THE ENTRELEADER'S GUIDE TO BUSINESS FINANCES

Here's What's Inside the EntreLeader's Guide to Business Finances

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Hey business leader!

Chances are you took the crazy leap of faith to start your own business so you could do more of what you love. You wanted to be your own boss, solve problems, and serve customers in creative new ways. Over time (fingers crossed) you'd build wealth, help others, and maybe even change the world, right? That's an awesome dream to go for! Small businesses are the backbone of our economy.

But now, if we had to guess, you're facing the tough reality that it takes a lot of freaking work to make dreams come true. You may even be neck-deep in payroll stress, cash-flow worries and tax burdens threatening to crush your best laid plans.

What if you just had a proven plan of business-finance basics to help you take control of your money and grow your profits? Well, now you do! And what if you could better your life and experience financial peace on top of all that? You absolutely can. And you don't even need an accounting degree to help you figure it all out.

By applying the principles and practices in the EntreLeader's Guide to Business Finances, you can transform your business's finances and make decisions with confidence.

> *"If you don't stay on top of numbers associated with your business, you will fail. You can't outearn disorganization or the need to handle your finances wisely."*
>
> **— DAVE RAMSEY**
> Money Expert and Host of *The EntreLeadership Podcast*

6 Profit Principles for Better Money Decisions

This guide focuses mainly on *practices* to apply for solid business finances. But before we go there, we want to give you six *principles* that will help you make better money decisions.

Principles are like guardrails, and guardrails keep us on course and protect us from danger. Think about what it's like to drive along a road with lots of twists and turns but no guardrails. Before you know it, your nerves are shot. Just one wrong move and you're calling 1-800-TOW-TRUK. No thanks! That's true in business too. Without guardrails, you're headed for disaster. These six EntreLeadership profit principles are guardrails that will keep your company financially healthy—and your nerves intact.

1. Keep your business finances and personal money separate.

Don't use your business account to pay for personal expenses, and don't use your personal money to pay for business stuff. You need to set up separate high-yield savings and checking accounts for your business and pay yourself and your expenses out of that. Your tax accountant will thank you.

2. Operate at the speed of cash.

Don't take on debt to run your business—no business loans, no credit cards, no revolving lines of credit. And if you already have business debt, get out of it as quickly as you can. Just like the tortoise beat the hare, slow, incremental growth beats getting in over your head in debt only to crash and burn.

3. Know your numbers.

If you don't stay on top of what's coming in and going out of your business, you will fail. That doesn't mean you have to do the accounting and bookkeeping yourself, but you do have to understand your numbers and where your money is going every month. Proverbs 27:23 (NKJV) says, "Be diligent to know the state of your flocks." Pay attention—you should never be shocked about your money.

4. Act your wage.

Is it tempting to buy that newfangled computer or $70,000 truck with massaging seats and custom lift kit—or whatever is shiny and new and promises to make your life better? Of course. But you don't need the latest and greatest gizmo and model. They go out of date and depreciate the minute you buy them. That's not financial peace. Acting your wage means living on less than you make and delaying purchases until you can really afford them—then only making purchases that help your business.

Pro tip: Don't listen to advice that tells you to spend $10,000 so you can "save" $2,500 in taxes. Buying items just to take a write-off is like paying someone dollars to save nickels on stuff you don't need. Deductions aren't tax credits.

5. Pay what's owed by the due date.

No one wants to work for someone who's a pain to collect from. Don't be that person. Plan your purchases in your budget so you're ready to pay when it's due. Pay your taxes on time too.

Pro tip: As a general rule, set aside about 25% of your earnings to pay toward taxes quarterly. Talk with a tax pro to work out your specific tax rate.

6. Be generous.

Generosity isn't just about donating money to a charity or supporting your community. It's about the way you treat your customers, team members and community. For example, you could create a line item in your budget so you can surprise your team members and be extra generous with your customers. When you take care of them, they become evangelists for your business.

These six guardrails help you build rhythms and margin for healthy business finances. But you also need to get tactical to move business chaos out and peace and prosperity in.

Are There Ramsey Baby Steps for Business?

If you're familiar with Ramsey Solutions' Baby Steps, you may wonder if there's something similar for businesses. That's a great question! The short answer is no. We're huge fans of paying off debt, saving for emergencies, and building wealth in any scenario. But the 7 Baby Steps are specifically designed for your personal finances. Not your business finances.

