



## Financial Makeover: Simplify Your Accounting and Multiply Your Profits!

Marlene Chism and [Ellen Rohr](#)

**Ellen:** Hey, how are you it's me, Ellen, the Plumber's Wife turned business makeover expert. Today we're going to continue with Business Makeover 2014. This is our opportunity to make this year our best yet, as the year lies before us as a fresh blank canvas, we get to put on it whatever we want. Discovering what you want is what Business Makeover 2014 is all about and we've had so much fun with so many experts, I've loved these interviews.

Today the tables are turning because I am the interviewee today and I'd like to present as my interviewer, Marlene Chism. Hi Marlene?

**Marlene:** Hi Ellen.

**Ellen:** You may recognize Marlene as the 'stop your drama' queen. She was one of our experts earlier in the summit and I was so happy to be able to get Marlene to interview me.

**Marlene:** I'm thrilled. I know I'm going to learn a ton from you today, I'm glad you asked me.

**Ellen:** I'm excited and of course, we can go through a standard interview process where you're in charge of asking the questions, but the way this works best is to make it as organic, fun and real as we can, so if you have questions that you want to know about your business, I think they'll be totally appropriate and of service to everyone, so go off piece and have some fun with the interview and I'll gulp and relinquish control for a moment. Take it away.

**Marlene:** I think the best place to start is your story. I've heard you talk a little about it, but we should give people some foundation, so give us an overview of what happened that made you do this work and the story that influenced you.

**Ellen:** It all comes down to our story doesn't it? I share from my experience, strength and hope what I do as a professional to help people fix financial messes and put simple business plans together. I teach from what I learn from the experience that I have. Once upon a time as a kid I started working at age 14, and I was one of those kids who always had a job. I think I've had a total of 50 and I was usually the fence tester who was on the verge of getting fired, which has happened a few times.

I would challenge authority and ask questions why and if the game wasn't clear and interesting than I would play my own, and sometimes the boss would like it and sometimes they wouldn't. That led to having lots of jobs, and I share that because even today I always come at a client relationship with the eyes of the team members. I look at the boss as if I worked for that guy and it gives me a great perspective. Is the game you're laying out worth playing? Why would someone

work with you and do what you want them to do when you're not around? It's the blood that runs through my veins.

So I had a bunch of jobs and the pivotal moment for me was having a baby. That was the first time in my life where I thought I'm going to be serious about things. I know having a child is often a trigger for flaky people to get focused and decide maybe I should do something with my life from a financial standpoint, so I moved up through the ranks in a restaurant chain and learned a lot about business. I have a degree in business, graduated top of my class in Business Administration and then I have this real job where I'm learning a lot about financial reports and systems and accountability.

I had this fantastic experience, so when my husband, the plumber, who had his own plumbing company in which I didn't participate at all, my husband's partner died suddenly and tragically at age 33. He literally worked himself into a stress-induced health crisis and died. He worked 100 hours one week and the last words he ever said to me were, 'if I don't do it myself it'll never get done.' He didn't feel well. He went to the hospital and then he died, on a Sunday after finishing up a full work week.

**Marlene: Was that the pivotal point for you?**

**Ellen:** It absolutely was for me and another of my philosophy's for me is that you just can't take it so hard. It isn't worth it to get so worked up about it it's all going to be fine.

**Marlene:** I want to interject real quick right here, because I've heard you say when you were just a child and employed and when the game wasn't clear that you knew you'd made your own game and created what I would call drama. Then you said your husband's partner, and I look at patterns, had the mindset that he couldn't rely on anyone else.

**Ellen:** Right. He didn't like our customers. He was a worrier, the kind of guy who internalized everything and took it hard or got worked up about things. Drama is the right word. Define drama for me again.

**Marlene:** The way I define drama is any obstacle to your peace or prosperity, so when you're talking about the partner dying and the mindset of, if I don't do it, it won't get done... he had a lack of clarity even in what was driving him to craziness and you saw it. You had the clarity and knew that mindset didn't work for business.

**Ellen:** Right. Huge dramatic result from that stress crisis, which was absolutely... I mean, you can watch someone wind up and he was like that. I didn't realize how bad it was, and that's one of the other things that until someone has that health crisis or accident, you go I knew he was on a bad path but never realized how serious it was. That had a huge impact on me and on my husband as well. This was his best friend and had been friends from when they were little kids.

My husband said to me, I'm going to find a job. The business part of business isn't my favorite I like to work with my hands, so I'm going to shut the business down. At this point I said no, I have a great idea. I'll quit this real job that I'm developing as a restaurant manager, this career position with salary and benefits and I'll come work with you. I know about business, so you turn wrenches and I'll be the administrative person and we'll get rich. It was awful.

