



Know Your Business Numbers

Reference Guide

Hey Badass Business Owner! I'm so proud of you right now!

I know it sounds silly to be proud of you for downloading a "reference guide" of all things, but here is why I'm proud...

So many small business owners struggle to make a profit. They know how to work hard but for most, looking at and understanding the business numbers does not come easy.



I thought, what could I put together to help?

This reference guide is here to help you understand some key numbers in your business and be a reminder of what you want to look at on a regular basis.

I'll reference a YouTube video I've done here and there to help show you the "why" or "how" a little better if you want to learn more.

And if you really want to dive in and get dirty, there is always the [Know Your Business Numbers Course](#). An affordable way to learn your business numbers better.

If you ever think something should be added, just email me and let me know. I hope to keep this update each year based on feedback from the Badass Business Owner Tribe!

Tammy

For My Math Haters - Your Numbers Are Telling You a Story

When you open a book and look at any page, do you see letters? Or do you see words? If you start to read them, you see a story.



Just like the letters on a page, your numbers are telling you a story.

I get that many of you might hate math. But I promise you, if you learn to read the story your numbers are trying to tell you, you will learn to appreciate the math behind them.

Want to know why? **Because it leads to more profits!**

My mission? – Show you the math in an easy, understandable way that inspires you learn more.

What do you have to lose? Nothing. What do you have to gain?
More money in your pocket!



YouTube Video: Learn Your Business Numbers: https://youtu.be/8_qJ3W98vT8



You Wear Two Hats but Only One is Guaranteed to Get Paid!

A common mistake many small business owners make, is just taking a lump sum of money each week (or the end of the month). The problem with this is, you end up pricing your products and services like an employee and not like a business owner.

Keep in mind, you wear two hats in your business. One as the employee doing all of the work and then as the owner in the business. **YOU MUST PAY EACH OF THEM** and they get paid differently.

The “employee you” gets paid a fair wage for the employee work you do. The business owner you is **ONLY PAID** if the business is profitable.

When you just take money out of the business, you never get a true sense of the business's profitability & you never price correctly.

Remember, you aren't a carpet cleaner, you own a carpet cleaning business. (Substitute your business). Think like an owner, not an employee.



YouTube Video: How to Pay Yourself Correctly <https://youtu.be/sw-d36r4NO8>

The #1 Calculation You Need to Know

$$\text{SALES} - \text{COST OF GOODS (COGS)} - \text{EXPENSES} = \text{PROFITS}$$



I will only ask you to memorize one calculation. The rest you can look up, use a calculator, or spreadsheet. But if you keep this one calculation in your head and understand “the why” then **you will start making more profit** from this one thing alone!

$$\text{SALES} - \text{COST OF GOODS} - \text{EXPENSES} = \text{PROFITS}$$

Your pricing will follow this formula & so does your profit & loss income statement (P&L). Money flows in (sales) and money flows out (costs & expense). If you do it right, there will be money left over (profit).

When you dive into any of my videos on YouTube, you will watch me use this calculation. If you listen to the podcast, you will hear me talk about it. **It is that crucial.**

Think about it...

You sell an item/service for \$50. Let's say you have \$25 in costs. While you might think you just made \$25, the reality is, you still have your other business expenses to pay at the end of the month. You need to set aside some for the bills. Let's say you set aside \$10 (20%). Now you hope to have at least, \$15 in profits.

I could go on for days on this one. But for now, just memorize it. Keep it in mind as you go through all the training videos, and it will start to give you ah-ha moments on where your money is going!



YouTube Video: #1 Calculation to Know <https://youtu.be/pr6reDtzOGc>



The Profit & Loss Income Statement (P&L)

Your Business's Report Card

The number one report in your business is your profit & loss income statement (P&L).

It is usually generated by your bookkeeper, your bookkeeping system or you might manually track.

The P&L tracks the flow of money through your business and lets you know if you are running a profitable business or losing money.

It has 4 main sections: Income (sales), Cost of Goods Sold, Operational Expenses & Net Income (Profit).

Remember that #1 calculation earlier? Notice how it lines up with the P&L?

