



Taking Control

■ Business owners love control – control of their resources, their choices, their freedom.

Accurately constructed financials are a vital tool for understanding how money is working in your business.

When profits are down, do you have the kind of information you need to know whether to raise prices or cut costs? Do you know which of your company's products or services are the most profitable, or are you investing resources in products that don't contribute to the bottom line?

Wealth Builders know how to answer those questions. But many entrepreneurs can't because they don't take a regular, systematic financial snapshot of their businesses.

Let's look at a few signs that your financials are working for you.

You produce and review a financial statement monthly. Otherwise, poor performance can drain profit for months before it's discovered. You already pay monthly bills; you probably balance your bank statement monthly. This is a simple but logical next step.

Your financials are organized around four major categories: revenue, direct costs, cost of sales, and general administration/overhead.

Each category is defined in a way that applies specifically to your business. Without clear definitions, financials may misrepresent costs. For example, direct costs may be buried in the general administration category. This results in an inaccurate picture of what it actually costs to produce a given product – which can lead to

false pricing strategies or a sales emphasis on an unprofitable product.

You've created separate cost centers and implement inter-company billing to keep revenue and costs in appropriate cost centers.

When you build your profit centers around distinct sources of revenue (by product or product vs. service) and connect the associated costs with

the revenue, you see what's really supporting the bottom line. Do you know? Or do you just assume? With monthly financials, you'll know.

You can track the costs of specific projects. With a well-defined financial system, you can code expenditures and create a list of costs attached to each company project.

A well-constructed financial is an invaluable management tool. You can set prices with this information; you can establish budgets; you can react more quickly to changes in the marketplace; you can pinpoint problems earlier.

But for the Wealth Builder, an effective monthly financial statement puts him in control of the engine that drives wealth.

Do you know where your business made or lost money last month?