FreshBooks Classroom Material

Includes everything you need to get a class up and running in no time

FreshBooks for Education

Introduction

Today's students are tomorrow's business leaders. The FreshBooks for Education initiative enables educators to better prepare their students with the real-world business skills and basic accounting knowledge needed to thrive in an entrepreneurial economy.

The Classroom Material is broken up into four learning modules: Starting A Business, Project Management, Invoicing and Getting Paid, Cash Flow and Expenses. Each learning module includes in-class activities, plus assignments that are paired with the FreshBooks software. The Classroom Material is completely free to use.

Whether you're already using FreshBooks, or still evaluating whether it's a good fit, this document is full of real-world business insights. In addition to this material all educators and students qualify for a Free FreshBooks account. The FreshBooks software provides a hands-on approach to learning and students love it.

Questions? Need a hand in getting up and running with FreshBooks? Reach out to our dedicated Education Team at education@freshbooks.com.

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Module One –
Starting a Business

This module walks you through the first steps to consider before starting a business, steps to becoming self-employed, and how to start acquiring clients.
The learning outcomes of this module are:

- **What to consider before starting a business**
- **The basic principles of starting a business and finding clients**

Topical overview:

1. **Introduction**
2. **Making the decision to start a business**
3. **First steps in starting a business**
4. **Finding clients**
5. **Conclusion**

1 Introduction

Students in industries such as graphic design, photography, and trades frequently end up doing freelance work after school. In fact, self-employment is on the rise and it's expected that today's millennial generation will be the most entrepreneurial group in recent history. In the United States, it is estimated that self-employed and contract workers represent close to 15% of the workforce. It is anticipated that the number will climb to 20% by 2020.[1]

This module will introduce you to what you need to think about before starting a business, steps to take to being self-employed, things to consider about being an entrepreneur, and how to find clients.

2 Making the decision to start a business

Let's first start with determining what being self-employed actually means. The Merriam-Webster dictionary defines self-employment as "earning income directly from one's own business, trade, or profession rather than as a specified salary or wages from an employer." Self-employed also means that you:

- **Control how your work is done**
- **Can hire other people**
- **Freely negotiate pay**
- **Own your own tools/equipment**
- **Take full profit or loss**

Making the decision to start a business is no small feat. Before running out to start a business you should take the time to research the following:

Exploring why you want to start a business: Entrepreneurship is demanding but can come with high rewards. If you are looking for a challenge, have the motivation to work hard for what you want, and have determined there is a need for the service you can provide then starting a business could be for you. Before committing to starting a business, consider the reasons you are interested in entrepreneurship and measure those against your skills and abilities.

Carol Roth, writer for *Entrepreneur*, identified five personality traits suited to starting a business. Roth considers someone who is able to complete a variety of tasks, has good money sense, is okay with the potential of the unknown, is a strong executor, and has been thinking of starting a small business for awhile, to be a solid candidate for entrepreneurship.

Determine what service you are providing: This may seem obvious but it should be recognized as the most important element to consider before starting a business. Determining what service you are going to sell should be based on an analysis of your areas of expertise, your strengths, previous experience, necessary skills to succeed in the industry, along with researching if there is a need for this service in your geographic area.

Take a moment to consider if you have passion for the service you are selling. You will need to work extremely hard to achieve success, there really isn't such a thing as being off the clock when working for yourself. This passion goes a long way to keeping you motivated and moving forward in growing your business! Passion takes you a long way in starting a business but it doesn't guarantee success, it needs to be paired with expertise and execution to transform an idea into a viable business.

Cash flow considerations: One of the more challenging parts of working for yourself is the availability of required cash to start your business but also for day-to-day living expenses. Before starting a business it is prudent to determine if you can access enough money to cover your cost of living and simultaneously invest in the business venture.

Sometimes you need funds to be able to purchase the equipment or space needed to provide your service. There are different ways that you can access money to start your business:

- **Savings –** These are personal funds that you have been putting aside.
- **Debt –** Debt financing is a loan of money that needs to be paid back along with interest payments. The lender (usually a bank or the government) will look at the earning potential and assets of the business in order to issue financing.
- **Equity –** Investors that provide equity funding get a share in the ownership of your business and in your profits in return for their contribution.
- **Grants –** Applying to a government or local business centers can yield additional financing that does not need to be repaid. Some states/provinces, and even cities and regions, offer grants for young entrepreneurs or for individuals to start a business that provides a service that is needed within the community.

PROFESSOR NOTE: Stay tuned for Module Three, it covers cash flow and expenses in greater detail.

Analyze your small business skills: In addition to determining if you have the necessary expertise in your profession, you need to consider your business skills and abilities. To be success at self-employment you need to be able to:

- **Manage finances and budgeting**
- **Make and execute on business and project decisions**
- **Market and sell your services**
- **Manage yourself and others, including vendors, clients and potentially employees**

Many local colleges and business centers offer courses and resources to help you develop these skills. If you are planning to start a business on your own you need to be ready to tackle the administrative side of your business alongside providing service to your clients.

Consider your appetite and understanding of risk: Whether you are planning to leave your current job (and a steady salary) or start your career by working for yourself, there is risk involved in starting a new business. Some of the risks include:

- **The ability to repay debt and/or earn enough money to cover your living expenses**
- **Not being able to secure clients**
- **The business ultimately not succeeding**

The main point of consideration is understanding your personal comfort level with risk. For entrepreneurs, risk and success go hand in hand. Those who take risks have the most to gain from their work.

Classroom activity: Provide students with sticky notes and ask them to write down their thoughts on the key considerations before going out and starting a business. Students should post their notes at the front of the room. Once they are posted, group similar thoughts and then discuss them as a class.

3 First steps in starting a business

Starting a business is no easy feat but there are several key steps that will help an entrepreneur start their business on a solid foundation.

Define your service: As previously discussed, you need to determine *what* service you are going to provide before starting a business. Part of that process is defining exactly what you will provide, and just as importantly, the services you won't provide. This will help you target the right clients and focus your expertise.

Determine type of business: There are different types of business structures to consider. You may be interested in partnering with someone or operating on your own. You may decide to work freelance or in addition to an existing job.

- **Sole proprietor –** This is the simplest way to set up a business. As a sole proprietor you are fully responsible for all debts and obligations related to your business. A sole proprietor is said to be self-employed. A sole proprietorship is not heavily regulated but there is unlimited personal risk, since all personal assets are exposed to creditors of the business.
- **Part-time freelancing –** Working off-hours in addition to your full-time position; can involve partnering with other professionals. You will still need to report this income to the government and pay appropriate taxes. Freelancers often set-up as sole proprietors to manage their business costs and revenue.
- **Partnership –** An agreement in which you and one or more people combine resources in a business with a view to making a profit. Each partner is personally liable for all debts and obligations incurred. You share in the profits according to the terms of the partnership agreement which should be drawn up before officially creating the business. Similar to sole proprietorship, there is unlimited personal risk as all personal assets of the partners are exposed to creditors of the business.
- **Silent partnership –** This is the same as the partnership definition but involves one or more partners being limited to providing capital to start the business. They are not involved in the day-to-day operations but will pull profit as outlined in your partnership agreement. These partnerships occur more frequently when there is a large start-up expense.

- **Corporation –** A corporation differs most significantly from sole proprietorship and partnership in that it is a distinct legal entity separate from the individuals who hold shares in the company. There are significant regulations to follow and is expensive to form but there is limited personal risk and additional tax benefits.

Every geographic region has specific documentation on the responsibilities, considerations, and regulations on these business structures. Do your research to ensure that you can adhere to government standards and that they align with what you plan to do and the services you plan to offer.

RESOURCE: Answers to the top questions on incorporating a small or solo business and choosing the best business structure for your needs.

