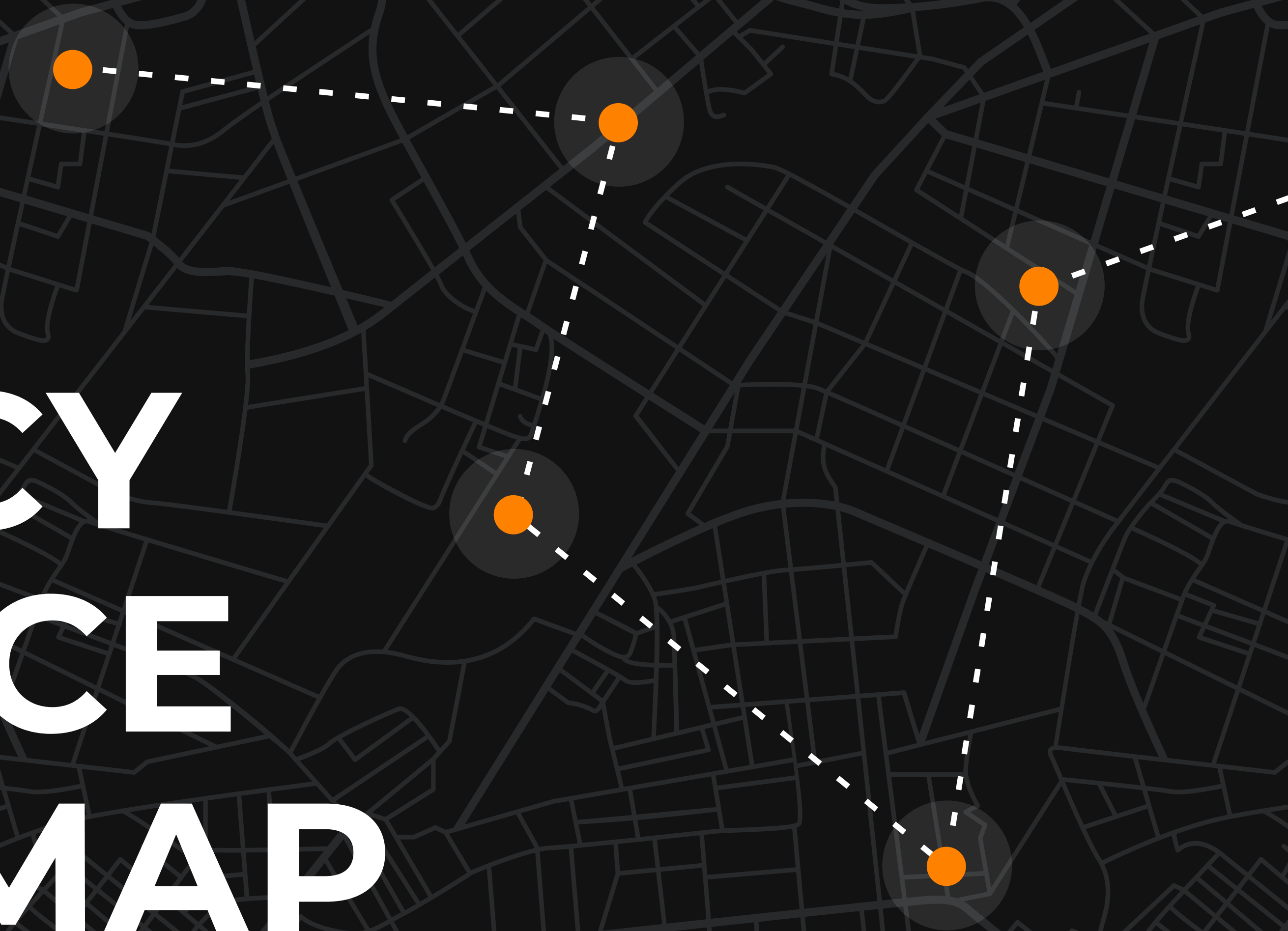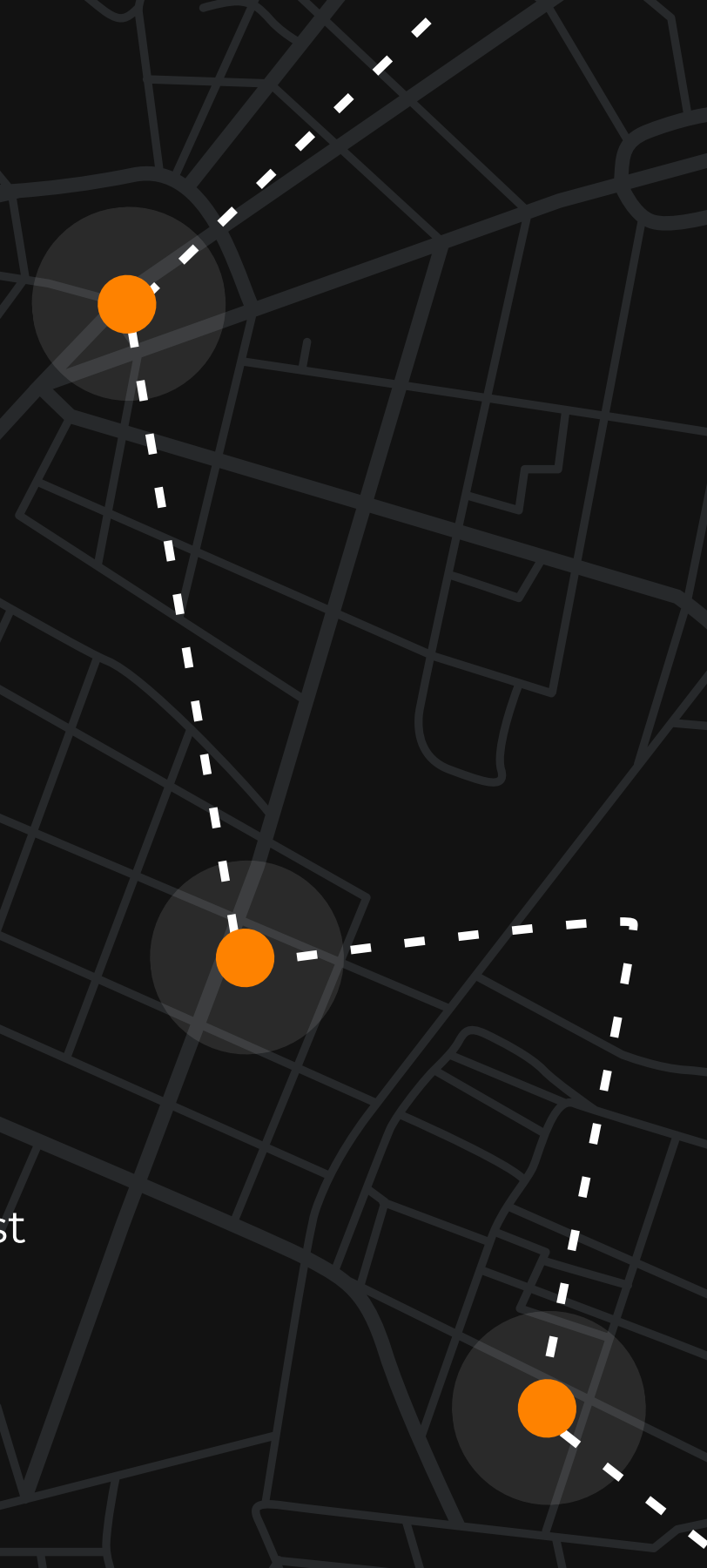# WHAT'S INSIDE?

No more stressing about your agency's finances - this comprehensive roadmap is designed to help you build a best-in-class finance function. From bookkeeping essentials to critical metrics, this guide will equip you with the knowledge and tools you need to succeed.

WHO'S IT FOR?

This roadmap is designed for growth-minded agency CEOs and owners who are looking to establish a solid financial foundation for their business.
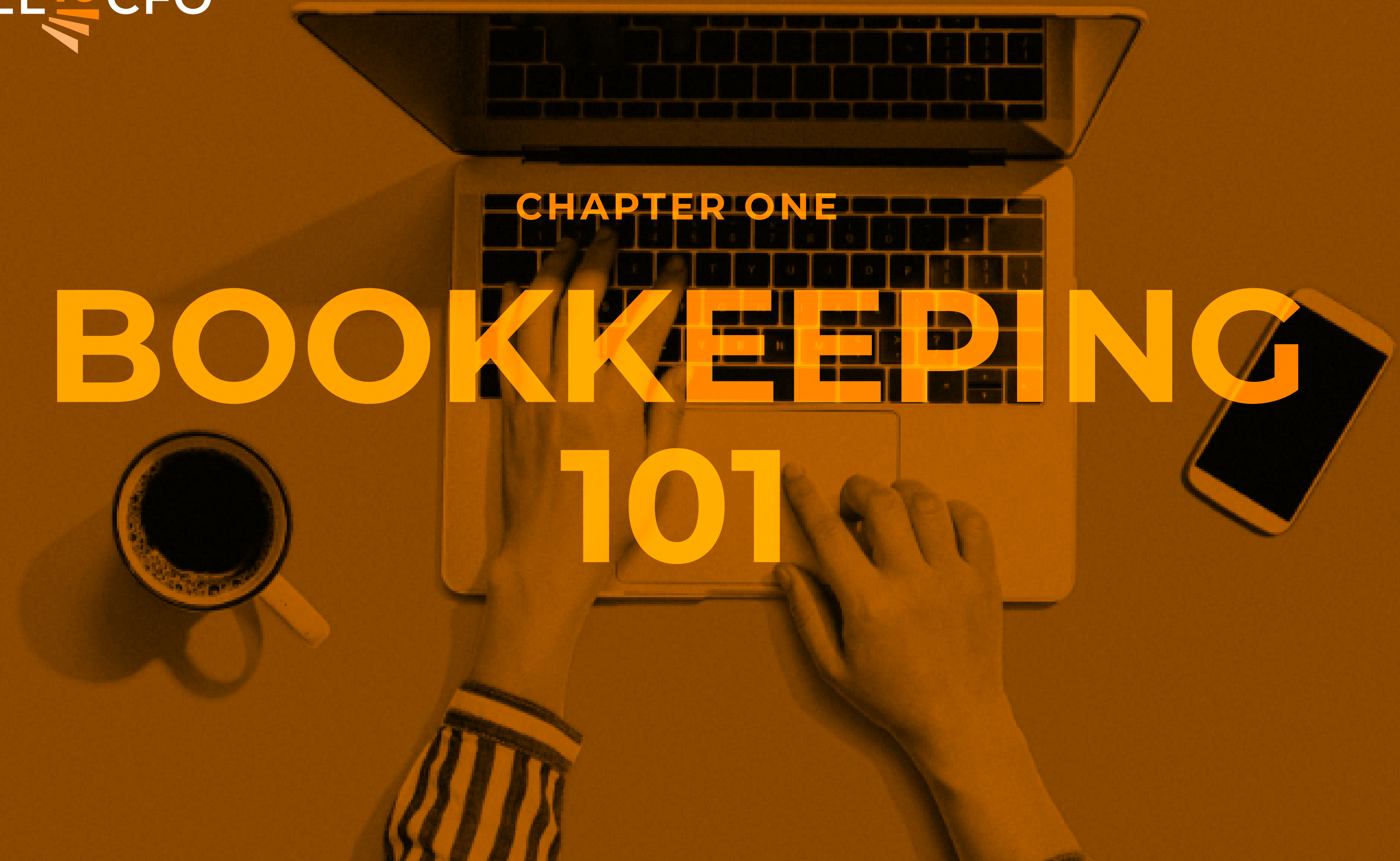
"IF YOU DON'T KNOW WHERE YOU ARE GOING, ANY ROAD WILL GET YOU THERE." - LEWIS CARROLL

LEVEL **10** CFO

CHAPTER ONE

BOOKKEEPING 101

BOOKKEEPING BASICS

"I have to say accounting almost killed me."
— Venus Williams

LEVEL 10 CFO

BOOKKEEPING BASICS

INTERMEDIATE

What is it?

From standardizing your chart of accounts to reviewing monthly financial statements, bookkeeping will help set up your business finances for success.

Why is it important for my agency?

EXTERNAL

Basic bookkeeping lays a strong foundation for your financial reports, and sets you up for successful navigation of more in-depth bookkeeping. Start small and work your way up.

INTERNAL

Gain confidence that the numbers you're reviewing are correct, and are reasonably representative of the financial situation of your business.

LEVEL 10 CFO

BOOKKEEPING BASICS

INTERMEDIATE

Pro Tips

→ **We recommend Quickbooks Online (QBO) for your base accounting package.**

- QBO's core functionality is more than most small businesses need, and is constantly making improvements to features and tools. QBO seamlessly integrates with thousands of other systems, enabling you to build a customized Enterprise Resource Planning (ERP) at a very reasonable price point.

→ **Configure Bank & Credit Card Feeds in QBO.**

- Enabling automatic categorization for transactions can help save delays that occur at the end of the month from manually entering transactions.

LEVEL10CFO

BOOKKEEPING BASICS

INTERMEDIATE

Pro Tips

➡ **Set deadlines for completing the close process.**

  ▪ You want to be sure you are reviewing financials in a timely enough manner that data is still relevant and enables you to use data to make course corrections.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

STANDARDIZED CHART OF ACCOUNTS →

"I HAVE TO SAY ACCOUNTING ALMOST KILLED ME."

— VENUS WILLIAMS

STANDARDIZED CHART OF ACCOUNTS

BEGINNER

What is it?

It sounds basic, but being intentional about your chart of account structure can have a big impact on your ability to understand your financial statements.

Why is it important for my agency?

EXTERNAL

Can drastically improve your ability to quickly analyze and understand your financial results.

INTERNAL

Lower frustration by focusing on the most impactful categories, and understand the key drivers to your financial performance quickly.

LEVEL10CFO

STANDARDIZED CHART OF ACCOUNTS

BEGINNER

Pro Tips

→ **Use account numbers for all accounts.**

- This helps to organize accounts into a logical order and can prioritize the most important accounts. We recommend using 4 or 5 digit account numbers grouping common accounts by the first two leading numbers.

- It is not recommend to use QBO's out of the box chart of accounts. This is an okay place to start, but generally does not give the visibility required.

- See structure examples on the next page.

