

SPECIAL ITEM: CASH FLOW - KNOW IT, TRACK IT.



CASH FLOW IS SIMPLE

Cash flow is simply the flow of cash into and out of your business. Cash is most easily viewed as what you have in your bank accounts (checking, savings, etc.) Since cash is what you have in the bank, "cash flow" is the amount going into and out of your "bank accounts" in a day, a month or a year. Simple as that.

You should know the details of this "flow" on a monthly basis.

"POSITIVE" CASH IS CRITICAL

Cash is certainly one of the most important aspects of a business. Some say it is the most important item in a business. You do not want to run out of cash. The term for this is insolvency. It sounds bad and is bad. It could spell the end of your business.

It is also very important to understand that your "profits" ARE NOT your "cash." This is a normal misconception. Profits are recorded on the income statement and are "what you pay tax on." They become cash when you receive and cash the checks for the services or products you provided. Not before. Cash is what you have in your hands (not in the mail).

Your cash position is recorded on the Balance sheet, which is simply a statement of what you own and what others own of your business.

A CASH FLOW STATEMENT

With the recognition that cash and its management are important (your "bank accounts" management), let's discuss the approach you can use to stay "on top" of it. The objective is to keep that "bank account" comfortably above zero!

The "cash flow statement" or "statement of cash flow" is the most important financial planning tool available to you. It tells you what is coming out of your bank accounts and what is going into them. It allows you to manage your business not only for profitability but also for survival.

In its simplest form, a cash flow statement is a list of the checks you wrote in a month and the checks you received from others (assuming they are deposited.)

The difference between these two numbers is “net” cash flow.

The cash flow statement is a little more refined format that allows you to see where and when cash flowed in and out of your business over a period of time and in a repeatable manner. The same format allows you to project your cash flow for future periods of time. This is important. The advantage of knowing when cash outlays will be made gives you the ability to plan for expenses rather than being forced to borrow to meet unexpected cash needs. Thus, a cash flow projection naturally becomes your annual budget.

A simple statement may look something like this. It should be done on a monthly basis. This one happens to be annual. Notice what is coming in and what is going out? You have similar activities.

Cash Flow Statement		2008	2009	2010	2011	2012
SOURCES OF CASH						
1	Beginning Cash	\$0	-\$11,767	\$143,765	\$416,274	\$924,480
2	Cash Receipts	\$1,366,986	\$2,662,548	\$3,416,123	\$4,565,616	\$5,981,959
3	Asset Sale Cash (if any)	\$0	\$0	\$0	\$0	\$0
4	Customers Paying in Advance	\$0	\$0	\$0	\$0	\$0
5	Loans (made to you)	\$0	\$0	\$0	\$0	\$0
6	Investor \$\$ (if any)	\$400,000	\$0	\$0	\$0	\$0
7	AVAILABLE CASH	\$1,766,986	\$2,650,781	\$3,559,888	\$4,981,890	\$6,906,439
USES OF CASH						
8	Salaries	\$1,355,000	\$1,676,000	\$2,044,000	\$2,557,000	\$3,355,000
9	Other Operating Expenses (Utilities, Finance, Engin. etc.)	\$423,753	\$759,933	\$900,245	\$1,187,340	\$1,533,432
10	Loan Payments (to others)	\$0	\$24,910	\$99,640	\$99,640	\$99,640
11	Capital Expenditure (Equipment, Buildings, etc.)	\$0	\$0	\$0	\$0	\$0
12	Taxes Paid	\$0	\$46,173	\$99,729	\$213,430	\$277,791
13	CASH PAID OUT	\$1,778,753	\$2,507,016	\$3,143,614	\$4,057,410	\$5,265,863
14	NET CASH FLOW (Line 7 – Line 13)	-\$11,767	\$143,765	\$416,274	\$924,480	\$1,640,576

More detailed cash flow statements may have much longer lists of what is going into and out of cash. This is where an accountant becomes important. However, the principal remains the same.

PREPARATION

In order to prepare a cash flow statement, you will need solid financial information. this should be accessible through an established bookkeeping system that will provide you with the raw data for three documents: Your balance sheet, your profit and loss statement and your cash flow statement.

If you can only have one of these three documents available at all times, it should be your cash flow. You should place positive cash flow ahead of profitability; your

primary concern is staying in business -- profitability will come later.

WHAT IT TELLS YOU FOR PLANNING PURPOSES

The information you will garner from a solid, detailed cash flow statement and projection will show:

1. The amount of cash your business needs on a periodic basis: monthly, quarterly, or annually.
2. When cash is needed during these periods of time.
3. Whether you should look for equity (investors), debt (banks and such), profit or asset sales.
4. Where your cash will come from.
5. Completing the cash flow projection is only the first step. You'll need to spend some time analyzing the information you've put together.
6. How much cash?
7. When will I need the cash?
8. How do I get cash?
9. Where am I losing cash?

Reference material may be found on the [SCORE NATIONAL](http://www.score.org) web site.

Example forms ready for you to fill out may be found at:

http://www.score.org/template_gallery.html ...12 mo. CASH FLOW STATEMENT.

A CASH FLOW VIDEO.

CLICK ON THE PICTURE AT RIGHT>

