FORECASTING YOUR BUSINESS USING QUICKBOOKS®

By Wendy Byford & Warren Taryle, CPA MST

The transcript companion to the webinar

Forecasting Your Business
Using QuickBooks®

with

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&
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Published by BizEngaged, LLC

Wendy: Hello and welcome to the webinar - Forecasting Your Business Using QuickBooks. This webinar is one in a series designed to help you put your business on a firm foundation. My name is Wendy Byford, and I'm the President of several companies including eBiz Learning[i]. I'll be your guide through the modules in this series; and I'm here today with my friend and CPA, Warren Taryle of Taryle and Associates[ii]. Warren has been a CPA for many years, and delights in showing people how they can use the tax code to their advantage. Welcome Warren.

Warren: Thanks. I'm glad to be here.

Wendy: Warren, many of our listeners have never done forecasting before; and so this is going to be a brand new topic for them. In this module, we're going to discuss:
1) What forecasting is
2) Why you need to forecast for your business
3) How to create a forecast, and then
4) How to monitor your results using QuickBooks
Are you ready to go, Warren?

Warren: I'm very excited to get going.

Wendy: Ok. Firstly, let's discuss what a forecast is. If you've listened to the module *Focusing Your Millionaire Mind*, then you know how important it is to set goals for your business. Now, normally when we set goals we tend to think in terms of sales or revenues. We set a goal to create $1,000,000 in revenue or a half million dollars in revenue, depending on what type of business you're in. However, there are two goals that you really should be setting, and to my mind the second goal is actually the more important of the two. Normally we set the goal for sales. And so, Warren, let's say for our company we're going to set a goal of $300,000 or $400,000 in sales. However, the goal that I tend to look at as being far more important is the goal for profitability. What type of profit do you want to make from those sales? For example, I can set a goal for a company that might be $400,000; but if it takes me $500,000 to create those sales, then I'm certainly no farther ahead. In fact, I'm in the hole.

Warren: I mean I could easily have $1,000,000 in sales by selling $20 bills for $1.

Wendy: There you go. So it doesn't make any sense to set simply a sales goal if you don't have a corresponding profitability goal. So, it's very important that you have those two things in mind when you go into the year for your business.

Wendy: Now, the forecast is simply a way of breaking down that goal so that you understand how you're going to achieve those sales and how you're going to achieve your profitability margins. So let's say, for example, that you set a goal of $500,000 in sales. Your forecast will break down your revenues so you know where that money is going to come from, what types of products or services you have to sell, how many of each, or what other types of volumes you have to sell in order to make that type of money. The next part of the forecast says, "Ok, what expenses am I going to incur for things that will enable me to sell those products and services." So, I'll have different types of expenses that I need to forecast in order to sell the things that I want to sell in the quantities that I want to sell them. And these things may be car expenses, and office expenses, and employee expenses, and all kinds of things that I'll be able to forecast so that I have a realistic picture not only of my revenues but also the expenses for the coming year. And then, of course, the difference between the two is going to give me my profitability. So all a forecast is doing is helping you to break down the revenues and expenses, so that you can tell how you're going to make the money you want to make, and how you're going earn the profits you're going to earn.

Warren: And the part I really like about it is we incorporate that into our accounting software; and then we can monitor our progress as we go throughout the year, so we know if we're hitting our targets or not or if we need to make some quick adjustments.

Wendy: So that's the first reason why you need to have a forecast – to be able to monitor and tweak as you go along. You'll be able to tell, if you're not within your forecast, exactly where you're out of alignment and where you need to cut back or where you need to increase – increase your sales or cut back on your expenses or make whatever kinds of adjustments you need in order to achieve that profitability that you've targeted. The second reason why forecasting is so important is that during the forecasting process you're going to be able to tell whether or not what you're deciding to do is realistic. You may find, for example, that although it's realistic to target the sales that you're targeting, the expenses that you're targeting are not realistic. They're too low to enable you to make the sales that you need to make. And so you may find that you need to cut some things out, or maybe you need to joint venture with somebody so that you can share expenses or do other things that will enable you to earn the money that you want to earn realistically with the expenses that you want to spend. So the forecasting process really gives you two benefits. The first is seeing whether or not your goals are realistic and achievable; and the second is allowing you to monitor your actuals against your forecast so that you tell when you are moving out of alignment and you can bring yourself back into alignment by tweaking either your expenses or ramping up your sales. So, Warren, with that, let's talk about how we move on to create a forecast. If people have not created forecasts before, this is going to be a whole new skill set that they're going to need to gain.

