

KEEPING CASH IN YOUR CASH FLOW

Presented by
Robert LeMay, CPA
LeMay & Company



WHAT IS CASH FLOW?

- × **Process for the movement of cash into and out of a business.**
 - × Cash Outflow
 - × Cash Inflow
- × **Guiding cash flow is one of the most pressing management tasks for any business.**
- × **A cash flow projection is a forecast of the difference between cash coming into the business and cash going out of the business.**

HOW CAN I MANAGE CASH?

- × Know when, where, and how your cash needs will occur
- × Know the best sources for meeting additional cash needs
- × Keep good relationships with bankers and other creditors
- × Stay on top of collections
- × Prepare and use historical financial statements to understand how the Company used money in the past
- × Develop cash flow projections

WHAT DOES IT DO FOR ME?

- ✘ By knowing your cash position now and in the future, you can
 - + Ensure enough cash for purchases or staffing needs
 - + Identify when the company can invest in new equipment or ventures
 - + Take advantage of discounts and special purchases
 - + Prepare for adequate future financing and type of financing
 - + Show lenders your ability to plan and repay financing.

HOW DO YOU START?

Understand the financial statements

Balance Sheet

Tells how a company is performing at a specific period in time

Income Statement (Profit & Loss Statement)

Tells how a company has performed over a specific period of time

Cash Flows Statement

Tells how a company has used cash over a specific period of time

CASH FLOW STATEMENT?

The Cash Flow Statement deals with ONLY cash transactions

- + Depreciation, a non-cash transaction, does not appear on a cash flow statement
- + Loan payments (both principal and interest) will appear on your cash flow statement since they require the outlay of cash
- + Not all sales are cash sales. Depending upon how and when you get paid will affect your cash flow

WHAT MAKES UP CASH FLOW?

The sources and uses of cash is typically divided into three components:

Operating Cash Flow

Investing Cash Flow

Financing Cash Flow

OPERATING CASH FLOW

Operating cash flow, often referred to as working capital, is the cash flow generated from internal operations. It comes from sales of the product or service of your business, and because it is generated internally, it is under your control.

INVESTING CASH FLOW

Investing cash flow is generated internally from non-operating activities. This includes investments in plant and equipment or other fixed assets, nonrecurring gains or losses, or other sources and uses of cash outside of normal operations.

FINANCING CASH FLOW

Financing cash flow is the cash to and from external sources, such as lenders, investors and shareholders. A new loan, the repayment of a loan, the issuance of stock, and the payment of dividend are some of the activities that would be included.

TYPES OF CASH FLOW PROJECTIONS

Short Term (weekly or monthly)

- Used to determine short term needs or position
- To plan what you can invest in the short term
- To estimate working capital needs

Long Term (12 months)

- To determine what is needed for the coming year
- To account for seasonal variations
- For estimate needed borrowing & ability to repay

Long Term – Strategic (3 to 5 years)

- To support strategic plans
- To determine equity needs for the future
- To estimate needed borrowing & ability to repay
- To determine needed investments

SHORT TERM PROJECTION

- × **Used to manage your cash on a daily, weekly or monthly basis**
 - + Cash should be working for you
 - + Make sure you have funds available to cover expenses
 - + Ensure that cash is not locked up
- × **What is the projection**
 - + Simply take your check book balance, add the cash you expect to receive and subtract the cash you expect to use.
- × **Look to the past for your look into the future**
- × **For new Business, this can be very difficult**
 - + get lots of advice
 - + do not think you know everything
 - + Retool constantly

Short Term Cash Flow Projection Worksheet

From: _____

To: _____

Checking Balance at the beginning of the period _____

Inflows

Cash Sales _____

Collection of Credit Sales _____

Transfers from investments _____

Loan Proceeds _____

Invested Cash _____

Other Sources _____

Total Available Cash to Use _____

Outflows

Bills to be paid _____

Loan Repayments (P&I) _____

Payroll _____

Tax Payments _____

Transfers to Investments _____

Other Payments _____

Estimated Checking Balance at the End of the Period _____

LONG TERM PROJECTION – ANNUAL

- × Prepared while you are working on your annual operating budget. A budget is a goal, it is what you want to accomplish. A cash projection is a realistic view of the cash needed to make the budget happen.
- × Long Term planning will help you see potential cash problems so that you can plan around them.
- × Start the projection with budgeted net profit or loss and then adjust for non-cash items and then adjust for timing differences, then look at the balance sheet for items that will affect cash.
- × Word of caution - If you are preparing projections for a loan package or other financing, you will want to make sure that your income statements, balance sheets and cash flow statements reconcile.

Long Term Cash Flow Projection Worksheet

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| Beginning Cash Balance | | | | | | |
| Operating Cash Flow | | | | | | |
| Inflows | | | | | | |
| Sales/Collections | | | | | | |
| Other Income | | | | | | |
| Outflows | | | | | | |
| Purchases/Materials | | | | | | |
| Salaries | | | | | | |
| Tax Payments | | | | | | |
| Benefits | | | | | | |
| Rent | | | | | | |
| Utilities | | | | | | |
| Telephone | | | | | | |
| Advertising | | | | | | |
| Office Expense | | | | | | |
| Insurance | | | | | | |
| Professional Fees | | | | | | |
| Owner Distribution | | | | | | |
| Other Expense | | | | | | |
| Net Operating Cash Flow | | | | | | |

LONG TERM PROJECTION – STRATEGIC

- × Prepared for 3 to 5 years out
- × When you will achieve positive cash flow
- × How long it will take to recoup start-up losses
- × Capacity for repaying a loan or paying dividends
- × Growth trends and impact on cash flow
- × Requirements for new investment (when and how much)
- × Strategic cash flow projections are prepared either quarterly or annually
- × Follows the same process as the Long Term Projection

KEY TO A GOOD PROJECTION

- × Evaluate your current cash position
- × Review your financial statements often
- × Use ratios whenever possible - some examples are on the ratio hand out
- × Compare the ratio's to prior years and industry norms

HOW CAN YOU IMPROVE CASH FLOW?

- + Billing schedule
- + Credit and collection procedures
- + Early payment discounts
- + Deposit of cash receipts
- + Accept Credit Card Payments
- + Control cash disbursements
- + Make sure cash is working for you
- + Consider a line of credit to cover timing issues

Cash Flow Management - its not just a good idea, it is the key for success

For a new or growing business, cash flow management can make the difference between succeeding and failure

For an ongoing business, it can make the difference between growth and stagnation

Questions?