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Do You Know Whether You are Really Making Money in Your Business?

You started a business and you are working long hours. But at the end of the month or quarter or year, you can't tell whether your business is profitable or not. How do you know whether you are building a profitable business or spinning your wheels?

You need to be able to understand what your bookkeeping is telling you. Are expenses more than income? Do you have a lot of customers or clients but income is still not enough? Do you have a lot of customers/clients who owe you a lot of money and are not paying their bills? Do you have accounting or tax surprises at the end of the quarter or year?

If you cannot answer these questions, you are not alone. Many new business owners know the technical side of their business (i.e., restaurant owners know how to cook, psychotherapists know how to counsel patients, web designers know web design). They have little understanding of the financial side of owning a business. Most of them think if they have a lot of customers/clients, they have a successful business. But, that may not be true. The only successful business is one that generates enough profits so that the business owner earns enough money to live in the style in which they would like to live. If you are not earning enough profits to hit that benchmark, you need to understand why.

It is worth it to you to pay an accountant a fee to go through your business' financial statements with you and explain everything that is happening in your business money-wise until you understand what you are doing right and what you are doing wrong. You need to understand whether you are charging enough for your products or services and which products or services are not profitable. You need to understand whether you are letting your clients/customers wait too long to pay your bill. Cash is always king in business. You cannot afford to be cash-poor but customer/client rich. If you have this problem on a regular basis, you are at risk of your business going under. Understanding business financial information is a business skill that you cannot delegate. You can hire a bookkeeper to input your financial information but you cannot allow another person to interpret the output of your financial information.

It is vital that you grasp the basics of business financial management. No matter how much you are enjoying the work you do, if you are not making sufficient profits at it, it's just a hobby, not a business.