12-23-2009

UA62/3 December Newsletter

Kentucky Small Business Development Center

KENTUCKY **SMALL BUSINESS DEVELOPMENT** CENTER

at Western Kentucky University

Bowling Green

Issue: # 11 12/23/2009

We had a very successful program year this year meeting with 229 clients and logging 1100 counseling hours. We assisted in 15 business starts leading to the creation of 100 jobs.

Additionally, we worked on a number of in-depth, value add projects ranging from cash flow development, .Net/C#/MS SQL server programmatic website development, business plan development, business valuation and debt restructuring. We also received very positive, qualitative feedback from our clients regarding our work.

One metric we did not meet was counseling hours ... we hit 1100 with a goal of 1200. This year we are already on track with 30% of our counseling hours met with a quarter of our fiscal year down.

We have two, great workshops coming up in January ... click here to

In This Issue

GORDON FORD
COLLEGE OF BUSINESS

register.

As always we are here to assist with both existing and start-up clients.

Register at wkusmallbiz.com for free one-on-one counseling.

Thanks and if you have any questions, feel free to call or e-mail.

Have a great day!

Adam Brownlee

Director, WKU SBDC

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www.wkusmallbiz.com

The Picture of Financial Independence

If you had to draw a balance sheet ...

One of the key concepts small business owners need to understand in order to be successful is the distinction between creating a job for yourself versus creating a business system. The first essentially requires you to work the counter every day while the second allows you to manage the system you have built.

Let's try to dissect this topic by first looking at some pictures. The image below is a pictorial representation of your balance sheet and income statement.

Cash Flow Day

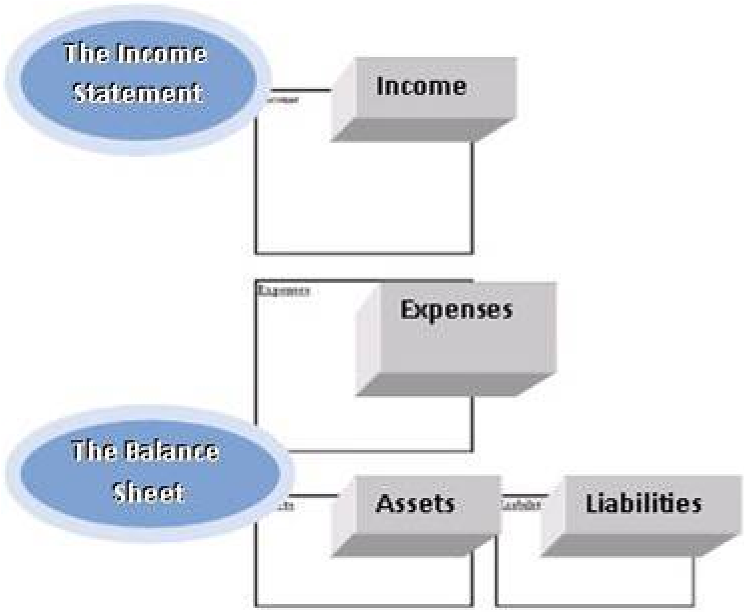
Do You Like Taxes?

Do you get a warm fuzzy feeling when your assets equal your liabilities plus equity? Then you should register for our upcoming workshops; Small Business Taxes and QuickBooks.

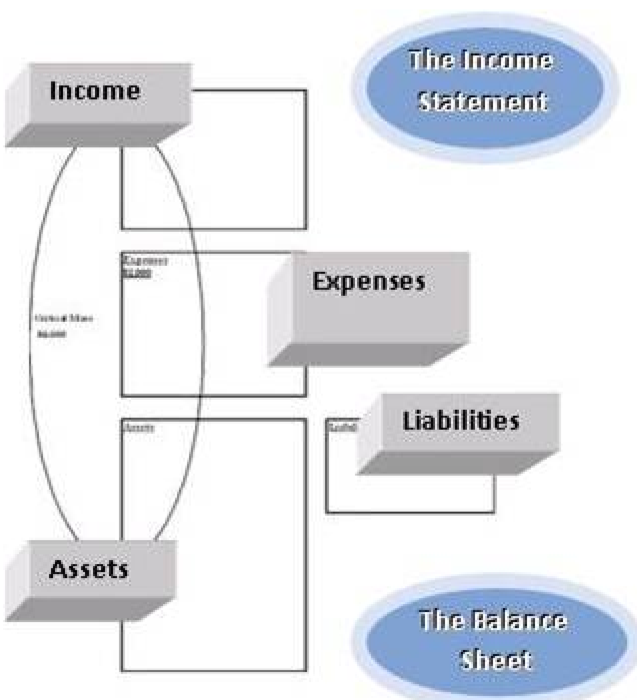
You will learn what your tax responsibilities are as well as how to keep your books in QuickBooks.

