

Managing Your Cash Flow Like a Pro




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What is the % of businesses that fail within the first 5 years?



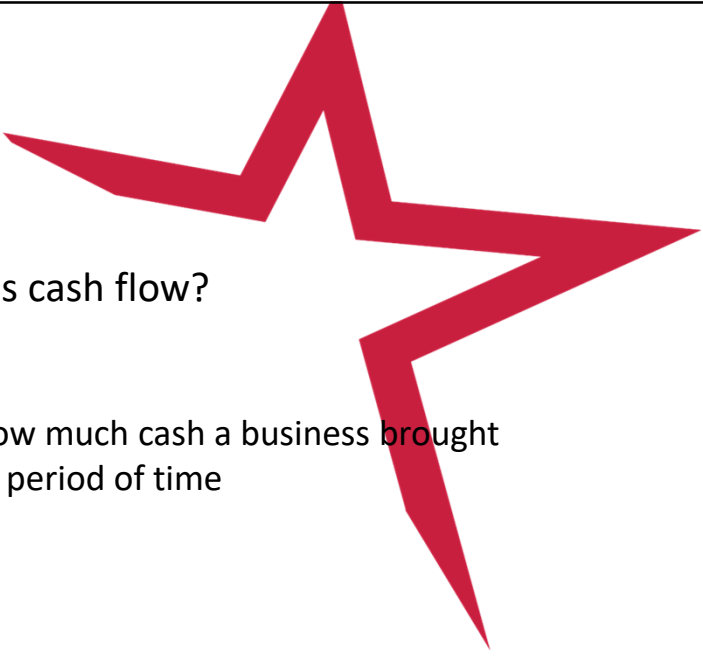
2



Can Profitable businesses fail?



3



What is cash flow?

Measurement of how much cash a business brought
in and spent over a period of time



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Is Cash flow the same as Profit?

Profit is the difference between the amount earned and the amount spent

$$\text{Revenue} - \text{expenses} = \text{profit}$$



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What is the formula for cash flow

Opening balance of cash flow from previous month

+

Total inflows of cash into your business

-

Total outflows of cash out of your business

=

Closing cash balance

-

Opening cash balance

=

Cash flow this period



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So, what goes into Cash flow?

Cash Inflows

- Customer Sales
- Selling Assets
- Loan or grants
- Capital from owners
- Investment/rental income
- Note receivables
- Customer Deposits

Cash Outflows

- Wages
- Purchases from suppliers
- Note payments
- Operating Expenses
- Purchase of assets
- Deposits made
- Prepaid Expenses
- Loans to others
- Distributions to owners
- Taxes



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Are all business subject to cash flow issues?

