

Cost & Collections Review

HOW THE BOOKS REPORT A PROFITABLE BUSINESS

An owner-operated Midwest home-services business · 24 months to 19 August 2026, accrual basis · prepared by Sandra Stokke

\$63,333

recorded as business expense, but not a cost of the business — understating two years of profit.

+21.3%

REVENUE GROWTH · SEASON
ON SEASON

~\$228,000

OPERATING PROFIT RESTATED ·
FROM \$164,952

16.9%

OF REVENUE SPENT ON
VEHICLES

\$6,395

RECEIVABLE PREDATING 2026 ·
53 INVOICES

This review deliberately stops short of a profit figure. The engagement began as a profitability analysis. Two answers from the owner changed it: the work is routed from memory rather than through any system, and between prepayment and per-service billing the books hold every dollar going out but not quite every dollar coming in. When the cost side is complete and the income side is not, any margin drawn from the two reads low — so a “profit leak” number here would measure a gap in the records, not a leak in the business. All five findings sit where the records are reliable — cost classification, revenue timing, receivables — and all five are housekeeping, not error.

FIVE FINDINGS — AND WHAT TO DO ABOUT EACH

- The business is growing, and it is profitable**
Revenue rose from **\$263,863** to **\$320,070** between the two service years, and net operating margin is **28.2%**. Everything that follows is about measurement and housekeeping — not about a business in trouble.
→ **Read the rest of this document as bookkeeping, not diagnosis.**
- \$63,333 of personal and financing cash sits in operating expenses**
\$46,077 of vehicle loan payments and **\$17,256** of the owner’s income tax are recorded as business expenses. A loan payment is not an expense — only the interest belongs on the profit and loss; the principal repays a liability. The identical amount every month confirms these are payments, not interest, which falls as a balance does. Income tax on pass-through profit is an owner distribution. Neither belongs here, and both make the business look less profitable than it is.
→ **Move the three loans onto the balance sheet so each payment splits into interest and principal, and move the tax across to owner draws. Reported profit rises from \$164,952 to roughly \$228,000.**
- The liabilities behind those loans are missing entirely**
The balance sheet shows one vehicle note at **\$643.50** — precisely one monthly payment. The other two loans do not appear at all. The debts are unrecorded, the vehicles securing them are invisible as assets, and the balance sheet understates both what the business owns and what it owes.
→ **This is the finding that matters the moment a lender, an insurer or a buyer asks to see the books.**
- Season prepayments are booked as income the day they arrive**
May 2025 recorded **\$54,655** and May 2026 **\$69,503**, against roughly **\$32–38K** in the Junes that followed — the same distortion two years running. The work does not change that sharply; the service items name the cause, because season packages are sold up front. There is no unearned revenue account, so the full prepayment is recognised the day the cheque arrives.
→ **Eight of the last twenty-four months show an operating loss totalling \$58,914 — several of them artefacts of this timing. Until it is fixed, no month’s profit can be trusted either way.**
- Vehicles cost more than every material the business applies**
\$98,397 over 24 months on three financed vehicles — **16.9%** of revenue — against **\$82,906** of total cost of goods sold. Setting the loan payments aside, fuel, insurance and maintenance alone come to **\$52,320**, or 9% of revenue.
→ **Flagged for scale, not because it is wrong. Whether it is right depends on how much each vehicle runs off-season — which the books cannot show.**

WHERE TO START — IN ORDER

- 1 Move the vehicle loans onto the balance sheet.** Set up a note payable for each of the three loans, split every monthly payment between interest and principal, and capitalise the vehicles as fixed assets with depreciation. A correction rather than a judgement — nothing here was done wrong, it was simply never set up.
- 2 Reclassify the income tax as an owner distribution.** Move it alongside the member draws already recorded in these books. Reported profit rises, and the true cost of owner distributions becomes visible for the first time.
- 3 Create an unearned revenue account before next season.** Book prepaid season packages there on receipt and release them to income month by month as the work is done. This is the one change that makes monthly numbers worth looking at.
- 4 Clear the pre-2026 receivables this month.** Review the 53 invoices dated 2019–2025, collect what is genuinely recoverable, write off the rest, and apply the four stray credits. The aging report becomes a collections tool instead of a history lesson.
- 5 Review the three-vehicle fleet this quarter.** Establish what each vehicle is for and how much it runs off-season. The largest genuinely controllable cost in the business, and currently the least examined.

WHERE THE VEHICLE MONEY GOES · 24 MONTHS

Automobile expense	24-month total	Share of revenue
Loan payments — three vehicles	\$46,077	7.9%
Fuel	\$21,662	3.7%
Insurance	\$20,416	3.5%
Maintenance	\$9,663	1.7%
Plates and other	\$579	0.1%
Total automobile	\$98,397	16.9%
For comparison — total cost of goods sold	\$82,906	14.2%

Only \$46,077 of that is financing. The remaining \$52,320 is running cost, and it exceeds nothing in these books except the materials themselves — which is why scale alone made it a finding.

WHAT THE PREPAYMENT TIMING DOES TO A MONTH

Month	Recorded revenue	Month	Recorded revenue
April 2025	\$13,735	April 2026	\$20,323
May 2025	\$54,655	May 2026	\$69,503
June 2025	\$31,697	June 2026	\$38,051
July 2025	\$34,365	July 2026	\$37,280

May exceeds the following June by **\$22,958** in 2025 and **\$31,452** in 2026. The work did not change that sharply; the cash simply arrived before it.

WHAT THIS REVIEW CANNOT SUPPORT

- Any statement of true revenue, profit or margin — recorded totals will not reconcile to bank activity.
- Benchmarking against industry norms: comparing an understated margin to a published benchmark produces a meaningless variance.
- Revenue per customer, per route or per service — only recorded revenue is attributable, so these would run systematically low.
- Job, route or technician productivity — scheduling is held in no system, so services scheduled against services performed cannot be assessed at all. Normally the most valuable question in a recurring-service business.

What complete books would open up. With all revenue recorded and a scheduling system in place, the same method extends to margin by service line, revenue per stop, route profitability, and whether scheduled services are actually being billed.

This is what a Cost & Collections Review looks like on a real set of books.

A set of QuickBooks exports and one conversation is usually enough to know whether your books hold the same problems.
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