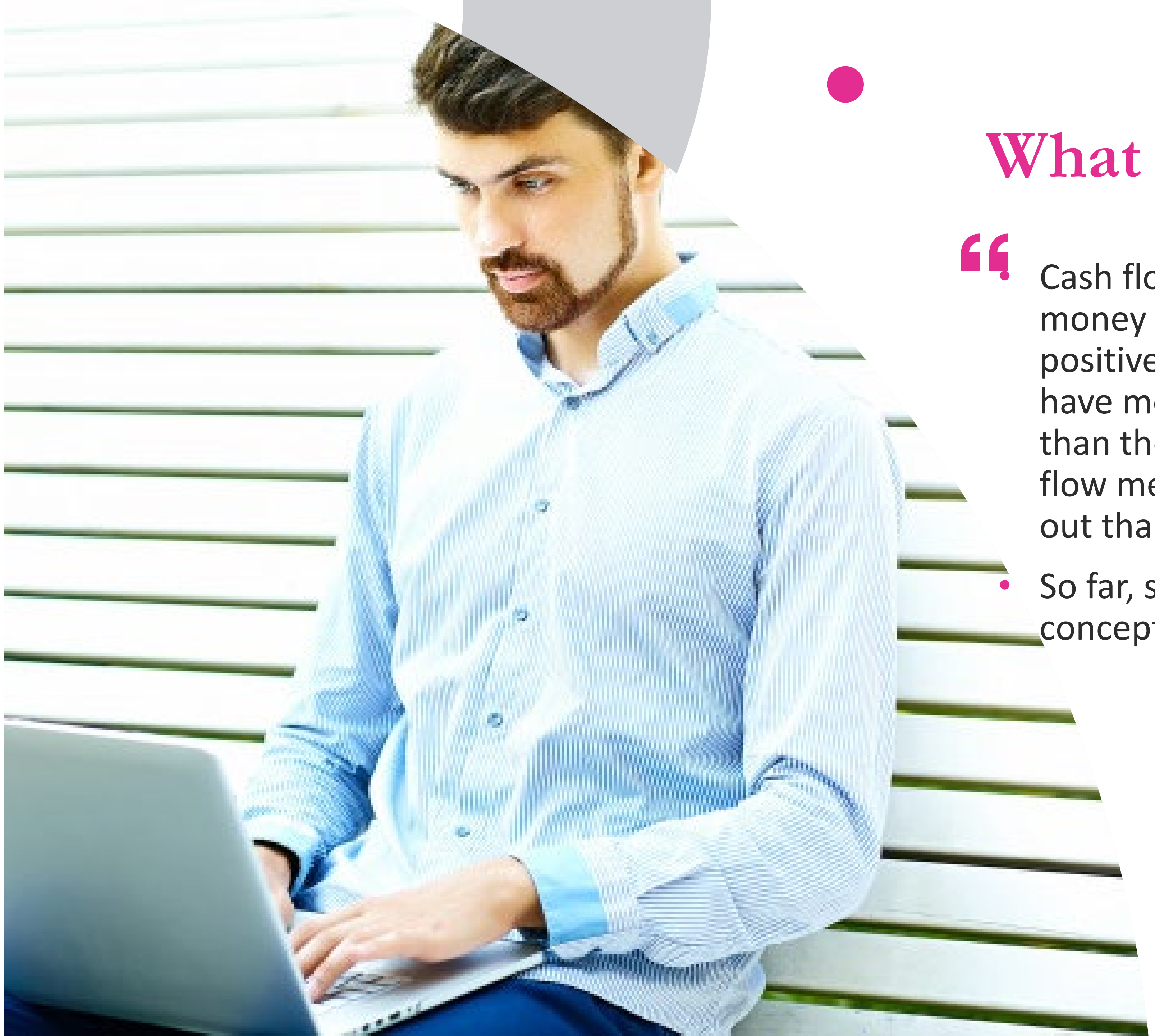
Cash is King

Financial Fitness

Takeaways for Today…

- Understanding your Cashflow Statement
- Understanding Cash Inflows
- Understanding Cash Outflows
- Practical tips you can begin using tomorrow.

Financial Fitness



What is Cash Flow?

Cash flow is the movement (or flow) of money in and out of your business. A positive cash flow means businesses have more cash coming into the bank than they're spending. A negative cash flow means there is more cash going out than coming in.

