

A FRESH PAIR OF EYES

Weekly Edition – 10/13/2013

PROFIT AND LOSS

SEAN STEIN SMITH - MBA, CPA, CMA

Profit and Loss are arguably the three most important words that any business person, or even a person involved in business, period, can hear. You can have the best business plan, best idea, and best product around, but if the business is not making any money, nothing else will happen. Financial professionals spend countless hours evaluating, changing, tweaking, and re-tweaking ideas and proposals based on how they will impact the P&L.

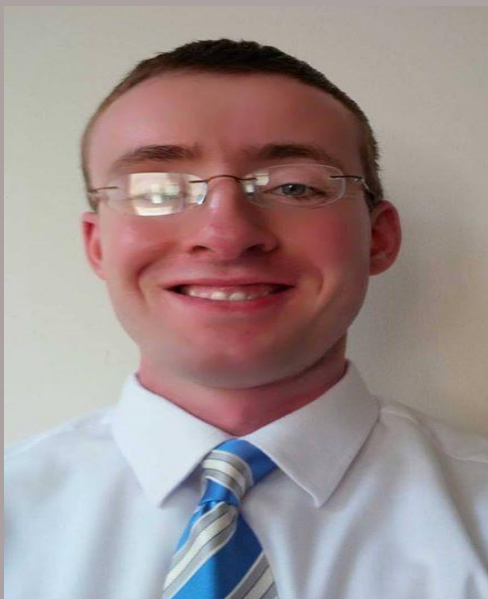
Why should your own personal profit & loss statement, or P&L, receive any less attention?

You are the head of your own company, the enterprise of you, and that firm should pay as much attention to its P&L as professionally-managed corporations pay to theirs. This makes just as much sense for you as an individual as it does for a company with thousands of employees. If your activities are not generating positive financial results for you, that will make doing what you want to do extremely difficult.

What we will be going over this week are some of the more common tips, tools, and strategies that people can use to help construct their own personal P&L statement. Remember, no money = no fun.

Here the link to my weekly podcast - The Weekly Roundup 10/12/2013

http://ssteinsmith.podomatic.com/entry/2013-10-12T12_39_22-07_00



Contact - A Fresh Pair of Eyes

Feel free to reach out with your comments/suggestions or questions.

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INVESTING TIP/DEFINITION

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Profit and Loss

Of all of the financial statements, this is undoubtedly the most intuitive and easy to understand. What a profit and loss statement represents, basically, are the inflows and outflows that occurred during the period of time that it is being measured. If you think this sounds sort of like what most people do mentally during the course of a month, you would be correct. Putting it down on paper does, however, makes you examine things as they are actually happening and helps remove any biases you might inadvertently have.

Financial statements have a reputation for being difficult to underhand and to put together, but that does not have to be true, and especially not when you are assembling your own personal P&L. Simply recognize what you bring in during a normal month – whether it be pay stubs, consulting checks, or dividends/royalties, and plug that in at the top of the page. This is your “top-line” revenue number. After that, begin listing your normal expenses for the month, and you might want to start off with your “fixed costs,” like rent, utilities, and insurance, to make analysis easier.

After listing these fixed items you can list the expenses that you know happen every month, but since they can vary you might want to use an average -- the last 3 months of movie costs averaged out, for example. Once you have all of these costs lined up, you know where you stand at the end of a normal month.

Be honest. No else is seeing this but you, and doing this might help you to identify where some problems in your spending habits might be.

What do you think?

How to Make a P&L

Constructing a profit and loss statement is actually much simpler and easier than most people believe. Unless your personal finances are extraordinarily complex, your P&L can even fit on a single page – simply start at the top of the page with the time period you want to analyze, list how much revenue you earned during the period, and then start subtracting expenses. At the bottom you will have the net result for the period. Microsoft Excel is a perfect tool for that, and we will go over a tip to make it easier to get started in our Excel tip of the week.

Fresh Pair of Eyes Definition

Profit & Loss Statement – A financial statement that summarizes the revenues and costs of an entity during a particular time period, usually either for a fiscal quarter or a fiscal year.

