

# Introduction and Welcome

## to Financial Basics for Jewelry Designers

Welcome to Financial Basics for Jewelry Designers! By registering for this class, you have made a commitment to improving your financial skills and becoming a better business manager.

### Goals and Objectives

Taking this class will help you meet the following goals and objectives:

- Understand the basic financial concepts important for running a small business.
- Understand the role of a professional accountant and how to use a professional accountant as part of your business management discipline.
- Understand how to read and use your Profit and Loss statement
- Understand how to read and use your Balance Sheet
- Understand the role of the sales forecast in creating budgets and cash flow management
- Learn how to do a basic sales forecast
- Learn how to create and use a budget
- Understand basic cash flow planning and management

### The Role of Accounting in your Business

One mistake many small business owners make when thinking about bookkeeping and accounting is thinking that accounting is just for tax purposes. Certainly you must do your accounting (and do it accurately) to keep the IRS happy. But accounting have a long history as a valuable tool for management of your business.

When you understand your business from a financial perspective, you will do a better job of anticipating problems, recognize opportunities faster, and make better decisions. This use of accounting is called Management Accounting, and it should be your goal to become a competent user of financial data for management purposes.

But you needn't become an accountant to do this.

Bookkeeping and Accounting are specialized skills. If you're using an accounting software, like Quickbooks or Freshbooks, you can do much of the daily work yourself. BUT. You should confer with an accountant to set it up properly. Modern accounting software programs are excellent in terms of being user-friendly, but if you're not a professional accountant, you will likely make some mistakes in the setup – mistakes that will affect the accuracy of your data and reports. If you have not set up an accounting package yet, enlist a competent accountant – preferably one with experience with businesses that carry and make inventory – to assist you in the setup. If you already have an accounting package, it would be wise to ask an accountant to review your chart of accounts and make any recommended changes.

In addition to making sure your accounting program is set up properly, I highly recommend that you schedule two meetings each year with your accountant; one at the six-month mark of your business

calendar year, and one at year end. These meetings are for planning, review, and learning. Your accountant will likely make observations about your financials that you, a non-accountant, will not see. If you have your accounting system set up the right way; you schedule these two meetings each year; and you do a good job keeping your books updated on a daily basis; you will find that your financials will begin to serve your business far beyond their value in the tax filing process.

## An Important Piece of Accounting Theory

Every financial transaction in your company has at least *two effects*. Let's start with an example. You hand \$1.40 to a cashier at the bodega, and you get a bottle of water. Your billfold is decreased by \$1.40, and your grocery inventory is increased by one bottle of water. One transaction, two effects.

The same thing is true in your business. Every transaction you make has at least two effects. One of those effects will always be a "gain" of some sort, and the other effect will be a "reduction." If you've ever heard the term *dual-entry accounting*, that's what this means. In a dual-entry accounting system, every transaction gets entered in the two (or more, but always at least two) accounts that are affected by the transaction.

These entries are made in the *general ledger* of your accounting system. A general ledger is a complete record of every financial transaction in your company. Every penny you earn, every penny you spend, and how you move that money around is recorded in the general ledger.

There are two reasons you need to understand this.

### Back to the Importance of Using an Account for System Setup

The first reason goes back to the information in the previous section about needing an accountant to set up your accounting system before you start entering invoices, setting up inventory, and paying bills. The most popular accounting systems available on the market are digital dual-entry systems. Every transaction you make will be recorded against at least two different accounts. If you don't do the setup properly, the recording of your financial transactions will lead to bad data.

### Understanding and Managing Tradeoffs

One of the most important things about accounting is that it is structured to help us recognize – and manage – every tradeoff we make in business. Every single thing you do in business has a tradeoff. If you spend money on inventory, that money won't be available to spend on marketing. If you sell a product to one client, that product may not be available to sell to another. When you get cash from customers, you give up inventory. When you take a return, you give up cash.

On a day-to-day basis we usually don't think much about the tradeoffs. But all those little tradeoffs add up. When you review your financial reports, you take the time to look at the tradeoffs and analyze their cumulative effects.

Accounting and bookkeeping are very important tools. Perhaps you think of bookkeeping more in terms of the stacks of receipts and bills that pile up on your desk and stress you out, but that's just an organization problem. When you keep up with your accounting and use your accounting tools correctly, you will do a much better job of running your business.