



**Before you read my book:** I wrote *Finance for Freelancers* to share ideas based on my personal experience as a freelancer, not to give professional legal or financial advice. Please remember that the ideas and suggestions I've covered in this book might not apply to your own circumstances and can't replace the advice of experts like financial institutions, tax or other professional advisors working in your country. -*Martha Retallick*

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# Introduction

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Why does finance have such a bad name?

Truth be told, a lot of creative freelancers don't like to deal with the financial side of their businesses. This aversion to accounting can lead to bills stacking up, checking accounts going unbalanced, invoices not being sent, and clients not paying. (How could they possibly pay you if they don't know what they owe?) And, worst of all, when someone asks how your business is doing, you have no idea.

## The Math Problem

Why is there so much financial avoidance among freelancers? One of the main reasons is because finance involves math. And math may not have been your best subject in school.

Part of this problem has to do with the way math has traditionally been taught. While you were paying attention, you probably heard a lot of talk about "solving for 'x'."

Even then, you probably had the sneaking suspicion that adult life would not be overflowing with opportunities to solve for 'x'. And you were right. The math you were being taught had very little to do with the realities of the workaday world you'd eventually join. No wonder you tuned out during math class.

However, your bored nine-year-old self probably missed a lot of important math concepts that are useful in the business of freelancing. But, here's the good news: Math is a skill that gets better with practice. As you gain experience in dealing with the financial side of your freelancing business, you'll get plenty of mathematical practice.

## Watch Out for Those Geniuses

If your childhood experiences in math class didn't turn you off to the world of finance, its "genius" reputation is probably doing that to your adult self.

You've probably seen all sorts of smart-looking people talking on television about what the stock market did or didn't do that day, or which way commodities prices are going.

The number-filled charts that accompany these financial news stories seem to be coming from another planet. How in the world are you supposed to understand them? It doesn't take long for you to conclude that you have to be a mathematical wizard to understand this financial stuff. And, you're not a mathematical wizard.

I know it's still very early in this book, but permit me to offer a bit of advice: Don't pay much

attention to financial news coverage. Most of it has very little to do with the day-to-day operation of your freelancing business. If I were you, I'd pay more attention to tomorrow's weather forecast.

## **Look, Ma, I Crashed the Economy!**

Then there's the current state of the international economy. Much of the blame for the worldwide recession has been placed on the financial industry.

Creative people didn't cause the meltdown, but they sure don't want to be associated with those who did. Which leads some of us to stay as far away from that financial stuff as possible. No guilt by association for us, thank you very much.

## **The Math Solution**

After saying some not-so-nice things about your mathematical education and its relevance to your life, I have good news. When it comes to finance, we're dealing with addition, subtraction, multiplication, and division. Even if math wasn't your best subject, you mastered these four tasks early in your schooling.

As for that "genius" reputation, it's true that the financial world has its own language. It's a language that many outsiders find difficult to comprehend.

However, creative freelancers can learn such terms as "P&L," which is financial-speak for "profit and loss statement," and understand what their P&Ls are saying about their own businesses. Likewise, "cash flow," which is nothing more than the flow of money through a business. And you don't have to be an economy-destroying financier to use these terms for the betterment of your freelancing business.

So, let's get started!

# What Exactly is Finance for Freelancers?

For the purpose of this book, I'm going to put the following three seemingly-synonymous terms under the Finance for Freelancers umbrella:

1. **Bookkeeping** – the day-to-day task of entering transactions such as check writing or recording payments. To do bookkeeping, freelancers use accounting software like [QuickBooks](#), [Sage 50](#) (formerly Peachtree), or [MYOB](#), or online apps such as [FreshBooks](#).
2. **Accounting** – generating reports from your accounting software or online app, studying the numbers on those reports, and then making decisions based on those numbers.
3. **Business Funding** – how freelancers generate money to start their businesses or keep their business going. Sources of funding include savings, loans from family, friends, banks, credit cards, and of course, revenue from business operations.

