CASH FLOW MANAGEMENT

Disadvantaged Business Enterprise (DBE) Supportive Services Program

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Today’s Objectives 1,2,3


2. How Cash Flow Analysis Works

3. Preparing A Statement of Cash Flow
Today’s Objectives 4, 5, 6

4. • Cash Flow Analysis

5. • Recap

6. • Close
Introductions

• Attendees to state:
  • Name
  • Company: Name, City, # of Employees
  • Years in Business
  • Reason for attending Webinar

• Instructor: Rey Moore, Stanford MBA; UCLA, Engineer
  Over 35 years experience as the CEO, Reynaud E. Moore & Associates, Inc., and a management consultant overseeing technical industry specialists to develop and implement practical state-of-the-art business solutions to private and public sector companies. Areas include: Financial Systems Development; Market Strategy; Financial Operations including revenue improvement, cost control, process re-engineering; Planning; and other process driven operations.
Today’s Agenda

• Introductions: Attendees & Instructor
• Why and How Cash Flow Analysis is Important To My Business . . . *a simple reason*?
• How Cash Flow Analysis Works
• Preparing A Statement of Cash Flow
• Your Company’s Health . . . Cash Flow Analysis
• Case Examples, throughout webinar
• Q & A, at anytime . . . Evaluation Survey
WHY AND HOW CASH FLOW ANALYSIS IS IMPORTANT TO MY BUSINESS
Why Cash Flow Analysis Is Important To My Business? . . . *a simple reason*!

<table>
<thead>
<tr>
<th>EVALUATING PARTY</th>
<th>EVALUATED PARTY</th>
<th>PARAMETERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctor</td>
<td>Patient</td>
<td>Pulse, temp, etc.</td>
</tr>
<tr>
<td>Stock Investor</td>
<td>Stock Market</td>
<td>Stock Index, CPI, etc.</td>
</tr>
<tr>
<td>Investor or Lender</td>
<td>Company</td>
<td>P&amp;L; Balance Sheet; Cash Flow; Etc.</td>
</tr>
<tr>
<td>Business Owner/Manager</td>
<td>Company</td>
<td><em>Cash Flow Mgmt.</em>; P&amp;L; Balance Sheet; Etc.</td>
</tr>
</tbody>
</table>
Why Cash Flow Analysis Is Important To My Business? . . a simple reason!

• Single most important short term operating parameter
• Need cash weekly to run business
• Allows favorable purchase and discount options, not available to low cash businesses
Cash Management Decisions

• Can and when can I pay employees, suppliers, government, myself, buy needed equipment?
• How much, and what type, to spend on advertising is best for the company?
• How much and how often do I set aside reserves for equipment, facilities, new hires, retirement?
• How do my income and expenses affect the amount of cash I need to expand my business?
• When are the low and high times of my cash flow?
Financial Management verses Financial Reporting

• Your business can show a profit but you can still have a cash flow gap
  • Profit is the difference between revenues and expenses at a certain point in time
  • Cash flow is concerned with the movement of money in and out of a business
  • Cash flow also looks at timing of movement of money
How Accounting Works

• **Accounting** is the *language* of your business

• **Financial Statements** are your “business” report cards

• **Cash Flow Analysis** is the “blood count” of your business.
HOW CASH FLOW ANALYSIS WORKS
Cash: Operating verses Capital

- **Operating Funds**: are revenues and expenses derived for normal business operations
  - Sales revenues of products & services
  - Expenses from COGS, payroll, advertising, transportation, G&A, etc.

- **Capital Funds**: are revenue and expenses derived from purchase or sale of assets used in the business
  - Buildings, autos, equipment, etc.

- **General Rule**: Use operating funds to run the business and capital funds (and capital reserves) to purchase equipment and assets.
Operating Cash Flow

• Inflows include:
  • Cash sales
  • Collections on accounts receivable
  • Operating Loan proceeds; not capital loan proceeds.

• Outflows include:
  • Cost of goods sold
  • Operating expenses
  • One-time operating purchases; not capital purchases paid from non-operating revenues
  • Debt payments
Capital Cash Flow

• Inflows include:
  • Capital Reserves, usually funded by asset depreciation and earnings distribution
  • Revenues from sale or rent of assets
  • Capital Loan proceeds

• Outflows include:
  • Purchase of assets, equipment, leases, etc.
  • Designated operating expenses for capital assets
  • Major improvement or refurbishment of capital asset
  • Debt principal payments
Cash Flow Fundamentals

• Cash (Operating Cash) Is Money in Your Pocket/Account

• Operating Cash verses Capital Cash
  • Not Accts. Rcvbls; Property; Assets

• Cash verses Accrual Financial Statements

• Cash verses Earnings
  • Revenue
  • Expenses

• Operating Revenue vs Other Revenue
Cash Flow Analysis Preparation

• Actual revenues and expenses for past three (3) periods and estimated revenues and expenses for the coming five (5) periods
• Extraordinary revenues and expenditures identified, both operating and capital
• All financial account balances identified as of date of analysis
• Complete a cash flow analysis, next page.
## Cash Flow Analysis

