# architect your cashflow

## powered by profit first

**Do you have a clear and effective system for managing your cashflow?**

**Are you prepared for any financial scenario that comes your way?**

**Are you enjoying financial reward and profitability that come from your well-run business?**

**Are you confidently prepared to pay the appropriate amount of taxes?**

**Do you feel in control of your business?**

If you answered NO to any of the above questions, then our cashflow improvement system is the perfect match for you.

W: **raffingers.co.uk** | T: **020 8551 7200** | E: **info@raffingers.co.uk**

The concept of the system is based around why most businesses are not profitable and even as they grow, the additional growth is consumed without any significant improvement in the bottom line profit number – the system provides a way to transform this and ensure that growth brings bottom line profit and more importantly cash!

## Parkinson's Law

Author and historian C. Northcote Parkinson theorised that our demand for a resource increases to meet the supply of it. That is why when we are given two weeks to do a project it takes two weeks, and when we are given eight weeks to do the same project it takes eight weeks. It's also why when given £1,000 to complete our work we get it done with £1,000 and when given £10,000 to complete the same work, it takes £10,000. Profit First makes Parkinson's Law an asset. By taking profit first the money available for expenses lessens, and we are forced to find ways to get the same things done for less money.

Essentially the more we have of something the more we consume. A perfect example of this is to look at a tube of toothpaste.

In short, what we are saying is that your business is like a tube of toothpaste.


How much toothpaste do you use when you have a brand-new tube? A big glob of it…You put a nice long bead on the brush; the paste falls off but hey it doesn't matter because you have a full tube – so you put another big glob on the brush!

But when you open that cabinet drawer and find a near empty tube… oh how the game changes. It starts off with an insane amount of squeezing, twisting and turning. You reach for your toothbrush, momentarily releasing a little bit of your vice like grip on the tube, and with that the paste shoots back in the tube… but you carry on with the toothpaste extraction; biting down hard on the tube, one hand squeezing and twisting, while your other hand tries to get the brush bristles to scoop out toothpaste – you have victory! One droplet of toothpaste, just enough for that fresh mouth sensation.

Parkinson's Law triggers two behaviours when supply is scant;

1. First you become frugal
2. Secondly you become extremely innovative

If there is one thing that will forever change your relationship with money, it is understanding Parkinson's Law. You need to make less money available to operate your business. You will then automatically run your business more frugally and will run your business far more innovatively.

With Parkinson's Law in mind, it makes you realise that The GAAP (Generally Accepted Accounting Principles) formula for determining a business's profit (Sales – Expenses = Profit), whilst simple, logical and clear, is unfortunately never going to work.

The formula, while logically accurate, does not account for human behaviour. In the GAAP formula profit is a left over, a final consideration, something that is hopefully a nice surprise at the end of the year. Alas, the profit is rarely there and the business continues on its check to check survival.

**Sales – Expenses = Profit**
**Sales – Profit = Expenses**

If instead you were to extract your profit and remove it from sight, you'll be left with less on which to run your business. When less money is available to run your business, you will find ways to get the same or better results with less. By taking profit first you will be forced to think smarter and innovate more.

When you follow the conventional accounting formula of Sales – Expenses = Profit, we are primed to focus on the first two words… Sales and Expenses and treat Profit as an afterthought, and we then behave accordingly. We sell as hard as we can, then use the money we collect to pay expenses. We stay stuck in the cycle of selling to pay bills, over and over again, wondering why we never see a profit!

When Profit comes first, it becomes the focus, and it's never forgotten.



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## Bank Balance Accounting

Most entrepreneurs don't have the time or gumption to read the different accounting statements necessary to manage the financial aspect of their business. Theoretically you should review and correlate your Income Statement, Balance Sheet and Cash Flow Statement monthly (or more frequently), but few entrepreneurs do. Most resort to "bank balance accounting," where we check our bank balance every day and make financial decisions based upon what we see. Per Parkinson's Law, we consume what we see in our bank account. Profit First encourages the entrepreneur to continue "bank balance accounting" by first allocating money to profit (and other accounts) so that the entrepreneur sees the actual portion of deposits that are available for expenses and they automatically adjust their spending accordingly.

## Don't Change Habits, Leverage Them

Many entrepreneurs try to force themselves to become better at accounting and to become more disciplined in their fiscal management by pure willpower. But just like a muscle, willpower can be drained. And in a moment of financial stress or bigger than expected expenses the entrepreneur will break their own fiscal rules and spend the money they have. The Profit First principle does not try to change your habits (that is nearly impossible to do), Profit First works with your existing habits. By first allocating money to different accounts, and then removing the temptation to "borrow" from yourself, your business will become fiscally strong and you will benefit from regular profit distributions.

## Profit First One Sheet

### 1. One Time Set-up

Setup the key five banks accounts with your current bank. We'll call this bank, Bank 1.1. Income (Cheque); 2. Profit (Savings); 3. Owner's Pay (Cheque); 4. Taxes (Savings); 5. Operating Expenses (Cheque)

Setup two new accounts at a different bank. We'll call this bank, Bank 2. The purpose for these accounts is to remove the temptation of "borrowing" from these accounts.1. Profit; 2. Taxes

Determine the TAPs (Target Allocation Percentages) for your business using the Instant Assessment (available for free download at www.MikeMichalowicz.com/Resources). But, start with percentages that your business can reasonably do for each account the remainder of the quarter. The percentages you determine are called your Allocation Percentages.

### 2. Every Day

All receipts from sales go into the Income account at Bank 1.

If you are doing Advanced Profit First, deposit receipts for things like reimbursable in the respective account. 3Spend a minute to review your account balances at Bank 1 daily, to see cash flow trends for the key aspects of your business. That's all the time you need to see where things stand!

**3. Every 10th & 25th**

Transfer all funds that have accumulated in the Income account at Bank 1 to the other accounts at Bank 1 based upon the Allocation Percentages you are using.

Transfer all the money in your Profit account at Bank 1 to the Profit account at Bank 2. Transfer all money in your Taxes account at Bank 1 to the Taxes account at Bank 2. This will leave a £0.00 balance for Profit and Taxes at Bank 1. *

If you are doing Advanced Profit First, transfer Employee Payroll or other fixed dollar amounts from Operating Expenses to the respective accounts. *

Disburse the salaries for the business owner(s) from the Owner's Pay account.

Pay your bills from the Operating Expenses account.

**4. Every Quarter**

Take 50% of the money that has accumulated in the Profit account at Bank 2, as profit distribution. Remember this money is for the business owner's and not to be used to "plowback" into the business.

Pay your tax liabilities from the Tax account at Bank 2.

Meet with a Profit First Professional and adjust the Allocation Percentages for the Profit, Tax, Owner's Pay and Operating Expenses to maximize your financial health.

**5. Every Year**

Review your financials with your Profit First Professional accountant and financial experts.

Make year-end contributions to the Vault account, retirement accounts, or make capital purchases as determined by you and your Profit First Professional.

## Staying Accountable

Just like going to the gym and trying to lose weight, we all know what to do and how to do it, but the best workouts are overseen by personal trainers. As Profit First Professionals and cashflow improvement specialists, use us to your advantage!

**If you'd like to find out more, please email us at info@raffingers.co.uk**