That said, this simple-to-follow EntreLeader's Guide to Business Finances shows you the principles and practices Dave Ramsey followed to build a debt-free, multimillion-dollar business. And just like they've helped thousands of others, applying these principles and practices will help you build a prosperous business. So roll up your sleeves and let's dig in!

4 Key Practices to Create Financial Peace in Your Business

Trying to outrun a bad financial process—or no process at all—is exhausting. That's one of the reasons why half of new businesses fail in the first five years.[1] They can't keep up with bad cash-flow practices and poor money management. If you want to succeed in business and have fun doing it, start implementing these practices in your company.

One important note before we start: These aren't steps to follow in order or ideas to pick and choose from. The four key practices work together to transform your business finances. So get familiar with them all, then make your budget and do your accounting using what you learn.

1. Make and follow a budget.

Your budget gives you a plan for your money (what you make, spend and save). Every dollar has a job.

When you use a budget, you can tell your money (aka revenue) where to go instead of wondering where it went. Think of your budget like looking through a windshield to see what's coming up and gauge how you're doing on reaching your destination.

When you see the big picture—money coming in (income) and going out (expenses)—you can set goals, make adjustments, and plan for all the costs of running a business. Say hello to margin for purchases, raises, taxes, and even emergencies and unexpected opportunities. And say goodbye to flying by the seat of your pants. That's the power of a budget.

Here's how to set up yours:

Step 1: Based on last month's profit and loss statement (P&L)—or even just your checking account statement—list your anticipated revenue for the month. Your P&L shows you the money that came in and went out to help you plan for this month.

Even if you have irregular revenue, you can still use your P&L to budget based on your financial performance for the same month the previous year. Don't have that information yet? Make an educated guess using your lowest, recent revenue numbers.

Step 2: List your anticipated business expenses. We've listed the most common expenses below, but you can modify it to fit your business needs:

- Payroll (include yourself)
- Rent
- Cost of goods
- Utilities
- Insurance
- Office supplies and equipment
- Marketing
- Technology services
- Training and education

What Are Fixed and Variable Expenses?

Fixed expenses are predictable and repetitive, like payroll, rent and subscriptions. They don't change even when volume does. You're stuck with these overhead costs, so be careful. These can sink you.

Variable expenses change based on volume, like sales commission and cost of goods sold. It's easier to grow with variable expenses.

Step 3: Subtract expenses from income. Voila! You have a basic budget. Now you can see your expected profit or loss. Of course, you want to shoot for breaking even or having a profit, so adjust your budget to keep you in the positive.

Step 4: Review your budget weekly to make sure you're on pace with revenue and expenses. This means someone in your business (whether it's you, a qualified team member or a bookkeeper) is tracking your transactions consistently so you know what's happening with your money all month. That's how you know what adjustments to make before you have more month than money. (More on accounting in the next section.)

Step 5: Make a new budget for the next three months. Your ultimate goal is to plan for the next 12 to 18 months, but no two months are the same. That's why you'll need a new budget for each month. We know that can be overwhelming at first, so start small. Once you have the first month under your belt, use what you learn to build out budgets for the next three months. You've got this. Just keep adjusting based on all you're learning. Before you know it, you'll be ready to create budgets six months out . . . eventually arriving at the sweet spot of 12 to 18 months out.

Step 6: Project your net profit (how much is left after all your income is collected and all expenses are paid) over time. Then, use your projection to make budget decisions about hiring, raises or investing back into the business.

Pro tip: Look at your net profit as a percentage of your revenue. If the 15% profit you normally clear consistently dips to 8%, you may need to see what expenses have crept in that you can cut. If your profit has risen to 20%, it could be time to invest more into your company's growth.

My Budgeting Checklist

- [ ] Create next month's budget.
- [ ] Schedule time to review my budget weekly.
- [ ] Create a budget for the next three months.
- [ ] Create a budget for the next six months.
- [ ] Create a budget for the next 12–18 months.

Extra Resources

Tool:
Budget Template

Article:
How to Create a Business Budget

Books:
Thou Shall Prosper, Rabbi Daniel Lapin

EntreLeadership, Dave Ramsey

Videos:
Why Every Business Needs a Budget with Dave Ramsey

The Do's and Don'ts of Budgeting

Video Course:
Basics of Budgeting (Available with EntreLeadership Elite)

2. Do your accounting.

Financial reports tell the story of where your business is healthy and struggling.