Click here for registration and details.

Join our Mailing List



When an individual has focused on their asset column and built cash flowing assets over time, their balance sheet and income statements looks like this:



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All opinions, conclusions, or recommendations are those of the author(s) and do not necessarily reflect the views of SBA.

Reasonable accomodations for persons with disabilities

The oval represents the cash spewing from your asset column, into your income column. When you reach the critical mass point where your passive cash flow is equal to or greater than your expenses, then you have reached financial independence.

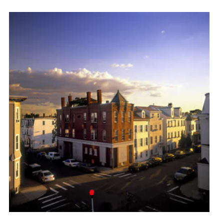
What's In an Asset?

Now, just what kind of assets create this passive cash flow? Dividend paying stocks, rental property, web revenue, intellecutal property and business ... with a catch. If I open a pizza joint in which I have to work the counter every Tuesday through Monday night, have I really created a passive asset? NO, I have not. In order for business to be passive, you must build and manage a system.

To find out how, schedule a free one-on-one coaching session with us by clicking here and filling out our coaching form.

Financial Statements 101 - the Big Three

The Balance Sheet



Let's get back to basics here and review the big three financial statements you are going to run into in business and personal investing; the balance sheet, the income statement and the cash flow statement.

The Balance Sheet

Simply put the balance sheet is Assets = Liabilites + Equity. Assets include everything you "have", such as cash, inventory and buildings, liabilities include everything you "owe" such as a credit line with the bank for the inventory and a long term note against the building, and equity is the "value to the owners" or let's say for example's sake, the difference between what your building is worth and how much you owe. So, if your

will be made if requested at least two weeks in advance. Contact Adam Brownlee, 1906 College Heights Blvd., #61086, Bowling Green, KY 42101. 1-270-745-1905.

Cash Flow Day

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building is worth $100,000 and you owe the bank $50,000, then your equity is $50,000. This would be represented on the balance sheet like so:

Your Balance Sheet	
Assets	
Fixed Assets	$100,000
Liabilities	
Long-Term Debt	$50,000
Equity	$50,000

Of course, this is a rather simplistic picture for even this balance sheet item. You would have other considerations such as accumulated depreciation (how much decline in useful value of the fixed asset have you recorded) as well as the current portion of the long term note (how much is due in total over the next year) but let us stick with the basics for now.

The balance sheet is a snapshot in time of what the company has, owes and is worth. Building on this analogy, the balance sheet is what the company has today (assets), what it owes today (liabilities) and what it is worth today (shareholders' equity.) Digging into the balance sheet, let us look at the first category ...

Assets

Assets are everything you've got, including cash in the bank, inventories, buildings, machinery, etc. as well as certain rights you have with a monetary value. Specifically, this would include your accounts receivable, what your customers owe you. Assets on the balance sheet are ordered from most liquid (current assets) to least liquid (fixed assets.) Current assets generally include the categories of cash, accounts receivable, inventory and prepaid expenses and fixed assets include items such as building and equipment.

Here's what the asset side of the balance sheet looks like with these items. Note the additional categories of other assets and accumulated depreciation. Sample data has been inputted as well so you can follow the math of the line items.

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Cash Flow Day

Get Rich On Your Lunch Break!

Your Balance Sheet		
Assets		
Cash	$	10,000
Accounts Receivable	$	5,000
Inventory	$	20,000
Prepaid Expenses	$	5,000
Total Current Assets	$	40,000
Other Assets	$	7,000
Fixed Assets	$	100,000
Accumulated Depreciation	$	10,000
Net Fixed Assets	$	90,000
Total Assets	$	137,000

Now, let's turn to the flip side of the balance sheet and take a look at liabilities.

Liabilities

Mirroring the Asset side of our balance sheet, the liability side is going to list liabities from current to long-term. The categories you see here will include current liabilites, which includes accounts payable, accrued expenses, the current portion of debt and income taxes payable as well as long term debt. Here is what the liability portion of the balance sheet is typically going to look like:

Your Balance Sheet		
Liabilities		
Accounts Payable	$	10,000
Accrued Expenses	$	1,000
Current Portion of Debt	$	5,000
Income Taxes Payable	$	3,000
Total Current Liabilities	$	19,000
Long-Term Debt	$	50,000

Those current liabities are bills that must be paid within one year of the date of the Balance Sheet. Accrued expenses are monetary obiligations similiar to accounts payable (bills to other companies for material and equipment bought on credit). Examples would include employee salaries earned but not paid yet, interest due but not paid yet, etc. Current portion of the debt includes any notes payable (loans due in 12 months) and the payment portion of long term debt that is due in 12 months.