LEVEL10CFO

STANDARDIZED CHART OF ACCOUNTS

BEGINNER

Pro Tips

→ Accounts should be grouped under header accounts that follow a structure similar to this:

1000	Cash	2000	Accounts Payable	4000	Revenue	7400	IT Costs
1200	A/R	2100	Credit Cards	5000	Cost of Revenue	7500	General & Administrative
1400	Other Current Assets	2200	Other Current Liabilities	6000	G&A Labor Costs	8000	Other Income
1600	Fixed Assets	2500	Long-Term Liabilities	7000	Sales & Marketing	8500	Other Expense
1700	Other Assets	3000	Equity	7200	Professional Fees		

LEVEL10CFO

STANDARDIZED CHART OF ACCOUNTS

BEGINNER

Pro Tips

→ **Use Sub-Groups as necessary to maintain granularity at the levels needed to understand the business.**

■ An example of sub-groups would be something as follows:

4000 **Revenue**
4100 Retainer Revenue
4200 Project Revenue
4400 Pass-Through Revenue
(i.e. advertising purchased and charged back to client)

'Revenue Sub-Groups' and 'Cost of Revenue Sub-Groups' should be labeled similarly to enable quick analysis. i.e. using a matching number structure.

LEVEL10CFO

STANDARDIZED CHART OF ACCOUNTS

BEGINNER

Pro Tips

→ **Keep the number of accounts to a reasonable minimum.**

- The more accounts you have with small balances, the harder it can be to view financial statements or see larger patterns.

→ **Avoid using separate accounts to delineate department costs.**

- The use of QBO class functionality can be a more effective tool for department reporting and keeps the number of accounts to a manageable level.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

RECONCILE BANK ACCOUNTS & CREDIT CARDS →

"A PLACE FOR EVERYTHING, EVERYTHING IN ITS PLACE."

— BENJAMIN FRANKLIN

RECONCILE BANK ACCOUNTS & CREDIT CARDS

"You better check yo' self before you wreck yo' self."
— Ice Cube

LEVEL 10 CFO

RECONCILE BANK ACCOUNTS & CREDIT CARDS

BEGINNER

What is it?

Ensures that your cash balances and credit card balances are accurate and equal the amounts shown on the bank or credit card statements.

Why is it important for my agency?

EXTERNAL

One of the most crucial accounting processes, reconciling balances, drastically improve the accuracy of your financial statements around your most important numbers.

INTERNAL

Know you can depend on the cash balance as an accurate starting point for your analysis.

LEVEL10CFO

14

RECONCILE BANK ACCOUNTS & CREDIT CARDS

BEGINNER

Pro Tips

→ **In QBO, set up Bank Feed functionality for all bank and credit card accounts.**

- Match all transactions as they come in on a daily basis. This essentially creates a daily reconciliation that can drastically reduce the number of reconciling items at the end of the month, and ensure an accurate bank balance throughout the month.

- Daily matching enables quicker identification of suspicious activity.

→ **Use QBO native functionality to complete reconciliations.**

- Coupled with the daily bank feed, this is a great tool and is the most accurate means to ensure bank reconciliations are completed each month on a timely basis.

LEVEL10CFO

RECONCILE BANK ACCOUNTS & CREDIT CARDS

BEGINNER

Pro Tips

If you're issuing physical checks, periodically review check images that cleared the bank.

- This is a great cash control that helps ensure payees of record match the cashed checks.

- Bill.com is a great alternative to physical checks. This takes check writing out of the hands of clerical staff. With in-line approval controls, you can be more confident that checks are issued to the appropriate party.

RECOMMENDED SOFTWARE
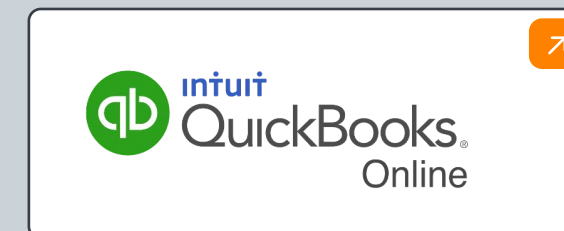
intuit QuickBooks Online

bill.com

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

16

"YOU BETTER CHECK YO' SELF BEFORE YOU WRECK YO' SELF."

— ICE CUBE

CLOSE BOOKS

"Put that coffee down! Coffee's for closers, only."
— Blake, Glengarry Glen Ross

LEVEL 10 CFO

CLOSE BOOKS

INTERMEDIATE

What is it?

Closing the books is a process, or series of processes, that should be repeated on a monthly basis to ensure the accuracy of your financial statements.

Why is it important for my agency?

EXTERNAL

A robust monthly close process helps to ensure that financial results are accurate and fairly represent the performance for the month.

INTERNAL

Make better decisions by getting accurate financial information in a timely fashion.

LEVEL10CFO

CLOSE BOOKS

INTERMEDIATE

Pro Tips

→ **Reconcile all Bank & Credit Card Accounts back to monthly statement.**

→ **Tie out balance sheet balances to supporting schedules or statements.**

- All balance sheet schedules should have a list of items that make up the balance; the date entered, the date it will go away and the amount.

LEVEL10CFO

20

CLOSE BOOKS

INTERMEDIATE

Pro Tips

→ **Validate Revenue ensuring all invoices have been created. Whenever possible reconcile recorded revenue back to your CRM or other master customer record.**

→ **Create adjusting entries for revenue and expenses.**

→ **Analyze variances against budget to look for unplanned differences.**

→ **Analyze variances against prior month activity to look for significant changes.**

→ **Once financials are finalized, be sure to add a close date in QBO. This will prevent numbers in closed periods from changing.**

LEVEL10CFO

CLOSE BOOKS

INTERMEDIATE

Pro Tips

→ **ABC - Always Be Closing; many "month-end" processes can be completed throughout the month, instead of waiting until the end.**

- Process Bank Feeds daily.

- Invoice in QBO or sync invoicing on a weekly basis.

- Use Bill.com for payables.

- Balance sheet schedules with light activity such as fixed assets; accumulated depreciation can be updated throughout the month.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

bill.com

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

"PUT THAT COFFEE DOWN! COFFEE'S FOR CLOSERS, ONLY."

— BLAKE, GLENGARRY GLEN ROSS

ALLOCATE LABOR BETWEEN G&A AND COR

"Time to make the donuts."
— Dunkin Donuts

LEVEL 10 CFO

ALLOCATE LABOR BETWEEN G&A AND COR

INTERMEDIATE

What is it?

Allocating labor between General and Administrative (G&A) and Cost of Revenue (COR). It is critical to show the cost of direct labor in your gross margin.

Why is it important for my agency?

EXTERNAL

Helps you better understand your true profit margin, and smooths the transition as you move from freelance labor to Full-Time Employees (FTEs).

INTERNAL

Understand if your revenue is adequate to support the direct costs of labor for your team producing the work.

LEVEL10CFO

ALLOCATE LABOR BETWEEN G&A AND COR

INTERMEDIATE

Pro Tips

→ **Simple Approach:**

- Identify headcount that are directly responsible for delivering client service and code their costs directly to Cost of Revenue.

- Avoid splitting employee costs with this approach. Employees should be all in or out. If a split approach is desired, see alternative allocation method (Advanced Approach).

- Headcount that are not responsible for delivering client service should be coded to G&A Salaries.

LEVEL10CFO

ALLOCATE LABOR BETWEEN G&A AND COR

INTERMEDIATE

Pro Tips

→ **Advanced Approach (preferred):**

- Allocate employee costs to Cost of Revenue, and to specific projects, utilizing time data combined with a burdened labor rate.

  - Use Quickbooks Time, or similar time tracking data, have employees track their time to specific client projects.

  - Calculate an hourly rate for each employee and multiply this rate times the hours worked for each project.

  - Create a reclass Journal Entry to Reallocate labor costs from G&A Labor pool to Cost of Revenue at a client level.

LEVEL 10 CFO

ALLOCATE LABOR BETWEEN G&A AND COR

INTERMEDIATE

Pro Tips

→ **Advanced Approach (continued):**

- This approach will accomplish several objectives:

    - More accurate understanding of margin for work completed in the period.

    - Better understanding of the cost of under-utilized staff.

    - Improved margin analysis at a client specific level.

- Use an import tool such as SaasAnt to load reclass entry into QBO.

LEVEL10CFO

ALLOCATE LABOR BETWEEN G&A AND COR

INTERMEDIATE

Pro Tips

→ **Advanced Approach (continued):**

■ Allocation Template:

■ VIEW EXCEL TEMPLATE HERE

■ Sample P&L Layout Showing Allocated Labor:

■ VIEW EXCEL TEMPLATE HERE

RECOMMENDED SOFTWARE

intuit QuickBooks Online

QuickBooks Time

saasant TRANSACTIONS

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

REVIEW FINANCIAL STATEMENTS →

"TIME TO MAKE THE DONUTS."

— DUNKIN DONUTS

REVIEW FINANCIAL STATEMENTS

"It's easier to teach a poet how to read a balance sheet than it is to teach an accountant how to write."
— Henry R. Luce

LEVEL 10 CFO

REVIEW FINANCIAL STATEMENTS

INTERMEDIATE

What is it?

Review these three financial statements monthly: Income Statement, Balance Sheet, and Statement of Cash Flows. Review all statements against past periods, your budget, and recent forecast.

Why is it important for my agency?

EXTERNAL

Keep your pulse on the financial health of your business.

INTERNAL

Gain a better understanding of the levers to improve your business profitability & cash flow.

LEVEL 10 CFO

REVIEW FINANCIAL STATEMENTS

INTERMEDIATE

Pro Tips

→ **Be sure not to overlook the Balance Sheet & Cash Flow Statements.**

- The balance sheet is where P&L surprises live; a clean balance sheet ensures that your P&L results are accurate.

- Monitor the Cash Flow statement to understand the impacts A/R, A/P and other working capital changes have to your cash position.

- Given enough time, every balance sheet account should return to $0. It is critical to understand the overall balance, but also the age of items making up that balance.

→ **Work with your accounting team on which reports you review each month.**

- Reviewing the same report on a consistent basis will help you digest the information quicker.

LEVEL10CFO

REVIEW FINANCIAL STATEMENTS

INTERMEDIATE

Pro Tips

→ **Fathom (Fathomhq.com) is a great reporting tool.**

- Great looking financial reports that are easy to create & reproduce on a regular interval.

- Layer in non-financial data to round out the management report and gain valuable insights into your business.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

Fathom

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

"IT'S EASIER TO TEACH A POET HOW TO READ A BALANCE SHEET THAN IT IS TO TEACH AN ACCOUNTANT HOW TO WRITE."

— HENRY R. LUCE

LEVEL 10 CFO

CHAPTER TWO

CASH
MANAGEMENT

CASHFLOW OPTIMIZATION

"Cash Rules Everything Around Me, Dolla Dolla bills y'all."
— Wu-Tang Clan

LEVEL 10 CFO

CASHFLOW OPTIMIZATION

INTERMEDIATE

What is it?

Monitoring near-term incoming and outgoing cash flows of the business to identify potential cash risks well before they actually occur.

Why is it important for my agency?

EXTERNAL

Optimizing your organization's cash position ensures you have enough cash on hand to meet business obligations in a timely fashion.

INTERNAL

Being broke sucks and will rob you of your peace. Letting down your employees and inability to meet vendor agreements choke your ability to grow.

LEVEL 10 CFO

CASHFLOW OPTIMIZATION

INTERMEDIATE

Pro Tips

→ Schedule a regular cadence to review your cash position! It's too easy to get busy with other things.

→ Follow the best practices outlined in the next sections.

RECOMMENDED SOFTWARE
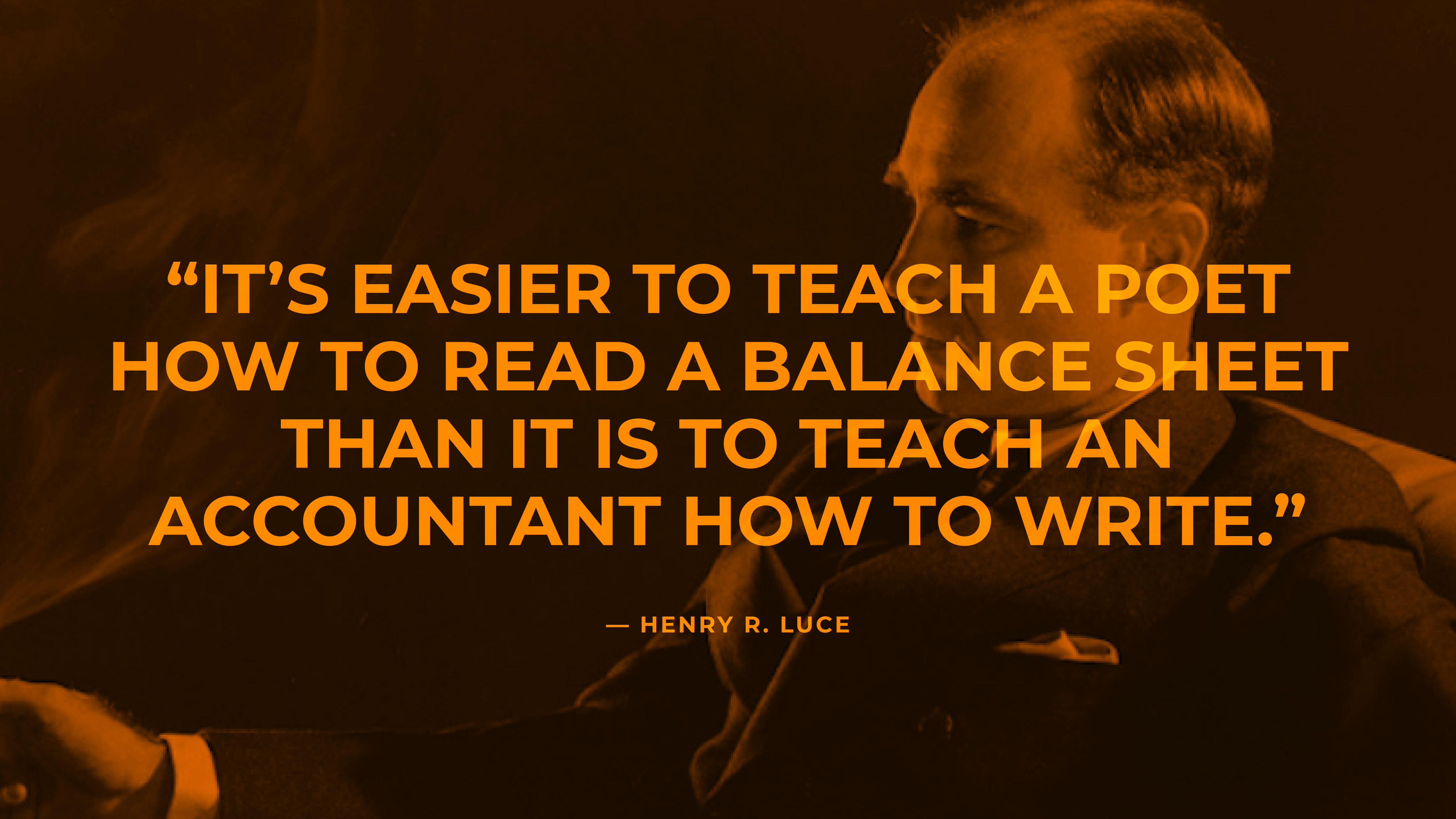
intuit QuickBooks Online

bill.com

Cash Flow Frog

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

"CASH RULES EVERYTHING AROUND ME, CREAM GET THE MONEY, DOLLA DOLLA BILLS Y'ALL."