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Warren: It is, and it's an exciting process. Unlike the rest of accounting where we're sort of dealing with historical things and this is what happened, here's where we get to go and look forward, and actually plan what we want, instead of just settling for what we end up with. So, this is why I love this subject so much. Now there's going to be a big difference, though, for people who already have a company up and going and they have some numbers to compare to from previous periods, compared to people who are just starting from scratch.

Wendy: That's right. There's a big difference between the two. If you are already in business, then you've got some history to fall back on in determining your forecast. And if you're brand new, you're going to have to do the best you can to determine what you think is reasonable. So, with that, we're going to bring up an example for you and walk through it so that you can see exactly how we forecast for two different types of companies. Ok, Warren, here we see a Profit and Loss Statement or an Income Statement for a Network Marketing company called Down Line Life. Now this company has been in business for a couple of years and it has some history. So we can actually see for 2007 the Income and the Expenses for this company, and the percentage for each of the items that's listed in the report.

Warren: And I really like, when you look at this Income Statement or Profit and Loss Statement, to look at those percentages, especially in the forecasting mode;

because that's going to really help give us a lot more important information than just the numbers themselves. Percentages are really important.

Wendy: Ok. So, when we start our forecasting for this company, the percentages are going to act somewhat as a guideline. It'll show us historically what each of those items has been, not only from a dollar standpoint, but from a percentage standpoint. And if we maintain those percentages, we can figure out what dollars we need to forecast. Now we'll need to make adjustments along the way for different things, as we'll show you. But those percentages, as Warren said, are important guidelines for us. Now, if we were starting with this company and it had no history, you wouldn't have any percentages to use as guidelines. So, in that case, you might want to go and find someone who has been in the business that you're in for a little while, and find out what their percentages are; or work with your CPA to find a typical company in the industry that you're in, and figure out what percentages that company has and use it as a guideline. There are always companies out there that are in the same line of business as you're in, that you can use to help you with your first round of forecasting. And then, of course, as your company has history behind it, you can use your company's history to help you to improve your forecasting for the years to come.

Warren: Ok. Well let's start taking a look at what we have here.

Wendy: Ok.

Warren: The first place we'd want to start is coming up with what our forecasted Income is going to be; because, as you'll notice on this Income Statement, everything is based on Total Income. That's where we get to 100%, and so we figure all of our percentages based on that.

Wendy: Ok, and so this is a Network Marketing company and we've got Commission Income. So this person obviously has a down line and is starting to make residual income from that down line; and that's called Commission Income on this statement. And then, this person also has some Consulting Income. So he's started to go out and probably has done some speaking, may have produced some product that he sells from time to time; but he's making a little bit of income from that as well. And then, of course, in Network Marketing you have to sell product because if you don't, then it's a pyramid scheme; and, of course, that's illegal. So he has product sales and a good amount of product sales for this company it looks like.

Warren: And the nice thing about this company is, if you're not a Network Marketer, this is fairly typical for any of the businesses we're going to come across; because here we have income from services, which is consulting, commission income which we all know from selling things, and then we also have some product sales. So regardless of what other industry you might be in, this is going to be a good example for you to follow.

Wendy: Ok, so we add up all the different types of Income, as Warren says, and we get to $358,000 and change and that's 100% of our Income.

Warren: OK, when we come to looking at the Expense side of things, we have to divide these Expenses really into three types. First, there's what we'd call Fixed Expenses. In other words, the amount of money that we're going to spend for those particular items is pretty much going to stay the same, regardless of whether sales go up or down. The second kind of Expenses are what we'll call Variable Expenses. And Variable Expenses will fluctuate depending upon the level of sales. So, if for example, something is 4% of Sales right now, and Sales go up, then it'll still be 4% of Sales. It'll just be a higher number as Sales goes up. The final type of Expenses – sort of a little bit of a hybrid – it may be actually a variable or a fixed expense – but it's an expense that we're going to focus on because we're going to budget for something. Let's say we know we have a project coming up where we want to build out our internet presence, and we're going to spend extra money doing that. We would include that in our budget. So it's just going to be a number that we already know.

