

Cash Flow

Jim Green

Outline

- Importance of cash flow
- Creating a cash budget
- Managing your cash in and out
- Finding cash in your business
- Help is available

Cash Flow

- Cash flow is the net amount of cash and equivalents moving into and out of a business.
- Positive cash flow indicates that a company's liquid assets are increasing, enabling it to settle debts, reinvest in its business, return money to shareholders, pay expenses and provide a buffer against future financial challenges.
- Negative cash flow indicates that a company's liquid assets are decreasing.
- Net cash flow is distinguished from net income, which includes accounts receivable and other items for which payment has not actually been received.
- Cash flow is used to assess the quality of a company's income.

Cash and Profits

- Cash \neq profits.
- Profit is the difference between a company's total revenue and total expenses.
- Cash is the money that is free and readily available to use.
- Cash flow measures a company's liquidity and its ability to pay its bills.

Sources and Uses of Cash

- Sources

- Cash payments (sales)
- Accounts Receivable
- Other income (i.e., investments)
- Borrowing

- Uses

- Payroll
- Inventory purchases
- Utilities
- Rent
- Insurance
- Supplies
- Loan payments
- Taxes

Cash Flow Statements

- The statement of cash flows is one of the main financial statements. (The other financial statements are the balance sheet, income statement, and statement of stockholders' equity.)
- The cash flow statement reports the *cash* generated and used during the time interval specified in its heading.

Cash Flow Statement

- Because the income statement is prepared under the accrual basis of accounting, the revenues reported may not have been collected.
- Similarly, the expenses reported on the income statement might not have been paid.

Breaking it down

- The Statement of Cash Flows has four distinct sections:
- Cash involving operating activities
- Cash involving investing activities
- Cash involving financing activities
- Supplemental information

Direct Method from Principals of Accounting

| EMERSON CORPORATION | | | |
|---|--|------------------|--------------------|
| Statement of Cash Flows (Direct Approach) | | | |
| For the Year Ending December 31, 20X5 | | | |
| | Cash flows from operating activities: | | |
| O1 | Cash received from customers | | \$ 3,000,000 |
| | Less cash paid for: | | |
| O2 | Merchandise inventory | \$1,050,000 | |
| O3 | Wages | 480,000 | |
| O4 | Interest | 100,000 | |
| O5 | Other operating expenses | 270,000 | |
| O6 | Income taxes | <u>300,000</u> | <u>(2,200,000)</u> |
| | Net cash provided by operating activities | | \$ 800,000 |
| | Cash flows from investing activities: | | |
| I1 | Sale of land | \$ 750,000 | |
| I2 | Purchase of equipment | <u>(150,000)</u> | |
| | Net cash provided by investing activities | | 600,000 |
| | Cash flows from financing activities: | | |
| F1 | Proceeds from issuing stock | \$ 80,000 | |
| F2 | Dividends on common | (50,000) | |
| F3 | Repayment of long-term loans | <u>(900,000)</u> | |
| | Net cash used in financing activities | | <u>(870,000)</u> |
| C1 | Net increase in cash | | \$ 530,000 |
| C2 | Cash balance at January 1, 20X5 | | <u>170,000</u> |
| C3 | Cash balance at December 31, 20X5 | | <u>\$ 700,000</u> |
| | Noncash investing/financing activities: | | |
| N1 | Issued preferred stock for building | | <u>\$ 300,000</u> |

Indirect

| EMERSON CORPORATION | | |
|--|------------|-------------------|
| Statement of Cash Flows (Indirect Approach) | | |
| For the Year Ending December 31, 20X5 | | |
| Cash flows from operating activities: | | |
| Net income | | \$1,000,000 |
| Add (deduct) noncash effects on operating income | | |
| Depreciation expense | \$ 120,000 | |
| Gain on sale of land | (150,000) | |
| Increase in accounts receivable | (250,000) | |
| Decrease in inventory | 40,000 | |
| Increase in accounts payable | 70,000 | |
| Decrease in wages payable | (30,000) | (200,000) |
| Net cash provided by operating activities | | \$ 800,000 |
| Cash flows from investing activities: | | |
| Sale of land | \$ 750,000 | |
| Purchase of equipment | (150,000) | |
| Net cash provided by investing activities | | 600,000 |
| Cash flows from financing activities: | | |
| Proceeds from issuing stock | \$ 80,000 | |
| Dividends on common | (50,000) | |
| Repayment of long-term loans | (900,000) | |
| Net cash provided by financing activities | | (870,000) |
| Net increase in cash | | \$530,000 |
| Cash balance at January 1, 20X5 | | 170,000 |
| Cash balance at December 31, 20X5 | | <u>\$ 700,000</u> |
| Noncash investing/financing activities: | | |
| Issued preferred stock for building | | \$ 300,000 |
| Supplemental information: | | |
| Cash paid for interest | | \$ 100,000 |
| Cash paid for income taxes | | 300,000 |

Indications of Cash Flow Problems

- Checking balances decreasing
- Overdrafts
- Anything paid in arrears
- Negative working capital
- Lack of profitability

