Learning Objectives for Session 06

In Session 06 you will learn:

- How expenses are treated for tax purposes, compared to how assets are treated for tax purposes
- The difference between profits and cash

Overview

Business planning and accounting are different things. While accounting looks backward at the transactions that have already happened, planning looks forward. Even so, it's wise to have a working understanding of some accounting terms to help you communicate effectively with people you'll soon be approaching for financing.

Definitions

Expenses: Items or services paid for that a business can deduct from income for tax purposes. Common expenses are rent, salaries, advertising and travel.

Assets: Property that a business owns, such as cash and inventory, office equipment, buildings, accounts receivable, and investments. Assets cannot be deducted from income for tax purposes.

Costs of Goods Sold (COGS): The costs of materials which are used to make the goods a business sells. These costs vary in direct proportion to the amount of goods sold. In LivePlan, these are also called Direct Costs.

Sales Forecast: The planned sales a business expects to make in the future; this may be shown by months and/or years.

Liabilities: Debts; money owed that must be paid. Short-term (current) debts are generally paid in less than one year; long-term debts are generally for longer than a year.

Capital Input: New money invested in ownership in the business, not as loans or payment of loans.

Suggested Readings for Session 06

The following books are a good supplement to this course, but are not required:

- Lean Business Planning, Tim Berry
- 3 Weeks to Startup: a High Speed Guide to Starting a Business, Tim Berry and Sabrina Parsons
- The Art of the Start 2.0, Guy Kawasaki