Wendy: Let's show our listeners how to start the forecasting process. So, in this case, the first thing to determine is whether or not we're going to be using the same categories for Income. So let's say for the coming year, 2008, we're still going to have Commission Income, because we'll still have residual income from our down line. We're still going to do some Consulting, and we're still going to sell Products. So, after we figure out from our ramp what our Commission is likely to be for the coming year, what our Product Sales are likely to be for the coming year, and we estimate what type of consulting will be, we can start putting some numbers down. Ok, Warren, so let's take a look at our Commission Income first. We know that this is a Network Marketing company and that Commissions ramp fairly quickly once you've built a reasonable down line. So we have $215,000 and change right now. What are we projecting out for the coming year?

Warren: Well we did some analysis to figure out what our down line looks like and how it's been growing at this rate. So this requires a little bit of time and thought into your own down line – into your own projections for business - but we came up for the purposes of our model that for 2008 we're going to have $300,000 worth of Commission Income.

Wendy: Ok, and I'm going to skip Consulting for a moment – and what are we going to do with Product Income?

Warren: For our example, we're going to leave Product Income at the same level now, just to make things a little easier as we go through this example for everybody.

Wendy: Ok, so our Commission Income is going to increase naturally, because our down line is continuing to recruit and to bring in more volume. And we're going to put in the same amount of effort to sell product, so that seems fairly reasonable. And then for Consulting, we're going to continue to do that. What have we put down for that number?

Warren: We're going to come up with $5,000 worth of Consulting Income for 2008.

Wendy: Ok, and so the total amount of Income that we're forecasting for 2008 is going to be how much?

Warren: $445,000.

Wendy: Ok. So our 100% is going to be for $445,000 for 2008.

Warren: Right, and now let's work through this Income Statement and determine what items are going to stay the same in actual cost, which items are going to stay the same by percentage of that net sales, and which items we're just going to forecast and pick a number because that's what we're budgeting towards.

Wendy: Ok, so the first thing that we come to is our Cost of Goods Sold. Since we're going to be selling the same amount of product as we did the previous year, then presumably our Cost of Goods Sold should be about the same.

Warren: Right, but it's really a percentage number; and so we'll mark a little P beside of it because that's going to be a percentage.

Wendy: Ok, then we go on to our other expenses.

Warren: And Depreciation – really we're going to mark that one as Fixed. Now we know sometimes as you grow you're going to add more equipment which is going to change Depreciation. But for our purposes and for yours, it's good enough to mark that as a fixed number.

Wendy: Ok, then we go on to the Automobile. Now, we're doing more business. We've got more down line to tend to. We've got probably more events that we need to go to to help our people grow. So we're probably going to be spending a little bit more time traveling around. So Warren, what are we going to change here?

Warren: Well, some items are going to stay the same and some are going to change. One of the things we talked about is the fuel costs. Fuel costs are going to be difficult. We know we're driving around more, so we think ok, we should increase it by the percentage; but we also know in this day and age that fuel prices, they kind of vary radically as well. So we're just going to pick a number for that that's going to reflect our increase and the possible fuel increased prices. So we're just going to come through in this case and we're going to make it $5,000.

Wendy: Ok, and of course our Insurance – we're using the same car so it's probably going to be about the same.

Warren: Right, that should stay fixed.

Wendy: Ok, and our license is probably fixed as well. Now, Maintenance and Repair – if we're going to be driving the car more, that Maintenance and Repair is probably going to go up as well.

Warren: Right, so we'll make that one a percentage. And then Parking and Tolls is probably also going to be fixed. It's an insignificant number. Now if you live in a city where there's a lot of tolls and parking fees, this might be more significant. But a lot of us live in places where we don't pay to drive on the highways or cross bridges, and most parking is free.

Wendy: Ok.

Warren: And we'll keep doing this and working our way on down the screen.

Wendy: Ok.

Warren: Ok. Now we'll look at Business Development costs.

Wendy: Alright. So now those are going to be hard for us to estimate. However, some of them are going to be a little bit more as we are growing our business, naturally. So, they'll be mostly percentages, I would think.

