



## **6 FINANCIAL TIPS FOR 2016**

# **A GUIDE FOR SMALL BUSINESS OWNERS, ENTREPRENEURS AND FREELANCERS**

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HAPPY FUCKING NEW YEAR! Congratulations, on surviving another calendar year. It's no small feat.

The start of the year is a natural inflection point for most of us. We make resolutions and with the beautiful potential of the 12 months that are ahead of us, achieving our goals feels totally and completely within the realm of possibility.

Here is a list of six things you can do to make sure you start your business on the right foot in 2016. I recommend taking a full day off to go through the steps I've outlined below. It's going to take a lot of mental heavy lifting, but you and your business are worth the investment. In fact, you owe it to yourself.

### **1. Get Prepared for Tax Time**

The first thing I want you to do is a very practical and actionable piece of advice. If you didn't already have a year-end tax review or tax-projection meeting with your accountant, then do it now.

What's a year-end tax review/tax projection? Great question! It's basically talking to your accountant before April 15 (what a shocker) about what your tax picture is going to look like come tax day.

What you'll need to do is give your accountant your 2015 profit and loss statement and balance sheet. These are also commonly referred to as financial statements. You can get these reports through bookkeeping software like Quickbooks, Xero, Less Accounting, etc.

A quick side bar about bookkeeping and financial statements: If you're running a small business, you have bookkeeping records, right? Because that's how you'll generate your profit and loss statement. So of course you've got books! If you don't, you should definitely put this on the top of your 2016 To Do list. Having accurate records will save you time, effort, headaches and it'll allow you make decisions in your business that are well informed.

After you give your accountant your financial statements (along with anything else your accountant asks for) he or she can prepare your taxes for you.

If you owe money, talk to your accountant about ways to try to reduce what you owe through contributing or opening up a retirement account.

If saving for taxes has been an issue for you, for 2016, ask your accountant about ways you can pay taxes as you earn them, either through quarterly estimated tax payments or setting up payroll if you have the proper entity that will legally allow you to withhold taxes.

## 2. Find the story in the financial statements

After you've gone through what your tax picture will look like with your accountant, the next thing you should to get geared up for a stellar 2016 is review your financial statements, namely your profit and loss statement (AKA P+L AKA income statement) and your balance sheet.

I would lay out your profit and loss for the year as well as month by month for the year.

In reviewing your profit and loss statements, use your creative powers and your memory of last year to look beyond the flat numbers on the page. Look past the generic list of income and expenses and find out what story the numbers tell.

Here are examples of specific questions you can ask yourself to find the story in your numbers:

- Can you see natural cycles of your business?*
- Do you have specific months that are busier than others?*
- Do you have months where you spend significantly more than other months?*
- Is there runaway spending in a certain category that you need to address?*
- Did a particular investment into a different line of business prove to be fruitful or a dud?*

Dig deeper and spend some time reflecting on these questions:

- How did the year go - did you make a profit or do you have a loss?*
- If you've been in business for more than last year, how do your numbers compare to last year?*
- How much did your income increase by?*
- Did you reach your revenue goals?*
- Did you set any goals? Why or why not?*

## 3. Reflect on how you spent your time last year

Not everything should be viewed through the lens of economics. It's important to zoom out of your day to day and look at how you spent your most precious resource - time - in the last twelve months. I've learned it's hard to know where you want to go without looking at where you've been. You can learn a lot about yourself and your business through reflection.

Here are some specific questions that can help you reflect:

- Was last year a blur of 60-hour work weeks, tirelessly grinding out work?*
- Were you haphazardly sprinkling your energy across various projects?*
- Were you able to continue to feed and foster your friendships and relationships?*
- Did you have time to enjoy the things you like outside of work?*
- Did you spend all your time working, but did you love every minute of it?*

Write this stuff down. My 2015 reflection goes something like this:

My year started off slow, but ended in a full-blown sprint. I worked a lot, but I think I had a pretty awesome work-life balance considering where I'm at with my businesses. I was able to continue to put in the most important thing to me - my relationships and friendships. I got to have some incredible experiences through my work. My band went on a west coast tour in the Spring. We drove up and down the coast for 10 days and played 10 shows in 7 cities. It was a dream. My financial planning business made leaps and bounds. I got to host workshops for some pretty sweet organizations. I co-founded a bookkeeping company that is maintaining sustainable growth. I'm working on co-founding a new arts non-profit organization.

