

BREAKEVEN ANALYSIS

"How to keep the doors open"

1.. Calculate all necessary overhead:

(fill in categories with your numbers)

	<u>YEARLY \$</u>
<i>Rent</i>	35,000.00
<i>Wages</i>	75,000.00
<i>Benefits</i>	18,000.00
<i>Taxes</i>	21,000.00
<i>Hvac</i>	4,500.00
<i>Phone/IT</i>	1,400.00
<i>Insurance</i>	44,500.00
<i>other</i>	0.00
<i>other</i>	0.00
<i>other</i>	0.00
	\$ 199,400.00 total

2.. Number of days your business is opened:

250 *days*

(fill in)

3..

Overhead dollars
number of days

e.g.

\$ 199,400.00

e.g.

250

=

\$ 797.60

*minimum
amount of gross
profit (margin)
to be generated
every day
business is
open*

4.. Ask yourself is this possible
and is it probable ?

yes ___ no ___

5.. If your answer is NO then recalculate and ask #4 again.

6.. The SBDC can help you with these assessments and more,
CALL YOUR REGIONAL CENTER.

Prepared by Vince D'Elia, SBDC Regional Director

Using Financial Reports to Manage Your Business

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What are Financial Reports?

- Balance Sheet
 - A snapshot of your business – from its inception to today.
 - Lists the Assets – what you own and are owed
 - Liabilities – what you owe
 - Equity – the value of your business
- Tells the financial health of your business

What are Financial Reports (con't)

- Income Statement
 - Also known as a Profit and Loss Statement
 - Reports the income and expenses of the business from a given date to a given date
 - Reflects the income (sales) – what money your product/service generates
 - Cost of Goods Sold (COGS) – what were your DIRECT costs in fulfilling the sale
 - Expenses – what does it cost you to operate the business no matter what your sales # is
 - Net Other Income/Expense – what other monies you take in or pay out
 - Net Income – how much you made
- Detailed information on your profit/loss to allow you to analyze your business.

What are Financial Reports (con't)

- Cash Flow Projection
 - The profit/loss shown on the Income Statement does not include all cash requirements of the business - -
 - Owners Draw
 - Loan principal repayment
- What amount of CASH do you need to operate your business.

Balance Sheet

- **Assets – what you own**
 - Current Assets
 - Bank Accounts
 - Accounts Receivable
 - Fixed Assts
 - Equipment
- **Liabilities – what you owe**
 - Current Liabilities
 - Accounts Payable
 - Credit Cards
 - Sales Tax
 - Long Term Liabilities
 - Loans
- **Equity – what your business is worth**
 - Initial Investment
 - Retained Earnings
 - Net Income – current year income/loss
- **Total Liabilities & Equity**

Balance Sheet

•	ASSETS		
•	•	Current Assets	
•	•	•	Checking/Savings 6,681
•	•	•	Inventory 5,000
•	•	•	Accounts Receivable 5,800
•	•	•	Other Current Assets 150
•	•	•	Total Current Assets 17,631
•	•	•	Fixed Assets 38,000
•	•	•	TOTAL ASSETS 55,631
•	LIABILITIES		
•	•	Current Liabilities	
•	•	•	Accounts Payable 2,200
•	•	•	Credit Cards 500
•	•	•	Sales Tax 45
•	•	•	Loans 5,000
•	•	•	Total Current Liabilities 7,745
•	•	•	Long Term Liabilities 19,500
•	•	•	TOTAL LIABILITIES 27,245
•	EQUITY		
•	•	•	Owners Investment 1,000
•	•	•	Owners Draw (5,000)
•	•	•	Retained Earnings 25,016
•	•	•	Net Income 7,220
•	•	•	TOTAL EQUITY 28,236
•	•	•	TOTAL LIABILITIES AND EQUITY 55,631

Income Statement

(Profit & Loss Statement)

- Income – money you receive from what you sell
- Cost of Goods Sold – what you buy to fulfill orders
- Gross Profit – difference between what you sell and what it costs you
- Expenses – operating expenses you have regardless of sales
- Other Income – money you receive not related to your sales (i.e. interest income)
- Other Expense – money you owe not related to your sales (i.e. income tax, sale of an asset)