Warren: They would be, and even things you wouldn't suspect like advertising and marketing and all, you think, "Well, if I'm doing more business, that's going to increase." Yes, but the percentage isn't necessarily going to increase. And there's an interesting thing that happens with advertising costs. Let's say you pick a certain percentage you want to put towards Advertising. At a certain point your sales are going to get high enough that no matter how much you want to, you can't spend that much. So, where you might pick a percentage now, in the future with increased volume, that percentage is going to have to drop because you just can't spend any more advertising.

Wendy: That's [because] it'll probably level off to a fixed cost.

Warren: So at some point - advertising people like to call that the power curve. But for now, this is definitely going to be a percentage. As well as basically everything I think in this category. Do you disagree?

Wendy: No, I think that's a good way to approach this.

Warren: So we'll mark all of that as a P.

Wendy: Ok. Then we come to cash contributions – donations that the company is making.

Warren: And we'll figure that that's a P too, because you made a decision that you're going to donation a certain percentage to charity.

Wendy: Ok. And then Employees and Office Expense. So, now, payroll is totally in my control for Payroll to (an) Officer.

Warren: Right, and we decided that we're going to set a target and we want to pay ourselves in salary $110,000. Now the reason we came up with that number is going to be something that you would want to discuss with your tax professional, with your CPA, to figure out where the optimal number is for you. But for this person, we're going to make that one a hardwired number in here of $110,000.

Wendy: Now that doesn't mean that that's the only amount of money that this Officer can take out of the company. For the type of company that he has, he can also pull money out a different way. What we're saying is for payroll, for his W2 paycheck, we're going to target $110,000.

Warren: Now, the rest of these items are probably going to stay fixed. Well, let's get them one at a time. Education and Seminars – I mean, that's probably a fixed number. We're not necessarily going to change the amount we're going to spend on those things, although you might have some more money to do that with, I think it's still a fixed number. The same with the Health Benefits – your insurance is going to basically stay the same, regardless of what your Sales are. Now Personal Assistant, this is another number that we want to budget towards; because we know, if we're going to increase volume and even for future pacing as we go forward, we're going to need some help. And Personal Assistants are just a huge amount of help in turning more profitable. So we're actually thinking we're just going to double our budget for a Personal Assistant.

Wendy: Ok, good. When we move on to Financial Fees …

Warren: Financial Fees – and they're fairly insignificant as we're looking at here – and so we're going to kind of leave these basically as percentages, knowing that there's going be a little bit of variance in there. And obviously Bank Charges aren't going to be zero, so we might just call that $100 just as we go forward.

Wendy: Ok, and then, Office Expenses often are percentages as well. Now in some cases they may be fixed. If you have a contract for cleaning, for example, that's going to be a fixed cost.

Warren: Right, so some of these are kind of a mixture, and like you said cleaning is. Computer repairs will probably be a percentage because we're going to put more wear and tear on our equipment. Delivery and Postage, that's certainly going to vary with the more Sales we have.

Wendy: Right. Dues and Memberships is probably a single membership a year so it's going to be a fixed cost.

Warren: Right. Now Internet and Web Services is another one that we're going to target towards increasing because we want to build our web presence up. And so we're going to build into our budget money to pay for that.

Wendy: Right. And so we probably already talked to our web designer and other professionals that we need and determined what it's going to take for us to be able to do what we want to do, and we can just slot that number in there regardless of percentage. Now Office Supplies tend to vary with the level of business, so that's a percentage.

Warren: Right. Now Publications and Subscriptions, that's going to be pretty fixed. You're going to decide if you want to buy any more reference materials or not; but that's not going to really change based on Sales. Security certainly shouldn't change. But Telephone will go up with Sales. You know, the harder you're working those phones the more you're going to bring in sales.

Wendy: That's true. You may change packages on your cell phone from a small number of minutes to a larger number of minutes. So that certainly will go up.

Warren: Ok, and there's just a few more items left on our Income Statement here.

Wendy: Ok.

Warren: And that's the Professional Fees. Professional Fees – the Accounting and Bookkeeping – that's all probably going to go up a little bit.

Wendy: Ok, your Coaching will probably stay the same.

Warren: Coaching will probably stay the same, or you may decide you've outgrown your Coach at a certain point and you're going to start doing more coaching, which is the Consulting Income.