— WU-TANG CLAN

ACCOUNTS RECEIVABLE OPTIMIZATION

"I want my two dollars."
— Johnny, Better off Dead

LEVEL 10 CFO

ACCOUNTS RECEIVABLE OPTIMIZATION

BEGINNER

What is it?

Aligning your systems and processes to invoice customers quicker and get paid faster for the work you are doing.

Why is it important for my agency?

EXTERNAL

Secure your revenue and ensure you have the in-bound cash flow to meet your business obligations.

INTERNAL

When you know you've got a system in place for getting paid on time - you're freed up to focus on closing new business instead of stressing over money you're owed.

LEVEL 10 CFO

ACCOUNTS RECEIVABLE OPTIMIZATION

BEGINNER

Pro Tips

➔ **Invoice On-Time or Early. Delays in invoicing delay your cash.**

- **Monthly Retainers:** Invoice at the beginning of the month!

- **Projects:** Invoice 25-50% upfront and set 1-2 billing milestones for the remainder.

- **Deliverables:** Release final deliverables only after final invoice is paid. Clients won't rush to pay for something they already have.

LEVEL**10**CFO

ACCOUNTS RECEIVABLE OPTIMIZATION

BEGINNER

Pro Tips

→ **Keep payment terms in check.**

- We recommend due on receipt or 10 day net. If someone needs more time, let them ask.

- Combined with invoicing at the beginning of the month, this should help ensure cash is received before payments to Employees / Freelancers are due.

→ **All invoices should be created in or synced back to Quickbooks Online (QBO) on a regular basis.**

- This ensures you have accurate information on all client balances.

ACCOUNTS RECEIVABLE OPTIMIZATION

BEGINNER

Pro Tips

→ **Monitor Aged Receivables (Outstanding Invoices)**

- Review your account's receivable aging report on a weekly basis.

- We recommend using QBO's automated emails to deliver regular aging reports to your inbox.

- Take tangible action on aged balances: emails, calls, follow-ups. The squeaky wheel gets the cash.

- Strategic credit holds can work effectively for ongoing customers with aged items.

- Have a defined escalation path and stick to it. Don't be afraid of hurting your customers feelings — they are the ones who have violated the agreement.

LEVEL 10 CFO

ACCOUNTS RECEIVABLE OPTIMIZATION

BEGINNER

Pro Tips

→ Link your bank account so deposits can be matched with open invoices in real-time.

→ Encourage electronic payments by ensuring all invoices from QBO have the "Bank Transfer" option enabled.

→ Speed up customer payments with Bill.com A/R module. Many customers may be using this platform already.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

bill.com

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

A/P OPTIMIZATION →

45

"I WANT MY TWO DOLLARS."

— JOHNNY, BETTER OFF DEAD

ACCOUNTS PAYABLE OPTIMIZATION

"I'd gladly pay you Tuesday for a Hamburger today."
— Wimpy

LEVEL 10 CFO

ACCOUNTS PAYABLE OPTIMIZATION

INTERMEDIATE

What is it?

Perhaps one of the most powerful tools in your arsenal; effective management of Accounts Payable can help fund the growth of your business using your vendors' capital.

Why is it important for my agency?

EXTERNAL

Delaying vendor payments, through term extensions, is an interest-free loan that can free up critical working capital.

INTERNAL

Late vendor payments can cause stress & humiliation, not to mention hold up the very supplies & materials you need. If you work closely with your vendor you'll often be able to find a win-win.

LEVEL10CFO

ACCOUNTS PAYABLE OPTIMIZATION

INTERMEDIATE

Pro Tips

→ Negotiate for extended terms.

- Depending on where you are in your life-cycle as a business, it can make sense to pay a slightly higher cost for services if you can get extended terms.

    - For Example, Your business has a significant purchase of $100,000 for critical materials. You are able to negotiate 90-day terms with the supplier, but at a higher cost. Would this make sense?

        - Many short-term small business loans have interest rates as high as 10%, credit cards can push 20% if carrying a balance. Assuming 10% interest, the cost of 100,000 for 90 Days would be $2,500.

        - In this example when given 90-day terms, you could pay up to 2.5% more to the vendor, and be even on your total cost to acquire the materials.

LEVEL 10 CFO

ACCOUNTS PAYABLE OPTIMIZATION

INTERMEDIATE

Pro Tips

→ **Know your vendors. Negotiate where the dollars are impactful. Identify the zombies and kill them.**

→ **Use bill.com to manage accounts payable.**

- Manually entering vendor invoices is an extremely inefficient process and adds minimal value. Streamline your process and keep your cash in your bank as long as possible.

→ **Pay your bills on time.**

- Negotiate heavily up front, but once you reach an agreement be sure to honor that deal. It's the right thing to do. The more consistently you pay, the more willing your vendors will be to extend terms in the future.

LEVEL10CFO

ACCOUNTS PAYABLE OPTIMIZATION

INTERMEDIATE

Pro Tips

→ **On the due date, pay by Credit Card.**

- This will typically give you another 25-30 days of float before you have to part with your hard-earned cash.

  - Typically you want to avoid paying merchant fees. However, sometimes with large purchases, it may make sense because you gain flexibility.

LEVEL10CFO

ACCOUNTS PAYABLE OPTIMIZATION

INTERMEDIATE

Pro Tips

→ **Review your A/P Aging Report on a regular basis.**

- Aged A/P items could indicate missed payments to critical vendors. Aged items could also be an indication of overstated expenses.

RECOMMENDED SOFTWARE

QuickBooks Online

bill.com

Don't have the time to learn another tool?
Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

CASH FORECASTING

"Success is having to worry about every dang thing in the world, except money"
— Johnny Cash

LEVEL 10 CFO

CASH FORECASTING

EXPERT

What is it?

Estimating the amount of cash that will be coming in and flowing out of your business in order to predict future cash availability. The primary sources of this data include your A/R, A/P, Credit Cards, and Payroll.

Why is it important for my agency?

EXTERNAL

Allows you to anticipate when cash balances might drop below a level you are comfortable with and take proactive steps.

INTERNAL

Gives you peace of mind knowing what's ahead. Avoid missing opportunities because of cash concerns, and make sure you can always pay your employees on time.

LEVEL10CFO

CASH FORECASTING

EXPERT

Pro Tips

→ **As a starting point, you can always use a simple Excel spreadsheet.**

▪ Use the major cash drivers as rows (i.e. A/R, A/P, credit card charges, etc.) and weeks for columns. Input amounts based on bank feeds for real time data and identify trends + forecast based on known events.

▪ The time frame for this forecast is typically ~13 weeks. For a longer forecast, update the budget (or latest financial forecast).

▪ VIEW SAMPLE EXCEL TEMPLATE HERE

LEVEL10CFO

CASH FORECASTING

EXPERT

Pro Tips

→ **Use Cash Flow Frog; a cloud based platform that can create a forecast in minutes using your Quickbooks data.**

→ **Use your CRM or Sales Pipeline to forecast cash receipts for revenue not yet invoiced. This is going to be one of your biggest X-Factors in creating your cash forecast.**

RECOMMENDED SOFTWARE

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

"SUCCESS IS HAVING TO WORRY ABOUT EVERY DANG THING IN THE WORLD, EXCEPT MONEY."

— JOHNNY CASH

BURN RATE

**"Make that money, watch it burn"
— OneRepublic**

LEVEL 10 CFO

BURN RATE

BEGINNER

What is it?

How long your company's cash will support the needs of your organization. If you have $60,000 in the bank and your monthly burn rate is $30,000, you may want to start selling, cutting costs, or find funding... and fast!

Why is it important for my agency?

EXTERNAL

Similar to a cash forecast, your burn rate gives you an indication if your current cash position is adequate to support the immediate needs of your business.

INTERNAL

Don't get caught off-guard; knowing your company's needs measured against your current cash serves as an early warning system that something needs to change.

LEVEL10CFO

BURN RATE

BEGINNER

Pro Tips

→ **Gross Burn Rate.**

- Compared with cash balance, this gives you a sense of how long your cash will last with no revenue.

→ **Net Burn Rate.**

- Compared with cash balance, this gives you a sense of how long your cash will last given your current financial performance.

- This does not substitute the need for a detailed cash forecast.

TOTAL MONTHLY CASH EXPENSE + **AVERAGE MONTHLY CAPITAL EXPENDITURES**

= GROSS BURN RATE

NET REVENUE - **TOTAL MONTHLY CASH EXPENSE** - **AVERAGE MONTHLY CAPITAL EXPENDITURES**

= NET BURN RATE

LEVEL 10 CFO

BURN RATE

BEGINNER

Pro Tips

→ Use of cash forecasting tools, such as Cash Flow Frog can aid with data analysis.

→ Review Cash Flow Statement as part of your Monthly Financial review to understand cash movements at the same level you understand your Profit and Loss.

RECOMMENDED SOFTWARE

Cash Flow Frog

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

DAYS OF CASH →

62

"MAKE THAT MONEY,
WATCH IT BURN."

— ONEREPUBLIC

DAYS OF CASH

"There are two times in a man's life when he should not speculate: when he can't afford it, and when he can."
— Mark Twain

LEVEL 10 CFO

DAYS OF CASH

INTERMEDIATE

What is it?

The number of days that your company can continue to operate based on your current cash position and known business conditions.

LEVEL10CFO

Why is it important for my agency?

EXTERNAL

Since this ignores uncertain factors, it provides a clear picture of where you stand if nothing changes.

INTERNAL

Helps identify how urgent of a cash need you might be in.

65

DAYS OF CASH

INTERMEDIATE

Pro Tips

→ **Similar to cash flow forecasting, this can help identify the major drivers and amounts of cash inflows and outflows.**

- In looking ahead on the revenue side, ONLY include confirmed (certain) business.

- By excluding expected cash from unsigned and/or proposed deals, you get a better understanding of your worst case scenario.

→ **Under this revised forecast methodology using only confirmed revenue, calculate the number of days from today that your cash balance will last.**

- (Hint: more days are better). A good rule of thumb is to maintain 90-120 days of cash runway at all times. This gives you adequate time to react to any potential shortfalls.

LEVEL10CFO

DAYS OF CASH

INTERMEDIATE

Pro Tips

→ **Cash Flow Frog is a great tool for this as well, since you can create multiple scenarios.**

- Creating multiple scenarios allows you to understand the sensitivity critical assumptions have on your cash forecast.
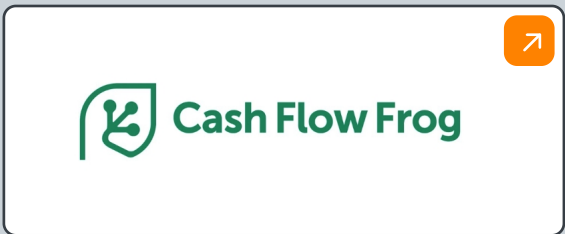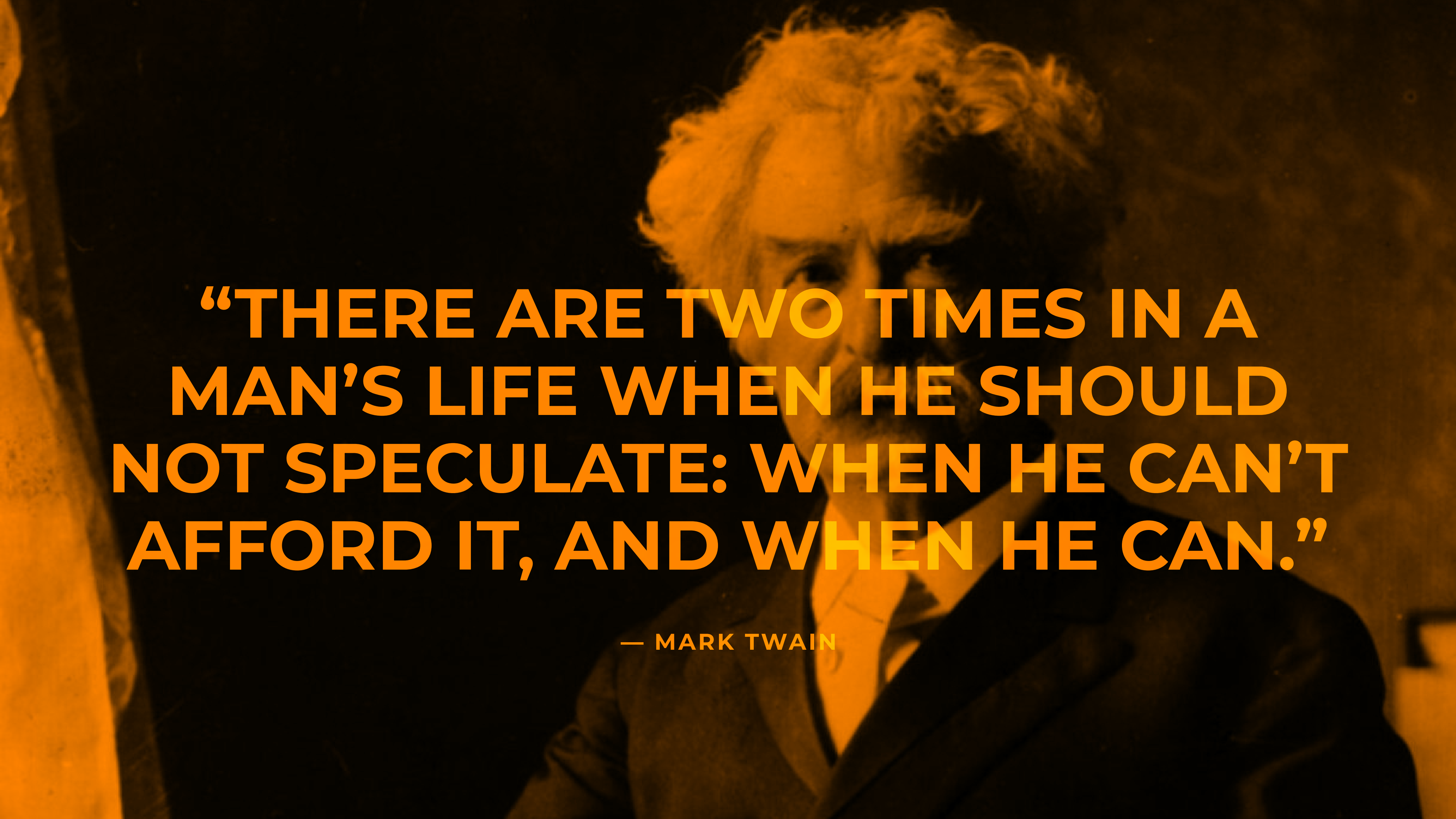
RECOMMENDED SOFTWARE

Cash Flow Frog

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

"THERE ARE TWO TIMES IN A MAN'S LIFE WHEN HE SHOULD NOT SPECULATE: WHEN HE CAN'T AFFORD IT, AND WHEN HE CAN."