**Marlene: What were your issues?**

**Ellen:** Now we don't have my salary or benefits and we're both trying to take money out of the plumbing company that wasn't working in the first place, which I didn't realize and didn't know

why. Even with all my education, there were some assumptions about business that I held to be true.

- You have to charge the going rate

You have to charge if the market will bear it. They even taught me that in school. There was a total disconnect in college between accounting and marketing. I never knew that connection. You have to charge more than it costs. Hotrod was charge \$30-35 an hour and the going rate in our area was \$35 an hour, so we're thinking it's just us, why aren't we making any money. There's something wrong with us. All our competition seems to be fine it's just me. It got very stressful and I would say to my husband, we don't have enough money and he would hear, I'm not good enough or I'm not working hard enough. The stress that we created between us was horrible.

So again these things are all perfect in how they lay out, because I'm super sensitive about family businesses and the weirder the dynamic that emerges, because we would talk to each other in ways that you would never talk to an employee or stranger or a friend.

**Marlene:** I know what you mean and just the stress of the shared responsibility. The first thing people want to do when they're feeling stressed is to blame it and let the energy go out that way. I can imagine there's nothing bigger than a money problem and I know you're going to talk about that.

**Ellen:** For us that started it and then it escalated. When there wasn't enough money you had fewer options.

- Money buys options

That's all it does. It gives you more options. You always have options, but money gives you more options. We were struggling and hating each other, hating life and our guys were constantly whip-sawed by our arguments and challenges. It was a dark time. So one day Hotrod came home with a copy of a plumbing trade magazine. He said there's an article in it that you should read. It's called, how much should a contractor charge? It's funny, because I was talking to my mentor, Frank, about this article because he wrote the article.

I was talking to him about it the previous day and had found it online. So you can go look it up on [PMMag.com](http://PMMag.com). So Hotrod came home with this magazine and said I think you should read it. I read the article and it knocks me out, because it talks about adding up all your costs of doing business, dividing it by the number of widgets you could sell and then charging more than that per widget. In my industry it's hours, we sell our time. That's what plumber's sell, the skill in their hands and their head is delivered via to vehicle of time.

For consultants, lawyers, doctors, etc. it's the same and if you're making t-shirts then it's t-shirts. The idea is that you add up how much it costs you to make it, divide it by the number of them you think you could sell and then charge more than that.

**Marlene:** So that gave you a formula. **Is that what you used for a budget?**

**Ellen:** This was my first experience with that formula was in this article of 2000 words. I followed the math for this contractor and this contractor is scared to death to raise his prices, which is why he writes this letter to the magazine in the first place and then Frank took it on to answer the question.

I read the article and wrote Frank a letter. Dear Mr. Blowe, please help me. Then I go on for two pages of why you don't understand that I'm not going to be able to raise my prices. You don't know how cheap my customers are. You don't know the troubles I've see, etc.

**Marlene:** You were very committed to the problem right.

**Ellen:** Very. I laugh about this. I would even deny the existence of this letter, it was so dumb, but Frank published a book with my letter in it as an example of how dumb contractors can be. *The Business of Contracting*.

**Marlene: Did he get your permission before that?**

**Ellen:** Heck no, he just did it. I'm like thanks, it had my name on letterhead and even the letterhead is crooked because I just printed my own since I couldn't afford to have any printed.

**Marlene:** So you were desperate and reaching out.

**Ellen:** I made the reach but what we often do is to make the reach and then fold my arms and said but, I'm not going to be able to change anything.

**Marlene:** Absolutely.

**Ellen:** It's so funny. You don't understand how cheap my customers are. I was in Park City, Utah which is where the wealthiest people on the planet build their fifth homes.

**Marlene: It's mindset isn't it?**

**Ellen:** Yes, like you can smell the money from here in Missouri. There's money everywhere it's just our mindset. So I wrote this letter and then he called me up. It's business as usual at Hotrod and Yanik's plumbing, the name of the company. I'm trying to get the guys out the door, I have the baby and it's crazy. I get the call and I answer saying hello. I hear hello, what is this, a business, residence or what? I said it's both, may I help you, like I need this at 7:00 in the morning. He says honey, you have your head so far up your and then he described where my head was.

He says you should shut your business down. A lot of people write me letters and this is the dumbest letter I've ever gotten. If you want to save yourself, your family and your team members let them go, let them go free. Do whatever you need to do, but you think you know it all and I think it's time for you to have a reality check.

**Marlene:** So he called you out. He was concerned when he saw that letter.

**Ellen:** He is a pain in the butt. Frank is like a bee in your shirt. He does everything he does from the sense of purpose, of missions, in order to help contractors make the money that they deserve.