## 4. Create Your 2016 Mission Statement

Reflect even more. Ask yourself the following questions to help you figure out what your mission statement for 2016 is:

- What do you want to keep moving towards in your business and your life?
- What do you want to move away from in your business in your life?
- What are some ideas that can get you moving in the right direction in 2016?
- Can you break down those ideas into steps that you can achieve this year?

Creating a mission statement is a fancy way of saying create some goals for the year. I'm a huge believer in goals. Goals are a great benchmark. It's important to have goals based on external factors like, paying rent. Achieving those goals will give you the space and time to create goals that are more intrinsically driven.

One of my big goals for 2016 is scaling my business so I can make more time to work on other projects I have outside of work. The way I plan to get there is hiring someone to help with administrative tasks to free up my time and creating a pricing structure that allows me to have the space I need to facilitate creative solutions for my current client roster.

Your goal might be very data driven, like increase revenue by 10%. Or it might seem more qualitative, like effectively implement a 4-day workweek so you can work less and improve your quality of life.

## 5. How much do your goals cost?

Alright, let's get down to the nitty gritty.

- How much are your goals going to cost you?
- Is it going to cost you time and not money? Or money and not time? Or a combination of the two?

Spend some time thinking about the steps you broke down above.

If your goal is increasing monthly revenue or income, take a look at your financials first.

- What is the dollar amount you want to be earning?
- Based on your current pricing structure and offerings, how can you achieve your goals?

Now here's the rub: **IS IT REALISTIC?**

The only way to truly find out is to go to the market and see what it will bear.

- If you want to invest in a product, service or line of business to grow your company in 2016, how much is it going to cost you to do this?
- Do you need to conduct market research?
- Do you need to hire someone with experience to help you?
- How much time do you plan to invest in this and can you still cover your overhead expenses while doing this?

For example, if you want to spend 3 months developing a new product, what's a realistic structure to support this? Can you take time off and still pay the bills or do you need to do this in tandem? Can you hire someone to help you?

Your goals might be straight forward like a website relaunch, a client event or moving into a new office. Do some research and find out the costs.

## 6. Create a monthly income goal

After you find out the total cost of your goals, break them down into a monthly income goal figure. Use last year's financial statements as baseline for your monthly income goal. What were your total expenses for the year? If you divide that by 12, you get your average monthly expenses.

If you figured out the total cost of your goals for the year, do the same thing you did with your expenses, divide it by 12 to get the average monthly cost of your goals.

Add this to your average monthly expenses and voila, you have your monthly income goal.

I'm a huge, huge, huge proponent of monthly income goals. It's a simplified, quantitative way to help you understand where you are at with your business. It's not the whole picture, because expenses are important too and you can earn shit tons (that's a technical term) of cash, but spend it like it's your job and even though you're hitting your income goals, you'll still fail to thrive. But, it is still a valuable figure for business owners to focus on because cash flow is oxygen.

Here's the hard part. After you know your monthly number, you have to stay engaged with your finances and monitor your progress. You should run your profit and loss statement each month in 2016 and compare that to your monthly income goal. Every month you hit it, you're on track to hit your goals. Every month you don't hit your goal, you fall behind or your income goals must increase for future months to make up for it. Every month you exceed your monthly income goal, you will either exceed your goals or you can decide if you can work less or invest in other areas of the business. Remember, if you're running a business, being engaged with your finances is important. You have to give a shit about this! If you don't watch your numbers, you could run your business at a loss. If you run your business at a loss consistently, it's not a sustainable business model.

Have a killer 2016,

A handwritten signature in blue ink that reads "Paco". The signature is written in a cursive, flowing style.

Paco is a financial planner who also does small business consulting, working to help creatives understand finances.

For more information check out:

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