## Bookkeeping Deja Vu

If you're like most freelancers, you will find bookkeeping to be the easiest task to handle.

Why? Because bookkeeping consists of things you've done many times before, like writing a check and logging it in a check register, balancing your checkbook, or, if you're selling physical goods instead of services, logging the sales of physical items such as CDs or artwork.

Add a computer and software to the mix, and you'll be doing these bookkeeping tasks a lot faster than you would by hand. (Hey, they don't call them computers for nothing!)

## Making Friends with Accounting

As for *accounting*, it does have a learning curve. And, to be honest, it took me more than a decade to finally make friends with accounting.

It's not that accounting didn't try to become my friend first. It kept coming around my freelance business saying that I needed to deal with it. After all, I did need to know how much profit or loss I was generating so that I could file an accurate tax return.

So, I hired a bookkeeper to generate quarterly financial reports. Then, when tax time rolled around, my bookkeeper generated a year-end report for me and my tax accountant.

When it came to avoiding accounting, this system was superb. But, there was a problem. Th

bookkeeper's reports were seldom correct. I had to go through them, line by line, to see which income and expense items had been incorrectly logged or omitted. Little did I know that my accounting education had already begun.

After nearly a decade of scrutinizing the bookkeeper's erroneous reports, I asked her to teach me how to use the software that she used, and she did. Unfortunately, I was never able to wrap my head around this software. I don't know why, but I just couldn't.

Then, I decided to change tax accountants. The new accountant was a tough-as-nails type who tolerated no dissent when it came to software. I was to learn how to use her preferred accounting, and that was that.

Fortunately for me, it wasn't the software that I had such trouble with earlier. But, I still had to be trained in the proper use of this new software. That took seven months.

The good news is that I can now use the software to get up-to-the-minute reports on the status of my business. For example, suppose a three-month period (call it a quarter) has just ended. So, I pull a profit-and-loss statement that compares this year's results with the same quarter of last year. This statement shows that, compared to last year, income and profits are up, and expenses are down. I should be thrilled, right?

Unfortunately, no.

I'm in one of those situations where I'm making money on paper, but I need, cash, baby! Oh h-h-h, do I need some cash flow. Why? Because cash is what I pay bills with.

So, the sequence has been:

1. Martha generates a quarterly profit and loss statement and studies the numbers. As compared to last year, they look **nice**.
2. Then she takes a quick look at her accounts receivable report. Hmmmm, that's where a lot of the income from the first quarter is.
3. A look at that decreasing bank balance confirms her suspicion: A cash flow problem is developing. Time to...
4. ... Turn those accounts receivables into payments by collecting what I'm owed. And make more sales!

I'm not the type to wait for some crisis to come along before I start hitting the sales prospecting trail. I'm **always** on that trail, even when it takes time for the sales to materialize.

Since this section has taken a "Martha had trouble dealing with accounting, she got over it, and now she's an accounting evangelist!" tangent, let's go back to the rookie level. How do you get started with this accounting stuff? Here are three ways:



1. **Find an accountant or bookkeeper and have that person set up your business books.** Be sure that you are comfortable using the accounting software that is recommended. You may not develop this comfort level right away. I sure didn't. But, over time, it did happen. Be patient with yourself.
2. **Get training in the use of your accounting software.** Much of this training will be of the "how to do data entry properly" variety, and, trust me, It's not exactly riveting. (Hey, we're creative professionals; mundane things like data entry tend to make us yawn and fall asleep.) Despite your boredom, stick with the training, because...
3. **... that data you're learning to enter is yours.** It's based on what you're doing in your business. Much more interesting than a hypothetical classroom exercise, isn't it? It won't be very long before you'll be generating reports and thinking up ways of increasing profits, controlling expenses, and making your accounting reports look better as a result

## **Business Funding Basics**

Reduced to its simplest terms, business funding means finding the money to start your business and keep it going. This funding comes from two sources: you and others. That's it.

I'll talk more about business funding in [Chapter 4](#). Before we get there, let's look at the basics of bookkeeping and accounting.