<table>
<thead>
<tr>
<th>CASH FLOW MANAGEMENT</th>
<th>Opening Balance</th>
<th>Past Period 1</th>
<th>Total Past Periods</th>
<th>Future Period 1</th>
<th>Total Future Periods</th>
<th>Closing Balance</th>
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<tbody>
<tr>
<td>I. OPERATING FUNDS</td>
<td></td>
<td></td>
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<tr>
<td>A. Revenue Total</td>
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<td>200</td>
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<tr>
<td>B. Expenses Total</td>
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<td>80</td>
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<td>80</td>
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<td>400</td>
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<td>400</td>
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<tr>
<td>C. Rev Less Exp</td>
<td>150</td>
<td>-80</td>
<td>-80</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2) Cum</td>
<td>100</td>
<td>120</td>
<td>120</td>
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</table>
Preparing A Statement of Cash Flow
Preparing Cash Flow Statements

• To determine Operating Cash Flow:
  • Start with net income
  • Add back non-cash items (depreciation)
  • Add change in A/R & any other receivables
  • Add change in inventory
  • Add change in A/P & any other payables

• Total is net cash provided by Operating Activities
Preparing Cash Flow Statements

- To determine Investing Cash Flow:
  - Deduct any cash used to purchase fixed assets
  - Add back any cash received from sale of fixed assets

- Total is Net Cash provided by Investing Activities
Preparing Cash Flow Statements

• To determine Financing Cash Flow:
  • Subtract amounts paid to principal on loans
  • Add or subtract any changes to owners’ equity

• Total is Net Cash provided by Financing Activities
Preparing Cash Flow Statements

• Subtotal Net Cash provided by Operating, Investing and Financing Operations – this is Net cash increase (decrease) for the period

• Cash at beginning of period

________________________
Cash at the end of period
Preparing Cash Flow Statements

• Cash Flow Forecast
  • Uses historical A/R & A/P data to determine projected turnover
  • Uses budget information for projected revenue and expenses
  • Should be updated periodically when significant events occur
Preparing Cash Flow Statements

- Short-Term Projection - Inflows
  - Enter checking balance at beginning of period
  - + Estimated Cash Sales
  - + Estimated Collections on credit Sales
  - + Transfers from Savings
  - + Income from other sources
  - + Anticipated Borrowing
  - = Total Cash Available
Preparing Cash Flow Statements

• To estimate collections on credit sales:
  
  • Average Daily Sales = Annual Sales ÷ 360
  
  • Average collection period = Current A/R Balance ÷ Average Daily Sales
Preparing Cash Flow Statements

- Short-Term Projection - Outflows
  - Bills to be paid
  - Loan payments due
  - Payroll tax or income tax deposits
  - Transfers to Savings
  - Other payments
  = Estimated checking balance at the end of the period
Preparing Cash Flow Statements

• Short-Term Projections
  • Can be done for any period – daily, weekly, or monthly
  • Most often done weekly for small businesses
  • Can include Year-to-Date column

• Long-Term Projections
  • One year
  • 3 – 5 years
Preparing Cash Flow Statements

- Longer-Term projection (3-5 years) shows:
  - When you will achieve positive cash flow
  - How long it will take to recoup start-up losses, particularly the negative cash flow
CASH FLOW ANALYSIS
Your Company’s Health . . . Cash Flow Analysis

- Legal, Corporate Citizen, etc.
- P&L: Revenues, Operating Costs, Write-Offs
- Balance Sheet: Current Assets; Fixed Assets; Current Liabilities; Long Term Debt; Equity
- Capital Investment: Equity, Debt
- Cash Flow Analysis
Improving Your Cash Flow

- Sell for cash or credit card rather than on terms
- Bill promptly, before customer check-writing cut-off
- Add late charges and fees when possible
- Use aggressive collection techniques
Improving Your Cash Flow

• Tighten customer credit requirements
• Pay your bills only on the due date unless there is discount for early payment
• Reduce your inventory to the most necessary items – dump slow moving items at cost
• Lease equipment instead of purchasing
Improving Your Cash Flow

• Pay no more estimated taxes than necessary
• Make bank deposits promptly, especially if you have an interest-bearing account
• Consider prudent borrowing
• Increase sales – increase prices
Break-Even Analysis

• Volume where all fixed expenses are covered
  • Establish your monthly fixed (overhead) expenses
  • Figure your gross profit margin (gross profit ÷ sales)
Break-Even Analysis

• Ways to Lower Break-Even Point
  • Lower direct costs
  • Control fixed expenses
  • Raise prices
Financial Calculators

• Cash Flow Worksheets:
  - www.toolkit.cch.com/tools/downloads/cfbudget.xlt
  - www.misbtdc.org/CashFlowSpreadsheets.asp
  - www.entrepreneur.com/businessplan/calculators/cashflow/
Financial Calculators

Summary
Statement of Cash Flow Answers . . .

• Where did cash receipts come from?
• What were cash payments used for?
• What was the overall change in cash?
Cash Flow Management

• By knowing your cash position now and in the future, you can:
  • Make sure you have enough cash to purchase sufficient inventory for seasonal cycles
  • Take advantage of discounts and special purchases
  • Properly plan equipment purchases for replacement or expansion
Cash Flow Management

• Know when, where and how your cash needs will occur
• Know what the best sources are for meeting additional cash needs
• Be prepared to meet these needs when they occur
Cash Flow Management

• For a new or growing business, the cash flow projection can make the difference between success and failure
• For an ongoing business, it can make the difference between growth and stagnation
Thank you!

- Questions & Answers
- Evaluation Survey – Link will be emailed to you after this class
- Upcoming Classes – Register today!
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  - Emails will be sent to you soon
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