Let's be real. Most business owners don't want to spend their time studying spreadsheets and reports. But what happens if you avoid them? Chaos takes over and your business may fail. You have to steward what God gave you to manage. In other words, you have to look at your numbers regularly.

If that sounds about as fun as sticking your finger in a light socket, take heart. You don't have to personally track and crunch your numbers. You can make one of your first hires a bookkeeper, accountant or chief financial officer to do the number things you hate. But you do have to know your business and the basics of accounting.

This accounting overview sets the foundation you can build on so your business can prosper.

Accounting Basics

Have you heard of GAAP—Generally Accepted Accounting Principles? These are the common standards and procedures set up by the Financial Accounting Standards Board that every U.S. company needs to follow when compiling accounting records.

In addition to GAAP, you can balance your balance sheet and reconcile your reconciliation report in more than one way. So make your accounting system serve you rather than doing back flips to serve your system—especially if you don't like it or it doesn't tell you what you need to know.

Here's a rundown of the most common accounting reports you'll use every month to track your finances:

> **Profit and Loss Statement**: Accounting hinges on your profit and loss (P&L) statement. It's the most used business report because it shows both your problems and your opportunities. If your budget is your windshield, allowing you to look forward, think of your P&L as your rearview mirror, letting you look backward at how your business performed during a certain period in the past. The P&L statement removes emotion and prejudice from your products and projects and simply shows how each is performing based on actual numbers. This is your P&L formula:
>
> Income – Expenses – Cost of Goods Sold = Net Profit or Net Loss

Did You Know?

Most small-business owners never look through their windshield, aka do a budget. They only work from P&Ls. That's a problem. If you only look through your rearview mirror (just use your P&L), you'll crash. It's your budget and P&Ls together that help you reach your goals.

Balance Sheet: This report shows your company's net worth. Here's how you calculate it:

What You Own (Assets) – What You Owe (Liabilities) = Net Worth

Reconciliation Statement: This statement shows your business's banking activity, comparing the bank's account with your internal records. It confirms that payments have been processed and cash collections have been deposited into your bank account. You should see a balanced account ledger and how it's balanced to ensure accuracy and transparency in your transactions.

Cash Flow Statement: Managing cash flow is the greatest challenge for most business owners. Your cash flow statement shows the movement of money coming in and going out of your company. It helps you see if you're making a profit or need to be more careful with your spending.

Payables Report: This report lists what money you owe others, aka your bills. Spot check it weekly and ask questions about it. You don't want to micromanage, but you do want your team members to know you're aware of what's being spent. It's your business.

Receivables Report: A receivables report shows who owes you money, how much they owe, and the age of the bill. It's a way to keep track of the cash that others need to pay you.

Pro tip: Try to avoid receivables by getting payment at the time of purchase. This will save you time and headaches trying to collect what's owed to you. Long receivables and short payables cause a cash shortage that could put you out of business.

Purchase Order Report: Your purchase orders, also called POs, show approved purchases already planned in your budget. You'll want to number your POs so you can identify which business channel and profit center they connect with to keep you organized and on budget.

Now that you understand accounting basics, let's dive into what you need to do in your own business.

Step 1. Set up your business checking and savings accounts.
Remember, these should be separate from your personal accounts. Having separate bank accounts is your first step in setting up a strong business accounting system. It also makes it easier to do your business taxes and put a value on your business if you ever want to sell it.

Step 2. Choose your accounting method.
The two accounting methods you'll choose from are cash basis and accrual basis. Spoiler alert: We recommend cash accounting in most cases. Here's why:

Cash Basis: This accounting method is intuitive, simple and absolute. It counts cash actually received, and any revenue it shows is money already in the bank—not money promised but not yet collected. On the inventory side, cash accounting counts inventory at cost as soon as you pay for it, not when you resell it.

Say you need 5,000 widgets to resell. With cash accounting, you pay for them through your checking, take the widgets, and the money leaves your account on the spot. In other words, the expense occurred, you paid it, and now the widgets are in your warehouse. Your balance sheet shows that the money is gone. Not so with accrual accounting.

Accrual Basis: Accrual accounting counts your inventory as an expense only when it's sold. So in the example of the 5,000 widgets, even though you paid for them and the money is gone from your account, the money doesn't show as gone until each widget sells . . . one by one. See how this could make you feel like you have more money than you actually do?

With accrual accounting receivables, when you bill someone, your invoice shows up as revenue just because it's been billed—not because you've collected the money. So you can show a huge profit based on what should come in even though you have a much lower actual cash position. In other words, don't get fooled that the money on your bottom line is the same as money in the bank.