Businesses that are most effected

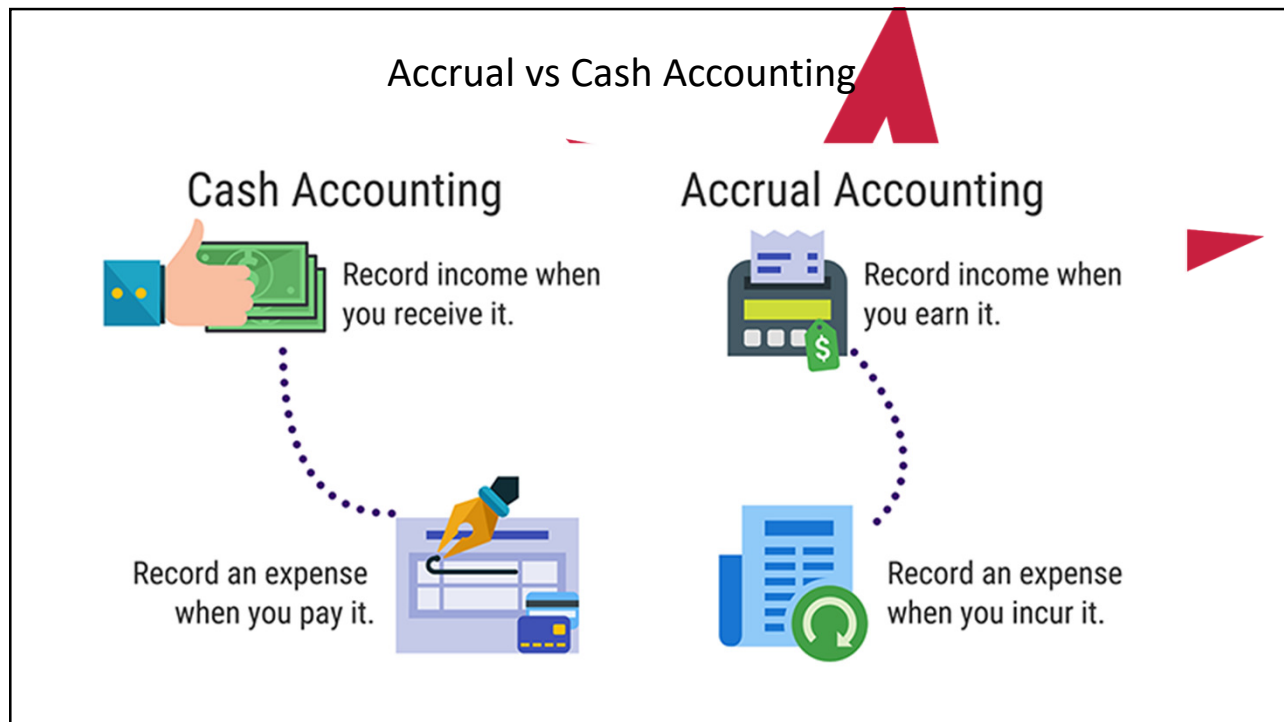
- Have accounts receivables
- Have numerous A/P
- Have multiple employees
- Maintain Inventory
- Purchase Assets
- Have a long Operating Cycle
- Large Seasonal Fluctuations

Businesses that are least effected

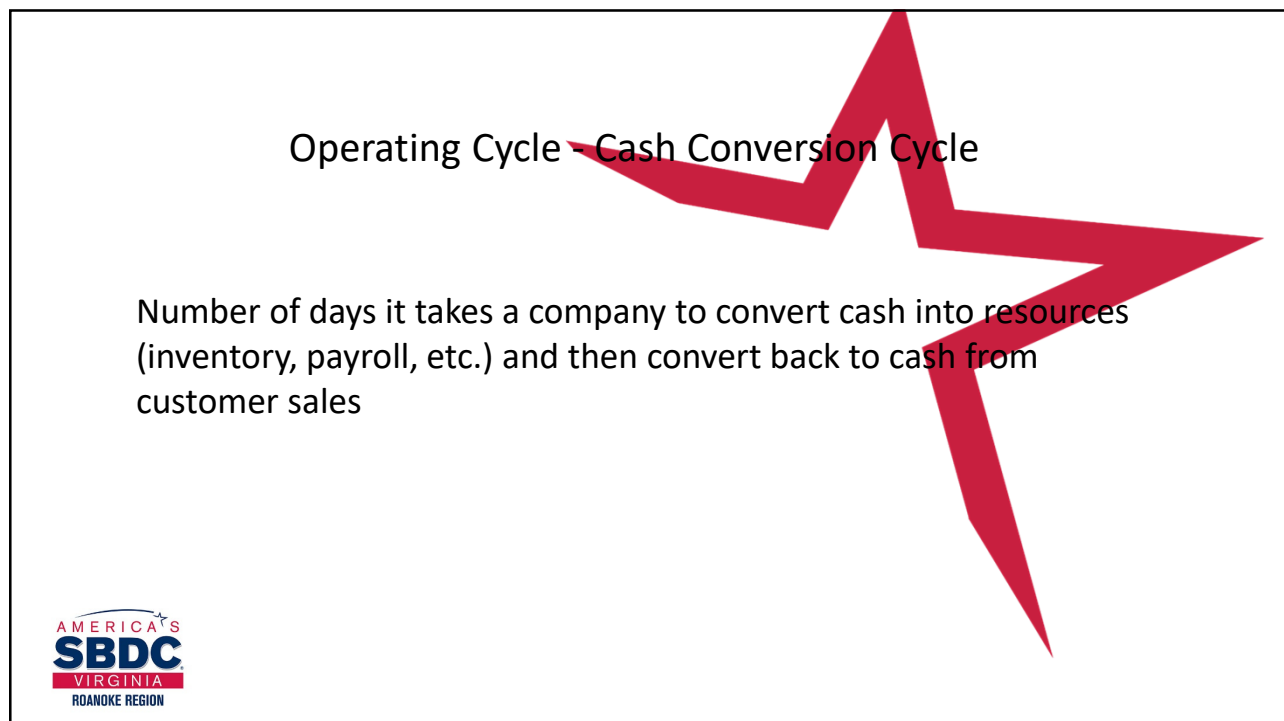
- Operate solely on cash
- Have limited A/P
- Have no or small number of employees
- Maintain limited or no inventory
- Seldom purchase assets
- No seasonal fluctuations