# Bookkeeping Basics

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Since creative freelancers are already quite used to dealing with computers, the notion of adding another software program or online service to the mix isn't terribly intimidating.

The trouble with a lot of computer-based accounting software programs is that they're way too bloated for us. We don't need employee payroll management, sales force monitoring, or inventory tracking for thousands of widgets, but there they are. Users of programs like [AccountEdge](#), [Bookkeeper](#), [MYOB](#), [Sage 50](#) (formerly Peachtree), and [QuickBooks](#) know this problem quite well.

If you find yourself using one of these programs because your best business buddy, the flower shop owner, bought you the latest version as a "grand opening of your business" present, use the a la carte approach. Ignore the software functions that don't apply to your situation, and focus your attention on the functions that do apply.

And what might those primary functions be? Here are the Finance for Freelancers Greatest Hits:

1. **Invoicing.** This one's in first place because every freelancer loves getting paid.
2. **Recording payments** received for invoiced work, and depositing the funds into your bank account.
3. **Writing checks or logging electronic payments** via online services like PayPal. Because the people who do business with us also love to get paid.
4. **Tracking time spent on projects.** If you bill clients by the hour, then you'll need to show a record of what you did for them. Time billing will enable you to break your hours and projects down to the minute. You can also use time tracking to figure out how long jobs take you. This is good to know if you're billing by the project and you're basing your fee on the hours worked multiplied by your hourly rate. (More on this topic in [Chapter 5](#).)
5. Generating reports, with profit and loss being a special favorite.

As mentioned above, there are plenty of software programs that include these five among a host of other functions. If you prefer a more streamlined approach to your bookkeeping life, online apps like [Blinksale](#), [Cashboard](#), [Freshbooks](#), [LessAccounting](#), and [Simply Invoices](#) omit the bloat and focus on favorite freelancer functions like creating estimates, invoicing, and getting paid.

## Key Bookkeeping Tasks

Now, it's one thing to look at a list of functions. It's another thing to actually use them. Let's g

back to that Greatest Hits list and look at how to approach them from a bookkeeper's perspective.

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1. Invoicing with accounting software involves choosing the appropriate client from your client list and selecting the service for which you are billing. If you've heard of the term "profit centers," well, those are the billable services of your freelancing business. They will be included on your business' Chart of Accounts, which I will explain in a moment.
2. Recording payments is a lot of fun, because who doesn't like to get paid? For this task, you'll need to find which invoice the payment is for, apply the payment to that invoice, then prepare your bank deposit. Some software programs and online apps will even take things a step further and enable the actual deposit.
3. Writing checks by hand can be a real pain. First, you have to have legible handwriting to get all the necessary info down on a paper check. Then you have to record the check in your check register. Ever had a spouse or business partner who forgot to do that? Talk about stress!

Add a computer to the mix and this stress goes away. From your vendor list, you select the company to which you're writing the check, enter the amount and the expense category, and boom! The check is automatically recorded. Then you print out a professional check that looks like it came from one of the big companies. Sign that pretty piece of paper and send it to them!

For logging electronic payments, you go through the same process of selecting the appropriate payee from a vendor list, entering the amount, and choosing an expense category. The only thing that you don't have to do is print and mail a check.

4. Time billing is like having timesheets on steroids. Instead of hunting for that piece of paper that shows what you did and when, the computer keeps track for you. All you have to do is turn on the tracker when you go "on the clock." When you finish the project, you can generate an invoice from your electronic timecards.
5. Generating a report — like your monthly profit and loss statement — is one of those activities that is keystroke simple. Why? Because you've already done the hard work of entering the data — the invoices, the payments made on them, and the checks.

## **Your Chart of Accounts**

The term conjures up images of something truly impressive, doesn't it? Reality is much simpler. A Chart of Accounts is nothing more than a list of assets, liabilities, equity, income, cost of sales, and expenses that apply to your freelancing business.

