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Top 10 Financial Mistakes of Small-Business Owners

Jamie D. Watson, MAS, CPA

1. Inaccurate/Lack of Financial Statements

- Financial statements should include an income statement AND balance sheet
- Should be reconciled/prepared monthly
- Personal expenses should be tracked separately
- Analysis of financial results

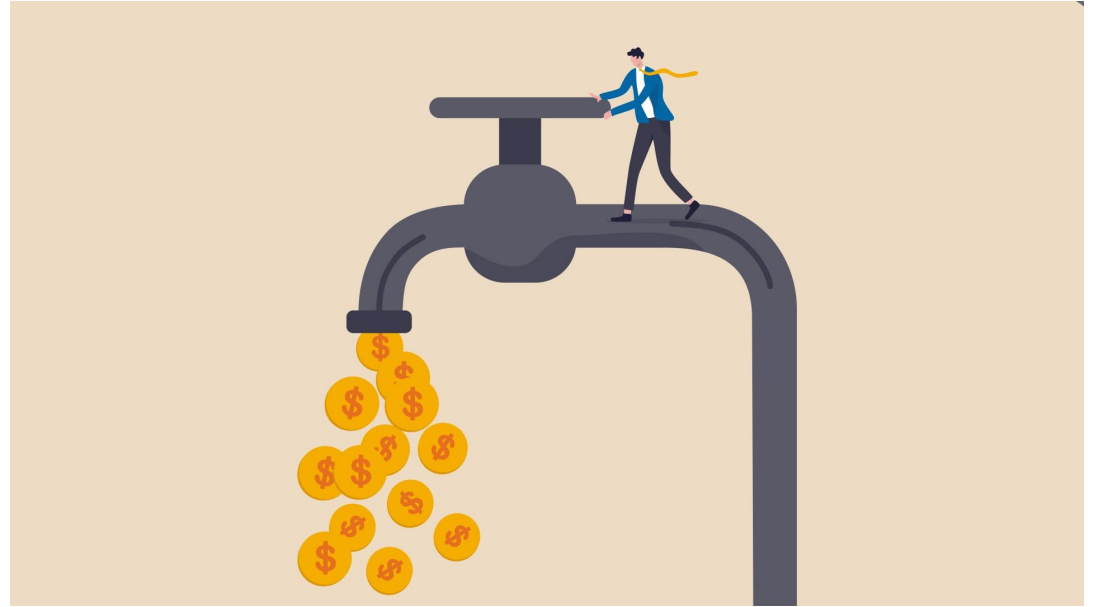


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2. Ignoring CASH FLOW

- Have a credit policy and communicate it to your customers
- Deposit with order
- Accounts receivable review
- Line of credit



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3. Selling on low margins/price

- Average industry margin is 33-35%
- Know the difference between margin and markup
- Don't try to make up for low margins with higher volume



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4. Overpaying salespeople

- Independent contractors – 50% of GM
- Employees - 40% of GM
- The “house” keeps the first 17.5%
- Very difficult to sell a company when salespeople are overpaid



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5. No Owner Compensation

- Understand the value of what you are worth
- Distributions or Salary?
- Key salesperson/owner should be earning at least as much as a salesperson



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6. Putting all your eggs in one basket

- Customer concentrations
- Salesperson concentrations
- Industry concentrations
- Customer acquisition strategy



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7. No tax planning

- Tax compliance vs. tax planning
- Type of entity
- Cash basis taxpayers
- Long term tax planning
- Salary vs. Distribution



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8. Carrying Inventory and/or Decorating

- Costs of carrying inventory
- Costs of manufacturing
- Cash flow issues



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9. No Banking Relationship

- Line of credit – Useful tool and can help leverage growth
- Long term debt – Long term assets
- Short term debt – Short term assets
- Banks don't like surprises – communicate



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10. No Succession Plan

- Family members
- Partner issues – Buy/Sell Agreement
- Sell the company
- Understand the value
- Pre-tirement



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QUESTIONS?

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