Why Make a P&L

There is an expression that if it can be measured, it can be managed, and that holds true for businesses as well as your personal financial life. The first step in overcoming any challenges, and this includes better organizing your finances, is starting to organize, track, and monitor them. What better way to start this process than to put down on paper what most people only do mentally? How much money comes in versus how much money goes out, and where you stand when the dust settles.

What do you think?

Do you have your personal P&L?

Let us know what you think, and it might become the topic of a blog post or follow up newsletter article.

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THE WEEK AHEAD

Sean Stein Smith - MBA, CPA, CMA

It is always good to recap and to analyze what happened during the past week, which is what I strive to do via the weekly roundup podcast (link to it is above). In addition to analyzing what did happen, it is equally important to look forward to try to anticipate how the upcoming events of the week ahead could impact you and your money. That is the point of this column, which is broken down into domestic events, as well as the international events that could be of importance to your investments.

Excel Tip - Templates

Excel can be tricky to work with unless you are familiar with all of the formatting, centering, and other sizing options that are available in the program. One way to ease the frustration is to start templates for your Excel projects, including your personal P&L statement. If you have the template set up correctly you can copy that sheet over into the next tab every month without having to re-format everything. Talk about a time-saver! And I have attached a simple Excel income template for your convenience.

Budget Tip - Percentages

Sometimes it can be difficult for people, yours truly included, to say that they will save "X" dollars every single month, because life is unpredictable. Some months you have expenses that were unforeseen, significant, but completely necessary. Anyone who has had a new transmission put in their car knows what I mean. That being said, it might be easier to state your saving goals in a percentage form. For example – I will save 10% of my income after I pay my rent, utilities, and insurance. Give it a try!

What do you think?

Let me know if these tips were helpful

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Domestic

Let us start our discussion with the news and economic activity that are on the agenda for the U.S. this week.

The continued government shutdown will continue to weigh on both markets and the economy as a whole. Many of the usual data points that are used by many business analysts and market watchers will be delayed and/or not provided due to the government shutdown.

On the corporate front there are several stories that are worth watching. The continued news surrounding the largest banks, including J.P. Morgan and Wells Fargo, will be interesting to watch for its broader impact on the marketplace. Both banks have been impacted by the slow upward creep of interest rates, which we have discussed in previous podcasts.

In addition to financial institutions, the impending Twitter IPO continues to dominate the tech market, with the disclosure of its data business adding a new wrinkle to the process (discussed in my podcast above).

As always, it is always important to pay attention to the underlying trends that connect the market news.

Of course, there will be corporate news announced during the week as well, so keep your eyes open and check out the blog @ <http://ssteinsmith.com/> for daily analysis!

International

International markets have been relatively subdued this week, as the world looks on as the U.S. federal government bickers with itself. The biggest news in the international market was the unexpected drop in Chinese exports. This is indicative of both a slowing down of the Chinese economy, and the rebalancing that is shifting the growth model of the nation from export driven to more consumption driven.



THE WEEKLY EDITION

Feedback is Always Welcome!

Feedback is the key to continuous improvement, so if there are any topics, themes, or stories you would like covered in the weekly newsletter, or if there is something you wish to know more about, please send an email to afreshpairefeyes88@gmail.com.

Thanks again for reading!

Sean

A Fresh Pair of Eyes Making Sense of Finance and Accounting

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If you like the newsletter, you might also enjoy the book. "A Fresh Pair of Eyes - Finance for the Young Investor" is available on both Amazon and in the Kindle Store.

http://www.amazon.com/Fresh-Pair-Eyes-Finance-Investor/dp/1490583637/ref=sr_1_1?ie=UTF8&qid=1375640883&sr=8-1&keywords=sean+stein+smith

And my new book - Personal Financial Planning

http://www.amazon.com/Fresh-Pair-Eyes-Personal-Financial/dp/1492308978/ref=sr_1_2?ie=UTF8&qid=1378653970&sr=8-2&keywords=sean+stein+smith