- So far, so simple. But it's a simple concept you should take seriously.

Importance of Cash Flow Report

The cash flow report is important because it informs the reader of the business cash position. For a business to be successful, it must always have sufficient cash. It needs cash to pay its expenses, to pay bank loans, to pay taxes and to purchase new assets. A cash flow report determines whether a business has enough cash to do exactly this.

Trial Balance

- A trial balance is a detailed summary of all our accounts, split into a debit and credit side. It is used to ensure that our debit side and credit side balance, hence the name 'trial balance'
- It is an internal report and not generally provided to third parties
- If the trial balance balances, we can be confident that all our ledgers are correct, allowing us to proceed with financial statement preparation

Profit & Loss

- A profit and loss (P&L) statement is prepared to display our revenue and expenses. It is used to show how much the business earned during the year
  - If revenue exceeds expenses there will be a profit
  - If expenses exceed revenue there will be a loss
  - Assets, liabilities, drawings and owner's equity do not affect profit and so are not included in the P&L

Balance Sheet

- A balance sheet is prepared to display our assets, liabilities and owner's equity. It is used to show how much a business is worth.
- It displays the equation: Owner's Equity = Assets - Liabilities
- It is important that both sides of this equation balance, hence the name "Balance sheet"
- Every year profit is taken from the P&L and added to Owner's Equity. This represents an increase in how much the business is worth

Cash Flow

- A cash flow statement shows how the business used it's cash during the year. Basically it aims to show the change in a business's bank balance
- If cash inflow exceeds cash outflow, the business is said to have a positive cash flow. For the opposite, the business wil have negative cash flow
- Cash flow is different from profit and loss because it only relates to cash transactions. Things like depreciation, credit sales etc are not included.

WHY IS CASHFLOW IMPORTANT TO A BUSINESS

- There are many different components involved in running a business, and different components that have to be managed to ensure success. One such component is the cash flow.

- Cash flow is about the flow of money, the cash; what goes in and out of the business.
- Cash flow of a business is important because it gives you a measurement of how much money the business generates and how much it spends.

Why is Cash flow important

- If cash flow is negative, it can be a major warning sign. It doesn't take many weeks or months of not having enough cash before a business may find itself going out of business. Suppliers start demanding payment, landlords start changing the locks and salaries go unpaid.
- So cash flow management is vital and to do this businesses need a reliable forecast.

The Cash Flow statement

- The statement is split up into three sections:

1. Cash from operating activities
2. Cash from investing activities
3. Cash from financing activities

- Between those three types of transactions, you'll see every cash transaction that can possibly happen in your business.
- A completed cash flow statement will show your net cash: all your cash inflows and all your cash outflows, whether that's a positive or negative number.

Cash Inflow

Inflow covers everything that drives money to your company; from payments, loan receipts, investments, savings interest, external funding and sales

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The cash inflow is your business’ lifeblood!

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Cash Flow Statement

[Company Name]

For the Year Ending	12/31/2019
Cash at Beginning of Year	15,700

Operations	
Cash receipts from	
Customers	693,200
Other Operations	
Cash paid for	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(123,000)
Interest	(13,500)
Income taxes	(32,800)
Net Cash Flow from Operations	147,900

Investing Activities	
Cash receipts from	
Sale of property and equipment	33,600
Collection of principal on loans	
Sale of investment securities	
Cash paid for	
Purchase of property and equipment	(75,000)
Making loans to other entities	
Purchase of investment securities	
Net Cash Flow from Investing Activities	(41,400)

Financing Activities	
Cash receipts from	
Issuance of stock	
Borrowing	
Cash paid for	
Repurchase of stock (treasury stock)	
Repayment of loans	(34,000)
Dividends	(53,000)
Net Cash Flow from Financing Activities	(87,000)

Net Increase in Cash	**19,500**
Cash at End of Year	35,200

Strategies for Cash Inflows

1. **Deposit Cash Balances in Interest-Earning Accounts**
   Interest-earning checking accounts are available at most banks today, albeit with a minimum balance requirement. Since interest rates on these accounts are often below rates on savings accounts, certificates of deposit (CDs), or money market accounts, keep the bulk of your funds in these higher-paying accounts. Then, transfer necessary funds from higher-paying accounts to meet the minimum balance requirement in an interest-bearing checking account plus the total of the payments expected to come due that week or month.