— MARK TWAIN

LEVEL 10 CFO

CHAPTER THREE

INTERNAL CONTROLS

INTERNAL CONTROLS

"Oh and while the King was looking down,
the jester stole his thorny crown."
— Don Mclean

LEVEL 10 CFO

INTERNAL CONTROLS

INTERMEDIATE

What is it?

Internal Controls are a system of processes designed to ensure that your cash is protected and only used for approved business needs.

Why is it important for my agency?

EXTERNAL

Strong internal controls are a critical component of a well-run business. Build a system that gives you confidence your cash is secure.

INTERNAL

Susan's creativity may extend far beyond those cat memes that keep cluttering your inbox. Susan could be getting creative in forging, washing, kiting, or stealing your cash. Strong Internal Controls give you peace of mind this won't happen to you.

LEVEL 10 CFO

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INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

→ **The Fraud Triangle**

- Even your best employees face outside pressures. Sick parents, divorce, the new Ford Bronco can all create outside pressure on your staff.

- If that same employee has an opportunity to circumvent controls they may choose to generously share your hard-earned cash with themselves to reduce their pressure.

OPPORTUNITY

FRAUD
TRIANGLE

PRESSURE

RATIONALIZATION

LEVEL 10 CFO
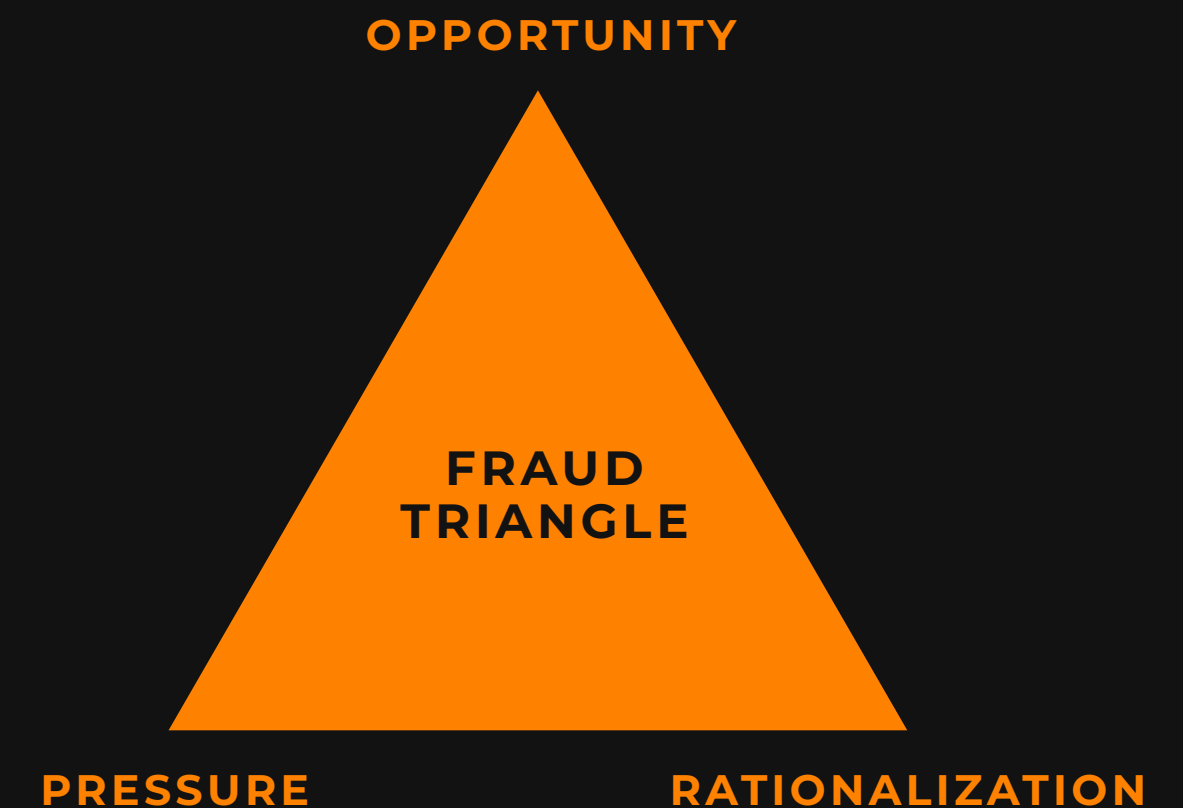
INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

- There are many reasons a dedicated employee can come up with to rationalize their actions: "It's just a loan", "I haven't received a raise in five-years", "The owner just got a new boat, she won't miss it."

- A strong Internal Control environment removes opportunity so that your cash stays your own, and your employees' outside pressures remain outside.

OPPORTUNITY

FRAUD TRIANGLE

PRESSURE   **RATIONALIZATION**

LEVEL10CFO
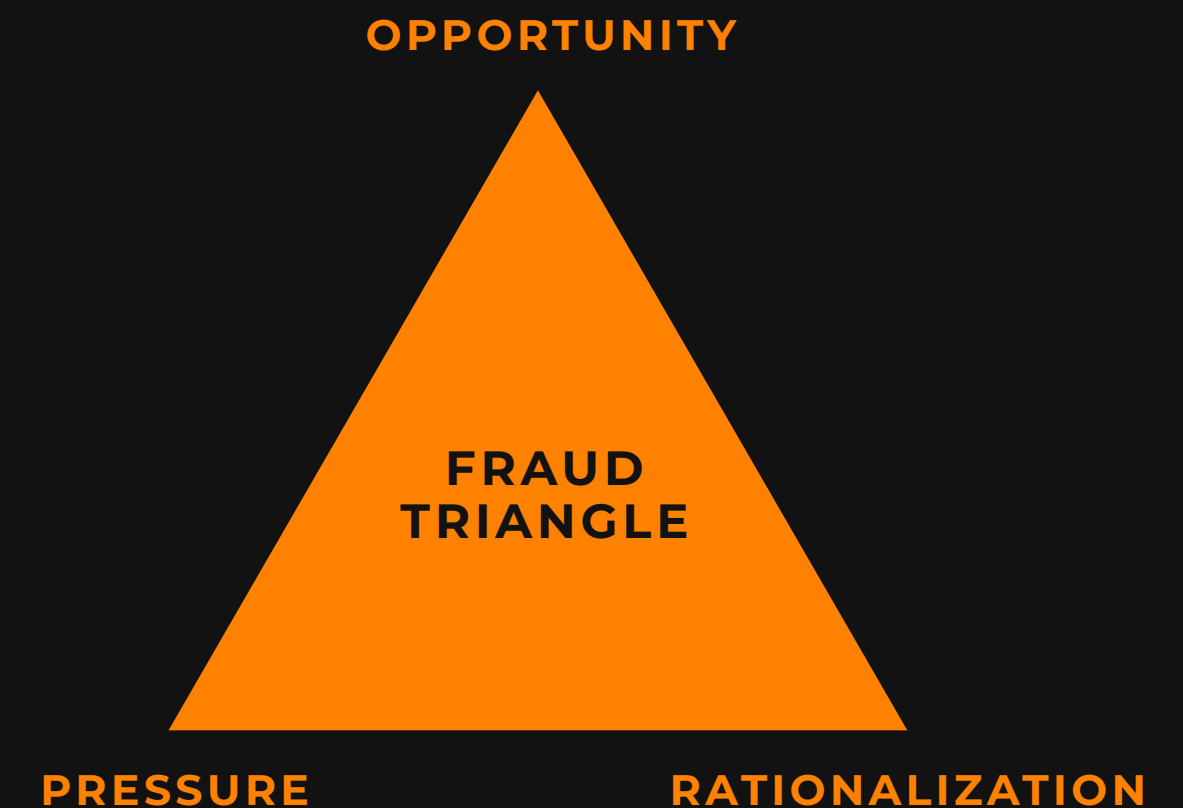
INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

→ **Segregation of duties; No one person in your organization should have authority or access to add vendors, record bills, and then pay those bills.**

- Use systematic controls wherever available; In the absence of systemic controls use procedural controls.

- Adopt "Approval Workflows" on the invoicing and on the bill entry side of the house. All invoices and bills should get at least one additional review outside of the person doing data entry. Ideally entry, review & payment are all completed by different individuals.

LEVEL10CFO

INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

- Bill.com uses Approval Workflows to allow secondary approval for business expenditures.

- Bank & Credit card reconciliations should be performed by someone outside the cash disbursements process.

→ **Access controls can help prevent unauthorized access to financial information and records.**

- This can include password protections, limited access to certain files and systems, and regular review of access logs to identify any unusual activity.

LEVEL 10 CFO

INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

→ **Vendor Changes should be monitored closely.**

- Any vendor/employee changes received through email should be verified with a phone call to the number on record (not the number in the email.) Phishing scams are abound and this is a go-to strategy.

- Never (ever, ever) change banking information or wire funds based on email instruction alone. There should always be a system of manual independent confirmation.

LEVEL10CFO

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INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

- Going one step further, both Bill.com for payables, and Gusto for payroll enable vendors and employees to enter their own banking information directly into the portal. This eliminates your staff from the process entirely!

- Bill.com offers Dual Control & Approval Workflows for changes to vendor name, vendor banking and other critical information.

LEVEL10CFO

INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

→ **Eliminate physical checks - outbound.**

- Adopt a payment system such as Bill.com. In addition to built-in process controls, bill.com eliminates the need for paper checks.

- In the event you love the waste that is issuing paper checks:

  - Keep blank check stock under lock & key. Limit the number of signers on checks.

  - Signers should never be the same personnel performing data entry.

  - Be sure to periodically review your bank statement and cashed check images. This is a good way to see if unauthorized payments are being issued.

LEVEL10CFO

INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

→ **Eliminate physical checks - inbound.**

- Encourage your customers to pay via electronic payment.

    - This far into the new millennium there are no (good) reasons that you can't get electronic payment from your customers.

    - QBO, Bill.com, Venmo, Melio, Paypal and a multitude of other platforms help facilitate electronic payments.

    - In the rare instance that physical checks are still a requirement for your business, consider moving to a bank lockbox. This shortens the cycle for deposits and keeps physical checks out of your office.

LEVEL10CFO

INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

→ Mandatory Vacations

- Vacation time is precious and can be an extremely valuable benefit for your employees. Extended vacations for your team (1 full week to 2 full weeks) with no access to "helping out" can be a powerful control to find out where your most dedicated staff may be circumventing your controls.

→ Training and Education

- Providing ongoing training and education to employees can help ensure that they understand the company's policies and procedures and are aware of their responsibilities. This can include training on fraud prevention, financial reporting requirements, and ethics.

LEVEL10CFO

INTERNAL CONTROLS

INTERMEDIATE

Pro Tips

➔ **Review financial statements (all of them)**

- Many would-be fraudsters like to hide away their dirty deeds in the balance sheet, knowing that the business owners only look at the P&L.

- Periodic reviews of the balance sheet, and supporting schedules, can help bring secret hiding spots to light.

RECOMMENDED SOFTWARE
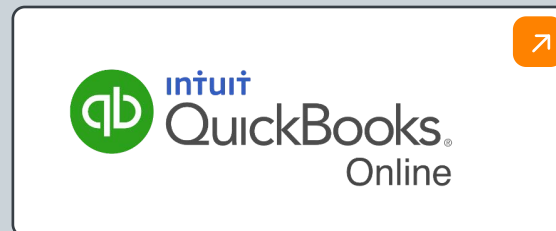
QuickBooks Online

bill.com

gusto

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL10CFO

"OH AND WHILE THE KING WAS LOOKING DOWN, THE JESTER STOLE HIS THORNY CROWN."

— DON MCLEAN

ACCRUAL ACCOUNTING

ACCRUAL ACCOUNTING

"In the corporate world, sometimes things aren't exactly black and white when it comes to accounting procedures."
— George Bush, 2002

LEVEL 10 CFO

ACCRUAL ACCOUNTING

EXPERT

What is it?

A method to capture the full economic activity for a given period, without regard to cash movements.

Why is it important for my agency?

EXTERNAL

This is a crucial evolution into understanding the financial health of your organization.

INTERNAL

Gain better understanding of your company's performance, beyond invoicing and/or monthly cash collection.

LEVEL**10**CFO

ACCRUAL ACCOUNTING

EXPERT

Pro Tips

→ **Add routines to your close process that account for variability between cash activity and accounting activity.**

→ **Is it deferred or accrued?**

- A deferral typically refers to cash or invoice activity that happened in the current period, but some or all of the financial benefit should be recognized in a later period.

