

Accounting ELISE

Profit & Loss

Okay, guys. In this video, we're going to go over how to look at your profit and loss and what to look for. Okay? You need to be looking at your profit and loss once a month minimum. Some guys like to look at it weekly. I don't think that's a long enough timeframe to get an accurate view of what's going on in your company. I think if you look at it monthly, that's plenty good. Okay. So on top of, like, looking at this, you also want to be looking, you know, at those other things on the general manager worksheet, like how many hours did we sell daily, weekly, monthly? And then what's our bank balance looking like? Like, is there actually cash going in our bank every week, every month? Okay. For a lot of you guys that are growing, the cash balance isn't gonna build, but you'll know why. I bought a van. I bought a new Jetter, whatever. For you guys who are done building, then you should see that cash balance in your bank continually going up. Okay? So when you're looking at your profit and loss, there's a couple of things you need to look for. Okay? And there's a couple of ways that you need to lay it out in order to get accurate information, okay? And so looking at your profit and loss, this first line here, total income, okay? So this is total sales that we've done this year, okay? How much money we've actually billed out to the customer and has hit our bank account. Okay? So you can see we've, I've got it pulled up for January 1 to May 28. This is just year to date. It's 05/28/2023 today. So our total income amount of money that's hit my bank account as of today is \$1,000,900. Okay? And then when you come down even further, you can see gross profit. All right. So gross profit is \$952,000.96. So it's important to understand you have your total income and then everything that's above gross profit is considered cost of goods sold. So you maybe heard somebody talk about COGS. Okay. So these are the COGS and what you're trying to see is you're seeing your total income minus your cost of goods sold gives you your gross profit. Okay. And so up here in the COGS, want to make sure and include your all of your job supplies. So all of the materials that you bought for jobs, all of the subcontractor expenses that you had to pay out to subcontractors, all of your technician payroll taxes, all of your technician wages and all of your technician benefits. So all of their insurance benefits and that kind of stuff. We pay ours to the union. So we label them fringe benefits paid to union. Okay, So that way you're getting an accurate view of, okay. I did \$1,900,000 in revenue, but it cost me \$948,000 5 hundred and 70 5 dollars 9 hundred and 40 8 thousand 5 hundred and 70 5 dollars to go do that work. Okay. And then I know that my gross profit by taking this number minus my COGS equals my gross profit of \$952,096. Okay. And what you want to see here is you want to see a minimum 50% gross margin. Okay. So when you're pricing off gross margin and when we're pricing and using our hourly rate calculator, we're aiming for 60% gross margin. And by the end of the year, we usually end up hitting about 50%. Okay? A healthy plumbing business. You can come in and you can look at their gross profit margin and you can see 50% gross margin. Okay, it's probably a healthy business. Now let's keep going. Okay, so you can see here for us our COGS were \$9.48. Our gross profit was \$9.52. We're just slightly above 50% gross margin for the year. Okay, some months were higher, some months were lower, but overall for the year, we're doing pretty good. Okay. So then after that, everything else that comes out after that, basically you get your gross profit margin number. Okay. That's how

