

Lesson 16 Worksheet: Managing Money

This worksheet will help you record your incoming and outgoing cashflows, and use the data to analyze and improve your financial performance.

1. Recording

(i) Set up your system

Decide whether you will record your financial data on a spreadsheet (if your needs are simple) or accounting software (for more complex records and better data analysis).

If you use Excel, you can download the free free Sales-Cashflow Spreadsheet that accompanies this lesson:

- US financial year (ends 30 Sept) <http://lateralaction.com/wp-content/21C-resources/sales-cashflow-us.xls>
- UK financial year (ends 5 April) <http://lateralaction.com/wp-content/21C-resources/sales-cashflow-uk.xls>

If you have a different financial year, you'll need to adjust the spreadsheet by moving the 'Total Year' column so that it comes immediately after the relevant monthly column.

You will need to update the spreadsheet headings with the specific products, services, clients and expense categories that apply to your business.

If you use book-keeping software such as MyCake, then as you set up each client on your system, include:

- the source of the client (trade fair, word of mouth etc)
- how many days credit to offer them
- whether you have a single set of prices that applies to all clients or whether you offer a discount or wholesale pricing.

You can add all this information to the client's profile, so that it will be automatically applied when you set up a new invoice to the client.

(ii) Do your accounts at least once a month

Schedule regular time in your diary to do your accounts – i.e. to update your records and analyze patterns. Ideally you should do this at least once a month.

This will help you keep on top of things, and avoid forgetting important details and losing important documents. It will also help you identify problems (and opportunities) in time to do something about them.

Each month you should:

- Record income and expenses for the past month
- Reconcile your accounts with your bank statement
- File receipts and other documents

(iii) Record your income

Every time you ask a client for payment, you need to send them an invoice including:

- Your company name and address
- An invoice number
- A purchase order number (if required by your client)
- Details of the services or products supplied
- Fees and expenses due
- VAT due (if applicable)
- Payment terms (30 days is typical)

Use your recording system to keep track of each of invoice you send: date, client details, when sent and when paid.

If you are selling direct to consumers, you should send them receipts, which also need to be recorded in your system.

(iii) Record your expenses

1. Keep all your receipts and whenever your purse or wallet is too full go through them and separate out the ones that were genuine business expenses.
2. If you will be cross-billing some of them to clients then write on these ones which project or client they refer to (if you leave this for weeks you will forget!).
3. If some lack dates then write on them the date on which the expense was incurred.
4. In a perfect world you will now sit down and enter them into your book-keeping system or spreadsheet!
5. In the real world at least pile them up on your desk. When the pile falls over it is telling you that it's time to enter them in to your system ... take the hint.
6. If you use book-keeping software it will give you a number for the expense as you enter it onto the system. Write this number on the receipt so that you can find it easily in the future.
7. Staple your receipts onto A4 sheets of paper and put these (in roughly chronological order) into a ring binder.
8. You might also keep bank statements, credit card bills, contracts and other financial correspondence in this file so that you can hand the whole lot to your accountant (or if you do your own tax return then it will all be in one place).

NB – You need to record *all* the expenses incurred by the business and these need to be allocated into the headings you will find on a standard Profit and Loss sheet. In addition to recording what you spent with whom and what type of expense it is you also need to track when you paid them. This is because you cannot tax deduct invoices that you have not paid!

To make this task easier you can separate out the named suppliers that you care about (materials etc) vs. the generic suppliers (taxi, train etc) where you are really only interested in the expense type.

For an explanation of a Profit and Loss sheet, see:

<http://www.smallbusinesspro.co.uk/small-business-finance/profit-loss-account.html>

2. Analyzing

(i) What do you need to know?

Which of these questions would be most useful to have answers to? Highlight or mark with an X each one you'd like to have answered.

- Which clients are responsible for 80% of your income? (clients, invoices)
- Which sources of new clients - trade fairs, conferences etc - deliver the greatest return on investment? (clients, invoices, source of clients)
- How long does it take you to get paid once you've issued an invoice and are some clients better/worse at paying you on time (invoice date, payment date, client)
- Which of your products have sold best in the last 12 months? (products, invoices)
- Are there annual peaks and troughs in sales and how does this compare to when you spend money on production or marketing? (sales, purchases)
- Are some of your products seasonal or do they all sell steadily all year? (invoice dates, products sold)
- What percentage of your turnover do you spend on raw materials? (sales, purchases that are direct costs of production)
- What are the highest areas of indirect cost ie rent, marketing etc (purchases, type of purchase, date)
- How does this expenditure compare to other businesses of a similar size, sector and stage? (you need benchmarking facilities to answer this, check this out when looking at online solutions)

If you've highlighted more than a couple you probably need book-keeping software that offers this kind of analysis as standard. You can still answer these questions using a spreadsheet but it will be quite a lot more work to play with the data.

If you're using a spreadsheet then take a note of the types of information in brackets after each question. You'll need to add separate fields for these details to your spreadsheet, and fill them in when you do your accounts.

(ii) How can you make your business more profitable (and less stressful)?

Once you have answers to the questions above, you can use this information to improve the financial health of your business.

There are no hard-and-fast rules – this is the point at which book-keeping gives way to creative business thinking. But here are some options for you to consider in relation to the issues you identify in your analysis.

The customers responsible for 80% of your profits

- offer them additional products and services to complement what they already buy from you
- offer them better customer service, to ensure their loyalty
- find more customers like this (look at where you found these)

Your most profitable products/services

- promote them more
- improve them
- add complementary products/services
- discontinue your *least* profitable products/services

Seasonal income variations

- find other income sources for the quiet times
- take time off during quiet times
- work harder/smarter during busy times

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Slow-paying customers

- address the problem
- fire them
- build the delay into your cashflow forecasts

Sources of clients

- stop ineffective marketing/networking activities
- increase effective ones

Cost of raw materials

- reduce cost with bulk orders
- find alternative suppliers
- increase prices (and profits) on products that cost more to produce

Indirect costs

- find alternative suppliers
- order in bulk (maybe by ordering jointly with another business)

*This worksheet is by **Sarah Thelwall**, a creative business consultant and founder of MyCake Financial Management.*

For more advice on financial management for creatives, subscribe to the MyCake blog (<http://www.mycakefinancialmanagement.co.uk/blog>). For an online toolkit to help you manage the financial side of your creative business, sign up for a free two month trial of MyCake (<https://www.mycake.org/>).