**Marlene: Do you think you would have heard him any other way?**

**Ellen:** Maybe not. I doubt it. No one had ever done that to me before.

**Marlene: Don't you live on a street called Know It All Lane?**

**Ellen:** Yes. My husband named it after me. I'm getting better. It's a constant reminder. What's the saying, some people need a feather, some need a brick... I must have needed a brick because it

angered me and I got off the phone and stormed around the house. I can't believe that guy and what he told me. Hotrod told me the next day, why don't you call him back because we don't know what we're doing.

**Marlene: So you actually called him back?**

**Ellen:** I did, the next day. I couldn't stop thinking about it and I said I'm sorry I will do whatever you tell me to do. I'm not going to do this anymore. I can't believe the emotion still comes up when I talk about it. I can still feel that moment. These are good moments my friends. When you're like okay I'll do it, I'll change it and you're hitting your head against the wall. What he started to do with me and what I do with my clients is he started with the money.

Throughout Business Makeover 2014, I hope you've noticed that there are a lot of different opinions and not all of these options I share with these experts, but the beauty of the conversation is that you just let it wash over you and allow yourself to think a new thought, because if you don't you're stuck with the same old insanity that has led you to where you are right now.

**Marlene:** Let me interject with a question, because you talked about your own resistance of already knowing how it is, you don't understand my clients... **In the work you do, do you see people doing that as well?** Like you're teaching these concepts, you have philosophy's and you're interviewing other people with some philosophy's not the same as yours. **Are you saying that until you open your mind nothing is going to change?**

**Ellen:** Yes. What also resonated with me from another interview with Simon Sinek is he said, at first when he was consulting he took it so personally and didn't understand why people wouldn't do what he was asking them to do. They called him and they're paying him, so why wouldn't they just do it. I've certainly had moments like that. However, I am fine with whatever journey you have to take. Whatever it takes is fine, it's all good and sometimes it's frustrating to see here's a thirsty man and I'm putting the cup of water right there so why not try it to see how it feels.

That's the challenge we all have as teachers and salespeople, is to present an option in such a way that someone could say yes, okay, let's go and overcome whatever fear they have or whatever resistance and pay the price they must pay, whatever that is to try something new. I think that's the challenge. I don't want to be too dismissive of, like do whatever you want. Our challenge as teachers and consultants is to see if you can present it another way or what would you feel comfortable doing? What kinds of steps can we get you to take and sometimes the brick is appropriate.

**Marlene:** Absolutely.

**Ellen:** For those listening, I want you to know that all the experts on our summit and as we work with people too, we work with our own stuff and we know you're dealing with yours, so the challenge, the game and opportunity is how do we resonate with each other? How do we find some place where that trust is there where you can say, okay I'll take a sip of the water? This is what Frank did with me. I was so low and he hit me with a brick, which is what it took for me. My style isn't usually to trot out the brick but I'm okay with it and when someone uses it on me. It's one of the tools.

Anyway, the process Frank went with, and this is how generous a guy he is. Do you remember those fax machines that used to have the roll of thermal paper that would make your hands all black?

**Marlene:** Yes.

**Ellen:** I would go to my office and there was miles of fax paper pouring out of my fax. He sent over all his financial statements. He taught me how to read a balance sheet, and profit and loss, by showing me his own.

**Marlene:** I love looking at P&L statements.

**Ellen:** You nerd, nerd alert.

**Marlene:** I don't love the balance sheet.

**Ellen:** All right.

**Marlene:** I don't think a lot of people do. I want to talk about that for a moment.

**Ellen:** This is fun. Sometimes I tell my story and then we dig into the content, but what we're doing today, as I tell the story let's take moments to explain the process a little, how is that?

**Marlene:** Absolutely.

**Ellen:** He taught me how to read the balance sheet and P&L. The P&L wasn't that big a mystery for me. It was sales minus expenses equals, hopefully a positive number. In our case it was negative repeatedly. In fact, at one point I even suggested to Hotrod, why are we paying an accountant to produce these financial reports, we never look at them and they always show that we're losing money. Maybe we could save money. That's how dumb and in denial I was.

I was an educated person, but I still didn't want to see it. That's why there's never any judgment with my clients, only love.

**Marlene:** It's because you've been there, so you get what it's like.

**Ellen:** Right. I've been probably the most obtuse person I've ever met, when it comes to overcoming some of these things. So he started teaching me how to read a balance as well as a P&L and the balance sheet was a mystery to me. It's your assets equals liability plus equity. A big part of accounting is that the words are weird. It's like, if you go to speak a language, like going to Mexico and not speaking Spanish, you feel dumb because there's a conversation going on and you don't understand it.