much gross you've made. And then we start subtracting all of your overhead expenses. So you can just roll through your p and l and you can see, okay, we minus a hundred and 58,000 for advertising so far. We minus 18,000 for auto and truck. We minus for auto repairs, 26,000 in gas, \$4.78 for registration and fees, and so on and so on. And so you take your gross profit and you just subtract all of the overhead for your business. And when you scroll down all the way to the bottom after all of your expenses come out, you're left with your net income. Okay? And this is your net profit for the year. So you can see this business, up to May 28 has made me \$369,459 profit. Okay. And that's an important number to track, right? Because you want to maintain at least 20% profit. So if you come in here and you're going, okay, I'm only hitting 15%. Well, what's going on? Okay, so here's an important thing. Whenever you come in here and you look at your gross profit and you look at your net profit, if they're not where you want them to be, you need to ask yourself why. Okay. And here's the beauty of looking at your profit and loss and knowing what those percentages should be. Okay, if I come in here and I'm going to just going to scroll back up and my gross profit right here is less than 50%. Well, means I have a problem with my job fulfillment. Okay. So either our total income was down, right? Either we didn't go do enough work and I still paid my guys all of their wages and their technician payroll taxes and all of their benefits. Either I got enough work, but my CSRs aren't converting the jobs. Right? Maybe I'm getting enough calls in the door, but my CSRs are doing a poor job actually converting those to book jobs. So I didn't actually go bill out enough work to be able to pay my fringe benefits, my technician payroll taxes, and my technician wages. Maybe we spent way too much on subcontractors. Maybe we missed something when we were dealing with a subcontractor. Maybe we're spending way too much on job supplies. Right? Maybe we don't actually have enough money in our price book for all of our job supplies, okay? So those are all the questions you can ask yourself. But the beauty of it is because we know that it's in our gross margin, we know that it's a problem somewhere in here, Right? It's either a call volume problem, a call booking problem, or we paid too much for something in here. Okay? Or we're just not charging enough. Okay? So those are kind of all the areas you can look. And the reason I want to bring this up is like, if it's a problem here with your gross margin, then you know where to go look. That's why this information is so valuable because you're going to have times where you come in and your gross margin is off and you need to go, okay, why? And this just gives you where to start looking. It first tells you, am I healthy? Am I not healthy? If I'm not healthy, where do I go look? Okay, so if your gross margin is good, but then you roll down to the bottom and your net margins aren't good, then you need to ask yourself, okay, why? And it has to do with something after your gross margins, right? So anything below this line here, anything below gross profit, there's some sort of expense in here where I'm not covering, I'm not accounting for in my hourly rate or some sort of thing that I spent more money on this time than last time, okay? And so you need to come in here and ask yourself why? And you need to find out why. Am I not charging enough? Did I buy a bunch of vans? Did I spend a bunch of money on this other thing? Okay? Ask yourself why and make sure you know why. Okay? And that's really like the the point of looking at your profit and loss is just going, okay, I know I sold enough hours last month. I know my bank balance went up. Now let's go look at the profit and loss and let's check my gross margins, make sure they're good. Let's check my net margins, make sure they're good. And so you have this like quadruple check on your business. Okay? It's just a health check. And then anytime it's unhealthy, you need to ask yourself why. Go figure it out. See if it makes sense.

Or if you need to make changes on something, then go make those changes. So go take a look at your profit and loss. Have this set up to be automatically sent to you by your bookkeeper once a month. Once she gets done reconciling the books for the past month, she can send you a copy of an up to date p and l, and you can go over it, you can check your gross profit, and you can check your net profit, and then you can determine if there's any changes that need to be made.

Profit First

Hey, guys, here's a really good book that all of you should read. It's called Profit First for Contractors. And I'll leave a link to this down in this in the description down below. But basically, what this does is it lays out a banking system that you can use in order to track your money accurately. Okay? And it really gives you a lot of insight into your business on where your money is going and makes and helps you make sure that you have enough money set aside for everything in your business. Okay? So go buy this book and read it. Okay? Hands down, one of the best things I ever did in my business. I follow this system and it's worked out incredibly well for me. And I know a lot of other contractors that have followed it as well, and they swear by it as well. Okay, so I'll leave a link in it. Go buy the book, read the book and then implement the system. And in the next video, I'm going to show you how we actually do this for myself in my own business. All right.

Profit First Spreadsheet

Okay, guys. So once you've read Profit First for Contractors, this will make a bunch more sense. Okay? But basically, we've got a bunch of different bank accounts set up so that we can track our money accurately and move money in between them and set aside enough money for things as we go about our business throughout the year. Okay? So this your all of your guys' calculations are gonna be different, so you're gonna have to set these for your business. But in the book, he goes over good starting points, and then you can kind of compare what I've got going on here and come up with your own starting points and then track them and make sure you're putting enough money away for what you've got going on. Okay? But basically, I created this spreadsheet to help us figure out how much money we need to move around. So every single day, we log in here and we take how much money we have in our income account, and then it splits it up for us and tells us how much money we need to move into all of our different accounts. Okay? So we've got a tax account, a profit account, an owner comp account, a Liberty Fund. We set aside money for our guys PTO. We have a rainy day fund that we wanna keep at three months operating expenses, and we put away money for our manager's bonus as well because we pay him a hefty salary. Plus, we give him 2% of quarterly revenue every single quarter. We bonus him that 2%. Okay. So he's making really good money. We want to make sure and set aside that money and make sure we're still putting money away for expenses and profit and owner comp and all of that. Okay. So how we do this is we also have an expense account. And we know that with our business, we will go through we need about a hundred thousand dollars in our expense account. So we keep our expense account at a hundred thousand dollars at all times. Okay? And basically what happens is anytime we go bill a customer, the money comes in and it comes into what's labeled our income account. Okay? So then every day we come in here, we go, okay. We change this number to the balance on our income account. And then it spits out these numbers here. And then we go distribute that money. We transfer from our