2. **Sell or Retire Excess and Obsolete Equipment or Inventory**
   Idle, obsolete, and non-working equipment takes up space and ties up capital which might be used more productively. Equipment that has been owned for a longer period will usually have a book value equal to its salvage value or less, so a sale might result in a taxable gain. This gain should be reported on your tax filings. If you have to sell below the book value, however, you will incur a tax loss, which can be used to offset other profits of the company.

3. **Require Deposits on Large or Custom Orders**
   When working with a unique or custom order, require a security deposit equal to a minimum of 50% of the total price. One-of-a-kind products have a limited sales value, usually only to the person or company making the order. Without a deposit, you are subject to the risk of having to take a reduced payment at delivery time.

More Strategies…

4. Stage Payments on Long Contracts to Your Benefit
Some customers, due to their size or policies, will refuse to enter into contracts that require initial deposits. Rather than lose the business, negotiate payment terms and benchmarks that exceed or parallel your costs.

5. Use Change Orders Where Applicable
If your product is sold with any condition attached, or the service you are to provide is defined in a contract between you and the buyer, you must be aware of the exact requirements expected of you as a result. Any change in those requirements might enable you to seek extra payment for the ancillary work performed. Failure to seek appropriate compensation hurts your company in two ways: You don't receive the additional proceeds, and your costs increase.

6. Offer Discounts for Quick Payment
Develop a discount program to encourage quick payments, collecting cash owed to you as fast as possible. Normal payment terms allow a 30-day period for remittance after the receipt of an invoice, with a 2% discount if paid within the first 10 days. You can offer more, less, or no discount for payment, depending upon your needs and your customers' previous pay habits.

7. Penalize Late Payers With Interest Penalties
A penalty for late payers is the "stick" in the "carrot and stick" approach to collections, the "carrot" being the discount for early payment. While collecting the interest may not be possible in all instances, the presence of the policy will emphasize the importance of on-time payments to your customers.

More Strategies…

8. Contract With a Collections Agency for Old Accounts Receivable
Pursuing old accounts receivable requires dedication and time, and can quickly reach the point of diminishing returns for your staff. Few small businesses have the resources, training, or experience to effectively pursue delinquent accounts. Furthermore, customers who exceed 60 days for payment without a justifiable reason seldom warrant a continued relationship, and usually require firm measures to extract payment.

9. Utilize Subscription Sales
If your product is regularly consumed and repurchased several times a year, institute a subscription program in which customers prepay for the product and delivery. Newspapers, magazines, cable television, landscaping, and pool maintenance are examples of products and services which lend themselves to a subscription model. In addition to receiving upfront cash to cover future costs, you have the advantages of securing future sales and easier resource scheduling

10. Think About Raising Your Prices
No one wants to pay more for the same thing but take time to examine your service and product offering. Have your costs been rising slowly? Can you eliminate low-margin goods or focus more on higher-margin services? When was the last time you raised your prices? Though it can be a scary thing to do, if you can explain why you have to change, and phase in small adjustments, your customers will understand. Search the internet for nearby and similar businesses to see if you have room to increase your prices while staying competitive in the marketplace.

11. Move Ongoing Clients to A Retainer Relationship.
If your business provides professional services, you may have clients who reach out for the same types of services repeatedly. If you move them to a retainer or subscription-based offering, you can sign them up for recurring services and more accurately forecast your monthly revenue. Securely store their payment information so that you can directly debit or run an automatic billing payment on the right frequency for the relationship.

Financial Fitness

Cash Outflows

Cash outflow is any money leaving a business. This could be from paying staff wages, the cost of renting an office or from paying dividends to shareholders. It's the opposite of cash inflow, which is the money going into the business. A business is considered unhealthy if its cash outflow is greater than its cash inflow.

Strategies to Reduce/Delay Cash Out Flows

1. Place Payroll on a Bimonthly Cycle
A bimonthly pay program requires 24 pay cycles per year as opposed to 26 pay cycles for a bi-weekly pay program, thereby reducing the administrative cost of collecting, verifying, and tabulating payroll information.