That's the same thing with the financials is that if you don't understand the language then the words are like... your CPA will tell you if you have this for assets and you're thinking what is an asset and then you're lost and then you don't have a conversation. This is why, in some ways, I think the relationship between our accounting and financial professionals is often so stressful.

**Marlene:** Absolutely. I know you know when I first started I felt so intimidated at the end of the year, because I had no clue what was really going on. I was paying my bills and making money, but I was embarrassed because I didn't have the right language skills and understanding and I bet you see that a lot.

**Ellen:** I do. So Frank, what he would do is to define the words and he would tell me, it's a course of study. Go get a book and figure it out. I went to the bookstore at the time and found Accounting for Dummies. It was 500 pages and I said no, not what I'm looking for. I wanted something really thin. Just give me the primer, what are the basics? I don't understand the concept. For me,

understanding the concept was important I had to understand what the whole thing was in order for me to understand the pieces.

I knew what an invoice was, but I didn't know what it did and when you entered it what happened to it on the accounting system. This is when accounting systems were just getting started. I'm old, as this goes. The first book said my husband's partner did it where a big red ledger and you added it one way and then another so you had the checks balanced. That's great, you can do accounting that way; however, accounting in a program like QuickBooks or Peach Tree makes it much easier. At the time I had just gotten a new accounting program and I remember saying it's great, it does the accounting for you.

It does the math and if you enter it improperly you'll get a big mess, which is what I had created. So garbage in, garbage out, I was making a mess of everything and I was getting even more frustrated. Frank started by teaching me on his financial statements and defining the terms for me. This is what we would do. We would go line by line and I would use my finger because I'm a little dyslexic and have this shiny object attention span problem. I would use a ruler or finger and go line by line asking what things meant.

I asked questions. He would try to describe it and I did the same thing with my CPA. I would ask them where numbers came from, how did it get there and why is it a negative? I started breaking down the intimidation thing. I'll tell you, here's a miracle that happened. Frank was tough but he would help me. He would say, at some point I want you to sit with your CPA and figure this out on your books and your numbers, I don't know why yours look like you do, you all will have to go through it. He wasn't going to fix my books for me he was defining terms and telling me to study.

I went with my CPA and here's the real miracle. If at that point I had encountered an intimidator or martyr I would not have the career I have today, because I was so fragile at that point that if I'd run into an accountant like I have met a thousand times since then, someone who's going to bully you and tell you that you don't need to know it or get threatened when you ask. I've met so many accounting professionals like that since that time, so I was blessed to have someone who said, it's about time you asked. Let's sit down and figure this out together. For that I'm forever grateful to Brenda, who was my accountant at the time.

She's the one I wanted to fire because I didn't understand it. She was the one who said it's about time you asked, let's figure this out, I'm here for you. What are your questions? It was a blessing, because at that point I would have just collapsed. I so didn't want to learn this and can't even describe to you how much I didn't want to.

**Marlene:** And now you're in this business where it's what you do.

**Ellen:** It's what I did and what I was responsible for and I was so intimidated by it I didn't want to do it at all. I didn't know why someone else couldn't do it for me. Why is this my job? I'm creative and fun, I just didn't want to do that piece of it.

**Marlene:** What's interesting to me about this is that you had a business degree.

**Ellen:** I know.

**Marlene: Where was the disconnect there?**

**Ellen:** I had an A in accounting, but I'm a good test taker.

**Marlene:** I am too and I took management accounting and I guarantee you, I couldn't tell you one thing from it.

**Ellen:** I remember learning things like LIFO, FIFO, first in first out, last in first out inventory. Marlene, with all the contracting businesses I have worked with, hundreds if not thousands at this point, it doesn't come up. The concepts that we learned there. I learned how to value a company, which has come up and I've used some of the things I've learned in school but here was the thing and this is huge. In college, when they presented financial statements, the assumption was that the financial statements were correct.

Now I'm looking at mine and they were a big mess. Numbers are negative when they aren't supposed to be. It says I have a million dollars in the bank and I know that's not true. They were a mess.

**Marlene:** That's just from not understanding where things go and how things work, and the difference between P&L versus balance sheet and all that.

**Ellen:** Right, and every single set of financials that have ever been presented to me have something wrong with them. Right now at my point, I'm meticulous about my books. We look at them every week. Here's the standard, now I run the balance sheet along with the P&L every week.

**Marlene:** Just for clarification, because I'm sitting here knowing that people are at different levels. I understand looking at P&L every week. **Why would you look at the balance sheet every week?** Give the formula for that again.

