

Module 7 Text

Getting Official and Financial

- This course is designed to lay the foundations to your successful business. There are many areas that we simply cannot cover in this course in detail because each business is different. In this module we are going to touch base on some important areas in business. This module is longer than most of the others, because we start looking at 'externals' or things going on outside of your business. Plus we start looking at money. Money is a good thing to know about especially since it will be your money we are talking about. As you go through each section, you will hear us say, "Talk to a professional about what is best for your business." You will need to follow up on these ideas and see what works best for your business. The good thing about talking to professionals is that most of them will offer a free initial consultation and there is a lot of information online if you are willing to dig for it. You know your business better than we do, so you will need to choose the specific strategies that best fit your business.
- All businesses start out as a sole proprietor. That means that you are responsible for everything. As you grow and develop, you will want to consider different business structures based on the amount of protection you want and tax structure. (We are not lawyers and cannot give you legal advice). The other types of businesses are Corporations (S, C, 501C), Partnerships, and LLC's which is a newer type of business structure and is a hybrid of the others. You will want to talk to a professional about what kind of business structure best suits your business.
- Now that we talked about structures, you know that your business is a sole proprietor, which means you are the only one in it and you own it. All the taxes are your taxes and you are responsible for your business. So, today, your business becomes OFFICIAL. I want you to go to your county clerk's office and pick up an Assumed Name Certificate (in your state it may be called something different so search online for how to set up a DBA in your state). These are also known as a DBA or Doing Business As or registering a 'fictitious' name. Basically, when you fill out this form and pay the fee (usually under \$20), your Business becomes an 'entity.' You can use this form to do things like open a bank account in your business' name so that you can get checks written to you in your business' name.
- Here is a form online and step by step instructions, at least for my state. (video)
- When you start making money, it is important to have a bank account specifically for your business. You can use your personal account, but later when you start becoming a larger

success, it will be important to show where money is coming in and out of your business. When they are combined, it is hard to tell what was used for business and what was used for personal so it makes it harder to validate the expense with the IRS.

- Your bank should issue you a debit card. Debit card means you can access the money that is in your account. You cannot spend more than you have in your account without incurring fees and penalties. That is difference between a debit card and a credit card: you are accessing money you already have, versus access a line of credit that you will need to pay it back.
- A quick word about credit cards. Credit cards are not all bad; it is a tool and if used correctly can help you in your business. Did you know that if you pay your bill off regularly and have it set up correctly, credit cards can actually earn you money? Plus, they can be a way to keep track of your spending. Many credit cards will track expenses and some even break them down into categories on your statement: gas, groceries, offices supplies, etc.
- Since we are talking about tracking your money, you are going to want to set up a basic business ledger. You can do this on Excel or you can just use a piece of paper. I suggest if you are going to have it on paper, use a notebook, so you can add paper as you go or just get a spiral and put the begin and end date on the front.
- To set up a ledger - across the top line you are going to write these words: Date, Reason, To/From, Cash Received, Cash Spent, Cash Balance. (see example) It is that easy. Anything you spend on your business, add it to this sheet. (If you buy a spiral for this ledger, put it on the list.) The point is that you want to put every bit of money that you spend on your business in this ledger. It will help you see how your business has grown and help you when you file your taxes.
- Another thing you can track is mileage. If your Mom drives you across town to visit a customer, write down the mileage. Keep things like mileage on a separate section of your ledger, or just keep a separate notebook in your car. Mileage can be a good tax write-off if you keep track of it properly, but you will want to talk to your tax professional for how to handle mileage for your situation.
- Back to tracking your money . . . When you track your money and keep account of everything going into and out of your business, you are doing basic accounting. Accounting is a fancy term that just means tracking your money. It is based on credits (money coming into your business) and debits (money going out of your business). Remember your debit card takes money out of your account and a credit card brings a line of money into your business. Your business ledger will take care of most of your needs in the beginning, but once you start getting a lot of money

and having to keep track of multiple accounts and clients (not to mention having customers order now and pay later) you are going to want to set up a more detailed accounting system. I suggest talking to an accounting professional and letting them guide you. If a course on accounting would be helpful to you, please contact our office about our more detailed course on finances.