- An accrual is used to record activity for something that has happened, such as revenue earned, but cash has not yet been received.

LEVEL 10 CFO

ACCRUAL ACCOUNTING

EXPERT

Pro Tips

→ **Any accrual accounting system requires strong process controls and regular review.**

- This helps make sure your Balance Sheet accurately reflects timing adjustments, and reduces the big surprises that tend to hide there.

- Book all accruals as "reversing entries". By reversing accruals each month, this helps ensures that aged items are not hiding in your Balance Sheet.

LEVEL10CFO

ACCRUAL ACCOUNTING

EXPERT

Pro Tips

→ **Common adjustments include:**

- Deferred / Accrued Revenue

- Use of Prepaid / Accrued Expense

- Salary accruals, particularly for bi-weekly payroll

- Fixed asset capitalization policy

RECOMMENDED SOFTWARE
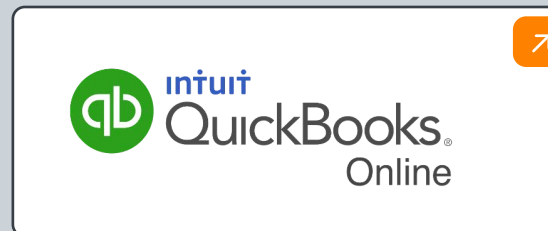
intuit QuickBooks Online

bill.com

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LEVEL 10 CFO

ACCRUED / DEFERRED REVENUE →

"IN THE CORPORATE WORLD, SOMETIMES THINGS AREN'T EXACTLY BLACK AND WHITE WHEN IT COMES TO ACCOUNTING PROCEDURES."

— GEORGE BUSH

ACCRUED / DEFERRED REVENUE

"What are we even talking about this for?"
— Rocket, Guardians of the Galaxy, vol. 2

LEVEL 10 CFO

ACCRUED / DEFERRED REVENUE

EXPERT

What is it?

The process of normalizing revenue for the amount earned in each period, separate of the amount invoiced or cash received.

Why is it important for my agency?

EXTERNAL

By accurately reflecting revenue in the period it is earned, you can better understand your true product margins and get a better understanding of the true economic value driven in the period.

INTERNAL

Eliminate the confusing clunkiness that comes with project based agency work.

LEVEL 10 CFO

91

ACCRUED / DEFERRED REVENUE

EXPERT

Pro Tips

→ **In the vast majority of cases, a straight-line methodology will suffice to calculate your monthly revenue earned.**

- You should try to adopt a consistent approach across all projects.

- In some instances for longer projects that have lumpy workload, a % of completion method could be considered.

→ **Re-calculate entries each month, book as reversing so that the balance sheet remains clean.**

Monthly Revenue =

Total Project Value

÷

# of Months to Complete

LEVEL10CFO

ACCRUED / DEFERRED REVENUE

EXPERT

Pro Tips

→ Your CRM (like Hubspot) should be tracking all the the important data points like Beginning Dates, End Dates, and total expected value of your project. But your accounting team will need to review monthly with your project teams to monitor actual progress.

→ Any retainers billed on a frequency other then monthly may be a candidate for deferred revenue.

LEVEL10CFO

ACCRUED / DEFERRED REVENUE

EXPERT

Pro Tips

→ Accrued / Deferred Revenue Template:

- VIEW EXCEL TEMPLATE HERE

RECOMMENDED SOFTWARE

HubSpot

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

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"WHAT ARE WE EVEN TALKING ABOUT THIS FOR?"

— ROCKET, GUARDIANS OF THE GALAXY, VOL. 2

PREPAID / ACCRUED EXPENSES

"You can do it!"
— Townie, The Waterboy

LEVEL 10 CFO

PREPAID / ACCRUED EXPENSES

EXPERT

What is it?

A means of normalizing expenses for costs that were incurred during a period.

Why is it important for my agency?

EXTERNAL

Matching expenses to the current period; close period faster by making estimates for pending expenses.

INTERNAL

Gain confidence you actually earned the money your P&L tells you. Avoid confusion caused by disorganized results.

LEVEL10CFO

PREPAID / ACCRUED EXPENSES

EXPERT

Pro Tips

→ **Materiality matters.**

- There are many expenses that could technically qualify to be deferred and recognized over a longer time frame (i.e. $100 annual software renewal).

- However, the effort in getting expenses perfectly recognized often outweighs the benefit.

- Try setting a materiality threshold of .25% of Annual Revenue, or a minimum of 1,000. If total expense is less than materiality threshold, let it fall in the period it is paid without adjusting.

LEVEL10CFO

PREPAID / ACCRUED EXPENSES

EXPERT

Pro Tips

→ **Create a schedule of prepaid expenses and their remaining expense balance.**

- This should be monitored and reconciled each month as part of your standard closing.

- A good schedule includes the Vendor Name, the original expense amount, the monthly expense amount, and timing as to when the expense should go to zero.

- Sample Pre-paid Expense Schedule: **VIEW EXCEL TEMPLATE HERE**

- Accrued Expense Schedule: **VIEW EXCEL TEMPLATE HERE**

→ **Advanced: Use QBO embedded reconciliation feature to create schedules and maintain a clear view of open balances without using an excel schedule.**

LEVEL10CFO

PREPAID / ACCRUED EXPENSES

EXPERT

Pro Tips

→ **Prepaid expenses are expenses that are paid in advance.**

- Common prepaid expenses include:
    - Insurance Premiums
    - Software Subscriptions
    - Rent Payments (if payment goes early)

→ **For expenses that qualify for deferral, code them directly to Prepaid Expenses.**

- Use the QBO recurring entry feature to create a recurring journal entry to recognize the monthly expense automatically.

PREPAID / ACCRUED EXPENSES

EXPERT

Pro Tips

→ **Accrued expenses are expenses that are expected to be paid in a subsequent period however the benefit of the expense hits in the current period.**

- Common accrued expenses include:

  - Payroll Accrual (Especially for companies running a bi-weekly payroll)

  - Legal Fees

  - Tax Preparation Fees

  - Vendor invoices received late (after period is closed)

LEVEL**10**CFO

PREPAID / ACCRUED EXPENSES

EXPERT

Pro Tips

→ **Establish a hard cutoff date where invoices received can be back-dated to prior period.**

- After that date, all expenses push to the month received and use accruals to record the expense in the proper period.

→ **Book all accrued expenses using a reversing journal entry.**

- Zeroing out accrued expenses each month and re-booking help to maintain balance sheet integrity.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

bill.com

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

"YOU CAN DO IT!"

— TOWNIE, THE WATERBOY

CHAPTER FIVE

BUDGETING FOR SUCCESS

BUDGETING

"I'd shoot for the moon, but I'm too busy gazing at stars."
— Eminem

LEVEL 10 CFO

BUDGETING

INTERMEDIATE

What is it?

Creating an annual budget (and using it to run your business). Budgeting can be one of the most impactful investments you can make in understanding your business and generating real profit.

Why is it important for my agency?

EXTERNAL

Create the roadmap for your business for the coming year. Help communicate your vision in financial terms. Hold your leadership accountable to financial delivery.

INTERNAL

Get the numbers out of your head. Having a well-baked budget is the difference between guessing and knowing.

LEVEL 10 CFO

BUDGETING

INTERMEDIATE

Pro Tips

→ **Harkening back to the Scientific Method, a budget is simply a hypothesis of what you think will happen to your business based on a set of assumptions.**

- Create your Hypothesis (Budget)

- Run your experiment (run your business)

- Compare results back to what you thought would happen (Variance Analysis)

- Reset your hypothesis based on new information (Quarterly Re-Forecast)

- Rinse and repeat

LEVEL10CFO

BUDGETING

INTERMEDIATE

Pro Tips

→ For simpler business models, Fathom can be a great tool to create a driver-based financial plan that is easy to update & maintain.

→ For more complex businesses or businesses looking to raise funds, Microsoft Excel remains the gold standard.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

Fathom

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

CREATING A BUDGET →

"I'D SHOOT FOR THE MOON,
BUT I'M TOO BUSY GAZING AT STARS."

— EMINEM

CREATING A BUDGET

"I'm a diamond in the rough, a shiny
piece of coal Tryin' to reach my goal."
— Lin Manuel Miranda

LEVEL 10 CFO

CREATING A BUDGET

INTERMEDIATE

What is it?

A budget is simply an accumulation of assumptions for the future performance of the business. Building a budget involves taking what you know about your business and using that to predict future performance.

Why is it important for my agency?

EXTERNAL

Creating a budget will help all that are involved understand the financial drivers of your business at a more granular level.

INTERNAL

Gain confidence being able to forecast the performance of your business and cash flow, without surprises.

LEVEL 10 CFO

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **Fathom is a great resource for budget creation.**

- This tool seamlessly integrates with your financial data allowing you to build a Driver-based budget anchored against historical results.

- VIEW LEVEL10'S HOW-TO GUIDE FOR BUDGETING WITH FATHOM

→ **Start with Top-Line.**

- Revenue is the fuel for your business and expected revenue should drive your budget. Most assumptions in your model are either directly (Cost of Revenue) or indirectly (overhead required to support) tied to revenue.

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **Wherever possible, model using key drivers instead of high level numbers.**

- When modeling revenue, think about the underlying mechanisms that drive revenue.

- Instead of modeling revenue to be $2M for the coming year, break that down to execution levels. A driver based approach could instead look like, we will complete 80 projects at $25,000/ea.

LEVEL10CFO

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **"Sales" do not equal revenue, and timing matters.**

- This is especially true in businesses with a heavy recurring revenue component, *when* you get the business is almost as important as *if* you get the business.

- Take the examples of a company with "sales" of 20 new accounts valued at $100K/yr. $2M total of new signed business. In all three scenarios, actual realized revenue is substantially lower than "sales" and can vary dramatically depending on when business is signed in the year.

| **Company A:** new sales evenly distributed throughout the year would see in-year revenue of $1.1M | **Company B:** new sales are front-loaded (40% in Q1, 25%, in Q2, 20% in Q3, 15% in Q4). In-year revenue in this circumstance would be ~$1.3M | **Company C:** new sales are back-loaded (15% in Q1, 20%, in Q2, 25% in Q3, 40% in Q4), in-year revenue would $0.9M |

LEVEL 10 CFO

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **Build with measurement in mind.**

- One of the primary goals of building a budget is to create a tool against which you can measure your performance throughout the year. Build the budget using metrics/numbers you are currently using to measure the business. At the end of the day, you want to be able to understand why you have a variance against a plan with key numbers.

  - i.e. you expected to complete 5 projects $10,000/ea., instead you completed 12 projects at $8,000/ea. Understanding your business at this level of detail helps you change or refine your trajectory in a more targeted manner.

LEVEL10CFO

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **Add complexity only where complexity adds value.**

- Many expense items are reasonably fixed or you have little control over the outcome. Do not spend too much time building out granular driver based tools to forecast these expenses.

- As an example, building utilities are largely fixed, minimally impactful to overall results, and are largely out of your control to change. In cases like this, it is not recommended to take a super granular approach to budgeting when a simple average would suffice, and in many cases be more accurate.

→ **Focus on decision making.**

- Your budget should ultimately drive better decisions. A driver based budget helps break the budget down to tangible actions for your leadership team to execute upon.

LEVEL 10 CFO

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **Share budgets with the teams that are responsible for driving the numbers.**

→ **If you have a bonus plan, tie bonus payouts to department budgets and profit targets.**

- A budget is NOT an entitlement. Significant expense items such as hiring new employees, buying equipment, signing a new contract, should still be reviewed on their own merits at the time of decision. This is especially true if revenue is short of target (see re-forecasting).

LEVEL10CFO

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **Don't forget the "Other" financial statements.**

- Many business owners will build a P&L Budget, but will not complete the process with a Balance Sheet or Cash Flow budget. The P&L doesn't always give the full picture.

- Big movements in A/R or capital investments could be impactful to cash and not necessarily show up on the P&L. You want to know that you are profitable, but also that you have the funding needed to support your plan.

LEVEL10CFO

CREATING A BUDGET

INTERMEDIATE

Pro Tips

→ **If you built your budget at a driver level, be sure to put a process in place to compare actual driver data with planned results.**

- Fathom does allow you to convert drivers from your budget into Targets that can be reviewed on a regular basis.

- Alternatively, a nice single spreadsheet (Google Sheets recommended for sharing) to store your drivers and log actual results can work as well.

RECOMMENDED SOFTWARE

Excel

Fathom

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

"'I'M A DIAMOND IN THE ROUGH, A SHINY PIECE OF COAL TRYIN' TO REACH MY GOAL."

— LIN MANUEL MIRANDA

REVIEW ACTUALS AGAINST BUDGET

"I'm on the pursuit of happiness. I know everything that shines ain't always gold. I'll be fine once I get it, I'll be good."
— Kid Cudi

LEVEL10CFO

REVIEW ACTUALS AGAINST BUDGET

INTERMEDIATE

What is it?

Budgets are most effective when revisited consistently throughout the year. You should make it a habit to review your actual results against your budget on a monthly basis.

Why is it important for my agency?

EXTERNAL

This will improve the accuracy of your financials and highlight areas of focus to drive your desired outcome.

INTERNAL

Better understand the behavior of key drivers in your business and the impacts they have on profitability.

LEVEL10CFO

REVIEW ACTUALS AGAINST BUDGET

INTERMEDIATE

Pro Tips

→ **Be sure you have loaded your budget into your reporting tool.**

- Make your budget accessible for review anytime by loading data into your reporting software.

- Use Fathom to develop your budget. Easily convert your live forecast into a budget.

- QBO also allows you to create a budget from a CSV upload.

→ **Researching budget variances will help you better understand the drivers for your business, however every line item will have a variance.**

- Set a reasonable threshold for researching variances. i.e. all variances of >10%, with a minimum variance of $1,000. This will help you to focus your efforts on the most impactful items.

LEVEL10CFO

REVIEW ACTUALS AGAINST BUDGET

INTERMEDIATE

Pro Tips

→ **The most effective variance analysis compares results at a driver level, similar to how the budget is built.**

- **Good Variance Analysis:** We expected to complete 5 projects $10,000/ea., instead we completed 12 projects at $8,000/ea.

- **Bad Variance Analysis:** Revenue exceeded plan by $46,000.

