

## Idea Exchange Tips From A Part-Time CFO

# Five Tips for Agents from a Part-Time CFO

By Edward F. Burke



Edward F. Burke

**T**ax time isn't the only time insurance agents need someone to look at their books. Many agencies use a certified public accountant (CPA) for preparing and filing tax returns. But, often, these professionals are unavailable during the year to monitor the financials of the business and help guide the business owner in decision-making.

I often hear of a business owner being surprised by the amount of taxes he or she must

pay in April. The only reason for this surprise is that the business owner is not being informed of his or her tax liability on a monthly basis. It's the problem businesses like insurance agencies face when the only financial statement prepared for them is the annual tax return.

tomorrow to the insurer on either new policies or renewals. Records need to be kept on all policies sold to be sure that they are included in the commission remittance from the insurer.

Commissions are typically paid monthly. And although most small agencies are on a cash basis for tax purposes, it is advisable that they maintain their company books on an accrual basis. This means revenue is recognized in the period it is earned, even though the payments from the insurer are more apt to be received in the following period.

When commissions are paid in a lump sum, the amount received must be charged to a deferred revenue account, and a portion of it recognized in each period as it is earned.

Both accounting methods will provide the agency with a more accurate financial picture.

### Forecasting Cash Flow

Working capital is the lifeblood of every economic entity. In the case of insurance agencies the revenue stream or cash receipts is almost guaranteed. This sounds fairly easy, but without the proper cash management, which includes a cash flow forecast, a company can find itself running out of cash. It is important to maintain enough working capital to cover two months of operating expenditures.

A cash flow forecast begins with the current cash balance, plus all expected receipts from operations, less costs of operations. It is important to recognize the difference between operating expenditures and non-operating expenditures. Examples of a non-operating expenditure may be the acquisition of assets such as a building or a piece of equipment.

### Beware of Financing

I would advise small agencies to stay away

from bank lines of credit unless there is a compelling reason to obtain one. My reasoning: It makes it very easy to spend cash that is not earned in the normal course of business. However if the purchase of a fixed asset is required, then a term loan secured by the asset would make sense. This coincides with my comment above regarding the separating of operating and non-operating expenditures.

### Watching Expenses

The single largest expense for an agency is what I refer to as the Total Cost of Employee. Many times we look at the annual or hourly wage of an employee and don't consider the added costs of payroll taxes, benefits and group insurance. In some cases to attract an employee, perks such as auto, gas or entertainment may also be included. Analysis must be done on these expenses to ensure they are in line with other companies of similar size in the industry. This analysis is done by creating

benchmarks or measurements that determine such statistics as Revenue Per Employee, Revenue Per Sq Foot, Clients per Sales Employee, etc.; these benchmarks are available from most industry associations.

The other expense that can be problematic is cost of the owner. While it is true that they are the

owner it is important to recognize that they are employees first and as such have a responsibility to the company if it is to be successful. Care should be taken to avoid excessive perks such as excessive salaries, expensive cars and including non-performing family members on the payroll. ■

Burke is a partner with **B2B CFO Partners**. Reach him at [eburke@b2bcfo.com](mailto:eburke@b2bcfo.com)

**“Maintain enough working capital to cover two months of operating expenditures.”**

