

# IGNITE

ELEMENTALS 8:

FINANCIAL BASICS

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# Habits for a Financially Sound Business



1. Set a profit goal that funds your Big Life and pursue the activities to achieve it.



2. Estimate, save for, and pay your taxes on time.



3. Use the proven models and systems of the MREA Chart of Accounts.



4. Be fiscally savvy by reviewing your financials monthly.



5. Pay yourself a salary.



6. Prepare now for a financially secure future.

What is the purpose of business?

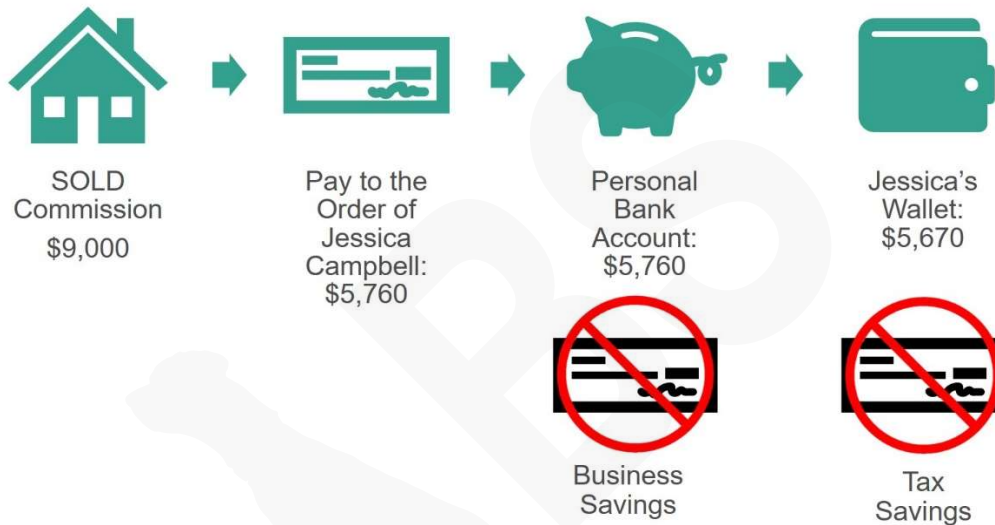
Money is good for the good it can do.

Gary Keller

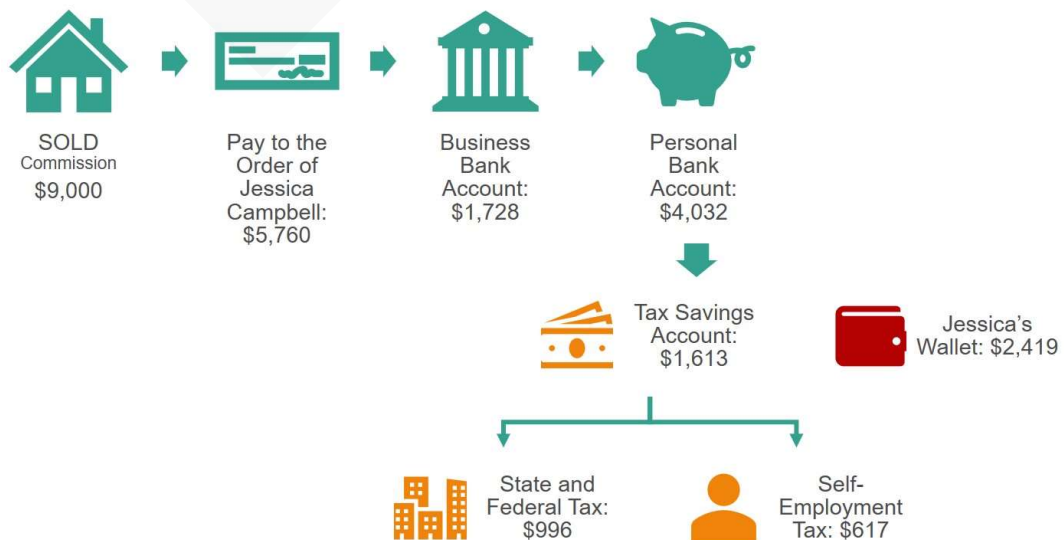
# Financially Sound or Unsound?

Exercise: Review two scenarios of a solo agent and discuss which one is sound business practice and which one is unsound and why.

1. New agent Jessica earns a commission of \$9,000, and after paying her broker, she receives a check in the amount of **\$5,760**. She deposits it in her personal bank account to pay for personal credit card debt and household expenses.



2. New agent Jessica receives her check in the amount of **\$5,760** and deposits it in her business bank account to cover business expenses. She pays herself a salary of \$4,032, which goes into her personal bank account, then transfers 40 percent of her salary, or \$1,613, from her personal account to her tax savings account. This leaves Jessica with \$2,419 to pay household and living expenses.



### AHA'S

Lined writing area for notes.



# The MREA Economic Model

To hone your financial acumen, make the most of the MREA models. Begin by understanding the foundational MREA Economic Model below.