Business name: Did you know that Google was initially called BackRub? Founders Larry Page and Sergey Brin were looking for a name that represented the function of their product, an online engine that searched through backlinks. Thankfully, they soon realized that BackRub didn't work and went with the suggestion from their friend of 'googol', the name used by mathematicians to reference 10 to the power of 100. This same friend misspelled the word when searching to see if the domain was available and Page and Brin decided they liked the invented word 'Google' even more.

When determining a name for your business consider the balance between needing a name that represents your service or product but is also memorable and unique. You want your name to stand out when potential clients are looking for a new service provider. Once you have a name you like do some research with friends and family to see if the name makes sense and is appropriate to avoid a "BackRub" situation.

The United States Patent and Trademark Office (USPTO) defines a trademark as "a word, phrase, symbol, and/or design that identifies and distinguishes the source of the goods of one party from those of others." Consider registering your trademark to claim ownership. The USPTO has resources that outline the basic facts about trademarking.

TIP: Run your potential business name through an internet domain search to see if you are able to purchase a domain that aligns with your business idea.

RESOURCE: Additional tips and tricks for choosing a business name. If you are stuck on a name, try this business name generator.

Register your business: Once you have determined the name, and type of business you would like to run, it is time to officially register your business. Research which body you need to register with in your city to become a legally recognized business. Beware of third-party organizations that suggest you can process your registration through them. It is better to work directly with official municipal and governmental bodies.

Generally, you will need the following to proceed with a business registration for a sole proprietorship or partnership:

- **Name and address of the business**
- **Description of the business activity**
- **Your name**
- **Home address**
- **Telephone number**

Market research: Market research is the process of collecting information on the environment your business operates within. It usually includes an analysis of competition, clients, aligned businesses, and what is happening in the industry. Through your research you can answer important questions such as:

- **Are there organizations looking for the service I provide?**
- **Who else is providing this service?**
- **How should I target potential clients?**
- **What are the problem areas in my industry?**

The answers to these questions will provide you with important information to help determine how you should develop your business. Many people jump in without doing research beforehand leading to issues with securing clients and positioning the business within an existing market.

Classroom activity: Discuss why research is an important step in setting up a new business.

Administrative setup: Most small businesses are sole proprietorships with only one person who takes care of securing new business, executing the work, and delivering the end product, as well as running the business overall. That's a lot to manage. It is important to set-up processes to help minimize the time spent on business administration and more time providing great services that keep your clients coming back for more.

Before you get too far into soliciting business, consider setting up the following administrative systems:

- **Accounting –** Setting up an accounting process from day one will help you get and stay organized. You need to keep track of who has paid you, who owes you money, and all of your business expenses. Accounting can seem like an overwhelming task at first but technology has made it easier to keep track of things. Software like FreshBooks makes accounting easy, enabling business owners to spend more time on their services and less time on accounting.
- **Client log –** Create a system for capturing information on your current and former clients along with information on potential clients. Note important facts like the key contact person, address, preferences, and history of services. It is better to write this information down than rely on memory alone.
- **File management –** Taking the time to set-up a file management system before you have a large number of files to manage will save you a lot of time down the road. Determine where you will store the files and the naming convention you want to use. This will minimize the amount of time you spend hunting down the files you need.

PROFESSOR NOTE: Invite your students to participate in their Free 120-day FreshBooks Trial.

Classroom activity: Have students create an account through FreshBooks and add their first Client.

Promote your business: You have a name and you are registered business, now what? The next step is to create a way for potential clients to find you. Recommended first steps for promotion are to purchase a domain and build a website. Make sure you are buying a top-level domain (that's the suffix at the end of the URL, for example, .com, .ca, .net) that is relevant and appropriate to where you live and what you do. Align your domain name with your company name. Stay away from abbreviations that don't make sense or spell something unrelated to your business.

Having a logo or wordmark that represents your business goes a long way to in establishing a professional presence. Using your logo on all materials and platforms (such as business cards, social media and website) creates a visual identity that helps make your business memorable.

Once you've got your brand sorted out you're now ready to enter the market and promote your business.

4 Finding clients

The success of a business relies on the clients it secures. Securing clients, and managing those relationships, is a necessary part of doing business. Here's how to get started.

The right kind of client: Before you start going out to procure clients, you should take the time to determine who your ideal client is and where these people or organizations are. You can find out this information with some old fashioned internet sleuthing paired with information interviews with colleagues, peers, and even some organizations that fit in your 'ideal client' parameters.

Promote your business wisely: All promotion is not created equal. By researching a potential client base, you will find out information on where your clients are located, what communication channels they use, and what is important to them. Use this information to tailor and focus your business promotion. It isn't about reaching the largest number of people, but it is about reaching the right people.

Classroom activity: Propose the following situation to the class and have them discuss solutions. "Through your research you have identified that your ideal client is male, 45-60, likes to stay healthy, and has an income of over $100k." How could you tailor your promotion to reach these clients?

Refining your pitch: Before you begin the search for clients refine the value proposition of your business. What makes your business unique? Why should someone use your services? Figure out how to communicate this to potential clients in a clear and concise way.

Work on your 'elevator pitch,' which is a short introduction to your business that can be given in the length of time it takes to ride an elevator with someone. Think of the elevator pitch like an executive summary of your business. Having a polished and cohesive pitch that's ready to go looks professional and allows you to pitch your business anywhere, anytime. Mentioning businesses that you already work with is a highly effective marketing tactic. Have some testimonial soundbites from previous clients that you can include across your business material.

Networking: Consider networking as the gateway to potential clients. Your networking may involve direct contact with future clients or it may aid in getting your name in front of people who can help open doors for you. Either way, networking is a key cornerstone in procuring clients, especially for a new small business.

FreshBooks has a series of blog posts about the art of networking, you can find those links in the Supporting Material on page 41.

5 Conclusion

Throughout this module you have reviewed the considerations of starting a business, the necessary steps in actually starting a business, and how to find clients. This knowledge provides you with the business fundamentals needed to get an idea off the ground.

Classroom activity: At the end of the class, have your students fill out a quiz like the one found here to determine their aptitude for being self-employed. Compare results to further discussion on self-employment.

Assignment One (introductory):

Cheryl and Steve want to start a business and they have come to you asking for advice. Answer the following:

1. List five considerations Cheryl and Steve need to think about before starting a business. Expand on your answers to include key information on the considerations.

2. What are the steps Cheryl and Steve need to take now that they have decided to start a business? Provide context around the steps.

3. Provide a list of four ways Cheryl and Steve could find new clients. Provide an example of each.

4. Cheryl and Steve are not sure they want to start a business anymore. They are okay with risk, like big challenges, but have limited access to money to start their business, and haven't defined their service. What advice would you give them? (200-300 words).

Assignment Two (advanced):

Create the framework for starting a small business. Your business must align with a skillset you and your partner currently have. Complete the following:

PROFESSOR NOTE: Have students work in partners or teams for this assignment.

1. Determine and define the service you are going to provide (100-200 words).

2. Outline what cash flow you need to start the business and how you will procure those funds.

3. List the business skills each of you have, include examples (hint – pull experiences from school and work).

4. Determine the type of business you would like to start. Provide context on why this model is best for you.

5. Establish a business name. Research the business name online and identify its strengths and weaknesses compared to similar search results. Provide a summary of this research (100-200 words).

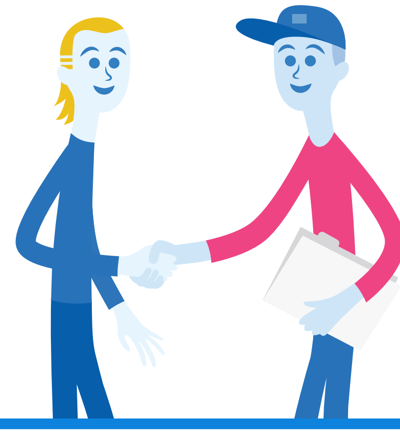
6. Complete preliminary market research, answering the following questions:

    a. **Who are your local competitors?**
    b. **List five organizations you think would need your service. Why?**
    c. **What are the current trends in your industry?**

7. Set-up an account in FreshBooks and create an invoice for your first client. This invoice should include your company information.

