The Financial Side of Your Business

IT IS A LOT MORE THAN ACCOUNTING
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Tell Us About Your Business

- If you are in business, describe the business and number of employees
- If you are not yet in business, will you need capital and where will you get it?
- Do you use software for recordkeeping and what brand?
- Are you paying someone outside your business to do your taxes?
- Do you have a business bank account and what bank and what services?
- Do you have written credit and collection policies
- Do you have customers who can pay after the goods or services are delivered?
- Do you use a business credit card to make purchases and what card?
- Have you successfully borrowed money for the business and where from?
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Finance Before You Open Your Doors
- Calculating Start-Up Cash Needs
- Projecting Operating Cash Needs
- Finding the Money

Running Your Business
- Multiple Activities Fall into the Finance Area
- In Larger Organizations the Chief Financial Officer (CFO) would be Responsible

Know Your Financial Literacy – Recognize When You Need Help
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Before You Open Your Doors – Calculate Cash Needs

- Professional Fees, Accounting, Legal, Human Resources
- IT Infrastructure and Web Site
- Tools and Equipment
- Leasehold Improvements
- Licenses and Permits
- Initial Inventory
- Required Deposits, such as Rent
- Working Capital Reserve Funds

How Much Do You Really Need?
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Before You Open Your Doors – Calculate Operating Cash Needs

- Salaries
- Rent
- Insurance
- Taxes and Fees
- Marketing
- Loans and Interest/Principal
- Utilities
- Maintenance
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Sources of Start-Up Capital – Debt and Equity

Equity
- Signifies Ownership
- Sources – Personal Savings, Family, Friends, Partner

Debt
- Loans
- Types of Loans: Micro Loans, Bank Loans, Personal Loans

Preparing For and Securing Financing is Part of the Finance Function
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In and **Ongoing** Business These are the Finance Tasks:

- Record Keeping including Bookkeeping – Leading to Financial Statements
- Cash management
- Debt Management
- Cash Forecasting and Budgeting
- Banking, Bank Relationships
- Funding, External and Internal
- Purchasing, vendor and supply chain management
- Inventory Control
- Lease vs Buy analysis
- Tax management
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Recordkeeping – Record These Transactions

- Revenue
  - Keep by Category if Meaningful, by Product Line, for instance
- Expenses including
  - Understand Variable vs. Fixed – [ Revenue minus Variable Cost = Gross Profit ]
  - All purchases, physical items and services
  - Payroll expenses
  - Travel expenses including Business Mileage on personal vehicle
- Other
  - Deposits and Prepayments

Tools – Could use Paper, Spreadsheet or Software
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Recordkeeping Best Practices

- Use a System that will Create Financial Statements
  - For example QuickBooks On-Line
  - Meaningful Chart of Accounts
- Understand the Records You Need to Pay Federal and State Income Taxes
- If you Sell a Tangible Product,
  - Register with the Indiana Department of Revenue
  - Collect Sales Tax and Keep Records
  - If you sell on the Internet Understand Sales Tax Laws for Internet Sales outside Indiana

An Accountant Can Help You With This
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Cash Management: Collect Cash Fast, Pay Cash Slow

- Get Paid as Close to the Transaction Time as Possible
- Make it Easy For Your Customers to Pay
  - Accept Cash and Checks
  - Maybe Credit Cards, Understand the Costs
- Aggressively Collect Money Owed
  - Have a Process with Visible Metrics and an Owner

Deposit Cash and Checks Daily, Intact (no netting with expenses)
Cash Management Continued

Vendor Payments

- Pay Your Bills On Time – Never Early
- Negotiate Payment Terms – Annually Review
  - Move off of COD (cash on delivery)
  - Pay with Credit Card if Possible (and pay credit card on time)
- Think of Payment Terms, Like Net 30, as a **Free 30-Day Loan**
- Consider Electronic Payments
- Be Aware of Dun & Bradstreet
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Debt Management