The chances are good that you've never created a Chart of Accounts before. So, I

recommend hiring an accountant or bookkeeper who can custom-tailor a Chart of Accounts for you. Here is a simplified Chart of Accounts:

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## **1-000 Assets (Property that's used in the operation of your business)**

### **1-1000 Current Assets**

1-1010 Checking – Your Friendly Local Bank

1-1011 Savings – Your Friendly Local Bank

1-1020 PayPal (or some other online payment system)

1-1030 Accounts Receivable

### **1-1500 Fixed Assets**

1-1510 Computers

1-1511 Accumulated Depreciation – Computers

1-1520 Furniture and Fixtures

1-1521 Accumulated Depreciation – Furniture and Fixtures

## **2-000 Liabilities (Amount that you owe to others)**

2-2020 Accounts Payable

2-2030 Sales Tax Collected

2-2040 Notes Payable

## **3-000 Equity (Your assets minus your liabilities)**

3-3010 Owner's Equity

3-3020 Draw

3-3050 Estimated Tax Payments

3-2060 Income Tax Payments

3-8000 Retained Earnings

3-9000 Current Earnings

## **4-000 Income (Your profit centers)**

4-4100 Consulting

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4-4200 Design

4-4300 Writing and Publishing

4-4400 Software Application Development

### **5-0000 Cost of Sales (What you pay to others in the course of doing your work)**

5-5100 Subcontracting

5-5200 Sales Commissions

### **6-0000 Expenses (The costs you incur while being in business)**

6-6010 Accounting Fees

6-6011 Advertising/Promotion

6-6020 Bank Charge

6-6030 Computer Expense

6-6040 Dues/Subscriptions

6-6050 Postage

6-6060 Telephone

6-6070 Utilities

Whew! That's quite a list! How will you ever wrap your brain around it?

The answer is: Give yourself time. What looks mysterious now will make sense over time. And some of the items, like "Retained Earnings" and "Owner's Equity," will be calculated for you by your accounting software.

On a day-to-day basis, you'll be using your Chart of Accounts as the list from which you choose which expense to associate with the payment you're making to your electric company. That would be accounting code 6-6070 (Utilities).

Or let's say you're a designer working on a website, and you need to hire someone to take your wonderful Photoshop PSD file and turn it into web standards-compliant XHTML and CSS. When it comes time to pay the person, the correct accounting code is 5-5100 (Subcontracting). On the revenue side, your website project would be billed to the client as 4-4200 (Design).

What kind of a bill should it be? If your design project is like most, it will probably take weeks, if not months, to complete. So, use your accounting software to create an order. If you need to get an upfront deposit from your client — and one third to one half down is a good idea — you can apply this payment to the order. When the job is complete, you use your software to convert your order to an invoice and send it to the client with the remaining balance due.

When should you use an invoice instead of an order? For same-day jobs. Let's say you visit client on

site for an hour of consulting. At the end of the hour, this is where the online apps really shine. You log in to your FreshBooks account, create your invoice on the spot and present it to the client. She logs into her PayPal account, sends you money, and presto! You've been paid.

## Training Time

How do you get to this day-to-day bookkeeping nirvana? With training. I strongly recommend that you hire a bookkeeper or accountant to train you in the proper procedures for handling the Finance for Freelancers Greatest Hits and other tasks that relate to your business.

If you're like a lot of creative freelancers, you'll find your first days and weeks of using accounting software to be scary (what if I charge this expense to the wrong category?), tedious (all this data entry is boring!), and time-consuming. Be patient with yourself. You're learning a new skill.

Believe it or not, one of the most frightening things that I saw my accountant do was reconciling my business bank account. That's accounting-speak for "balancing the checkbook."

Why did this task feel so heart-stopping? Because she did it so quickly! I thought she was doing something wrong. (She wasn't.) These days, I can reconcile the business bank account in the same minute or two that it took my accountant during my training days.

Okay, that was the fearsome side of training. The tedious side came from the eBook business I had while I was learning to use accounting software. I quickly grew to despise creating invoices for **every single sale** that I'd made. (Darn that successful eBook business!)