8. Identify three ways you could promote your business to build new clientele.

Module Two –
Project Management



This module walks students through the steps and knowledge needed to properly manage a project. The learning outcomes of this module are:

- **Understanding the basic principles of project management**
- **How to effectively manage a project**
- **The approaches and tools used by project managers**

Topical overview:

1. **Introduction**
2. **Overview of project management**
3. **Key processes of project management**
4. **Project management tools**
5. **Conclusion**

1 Introduction

Project management is a crucial skillset that enables you to produce optimal outcomes for any given project. Project management shouldn't be an afterthought, in fact the "ability to plan, organize and prioritize work" are some of top 10 skills employers want from graduates according to a Forbes survey[2]. Whether you are going to start your own business or work for someone else, having an understanding of project management fundamentals will help you work smarter.

2 Overview of project management

Defining project management: The Project Management Institute defines project management as "the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements."[3] In other words, project management is the process of getting a project completed from start to finish.

Some organizations have a full-time project manager who is responsible for managing multiple projects inside the organization. Project managers appreciate working with people who have an understanding of the basic principles of project management. These individuals are able to jump into the project management process faster and provide additional support for the manager.

If you are working for yourself or a small business, you may find that you need to simultaneously manage the project as well as produce the work. Understanding the project management process and knowing how to use and apply the tools will help you effectively manage your projects.

The benefits of project management: The process focuses on what you are aiming to accomplish and helps create a roadmap to getting you there as fast as possible. Client satisfaction is usually enhanced through this process resulting in repeat business and recommendations.

Using project management processes and tools add value to the project and organization through:

- **Assessing task priority**
- **Looking ahead at what needs to be completed**
- **Planning with other involved parties**
- **Allocating responsibility**
- **Managing time and resources appropriately**
- **Strategic budgeting and financial management**
- **Creating repeatable processes for future use**

Poor project management or a lack of project management can result in sub-standard service, or worst case, the inability to complete the job!

Classroom activity: Discuss the possible benefits and challenges of project management for a small business.

3 Key processes of project management

There are five main steps to successfully managing a project from start to finish. Below is an overview of **the five step process**.

Initiating: The first step to successful project management is creating a project charter that outlines what you are aiming to achieve and why. It should involve meeting and with the key individuals involved to establish a formal document that describes the project in its entirety. Working through this process identifies your project objectives, stakeholders, and deliverables. The project charter becomes an important guiding tool throughout the project, helping keep the team and deliverables on track and focused on what is crucial to completing a successful project.

The Project Management Institute highlights that the "project initiation processes help unify the team by defining the path, purpose and parameters of the project. They clarify the end goal from the beginning and get buy-in from everyone involved."[4] The project charter is usually a short document, approximately 1-2 pages, that defines the high-level requirements for the project and ties the project back to the organization's business goals and ongoing work. It often requires approval from the individual or company who designated the project and is considered a semi-formal agreement.

The project charter should include:

- **Project title**
- **Definition of the project**
- **Parties involved and an overview of their roles and project authority**
- **Project resources (this includes human, material and budgetary resources)**
- **Stakeholders**
- **Deliverables**
- **Objectives (if currently defined)**
- **Project constraints**
- **Identified risks**
- **Approval requirements**

RESOURCE: Have a look at this project charter template produced by the Project Management Body of Knowledge.

Planning: After creating the project charter, the next step is to formulate the supporting documents that will help you deliver the project. Whereas in the initiation stage you were identifying the resources, deliverables, and responsibilities, this stage involves documenting and planning the steps required to make things happen.

Not all planning documents need to be created before the project can begin. Some planning documents need to happen after other steps have occurred and others will need to be constantly updated and revisited.

A key document is the Project Management Plan. The Project Management Plan is referenced frequently throughout the life-cycle of the project as it captures critical information on the execution of the project.

The project plan should include the following:

- **Stakeholder need analysis**
- **Project objectives**
- **Details of the project**
- **Project deliverables and deadlines**
- **Tasks and resources**
- **Risk management**
- **Resource allocation (time, people, budget)**

When you are defining your objectives, apply the SMART method to ensure your objectives are reasonable. Each of your objectives should include the following five elements:

- **Specific –** Craft your objective to be detailed, focused and well-defined.
- **Measureable –** Identify a measurement of success within the objective.
- **Achievable –** Ensure that your objective is attainable inside the timeframe and restrictions identified.
- **Realistic/relevant –** Assess if the objective makes sense at this moment in time with the resources you have.
- **Timely –** Each objective should have committed deadline.

Remember that your stakeholders aren't just the people who hired you for the job or the people you directly report to; stakeholders can be anyone who is impacted by the results of the project. Keeping this definition in mind will help you create a more comprehensive and inclusive project plan.

Executing: The execution process is where you put your Project Management Plan into action. Through the coordination of people and resources, the execution relies heavily on the framework created in the first two steps.

During execution, you will continuously be doing the following:

- **Stakeholder management –** From keeping your client in the loop to managing your boss' expectations, communications is a key function of project management.
- **Resource allocation and management –** Ensuring that there are enough human and financial resources to complete the tasks at hand is one of the more challenging parts of project management. Use the charter and Project Management Plan to help keep you focused when things may seem out of control.
- **Quality assurance –** Throughout execution you want to do a series of tests and trials to make sure that the project is delivering a quality product.

- **Team management –** There is often a team of people involved in seeing the project to completion. Throughout the project, the team needs to be monitored and lead to get the highest value from their input. The "human" part of the project can be impacted by situations such as day-to-day business impeding on project tasks, interpersonal conflict, and time management issues.
- **Communication –** A successful project outcome relies heavily upon clear and continuous communication. How and when to communicate with stakeholders, team members, and clients, needs to be thought out beforehand to minimize the issues that come with over or under-communicating.
- **Risk management –** During the course of a project certain elements of risk will become apparent. How you manage these risk factors will determine whether the project deliverables can be completed in time. Analyzing the areas of potential risk ahead of time and identifying the proper corrective actions will save you time and resources during the project.

Execution goes hand in hand with the next process which is monitoring and controlling. Throughout the execution phase the project must be monitored and controlled to ensure you are on the right track to delivering a quality end product.

Classroom activity: Discuss common issues that could disrupt a project. Identify how you would manage these issues through planning, and resource management.

Monitoring and controlling: The monitoring and controlling process aims to track, review, and manage changes. During this stage, the project manager is continuously reviewing the progress and performance of the project to date and identifying any changes that need to be made. This allows corrective action to be taken if tasks or deliverables are not in alignment with the original intent of the project. It also helps identify if a task or deliverable need to be shifted or modified from the initial plan.

During this process, the following should be monitored and/or controlled:

- **Project scope**
- **Resource allocation**
- **Adherence to objectives**
- **Quality of the deliverable**
- **Budget**
- **Timeline**
- **Communication processes**
- **Stakeholder relations and management**

Through the process of monitoring and controlling you identify the updates, both issues and achievements, that need to be shared with the team, stakeholders, and the client.

Closing: Whether or not the project has ended with a successful outcome the project needs to be closed. The process of closing involves reviewing what went well during the project, and what didn't, as well as the lessons learned that can be applied to projects in the future.

During the closing process, the following tasks should be completed:

- **Document challenges and lessons learned**
- **Capture final sign-off on the project**
- **Provide final deliverables**
- **Provide final update to all appropriate stakeholders**
- **Measure success against the Project Management Plan**
- **Archive all project documentation**

It may be tempting to skip elements of the closing process but it is important to review and document the project as reference. This will save you time and resources on your next project.