Profitability

- First you need to look at margins and costs to make sure you are pricing your product correctly
- Owner compensation and owner lifestyle
- Breakeven analysis

Improving Cash flow

- Sounds easy: “collect fast and pay slow”
- Make a cash flow budget; minimum is a 12 month forward rolling forecast. Start with cash and add expected receipts and payments. The trick is detailed amounts and dates.
- Monitor the forecast and revise as necessary
- Back up plan
- All about value/magnitude and timing

Preparing a Cash Budget

1. Determine a Minimum Cash Balance
2. Forecast Monthly Sales
3. Forecast Monthly Cash Receipts
4. Forecast Monthly Cash Disbursements
5. Estimate End-of-Month Cash Balance

Cash budget template

- <https://www.score.org/resource/financial-projections-template>

Benefits of Cash Management

- Increase amount and speed of cash flowing into the company
- Reduce the amount and speed of cash flowing out
- Make the most efficient use of available cash
- Take advantage of money-saving opportunities such as cash discounts
- Finance seasonal business needs

Benefits of Cash Management

- Develop a sound borrowing and repayment program
- Impress lenders and investors
- Reduce borrowing costs by borrowing only when necessary
- Provide funds for expansion
- Plan for investing surplus cash

The “Big Three” of Cash Management

- Accounts Receivable
- Accounts Payable
- Inventory

Revenue

- Keep sales from becoming a receivable
- Optimize cash sales (discounts vs margin)
- Deposits for large sales
- Credit cards
- Progress Payments
- Segment your customers and suppliers. Review the terms you offer and receive. Can you achieve a better match. Are they regulars?
- Boost sales

Minimizing Accounts Receivable

- Invoice right away, time it correctly
- State the terms of payment
- Consider a small discount for early payment
- Contact customer before sending invoice
- Credit checks on customers
- Credit limits
- Evaluate your terms
- Collection specialists
- A/R aging report
- Move on delinquent accounts
- Payment plan for uncollectable

Payment Discipline

- Shorten your receivables period = good collection system
- How long is it taking to get paid?
- What is your collections activity?
- Customer contact
- Identify and resolve customer disputes

Accounts Payable

- Timing and accuracy, pay when due, not sooner
- Accounting process
- Reduce check cuts. Go to electronic transfer
- Enter supplier terms in the accounting system
- Use aging reports
- Negotiate terms
- Communicate if you have problems, develop a relationship early on
- Credit card payment

Managing Inventory

- Inventory tracking
- Too much, analyze what you sold in a period
- Poor tracking procedures
- Lead time, delivery times
- Work In Process
- Suppliers offering better terms
- Slow moving or obsolete inventory

Finding Cash In The Business

- Sell or lease unused assets
- Match debt to asset lives
- Schedule recurring payments at different times
- Review your liabilities for rate and term
- Consider bartering in lieu of cash payments
- Consider a line of credit
- Seasonal skip payments
- Working capital and the start-up
- Sell gift cards

Cash Management

- Account Reconciliation
- Online banking support with QuickBooks
- ACH
- Positive Pay
- Sweep Accounts

Emergency times

- Payroll first
- Choose bill payment carefully
- Communicate
- Call for A/R payment acceleration
- Contact suppliers

Help Sources

- SCORE
- Banker
- Attorney
- Accountant
- SBDC
- University of Iowa
- University of Northern Iowa
- ISU