What's worse, my mean old accountant insisted that I see this boring job through to its conclusion. Which took two very dull days.

The fact that I wasn't just creating invoices — I was logging payments in full with each one — didn't resonate. What made me into a fire-breathing evangelist for using accounting software happened on the third day. I started data mining! Pulling reports! Learning about how well my business was really doing! I called the accountant! I was excited! So was she!

I wish I could say that I became an accounting software ninja after just three days. I didn't.

Actually, basic mastery of my software took seven months. And that was seven years ago. I'm still learning things now.

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## What About Debits and Credits?

If you've ever taken a bookkeeping class, you'll no doubt remember the sizable amount of time that was devoted to debits and credits. Figuring out whether this item gets debited or credited was quite the challenge, wasn't it?

And here you are, reading a chapter about bookkeeping, and I haven't even mentioned this Terrible Twosome. Why might that be? Because accounting software will do the figuring for you! If you do the proper data entry, those debits and credits will all land in the right places.

## The Limitations of Accounting Software

As wonderful as accounting software is, it does have limitations. It's very good at generating reports on what has already happened. If you keep up with your data entry and check your numbers often, you can quickly respond to what they're telling you.

For example, if your numbers are saying that your cash flow is sluggish and that a lot of people owe you money, then it's time to start collecting on your invoices. Or, if you're finding that your business is more profitable than a year ago, then it's time to do some tax planning with your accountant.

What accounting software can't do is project your business' future. For this task, you'll need spreadsheet software like Excel, OpenOffice Calc, or Google Docs. Since we're talking about things that happen on a monthly basis, here are two projections you can do with a spreadsheet:

1. **Next month's anticipated income and sources.** You could call this a sales projection if you'd like. While you're doing it, ask yourself about the likelihood of each sale. It's fun to say that you're expecting five new clients to come on board, each for five-figure amounts, but is this **really** going to happen? If so, great! If not, it's time for your sales projection to have a rendezvous with reality.
2. **Next month's anticipated expenditures.** I've found that these are much easier to project because I already have a trail of bills and bank account registers that can help me make accurate predictions.

If you'd rather not wrestle the above out of a spreadsheet, not a problem! There's nothing wrong with using your word processor, or just writing your projections down on paper. Whatever works. The goal is to make you better at anticipating what will happen so that business reality won't sneak up and surprise you.





# Accounting Basics

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It's important to find and work with a good accountant, and this chapter will show you how to do that. Here's what a creative freelancer should look for in an accountant:

1. **Small business experience.** This is important, because many freelancers start small — and stay that way. A Fortune 500-focused accountant won't be of much help to us.
2. **Someone who's going to be available all year, not just at tax time.** I'm a strong believer in having an accountant file tax returns. Reason: The accountant spends a great deal of time keeping up with the latest developments in taxation.
3. **Previous experience with other creative freelancers.** This saves valuable time that would otherwise be spent on "training" the accountant in matters of freelance work.

Although accountants can be helpful to us in many ways, they also have their limitations:

1. They tend to be focused on tax compliance and proper adherence to accounting principles.
2. Although many of them offer business consulting services, their numerical focus tends to limit their creativity.

If you're like many of us, you'll probably need quite a bit of handholding when it comes to setting up your business books. You might find a helpful accountant to assist you in this process. (I did!) Or, you might hire a bookkeeper who specializes in training people in the use of certain software packages.

As you get more experienced at handling the numbers side of your business, you won't need the handholding. Gradually, you'll figure things out for yourself. You'll also find yourself going to the accountant saying, "Here's how I believe I should handle this situation, what do you think?" In short, your accountant will become more of a business partner than a business teacher.

## Essential Financial Reports

Since accountants are numbers people, they'll be interested in seeing financial reports that you generate from your software or online app. But don't just crank those reports out five minutes before you leave for a meeting with your accountant. You'll want to keep a closer eye on your business than that.