Small projects: The five step process outlined above are more often applied to large scale projects or projects that involve a lot of stakeholders and contributors. If you are responsible for managing a small project, or if you own a small business, adapt and scale down the steps to a point that makes sense. For instance, if you are the sole contributor to a project you don't need to create a formal Project Management Plan. Drawing up a timeline and project budget may be enough to keep your project on track. If you're the owner of a small business it may not be cost effective to spend a large amount of time managing a project if the scope of the project doesn't require it. It is useful to have an understanding of the processes of project management so that you can adapt them as needed.

Have a look at the Supporting Material on page 41 for additional project management resources.

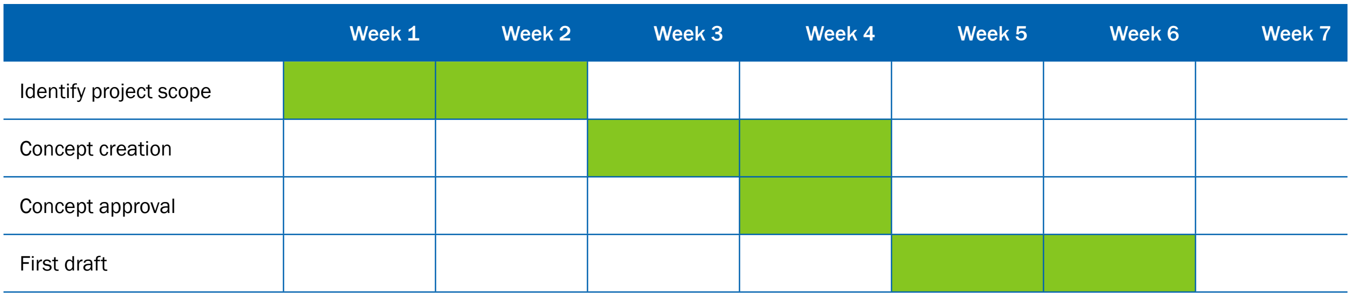
4 Project management tools

The following tools are common to most project management methodologies and are most associated with the process of project management. For more information on specific methodologies, read this beginner's guide to project management methodologies.

Timeline (Gantt Chart): Having deadlines and specific milestones keeps a project on track and collaborators responsible for their input. Without a timeline it is hard to identify when tasks need to be finished and how individual tasks will impact the completion of an end product. The timeline tool most used in project management is the Gantt Chart. This form of time management plots activities/tasks against a time scale to identify when they need to be completed and the dependencies between tasks.

Activities or tasks run along the left side of the chart. A suitable timeframe for the project is on the top of the chart. For each activity you create a bar that covers the length of time that the activity will take. The length of the bar then represents the start, duration and end of the activity.

Here is an example of a Gantt Chart:



At a glance, the Gantt Chart lets you see:

- **What the various activities are**
- **When each activity begins and ends**
- **How long each activity is scheduled to last**
- **Where activities overlap with other activities, and by how much**
- **The start and end date of the whole project**[5]

Using different colored bars, you can easily identify on the chart which activities or tasks are on track, falling behind, or completed. You can also associate colors or symbols to contributing partners to help with resource management. Gantt Charts are meant to provide a depth of information in a simple visual format.

Budget: Most projects have a predetermined budget that is meant to see the project to completion. If you have been hired to work on a project you may need to create a budget to outline the costs involved in executing your portion of the work, or depending on your role you may be responsible for coming up with the total project budget. If you are working on behalf of a larger organization, your budget may reflect the total costs associated to seeing the project from start to finish such as operational expenses, administrative costs, or human resource costs.

Before the project begins, identify all of the items or tasks that will cost money. Research the items and tasks to create an estimated cost for each one. Tabulate the total cost to determine the projected spend. If the amount surpasses the budget you have for the project you need to go back and figure out where you can reduce costs. You may decide that there are elements of the project that aren't necessary or you may need to find a less expensive way of completing a task.

Have a look at the Supporting Material on page 41 if you want to learn more about project budgeting.

Classroom activity: Have students prepare a Gantt Chart and budget for a fictional project specific to your industry. After students have mocked up their versions, solve at the front of the class with students providing answers and suggestions.

Responsibility assignment matrix: Projects often require many people and teams working together. To help manage all of the involved parties and ensure that the right people have the right responsibilities, you should create a responsibility matrix (also known as the RACI matrix). This matrix allows you to establish who is involved in the project and what their individual responsibilities are. Use this tool before the project begins to get everyone on the same page and to flag any gaps or potential issues.

The matrix identifies the following individuals:

- **The person who does the work to achieve the task. They have responsibility for getting the work done or decision made (responsible).**
- **The person who is accountable for the correct and thorough completion of the task (accountable).**
- **The people who provide information for the project and with whom there is two-way communication (consulted).**
- **The people kept informed of progress and with whom there is one-way communication. These are people that are affected by the outcome of the tasks, so need to be kept up-to-date (informed).[6]**

To create a responsibility assignment matrix, you identify all the tasks that need to happen to complete the project. List these in the order of completion on the left hand side of your chart. Next, determine all the project roles, such as project executive, and project manager, and list them along the top of the chart. Using the identifiers of **R** (responsible), **A** (accountable), **C** (consulted), and **I** (informed), populate the chart, task by task, assigning levels of participation to your project team. It is recommended that you have one person identified as A (accountable) for each task.

Task	Project Executive	Project Manager	Graphic Design Lead	Copywriter
Determine brochure content	C	R/A	I	I
Design brochure mock-up	C	C	R/A	I
Write brochure copy	C	I	C	R/A

Collaboration tools: There are a number of tools and services you can use to help with project collaboration. From a timeline program that the whole project team can access to a way to track the amount of time tasks are taking to complete, to platforms to collect and store information, there are many tools available to help make your project go smoothly.

Here are a few examples:

- **Online project management** – Programs like Asana allow you to assign tasks and deadlines to teammates online so that everyone can see how the project is progressing and what tasks are due. Tools like this are useful for small or remote groups who aren't able to designate resources for a project manager.
- **Resource management** – For projects that require project resource tracking you can use a tool like FreshBooks which allows team members to monitor and record the time it takes to complete a task as well as capture project expenses.
- **File sharing** – Attaching files to emails can create issues, whether that be missing edits or revisions from all involved parties, or files that are too large to email. Using a tool that allows you to easily organize, share, and comment on project material is extremely valuable. Some of the well-known options include Google Drive, Dropbox, and OneDrive.

PROFESSOR NOTE: Invite your students to participate in their Free 120-day FreshBooks trial.

- **Instant messaging –** Email overload is another problem that plagues projects. To streamline conversations and reduce project hold-up, find an instant messaging tool that works for your team. This is especially vital for teams working remotely. Some email servers offer this option or there are available products like Skype, Google Hangouts, and Slack.

5 Conclusion

Throughout this module you have been introduced to an overview of project management, basic principles and processes, as well as foundational tools used to run a successful project. This knowledge has provided you with an introductory understanding of project management which will help you manage projects more efficiently and effectively throughout your career.

Assignment One (introductory):

Beth has just been handed a large project that she is responsible for. She is feeling overwhelmed and is looking for advice on how to manage the project. Answer the following:

1. What are the benefits of project management?
2. What is the five step process for project management? Provide context around the five steps.
3. What should be included in a Project Management Plan?
4. What are some of the project management tools Beth should use in her given industry (align the industry with the given classroom)?

Assignment Two (advanced):

Review the project charter and complete the following:

1. Write three objectives for the project following the SMART guidelines.
2. Create a Gantt Chart outlining all the tasks needed to complete the project and how long each task will take to complete.
3. Estimate the amount of time and money needed to complete the project. Build these costs into an invoice in FreshBooks with human hours being captured at an hourly rate and project costs as expenses.
4. Identify who would be working on the project and create a responsibility matrix.
5. Determine areas of risk and briefly outline how you may prepare for or manage the risk during the project.