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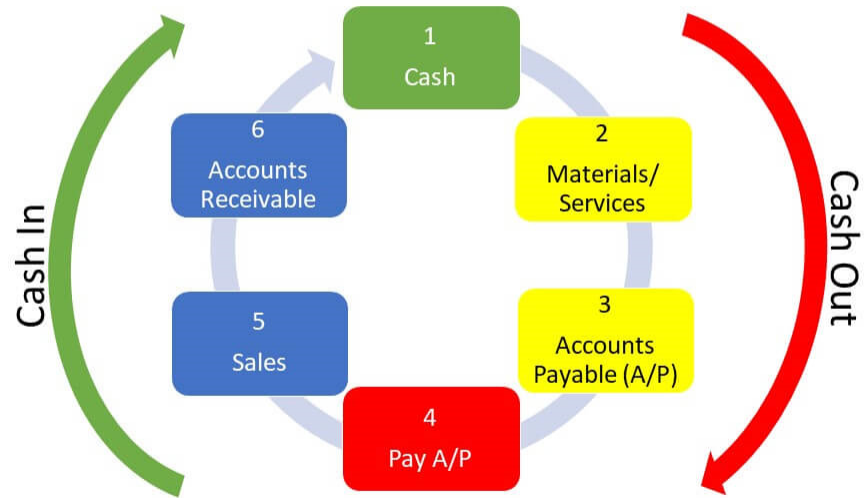


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Cash Conversion Cycle



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Example

Sarah's Jewelry Store

- Sarah orders supplies on Monday – pays by debit card
- Supplies arrive on Friday
- Sarah takes 10 days to produce all final product from the inventory
- Sarah sells all the jewelry the next day for cash

What if?

- Sarah pays by credit card?
- Sarah receives a deposit?
- Sarah takes longer to sell the product
- What if Sarah sells the product on 30-day terms?

Operating Cycle

4 days
10 days
1 day
15 days

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Let's put money to it

- Sarah purchases inventory on Monday-debit card
- Sarah has payroll due for \$300 on Friday
- Sarah has another payroll due the next Friday
- Net expenses so far
- Sarah sells the product that week for \$2000

Operating Cycle	
\$1000	
\$300	4 days
\$300	10 days
<u>\$1600</u>	<u>1 day</u>
\$2000	15 days

Sarah earned a profit of \$400, but where did the \$1600 come from to start?



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John's Manufacturing Facility

- John orders inventory
- John has to pay for inventory after 30 days
- It takes John 60 days to produce final product
- John sales on 30-day terms

Operating cycle

-30 days for A/P
60 days for production
30 days to get paid
60 days total

- 60 days production includes the time from order to receipt of inventory



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Let's put money to it

- John orders \$10,000 on Feb 1st
 - Pays inventory on 3-1
 - Pays payroll for week 1-4 of production cycle
 - Pays payroll for week 4-8 of production cycle
 - Costs incurred as of 4-1
 - Sells the final product on 4-1 (30-day terms)
 - Gets paid by customers on 5-1
 - * Has 30-day terms to pay for inventory
- \$10,000
 \$2,000
\$2,000
\$14,000
 \$20,000
- Time it takes from paying from inventory until paid by customer: 60 days
 - Where did the money come from before he gets paid?