- *Never* Even Come Close to Running Out of Cash
- Use Cash Management to Keep Debt to a Minimum
- Understand Completely the Terms and Covenants of the Loan
  - *Never Violate Them!*
- Keep Current a Rolling 12-Month Cash Forecast
- Never use Credit Card Debt

Be Careful About Withdrawing So Much Cash that Debt Increases
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Budgeting is Necessary to Manage Your Business

- Budgeting is not Accounting
- Budgeting should be done by the Leadership Team
- First, Forecast Sales, by month, for the Budget Period – Usually a Year
  - Try Best Case/Worst Case
- Second, Forecast Your Operating Expenses, Fixed and Variable
- Third, Forecast Your Capital Expenses
- Check the Resulting Profit – Reasonable? Are You Satisfied?
- Use the Budget to Set Goals
- Use the Budget to Control Expenses
- Analyze Using Actual vs. Plan vs. Last Year
- The Budget Should Be Dynamic
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Every Business Needs a Bank

- Small Businesses should find One Bank They Want to Work With
- Make Yourself Know to the Branch Manager and Business Banker
- Understand All the Services Offered
- If Borrowing is in Your Future, Consider Local Banks
- Your First Stop When Looking to Borrow is Your Relationship Bank
- In Addition to Your Financial History, your Budget Will be Important
- Additionally, You Will Need a Cash Flow Forecast (Derived from Budget)

Stay in Communication with Your Banker (They Change Often)
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Borrowing Tips

- Be Prepared when Talking to a Banker
- Have the Facts and Details
- A Written Business Plan with Financial History and Projections Required
- You Must Have some Skin in the Game – 20%?
- Understand Collateral Value of Your Assets
- Exactly How Much and What will you Use the Borrowed Money For?
- Personal Credit Scores Matter
- There are No Grants
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Funding – Successful Growing Firms Generally Need Funding

Because of:
- Working Capital Needs, like Inventory
- Capital Needs, like Vehicles, Facilities
- Others, like Additional Sales Staff

Sources:
- Could be Generated Internally or Externally
- Internally – Retained Earnings
- Externally – Debt or Equity
- Debt – Loan or Line of Credit
- Equity – From Owners or Investors
Purchasing is an Important Function that Needs to be Professional

- Have a Process with Controls
- The Purchasing Process and the Budget need to be Connected
- Once Something is Ordered and Received, Payment is Expected
- Systematically search for:
  - Better Vendors - Reliability
  - Better Prices
  - Better Payment Terms
  - Returns Policies
- Be sure there is a Process to Verify Items were Ordered and Received Before Invoices are Paid
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Inventory Control – Actually Part of Operations

- Excess Inventory Can be a Drain on Cash
- Money Tied Up in Inventory Can Lead to Funding Needs
- Should be Monitored via the Balance Sheet
- Needs to be High Priority in a Retail Business
- Understand Your Supply Chain and Risks
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Leasing and Borrowing Are the Same Thing

- Leasing is Financing Offered by the Seller (think cars)
- Also Known as Equipment Seller Finance
- Analyze Whether You are Better Off Purchasing or Leasing
- Evaluate New vs. Used
- Factors to Consider
  - Do You Even Have the Cash to Buy?
  - Is the Lessor Offering You a Good Interest Rate? (Better Than the Bank?)
  - Do you Plan to Keep the Item to the End of Its Life?
  - Cancellation Provisions?
  - What Does the Contract Say Happens at the End of the Lease Term?
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Tax Management

- The Owner is Ultimately Responsible for All Tax Liabilities (Federal, State, Local)
- Remember That Money Withheld From Wages and Sales Taxes Collected Belongs to the Government
  - Get Professional Help with Payrolls
  - Be Sure Your Record Keeping System Supports Collecting and Remitting Sales Taxes
- Find a Tax Professional Who Will Make Sure You are Not Overpaying or Underpaying
- Ideally, This Person or Firm Also Can Help You Build and Analyze Your Financial Statements.
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Final Thoughts:
- Run Your Business “By the Numbers”
- Watch Your Gross Profit Margins
- Cash is King
- Keep Records – Systematically
- Build a Budget and Measure Results Against It
- Have an Exit Strategy