Module Three –
Cash Flow and Expenses

This module introduces students to the principles of cash flow and expenses as it applies to small businesses. The learning outcomes of this module are:

- **Understanding the basic principles of cash flow**
- **How to recognize and categorize different types of expenses**
- **Introductory knowledge of commonly used accounting terms**

Topical overview:

1. **Introduction**
2. **Overview of cash flow and expenses**
3. **Cash flow**
4. **Expenses**
5. **Conclusion**

1 Introduction

Understanding and practicing cash flow management is vital to the survival of a small business. Businesses can operate with limited revenue but a company can't survive extended periods of time without enough cash to cover the cost of doing business.

A lack of available cash flow to float the cost of expenses can limit the amount of work a small business can take on before receiving payment from their previous clients. One in three companies across the Americas have accounts that are 90 days past due, meaning that over 30% of businesses find themselves carrying expenses for more than a quarter of the year[7]. This can be a big financial burden for businesses that don't have a lot of cash on hand.

Recording, allocating, and managing expenses are all part of maintaining a healthy cash flow. Knowing where money is going and what it is being used for is crucial to managing a business' bookkeeping.

2 Overview of Cash Flow and Expenses

Common accounting terms are often thrown around so it's important for any business owner to first understand the basics. This a list of terms mostly commonly used in small business accounting:

- **Accounts payable –** Money you owe to other businesses or individuals for services and/or goods they provided.
- **Accounts receivable –** Money owed to your company by clients for provided services and/or goods.
- **Assets –** Anything of value, tangible or intangible, that has monetary value. The most common categories of assets are cash, accounts receivable, inventory, supplies, and prepaid expenses.
- **Balance sheet –** A balance sheet is a financial document that reviews the assets, liabilities and equity of a company at a single point in time.
- **Bookkeeping –** Keeping records of the financial transactions and information of the business.
- **Breakeven –** The breakeven point is where revenue covers expenses. Money is not being made or being lost.
- **Debt –** Something that is owed or due to an individual or organization. Debt can be used broadly to describe all liabilities (money you're on the hook for), but for small business accounting it typically refers to borrowed money you need to pay back.
- **Expense –** Costs associated with doing business.
- **Fiscal year –** The period of time a company uses for accounting purposes and creating financial reports. A company can align their fiscal year with the calendar, running January to December, or set a start and end month that better align with the purpose of their business.
- **Liability –** Company's legal debt or obligation to another person or company.
- **Loss –** When total revenue for the financial period measured comes in below the breakeven point. More money has been spent or is owed than has been earned.

- **Profit –** When total revenue income for the financial period measured comes in over the breakeven point.
- **Revenue –** Money received for services and/or goods provided.

Defining cash flow: Cash flow is the movement of money in and out of your business. Cash comes into the business through revenue generated from the sale of services or goods. Cash goes out when you pay expenses and salaries. Your business could be turning a profit but have negative cash flow (where more money is going out then coming in) because clients haven't paid yet. The reverse is also true. Your business may be at a loss but you could have enough money available to pay recent expenses.

Why cash flow matters: Simply put, if you don't have access to money to pay for day-to-day expenses, a business could fail even if it's generating a profit. Depending on your financial position and the type of business you have set up, you may be able to work for months at a time with a negative cash flow. This would mean you are going into debt to provide your services and/or goods. Other small businesses run very lean and could be in serious trouble if they see a period of negative cash flow longer than a few weeks.

Classroom activity: Quiz your class using the above accounting terms. Have groups compete for the most correct answers.

3 Cash flow

The age old saying "cash is king" is very relevant here. Without positive cash flow, a company cannot operate long-term even if it has a solid business model and potential for profit.

There are various strategies that small businesses can undertake to manage their cash flow:

Organize financial information: It is a misconception that due to their size, small businesses don't need to monitor their finances as closely as large corporations. In fact, the opposite is true. Because small business owners usually have less access to quick cash or additional funds through loans, they need to be more aware of where their cash is coming from and going compared to large businesses who have more financial flexibility.

Small businesses should build strict financial guidelines early on and stick to them. Tracking where revenue is coming from and what expenses are being paid and need to be paid is the bare minimum, that can be thought of as simple bookkeeping.

Separate personal and business money: When starting a business it's best practice to open up a business bank account that is separate from your personal account. This makes it easier to track what money is being generated by the business and monitor business expenses without having to sift through all of your personal day-to-day charges. Keeping your revenue in the same account as your personal funds can create confusion and make managing your cash flow very difficult.

Collect on accounts receivable: Set aside time monthly or semi-monthly to review your outstanding invoices and follow-up with clients. The faster you can send a reminder after a late invoice the more likely you are to receive payment. If a client has missed an invoice due date the chances of them remembering without a reminder are slim. Stay on top of who owes you money and track deadlines.

Identify reasons for loss: If you are experiencing negative cash flow take the time to figure out where you are losing money and why. Is your product or service priced too low? Are your expenses too high? Are you getting enough clients to reach your breakeven point? Address the issue as soon as possible and continue to monitor the situation to ensure you get back on track.

Determine breakeven point: Once you have established the rate for your service or product determine what your projected expenses are going to be for the year. Calculate the number of projects or products you need to sell in order to cover your expenses. Use your breakeven point to inform business decisions going forward. Recalculate whenever you change your price or absorb new expenses. You should figure out the breakeven point on individual projects to make sure you are charging enough to cover expenses and make a profit.

Surviving shortfalls: Small businesses are bound to have slow periods. If your income is derived solely from revenue generated from your business these down times can feel additionally unnerving.

Taking the time to forecast cash flow helps identify when slow periods are likely to happen so that you can better prepare. It is good practice to leave a certain amount of cash in your business account instead of draining it for income as soon as a business' revenue comes in. If you are able to build up a cash reserve it can help carry you during the slow periods. Banks are also more likely to offer assistance if you approach them in anticipation of a need instead of scrambling for a last minute loan.

There are steps you can take to prepare for the unforeseen, such as a recession or unexpected global events, to minimize the risk to your business:

- **Diversify your client base –** As the saying goes "don't put all of your eggs in one basket." Build up a number of clients so that you aren't completely dependent on a single client. If your clients are primarily small businesses consider finding clients who are established companies. If most of your clients are in one industry, consider looking for clients in another industry or field.
- **Keep an eye on market trends –** Track what is happening in your city, state, and country that could impact your business. Keep tabs on your competitors and watch for industry trends that could adversely impact your business.
- **Maintain liquidity –** Don't tie all of your cash up in investments or equipment if you don't need to. Ensure that you always have some cash on hand or other assets that can be quickly turned into cash.
- **Reduce overhead –** If you foresee a period of decreased business or are in need of cash, look for ways that you can reduce overhead. Reconsider your major expenses and identifies way you could incrementally save money every month.
- **Use down time to build new business –** If funds are tight because you are light on clients, use the down time to research new opportunities, network, and put together pitches and proposals.

Classroom activity: Discuss how small businesses can prepare and manage through cash flow issues.

4 Expenses

Expenses significantly impact the day-to-day cash flow of a business and they have significant implications when filing taxes.