Additional cost savings are available by utilizing direct deposit into employees' bank accounts, rather than writing and delivering paychecks. Transfer funds for payroll immediately prior to the payroll period from the company's regular interest-earning checking account

2. Repair, Rather Than Replace, Capital Equipment
Motor vehicles, properly maintained, easily deliver 100,000 miles of use or more. Modern machinery also is durable and provides years of services. For example, John Deere tractors, Caterpillar bulldozers, and road equipment from the 1950s and 1960s are still in use across the country. Office machinery usually becomes obsolete before it wears out.

To minimize or eliminate costly repairs and replacement:

Establish a regular maintenance program for equipment.

Use reconditioned and replacement parts from third-party suppliers and manufacturers when necessary, rather than original manufactured parts.

Contract with a local repair facility to handle complicated repairs or maintenance beyond in-house capability. Trade exclusivity for a discounted price.

Outflows

Reject the Appeal of "New" Technology
New products, especially electronic gadgets, are continually introduced with cutting edge features. But before succumbing to the advertising excitement, confirm that the new features will provide a meaningful performance improvement in the ways you use the product in your business. In most cases, you will discover that the benefits are not worth the added cost. Use your existing equipment until it cannot be repaired at a justifiable cost or until the job requirements change and require upgraded equipment.

Buy Used Equipment, Not New
Used equipment in good condition can generally do the necessary work as well as a new piece of machinery. If you need equipment, search the local advertisements and auctions in your area, specifically looking for companies whose assets have been foreclosed and are being sold by the lender. You may be able to buy quality, used equipment for savings up to 80% off the price of new equipment, without a comparable degradation of capability.

Outflows

Renegotiate Fixed Debts to Lower Payments
In recent years, interest rates have dropped. And as a result of the recession, the federal government has also initiated several programs to stimulate bank lending to small business, as well as guarantees from the U.S. Small Business Administration to facilitate loans.

Delay Product Upgrades
Technological upgrades – software and hardware – occur several times per year. Often, the change between one version and the next is minimal or adds features which you will not use. Be prudent when buying or upgrading desktop computers, cell phones, etc. Consider open-source software, which is generally free or available for a small donation. If the software provides increased security over your data by thwarting hackers who would destroy your business operation for thrills, you should think seriously before deciding not to upgrade. Safety and security always come first.

Defer Payments to Vendors
Delay payment to vendors to the last possible date consistent with the terms of the sale. If there is no penalty for late payments, set a pay cycle of 45 to 60 days from the receipt of the invoice. While slowing the outflow of cash is important, it is equally important to maintain a good credit rating and cordial relations with critical vendors.

Outflows

Barter Products for Goods and Services
Approach those suppliers that are also customers about a "trade" in which each company receives all or a portion of their respective payments in the form of finished products. Since the exchange value is usually set at each company's respective retail price, a barter agreement effectively provides a "discount" in an amount equal to the net profit margin on your product and allows you to maintain cash that would otherwise be used.

From an income tax perspective, the products you receive from your suppliers must be reported as gross income in the year of receipt, while the goods or services you provide are a "cost of goods" expense.

Use Cash, Not Credit, for Greater Discounts
While this strategy may appear contrary to the need to conserve cash, it always illustrates the need to remain flexible in every kind of market environment. During hard times, your vendors' objectives may be to build as much cash reserve as possible, prioritizing cash over profits. In those cases, they may offer very deep discounts in their prices in return for cash. If the greater discount justifies the use of cash, take it.

Similarly, if you pay with cash for small purchases, negotiate an extra discount from the sellers since you are saving them the credit card processing fee. If they are not willing to give a discount, use credit cards for payment, but pay the charges to the credit card company before interest is debited to the account. If you use one of the best small business cards, you'll receive extra rewards – miles or points for airlines, hotels, and meals – that will save cash elsewhere.

The origin of the expression "cash is king" is unknown, but its validity in the business world has never been contested. Apple, the company which created such iconic products as the iPhone and the iPad, is reputed to have $100 billion in cash on hand to take advantage of unexpected bargains or cover expenses when sales are less than expected.

Financial flexibility is important to every company, particularly when the future economic environment is unclear. Employing the recommended cash flow strategies above can build up your bank balances, extend the number of strategic options available to you as a company, and reduce the likelihood that you will be forced to take unpalatable or distressing actions.

Thank You!


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