Income Statement

• Sales	15,000	
• Cost of Goods Sold	5,000	
• Gross Profit		10,000
• Expenses		
• Rent	1,200	
• Utilities	200	
• Office Supplies	65	
• Telephone	230	
• Internet	100	
• Interest Expense	250	
• Printing	85	
• Marketing	650	
• Total Expenses		2,780
• Net Income		7,220

Cash Flow Projection

- Shows the cash needed, on a scheduled (usually weekly) basis, to run your business
- Includes cash requirements not reflected in the Income Statement
- Unlike an Income Statement, the Cash Flow Projection accounts for non-profit & loss expenditures such as
 - Principal Amount of Loan Repayments
 - Owners Draw

Cash Flow Projection

	Current	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7
CASH								
Beginning Cash	6,681	2,941	1,596	2,238	6,238	2,763	(1,927)	4,973
Cash Receipts	250	50	1,820	5,000	25	0	7,500	5
TOTAL CASH	6,931	2,991	3,416	7,238	6,263	2,763	5,573	4,978
BUSINESS EXPENSES								
Loan Repayment	500					500		
Credit Card Payments	250					250		
Owner's Draw	500	500	500	500	500	500	500	500
Overhead Expenses	1,640					1,640		
TOTAL EXPENSES	2,890	500	500	500	500	2,890	500	500
AVAILABLE CASH	4,041	2,491	2,916	6,738	5,763	(127)	5,073	4,478
Accounts Payable	1,100	895	678	500	3,000	1,800	100	150
ENDING CASH BALANCE	2,941	1,596	2,238	6,238	2,763	(1,927)	4,973	4,328

Assets

ASSETS	What you own	
Current Assets	What you own that can be turned into cash within a 12 month period.	
Bank Accounts	All Cash accounts including checking, savings, money markets.	\$ 6,681.00
Inventory	Current inventory valuation.	\$ 5,000.00
Accounts Receivable	Monies owed to you by customers.	\$ 5,800.00
Other Current Assets	Other monies owed to you such as security deposits, prepaid taxes and insurance	\$ 150.00
Total Current Assets		\$ 17,631.00
Fixed Assets	What you own that is not readily converted to cash. Fixed assets are depreciated over a fixed time. The loss in value is taken as an expense over a set number of years	\$ 38,000.00
Total Assets		\$ 55,631.00

Liabilities

Liabilities	What you owe	
Current Liabilities	What you owe that is due within a 12 month period.	
Credit Cards	Monies owed on Credit Cards	\$ 500.00
Accounts Payable	Monies owed to vendors.	\$ 2,200.00
Sales Tax	Monies collected in Sales Tax and not yet paid to the State.	\$ 45.00
Loans	Line of Credit, monies loaned by outside sources, current portion of car loans, long term loans, etc.	\$ 5,000.00
Total Current Liabilities		\$ 7,745.00
Long Term Liabilities	Monies not due within the next 12 months, i.e. car loans, long term loans, etc.	\$ 19,500.00
Total Liabilities		\$ 27,245.00

Equity

Equity	The value of the business	
Owners Investment	The monies you put in to start the company	\$ 1,000.00
Owners Draw	Monies you took from the business.	\$ (5,000.00)
Retained Earnings	What the business made (or lost) from it's start through the end of the prior year.	\$ 25,016.00
Net Income	What the business made (or lost) from January 1 to present of this year.	\$ 7,220.00
Total Equity	The "cash" value of your business.	\$ 28,236.00
Total Liabilities and Equity	Balance Sheet formula – Assets = Liabilities + Equity	\$ 55,631.00

Income Statement

Income	Monies you receive from what you sell	
Type "A" Sales	Monies you want to track by one type of service you perform or product you sell.	\$ 10,000.00
Type "B" Sales	Monies you want to track by another type of service you perform or product you sell.	\$ 5,000.00
Total Sales	You can setup your Chart of Accounts to reflect as many types of services or products as you wish. These, however, should be distinct services/products. The use of "Items" in QuickBooks allows you to track the various reiterations of Type "A" Sales, etc.	\$ 15,000.00