Income Statement - COMPANY XYZ				
	Nov 20		Jan - Nov 20	
Income				
Income - Services	\$ 30,016.74	82.6%	\$ 295,699.46	80.3%
Income - Products	\$ 6,005.35	16.5%	\$ 59,339.89	16.5%
Interest Income	\$ 0.01	0.0%	\$ 0.75	0.0%
Refunds & Returns	\$ (1,179.00)	-3.2%	\$ (1,520.00)	-0.4%
Total Income	\$ 36,341.93	100.0%	\$ 359,345.48	100.0%
Cost of Goods Sold				
Service - Wages	\$ 8,089.48	22.3%	\$ 88,826.58	24.0%
Materials Costs	\$ 8,874.59	24.4%	\$ 78,740.11	21.9%
Subcontractor Expense	\$ 504.80	1.4%	\$ 6,072.71	1.6%
Total COGS	\$ 17,468.87	48.1%	\$ 173,639.40	47.0%
Gross Profit	\$ 18,873.06	51.9%	\$ 185,706.08	53.0%
Operational Expenses				
Advertising and Promotion	\$ 747.42	2.1%	\$ 6,852.83	1.9%
Auto and Truck Expenses	\$ 1,266.22	3.5%	\$ 15,198.59	4.1%
Bank Service Charges	\$ 22.00	0.1%	\$ 59.80	0.0%
Credit Card Fees	\$ -	0.0%	\$ 17.00	0.0%
Dues & Subscriptions	\$ -	0.0%	\$ 89.00	0.0%
Insurance Expense	\$ 1,133.48	3.1%	\$ 9,837.26	2.7%
Interest Expense	\$ -	0.0%	\$ 30.20	0.0%
Meals and Entertainment	\$ 85.98	0.2%	\$ 1,528.25	0.4%
Office Supplies	\$ 476.30	1.3%	\$ 2,421.55	0.7%
Payroll Expenses				
Admin Wages	\$ 1,000.00	2.8%	\$ 11,750.00	3.3%
Marketing Wages	\$ -	0.0%	\$ 100.00	0.0%
Owner Wages	\$ -	0.0%	\$ 9,000.00	2.4%
Taxes, Payroll	\$ 715.22	2.0%	\$ 8,866.13	2.4%
Payroll Expenses - Other	\$ 2,000	5.5%	\$ 16,000	4.5%
Total Payroll Expenses	\$ 1,715.22	4.7%	\$ 29,772.13	8.1%
Professional Fees	\$ 600.00	1.7%	\$ 3,250.00	0.9%
Rent Expense	\$ -	0.0%	\$ 50.75	0.0%
Repairs and Maintenance	\$ 140.00	0.4%	\$ 600.00	0.2%
Small Equipment	\$ 602.43	1.7%	\$ 10,412.18	2.8%
Telephone Expense	\$ 705.43	1.9%	\$ 4,152.18	1.1%
Uniforms	\$ -	0.0%	\$ 558.72	0.2%
Total Expense	\$ 7,501.48	20.6%	\$ 84,871.54	23.0%
Profits				
Net Ordinary Income	\$ 11,371.58	31.3%	\$ 110,934.54	30.0%

Your P&L has a ton of good information on it. You can run them for any snapshot of time (month, year to date, last year, all time) but also use to track trends in the business. My personal favorite is comparing a full year against the previous year. It lets you know how you are doing. My second favorite? Comparing month to month.

I've seen P&Ls where someone is having a great year on sales. Up 30-40% yet their profits are actually down! How crazy is that!?!?

They might be spending more on material costs, they might be spending way too much on advertising or other expenses. All kinds of good nuggets can be found in the P&L.

Have you ever worked so hard, took in a ton of sales, but ended the month confused on where the money went? Your P&L holds the key!

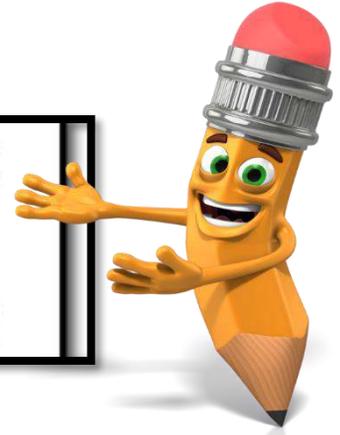
Remember, this is a profit game, not a sales game!

Breaking Down the Profit & Loss Statement

Your P&L has 4 main categories and one bonus line. I have different resources on these (see below) but let's take a look at the highlights....