Accrual accounting does help you keep up with inventory and cost of goods sold, but as you can see, it gets tricky really fast. A lot of accountants and bookkeepers default to this method, but it really only makes sense if you have a lot of receivables or inventory. If you use it, add in other reports to show what's really going on.

Our general accounting recommendation is this: Keep it simple. Keep it cash. Even if know-it-alls try to force you into accrual.

Pro tip: Once you average over $26 million in gross receipts over three consecutive years, the IRS says you have to use accrual basis accounting.[2] But it's a good idea to run the cash method beside it to keep a handle on your true cash position.

Step 3. Decide on your accounting tools.
Choosing the right accounting software minimizes your time spent tracking money and running reports. Granted, you may still break into a sweat at the thought of all those details and numbers, but at least you'll have an efficient, affordable system to help you sweat a little less.

Look for a tool that allows you to run accounting reports, manage taxes, track payments, handle bills, and invoice clients. Also consider one that can scale with your business. Some accounting software packages feature snazzy services for time tracking, project management and payroll, but you can think about those features down the road.

A simple Google search will bring up more accounting tool options than you ever knew you needed—or ever wanted to sift through. Check out the accounting tools list in our EntreLeadership Financial Tracker to choose what's right for you.

Step 4. Learn how to use the accounting tool.
Once you have your accounting tool, figure out how to get the most out of it fast. For all you technology nerds, this is your lucky day. You get to dive into the software tutorial and watch all the step-by-step videos. But if the room is spinning right about now, remember your option to hire a bookkeeper ASAP. It's worth the investment!

Pro tip: When you hire accounting and finance professionals, be clear with them that they work for you. They are your counsel, but you make the decisions about how your business runs.

Step 5. Check in on your accounting early and often.
Schedule a monthly, hour-long meeting for you and your key leaders to close the books and review high-level accounting reports. You'll flag any concerns, ask your team questions, and check that the accounting is being done with integrity. Also, check that payables are paid on time, cash flow is steady, and your bank accounts are balanced monthly.

Remember: You don't have to become an accountant. You don't even have to love details. But you do have to check on your high-detail person—your bookkeeper or CPA—regularly and ask questions that show them you're reviewing their work.

My Accounting Checklist

- [ ] Have business checking and savings accounts that aren't mixed with personal funds.
- [ ] Choose my accounting method.
- [ ] Choose my accounting tool.
- [ ] Choose who will do my accounting (me, a bookkeeper or a skilled team member).
- [ ] Schedule time to review reports monthly.

Extra Resources

Tool:
Accounting Tools

Articles:
6 Financial Reports That Can Save Your Company

Best Small-Business Bookkeeping and Accounting

What to Look for in a Tax Advisor

What Does a CPA Do?

How to Find the Right CPA for Your Small Business

A Guide to Small-Business Taxes

How to Calculate Taxes for Your Business

Video Training:
Accounting Tells the Story of Your Business (Available with EntreLeadership Elite)

3. Save, save, save.

Saving gives you margin—and choices.

A lot of business owners believe they need a line of credit to survive. But what you really need is money in your savings account so you can be your own line of credit. It's called retained earnings, and having it is crucial to survive and prosper in business.

Retained earnings give you margin to:

- Handle emergencies
- Reduce debt
- Make planned purchases
- Invest back into your business

Know what's even better? Retained earnings give you freedom to jump on unexpected opportunities like buying out a competitor or their furnishings or snagging a piece of property at a steal. See how having cash gives you choices? Here's what you need to do and know to build your retained earnings:

Work toward saving six months of expenses using this approach.

- **If your business is debt-free:** Put about 50% of your monthly profits into retained earnings until you reach six months of expenses.
- **If your business has debt:** Put 15–20% of your monthly profits into retained earnings. Apply the rest to debt. We'll talk more about that in the next section.
- **Where to put your savings:** Keep your earnings in a high-yield savings account or money market account. You want them liquid so they're available when you need them. If you have a pretty big chunk of money, diversify your funds with different banks to lower your risk of loss.

Save for taxes. A good rule of thumb is to earmark about 25% of your net profit for taxes. But talk with your CPA or tax professional about your specific situation.