Income Statement

Cost of Goods Sold	Expenses you incur that are directly related to fulfilling the sale.	
Materials	Any materials you have to purchase to fulfill the sale	\$ 2,000.00
Subcontractors	Monies you pay to subcontractors to fulfill the sale.	\$ 4,500.00
Other	Any other costs that are only incurred because you have a sale to fulfill - such as merchant service fees, freight, etc.	\$ 500.00
Total COGS	You can setup your Chart of Accounts to reflect as many types of services or products as you wish. These, however, should be distinct services/products. The use of "Items" in QuickBooks allows you to track the various reiterations of Type "A" Sales, etc.	\$ 5,000.00
Gross Profit	The monies left after you have paid all the costs associated with fulfilling the sale.	\$ 10,000.00

Income Statement

Expenses	Expenses you incur in the normal coarse of business.	
Rent	Space to operate from.	\$ 1,200.00
Utilities	Heat, water, etc.	\$ 200.00
Office Supplies	Supplies for the office (pens, paper, ink, etc.)	\$ 65.00
Advertising/Marketing	Ads, networking events, etc.	\$ 624.00
Telephone/Internet	Phone, internet access, etc.	\$ 230.00
Interest Expense	Interest portion of loan payment.	\$ 250.00
Bank Service Fees	Monthly fee, returned check charge, etc.	\$ 6.00
Insurance	All required insurances to operate.	\$ 100.00
Postage & Delivery	Stamps, FedEx, etc.	\$ 20.00
Printing	Brochures, business cards, etc.	\$ 85.00
Total Expense	Total of all expenses	\$ 2,780.00
Net Ordinary Income	The monies left after you have paid all the expenses associated with running your business.	\$ 7,220.00

Income Statement

Other Income/ Expense	Income and Expenses you incur that are not directly related to your business.	
Other Income	Monies received that are not related to your sales, i.e. interest income; finance charge income; insurance proceeds.	\$ 5.00
Other Expense	Monies you pay that are not related to the operation of your business, i.e. legal settlements, penalties.	\$ 0.00
Total Other Income/Expense		\$ 5.00
Net Income	The monies left after you have paid all the costs associated with fulfilling the sale.	\$ 7,225.00

Cash Flow Projection

Cash	
Beginning Cash	Cash on hand at beginning of period
Cash Receipts	Cash received during the period
Total Cash	The total of beginning cash and cash received
Business Expense	Monies to be paid
Loan Payment	Amount to pay scheduled loan payment
Credit Card Payments	Amount to pay credit card
Owner's Draw	Amount you plan to take out of the business
Overhead Expenses	Monthly expenses such as rent, utilities, phone, etc. that have not been entered into Accounts Payable
Total Expenses	Total of Above
Available Cash	Cash left after paying the above.
Accounts Payable	Bill you have entered that need to be paid
Ending Cash Balance	The cash left at the end of the period

Cash Flow Projection

CASH	Current	Wk 1	Wk 2	Wk 3	Wk 4	Wk 5	Wk 6
Beginning Cash	6,681	3,441	1,596	2,238	6,238	873	(1,927)
Cash Receipts	250	50	1,820	5,000	25	0	7,500
TOTAL CASH	6,931	3,491	3,416	7,238	6,263	873	5,573
BUSINESS							
EXPENSES							
Loan Payment		500				500	
Credit Card Payments	250				250		
Owner's Draw	500	500	500	500	500	500	500
Overhead Expenses	1,640				1,640		
TOTAL EXPENSES	2,390	1,000	500	500	2,390	1,000	500
AVAILABLE CASH	4,541	2,491	2,916	6,738	3,873	(127)	5,073
Accounts Payable	1,100	895	678	500	3,000	1,800	100
ENDING CASH	3,441	1,596	2,238	6,238	873	(1,927)	4,973

Accrual vs. Cash Basis Accounting

- **Accrual Basis**
 - Sales – all invoices issued (paid or unpaid)
 - Expenses – all bills received (paid or unpaid)
 - Net Income – all invoices dated after 1/1 less all bills dated after 1/1
- **Cash Basis**
 - Sales – all payments received
 - Expenses – all payments made
 - Net Income – cash in less cash out

Why is knowledge of actual job costs important?