**Ellen:** Let's talk about the balance sheet and if you have a piece of paper write this down... assets equals liabilities plus equity. We'll do some balance sheet 101. Assets are your stuff. It's what you have and that's all there is in business. In business, one of the scorecards is the balance sheet and the balance sheet is a list of what you have and the game is to not lose what you have and in fact, grow what you have because that then helps you expand.

I love where we're going with this so let's make it authentic.

**Marlene: Would you say it's stuff equals what you owe plus what you have?**

**Ellen:** You're getting a little ahead. Let's start with what you have. It's a list of what you have and that would be cash, which is our favorite asset and is the most flexible. Right below cash is accounts receivable, which is a promise to pay cash. It's like an IOU but it will be cash soon as we exchange it for cash and get paid. The list of assets goes in order of liquidity, meaning the closest to cash is top. So cash is at the top and as the list goes down it becomes less liquid.

For instance, after cash there's inventory. Inventory is an asset because when you sell it, it turns into cash so it's worth something. Then there are vehicles and a building. You put them in order because you want to know what you had for cash because you're going to use that to pay bills. Cash and accounts receivable you can take a peak at to see if you have enough of that to pay the bills. Fixed assets or assets that are less liquid, you don't want to sell your building to make your payroll, so you list them like that.

**Marlene:** Right, but if you had to that's what you have.

**Ellen:** Yes, and it is what you have, it is a list. So you can fix your balance sheet by ascertaining what it is you have. These are all verifiable items. We can go to the bank statement and find out how much we have in cash. We can add up the list of invoices sitting on our desk for sales we've



made but haven't yet collected. That's our A/R. So these assets are verifiable. So assets is the one side of the balance sheet. Assets equals liabilities plus equity, so if you think of the assets as what you have, liabilities is what you owe and equity is what you own.

So the concept is that I have these assets and the value of those assets equals who lays claim to them? Who has a claim to them? Let's think of it like this because this is usually something that we're familiar with. The same concepts apply on a personal balance sheet. Let's say on your personal balance sheet you bought a home for \$500k and you put \$100k down on the house, so you have a mortgage of \$400k. Your balance sheet at that moment would be the house-\$500k, assets equals \$500k.

**Marlene:** That makes so much more sense.

**Ellen:** Which equals the loan for \$400k and the difference is the equity that I have. If you get that then this will open the balance sheet up for you. Another way to rewrite the balance sheet equation, going back to your question, assets minus liabilities equals equity. What I have minus what I owe equals what I own.

**Marlene:** That makes more sense to people.

**Ellen:** Yes. We have the assets which shows us what we have that equals liabilities and liabilities are what I owe. Now with liabilities at the top of that list are those bills I have to pay now and at the bottom of the list are the bills that I have more time to pay. So at the top of the list is accounts payable, credit card payable, sales tax payable, payroll taxes payable. The things I have to pay now.

Then, at the bottom, the long-term liabilities are the mortgage and I don't have to pay the whole thing off right this minute. So, why we would look at the balance sheet every week is because it's a really good way to know if you're going to be able to pay your bills. That's where the cash information is.

**Marlene:** That's huge. I think so many small businesses look only at P&L.

**Ellen:** This is a big disconnect for folks, dealing with the P&L, so I'm going to do my best to explain it. It's easier with a dry erase board if we're going to do a webinar. It's a teleseminar so use your imagination it will be good for you today. If the balance sheet tells you what you have equals what you owe plus what you own, here's the game. Warren Buffett taught me the next piece I'm sharing with you. I read a book called *Personal History* by Catherine Graham, the owner of The Washington Post until the time the Watergate scandal happened.

A woman in publishing was rare at the time. She has this great story but she sold the Washington Post to Warren Buffett. Warren then sits down next to her and says welcome to my team now let's get you started on the balance sheets. She never knew how to read one. She sat with him and he taught her just this way... assets on the left and liabilities and equity on the right, which creates the equation. Then he shares with her that there are only three ways to grow assets and in the game of business that's what we're trying to do. We want more stuff.

More stuff is more options that's how you grow. You have more money you can buy more trucks, you can pay people and give back to the community more and more. You have to get over that. In the universe you're either shrinking or dying and unless you're growing your company is dying. If you're going to play the game, play and embrace it. Money just reveals a man's character it doesn't ruin it.

**Marlene:** Right, you are not your money.

**Ellen:** Right, it's just one measurement of energy. So that's the game, we want to grow assets so we have more options for more people, etc. So he told her there were three ways to grow assets, think of this equation.