For the remainder of this chapter, I'm going to cover the types of financial reports that should be generated on a weekly, monthly, quarterly, and annual basis. You will also learn how to figure out what their business numbers are saying — and how to act upon this information.

# The Weekly Report

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In my world, the weekly report is a very casual thing that's focused on simple questions I ask myself. Such as:

1. **Who owes me money?** Did I just bill them last week, or was it two or three weeks ago? A quick look at my software's accounts receivable report yields the answers. If it's been two or three weeks since I billed, it might be a good idea to call and ask how their accounts payable department is proceeding with my payment. Here's a small sample of an accounts receivable report:

Name	Invoice #	Overdue	Due Date	Balance Due
BigCo	00123	55 days	01/23/13	\$1,000.00
ABC Inc.	00124	57 days	01/25/13	\$3,500.00

Looks like this freelancer needs to get busy and collect what they're owed.

2. **To whom do I owe money?** If you do all of your bill paying online, it's a good idea to make calendar notes of when each bill is due, along with the amount. Or, if you prefer to mail checks to your vendors, get one of those 31-day file books so you can have each bill ready to pay at least a week before its deadline. Next, be sure that you have regular bill-paying times set aside. I like to get this onerous task out of the way early in the week — that's why I have Financial Monday Morning.
3. **What did I spend money on last week?** Watch out for this question because it's very easy to get into the habit of logging your expenditures without questioning them. Yes, you do have to pay your utility bills, but do they need to be **that** high? Get in the habit of questioning all of your spending. Be brutal! You'll be surprised at how quickly your expenses can decrease.

Skepticism toward spending can help you avoid that dreaded disease known as *Negative Cash Flow*. This is accounting-speak for "more money is going out than coming in." It's highly likely that the aforementioned freelancer who's owed \$4,500 is suffering from Negative Cash Flow.

You can spot this disease by taking a quick look at your bank account register. Is it going down, down, and down some more? That's Negative Cash Flow, baby. And this can happen even when your business is profitable. Cash is precious; treat it accordingly.

## The Monthly Report

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At the end of each month, it's time for a more formal business checkup. Here's what this exam covers:

1. **The year-to-date profit and loss statement vs. what you had budgeted.** Your accounting software will probably call this a Budget Analysis report. In my world, this is the "Martha, you should have been a fiction writer!" report.

Yes, it's true. I have this ongoing problem with creating a budget that bears a close resemblance to reality. And I'm not alone. We humans have a tendency toward optimism. In business, this tendency can lead us to under-estimate our expenses and over-estimate our income. We also under-estimate the time that it takes to bring in that income.

2. **The year-to-date profit and loss statement vs. the same time frame for last year.** You'll probably find this in your accounting software's report generator under Last Year Analysis. This report might have you dancing in the streets if you're ahead of last year. Or you might be dragging your chin on the ground if this year hasn't been the profit extravaganza that you hoped it would be. Whether your gear is going well or poorly, it's good to have a precise understanding of your profits or losses.

3. **Although most accounting software can generate a Statement of Cash Flow, it just hasn't been a must-see for me.** Instead of using this report, I scrutinize my cash flow by reviewing my two bank account registers. Here, I'm looking at each expenditure and asking myself if it was **really** necessary. I'm also comparing the balances at the beginning of the month with what's showing at the end. If the balances are higher, whoopee! Positive cash flow. Lower balances mean negative cash flow, which means that it's time to step up the collections and increase the sales.

While I'm looking at the account registers, I also like to compare them with what the banks say I have. This is just a quick check — I don't do a formal account reconciliation until the middle of the following month.

## The Annual Report

On the annual level, we're looking at big things like trends and transitions in your business. What better way to record them than with an annual report? Like the publicly traded companies' annual reports, yours will offer two types of information:

1. Narrative
2. Financial

### Your "Best and Worst Moves of the Year" Narrative

There's no need to write a *War and Peace* narrative. You don't want to fall into the trap that

one of my mentors pointed out. She told me, "Martha, you spend too much time **writing** about your business. You need to **do** business!"