Wendy: Right, and Consulting Fees for the professionals that you hire may stay the same or go up a little bit. And then, of course, Management Fee is also under your direct control.

Warren; State taxes, depending upon what state you're in, are going to go up as a percentage or they're going to be fixed. If it's some states, like California where they charge a flat $800, depending upon what entity you're at, until you hit a certain level of sales and then it takes another ratcheted jump. So, I'm going to leave this one as a percentage. Just it helps us to better err on the high side than on the low side for this one.

Wendy: Right, and then we find that our Net Profit is going to be 20.8% so for 2007. And we'll figure out for 2008, by the time we've added in all those figures, it's going to come out to some a little larger - we're going to target about 30%.

Warren: We're hoping – and you're going to see this [but] not here. This is something - another calculation you sort of have to do on the side. But we're going to target 30% and see how close we can come to that.

Wendy: Ok, so our goals at this point - $445,000 in Revenues and 30% Profit.

Warren: Now, we enter all of this information. So, coming up with this is an interesting experiment in itself, forcing us to really think about how our business operates. We just kind of went through these numbers quickly. But, when it's your own business, you're going to take some time and really go through these numbers. And it's really going to really focus your thoughts on just exactly how all of these parts of your business interrelate with each other and how your business works. I know I'm an Accountant, but it's really an exciting thing to understand your business at that kind of level.

Wendy: Well, the thing that, if you're new to this, you need to keep in mind is that this is not a one-hour process. You're going to go through the numbers over and over and over again until you can target the Sales that you want to target, the Profit percentage that you want to target, and you get all the other numbers lined up between those two. It may mean that you have to decrease some of your Expenses, increase some of your Expenses, perhaps increase your Sales a little bit. You're going to go back and forth until you get a forecast that you feel comfortable with, not only that it's realistic but also that it's attainable.

Warren: And this is a good project to work on. Let's say you've planned your annual meeting and you're going to take a little weekend trip to someplace to get away to think clearly about things. This is a great use of that time. It helps justify that trip as a deductible business trip.

Wendy: Now some of you may know that if you set a goal that is uncomfortably big, that you just might achieve it because you start to focus on how you can do things differently to achieve that goal. So the forecasting process is not meant to discourage you from doing this type of goal setting. However, what it does do is to help you to understand what you're going to need to do in order to achieve the goals that you set. So go ahead and dream. Put down a goal that's big, it stretches you. It really makes you start thinking about alternate ways of doing things. But as you're going through the forecasting process, it's going to show you what it is that you're going to need to do in order to achieve those goals. So make sure that you've got something down that makes sense by the time you're finished, but also plays out to what it is that you really and truly would like to achieve.

Warren: The next step in going through this process is to take these numbers that we came up with now, and enter it into QuickBooks so that we can hold ourselves accountable to these numbers.

Wendy: Ok Warren, so let's take a look at what this forecast looks like now.

Warren: Well, let me first explain when we go through to enter it into QuickBooks, QuickBooks is going to ask you to enter these numbers on a monthly basis. The reason why is because we want you to check and run reports once a month to see how you're doing compared to how you planned to do. So, sometimes it's going to be a simple matter of taking your forecasted numbers and dividing it by 12 and putting it in each month. And other times, if we really put the time and effort into it, you're going to use the same things we just went through and said, "This is fixed, this is a percentage, or this is a targeted expense" and you're going to apply that on a monthly basis. So you're going to know that, for example, in your particular business that April and May are the best months for Sales and other months start to play down. So you may want to make your sales vary and therefore make your expenses vary. If that sounds really daunting to you, then let's just divide by 12 and that's still going to give us a better answer than not. But if you can come up with those variations, that would be really good. And if you have a history already in your company in your QuickBooks you can pull out previous year's sales numbers and see how they fluctuated month to month to come up with those numbers.

Wendy: You know when I was in Corporate America, Warren, we started the forecasting process in July. It took us 6 months to get our forecast nailed down for the coming year. So for those of you listening, if you think this is going to take a long time, you're partly right. Of course, we were doing forecasting for a company that was in a Fortune 100 position. So it was a very large company, and that's why it took such a long time; because we had layers and layers and layers of people to go through to push those forecasts all the way down to the last level in the company. For you, of course, it's going to go much faster; but don't think that, again, it's going to be a one-hour process. It's something that you're going to need to think about. As Warren says, you're going to need to forecast month by month, so it's going to take some time. Just take your time. Spend a little bit of time on it every day for a series of weeks, and you'll find that in the end you'll have a forecast that meets your needs.