- One thing you want to learn about right now, as far as money management and business accounting is the Break Even Point. “Start up costs” means any amount of money you used to buy things to get your business started. A Break Even Point is when you get past the ‘zero’ point and actually start making money. Example: you buy a lawn mower for \$100, you charge \$10 per lawn. You will have to mow 10 lawns before you break even. You don’t make any money until lawn number 11.
- Another fun term in business that you will hear a lot is: ROI or return on investment. ROI is usually a percentage that shows how much money you put in versus how much money you are making. In business, ROI can also be used for anything you purchase. If you purchase a t-shirt printing press, what is your ROI over one year? If you purchase a list or pay someone for referrals (someone they know that may like your business or service), what is the ROI for those customers? Let’s say, you mow lawns. You get \$20 per yard. If you pay someone \$5 for a referral, you are getting \$20 worth of business for that \$5. The ROI is 400%! It is like if I asked you to exchange a \$5 bill for a \$20 bill. You would find as many \$5 bills as you could because it is such a good deal. (In module 9 we will talk a lot more about this.)
- We are talking about keeping track of your money, but where to get the money to start? From your parents, duh! Just kidding. If you need money, there are literally thousands of ways to get money. The best way is the earn it. Start small and use only what you have.
- How to start with nothing! This is the best way to start a business. All it takes is a bit of extra effort, a little bit of research. You have to think creatively about your business and focus on what you really NEED. There is a difference between needs and wants. Focus on what you NEED, not what you WANT when you first get started. As you become more successful, you can add those things that make your business easier and then you will have the money you need to get the things you want. The key is to start where you are, with what you have.
- You may need to earn a bit to get supplies at first, but that is how life works. Go out there and mow some lawns, paint some houses, whatever you can to earn some money to put into your business. Don’t expect everyone to bow at your feet and give you the money you need. Be

willing to earn it and you will handle it much better. You will appreciate what you earned much better than what someone gave you. Think about how much more a bike or computer means when you actually built it yourself. It is like it becomes part of you.

- But what if you need money right now? Consider these three alternatives: investor, loan or bartering. These are slightly different so let me explain. An investor will be entitled to a portion of the profits as well as their money back. The catch is, that this person may want to help guide the business and make decisions. It may even turn into a great partnership if developed right, so this is not a bad thing (We will talk more about this in module 8 and again, talk to a professional about how to set this up in a way that protects your business, ideas and your rights.) You could apply for a loan from a bank and even an investor. A loan has a specific payment over a specific time period. To get a loan, you will have to prove that you can actually make the payments. Consider asking a relative (or 10 relatives for a little each) or a good friend that is in business may be able to help you out. Have a strong business plan (look it up online) based on what you have learned and are learning in this course. The third way to get the money and resources you need is called bartering. You will 'trade' your product or service for something you need.
- Let's be honest, you should *not* be quick to jump into debt (that means you owe more than you have right now). Start with the basics, build your business, and after you have become successful, you will have the money and resources available to you based on your proven track record of running a successful business. If the business gets too big too quick, you may not be able to keep up with it. Allow your business to grow as you grow. They say you need to learn to crawl before you can walk. Take it a step at a time and when you have proven that you can handle your business and success and you are ready, then you can take the necessary steps to enlarge your business with the right kind of financing.
- On that same note, be careful about putting more into your 'start up' than you need. I have seen many teens 'get ahead of themselves' and spend way too much money only to find out that they do not want to do that particular business. Remember, start small and earn some money and reinvest your funds back into your business. This is by far the best way to help your business grow.
- One last thing we need to touch base on in this module is insurance. Insurance protects you and your business in case of legal action. Some insurance you may need to consider: Business Property, Liability, Workers Compensation, Employment Practices and even Life Insurance. Talk

to your local insurance agent about your needs. I do want to point out that you realize that if you do business from your home, your homeowners insurance does not usually cover your business. You can add a 'rider' to your policy to cover basic business liability, but again, please talk to a professional about what works best for your needs.

ACTIONS TO TAKE:

- Go to your county clerk or online. Get a DBA form or an Assumed Name Certificate. Fill it out. Pay the fee. Now your business is real.
- Set up a bank account (free one for now, just to get the experience of getting it set up)
- Set up a ledger with all the money you have invested so far (like this course, since business training is a business expense)
- Make a list of all the items you use in your business that you currently own, like a computer and the ones you would like to own, like a t-shirt printer.
- Create a receipts monitoring system – monthly