Income taxes payable are just what it says - income taxes that are owed but have not been paid yet. Long-term debt is any loan to the company that has to be repaid more than 12 months afte the date of the Balance Sheet.

Let's move to the equity portion of the balance sheet or as properly termed, Shareholder's Equity.

Equity

The net-net to this section of the balance sheet is that if you subtract what you owe from the assets you get the owner's value in the company or equity.

Here is what this portion of the balance sheet looks like:

Equity	
Capital Stock	$20,000
Retained Earnings	$48,000
Total Shareholder's Equity	$68,000

Capital stock is the original amount of money the owners contributed as their investment in the stock of the company. Retained earnings is all the earnings of the company that have been retained - not paid out as dividends to owners. Retained earnings can be viewed as a "pool" of money from which future dividends could be paid.

So, here's the complete picture, remember it must balance - Assets = Liabilities + Equity:

Your Balance Sheet		
Assets		
Cash	$	10,000
Accounts Receivable	$	5,000
Inventory	$	20,000
Prepaid Expenses	$	5,000
Total Current Assets	$	40,000
Other Assets	$	7,000
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Long-Term Debt	$	50,000
Equity		
Capital Stock	$	20,000
Retained Earnings	$	48,000
Total Shareholder's Equity	$	68,000
Total Liabilities and Equity	$	137,000

Next, the income statement ...

If you want to come and see us and discuss this subject, click here.

The Franchise Prototype Manual

The Model for Business Success

Nine out of 10 small businesses fail within the first 5 years but 75% of franchises succeed. That success rate is due in part to a standard operating procedure (SOP) that is in place for all franchises. That standard operating procedure is derived from the franchise operations manual.

If you are in business or in the planning stages of a small business, your chances of success will increase exponentially if you merely take the time to develop an operations manual or, for our purposes, a "Franchise Prototype Manual."

Essentially, the Franchise Prototype Manual "abstracts the successful workings of the business being franchised such that it becomes a 'replicable unit.'" - franman.net. For a startup, the manual will capture in detail how the first unit must operate, soup to nuts before a second unit can open. For most, it will detail how the only unit should operate successfully. It can be modified accordingly as trial and error discoveries are made. The business will be a replicable unit (it can be cookie-cuttered across the nation) and the system within the manual can be trained over and over again. You will operate as if you were going to open up thousands of locations across the globe.

Q: What goes into the Franchise Prototype Manual?
A: Everything.

Whether you like the franchise or not, the next time you walk into a McDonald's, take a look around and note the system in place. From the decor of the restaurant, to the greeting you receive, to the dress of the employee who takes your order, to the time it takes to receive a Big Mac. You are witnessing the result of the Franchise Prototype Manual in action. All that is taking place, for good or bad, has been laid out in a manual and it is easily trainable and replicable, from city to city, state to state, country to country. In theory, the fries you receive in California should be the same fries you receive in New York. This die-hard consistency is what you need in your business in order to be successful.

Your Franchise Prototype model will contain a large amount of information regarding operations but, in addition to operations, it should also detail organizational role responsibilities (who is accountable for what - typically illustrated in an organizational chart) and an audit/accountability process to ensure that the manual is being successfully executed. The key here is to identify a winning model, replicate that model, audit the model for consistency and execution, and adjust accordingly to outside competitive and economic forces.

To read the full article click here.

Thanks for taking the time to read our newsletter and for passing it along to folks who might be interested in its content and our services. Please contact us at wkusmallbiz.com if you are starting a small business or if you need a tune-up.

We look forward to serving you.

Sincerely,

Adam Brownlee
Director, WKU SBDC

adam.brownlee@wku.edu

wkusmallbiz.com

Save 100%

Our one-on-one coaching is free, always.* If you would like to discuss the above topics, develop a business plan, franchise prototype manual, financial projections or web site or attend one of our workshops, go to wkusmallbiz.com, click on "Contact Us," enter your information and a special little message that preferrably comments on how cool we are.

Check out our upcoming workshops under the training tab.

*There is no catch to this. We are grant funded. Our services are free. This is not a teaser rate in which we bait you to sign you up for fee-based services. We do not force you to look at time shares for hours on end in order to receive admission to Disney World. We do not have a water park, animatronic pirates nor a jolly, rodent mascot. We have coffee, and if there is any left, we will offer you a cup.

Offer Expires: Never