Warren: Now let's take a look at our forecasted numbers. Ok, first thing I want to point out here is we have our numbers and, because we're using QuickBooks and the way we set it up, you see the same number three times. If I had printed this out monthly it would have made more sense, but it wouldn't have fit on the screen. So let's just look at this number and ignore the fact that we're repeating it three times over. Maybe now – it's often said if you hear things three times you understand it. What if we have three columns – maybe it'll make sense much quicker. In this case, we just entered all of the numbers all into December, because we're just going to show you what it looks like at the end of the period. Remember, for you guys, go through and enter them into each month so you have some monthly data to look at. Our sample data here is all loaded at yearend, so we actually don't have actual numbers throughout the year, which is why we had to do it this way.

Wendy: Ok. So if you were doing this realistically, that December '08 number would be probably something like one twelfth of that total number.

Warren: Right. And then the year to date budget would be, if you were looking at this some point in the year, it would total the amount of months to that point and then the annual budget is going to be for the entire twelve months. So since we didn't do that, that's why all three columns look the same.

Wendy: Ok. So we're going to concentrate on the annual budget, which is what we realistically have here. So, Warren, I see we have our $445,000 in Revenues.

Warren: Right and we came up with our Cost of Sales of $88,400.

Wendy: Ok, which is pretty much what we had the year before since we're selling the same amount of product.

Warren: And you can see pretty much all the way through here –we're not going to go through each of these numbers – but you'll see that what we talked about in our budget is replicated here on this actual number. And we're going to come down to what we're saying is a Profit of $130,697. I like these round numbers.

Wendy: Ok, and that profit represents approximately 30% profitability.

Warren: Right.

Wendy: Ok. So now, let's take a look at what happens when we have our forecast in place and we start to produce actuals. As we said, one of the benefits of having a forecast is that you can actually enter it into QuickBooks so that QuickBooks will monitor how you're doing actual versus forecast. You'll be able to see where you're going off track and make the adjustments necessary to bring you back into alignment so that you can still make the goals of Revenue and Profitability by the end of the year.

Warren: And here you'll see where we have the Profit and Loss Budget versus the Actual. Now, QuickBooks likes to use the word Budget. We generally don't. We've been using Forecast. But no, you can sort of interchange those two words. In our example, again, we're showing January through December, an entire year. We would want you, as you do this, to do this month by month so you can see how you're doing and be able to react and make changes before you get to the end of the year, so you can still hit your totals. So, you're going to want to do one of two things. You're going to want to look in January at just January. When you get to February, you can look at just February; or, if you want, you can look at the budget January through February, and it'll combine those numbers.

Wendy: So, for example, let's say we had targeted that we wanted to do $300,000 in residual income, in Commissions if you like, in this Network Marketing business. And let's say that we got to June and found that we were falling behind. For some reason, our residual income wasn't what we thought it was going to be; and we took a look at what was going on, and found that really the people that we had brought in were not recruiting enough to be able to grow that residual income to where we wanted it to be. And so we put a tremendous push on, for the last six month of the year, to teach our people how to recruit, to do calls and presentations to help to recruit, to really get out there and help them to bring in more people. And low and behold at the end of the year what do we find? Well, Warren, we're $41,000 over what we had targeted that we would be at, because we had worked so hard to bring ourselves back into alignment when we found that we weren't going to meet our goal that we actually went over.

Warren: And so, what printing this report out does for you – a lot of times you're going to look at a financial statement that your Bookkeeper gives you, and you're going to look at the Profit and Loss here, and you're going to say "Ok. That looks good." And really, what numbers do you look at? How do you know? You have a lot of demand on your time. What should you do? What should you focus on? One of the things I would have done is have this report printed, which shows our budget versus actual; and then, you know, your eye is going to follow this over budget number. Now, when it comes to income, a negative number means you didn't reach your budget; a positive number means you're over budget. The negative numbers in the income are what's going to flag my attention.

Wendy: Right, so it looks like we spend so much time recruiting that we really didn't sell as much in product as we thought we were going to sell. And so we actually have a negative number there.