INCOME / REVENUE / SALES

	Nov 20		Jan - Nov 20	
Income				
Income - Services	\$	30,016.74 82.6%	\$	296,699.46 80.3%
Income - Products	\$	6,003.35 16.5%	\$	59,339.89 16.1%
Interest Income	\$	0.01 0.0%	\$	0.15 0.0%
Refunds & Returns	\$	(1,179.00) -3.2%	\$	(1,529.00) -0.4%
Total Income	\$	36,341.93 100.0%	\$	369,345.48 100.0%



The income section captures all money coming into the business. Most folks track the total amount, but I'm a fan of having 2-3 buckets.

COST OF GOODS SOLD - COGS

Cost of Goods Sold				
Service - Wages	\$	8,089.48 22.3%	\$	88,826.58 24.0%
Materials Costs	\$	8,874.59 24.4%	\$	78,740.11 21.3%
Subcontractor Expense	\$	504.80 1.4%	\$	5,972.71 1.6%
Total COGS	\$	17,468.87 48.1%	\$	173,539.40 47.0%

This section will capture all the costs associated with either A) Making the Product or B) Providing the service.

All materials, ingredients, parts, etc will be captured here.

Any labor that is used to create the product or provide the service will be captured here.

THIS INCLUDES MOST OF YOU WHEN YOU ARE THE MAIN LABOR IN YOUR BUSINESS!!

If it is operational labor, (more behind the scenes) then it is operational expenses labor.

If this labor is needed to make it (customer t-shirts, cakes, soap, etc.) or provide the service (landscaper, pool cleaning, carpet cleaner, handyman, etc.)

The biggest mistake small business owners make is in this section by not capturing their costs and labor correctly.

GROSS PROFIT LINE

Total COGS	\$ 17,400.07	40.1%	\$ 17,339.40	47.0%
Gross Profit	\$ 18,873.06	51.9%	\$ 195,806.08	53.0%

Gross profit is just the potential profit after costs are subtracted from sales.

It is prior to any other expenses, taxes, or retained earnings or owners draw.

OPERATIONAL EXPENSES

Operational Expenses				
Advertising and Promotion	\$ 747.42	2.1%	\$ 6,852.83	1.9%
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Total Expense	\$ 7,501.48	20.6%	\$ 84,871.54	23.0%

Your operational expenses are all the other expenses your business has to keep the business running. Most common are advertising costs, insurance, bank fees, repairs, etc.

The system usually defaults to the most common items you see on taxes but you can create subcategories or add categories for anything you want to track that you feel you need to watch.

Small dollars add up! You might be watching \$50 a month here, \$200 every quarter, etc but by the end of the year it might end up being thousands of dollars or a high percentage of each sale. Our example above might not have a huge dollar amount but 20 cents out of every dollar they sell is still going to their expenses.

The mistake business owners make is not accounting for these expenses when they price their products or services! See that section further down in the guide...

NET ORDINARY INCOME / PROFITS

Profits					
Net Ordinary Income	\$	11,371.58	31.3%	\$	110,934.54 30.0%

The profit line is where you hope to see positive numbers showing the business made money! This is where the rubber hits the road. Have you created a job for yourself or have you built a profitable business?

Keep in mind: Profit is not yours to keep! Your profits have 3 missions to accomplish

- A) Pay any taxes the business owes
- B) Retained Earnings – money you leave in the business to grow the business or be an emergency fund
- C) Owners Draw – Money you take as the owner for all your hard work.

YOU MUST PAY YOUR TAXES!!! It is one of the top reasons small businesses close their doors and financially ruin a business owner.

But you are a Badass Business Owner so you will make sure you put that tax money aside and don't pocket it! 😊

I feel the Profit & Loss is such a key tool in your toolbelt. It can show you some powerful trends & opportunities.

