00:00:00 As you are building your business, understanding some basic financial terms is going to help you greatly. So here are the most important of them. Let's start with your income model. Well, it's the way you earn your income. This could mean that you get paid by a salary as an employee of a business, or even as an employee of your own business,

00:00:20 or it could mean that you get paid as a 10 99 independent contractor, which is a form of having your own business though. Many independent contractors don't think of it that way, or it means that you get paid by profits from your company. In which case you should also be getting a salary. That's your income model. Your business model is the,

00:00:39 some of the ways that your business provides value in the marketplace and the machine that it uses to reach and serve its clients or customers. For example, your business model could be that you provide software as a service or one-to-one services or group programs or membership, or you could sell products like courses or art, and you could reach your clients through social media and direct mail and referrals.

00:01:04 All of those are components of your business model. Now your revenue model is a subset of your business model, and it's specific to the way that your business earns revenue by providing its value in the world. So your revenue could be a combination of one-to-one services group programs at a course, or it could be affiliate commissions plus recurring revenue from software plus one-to-one services and a membership.

00:01:28 You could have one revenue stream or many makeup, your revenue model. The please start with one. The entrepreneurial archetypes referenced in the money map program are individual revenue models that are broken down into eight different categories. So you can clarify where you are on the map of building your revenue model into a business model, with a big picture, understanding of the different revenue streams available to you,

00:01:57 that you can then combine and create to create a map for yourself, to get from wherever you are now, to where you want to go and as streamlined and focused of a fashion as possible. So you can think of your money map as the map to your ultimate business model. Now let's look at some specific terms having to do with your money. Your gross revenue is the money that you bring in before expenses.

00:02:24 It's the total amount of income that you earn in your business. Some people call it top line revenue because it's at the top line. Then you have cogs C O G S, or cost of goods sold. And these are the costs that are specifically allocated expenses that are required to deliver your product or service. Each time you sell an individual unit of your product or service.

00:02:48 If you deliver a service, you may hear cogs referred to as cost of services sold. Now you don't include the cost of overhead that are fixed, regardless of how many of each unit you sell in your cogs or cost of services sold. But instead, only the costs that are applicable to each unit of good or service sold. So each package you sell or each product you sell,

00:03:10 when you take your cogs, your cost of goods sold away from your top line or gross revenue. You end up with gross profit, gross profit is your total revenue minus the cost Of goods sold. So Once you've got your gross profit you're then going to subtract your fixed expenses. These are the overhead expenses that you pay for, regardless of whether you sell one or 100 units of your services and included in this category are things like your rent salaries,

00:03:43 including your salary, legal and accounting services, and all of the other expenses that you're going to have to deliver on the services or products of your business, insurance, maintenance of licenses necessary to provide your service customer service that isn't variable per unit Sold and marketing costs. Finally, we get to the bottom line net income, your net income is your gross revenue,

00:04:08 top line revenue minus your cost of goods sold minus your fixed expenses. And that's also called your profit. Your profit in addition to your salary is what will be subject to tax. And of course, we'll talk more about that in our module on taxes, but for now, just understand that one way or another you're taxed on profit. And you can take profit from your business in the form of profit distributions,

00:04:33 which is sometimes also called owner's draw. And if your business is set up to be taxed as a sole proprietor or partnership, you're going to pay 15% currently self-employment tax or payroll tax on the total amount of your profit. But if you're taxed as an S corporation, you'll pay payroll tax only on your own salary, and you will not pay payroll tax on amounts,

00:04:58 distributed to you as profit distributions or owners draw. So we'll talk more about that in the tax section, but it's a great way to save some money on your taxes. Now, the value of your business can be determined in a number of ways, but generally speaking, the value of your business is what somebody would pay you to take over your business and operate the business.

00:05:22 Either with you continuing to get paid, to deliver your service or to be in whatever role is right for you to be in or by taking over the delivery of the service and therefore your salary as well. Now at first, you will likely want to build your business, that it pays you enough through salary and profit distributions or owners draw the other word for profit distributions structured in the most tax beneficial manner.

00:05:48 This structure will not maximize value for a future sale, but instead will minimize your taxes and enable you to pay yourself enough. Plus allow you to plan to grow in such a way that you're able to free up your time hire team support that can allow you to grow the value of your business for a future sale. If you desire that as you're building your business,

00:06:12 you will want to consider whether you are building a business to maximize cashflow and therefore income to yourself. While also freeing up your time. This is often called a

lifestyle business, or whether you're building a business that will be able to continue on without you and eventually even be sold for a harvest where you take money off the table. If you choose this is often called a legacy business.

00:06:38 Now, one more term here, an important one check book. Accounting is something you want to stop doing as soon as possible. It's that thing you do, where you manage your money by looking in your bank account, to see how much you have, and whether you can spend money or need to make more money based on what you see in your bank account.

00:06:57 Checkbook accounting is very likely the thing creating the most stress in your life and business right now. And you're going to shift from checkbook accounting to eyes wide, open financial decision-making by understanding these simple terms, you'll be so much more informed. Now, when you talk with financial and tax professionals, when you negotiate agreements, when you map out your business goals and when you make deals and all of that is what makes you an eyes wide,

00:07:24 open CEO of your life and business.