Setting Up QuickBooks: How to Build Your Chart of Accounts to Tell You HOW You Make a Profit.

Presented by: Ted LeBow & Rebecca Frimmer
WHO WE ARE

Our goal is simple – to help passionate farmers and food artisans build lasting, profitable, locally-focused businesses.

OUR FOUR TENETS

1. WE’VE WALKED A MILE IN YOUR SHOES.

2. THERE’S NO BS.

3. WE ROLL UP OUR SLEEVES, RIGHT ALONGSIDE YOU.

4. WE ARE PREPARED TO WIN WITH THE BUSINESS AND LOSE WITH THE BUSINESS.
WHAT WE DO

- Advising & Coaching
- Small Business Bookkeeping
- Makers & Farmers Roundtable
- Hands on Help & Project Management
- Interim/Virtual Management Team
- Community of Business
Theory of why you want your chart of accounts organized a certain way.

Explanation of the Chart of Accounts.

Case Study in transitioning to a new chart of accounts and budgeting.
Tell us about your books...

● What kind of business do you own?
● Do you currently use QuickBooks?
● Do you do your own bookkeeping?
Story Telling...

- Good financials tell a story.
- Could be good or bad, but YOU control the story.
- Today’s focus is on the Chart of Accounts for your P & L.
- Please Ask Questions!
Why focus on Chart of Accounts...

- Foundation of all of your financial analysis.
- Proper set up of accounts will eliminate a lot of frustration and time consuming re-work.
- Set up for success so that you can understand your true costs and how you make a profit.
Taxes vs. Budgeting and your Chart of Accounts...
You Choose - Financials that look like:

Literally the aftermath of a Tornado...
OR Financials that look like:

Organized, easy on the eyes...
Ok, let’s talk theory...
Step 1: The Basic Theory

- Seven Numbers
- Comparisons
- Start MORE simple
- Revenues
- Expenses
  - Fixed vs. Variable vs. Direct
  - Categorizing so they make sense
- One-Time Expenses
Seven Numbers....

- Simple is better to start.
- You don’t need a category for everything – what you DO need to see is TRENDS.
- Tip: Can’t remember what types of transactions go in each category? Create a legend for your chart of accounts. Consistency is key.
- How many numbers can you remember easily...don’t over complicate.
Why is a simple, organized chart of accounts important?

- How am I doing?
  - Year on Year, month on month
  - Seasonality
  - Budgets
  - Comparison to your own numbers
  - Bank
  - Other similar businesses
Ok, let’s get organized...
Chart Of Accounts Overview

- Revenues
- COGS
- → Gross Profit
- Operating Expenses
- Labor
- General & Administrative
- Fixed Expenses
- One Time Expenses
- → Net Profit
Parent Categories vs. Subcategories...

- General & Administrative
  - office supplies & postage
  - marketing expenses

- Operating Expenses
  - repairs and maintenance
  - fuel
Let’s start at the top…Revenues… (AKA Sales)

● Do not use too much detail…
  ○ Quickbooks can track items, but do you want to?

● Make sure your sales will compare to COGS…

● → Major Categories not Venues
  ○ Livestock Operation: Beef, Chicken, Lamb
  ○ Retail Store by department: Dry goods, Butcher Shop, Cheese, Dairy
  ○ NOT farmers market, wholesale, CSA (use customer designation and sales by customer reports for that)
Expenses...COGS

- COGS: Cost of Goods Sold.
  - Align with your Revenues.
- What is truly a COG?
  - 1:1 relationship with Sales
- What goes in here?
- Why is it important?
  - Gross Profit ($) and Gross Margin (%).
Expenses...below the Gross Margin Line.

- **Labor:**
  - Non-Direct
  - Don’t forget workmans comp and payroll taxes

- **General and Administrative:**
  - Owner has some discretion.
  - Usually includes marketing, office related, market fees, dues/certifications, professional services.

- **Operating Expenses:**
  - Move up and down with sales, but not directly.
  - Production Supplies, Sales Supplies, Maintenance, Fuel, Utilities.
Expenses...

- **Fixed Expenses:**
  - Rent
  - Interest
  - Depreciation
  - Insurance… but only some

- **One-Time Expenses**
  - New equipment
  - Special projects (build out)

- **Ask Accountant / me :)**
How does this help me?

- it tells a story.
- it streamlines your bookkeeping process.
- it makes comparisons stand out & identifies trends.
- it gives you a template when you want to make a budget.
- it helps you understand HOW and WHERE you make a profit--then it’s up to you.
Real Examples
Plus a BONUS
See a transitioned COA Example
Build a Budget in 15 minutes or less with your new Chart of Accounts
Real Examples...Conclusions

Chart of Accounts ↔ Finances
Your Farm Plots ↔ Planting Plan

• Lay the foundation
• Efficiency in your bookkeeping
• Basic self care of your business
• Create one tool that fuels your reports and budgets.
• Easily create budget scenarios to compare, and understand how your business makes or loses money
• Identify opportunities for improvement.
Wrap up…

• Building Blocks of a COA
  – Revenues
  – COGS
  – Gross Profit
  – Expenses:
    • General & Administrative
    • Operating Expenses
    • Labor (non-direct)
    • Fixed Expenses
    • One-Time Expenses
  – Net Income
Wrap up…

We don’t want to tell you how much profit to make.

We want you to know how you make a profit.
Best Practices for Staying on Top of Your Finances...

• Separate your personal accounts!!!
• Organize your workspace – statements, receipts, invoices, notes on cash, checkbook.
• Set a time aside every week to do enter expenses, sales, and basic bookkeeping.
• Reconcile your accounts by the 10th of the month, ALWAYS.
Best Practices for Staying on Top of Your Finances…

• After reconciling, review your reports for trends
  – Profit & Loss & Balance Sheet in monthly format.
  – Review sales by customer for trends and marketing opportunities
  – Look at A/P & A/R, “squeaky wheel”
  – Compare your P&L to your budget, make any course corrections for next month.
Questions?
CONTACT US!

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