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Practice Exercise

Date you incur your first expense related to sales? _____

Date you get paid by customer? _____

Gap _____



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Rapid Growth Syndrome Scenario

	Jan	Feb	March	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<u>Sales</u>			<u>5555</u>	<u>6666</u>	<u>7777</u>	<u>8888</u>	<u>9999</u>	<u>11111</u>	<u>12222</u>	<u>13333</u>	<u>14444</u>	<u>15555</u>
Inventory Purchases	5000	6000	7000	8000	9000	10000	11000	12000	13000	14000	15000	16000
Beginning cash balance	0	0	-5000	-11000	-24000	-39445	-57224	-77226	-99340	-123455	-149459	-177241
Cash in	0	0	0	0	5555	6666	7777	8888	9999	11111	12222	13333
Cash out	0	5000	6000	7000	8000	9000	10000	11000	12000	13000	14000	15000
Net cash in this month	0	-5000	-6000	-13000	-15445	-17779	-20002	-22114	-24115	-26004	-27782	-29449
Ending cash balance	0	-5000	-11000	-24000	-39445	-57224	-77226	-99340	-123455	-149459	-177241	-206690

- \$5000 of inventory is purchased on Jan 1st
- Inventory cycle is 60 days
- A/P is 30 days
- A/R is 60 days
- Sales are increasing each month
- Business is operating on a 10% net profit margin



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What Can You Do?

Properly set up your accounting system

- Use a computerized accounting system
- Set up your chart of accounts correctly
- Enter your bills when you get them (some software is upgrade)
- Enter invoices when jobs are complete
- Enter payments from invoices and get to the bank (ASAP)
- Run financial reports on Accrual basis, not Cash basis
- Make sure you are properly tracking your current liabilities (separate from long term)
- Is correct information being entered in the right place - GIGO



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What Can You Do?

Financial Review

- Are you reviewing P&L as soon as possible after the end of the month.
 - Review for margin changes
- Are you evaluating your cash balance regularly
- Are you looking at you're A/R aging (and doing something about it)
 - Do you have options for payment (CC, ACH, etc.)
 - Should you offer discounts
 - Should you change your terms
- Are you looking at you're A/P journal?
- Are you reviewing bank statements
- Are you going over company expenses
- Are you doing job costing
- Accounting errors – overstated income, etc



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What Can You Do?

Processes and Procedures

- Who in the organization has credit cards are authorized to purchase
- Is there a system in place that monitors inventory purchases
- Do you have systems in place to monitor payroll use
 - Employees clocking in early, if slow are you sending home, etc.
- Procedure for committing to subscriptions
 - Review credit cards to look at recurring transactions
- Do you review costs from vendors to see if there are options, or better pricing
 - Do you ask for better terms



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What Can You Do?

Loans and other uses of cash

- Does it make sense to refinance loans –
 - (longer term, lower interest rate, Be careful to match loan terms to what you are purchasing)
- What is financial plan to plug the cash flow gap?
 - Line of Credit
 - Working capital loan
 - Owners' capital
 - A/R Financing
 - Short-term working capital loan



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What Can You Do?

Loans and other uses of cash

- Is there a process to evaluate the purchase of an asset (ROI)
 - Do you pay with cash, or do you finance
 - Beware of Fast Cash Loans – very high interest rates
 - Beware of some leases
- How often do you do a physical inventory?
 - Is there a way to determine shrinkage?
 - Do you get rid of old inventory
- Do you sell assets that are no longer being used



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What Can You Do?

Metrics to monitor-which ones make sense

- Sales/profit per employee
- Sales/profit per square ft
- Breakeven analysis
- Inventory turns
- Days to Collect A/R
- Days to pay A/P
- Quick Ratio = Current Assets (cash & AR/Current Liabilities)
- Which ones do you need????



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Effects of price increase on your bottom line

Effects on profit from increase costs				
Sales Price	Product Cost	Profit Margin Desired		
\$1.00	\$0.50	50%		
Sales Price	New product Cost	Profit Margin Desired	Decrease in Profit without changing Sales Price	
\$1.20	\$0.60	50%	10.0%	



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Example

	Month 1	Month 2
Beginning cash balance	\$1000	\$500
Cash Sales	\$1000	\$1000
A/R collected		\$600
A/P expenses paid	\$500	\$500
Cash Balance	\$1500	\$1600
Other cash uses		
Loan payment	\$500	\$500
Purchased asset	\$500	\$0
Ending Cash	\$500	\$1100