income account to our tax account. We transfer \$1,073. And we would transfer into our profit account 460, into our owner compensation account 613, into our Liberty Fund this much, and so on and so on and so on. Right? And then we always make sure that the manager bonus has 2% of the revenue we've done year, for that quarter so far. So we'll actually log into service Titan. We'll pull the number. Okay. We've done x amount of dollars in revenue. That means we need this much in that account and we'll transfer that much money over there. Okay. And what this does is it makes sure that we are putting money away for taxes, make sure that we are putting money away for profit, owner comp, Liberty Fund, PTO, rainy day, all of these things. But the beauty of this is if we're bringing in income and we keep our expense account at 100,000, if we're not bringing in enough income, we're not going to have enough money to put in taxes, profit, owner comp, Liberty Fund, PTO, rainy day. Right? And so that just gives us another glimpse into our business on the daily and say, okay, well, what's happening here? Right? Okay. I've noticed for an entire week, I haven't had enough money to fill these accounts. Well, I know something's wrong. So then I need to go back in and look. Okay. Am I selling enough hours? Am I booking enough jobs? Do I have enough guys? Did I buy something really expensive? I need to start asking myself those questions of why. Okay? And so this is just another way to get a good glimpse into your business, into the health of your business so that you can catch problems, like, right when they happen rather than a month later when you see it on your p and l. Okay? It's also a good way to go, okay. You know, I've got \$20 or a hundred grand or \$200 in my owner comp account. I should probably take that money out of there and go do something with it. I should probably go invest it in something that's gonna make me more money. I should go buy some real estate or maybe start up another business or maybe I just wanna take that money and go buy a camper van or an RV or a boat or whatever. It helps you to know, okay, I've got money set aside for everything, so I can take this owner comp money and go do whatever I want with it. Right? So I'm going to leave a link to this down below. You guys will just have to click file, make a copy, and you can have a copy of your own. Read through the Profit First book, go set up your own bank accounts and then start using this spreadsheet and start moving your money around and start figuring out what your percentages need to be. And this will give you tons of freedom in your business and help you to catch things before they get too far along.

Setting Up Calculations

Okay. So once you've read the book and you've got an idea and you've watched the other video, it dawned on me that, you guys may want different accounts here. So I wanna show you how to set up the, calculation that's in here. Okay. So let's make this thing a little bigger. Let's try 150. There we go. So let's say you want to add a different account in here. So maybe you want a I don't know. We'll call it a motorcycle account. That sounds cool. And you want to start setting aside money for a motorcycle. Okay. So you could add motorcycle in there and then let's say you want to set aside 1%, right? Or maybe you have a different thing you want, Who knows? And you want this to auto calculate for you. So all this is is it's a multiplication thing. Okay? So you're gonna go you're gonna type in equals and then you type in multiply. You only have to type the m u l. You're gonna click this multiply and then you're gonna go click this cell up here, so d one. You're gonna hit comma and then you're gonna go click this cell right here with the 1%. Okay. And then you're gonna hit shift in parenthesis and that's gonna create the formula that you need. Where did B9 come in?

Where did C oh, C9, it's all one. Okay. And that's nope. For some reason I clicked C9 in there, we need to get rid of that. So it just needs to be B9. So you can see multiply D1 by B9. And there you go. So now it'll automatically calculate that 1% over here. Okay. So now I know that drives me nuts when things aren't all the same size. So now I know that when I come in here and I let's say I wake up and I have \$40,000 in my income account, I know I got to put away \$400 into my motorcycle bank account. Okay? And you can just do like, you can do that with as many accounts as you want. So you can keep this formula going for as long as you want. I may even be able to do you guys a favor and just go like this. Let's try it out. Nope. Doesn't work. Okay. So there you go. That is how you create a new cell in here that will auto populate for what you want your accounts to be. Okay? See you guys.