Warren: And so now we know maybe we should focus more of our efforts back onto our product sales, or we're not married to this budget. As we go through the year, we might figure out there's some strategic changes that need to be made; and we might find that, if we spend more time working on our downstream rather than selling products, that that's actually more profitable to us. And that's what we want to do.

Wendy: So, looking at what we have here, we're down about $5,000 from what we had targeted. So is that a disaster? No. With a little bit of a push we probably could have got that $5,000 in, but that's a pretty good showing on $440,000 worth of income. Ok, before we move on, just let me just highlight one thing. Because we didn't sell as much in Product as we expected to sell, our Cost of Goods Sold is less than we would have expected. And so that helps to balance out a little bit.

Warren: And, really, to come up with a good Cost of Goods Sold percentage number, we really need to take just the Product Sales and the Cost of Goods Sold number, not the entire sales which as what QuickBooks is doing, because only the Product Sales has Cost of Goods Sold associated with it.

Wendy: Right. So if we take a look at our Gross Profit, because we didn't sell as much in Product as we expected and our Cost of Goods Sold is less, we actually have a Gross Profit that's larger than we had budgeted, even though we're $5,000 less in Income totally.

Warren: So when we talked earlier about maybe we make a strategic decision to switch, that might be a good example of why. And so, again, we're not married to what the budget says. It's just alerting us to things that we should pay attention to.

Wendy: Right. Ok, Warren, let's move on to the Expenses.

Warren: Now, Expenses are going to be the opposite of the Income. So, Expenses we want to pay attention to when they're positive numbers as opposed to negative numbers; because the positive number means we spent more than we budgeted to spend. And we'll kind of quickly go through this list. And we're going to pull out the bigger numbers. If it's a few dollars it's probably nothing we want to look at; but the big numbers that really jump out at us ... And we're going to look down here and I see we have Promotion and Marketing – we're almost $5,000 more than we planned. So it's something we might want to look back in and see what did we do? Did we waste any money there, or was this really a good investment that helped bring our Sales up. But let's focus on that particular number.

Wendy: Right, so what did we get in return for having gone over that amount of money?

Warren: Now, not only do we just look at the positive numbers, if we have big negative numbers, we might want to know why. Now, not that it's a bad thing that we spent less money; but is there something that's wrong with our Bookkeeping possibly or is it truly that we spent that little money. Or is that we're building up a reserve because, like in Travel, we see we're down almost $7,600. Is that because we know that there's a trip coming up soon, and the way we did our budget, it just didn't reflect that we hadn't spent the money yet? So, especially as your organization gets bigger and there's more people involved in doing things, don't think just because a number is very negative that that's a good thing. It might be an indication that there's something strange happening, and you should take a look at it if it's a big enough number.

Wendy: So, in this case, with the Travel and Lodging, it may be that this person has started to do more webinars and more GoToMeetings so that they're using technology to better advantage to serve all of the people that they have around the country, rather than getting into a plane and flying to all of these different places. So, with the decrease in his travel, he's freed up some money that could actually be used for other things.

Warren: Such as giving it back to the Owner.

Wendy: There you go.

Warren: And we'll continue through here. Another thing that would be a concern even though it's a negative number is - we're looking at our Payroll for Officers. That was a number we targeted. And it was because of our talk with our tax professional to come up with that number. So, we should probably pay attend to make sure we hit the right number by the end of the year, especially for numbers that are important for our tax return. So that's something we would want to look into as well.

Wendy: So, if we're running this report around the middle of December, we may actually want to issue ourselves that $8,000 before the end of the year.

Warren: Other negative numbers – again I hate to bring up negative numbers because it's saving us money – but we look and we say, "Well, the health benefit. It was supposed to be $2,000. It's $358. Is this just an error that our Bookkeeper made?" This is another way that you can kind of double check things and make sure they're coming in. Because once you get your budget done, there shouldn't be a lot of surprises here. And so if there's something that's off, don't just accept that you're doing better than you thought. Double check and make sure things are recorded correctly.

Wendy: It's quite possible that your Bookkeeper hasn't paid a bill. And this is one way of finding out whether or not you're behind in your payments.