- Started with \$1000
- Cash sales each month of \$1000
- Expenses each month of \$500
- A/R = 30 days \$600
- Loan payment = \$500
- Asset purchased in Month 1 of \$500



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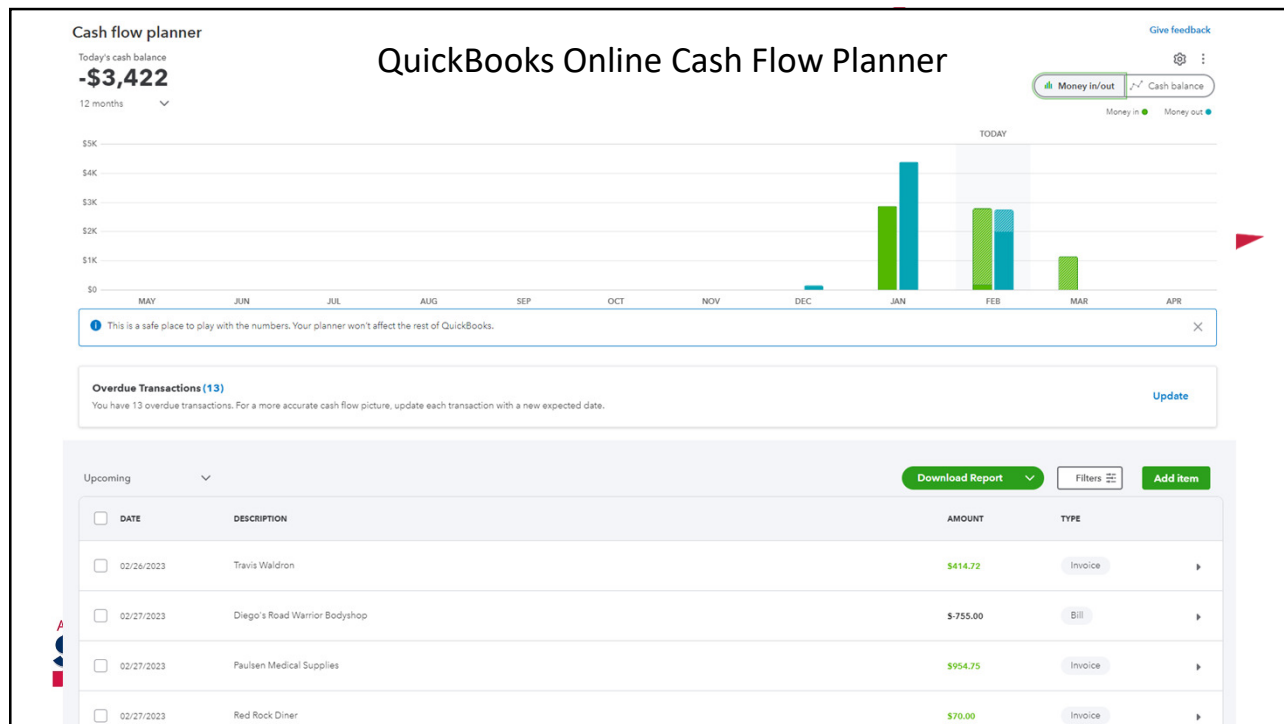
Your Company Name

Cash flow forecast

Starting cash on hand: \$ 10,000.00 Starting date: Jan 2023 Cash minimum balance alert: \$ 2,000.00