1. One way to grow assets is to borrow money. Grow assets by incurring a liability. Assets go up liabilities go up.

So, if I wanted that truck I buy a truck. The asset of truck goes up and I borrowed all the money for that truck so I have a truck for \$30k and now I have a loan for \$30k. The assets grew so they're bigger, so did the liabilities, the balance sheet stays in balance, but this idea of what I have and where it came from is like the universal law of what comes around goes around. There's an explanation. There is equal and opposite reaction.

**Marlene:** It does make sense and I know we're going to tie this in, but I want to bring it up now. **This is a debt issue too isn't it?**

**Ellen:** Yes, because you can grow your company with other people's money with liabilities but at some point you'll run out of options. Let's discuss that and talk about the three ways to grow your company and then I'll talk about the debt piece. So one way to grow your business is through debt... credit card debt, you can't make payroll so you use your credit card and cash goes to pay payroll, the debt goes up and becomes this circular burn.

**Marlene:** Do this, because it would help me a lot to track with this. **Would you name the three pieces first and then go into the details?**

**Ellen:**

2. Next is to infuse money into the company through an investor.

For anyone who's ever written a family check and put that check in the company checking account, this is called owner investment.

**Marlene:** And number three? I want you to list the three and then explain because for me I'll get lost in the story and not realize we're back on the three.

**Ellen:**

3. Third is to sell stuff for more than it costs and you create a profit.

Think about it, because this is where the P&L comes into play. The P&L and balance sheet are connected. The P&L, if you sell stuff and have \$100k worth of sales. For more than it costs you, you have \$80k worth of expenses so you create a 20% profit. You manufactured that money from nowhere. You made it up and created it.

If that profit is \$20k, the connection, the dovetail point between the balance sheet and P&L is in the equity section of the balance sheet, there's a line that says net profit or profit or with QuickBooks it says net income, which is confusing, but it represents that bottom line of the P&L. So the P&L bottom line is the \$20k, which is represented in the equity section of your balance sheet. This is your homework assignment go find that. Look at it.

That \$20k of equity that you manufactured out of nowhere is also represented in your assets, so it has to be by the law of the equation. So, if you create that money it came from somewhere,

from charging more than it costs and you have this profit. There will be a corresponding increase in assets. It has to be.

**Marlene:** You always, at some point, have to sell more because even if you get an infusion from an investor or you borrow the money, you have to return that.

**Ellen:** You run out of those options and the debt can start to escalate on you. Let's talk now about the difference between cash and profit. This trips people up. I made \$20k at the end of the year and then my accountant says great, you have to pay taxes on \$20k. No problem. You go to your checking account and the \$20k isn't there. That's because while you've created that profit, it may not be in cash. It may be stuck in accounts receivable. You might have already turned around and spent that cash to pay down debt.

When you pay down debt, that transaction doesn't show up on your P&L. This is where it gets confusing if you're a newbie to this. Let me tell you what the course of study is. This is what double entry accounting is, its debits and credits, it's the functionality inside the accounting program. I want to talk to my heating, plumbing, cooling and electrical people, home service contractors. I encourage you to embrace the study of accounting, just until you discover the technology of it. Because it works like drains and vents. For every action there's a reaction. It works like the laws of physics and is a technology.

I'm saying this Marlene, because I had to understand that for me to start to embrace it. It wasn't that hard it's just that I didn't understand how it worked. In my QuickBooks accounting program, there was a quick start guide to the program itself. You know how there's a big fat manual and then the mini quick start guide. In the quick start guide there were three pages devoted to the conversation you and I are having today.

- What's a balance sheet?
- What's a profit and loss?
- What's double entry accounting?
- What are debits and credits?

I read that and the light started to go on.

**Marlene:** That's amazing.

**Ellen:** Isn't it. I dog eared that and read it like ten times and then started playing with my accounting system. For those of you who are owners, let me bring this back to things you can do. For those of you who are owners, suppose you're in a situation where you can't afford a bookkeeper yet or you're not sure if your bookkeeper knows what she or he is doing. Here's my encouragement, do it yourself! Not forever, just long enough to understand it.

That's what I did and that's why I will never be bamboozled. I understand it now. I don't do my day-to-day accounting, but I look at it weekly and I'm so intimately familiar with it and what happens in the program that if something is wrong I'll find it. It doesn't baffle me. I have come 180 degrees on this. There is no accounting thing now that I couldn't figure out. At some point, even if it was like Enron I'd know there was something weird and I'd know enough to ask the question, what does that mean?

**Marlene:** That is amazing.

**Ellen:** I described how I got started with Frank's help. I went to the primer, to my accountant and now you can go online and search YouTube videos and say, 'how do you read a balance sheet?'

Someone will have their take on it. Study this, that's what I do. The books that I sell they're thin with pictures in them.

**Marlene:** You have a book called *Where Did The Money Go?* I got that a while back and it's very simple and easy to read.