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Oh, was she right!

So, let's follow her advice and keep our narrative to one page. And on that page, write down your Five Best and Worst Moves of the Year. Where would you find the material for these lists? In two places:

1. **Your weekly review/evaluation write-ups.** (I like to do mine on Friday afternoon. They cover what I did to get paid, find more work, and anything else that relates to the running of my business.) Are you seeing any disturbing trends? Say, like projects getting tougher to land and clients being slower to pay? Or, are you seeing positive transitions, like success in breaking into more lucrative markets or the development of new profit centers?
2. **Your financials.** I'd suggest pulling a couple of profit and loss statements, one that compares your actual results vs. your budget and another that compares this year with last year.

On the P&L (Profits and Loss) vs. your budget, you may see things like cost overruns. Sometimes these are unavoidable. And sometimes they're due to your going a bit crazy with spending when you shouldn't have.

If you came in under budget on your expenses, you're not necessarily off the hook. You may have over-estimated your expenses. Or, you might have under-spent in areas that could have helped your business grow. Yes, it's true. There really are times when you do need to "spend money to make money."

Speaking of making money, how did you do? Are your income and profit levels where you thought they would be? If so, good for you, but you'd better have a compelling explanation. Was it because all of those sales and marketing efforts paid off? Or did you happen to be in the right place at the right time and land a highly lucrative, career-making contract?

Next, let's look at this year's P&L vs. last year's. Is income and profitability way up? Turn back to that "compelling explanation" sentence in the previous paragraph. Answer the two questions that followed it.

Alas, in this current economy, it's highly likely that your income and profitability are down. No fun to deal with, that's for sure. It's time to do some freelance business recovery planning. Here's how:

Scrutinize the things you subtract from your income — the costs of sales and operating expenses. As a freelancer, your cost of sales figure is probably quite small unless you're subcontracting work. For example, if you're creating a new website, you may need to hire a programmer, a copywriter, and a Flash developer.

In other words, you're creating a virtual team to complete the project. Make sure that the fee you're charging the client is sufficient to cover the subcontractors' fees. You don't want to lose money on your projects.

Take a good, hard look at the tasks that you're subcontracting. Can you bring them back in house until business picks up? Can you eliminate them altogether?

Enough beating up on the cost of sales. Let's thrash those operating expenses. Compare with last year. What's up? What's down? What are your top three expenditures for this year? Why are they so high? Were all of those things you spent money on truly necessary? Don't be afraid to holler "No!"

For the time being, you are going to focus on survival spending. Nothing more. (Be forewarned: You're going to use the word "no" a lot.)

In short, the P&L vs. the previous year is an excellent check on the progress your business is making. Now, if you're in freelance business recovery mode, it might be due to some poor choices or just bad luck. Or, you may find yourself mired in an economy where just staying even with (or slightly below) last year is a considerable accomplishment.

Don't beat yourself up if the news isn't good, but don't simply say, "Oh, it's the economy," and stop trying to find new business. That's an easy trap to fall into, and a lot of people do. Many of them don't get out.

If your business is doing well, resist the temptation to rest on your laurels. A business that's successful now might be failing in two years. I've seen it happen, and I'm sure you have too.

Okay, so you've found the raw materials for your Five Best and Worst Moves of the Year. Next to the Best Moves, write a sentence or two on why these were such good moves. If you're doing things right, you want to keep up the good work. Recording the **whys** behind the actions and decisions gives you some history to refer back to.

For the Worst Moves, what did you learn? And, how will you prevent it from happening again?

After the writing's done, don't hide this document. Share your Best and Worst Moves with your accountant, your business mentors, even your family.

## **Hey, what about the balance sheet?**

I've just taken you all the way through a chapter about accounting and financial statements. And I've neglected the balance sheet. It's a snapshot of a business at any given time — shows the assets, liabilities, and the difference between the two, equity.

The balance sheet is one of those documents that means a lot in the "plant and equipment" part of the business world. In other words, factories that make things and bricks and mortar

stores that sell things.