Save for large purchases. Sometimes you need to invest in pricey equipment, building space and other items that help you grow your business. That's normal and expected. But instead of pulling that money from retained earnings, create a budget line item for that upgraded computer server, delivery truck or office renovation. Then, set aside a certain amount every month in a savings account until you have enough to purchase it.

My Saving Checklist

- [ ] Open a money market or savings account for retained earnings.
- [ ] Decide what percent of my profit to put into retained earnings.
- [ ] Consult a CPA about how much to set aside for taxes.
- [ ] Set aside the proper amount for taxes each month.
- [ ] Identify large future purchases I need to make and create a budget line item to begin saving.

Extra Resources

Tool:
Retained Earnings

Articles:
How Much Money Should Your Business Have in an Emergency Fund?

How to Calculate Retained Earnings

Videos:
How Do I Avoid Paying Unnecessary Taxes to the IRS?

How to Manage Your Money to Scale Your Business

Pay Myself More or Reinvest in the Business?

Video Training:
How to Keep Your Recession Fears From Stalling Your Business (Available with EntreLeadership Elite)

4. Get out of debt.

"Proverbs 22:7 says, 'The borrower is slave to the lender.' And it doesn't add 'except in business.'" — Dave Ramsey

At Ramsey Solutions, we often say that debt is dumb and cash is king. Why? Because debt increases risk and magnifies mistakes. You don't want to be stuck with five years of payments on a failed idea. What happens when you borrow and can't make your payments? Your cash flow dries up quick.

Following these practices will help you eliminate debt and turn your cash position around—usually in three to five years:

1. Start by paying yourself a living wage (aka the minimum your family can live on and still pay your bills without eating rice and beans for every meal).
2. Pay all your expenses, payroll and taxes.
3. Put 15–20% of your net profit into retained earnings.
4. Apply the remaining amount (80–85%) to business debt.

When you follow Ramsey's Baby Steps for your personal finances, you build a $1,000 emergency fund, conquer all your debt, then save 3–6 months' expenses. But when you follow this guide for business finances, you tuck away retained earnings and reduce debt together. Scrape nickels out of the couch corners and be intentional with every dollar to get your business out of debt quickly so you can enjoy financial peace!

These hacks will keep you out of future debt:

- Pay with cash. (That includes continuing to save up for big purchases.)
- Rent until you can pay with cash.
- Outsource services like printing.
- Buy used items.
- Only make an expensive purchase if you need (not want) it, can pay cash, and can make money by owning it.

My Debt-Free Checklist

- [ ] Set my living wage and put it in my budget.
- [ ] Apply about 80% from my monthly net profits to debt.
- [ ] Put the rest into retained earnings.

Extra Resources

Articles:
[7 Tips for How to Run a Business Debt-Free]

[Are Business Debt and Personal Debt the Same?]

Video:

[How Do I Manage My Business Debt?]

Video Training:

Financial Peace for Business (Available with EntreLeadership Elite)

Level Up Your Business

You can achieve financial peace in your business. How do we know? Because we're living proof. Dave Ramsey built a multimillion-dollar real estate business with debt—and lost it all. The hard lessons he learned changed him forever, and he rebuilt his life and built a new business, Ramsey Solutions, completely debt-free.

Today, Ramsey's small-business arm called EntreLeadership is on a crusade to help you and other business leaders manage your money, grow your profits, and build better lives.

"You make different decisions when you have the courage of cash."

— DAVE RAMSEY
Money Expert and Host of *The EntreLeadership Podcast*

The EntreLeader's Guide to Business Finances

4 Key Practices Master Checklist

You can grow your profits without debt—even if numbers aren't your thing. Use this master checklist to keep you focused on what you need to do next to stay on track.

Budgeting Checklist

- [ ] Create next month's budget.
- [ ] Schedule time to review my budget weekly.
- [ ] Create a budget for the next three months.
- [ ] Create a budget for the next six months.
- [ ] Create a budget for the next 12–18 months.

Accounting Checklist

- [ ] Have business checking and savings accounts that aren't mixed with personal funds.
- [ ] Choose my accounting method.
- [ ] Choose my accounting tool.
- [ ] Choose who will do my accounting (me, a bookkeeper or a skilled team member).
- [ ] Schedule time to review reports monthly.

Saving Checklist

- [ ] Open a money market or savings account for retained earnings.
- [ ] Decide what percent of my profit to put into retained earnings.
- [ ] Consult a CPA about how much to set aside for taxes.
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Debt-Free Checklist

- [ ] Set my living wage and put it in my budget.
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