Types of expenses: There are four types of expenses: fixed, variable, accrued, and operational. Each expense type has a different impact on cash flow and taxes:

- **Fixed expenses –** These are expenses that are consistent from day-to-day or month-to-month. They include expenses such as rent, an internet bill, and utilities. Because of their consistency it is easier to forecast fixed expenses. These expenses usually stay the same regardless of how much work is being done.
- **Variable expenses –** These are expenses that go up and down depending on the type of project you are working on or changes to your service or product. These include costs such as the materials needed to produce your product, travel, and credit card transaction fees. These expenses are usually lower when business is slower.
- **Accrued expenses –** These are costs that have been captured as an expense but not yet been paid for. Since expenses need to be captured in the accounting period in which they were incurred, there are times that you will have an expense that is recorded but payment is still outstanding. An example would be if you pre-order monthly office supplies and receive a bill from the company every three months. If financial reporting is pulled before payment is due on the supplies, you would consider these accrued expenses. Usually a small business does not have many accrued expenses at one time.
- **Operational expenses –** These are expenses that are incurred through activities not directly related to the production of goods and services. Examples include insurance costs, property tax, and advertising costs.

Business vs. personal expenses: As a small business owner, you are only allowed to deduct expenses for tax purposes if they are related to the cost of doing business. The IRS mandates that a deductible business expense "...must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is helpful and appropriate for your trade or business." Ordinary means that these costs are related to working in your industry. For example, a graphic designer would be able to deduct the use or purchase of design software because it is common to working in their industry. Necessary means that these costs are needed to run the business. To qualify as a tax deductible business expense the cost must be both ordinary and necessary.

Trying to claim personal expenses as business expenses can get you into trouble at tax time. If it is found that you are incorrectly claiming expenses against your business you can be audited. Inflated business expenses are a red flag for the tax man. If the audit finds inaccurate reporting then you can be fined penalties.

There are some expenses that are shared between business and personal use. If you run your business out of your home then part of your utilities qualify for tax deductions. This expense sharing applies to items like your computer and cell phone as well. You determine how much of the time you use these items for business and deduct the corresponding amount of expense for your business. For example, if you used your cell phone for business 60% of the time, then 60% of the costs of using your cell phone would be tax deductible. The remaining 40% would not.

Run each expense through the ordinary-necessary filter to determine if it meets the criteria. If it checks both boxes then capture it as a business expense.

Categories of expenses: The IRS and CRA (Canadian equivalent of the IRS) both have accessible lists of business expense categories on their websites. If your expense naturally falls into one of the categories listed then it most likely fulfils the ordinary/necessary requirements.

The sample lists provided by the IRS and CRA are fairly exhaustive though you may have industry specific categories not captured on the list. It is a good idea to organize your expenses based on the categories provided by your local tax body so you have less work to do come tax time.

Categories include but are not limited to:

- **Advertising**
- **Business start-up costs**
- **Business taxes, fees, licences, dues, memberships, and subscriptions**
- **Business-use-of-home expenses**
- **Fuel costs**
- **Insurance**
- **Interest**
- **Legal, accounting, and other professional fees**
- **Maintenance and repairs**
- **Meals and entertainment**
- **Motor vehicle expenses (automobile)**
- **Office expenses**
- **Rent**
- **Supplies**
- **Telephone and utilities**
- **Travel**

You may have expenses that don't seem to fit in any category and are difficult to measure against the ordinary/necessary principle. If you come across an expense that is ambiguous reach out to an accountant to see if it should be recorded as a personal or business expense.

Managing expenses: If you leave all expense filing until tax time there is a high probability that you will misremember what the expense was for and consequently cause problems for yourself. This do-it-all-once approach often takes much longer than if you stay on top of expenses as they come in. Here are some best practices to help manage expenses:

- **Capture the expense right away** – Don't wait until end of the month or year to record an expense, it should be done as soon as possible. Record your expenses all in the same place using the same format.
- **Categorize** – When you record an expense be sure to also categorize it so that it's ready for tax filing.
- **Make notes** – If the receipt is not explicit or if you have incurred the expense working on something specific, jot down information on the back of the expense or leave a note in your files providing more context. This will be very handy if an accountant asks for more information or if you are audited.

- **Client or project expenses –** Track expenses that are specific to clients or projects. If you are charging the expense back to your client make sure you clearly state the expense on an invoice. If you need to submit the original receipt to the client keep a copy for your records as well. If the client is paying for the expense then you are not able to deduct the expense for tax purposes. Tracking expenses specific to each project helps you determine if you are charging enough for your service to make a profit.
- **Record cash expenses –** If you make a payment in cash, record and categorize the payment immediately. Your bank records will show a withdrawal for the cash but unless you document what you spent the money on you won't able to prove how that cash was used when filing taxes.
- **Keep your receipts –** You should keep your receipts for three years in case you are audited. The IRS accepts electronic receipts but they must meet certain criteria to be eligible. Even if you are recording your expenses electronically it is a good idea to keep the hardcopy receipts as well.

Expenses and taxes: If you have good expense management throughout the year there should not be a lot of additional work come tax time. It is a good idea to find an accountant when you start your business both as a resource to help set-up bookkeeping systems and also for filing your taxes. As a small business, it may be tempting to file your own taxes to save money but in the long run it is more time and cost effective to hire a good accountant. An accountant who specializes in small businesses will have a better understanding of what can and cannot be expensed and other ways to save on taxes. Here are five questions to ask your accountant at tax time and information on determining if you need an accountant.

Misconceptions about expenses: There seems to be a lot of confusion and misunderstanding around expenses. Here are some common misconceptions and how to remedy them:

- **"I'll remember what that was for."** – In the moment, people often think that they will remember what the expense was for come tax time but multiply that by 100 and you can run into issues. Make a quick note on the back of the receipt or in your accounting software so that you remember what project or client the expense was for. This will come in handy if you are ever audited.
- **"Meals and drinks are deductible so lunch is on me!"** – Meals and drinks can be expensed if they follow the ordinary/necessary rule but are usually only deductible at 50% of the cost. This category of expenses if a red flag for an audit if it looks like it is being abused. Take the time to write who you met with, what was discussed, and how the conversation helps/impacts your business on the back of the receipt to protect yourself in case of audit.
- **Dollar-for-dollar return –** Expenses for independent business owners are usually captured as tax write-offs against personal income. This means that your total expenses are used to lower the amount of income recorded to determine taxes. This is different than tax credits which are applied directly to the amount of tax owning. What this boils down to is that you are not receiving dollar-for-dollar benefit come tax time.
- **Better to expense everything –** While capturing and submitting expenses is beneficial it is not good to assume that everything can be expensed. If you hire an accountant at tax time, chances are they will need to spend a lot of time sifting through the expenses to determine what is deductible which could cost you more money. Worst case, over-expensing becomes a red flag that increases your chance of being audited.

- **No point in expensing –** The flip side to over-expensing is not expensing anything. Capturing expenses is the only way to understand the cost of doing business, without this it would be impossible to accurately calculate the breakeven point.

Classroom activity: List expenses relevant to your industry and have your students identify them by type and category.

5 Conclusion

Throughout this module you have been introduced to an overview of cash flow, basic accounting terminology, expense types, and how to effectively manage expenses.

Assignment One (introductory):

Mary-Ann is getting ready to start a consulting services business. What should she know about cash flow and expenses? Answer the following:

1. Why is cash flow important for a small business?
2. How can Mary-Ann manage her cash flow effectively?
3. What are the four types of expenses Mary-Ann can expect to incur as a marketing consultant? Provide context around each answer.
4. What are some expense management tips for Mary-Ann?

Assignment Two (advanced):

Review the project brief and complete the following:

PROFESSOR NOTE: Provide a project brief unique to your class. Have students work in pairs or small groups to complete the assignment.

1. Create a cash flow plan for the small business. Highlight how you are going to organize information, what strategies you are going to use to manage your money, and how you plan to survive shortfalls.
2. Determine your breakeven point for the project. Provide context on how you came up with the number.
3. Using FreshBooks, capture all of the project expenses. Include appropriate notes. Invoice your client for the expenses agreed to in the project brief.
4. Classify each expense by type and category. Which expenses will be deductible at tax time?

