



nerej

How realtors can ensure financial success for their business while not taking your eye off the deal

February 12, 2015 - Financial Digest

In real estate, there's a difference between doing business and running a business. In doing business, deals are made or fall through at a moment's notice and require your immediate attention. In running your business, you also need to make numerous adjustments along the way—decisions about pricing, hiring, investments, and so on—that are not directly related to the deal you're working on today.

So, how do you handle the array of questions facing you with running your business while not taking your eye off the deal of the day?

One way is through cost accounting.

Cost Accounting Helps You Make Informed Decisions

Cost accounting reports and determines the various costs associated with running your business. With cost accounting, you track the cost of all your business functions - raw materials, labor, inventory, and overhead, among others. This makes it much easier for real estate agents to transition back to daily, running-of-the-business decisions from the daily real estate transactions.

Note: Cost accounting differs from financial accounting because it's only used internally for decision making. Because financial accounting is employed to produce financial statements for external stakeholders, such as stockholders and the media, it must comply with generally accepted accounting principles (GAAP). Cost accounting does not.

Cost accounting allows you to understand the following:

1. Cost behavior. For example, will the costs increase or stay the same if your productivity increases?
2. Appropriate prices for your services. Once you understand cost behavior, you can tweak your pricing based on the current market.
3. Budgeting. You can't create an effective budget if you don't know the real costs of the line items.

Is It Hard?

To monitor your company's costs with this method, you need to pay attention to the two types of costs in any business: fixed and variable.

Fixed costs don't fluctuate with changes in production or sales. They include:

- * Rent;
- * Insurance;
- * Dues and subscriptions;
- * Equipment leases;
- * Payments on loans;

- * Management salaries; and
- * Advertising.

Variable costs DO change with variations in production and sales. Variable costs include:

- * Raw materials;
- * Hourly wages and commissions;
- * Utilities;
- * Inventory;
- * Office supplies; and
- * Packaging, mailing, and shipping costs.

Tip: Cost accounting is easier for smaller, less complicated businesses. The more complex your business model, the harder it becomes to assign proper values to all the facets of your company's functioning.

If you'd like to better understand the ins and outs of your business and create sound guidance for internal decision making, you might consider cost accounting. Many CPAs perform this service. It entails an evaluation of your business from top to bottom and to determine the real cost of each component. With that as a foundation, you can then draft budgets, adjust pricing, and much more.

Paul Dion CPA is the owner of Paul Dion, CPA, Millbury, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540