**Ellen:** Yes, and the idea behind that is that I wanted to explain what a balance and profit and loss is, give you an overall understanding of the effect of double entry accounting and I would have given my right arm for that book, which is why I had to write it. I wanted that book when I went to the bookstore and ended up with Accounting for Dummies at 500 pages. This is 100 pages with stories and pictures. I tried to make it simple.

The point of telling this story is to give you an idea of how it works. Let me recap for a minute. When I worked with Frank, he was willing to sit shoulder to shoulder with me. This is important. Find someone who will do that for you and maybe your CPA will be that person. Say I want to go line by line and figure out what I have for assets, liabilities, equity, sales and expenses. Let's go through the financial statements together. When I do that I do an audit and put a smiley face next to the accounts that we know are right, a frown next to those we know are wrong and a question mark if I don't know. That's how I audit my client's financials.

**Marlene:** That's good.

**Ellen:** Bit by bit we fix things. You're going to need someone, maybe your bookkeeper, your accountant or you and the computer with a book or two, but my encouragement is that you don't stop until you get it right. We just wrapped up the year so you have a couple weeks until you get ready for your taxes. Could you make the commitment right now that you are going to get the year-end balances for 2013 rockin' right?

Remember, they're verifiable. We can figure out what we have for assets and go to a third-party source and figure it out. We can figure out what we have for liabilities, the credit card statement and stack of unpaid bills or loan documents. Your CPA can help because they usually have checklists. I have checklists. We'll give you some good resources as well.

**Marlene:** Before you go there I have something I've been scribbling down and if you want to go into it fine and if we don't have time that's fine, but as you were talking about those three ways to grow your assets and part of that was borrowing money. I wanted to ask you about the debt thing, which freaks out people and I know business owners who are like I'm debt free. **Is that even possible? If so, is it recommended? Do you want to speak about that?**

**Ellen:** Yes, let's do that. This will ultimately be a personal choice and money buys options. You can run out of choices here they aren't limitless choices, but let's talk about what debt would do. Let's picture that balance sheet for a minute. If you borrow money for a truck, you buy the truck and the asset of the truck goes up \$30k and now your loan goes up \$30k. The reason why you can get a truck loan fairly easily is because there is an asset attached to that debt, that liability. So, if you defaulted on the loan what would happen to the truck?

**Marlene:** The bank would get the truck back.

**Ellen:** Yes, they'd take it back. So let's say you are using a credit card to fund your business, so your credit card balance keeps going up but the money you're putting on that credit card is going to things like covering payroll or uniforms, so there is no associated asset with it. What can happen then is if assets don't grow and debt goes up then you go upside down and you now have negative equity. When assets less liability equals a minus number, this is what's called being upside down. You have more in liabilities than you do in assets and now you're in trouble.

**Marlene:** That's when you have to increase your sales.

**Ellen:** The only way out is through profits, because even if you put more money in the company as an investor, aren't you going backwards?

**Marlene:** Yes, because you're still just feeding it into a black hole where there are no assets.

**Ellen:** Exactly. So you put it in and then you're taking it back out again, it won't fix that unless you fix your company, and here's what fixes just about everything. Charge more than it costs and create a big profit and collect it in cash. This is how easy it is. It's so easy. Now, there will be some emotional stuff that gets in the way, my customers won't pay that much but for me this is what it was, going back to my story with Frank.

I was totally okay with going out of business. Hotrod was okay with going out of business. We just didn't want to live the life we were living. What will it take for you? It may be the promise of creating a rockin' business may be inspiring enough. Maybe it's the devastating pain of an escalating debt and hating each other, like it was for us. That was the point of pain that led to this greatest change and my change was that I was willing to raise my prices.

When I raised my prices we went from \$30 an hour to \$112 and then to \$120 and then to \$150 and then to \$250 and it just kept escalating. I kept thinking when are they going to not want to call us? The fear was unreal.

**Marlene:** You obviously lost some customers, but replaced them with those of a different caliber?

**Ellen:** Yes. We lost customers. For us, new construction was an area I couldn't figure out how to do so we started doing retro fits and replacement work. We focused on what we were good at. Our guys and my husband are hydronic heat solar gurus. They knew how to make water warm, babies and old people and floors and everything else. They made people warm and comfortable. They knew how to do that and we started to make more money.