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Job Costing

You quote a new network for a good client. You use the current price for the hardware and the vendor pays the freight. You know the hardware and estimate that it will take 3 days to complete the work. You estimate that you'll need a help for the 3 days and that you'll pay \$25.00/hour. You think that if you add 50% you will make money on the job, have a nice profit and beat the competition.

Costs	Hours	Cost	Markup	Sell for	Sold for
Labor	24hrs @ 25.00/hr	600.00	50%	900.00	
Materials	Hardware	3,300.00	50%	4,500.00	
Materials	Software	1,500.00	50%	2,250.00	
Total Cost		5,100.00			
Sell For				7,650.00	7,650.00
Gross Profit				2,550.00	2,550.00
% Gr Profit				33%	33%

Job Costing

A month after you have quoted the job you get the order. When you go to order the hardware you find that the original vendor is out of business. The new vendor's closest model to the specs is 10% more than the original vendor - and freight is not included. Since you don't know the new hardware the installation takes 5 days. Your helper is on your payroll and you neglected to factor overhead into the labor costs (40 hrs/wk; 2 wks vacation; ½ health benefits; employer share of payroll taxes) .

Costs	Hours	Cost	Markup	Sell for	Sold for
Labor	40hrs @ 45.41/hr	1,816.40	50%	2,724.60	
Materials	Hardware	3,300.00	50%	4,950.00	
Materials	Software	1,500.00	50%	2,250.00	
Freight		150.00	50%	225.00	
Total Cost		6,766.40			
Sell For				10,149.60	7,650.00
Gross Profit				6,766.40	833.60
% Gr Profit				33%	11%

Job Costing

You can apply the above scenario to your own business. What happens when you underestimate labor costs? What happens when you don't factor in price increases? Do you know the gross profit you need to support your overhead? What if you make your mark-up 75% rather than 50%?

Costs	Hours	Cost	Markup	Sell for	Sold for
Labor	40hrs @ 45.41/hr	1,816.40	75%	3,178.70	
Materials	Hardware	3,300.00	75%	5,775.00	
Materials	Software	1,500.00	75%	2,625.00	
Freight		150.00	75%	262.50	
Total Cost		6,766.40			
Sell For				11,841.20	7,650.00
Gross Profit				5,074.80	833.60
% Gr Profit				43%	11%

Understanding Product Mix

PROFIT & LOSS – STATEMENT 1			PROFIT & LOSS – STATEMENT 2		
SALES			SALES		
Prod. A – 3	3,000.		Prod. A – 9	9,000.	
Prod. B – 1	1,000.		Prod. B – 1	1,000.	
Prod. C - 6	6,000.		Prod. C – 0	0.	
TOTAL SALES	10,000.	100%	TOTAL SALES	10,000.	100%
COGS	4,100.	41%	COGS	7,700.	77%
GROSS PROFIT	5,900.	59%	GROSS PROFIT	5,900.	23%
EXPENSES			EXPESES		
Rent	500.	5%	Rent	500.	5%
Telephone	200.	2%	Telephone	200.	2%
Marketing	800.	8%	Marketing	800.	8%
Mileage	250.	3%	Mileage	250.	3%
Utilities	100.	1%	Utilities	100.	1%
Advertising	150.	2%	Advertising	150.	2%
TOTAL EXPENSE	2,000.	20%	TOTAL EXPENSE	2,000.	20%
NET PROFIT	3,900.	39%	NET PROFIT	300.	3%

Product Mix Costs

Product Mix – Statement 1	# of Units	Selling Price	Total Sales	COGS %	Total Cost
Product A	3	1,000.	3,000.	80%	2,400.
Product B	1	1,000.	1,000.	50%	500.
Product C	6	1,000.	6,000.	20%	1,200.
Product Mix – Statement 2	# of Units	Selling Price	Total Sales	COGS %	Total Cost
Product A	9	1,000.	9,000.	80%	7,200.
Product B	1	1,000.	1,000.	50%	500.
Product C	0	1,000.	0.		0.
		Sells For	COGS	GP	GP %
Product A		1,000.	800.	200	20%
Product B		1,000.	500.	500	50%
Product C		1,000.	200.	800	80%