Module Four – Invoicing and Getting Paid

This module introduces students to the principles of invoicing and getting paid as that relates to small service-based businesses. The learning outcomes of this module are:

- **Ability to create an effective invoice**
- **Understanding of different pricing models**
- **Tips for getting paid faster, and on time**

Topical overview:

1. **Introduction**
2. **Overview of invoicing and getting paid**
3. **Invoicing**
4. **Getting paid**
5. **Conclusion**

1 Introduction

Getting paid is a necessary part of doing business, it's single handedly the most important factor in getting a business off the ground. In fact, 25% percent of small businesses fail in the first year and 50% are gone by their fifth year.[8] One of the biggest pain points for these small businesses is figuring out how to properly charge for their services, and successfully collecting payment for said work.

Small businesses generally have a tight revenue and expense ratio which means that waiting extended periods of time for clients to pay can cause financial distress. Learning how to effectively charge for your time, invoice effectively, and receive payment quickly is absolutely crucial to the success of a business.

2 Overview of invoicing and getting paid

The average time for small businesses to receive payment for a completed job is 30-40 days.[9] If your business has the capacity to work only a few projects at once, this means that you can have long periods of time without revenue coming into your business. This period of time is extended if invoicing is delayed or if your client doesn't pay promptly.

Cash flow for new businesses: The typical cycle of securing a client, completing the project, and receiving payment can take a few months or longer depending on the size of the project. For a new business this can delay the availability of funds and create challenges for paying income to employee(s) or being able to pay for business expenses. Considering 50% of small businesses struggle with unpaid invoices the challenge of keeping cash coming into the business can be significant.[10] There are strategies you can undertake to help streamline the invoicing process as well as tips for triggering faster payment. These strategies will be discussed in section 4 of this module.

The impact of what you charge for services: If you charge too much for your services, you may have a hard time acquiring clients who can get the same service for less (and possibly from someone with more experience). If you charge too little, you may run into the problem of not being able to bring in enough funds to your business. Taking the time to figure out how much you should charge, taking into consideration what the market will bear, and what your competitors are charging, is an important step in starting a new business. This sentiment is true for freelancers as well. Researching and understanding the rationale behind your rate as opposed to randomly picking an amount will also give you confidence in explaining your rate to a client.

Why is collecting payment important: Small businesses require positive cash flow to survive. If you don't have money coming in then you are unable to cover the cost of doing business. A small business cannot operate for an extended period of time without money coming in even if it has a solid business model and potential for long-term profit.

Unlike when you work as an employee for a company, payment does not automatically get deposited in your account on a predictable basis. As a small business owner, you need to take steps to ensure you are receiving payment and stay on top of who owes you money. An invoice represents payment for you but it means money leaving the hands of your client so there isn't the same urgency to pay.

3 Invoicing

Using proper invoicing techniques can help you get paid faster and reduce the time spent on administration. It also makes tax time easier because you have documented income generated and collected taxes throughout the year.

What is an invoice? An invoice is a document you send to a client for the services or products you are providing. You can send an invoice for the full payment, for a deposit, or for a recurring payment.

TIP: If a client asks you to provide an estimate for your service or product before you come to an agreement to work together, provide them with an outline of the cost as a quote instead of a formal invoice. This reduces possible confusion later if the amount needs to be adjusted or if additional or fewer services are required. Quotes should be kept separate from your invoices so they do not accidentally get lumped in with your income at year end.

Invoicing basics: Invoices should include the following information:

- **Your company name**
- **Company logo (if you have one)**
- **Billing address**
- **Name and address of the company you are invoicing**
- **Contact name at the company**
- **Date**
- **A unique invoice reference number that applies to this invoice only**
- **List of the products or services you are providing**
- **Total amount for the invoice**
- **Tax collected (specific to your state or municipal taxation rates)**
- **Taxation registration number (if applicable)**
- **Terms of payment**
- **Details on how to pay**

If an invoice is incomplete, unclear, or inaccurate then this will delay the payment process. It's important to be upfront and consistent with your clients if you wish to avoid time consuming conversations.

Invoice numbers: Each invoice you create should have a unique reference number. This number has two purposes: to help you track and organize your invoices for accounting purposes, and provide a way for clients to find the invoice quickly and track it through their bookkeeping cycle. If you are receiving payment by check or if the client sends a confirmation of payment, the invoice number is usually referenced.

When starting a new business, you do not have to start with invoice number 001. You can determine what numbering system works for you, but it's helpful to have sequential numbers that you use in chronological order. For example, the first invoice you send could be invoice number 1000. The next invoice you send would be number 1001. This makes it easier to organize, find, and categorize your invoices.

You can add a second level of organization by assigning a customer number that is included as part of the invoicing number. If Agency Awesome is client number 2356, then the first invoice you create for them would be invoice number 2356-01 and the next time you invoice them it would be 2356-02.

Terms of payment: The terms of payment section on your invoice outlines when payment is due and repercussions of late payment. FreshBooks has identified the following best practices for terms of payment:

- **Be polite –** Using "please" and "thank you" in your terms of payment can increase the likelihood that invoice is paid on time by 5%. Minding your manners is also good for your professional image.
- **Outline days to pay –** "Payment upon receipt" seems to be interpreted differently by everyone and terminology like "net 30" may be clear to some companies but confusing to others. Be specific in your payment timeframe. If you want payment inside of a month of the invoice state "payment is due within 30 days." This tactic gets you paid faster than asking for payment immediately.
- **Charge interest on late payments –** Charging interest may seem harsh but it's a standard practice that encourages invoices to be paid sooner rather than later. This psychological exercise is only effective if you follow through with the terms, be sure to charge interest when stated or else late payments are just as likely to continue.

Charges on invoice: Separate the costs for your service or product line by line to increase clarity and transparency on your costs. If you are charging for your time, include your hourly rate, the number of hours worked to date, and the total cost for your labor. If you are charging for expenses on the same invoice put the expense charges on a separate line to clearly show the different type of costs. Ideally, each expense should be on its own line. Have a look at this example:

Task	Time Entry Notes	Rate	Hours	Line Total
Research	First Consultation	40.00	1	40.00
Graphic Design	Logo Rebrand – Completed	80.00	10	800.00
Item	**Description**	**Unit Cost**	**Quantity**	**Line Total**
Expense	[09/01/16] Gas, Seven Eleven: Gas required for first meeting	20.00	1	20.00
Expense	[09/01/16] Restaurants/Dining: Dinner with Chris at Angelo's	25.00	1	25.00
Total				**885.00**
Amount Paid				0.00
Balance Due (USD)				**$885.00**

Terms: Payment is due within 30 days. Payment is accepted by check.

Your invoice should have a cost for each line and then a total at the bottom. If you are charging tax, subtotal the amount of the invoice, add a line indicating the amount of tax charged and then enter a total capturing both the subtotal and tax. Make sure you subtract the deposit amount on the final invoice if you collected one at the outset of the project.

Setting a rate: We've reviewed what to include on an invoice and how to present the costs, but how do you figure out what to charge? There are three recognized ways of charging for your time:

- **Hourly rate –** Most small business owners start their career by establishing an hourly rate for their services. This rate is determined by industry standard (some professional associations provide guidelines), by using the "cost-plus" method, or by using an online rate calculator. The "cost-plus" method involves tabulating all your business and personal expenses and dividing them by the number of hours you want to work in a year (factor in vacation and sick time). This will provide you with your breakeven hourly rate. You then factor in the "plus" amount which is the profit margin. For example, if your expenses divided by hours comes to $50 an hour and you want a 20% "plus" or profit, you would charge $60 an hour.
- **Flat rate –** Depending on the project, you may decide to charge a flat cost for your service. This cost encompasses all expenses associated with providing the service including the cost for your time and is the same regardless of the final hours you end up working. This method is more commonly used by people who have experience with similar types of projects and can accurately estimate the time and expenses required to provide the service.
- **Value add –** This method of setting a rate looks beyond hourly and project costs and instead focuses on the value you can contribute to a client's business. Pricing is based on the anticipated return on investment that your services will generate for the business, this method captures the value of your skills, knowledge, talent, creativity, etc. FreshBooks Co-Founder and CEO, Michael McDerment, wrote an e-book, Breaking the Time Barrier, on the difference between billable hours and providing value to your clients.