Let me go back to my story. As we made more money we fixed our business and got out of debt. It took us a couple years and right now as I look back on it, it took us 15 minutes. Once I made the decision and we started to see the benefits of raising prices, and we did little things to make us better. One of our guys used to wear a t-shirt that said 'kill them all and let God sort them out.' We put him in a uniform shirt, a shammy shirt with a patch that said Hotrod and Yanik's Plumbing, Heating and Solar on it. **You raise your standards as you raise your prices.**

**Marlene:** You could do a whole meditative practice on just that. That is the truth.

**Ellen:** It is and that's what we did. I know I'm making this sound simplistic but I want you to understand that it is. When you raise your prices you'll make more money. I talked to Frank yesterday and he said, be sure to tell the people you're talking to that if they raise their prices there's no way they're going out of business. That's how clear he is on it. Not like, you won't go out of business if you crunch the numbers, if you charge what you need to charge, you won't go out of business is what he wanted me to make sure everyone knew.

You will go out of business if you don't!

**Marlene:** You said something very profound that I want to put energy around. You said it took this long but actually it only took 15 minutes. What I'm hearing you say is that the magic is in the decision.

**Ellen:** Yes. I remember when I was adding up my cost of doing business with Frank on a 10-key calculator with a ribbon with a green columnar pad adding all my costs of doing business. I put in a salary for me for the first time ever. I doubled what Hotrod was making from \$24k a year to \$48k a year, isn't that pathetic for a master plumber, at the level that he is. So I put those numbers in which were modest, but as I added up my cost of doing business and dividing by the number of billable hours I could hope to have, I almost threw up.

I still feel my stomach lurching when I realized that I was charging less than I was costing by this dramatic amount. That's why I went to \$112, because that was enough to cover those costs and then note, the more I wanted to pay ourselves and our staff and to buy a nice truck, all these things that are of service to our customers, but the more I committed to doing it nice, the more my customers were going to have to pay.

This is one of the reasons why I invited so many experts to the party. This piece of it imposes a responsibility to learn something about sales, about good customer service, about how to treat your people right and about marketing. That's why I invited so many experts who talk about all the aforementioned, as well as other areas of business that I don't have as much confidence in. It takes all these pieces, but this piece is the one I've laid claim to and I so appreciate you letting me share my story today.

I've enjoyed this so much. We went off piece all over the place didn't we?

**Marlene:** It was a conversation, but I think it's one that all business owners have and they don't understand the balance sheet and whether or not debt is useful or not. I think you've given people a lot to think about.

**Ellen:** What I'm going to do too, same as all our experts which have had something to offer for this summit. This is what I want to point out that I'm including as part of the Business Makeover 2014 package. When you choose to buy the recordings, there's a gold, platinum and platinum lineup of recording packages, the platinum plus package includes a workshop I'm going to do on budgeting.

Budgeting is a terrible word because it sounds like dieting, no fun, tighten the belt, but just like dieting and that collapses you, what you can do is think of it in terms of healthy eating and vibrant good health. That's a little more motivating and exciting. Sometimes budgeting is called the 'B' word because it has that charge to it. We'll call it financial goal setting. It will involve traditional budgeting, putting one together and figuring out what you want to spend on expenses or how much you need to put in the sales line to cover expenses and still make money.

Budgeting does two cool things for us.

1. It helps us set goals
2. It gives us a justifiable selling price

So we'll do a budgeting and selling price workshop. It will be a 90-minute webinar live, so I can show slides and give some examples. If you bring yourself to the party and you have questions, I'll answer those and we'll get messy and have fun. I'll do my best to teach basic, fun, simple powerful budgeting, financial goal setting and planning. That's one of the bonuses in the platinum plus package. So, when you go to the page and scroll down where you see gold, platinum and platinum plus for the recording packages, you'll notice the financial planning made easy budgeting workshop.

**Marlene:** And that comes with the platinum plus package.

**Ellen:** Yes, so if you go with the platinum plus package you'll see where several speakers put some cool bonuses together and that's mine.

**Marlene:** If this was being sold alone as just that piece, what's a range of what that would be?

**Ellen:** The value of it is immeasurable in terms of what it can do for you. I've never done one quite like this before. I do put on workshops that range from \$20 for a quick overview to \$1295 for a more intense setting. This will be a 90-minute webinar and this is what signing up for something can do. It commits you, I'm going to show up and have my numbers, and we're going to get it done. So you'll sign up for the workshop and that date isn't nailed down, but the information will be delivered where this is lined up.

**Marlene:** Very cool.

**Ellen:** What's it worth? To me it's been worth millions, to finally be able to sit down and say I'm going to face the fear and do this. So much fun. We have to turn into pumpkins right now.

**Marlene:** I know. It's been awesome.

**Ellen:** You were the perfect person to help me with this today. Thank you so much for letting me share my story with you and bringing yourself to the party and asking such great questions. I love you so much.

**Marlene:** Right back at you, sister.

**Ellen:** Thanks for joining us.