- Similar to building the budget, keep decision making in mind. Variance analysis should help management make improved decisions in the future or assist finance with creating better, more accurate budgets.

REVIEW ACTUALS AGAINST BUDGET

INTERMEDIATE

Pro Tips

→ **Run a comparison for the current month, but also run a comparison for YTD. This helps you focus on the immediate term but not lose sight of the bigger picture.**

→ **Another valuable comparison can be to look at how you are tracking for the entire year against your original plan.**

- Compare full year budget against YTD actual results + Forecasted results for remainder of year.

- Especially if your business is heavily seasonal or has a long sales cycle, looking only at YTD numbers will not always give you a great understanding of how you will end the year.

LEVEL10CFO

REVIEW ACTUALS AGAINST BUDGET

INTERMEDIATE

Pro Tips

→ **Add your current actual results through the most recent period with the budgeted (or forecasted, see next chapter) results for the remainder of the year to project how your company will finish.**

- Compare those results against your original budget.

RECOMMENDED SOFTWARE

intuit QuickBooks Online

Google Sheets

Fathom

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

CREATE QUARTERLY RE-FORECAST PROCESS →

"I'M ON THE PURSUIT OF HAPPINESS. I KNOW EVERYTHING THAT SHINES AIN'T ALWAYS GOLD. I'LL BE FINE ONCE I GET IT, I'LL BE GOOD.

— KID CUDI

CREATE QUARTERLY RE-FORECAST PROCESS

"Yes, there are two paths you can go by, but in the long run there's still time to change the road you're on."
— Led Zeppelin

LEVEL 10 CFO

CREATE QUARTERLY RE-FORECAST PROCESS

EXPERT

What is it?

Update critical assumptions on a quarterly basis as a revised forecast. This is just as important as creating and maintaining your budget at the onset of the year.

Why is it important for my agency?

EXTERNAL

Get a revised view of the projected financial performance for the year using the most current data available (Actuals + Updated Assumptions).

INTERNAL

Get updated information to make better informed decisions on the direction of your business.

LEVEL10CFO

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CREATE QUARTERLY RE-FORECAST PROCESS

EXPERT

Pro Tips

→ **Spoiler alert: your budget will be wrong.**

- ■ This is okay, expected, and can even be a positive thing.

- ■ Use the information gained through variance analysis to refine your key assumptions.

- ■ Make changes to your business based on the new information.

→ **Use revised forecasts combined with actual results to forecast your fiscal year performance against the original budget.**

LEVEL10CFO

CREATE QUARTERLY RE-FORECAST PROCESS

EXPERT

Pro Tips

→ **Strive to maintain your profit target from the budget.**

- **Impact:** Revenue is down 10% through Q1 due to unforeseen events.

- **Outcome:** Management decides to delay planned hiring in order to offset revenue decline.

- When making decisions about cuts or delayed hiring don't just focus on short-term profits. Be sure to factor in long-term impacts to growth such moves could make.

→ **Keep it simple, but follow a similar outline to a full-blown budget process.**

- A quarterly forecast should be performed at a higher level and only focus on critical assumptions or changes in direction.

LEVEL10CFO

"YES, THERE ARE TWO PATHS YOU CAN GO BY, BUT IN THE LONG RUN THERE'S STILL TIME TO CHANGE THE ROAD YOU'RE ON."

— LED ZEPPELIN

SALES OPTIMIZATION

LEVEL 10 CFO

SALES OPTIMIZATION

"All I do is win."
— DJ Khalid

LEVEL 10 CFO

SALES OPTIMIZATION

INTERMEDIATE

What is it?

Sales Optimization is the alignment of your outward facing processes to ensure you are maximizing your revenue potential.

Why is it important for my agency?

EXTERNAL

Having an optimized sales / marketing plan is the only sure way to grow your business.

INTERNAL

Gain confidence in knowing you are generating new sales and growing your business.

LEVEL 10 CFO

SALES OPTIMIZATION

INTERMEDIATE

Pro Tips

→ **Start at the top of the funnel and work your way through each step of your sales cycle to ensure you are optimized to maximize revenue.**

→ **New sales are critical to the health of your organization, no matter the size.**

- Enables you to be selective about clients you take on
- Protect your organization against the "Friday Afternoon Phone-Call"

RECOMMENDED SOFTWARE

QuickBooks Online

HubSpot

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

"ALL I DO IS WIN."

— DJ KHALID

PIPELINE FORECASTING

"Show me the money."
— Rod Tidwell, Jerry McGuire

LEVEL 10 CFO

PIPELINE FORECASTING

BEGINNER

What is it?

The process of tracking and forecasting your active client leads.

Why is it important for my agency?

EXTERNAL

Understand if you have the incoming revenue needed to meet your goals with regular review of your sales pipeline.

INTERNAL

Know that you have enough incoming revenue to support the needs of your business, employees, vendors and your family.

LEVEL 10 CFO

PIPELINE FORECASTING

Pro Tips

→ **Set Sales Targets and monitor your pipeline against those targets.**

→ **Minimize the number of inputs and/or measurables for Sales Forecasting.**

→ **Monitor what matters.**

■ If you have a large component of Pass-Through revenue (i.e. ad costs) exclude this from your forecasts, as it is difficult to predict or control and adds little value to your bottom line.

■ Focus on Fee Revenue that supports your overhead and grows your profitability.

LEVEL10CFO

PIPELINE FORECASTING

BEGINNER

Pro Tips

→ **For Recurring Revenue streams convert sales to an "Annual Target"**

- i.e. Monthly Retainer of $5,000 converts to Annualized Sales Target of $60,000.

→ **For project based sales, look at the total value of the project. Don't get hung up on trying to predict monthly revenue.**

- If you sell a service that takes multiple months (i.e. website development,) the sales targets & pipeline forecast should be based on Total Project value sold in the month, not just your first month revenue.

LEVEL 10 CFO

PIPELINE FORECASTING

BEGINNER

Pro Tips

→ **Review regularly!**

- Revenue is the fuel that feeds your business.

- You should be monitoring your Sales Pipeline regularly (weekly is not overdoing it.)

RECOMMENDED SOFTWARE

HubSpot

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

"SHOW ME THE MONEY."

— ROD TIDWELL, JERRY MCGUIRE

PRICING

"F*ck you, pay me."
— Pauly, Goodfellas

LEVEL 10 CFO

PRICING

EXPERT

What is it?

Pricing is one of the most important processes in your entire organization (next to Cash Management). Pricing can play a determining role in winning business, and is also one of the biggest drivers of profitability.

Why is it important for my agency?

EXTERNAL

Finding the sweet spot between your cost point while remaining compelling to the market is an iterative process that is as much art as it is science.

INTERNAL

Ensure you are not leaving money on the table due to a poor pricing model. Sure they took the deal... but could you have gotten more?

LEVEL 10 CFO

PRICING

EXPERT

Pro Tips

→ **Know your cost! If you don't know what it costs you to produce, you can't be sure you are pricing for profitability.**

→ **Market & Value determine pricing, *not* your costs . . .**

- Use value based drivers to set your pricing. SEE DEFINITIONS AND EXAMPLES HERE

- Understand the cost of your competition that clients will be reviewing and comparing.

- Avoid cost plus pricing models.

- If market rates are below your costs, you need to find a way to deliver quality work product at a lower cost (offshore resources, automation, overhead cost reduction).

LEVEL10CFO

PRICING

Pro Tips

➔ **Avoid hourly fee structures, especially for ongoing business relationships.**

- In an hourly structure, any efficiencies you drive result in revenue reduction.

- Understanding your costs is critical in a fixed fee model. You must keep a close eye on performance against targets.

- Scope Creep is real; monitor all engagements on a regular basis to ensure you are not over-servicing clients.

- Be prepared to have candid conversations around Scope & Price with your clients.

➔ **Review all relationships annually (at least) to ensure profitability.**

- In a people-driven organization your costs are constantly increasing. Your margins shouldn't suffer.

PRICING

EXPERT

Pro Tips

→ **Pricing is an iterative process and should be constantly monitored.**

- If you are winning every deal, it is possible your service is that good, but it could also be an indication your pricing may be too low.

- And, if your service is that good - you should probably be charging more.

RECOMMENDED SOFTWARE

intuit
QuickBooks
Online

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

LEAD GENERATION & MARKETING SPEND →

"F*CK YOU, PAY ME."

— PAULY, GOODFELLAS

LEAD GENERATION & MARKETING SPEND

"You only get one shot, do not miss your chance to blow."
— Eminem

LEVEL 10 CFO

LEAD GENERATION & MARKETING SPEND

INTERMEDIATE

What is it?

Building plans, spending money and investing time to ensure you are generating enough lead flow to meet your sales targets.

Why is it important for my agency?

EXTERNAL

For professional services organizations, such as agencies, feeding the funnel through "soft" activities of marketing/lead generation can prove far more effective in generating business than hardcore sales.

INTERNAL

Are you doing enough today to generate the leads that will become new business tomorrow?

LEVEL 10 CFO

LEAD GENERATION & MARKETING SPEND

INTERMEDIATE

Pro Tips

→ **Find your niche, and focus all your resources and efforts on that niche.**

- Understand and be able to explain why your business is specifically suited to serve the needs of your target customers.

- Sometimes marketing spend can be tough to justify as the return is not immediately known or quantifiable. However, investment in marketing is an investment in your long-term viability.

LEVEL 10 CFO

LEAD GENERATION & MARKETING SPEND

INTERMEDIATE

Pro Tips

→ **Set specific marketing goals.**

- To justify marketing spend, it's crucial to set specific and measurable marketing goals. These should align with your overall business strategy and be tied to key performance indicators (KPIs) such as revenue, profit margin, customer acquisition, or customer lifetime value.

→ **Determine the return on investment (ROI) of marketing spend.**

- ROI measures the revenue generated from marketing efforts against the cost of those efforts. By calculating the ROI, you can determine whether your marketing spend is generating a positive return.

LEVEL**10**CFO

LEAD GENERATION & MARKETING SPEND

INTERMEDIATE

Pro Tips

→ **Analyze the lifetime value of customers.**

- Lifetime value (LTV) is the revenue your business can expect to earn from a customer over the course of their relationship. By analyzing LTV, you can determine whether your marketing spend is generating loyal customers who will continue to generate revenue over time.

→ **Compare marketing spend to industry benchmarks.**

- To determine whether your marketing spend is reasonable and competitive, you can compare your spend to industry benchmarks. This can help to identify areas where you are overspending or underspending relative to your competitors.

LEVEL10CFO

LEAD GENERATION & MARKETING SPEND

INTERMEDIATE

Pro Tips

→ **Hit the streets.**

- Shaking hands and kissing babies is not to be underestimated.

- Become an expert in your field:

  - Seek speaking engagements.
  - Attend trade shows.
  - Create distributable content (ebooks for instance) that benefit the consumer.

→ **Seek out strategic partnerships with other non-competitive vendors serving your same market; establish mutual referral agreements.**

LEVEL 10 CFO

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LEAD GENERATION & MARKETING SPEND

INTERMEDIATE

Pro Tips

→ **Offer value without expectation of reciprocation.**

- Some will take the value and thank you, others will be intrigued and want to learn more.

- For example, just because you're told how to build a cash forecast doesn't mean you can or want to do that.

RECOMMENDED SOFTWARE

HubSpot

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

"YOU ONLY GET ONE SHOT, DO NOT MISS YOUR CHANCE TO BLOW."

— EMINEM

COMMISSION PLANS

"Laid back with my mind on my money and my money on my mind."
— Snoop Dogg

LEVEL 10 CFO

COMMISSION PLANS

EXPERT

What is it?

The bane of existence for many business owners, commission plans can be a crucial component to the growth of your business.

Why is it important for my agency?

EXTERNAL

A well-built commission plan will incentivize your sales team to seek out the customers you want to serve.

INTERNAL

Does your commission plan incent the right behavior or are you overpaying for revenue you would have gotten anyways?

LEVEL10CFO

COMMISSION PLANS

EXPERT

Pro Tips

→ **Make sure you can measure the targets you're building your plan around.**

- If you cannot measure or report on progress against targets, your commission plan will be at best non-productive, and at worst destructive.

→ **Ensure your team understands the targets for their commission plan.**

→ **Calculate and report on commissions on a regular basis (monthly, quarterly).**

COMMISSION PLANS

EXPERT

Pro Tips

→ **Think through unintended consequences of the commission plan.**

- They are always lurking in the shadows and there is a great chance your sales team will find and exploit them.

- For example, paying a hunter to milk a cow will invariably lead to milking cows and not hunting new clients

→ **Tie commission payouts to future performance of client – 'Golden Handcuffs.'**

→ **Plan for client cancellations, allow for clawbacks. This will reduce the future payouts for clients that cancel or fail to launch.**

LEVEL10CFO

COMMISSION PLANS

EXPERT

Pro Tips

→ **Use margin as basis of calculation or set minimum margin thresholds for new sales.**

- This is especially critical if your sales team has autonomy over pricing (which is not recommended).

→ **Commission Plans aren't just for sales People. Create a referral program for all employees.**

RECOMMENDED SOFTWARE

QuickBooks Online

Excel

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

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LEVEL 10 CFO

CRITICAL METRICS →

"LAID BACK WITH MY MIND ON MY MONEY AND MY MONEY ON MY MIND."

— SNOOP DOGG

CHAPTER SEVEN

CRITICAL METRICS

CALCULATING CRITICAL METRICS

"What gets measured gets improved."
— Peter Drucker

LEVEL 10 CFO

CALCULATING CRITICAL METRICS

EXPERT

What is it?

A metric is a measurable indicator that helps monitor and evaluate the performance of a business process or activity.

Metrics can be utilized to track progress towards achieving specific objectives, as well as to gauge the overall health of a particular aspect of the business.

Why is it important for my agency?

EXTERNAL

Metrics move beyond financial data to help you understand how your business is performing and to identify areas where profitability can be maximized.

INTERNAL

Do you want to make more money? Metrics reduce emphasis on opinions and feelings. Instead, they increase emphasis on cold hard facts.

LEVEL 10 CFO

CRITICAL METRICS

EXPERT

→ **Critical KPIs/metrics that are recommended for use with agency clients.**

FORMULA

WHAT IT IS & HOW TO USE IT

UTILIZATION =

(BILLABLE HOURS +
TIME CREDITED HOURS)
_____
(TOTAL PAID HOURS -
TIME EXCLUDED HOURS)

- **Utilization** is the % of labor force that is working on agency-approved activities.