	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	Jul 2023	Aug 2023	Sep 2023	Oct 2023	Nov 2023	Dec 2023	Total
Cash on hand (beginning of month)	\$ 10,000.00	\$ 12,250.00	\$ 14,750.00	\$ 17,750.00	\$ 18,250.00	\$ 28,850.00	\$ 30,350.00	\$ 30,850.00	\$ 35,310.00	\$ 34,480.00	\$ 37,980.00	\$ 41,280.00	
Cash receipts													
Cash sales	\$ 2,000.00	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	\$ 4,000.00	\$ 6,000.00	\$ 3,000.00	\$ 2,800.00	\$ 3,000.00	\$ 4,000.00	\$ 3,800.00	\$ 4,200.00	\$ 53,800.00
Returns and allowances			\$ 200.00										\$ 200.00
Collections on accounts receivable													\$ -
Interest, other income													\$ -
Loan proceeds													\$ -
Owner contributions													\$ -
Other receipts													\$ -
Total cash receipts	\$ 2,000.00	\$ 3,000.00	\$ 3,400.00	\$ 3,000.00	\$ 4,000.00	\$ 6,000.00	\$ 3,000.00	\$ 2,800.00	\$ 3,000.00	\$ 4,000.00	\$ 3,800.00	\$ 4,200.00	\$ 53,800.00
Total cash available	\$ 12,000.00	\$ 15,250.00	\$ 18,150.00	\$ 18,750.00	\$ 30,250.00	\$ 34,850.00	\$ 33,350.00	\$ 33,650.00	\$ 38,310.00	\$ 38,480.00	\$ 41,780.00	\$ 45,480.00	
Cash paid out													
Advertising	\$ 2,000.00												\$ 2,000.00
Commissions and fees	\$ 250.00	\$ 300.00	\$ 300.00	\$ 300.00	\$ 4,000.00	\$ 400.00	\$ 300.00	\$ 280.00	\$ 250.00	\$ 400.00	\$ 380.00	\$ 420.00	\$ 5,140.00
Contract labor		\$ 200.00		\$ 200.00		\$ 200.00		\$ 200.00		\$ 200.00		\$ 200.00	\$ 1,200.00
Employee benefit programs													\$ -
Insurance (other than health)			\$ 4,000.00			\$ 4,000.00			\$ 4,000.00			\$ 4,000.00	\$ 16,000.00
Interest expense (don't use if in payment below)													\$ -

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New Budget

Name * 2023 budget Fiscal Year FY2023 (Jan 2023 - Dec 2023) Interval Monthly Pre-fill data? Actual data - 2023 Subdivide by Don't subdivide

QuickBooks Online Budgeting

ACCOUNTS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
+ INCOME													
Billable Expense Income													
Design income	2,250.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,250.00
Discounts given	-89.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-89.50
Fees Billed													
+ Landscaping Services	797.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	797.50
+ Job Materials	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Decks and Patios													
Fountains and Garden Ligh...	1,501.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,501.50
Plants and Soil	2,220.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,220.72
Sprinklers and Drip Systems	30.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	30.00
Total Job Materials	3,752.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,752.22
+ Labor	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Installation	250.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	250.00
Maintenance and Repair													
Total Labor	250.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	250.00
Total Landscaping Services	4,799.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,799.72
Other Income													
Pest Control Services	-30.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-30.00
Refunds-Allowances													
Sales of Product Income	912.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	912.75
Services	503.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	503.55
Unapplied Cash Payment Inco...													
Total Income													

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QuickBooks Online Budgeting

Budgets

Add budget

Need help getting started with budgets?

BUDGETS	PERIOD	CREATED ON	LAST UPDATED	ACTION
<input type="checkbox"/> 2023 budget	Jan 2023 - Dec 2023	2023-02-26	2023-02-26	Edit