MREA Economic Model		Percentage of GCI
<b>Income</b>	GCI – Gross Commission Income	100%
<b>Expense</b>	COS – Cost of Sales	30%
	Operating Expenses	30%
<b>Profit</b>	Net Income/Profit	40%

## A \$10,000 Commission Check

Based on the MREA guidelines, a \$10,000 commission check would be distributed this way:

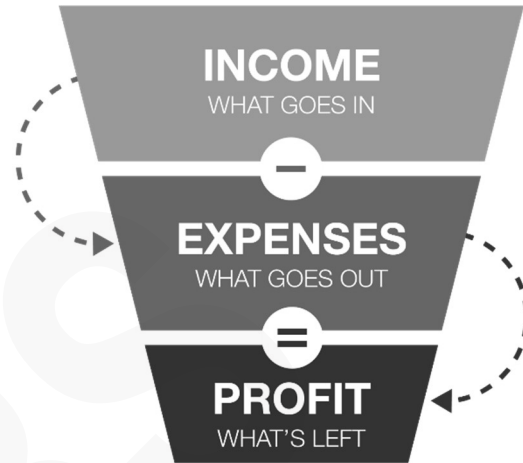
\$10,000 Commission Check	
Gross Commission Income (GCI)	\$10,000
Cost of Sales	\$3,000
Operating Expenses	\$3,000
Profit	\$4,000

# The Flow of Money

Think of the economic model as your flow of money. You get paid. You spend money. You have some left over.

Calculate your profit by subtracting your expenses “what goes out,” from your income “what goes in.”

- Income
- Expenses
- Profit



Flip the profit formula to set and track your profit goals. Ask yourself the following questions:

1. How much money do I want in my bank account at the end of the year?
2. How many homes do I need to sell to achieve my profit goal?
3. How can I minimize my expenses to maximize my net income?





## Income

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### Income from Your Real Estate Business

This is commission earned from closed transactions—typically 3 percent from one side of a sale. It includes listing income, sales income, referral income, and leasing income, for both residential and commercial transactions.

**Note:** This does not include passive income, e.g. Profit Share or rental income.

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## Expenses

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### **COST OF SALES**

The cost (expenses) related to each transaction you make. The cost of making the sale.

Cost of Sales includes:

- Commissions paid to the office (fees to your broker—Company Dollar)
- Royalty fees paid to KW
- Commissions or splits paid to employees or independent contractors involved in sales
- Referral fees

## Digging in to Cost of Sales (COS)

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Your gross commission income (GCI) is the amount you get paid based on the sales price of a transaction, typically 3 percent for each side. GCI is not what you receive in your commission check! The amount you receive reflects the amount deducted to pay your broker and Keller Williams Realty, Inc. These deductions are part of your Cost of Sales, the cost of making a sale.

After your broker and KW have been paid, you receive a check for a net commission amount. Here's how the calculation breaks down.

- $GCI \times 30\%$  = amount paid to broker (Company Dollar) up to a maximum amount (cap) of \$\_\_\_\_\_
- $GCI \times 6\%$  = amount paid to KW (Royalty) up to a maximum cap of \$3,000
- Net commission check =  $GCI - \text{Company Dollar} - \text{Royalty}$

*\*Keep in mind ... no sale, no cost of sales.*

### Activity: Cost of Sales' Effect on Your Net Pay

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You closed on a transaction and your 3 percent (the GCI) is \$9,000.

1. You have not yet capped on Company Dollar or Royalty. What is the net commission check you will receive after COS?

**The formula:**  $GCI - \text{Co\$} (GCI \times 30\%) - \text{Royalty} (GCI \times 6\%) = \text{Net Commission}$

$$\boxed{\phantom{00000}} - \boxed{\phantom{00000}} - \boxed{\phantom{00000}} = \boxed{\phantom{00000}}$$

2. You have already capped on Royalty and have not yet capped on Company Dollar. What is the net commission check you will receive after COS?

**The formula:**  $GCI - \text{Royalty} (GCI \times 6\%) = \text{Net Commission}$

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3. You have capped on both. What is the net commission check you will receive after COS?

$$\boxed{\phantom{00000}}$$

# Plan for Your Future

Activity: Plan for Your Future with Your Profit Goal

Net Profit Goal	=		\$
Gross Profit Goal	=	Divide net profit by 60%	\$
Gross Commission Income	=	Divide gross profit by 40%	\$
Home Sales	=	Divide GCI by average commission income (ex: 7.5K)	
Anticipated Cost of Sale	=	Royalty + Co\$ Cap	\$
Operating Expenses Budget	=	Multiply GCI by 30%	\$

AHA'S

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# Best Practices

✓	Deadline	Who	Task
			Gain clarity on your Big Life hopes and dreams
			Set your personal and business budgets
			Set up your business entity
			Open additional bank accounts for taxes, expenses, and other savings
			Download and use the MREA Chart of Accounts
			Purchase/Download tax accounting software
			Hire an accountant, CPA, attorney
			Set dates to calculate and pay your estimated taxes
			Prepare for your future: insurance, savings, investments

# Recap and Create Your Success List

Turn Aha's to Achievement

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 <p>How has your <b>thinking</b> changed?</p>	
 <p>What do you <b>feel</b> differently about? What was meaningful for you today?</p>	
 <p>How will your behaviors be different going forward? What <b>actions</b> will you take?</p>	
 <p>What <b>tools</b>, models, or systems will you use? How will they make you accountable?</p>	