Warren: Our cleaning expenses are up. I mean it's not a big number, but it's a big percentage of a change. So did we have a new contract with some new cleaning people? What exactly happened there?

Wendy: Right. Our Computer Equipment and Repairs is pretty much dead on.

Warren: Our Internet and Website – well, that was a number we hardwired in there, so we'd expect that to be pretty close.

Wendy: Right, and now we've got Licenses and Permits that we had not budgeted at all - a $300 extra expense.

Warren: Right. It might be we found out that this year we're required to be licensed because we've expanded our business into a certain area or done something that's requiring a license. So here's an expense that we didn't even budget for.

Wendy: Right. And that sometimes happens. So you want to make sure that you have a little bit of play in your forecast so that you can handle some things unexpectedly. Let's take a look at our Office Supplies. We've overspent our Office Supplies by $673. Now that's a fair amount of money on that size of budget. So we're going to want to take a look at that and find out what's going on. Are we using a different supplier? Are we not taking advantage of the discounts that we could get? What's going on with this?

Warren: Or quite possibly, what we found in our own business, is sometimes you hand over controls of ordering some of the supplies to some of your staff; and they're not going to be as cost conscious as you are, and they're going to order the more expensive things and not necessarily look for sales that you would. So it's something to look at. And especially if you're using staff, you don't necessarily need to get mad at them; but you might call it to their attention so they know you're paying attention to these things.

Wendy: Good point. Now in Publications and Subscriptions – for a lot of Network Marketing companies the annual subscription isn't due until the end of December. And so this number could just reflect the fact that you haven't sent in your annual subscription yet. Security is dead on. And then Telephone – we are way over on Telephone; however, we're way under on Travel. And so what it could mean is we're using technology more effectively in order to do our business and saving ourselves a bundle on Travel.

Warren: Our Professional Fees are pretty much on track with what we had hoped. Taxes are a little bit less, as we kind of talked about in the budgeting process - that some of those numbers are more kind of a fixed number.

Wendy: OK, we get down to our Net Income; and we, of course, are over. So, instead of our 30% targeted Profit, we end up with a 40% Profit.

Warren: And that's a happy day. Again, going back and looking and making sure that those numbers that were off are still accurate.

Wendy: Right. Now, one thing that you need to keep in mind is that, while making a 40% instead of a 30% profit is indeed a happy day, you're going to want to know why that happened; because the idea here isn't to be surprised about anything. The idea is to have control; and so when you know why something happens you can repeat it. You can increase your Commissions on a regular basis. You can tweak in a way that you know will be effective. So, if you understand what you did to produce the outcome, you can always maintain control and repeat those things when needed.

Warren: And another thing – that's not necessarily in the budgeting process, but it's in something that if you'll notice - we come back and we say you have a 30% profit or a 40% profit at the end of the day. That means that of every dollar you earned, if it's a 30% profit, you keep 30 cents. If it's a 40% profit, for every dollar you earn you keep 40 cents. So focusing – and this is one of my new pet peeves to talk about – focusing on Sales, increasing Sales, if that 30% or 40% number was pretty much variable so we're always going to hit that number – let's just pretend for now – if I work and spend a lot of effort to increase my Sales by an extra dollar, that's going to give me an extra 30 cents at the bottom line. If I work and spend effort to reduce one of my expenses by $1, I get a whole dollar at the bottom line. So sometimes you have to look at your business as a whole – not just the Income coming in but where it's going out. And that's what this budgeting process really helps you do – focus on where the money's going and not just coming in. Boy, I sound like an accountant now, don't I?

Wendy: You do Warren, but that's fine. So now you've had an overview of the forecasting process – what it is, why it's important for you to do, how to do it, and then, how you can monitor what you're doing by having QuickBooks compare your actuals versus your forecast. So, Warren, with that I think we're going to wrap up.

Warren: That's good. I would just say, please, I know this sounds a little bit complicated, but give it a shot. Put your best effort into it, and see what you come up with. If you're having difficulties, your CPA will be more than happy to help you work through these numbers.

Wendy: These are professionals who are there to help you achieve your goals, so make good use of them. Thanks very much for listening everyone. Good-bye.

Warren: Good-bye.

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[i] eBiz Learning has been replaced by BizEngaged as our education platform.
[ii] Taryle and Associates is now Taryle Accounting, CPA, PLLC