< First

Copy

Delete

Run Budgets vs. Actuals report

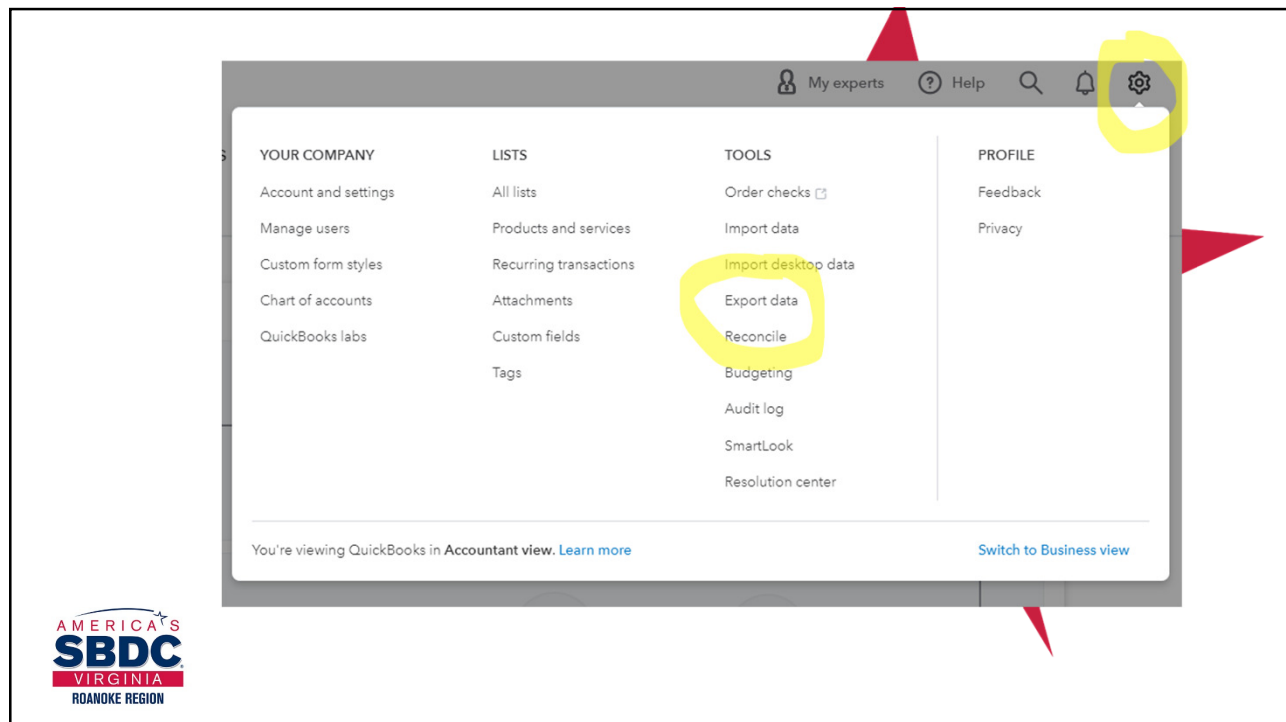
Run Budget Overview report



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Budget vs. Actuals: 2023 budget - FY23 P&L Report														
Report period														
Custom 01/01/2023 to 12/31/2023														
Customize Save customization														
Budget Show non-zero or active only Compare another period Accounting method														
2023 budget - FY23 P&L Active rows/active columns Budget amount over Cash Accrual Run report														
Collapse Sort Add notes														
	JAN 2023				FEB 2023				MAR 2023				APR 2023	
	ACTUAL	BUDGET	OVER BUDGET	% OF BUDGET	ACTUAL	BUDGET	OVER BUDGET	% OF BUDGET	ACTUAL	BUDGET	OVER BUDGET	% OF BUDGET	ACTUAL	BUDGET
Income														
Design income	2,250.00	2,250.00	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Discounts given	-89.50	-89.50	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Landscaping Services	797.50	797.50	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Job Materials														
Fountains and Garden Li...	1,501.50	1,501.50	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Plants and Soil	2,220.72	2,220.72	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Sprinklers and Drip Syste...	30.00	30.00	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Total Job Materials	3,752.22	3,752.22	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Labor														
Installation	250.00	250.00	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Total Labor	250.00	250.00	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Total Landscaping Services	4,799.72	4,799.72	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Pest Control Services	-30.00	-30.00	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Sales of Product Income	912.75	912.75	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Services	503.55	503.55	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Total Income	\$8,346.52	\$8,346.52	\$0.00	100.00 %	\$0.00	\$0.00	\$0.00	0.00 %	\$0.00	\$0.00	\$0.00	0.00 %	\$0.00	\$0.00
Cost of Goods Sold														
Cost of Goods Sold	405.00	405.00	0.00	100.00 %	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00
Total Cost of Goods Sold	\$405.00	\$405.00	\$0.00	100.00 %	\$0.00	\$0.00	\$0.00	0.00 %	\$0.00	\$0.00	\$0.00	0.00 %	\$0.00	\$0.00
GROSS PROFIT	\$7,941.52	\$7,941.52	\$0.00	100.00 %	\$0.00	\$0.00	\$0.00	0.00 %	\$0.00	\$0.00	\$0.00	0.00 %	\$0.00	\$0.00
Expenses														