Here are some resources so you can learn more:



YouTube Videos or Playlists You Can Checkout:

P&L for Beginners: <https://youtu.be/jFgqMVmXbx4>

More P&L Videos:

<https://www.youtube.com/playlist?list=PLkSR9dYanvV1YssoiyqLBUIgxYy2hYADj>



The Balance Sheet - What Your Business Owes You

Your Company Name		Balance Sheet on Mar 3, 2022	
Assets		Liabilities	
Current assets:		Current Liabilities:	
Cash	\$40,000.00	Accounts Payable	\$3,500.00
Accounts Receivable	\$2,000.00	Accrued Wages	\$1,500.00
Pre-Paid Expenses	\$1,000.00	Income Taxes Payable	\$2,000.00
Inventories	\$4,500.00	Other	\$0.00
Other	\$0.00	Total Current Liabilities	\$7,000.00
Total Current Assets	\$47,500.00	Long-Term Liabilities:	
Fixed assets:		Mortgage Payable	\$0.00
Property	\$0.00	Credit Cards	\$2,500.00
Tools & Equipment	\$6,000.00	Outstanding Bank Loans	\$35,000.00
Vehicles	\$80,000.00	Total Long Term Liabilities	\$37,500.00
Less Accumulated Depreciation	-\$40,000.00	Total Liabilities	
Total Fixed Assets	\$46,000.00	\$44,500.00	
Total Assets	\$93,500.00	Owner's Equity:	
Total Assets		Investment Capital	\$5,000.00
\$93,500.00		Accumulated Retained Earnings	\$128,000.00
Total Liabilities & Owner's Equity		Owners Draws	-\$84,000.00
\$93,500.00		Total Owner's Equity	\$49,000.00
Balance		\$0.00	

There is one other report I want to touch on. It normally is printed along with your profit & loss.

Your Balance Sheet is a quick snapshot in time of what your business owns, what it owes to others and how much it owes you.

The reason it balances is, all the money in the business must go somewhere.

ASSETS = LIABILITIES

The business will have **Assets** (Money on hand, money owed to the business & money that can be created by selling everything.)

Once you have all that money, it has to go some where right?

So, the business will pay off anyone it owes money to: loans, employees, vendors, etc. These are called **Liabilities**.

Then what ever is left, the business owes it to the owners of the business, this is called **Owner's Equity**.

Here is a video to help you learn more about this important report:



YouTube Video: Balance Sheet - What to Know: <https://youtu.be/Z5qMirza1PA>



PRICING: Key Things to Remember

I have saved Pricing for last for a reason.

Once you understand the flow of money through your business and how it impacts your profit & loss statement, it gives you valuable information to ensure you are priced correctly.

If we know that **SALES – COGS – EXPENSES = PROFITS**, then it is safe to assume that when we set our prices, it must follow this same formula.

For example, if you sell something for \$45 then you know some will go to COGS, some needs to be set aside for expenses and if all goes as planned, you will have profit left over.

You also know, that if you make the product or provide the service, then this price must also include in the COGS a fair wage for your labor hours. In our example above, part of the \$45 would go to labor (for example a \$18 fair wage). Never forget you wear two hats and your prices need to pay for both!

There is so much more I could discuss on pricing. I do recommend you check out the various videos as they will help more. Below will be one to start with. If you ever have a pricing video idea, just let me know.



YouTube Videos How to Price You Products & Services Correctly:
<https://youtu.be/--cGU3vEXO8>



Markup DOES NOT Equal Margin

One more point on pricing. Many of you just “markup” a product and call it day.

Keep in mind, a 100% markup on costs (doubling it) doesn't mean you will cover the needs of the business. Especially when you aren't capturing the labor correctly.

I'm not going to go into this here but below is a link to video that will explain this better.



YouTube Videos Are You Using Markup Correctly? <https://youtu.be/emfUiEkinr8>



Your Journey to Understanding Your Business Numbers



If you are this page and have read through the other 9 pages, then I know you are serious about learning your business numbers!

I'll be honest. It will not happen overnight. But I do promise that it will get easier each day. I also promise that when your profits start to go up, you will really start gaining traction and make even more money.

Badass Business Owners focus on how to grow the business. Not just sales. **They understand that this is a profit game.**

While **Sales** come from great customer service, good branding & marketing, amazing teams, and great quality work, **Profits** come from how you price, knowing your value, accounting for labor correctly and spending the money wisely.

Never forget the #1 Calculation: **Sales – COGS – Expenses = Profits**

Dive deep into your Profit & Loss Income Statement & How You Price.

They All Hold the Key to Amazing Profits!

You Got This! Afterall, You ARE a Badass Business Owner!!

Tammy



RESOURCES:

Website: BABOLearning.com

YouTube Channel - <https://www.youtube.com/badassbusinessowners>

The Know Your Business Numbers Course: <http://knowyourbusinessnumberscourse.com>