Invoicing software: Invoicing can feel overwhelming when you start a business. The time spent creating invoices and chasing payments ends up cannibalizing billable hours. There are numerous tools likes FreshBooks that are designed to help businesses invoice and collect payment more efficiently.

Classroom activity: Have students build an invoice in FreshBooks. Have them invoice one another and then discuss the experience of being invoiced like a client, and what elements may be confusing from the client's perspective.

4 Getting paid

Fifty percent of small businesses struggle with receiving payment from their clients.[11] Applying the following strategies will shorten the time it takes to get paid and ultimately enable businesses to make more money.

Ways to get paid faster: Not all methods of payment collection are considered equal. Here are proven tips that help reduce the amount of time it takes money to get into your hands and decreases the chance of unpaid invoices:

- **Invoice immediately –** Sending an invoice as soon as the project is complete minimizes the amount of time between your last contact with the company and the request for payment. Processing your payment is more likely to happen quickly as part of the project wrap-up immediately after than if you let weeks go by before passing along an invoice. This also helps reduce the amount of time your business has between project completion and final payment.
- **No end of month invoicing –** On average, it takes 10-20 days longer to receive payment on invoices sent on the 30th and 31st of the month. People tend to bill and pay based on calendar months so your invoice could get lost in the influx of bills.
- **Use contracts –** Sign a contract with your client that outlines the cost of the project and payment expectations, this goes a long way in helping get your invoice paid faster. A contract is also considered legally binding if all parties agree on the offer with one party presenting and another accepting, and if something of value is exchanged for something else valuable. If you need to take a client to court over a payment dispute then a contract can help protect you. Here is an article on how contracts help you get paid.
- **Pre-project communication –** Even before you provide your client with a contract, you should have a transparent conversation about the cost of your services, highlighting any scenarios where the cost could differ from the original quote and how payment is structured. Clients are less likely to challenge your billing if they already know what to expect from you.
- **Secure a deposit –** To help with cash flow you can charge clients a deposit which is usually 25-50% of the total project cost. Asking for a deposit minimizes the chance of not getting paid anything for a project. If the project doesn't go as planned then at least you will have been paid something.
- **Brand your invoice –** A branded invoice sees on average a 10% higher rate of being paid than an invoice without a logo.[12] Your brand adds professionalism and legitimacy to your request for payment. It is harder to brush off a *real* company than a name on a piece of paper.
- **Transparent invoicing –** Invoices with detailed descriptions are 15% more likely to be paid on time.[13] Providing context and information on the costs included in the invoice reduces the questions clients have. If a client has a strict accounts payable process at their organization a detailed invoice can reduce the possibility being rejected or questioned by their respective finance team. Including details on the invoice will also help you keep track of what you charged a client, and why.

Collecting payments: Eighty percent of small businesses still rely on checks to receive payment.[14] Requiring a physical check or cash in-hand can take time, you can help facilitate faster payment collection by doing the following:

- **Offering payment by credit cards –** Accepting credit card payments online gets you paid eight days faster than other methods of payment. Cash is deposited in your account 24 - 72 hours after the client pays which is quick compared to the 90 days you could have to wait for a check to clear. Streamlining your payment process elevates the client experience with a simpler way of paying. Explore how accepting credit cards can help grow a business.
- **Provide payment options on your invoice –** If you have multiple ways of accepting payment make sure they are outlined in your terms of payment on your invoice. Let clients know how you can accept payment and your preferred method. This minimizes the back and forth with the client on how to pay.

- **Offer an early payment discount –** If you are looking to increase the number of invoices being paid before the due date, you can offer a small incentive to clients who pay early. For example, clients who pay within ten days of receiving the invoice get a 1% deduction off the invoice total. The trick here is to find an amount that is enticing enough for the client but doesn't significantly decrease your profit.
- **Ensure your information is correct –** Make sure that your billing address and payment name are clearly and accurately displayed on every invoice. If you need the check to be written to you personally instead of your business name (in the cases where you don't have a business bank account) make sure that is highlighted so that your client can draft a check correctly the first time. This gets you paid faster and is less disruptive for the client.
- **Allocate time for bookkeeping –** Set aside time monthly or semi-monthly to review your outstanding invoices and follow-up with clients. The faster you can send a reminder after a late invoice the more likely you are to receive payment.

5 Conclusion

Throughout this module you have reviewed how to create an invoice, multiple ways to calculate your service rate, invoicing basics, and strategies to get you paid faster. This knowledge will help you keep money coming into your business and reduce the time spent following up with clients.

Assignment One (introductory):

Felix has recently started a small business. He is looking for advice on how to invoice and get paid on time. What advice do you have for Felix? Answer the following:

1. What is an invoice and why are they important?
2. What are the basic components of an invoice?
3. What are some things that Felix can do to get paid faster? Provide context around each answer.
4. How can Felix collect payment?

Assignment Two (advanced):

Review the project brief/contract and complete the following:

PROFESSOR NOTE: Provide students with a project brief or client contract specific to your industry.

1. Determine a rate for your services. Follow one of the three methods referenced in class and provide context on how you came up with your rate.
2. Create a series of three invoices in FreshBooks that captures your billings for this project in three phases:

   a. **Quote for services**
   b. **Deposit invoice**
   c. **Final invoice**

3. Outline the strategies you will use to get paid faster and collect payment. Provide context on the strategies.
4. Your client missed the final invoice. How would you manage this situation? Be specific about the logistical requirements and how you would communicate this.

Supporting Material

Educators and their students qualify for Free FreshBooks accounts. Get in touch with our dedicated Education Team at education@freshbooks.com to get started.

Module One: Starting A Business

Additional articles on how to network like a champ:

Freelancing 101: Professional Networking Made Easy

Networking is all about feelings

The introvert's guide to local business networking

Networking tips for the small business owner

Module Two: Project Management

Have a look at this project charter template produced by the Project Management Body of Knowledge.

This article on how to build a business budget can be adapted to help budget for any project. It takes you through identifying fixed and variable expenses and looking at these against the income source or project funding.

Additional articles on how to manage projects:

Tips to increase productivity and profitability

12 top tips for project management

Module Three: Cash Flow and Expenses

How to determine if you need an accountant and five questions to ask your accountant at tax time.

Module Four: Invoicing and Getting Paid

Send a professional looking invoice in seconds using FreshBooks' free invoice creator tool.

Endnotes

1. Globe and Mail http://www.theglobeandmail.com/report-on-business/small-business/sb-growth/freelance-economy-works-well-for-some-but-comes-with-pitfalls/article19826153/

2. Forbes http://www.forbes.com/sites/susanadams/2013/10/11/the-10-skills-employers-most-want-in-20-something-employees/#6d011d3c752d

3. Project Management Institute http://www.pmi.org/About-Us/About-Us-What-is-Project-Management.aspx

4. Project Management Institution http://www.pmi.org/default.aspx

5. Gantt.com http://www.gantt.com/

6. Project Smart https://www.projectsmart.co.uk/raci-matrix.php

7. PYMNTS.com http://www.pymnts.com/in-depth/2015/data-digest-the-scary-stats-on-cash-flow-management/

8. Entrepreneur Weekly, Small Business Development Center, Bradley Univ, University of Tennessee Research

9. FreshBooks data

10. FreshBooks data

11. FreshBooks data

12. FreshBooks data

13. FreshBooks data

14. FreshBooks data