- **How to use:** Identify areas where staff may have capacity or be overworked based on their schedules.

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CRITICAL METRICS

EXPERT

FORMULA	WHAT IT IS & HOW TO USE IT

BILLABILITY =

$$\frac{\text{BILLABLE HOURS}}{\text{TOTAL PAID HOURS}}$$

- **Billability** is the percent of labor force that is actively working on revenue-generating activities.

- **How to use:** Could highlight employees with capacity, too much time on internal projects or areas where hiring/supplemental hours may be needed.

BUDGET ATTAINMENT

$$\frac{\text{BILLABLE HOURS}}{\text{BUDGETED BILLABLE HOURS}}$$

- **Budget Attainment** is a measure of how your billable hours line up with what you expected. For optimal results, this should be measured at a client and at an employee level. *(Pro Tip: All retainer based accounts should have a budget for hours.)*

- **How to use:** If budget attainment is consistently over 100%, this could be an indication that you are over-servicing your accounts. If consistently under 100% it could be an indication you are not meeting all the objectives you agreed to.

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

CRITICAL METRICS

EXPERT

FORMULA

WHAT IT IS & HOW TO USE IT

SPOILED CAPACITY =

$$\frac{(\text{TOTAL PAID HOURS} - \text{TIME EXCLUDED HOURS})}{(\text{BILLABLE HOURS} + \text{TIME CREDITED HOURS})}$$

- **Spoiled Capacity** is the total hours paid for idle time or non-approved activities.

- **How to use:** Understand in terms of employee hours how much under-utilized capacity you have in your organization.

SPOILED CAPACITY $ =

SPOILED CAPACITY ✕ SHOP RATE

- **Spoiled Capacity $** is the cost of hours paid to employees for idle time or non-approved activities.

- **How to use:** Understand the $ cost of under-utilized capacity you have in your organization.

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

CRITICAL METRICS

EXPERT

FORMULA

WHAT IT IS & HOW TO USE IT

REVENUE PER PAID HOUR =

$$\frac{\text{REVENUE}}{\text{TOTAL PAID HOURS}}$$

- **Revenue Per Paid Hour** measures the amount of revenue generated by the agency per employee hour paid.

- **How to use:** Compare with Shop Rate to better understand productivity and profitability drivers for your agency

EFFECTIVE HOURLY RATE =

$$\frac{\text{REVENUE}}{\text{BILLABLE HOURS}}$$

- **Effective Hourly Rate** is the rate of revenue earned for work applied on revenue generating activity.

- **How to use:** Most important for retainer based billing. Comparing this with your quoted rate can help you understand if you are more or less efficient than planned. Could be negatively impacted by over-servicing of accounts.

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

CRITICAL METRICS

EXPERT

FORMULA

SHOP RATE =

$$\frac{\text{FIXED OPERATING COSTS}}{\text{(TOTAL PAID HOURS - TIME EXCLUDED HOURS)}}$$

EFFECTIVE SHOP RATE =

$$\frac{\text{FIXED OPERATING COSTS}}{\text{(BILLABLE HOURS + TIME CREDITED HOURS)}}$$

WHAT IT IS & HOW TO USE IT

- **Shop Rate** is the overall hourly cost of overhead for running your agency

- **How to use:** Can be used to generate client quotes that encompass all operating costs.

- **Effective Shop Rate** is the overall cost of running your agency per approved hour.

- **How to use:** Changes over time indicate that an organization is becoming more/less efficient with their staff.

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

CRITICAL METRICS

EXPERT

FORMULA	WHAT IT IS & HOW TO USE IT

CONTRIBUTION MARGIN % =

$$\frac{\text{(REVENUE - VARIABLE COSTS)}}{\text{REVENUE}}$$

- **Contribution Margin %** is the percent of revenue available to apply to overhead costs & profit.

- **How to use:** Use this percentage to understand the incremental profitability of the revenue you are producing.

BREAK-EVEN REVENUE =

$$\frac{\text{FIXED OPERATING COSTS}}{\text{CONTRIBUTION MARGIN \%}}$$

- **Break-Even Revenue** is the revenue level required to cover fixed overhead costs based on the current contribution margin.

- **How to use:** Understand the economic drivers needed to get to or maintain profitability for your agency. Can be used in scenario analysis to indicate impact of adding/losing an account or the effect a price increases from a supplier. *(Pro-Tip; this same formula can be used to set desired profit levels. Add Desired Profit to Fixed Operating Costs before dividing by Contribution margin %).*

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

CRITICAL METRICS

EXPERT

FORMULA

WHAT IT IS & HOW TO USE IT

$$\text{LOGO CHURN (RETAINER ONLY)} = \frac{\text{TOTAL \# OF LOST ACCOUNTS PRIOR 12 MONTHS}}{\text{AVERAGE \# OF ACCOUNTS PRIOR 12 MONTHS}}$$

- **Logo Churn** is the annual rate at which the agency is losing retainer-based clients.

- **How to use:** Understand the health of your retainer revenue base and to esitmate the length of time your current retainer clients will last.

$$\text{NET REVENUE CHURN (RETAINER ONLY)} = \frac{\text{TOTAL LOST REVENUE PRIOR 12 MONTHS}}{\text{AVERAGE MRR PRIOR 12 MONTHS}}$$

- **Net Revenue Churn** is the annual rate at which the agency is losing retainer-based clients on a revenue weighted basis (higher revenue has higher impact).

- **How to use:** Similar to logo churn but can indicate if you are losing larger or smaller revenue clients.

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*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

CRITICAL METRICS

EXPERT

FORMULA

WHAT IT IS & HOW TO USE IT

MRR

TOTAL MONTHLY REVENUE OF RETAINER BASED ACCOUNTS

- **MRR** is the total contracted revenue of all retainer based clients at the outset of each period.

- **How to use:** Helps to understand your baseline revenue that you can count on each month.

ARR

TOTAL ANNUAL REVENUE OF RETAINER BASED ACCOUNTS

- **ARR** is the total annualized revenue of all retainer based clients at the outset of each period.

- **How to use:** Helps to understand your baseline revenue that you can count on each year.

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

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PRACTICAL APPLICATIONS

EXPERT

Pro Tips

→ **Now what?**

- Let's take a deeper look at how we can practically apply these metrics to drive improved business outcomes.

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PRACTICAL APPLICATIONS

EXPERT

→ **Using Break-Even Analysis to aid with hiring decisons:**

BREAK-EVEN

$$\frac{\text{FTE COST (W/BENEFITS)}}{\text{FREELANCER HOURLY RATE}} = \frac{\$90,000/\text{YR}}{\$85/\text{HR}} = 1,058 \text{ HOURS}$$

Compare the annual cost of an FTE with the hourly rate of a freelancer to determine the number of hours it takes to break-even.

FTE Cost

Hourly Rate

AS ——— INCREASES

BREAK-EVEN HOURS

Key Considerations:

■ Customer requirements, resource specialization and predictability of revenue streams should also be considered when making hiring decisions.

LEVEL10CFO
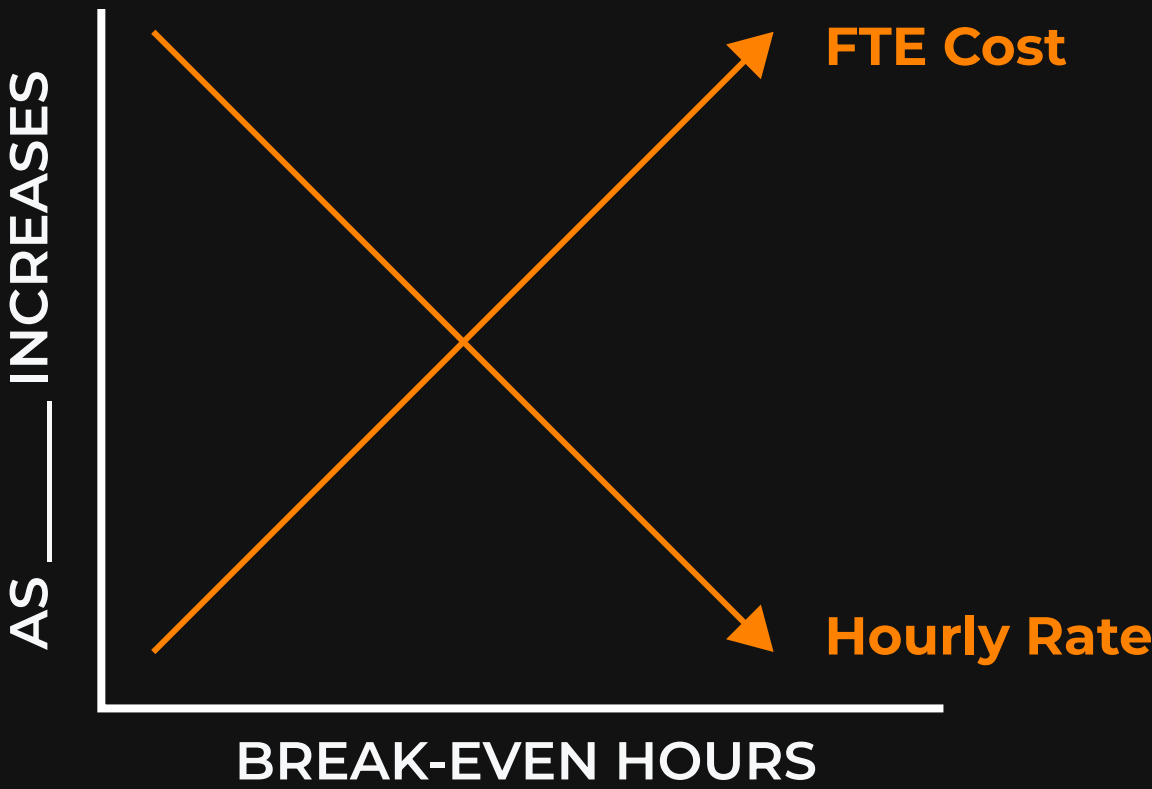
*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

PRACTICAL APPLICATIONS

EXPERT

Billability vs. Utilization

- Billability & Utilization are two metrics that look at the productivity of your workforce. But how are they different and how do you use them?

- Utilization focuses on your employee's total output while Billability focuses on output for revenue generating activities.

- If there is a large gap between the two this could be an indication that you have too many hours being applied to internal projects or that you are over-staffed for current client load.

BILLABILITY =

BILLABLE HOURS
_____
TOTAL PAID HOURS

UTILIZATION =

(BILLABLE HOURS + TIME CREDITED HOURS)
_____
(TOTAL PAID HOURS - TIME EXCLUDED HOURS)

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

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PRACTICAL APPLICATIONS

EXPERT

→ **How do I know if I'm over-servicing accounts?**

- Billability is a great metric to understand employee productivity, however it can be even more powerful by comparing it with expectations.

- For every project/retainer that you service, create an hours budget. The budget should be the expected hours required based on the work product you are delivering. Use this data to create a "Billability at Plan" metric.

BILLABILITY AT PLAN=

$$\frac{\text{BILLABLE HOURS AT PLAN}}{\text{TOTAL PAID HOURS}}$$

BUDGET ATTAINMENT =

$$\frac{\text{BILLABILITY}}{\text{BILLABILITY AT PLAN}}$$

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

PRACTICAL APPLICATIONS

EXPERT

How do I know if I'm over-servicing accounts?

- By comparing Billability against Billability at Plan, you can see how your actual productivity lines up against plan. If Billability is much higher (over 100%) than plan, it is an indication that you are working more hours than expected.

- In a retainer based situation, this can be an early indicator that you may be over-servicing accounts.

- It could also be an indicator that the project budget was incomplete. In certain situations this could indicate a client negotiation is warranted. At the very least this should be used to improve client budgets in the future.

$$\text{BILLABILITY AT PLAN} = \frac{\text{BILLABLE HOURS AT PLAN}}{\text{TOTAL PAID HOURS}}$$

$$\text{BUDGET ATTAINMENT} = \frac{\text{BILLABILITY}}{\text{BILLABILITY AT PLAN}}$$

*SEE GLOSSARY OF DEFINITIONS ON PAGES 177-178

LEVEL10CFO

CRITICAL METRICS

EXPERT

Definitions

→ **Glossary of definitions**

- **Available Time:** (total paid hours - time excluded hours)

- **Applied Time:** (billable hours + time credited hours)

- **Billable Time:** Time applied to approved client project work. Certain agencies may elect to exclude hours over allotted budget from this number.

- **Time credited activities** get "added to the numerator" meaning that they essentially get treated like billable hours for the sake of utilization.

  - Company approved investments (e.g. R&D Projects) is a good example.

CRITICAL METRICS

EXPERT

Definitions

- **Calendar Hours (Total Paid Hours):** The total hours paid to employees in a given period based upon their standard work schedules.

- **Time Excluded:** these activities get "removed from the denominator" meaning that the time doesn't count for or against utilization.

  - A portion of a manager's time that is not expected to be project facing/revenue generating.
  - Time Off (per Time Off policy)
  - Approved training/conference
  - Sales support work

- **Spoiled Capacity:** all activities that are not Billable, Time Credited or Time Excluded, i.e. the delta between the Utilization calculation and 100%.

- **Fixed Operating Costs:** All non-variable costs of the agency. Includes Salaries (COGs & OpEx), facility, sales & marketing, professional fees (accounting, lawyers . .) and other G&A.

LEVEL 10 CFO

CRITICAL METRICS

EXPERT

Pro Tips

→ **Keys to success**

- Apply Scientific Method - Hypothesize, Run Experiment (Your Business), Measure Results, Analyze Variances, Rinse & Repeat.

- Bias towards action over accuracy - Don't get stuck trying to make measurements perfect. You can refine in time. 80% data is better than none.

- Leadership buy-in + consistent application is the key to success - Metrics must be consistently updated and employees must be held accountable to results.

RECOMMENDED SOFTWARE

QuickBooks Online

Power BI

Fathom

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

Zack DeLisa, Partner & CFO Advisor

LEVEL 10 CFO

"WHAT GETS MEASURED GETS IMPROVED."

— PETER DRUCKER

CHAPTER EIGHT

PROJECT ACCOUNTING

PROJECT ACCOUNTING

"I like it a lot."
— Lloyd Christmas, Dumb & Dumber

LEVEL10CFO

PROJECT ACCOUNTING

EXPERT

What is it?

