

Profit First

Effortless Cash Flow Management

What we'll cover



REAL LIFE
HORROR STORIES
FROM MY TIME
AS A CPA



THE DIFFERENCE
BETWEEN A
SALARY AND A
CONTRACTOR
PAYMENT



OVERVIEW OF
THE PROFIT
FIRST SYSTEM



THE FOUR
PRINCIPLES THAT
MAKE IT WORK



SETTING IT UP



MY RESULTS

Disclaimer:

I am a CPA, but I do not practice as a CPA. I am 100% a writer. Please do not rely solely on my advice for your tax or accounting. If you need tax or accounting advice, please consult a professional of your choice.



Real Life Accounting Horror Stories

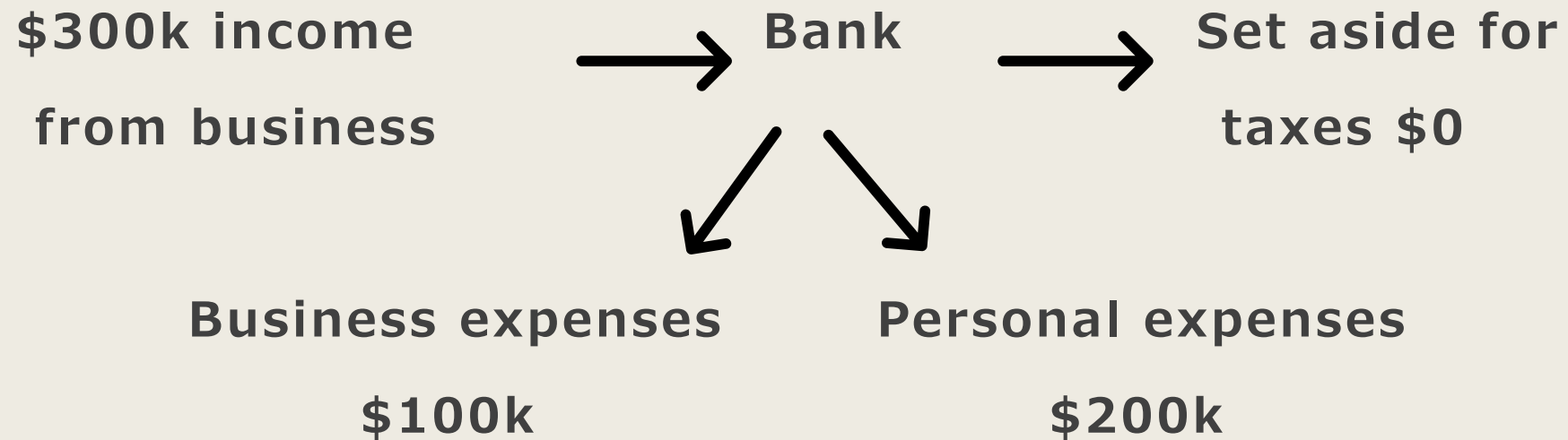
Where did the money go?

\$400k salary → Bank → Investments \$0

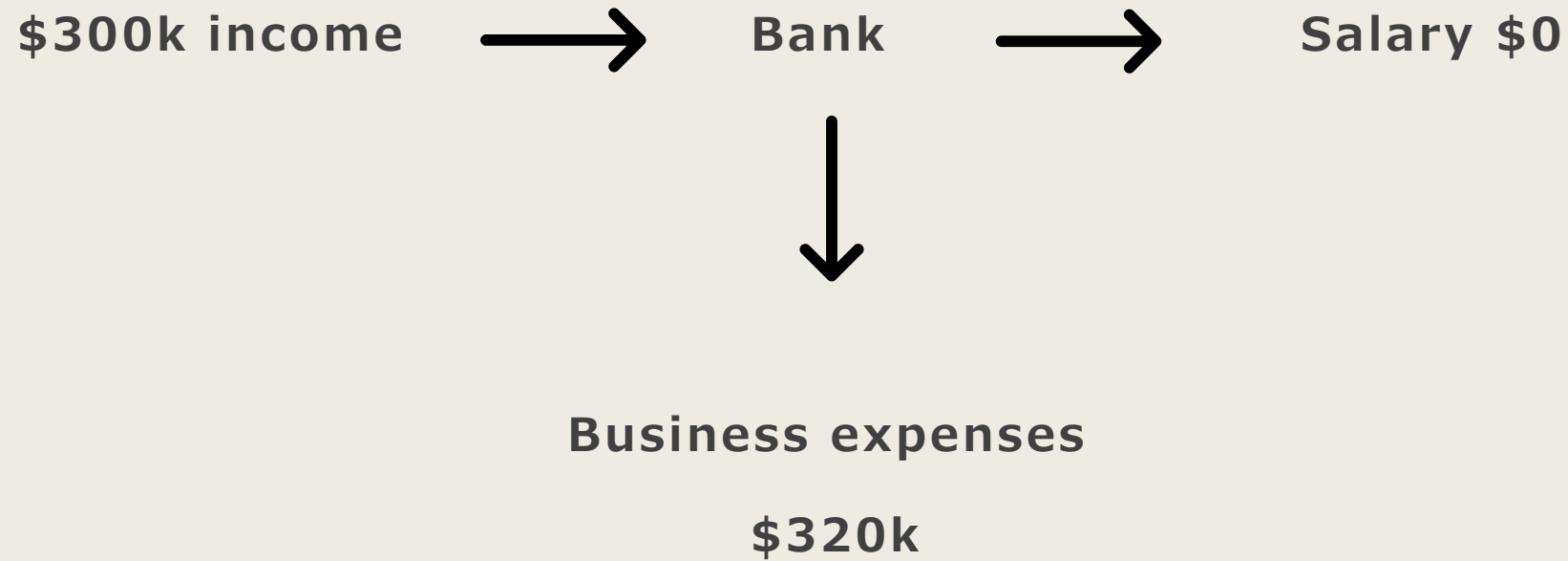


?????

