RESERVE OF KNOWLEDGE, EXPERIENCE, AND ABILITY.
-Henry Ford

Before you speak, listen.
Before you write, think.
Before you spend, earn.
Before you invest, investigate.
Before you criticize, wait.
Before you pray, forgive.
Before you quit, try.
Before you retire, save.
Before you die, give.
-William A. Ward

Not everything that can be counted counts, and not everything that counts can be counted.
-Albert Einstein

A successful man is one who can lay a firm foundation with the bricks others have thrown at him.
-David Brinkley

