

Setting Up Your Bank Accounts

The Small Plate Principle

By dividing up your money into smaller accounts – accounts with a specific purpose – you’re imposing a limitation on your spending and accumulating your pay and your company’s profit first. These ‘smaller plates’ bring immediate clarity to the different purpose your money will serve. And it allows you to leverage your bank balance accounting habit. By looking at your bank account every day, you will see how cash is flowing into your business and where it is being allocated.

Once you set up these ‘small plate’ accounts your core bank accounts will look like this:

Core Accounts (BANK 1)		
INCOME	Quick Link	\$18,512.79
Checking *1234		Available \$18,512.79
PROFIT	Quick Link	\$3,911.23
Checking *2345		Available \$3,911.23
OWNER'S PAY	Quick Link	\$7,488.50
Checking *3456		Available \$7,488.50
TAX	Quick Link	\$3,002.98
Checking *4567		Available \$3,002.98
OPERATING EXPENSES	Quick Link	\$12,236.16
Checking *5678		Available \$12,236.16
TOTAL DEPOSIT ACCOUNTS		\$45,151.66

Your “No Temptation” accounts will look like this:

"No Temptation" Accounts (BANK 2)		
PROFIT	Account Detail	\$37,965.29
Savings *0001		Available \$18,152.79
TAX	Account Detail	\$21,196.88
Savings *0002		Available \$3,911.23
TOTAL DEPOST ACCOUNTS		\$59,162.17

Core Account Setup

It's time to get to work! Here are the five “core” bank accounts you need to establish at your local bank:

Note: The five “core” bank accounts will all be checking accounts.

1. Income Account

This is where all of your deposits go. It collects every penny that comes into your business, and you'll transfer funds from this account to your other accounts based on percentages that we will establish.

ACTION ITEM: Set up a checking account at your bank to collect Income. Once this bank account is established, setup all your company's sales deposits to go into this account. This includes checks, ACH, and other deposits. You may have to notify clients (especially if they pay you via ACH about this new account) about the new account information. Give this account the nickname INCOME so it is very obvious when you log on.

2. Profit Account

This account is where the magic happens. By taking your profit first, even if it's only 1%, you are automatically creating a permanently profitable business.



ACTION ITEM: Set up a checking account at your bank to collect Profit. You'll use this account as a holding account while it is being transferred to your "no-temptation" savings account. Give this account the nickname PROFIT.

3. Owner's Pay Account

You are your most important employee, and you're going to start paying yourself accordingly – not as an afterthought or when there's some money left over. You must be compensated for your hard work. And by paying yourself first, it turns any resentment you may feel toward your business into admiration for your business.

ACTION ITEM: Set the Owner's Pay Account at your bank as a checking account. Pick a salary for yourself and draw that money consistently from this account. The salary you pick must be within what you allocate to the account from your INCOME account. Give this account the nickname OWNER'S PAY.

4. Tax Account

This account lets you set aside money to cover your corporate and personal tax liabilities. If you collect sales tax, that belongs in a separate account.

ACTION ITEM: Set up a checking account at your bank to collect Tax. You'll use this account as a holding account while it is being transferred to your "no-temptation" savings account. Give this account the nickname TAX (or GOVERNMENT'S MONEY).

5. Operating Expenses Account

This is a checking account and it's this account you'll use to pay all your bills and cover your payroll.

ACTION ITEM: The easiest way to set this account up is to convert what was your primary checking account to now be your operating expense account. Most businesses have automatic debits coming from this account, and you are used to writing checks from this account, so it just makes sense.

This account will receive funds from the Income account twice a month (just like all your other accounts). The money in this account is the ONLY money you have available to pay expenses. If you don't have enough money to pay expenses, you must not longer incur those expenses. Give this account the nickname OPEX.



“No Temptation” Account Setup

Next, we are going to tackle our two “no temptation” accounts. These will be setup very similarly to your core accounts. We will set these up as saving accounts, as you will collect interest because your money will pool for a while.

As a reminder, we want to set these up at a different bank than our core accounts. Out of sight, out of mind.

1. Profit Account

ACTION ITEM: Set up a savings account at your secondary bank to accrue Profit. You’ll transfer into this account from your core profit account on your allocation schedule, usually twice a month. You will only withdraw from this account when it’s time to take quarterly profit distributions. Give this account the nickname PROFIT.

1. Profit Account

ACTION ITEM: Set up a savings account at your secondary bank to accrue Taxes. You’ll transfer into this account from your core tax account on your allocation schedule, usually twice a month. You will only withdraw from this account when it’s time to pay quarterly taxes. Give this account the nickname TAX.

Summary

When you are finished setting up your primary accounts, you will have five core accounts and two “no-temptation” accounts. Your account summaries should look similar to this:

Core Accounts (BANK 1)		
INCOME	Quick Link	\$18,512.79
Checking *1234		Avaiable \$18,512.79
PROFIT	Quick Link	\$3,911.23
Checking *2345		Avaiable \$3,911.23
OWNER'S PAY	Quick Link	\$7,488.50
Checking *3456		Avaiable \$7,488.50
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"No Temptation" Accounts (BANK 2)		
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Savings *0001		Avaiable \$18,152.79
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Frequently Asked Questions: Multiple Checking and Savings Accounts

1 *Which Profit First accounts should be checking accounts and which ones should be savings accounts?*

It is important to understand the difference between a checking account and a savings account. As a general rule, savings accounts yield interest, but are limited in the number of withdrawals allowed during the statement period. A checking account typically offers an unlimited number of withdrawals and checks but does not yield interest.

Income, Profit, Owner's Comp, Tax, and OpEx should all be set up as checking accounts. The flexibility offered by checking accounts far outweighs any miniscule interest you get by using savings accounts.

The two "no-temptation" accounts set up at your secondary bank - Profit Hold and Tax Hold - should be set up as savings accounts. This is where you will collect interest because your money will pool for a while.

2 *More bank accounts will result in a lot more bookkeeping work. Is Profit First really worth the effort?*

Profit First is absolutely worth the effort!

The additional bookkeeping time required to manage and reconcile multiple accounts for Profit First is negligible, and possibly even more efficient than using just one account. With Profit First, you simply need to reconcile the deposits and periodic transfers from the Income account. All expenses and payments come from the OpEx account. All the other accounts are typically a single transfer in on the 10th and another on the 25th, and a single transfer out at those times.

The additional accounts are easy to manage and reconcile. More importantly, the Profit First benefit of instantly knowing what money is allocated to what purpose will have profound effects on the financial health of your business.

3 *Which banks are the best and most flexible in terms of creating multiple accounts (e.g. Income, Profit, Tax, etc.) without charging fees?*

Profit First clients have had great success with credit unions, community banks, and some regional banks. Often, there are no fees and no minimum balance requirements at these smaller institutions.

As you open multiple checking or savings accounts, some bankers may look at you cross-eyed (because most businesses don't do Profit First...yet.) Don't let that phase you; the banker simply doesn't understand the process. Just open the multiple accounts and make sure you won't incur fees as a result, even when the balance in certain accounts approaches or goes to zero at times. If the bank insists on charging fees and requiring minimum balances, consider a different bank.