Tracking, analyzing, and reporting the financial data associated with a specific project, including revenues, expenses, and profits.

Why is it important for my agency?

EXTERNAL

Have real-time data on the financial performance of each project. Make informed decisions about resource allocation, project prioritization, and pricing strategies.

INTERNAL

Confidently plan and execute projects, knowing you have a solid understanding of the financial implications of each decision.

LEVEL10CFO

PROJECT ACCOUNTING

EXPERT

Pro Tips

→ **Setup for Success.**

- Use the Projects module in Quickbooks to track project profitability. For each discrete client project, set up a new project code in QBO. For best results, include these things when setting up the project: the beginning date, the end date, and the project description.

- Use project estimates and/or recurring transactions to record revenue. Create this at the outset of the project and assign the recurring transaction to the project.

LEVEL10CFO

PROJECT ACCOUNTING

EXPERT

Pro Tips

- For discrete projects, such as web development, we recommend using the Estimate feature to create a single estimate with milestone bill dates. This creates an audit trail for which milestones have been invoiced and which are remaining.

  - For even more granularity, enable "Service Dates" under Accounts and Settings/Sales. This will enable to you log a "bill date" for milestones in the estimate template.

- For retainer invoices, QBO recurring transactions are a great tool to automatically create invoices at a predetermined interval. You can set this to recur forever or to end after specific number of occurrences.

LEVEL**10**CFO

PROJECT ACCOUNTING

EXPERT

Pro Tips

→ **QBO recently released the Project Estimate transaction type in their Advanced version.**

- This is a great new feature that enables you to enter expected revenue & costs along with actuals so you can constantly monitor the health of your projects.

→ **For more complex projects, create an individual budget for each project.**

- Load the budget into QBO to allow for real-time comparisons as actual results are completed. Coupled with the new Project Estimate feature, this gives you a robust tool set to keep track of your project profitability on the fly.

LEVEL10CFO

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PROJECT ACCOUNTING

EXPERT

Pro Tips

→ **Assign all direct costs to their respective project in QBO.**

- For shared costs such as labor, develop an allocation to allocate costs to specific projects. Time is usually the most accurate driver.

RECOMMENDED SOFTWARE

intuit
QuickBooks
Online

Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

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LEVEL 10 CFO

LABOR & OVERHEAD COST ALLOCATION →

"I LIKE IT A LOT."

— LLOYD CHRISTMAS, DUMB & DUMBER

LABOR & OVERHEAD COST ALLOCATION

"If you scared to take chances, you'll never have the answers."
— Nas

LEVEL10CFO

LABOR & OVERHEAD COST ALLOCATION

EXPERT

What is it?

Using time data to allocate labor & overhead costs to projects.

Why is it important for my agency?

EXTERNAL

Improve your understanding of the actual cost of a project/client engagement.

INTERNAL

Peace of mind knowing you are using your biggest expense (labor) appropriately.

LEVEL10CFO

LABOR & OVERHEAD COST ALLOCATION

EXPERT

Pro Tips

→ **Tracking & using employee time data:**

- Tracking & using employee time data is critical to understanding your project profitability. Use an offline tool, coupled with a QBO data importer to accurately assign time-based costs to projects.

- You do not need an expensive time keeping/project management system to accurately allocate time costs to projects. Any system where employees can log times to a specific project will work. Some recommendations include QB Time, Clockify, FunctionPoint.

- On a daily basis, have employees track their time to specific client projects. (This is very important!) Accurate time data will be your best source of data to understand client/project profitability.

LEVEL10CFO

LABOR & OVERHEAD COST ALLOCATION

EXPERT

Pro Tips

→ **Calculate an hourly rate for each employee and multiply this rate times the hours worked for each project.**

- This can be simple using employees paid rate. Adding complexity, you can add in a % cost for Payroll Taxes, Insurance, 401K and such.

- If you really want to get jiggy with it, add a burden rate for overhead costs such as rent and office expenses.

- SEE ALLOCATION TEMPLATE

CLIENT HOURS WORKED
X
PAID RATE
X
(1 + BURDEN %)

LEVEL10CFO

LABOR & OVERHEAD COST ALLOCATION

EXPERT

Pro Tips

→ **Create a reclass Journal Entry to Reallocate labor costs from G&A Labor pool to Cost of Revenue at a client level.**

→ **This approach will accomplish several objectives:**

- More accurate understanding of margin for work completed in the period.

- Better understanding of the cost of under-utilized staff.

- Improved margin analysis at a client specific level.

LEVEL10CFO

LABOR & OVERHEAD COST ALLOCATION

EXPERT

Pro Tips

→ Use an import tool such as SaasAnt to load reclass entry into QBO.

→ SAMPLE P&L LAYOUT SHOWING ALLOCATED LABOR

LEVEL 10 CFO

RECOMMENDED SOFTWARE

intuit QuickBooks Online

Clockify

saasant

Function Point

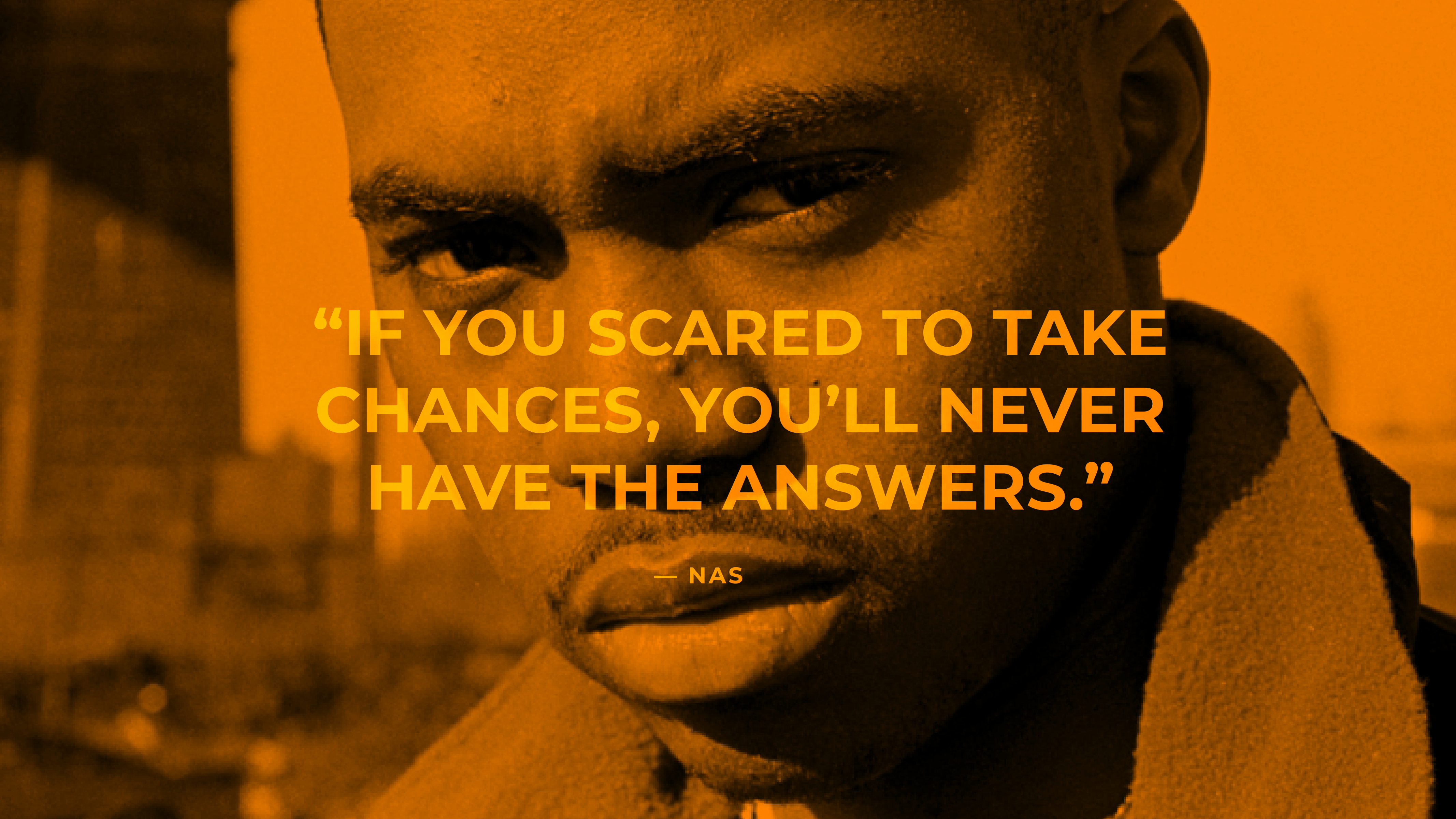Don't have the time to learn another tool? Leave it up to an expert, talk to Zack.

BOOK A CALL WITH ZACK

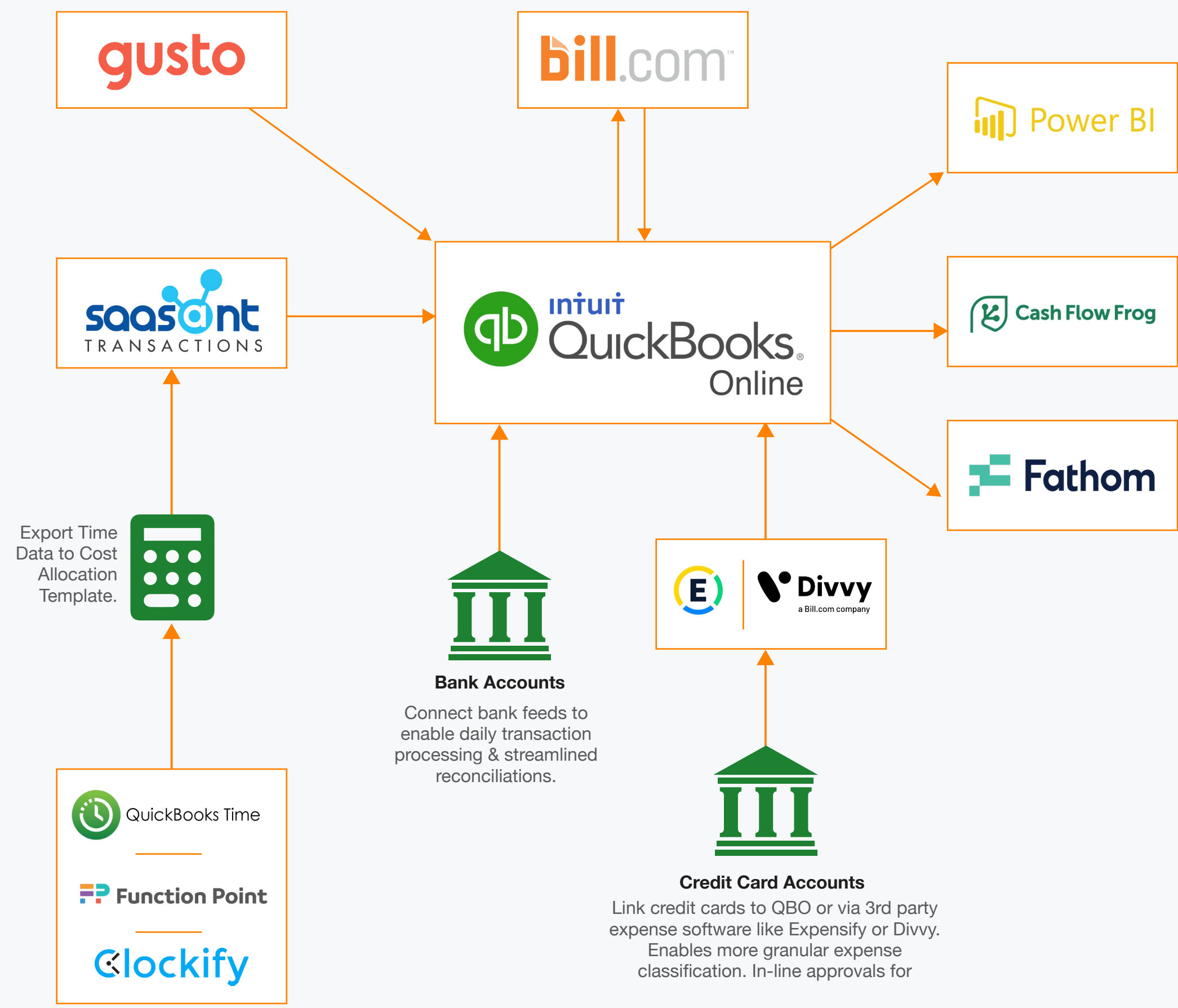*Zack DeLisa, Partner & CFO Advisor*

RECOMMENDED TECH STACK →

"IF YOU SCARED TO TAKE CHANCES, YOU'LL NEVER HAVE THE ANSWERS."

— NAS

RECOMMENDED TECH STACK: HOW RECOMMENDED SOFTWARES FROM THIS EBOOK WORK TOGETHER

Bank Accounts
Connect bank feeds to enable daily transaction processing & streamlined reconciliations.

Credit Card Accounts
Link credit cards to QBO or via 3rd party expense software like Expensify or Divvy. Enables more granular expense classification. In-line approvals for

Export Time Data to Cost Allocation Template.

- gusto — Recommended Payroll provider; syncs to QBO.
- bill.com — Streamline Payables & Receivables. In-Line Approvals.
- Power BI — Project Profitability. Time Data Visualization. Metrics Dashboard.
- Cash Flow Frog — Short-Term Cash Flow Forecasting.
- Fathom — Financial Reporting. Annual Budget. In-Year Forecasting
- Divvy — 3rd party expense softwares.
- QuickBooks Time / Function Point / Clockify — Time tracking softwares for client projects.
- saasant TRANSACTIONS — Used to import invoices, journal entries, customers, vendors and other data into QBO from a spreadsheet.

- One or zero points of entry for all data
- Quickbooks Online single source of truth for all financial data
- Leverage QBO native functionality:
  - Bank Feeds
  - Reconciliation
  - Client Invoicing
  - Class Structures for Department Tracking
- Implement QBO Project accounting Module

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"IF YOU DON'T KNOW WHERE YOU ARE GOING, ANY ROAD WILL GET YOU THERE."

— LEWIS CARROLL, ALICE IN WONDERLAND