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We freelancers aren't very heavy in the tangible "things" department. Many of us conduct our business from a room in our home, rather than a plant or store. As for equipment, what do we have? A laptop? A smartphone and maybe a tablet? And that's it. What do we make and sell? Well, it's up there — in our heads! How do we put the value of our ideas on a balance sheet?

Such is the conundrum of an intellectual property-based business. It does produce something of value, but it's not easy to show via traditional accounting reports like the balance sheet. And it's not just us. Large software companies have the same problem. That's why you hear software CEOs lamenting the fact that their company's biggest asset — the employees and their brainpower — walks out the door at the end of each work day.

# Business Funding Basics

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If you're thinking of starting a freelancing business, where are you going to find the money to do so? Will you start an "I Hate My Job" fund and save part of every paycheck? And, as your job hatred increases, so does the amount that you save? Or are you going to seek loans from family, friends, and commercial institutions like banks?

Put simply, there are two sources of business funding:

1. You
2. Others

That's it.

Your funding sources could include the money that you saved up before you started freelancing. It might be from that "I Hate My Job" fund mentioned above. Or, it could be the revenue from your business operations.

Funding from others may mean loans from family, friends, and financial institutions like banks or credit unions. Loans from financial institutions are often called "secured loans" because there is some hard asset being put up as collateral. Meaning that if you don't pay off your loan and your house is the collateral, the bank can take your house.

If you borrow the money from your family or friends, they may not be asking you to put your house on the line, but they'll probably be just like the bank and charge interest. They may also want to see your business plan. This isn't just idle talk; one of my friends asked to see my business plan before he loaned me money for the computer I'm using to write this book.

I'll get to the parts of a business plan in a moment, but first, let me offer this bit of advice about loans. I know that you're a talented freelancer and that you'll do very well in business. But keep in mind that getting any business up and running can be a tough slog for a very long time.

Like your vendors, your creditors will expect to see regular payments on your loans and they won't be very happy with any excuses, which is why I recommend that you avoid borrowing money if at all possible. Debt can be a real drag on your business and personal life.

This includes credit card debt. I know that credit cards are given out like candy, and that they're unsecured loans that aren't backed by collateral like your house, car, or jewelry collection, but they are best used with extreme caution. Why? Because it's easy to get into a deep hole that is dug ever deeper by the compounding interest charges and fees that are added to unpaid balances. This hole can be very difficult to climb out of.

So, use your credit card for things that you're **sure** you'll be able to pay for in full before your next card payment is due. The credit card companies will call you a "deadbeat," and yes, that

is how they describe people who pay their balances off at the last minute. But, that's their problem. ~~Your problem is getting your freelance business off to a successful start, and keeping it as debt-free as possible.~~

## **Business Plan Basics: The One-Page Plan**

Okay, you're not planning on asking others for a loan. So, you can just skip this section, right?

In a word, no. I say this because starting a business without a plan is like setting yourself up for failure. You literally won't know what you're doing.

But if you're probably wondering if you need to write one of those lengthy business plans that will likely gather dust. The good news is you don't! Permit me to guide you through a one-page business plan that you can create in less than a day.

### **Part One: Create your Ideal Client Profile (ICP).**

Why have an ICP? Because if you don't, you'll waste time trying to sell your services to people who:

1. Can't afford what you're selling.
2. Don't want it.
3. Can't understand why they're hearing from you.

Since most creative freelancers deal in the business-to-business realm, here's your ICP template:

1. The industry or industries in which your target company operates.
2. The company's annual revenues.
3. Whether the company is in startup stage, is growing, or is mature.
4. Whether the company is publicly traded or privately held.
5. The job title(s) of who you're going to contact in this company.
6. Your contact person's budgetary authority, e.g., can your prospect spend money on your services without having to ask the boss?
7. Location of the company. (Are you focusing on companies in your hometown? In your state or province? Nationally or internationally?)

Rather than embarking on a time-consuming information hunt, look at these building blocks a



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