How will we pay our taxes?



I can't afford to pay myself



You must pay your taxes.

- Small business owner working with local accountant
- Accountant passed away.
- Ten years later, business owner passes away.
- Widow discovers he has not filed or paid taxes
- She owed more than \$100,000

**How did
this
happen?**

No one taught them
how to manage money

CPAs dropped the ball

The difference between a salary and contractor income

A \$5,000 monthly salary is a lot more money than a \$5,000 client payment.

Salary:

Everything that goes into your bank account is yours to spend as you please

Contractor income:

Your pay must also cover:

Business expenses

Taxes

Health insurance

Retirement savings

**Success as a freelancer
requires a mindset shift**




**How do I
manage my
money?**





**“Profit First works
because it doesn’t
try to fix you.”**

-Mike Michalowicz



**“Without enough money, we
cannot fully realize our authentic
selves.**

Money amplifies who we are.”

-Mike Michalowicz

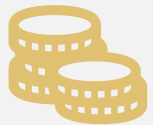


It turns the accounting formula on its head:



Traditional accounting:

Revenue – Expenses = **Profit**



Profit First:

Revenue – **Profit** = Expenses

How does Profit First work?



Paycheck is divided among envelopes



Rent/mortgage



Food



Utilities



Vacation



Rainy day fund

A Variation on the Envelopes Method

**Five
Foundational
Bank
Accounts**

**Segregate Tax
and Profit**

Revenue

Profit

Operations

Tax

Owner Pay



Twice a month: 10th and 25th



Allocate all deposits to revenue
across the other four accounts



Use defined allocation
percentages

**Allocate
funds twice
a month**

Restrict use of funds in each account

Use funds ONLY for the
purpose of each account



Pay Yourself

- A set amount like a salary
- A sustainable amount
- Twice a month from Owner Pay Account
- Maintain a buffer in Owner Pay
- Quarterly bonus – half the balance in the Profit account



**Freelancing income
is variable.**

**Profit First makes
that a non-issue.**



Foundational Principles

Parkinson's Law

Primacy Effect

Remove Temptation

Enforce a Rhythm

Parkinson's Law

The demand for something expands to match its supply.

Limited cash enforces frugality



Primacy Effect

We focus on what we see first.

“Eat your veggies first.”

Sales – Profit = Expenses

Profit is no longer an afterthought.



Remove Temptation

Out of sight, out of mind

Segregate Tax and Profit accounts so those funds are not available.



Enforce a Rhythm

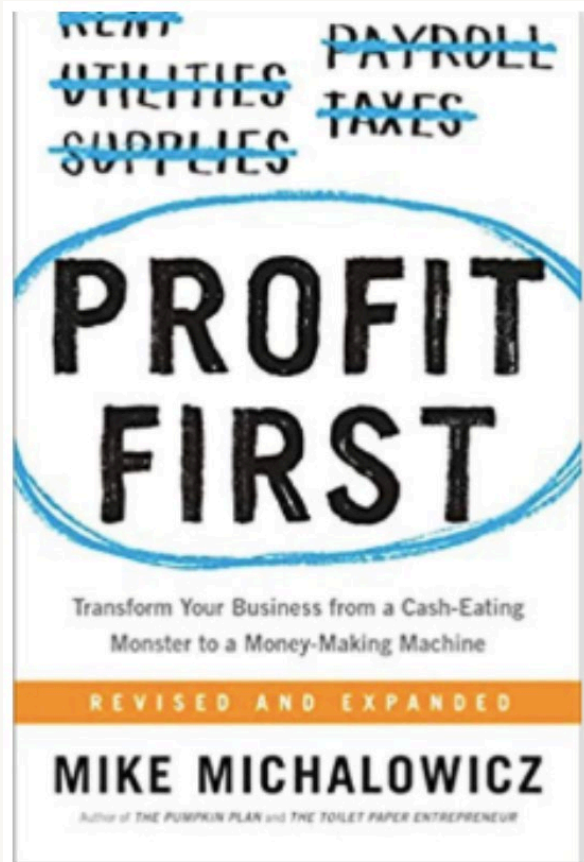
Allocate on the 10th and 25th

Pay yourself twice a month

Pay quarterly bonus

Pay quarterly taxes





How to Set Up Profit First

Step One: Open the bank accounts

Revenue

Profit

Operations

Tax

Owner Pay

My Implementation: 6 Bank Accounts

Operating (combined with Revenue)

Profit

Owner's Pay

Tax

Conferences

Computer

Step Two: Determine Target Allocation Percentages

Revenue	\$0-\$250K	\$250K-\$500K	\$500K-\$1M
Revenue	100%	100%	100%
Profit	5%	10%	15%
Owner's Comp	50%	35%	20%
Tax	15%	15%	15%
Operating Expenses	30%	40%	50%

My Allocation Percentages

Account	January 2018	Current
Operating Expenses	23%	10%
Profit	2%	6%
Owner's Comp	50%	50%
Tax	25%	25%
Conferences		5%
Computer		4%



Step Three: Get into the rhythm

Make allocations on 10th and 25th

Pay yourself twice a month

Quarterly bonus

Monitor your results

How has Profit First worked for me?

Zero worries about money

Money to pay my taxes, go to conferences,
save for retirement and buy computers

Husband is happy

This is sustainable

The background features a series of concentric, overlapping circles in shades of light beige and cream, creating a subtle, modern design. The circles are centered and fill the entire frame.

Questions?