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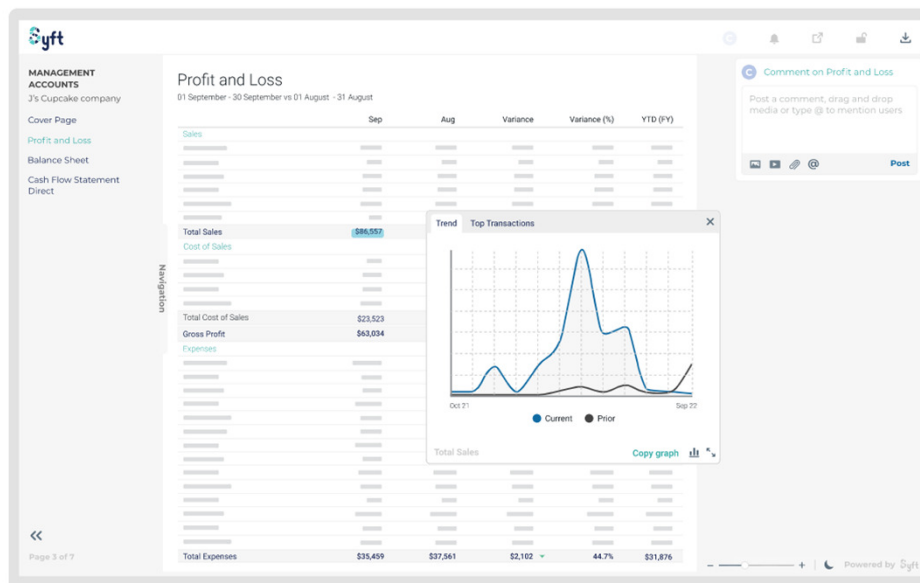


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Craig's Design and Landscaping Services Profit and Loss 2023 Projections						
	Jan	Jan Actual	Feb	Feb Actual	March	Mar Actual
Income						
Design income	2,250.00		0.00		0.00	
Discounts given	-89.50		0.00		0.00	
Landscaping Services	797.50		0.00		0.00	
Job Materials						
Fountains and Garden Lighting	1,501.50		0.00		0.00	
Plants and Soil	2,220.72		0.00		0.00	
Sprinklers and Drip Systems	30.00		0.00		0.00	
Total Job Materials	\$ 3,752.22		\$ 0.00		\$ 0.00	
Labor						
Installation	250.00		0.00		0.00	
Total Labor	\$ 250.00		\$ 0.00		\$ 0.00	
Total Landscaping Services	\$ 4,799.72		\$ 0.00		\$ 0.00	
Pest Control Services	-30.00		0.00		0.00	
Sales of Product						
Income	912.75		0.00		0.00	
Services	503.55		0.00		0.00	
Total Income	\$ 8,346.52		\$ 0.00		\$ 0.00	
Cost of Goods Sold						
Cost of Goods Sold	405.00		0.00		0.00	
Total Cost of Goods Sold	\$ 405.00		\$ 0.00		\$ 0.00	
Gross Profit	\$ 7,941.52		\$ 0.00		\$ 0.00	
Expenses						
Advertising	74.86		0.00		0.00	
Automobile	113.96		0.00		0.00	
Fuel	237.85		0.00		0.00	



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AMERICA'S SBDC VIRGINIA ROANOKE REGION

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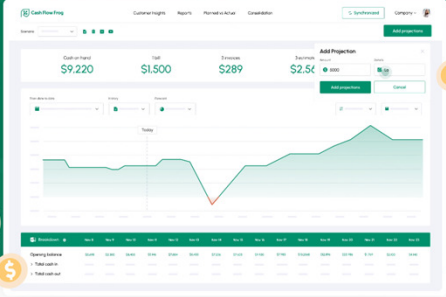
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AMERICA'S SBDC VIRGINIA ROANOKE REGION

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AMERICA'S SBDC VIRGINIA ROANOKE REGION

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New Service Coming Soon

- Quarterly financial review by SBDC
- Review financials – other KPIs
- Meet with client to go over findings
- Limited number of slots
- Application process


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LET'S DO THIS!

WE HELP YOU WITH
BUSINESS SO YOU
CAN GET ON WITH
YOUR BIG IDEAS.

 RoanokeSmallBusiness.org

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 540-632-1174

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