

The Basics of Cash Flow- Part One

Financial Statements

Monthly- Timely and Accurate
Budgeting- Annual and Rolling
Enhanced Management Reporting
Cash Forecasting and Analysis

Profit Improvement

Pricing Analysis
Gross Profit Optimization
Expense Reduction Analysis

Banking Relationships

Assess Level of Credit Needs
Bank Analysis and Selection
Loan Package Preparation
Credit Facility Negotiation

Strategic Planning

Development of Critical Goals
Alignment of Work Systems
Working the Plan
Effective Feedback Systems
Innovate Purposefully
Implement Review Process

Bookkeeping

Bank Reconciliations
Regular Financial Statements
Invoicing & Collections
Bill Processing & Payments
Remote or On-site – 24/7 availability

QuickBooks

Set-up
Training and Consulting
Tune-up
Software and add-on discounts

Placement

Analysis of Existing Position
Interim Assistance Provided
Coordination of Selection Process
Temp to Permanent Alternatives

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We have determined that cash is the most critical asset of any business. Without cash you cannot operate your company. Further, if you are always scrambling for cash you are diverting precious time and energy from managing your principal operations.

How do you track cash and its impact on company operations? There are many ways but one of the most useful is by using the Statement of Cash Flows. Some of you are asking “What is this report? I thought there was only a Profit and Loss Statement and a Balance Sheet”. This 3rd report- the Statement of Cash Flows is one of the most misunderstood, least used, but most important tools of business owners.

[Company Name] Cash Flow Statement	
For the Year Ending 12/31/2008	
	Cash at Beginning of Year 15,700
Operations	
Cash receipts from customers	693,200
Cash paid for:	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(125,000)
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)	(34,000)
Repayment of loans	(53,000)
Dividends	(53,000)
Net Cash Flow from Financing Activities	(87,000)
Net Increase in Cash	19,500
	Cash at End of Year 35,200

The primary purpose of the Statement of Cash Flows is to provide relevant information about cash receipts, cash payments and the net change in cash of a business during a specific period of time. Changes in cash come from 3 primary groups of activities- operating, investing and financing activities. The report shows where cash came from during the period, what was it used for and what was the net effect on the cash balance of the business.

We will review each of these areas over the next several editions of Financial Nuggets. This edition will focus on Operating Activities.

Many business owners think that Cash is impacted only by what happens to the P&L. Sales are generated with a resulting profit or loss. The reality is that this is only one piece of the puzzle. Cash is impacted by changes in the balance sheet too. As you can see by the example to the right, cash payments for inventory (prior to sales being generated) has an impact on cash. Additionally, increases or decreases in receivables and payables will impact cash.

Lets break the cash cycle into smaller components to see how to measure and enhance the “flow” of cash. Cash from Sales does not actually generate cash. It does however start the clock to ultimately receive cash. What can you as a business owner do to speed the receipt of cash?

- Invoice prior to the sale- where possible generate an invoice for some or all of the sale before the product or service is sold. How? Obtain a deposit or down payment. Ask for progress payments. This may not be feasible for retail types of business but be creative.
- Generate an invoice to be presented at the time of sale. The sooner you start the collection process the sooner you will get paid.
- If you cannot generate an invoice ahead or coincident with the sale then establish procedures to generate Invoices ASAP after the sale. I regularly see companies that don’t generate invoices for days and even weeks after a product is sold and delivered.
- What are your trade terms? Consider shortening your terms. Think about a “due on receipt” clause vs. due in 30 days (or whatever your current terms are).
- When do you start your collection efforts? At 30 days? At 90 days? At all? Create a process to **consistently** remind your customers to make timely payments. Most times the squeaky wheel gets the grease.

We will continue to examine other components of the Statement of Cash Flows in the future. Don’t overlook this important report as a tool to make better financial decisions. As always please don’t hesitate to contact me if I can be of guidance to your business.