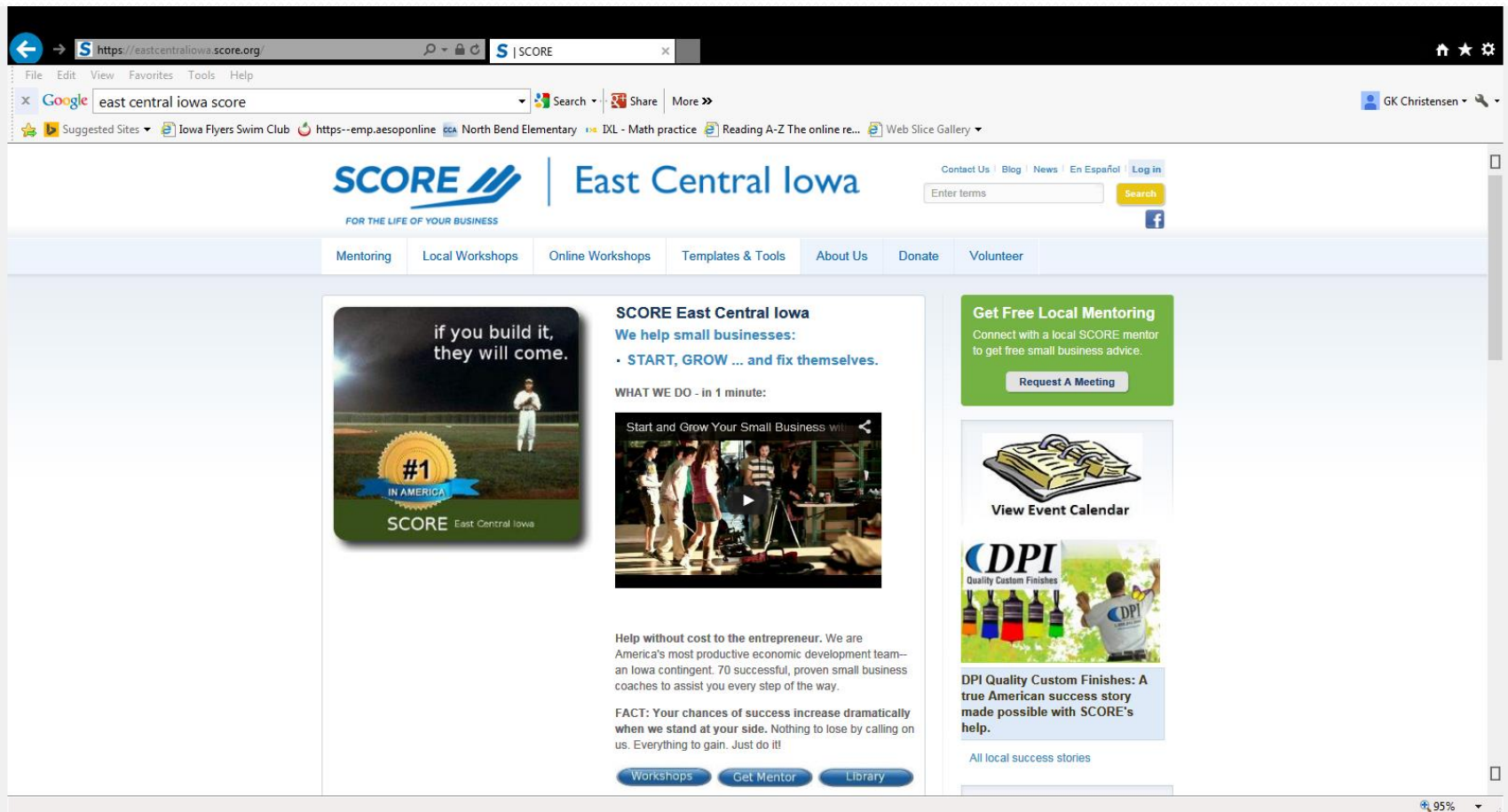
Others

- Establish a relationship with a banker, attorney, and accountant early on in the process
- They want your business, so pick the right one for you
- Networking opportunities

Conclusion

- “Cash is King”
- Cash and profits are not the same
- Entrepreneurial success means operating a company “lean and mean.”
 - Trim wasteful expenditures
 - Invest surplus funds
 - Plan and manage cash flow

Discussion



The screenshot shows a web browser displaying the SCORE East Central Iowa website. The browser's address bar shows the URL <https://eastcentraliowa.score.org/>. The website's header features the SCORE logo with the tagline "FOR THE LIFE OF YOUR BUSINESS" and the text "East Central Iowa". Navigation links include "Mentoring", "Local Workshops", "Online Workshops", "Templates & Tools", "About Us", "Donate", and "Volunteer". A search bar is located on the right side of the header. The main content area is divided into three columns. The left column features a large image of a baseball player with the text "if you build it, they will come." and a "#1 IN AMERICA" badge. The middle column has a heading "SCORE East Central Iowa We help small businesses:" followed by a bullet point "START, GROW ... and fix themselves." and a video player titled "Start and Grow Your Small Business with". The right column has a green box titled "Get Free Local Mentoring" with a "Request A Meeting" button, a "View Event Calendar" link, and a section for "DPI Quality Custom Finishes: A true American success story made possible with SCORE's help." The footer of the website includes links for "Workshops", "Get Mentor", and "Library".

<https://eastcentraliowa.score.org/>

SCORE **East Central Iowa**
FOR THE LIFE OF YOUR BUSINESS

Contact Us | Blog | News | En Español | Login

Enter terms

[Mentoring](#) [Local Workshops](#) [Online Workshops](#) [Templates & Tools](#) [About Us](#) [Donate](#) [Volunteer](#)

if you build it, they will come.

#1 IN AMERICA

SCORE East Central Iowa

SCORE East Central Iowa
We help small businesses:

- **START, GROW ... and fix themselves.**

WHAT WE DO - in 1 minute:

Start and Grow Your Small Business with

Help without cost to the entrepreneur. We are America's most productive economic development team--an Iowa contingent. 70 successful, proven small business coaches to assist you every step of the way.

FACT: Your chances of success increase dramatically when we stand at your side. Nothing to lose by calling on us. Everything to gain. Just do it!

[Workshops](#) [Get Mentor](#) [Library](#)

Get Free Local Mentoring
Connect with a local SCORE mentor to get free small business advice.

[Request A Meeting](#)

View Event Calendar

DPI
Quality Custom Finishes

DPI Quality Custom Finishes: A true American success story made possible with SCORE's help.

[All local success stories](#)

95%