WHERE'S THE CASH?

Right on the Money!

Highlights

"All wealth is the product of labor.

—John Locke"

What's This Session All About?

Cash is the lifeblood of business, so you must pay careful attention to your cash flow. This is especially true for small businesses, which tend to operate on a very tight budget—the equivalent of living from paycheck to paycheck. Good times or bad, careful cash flow management is an essential part of every business's success.

In this session, we'll look at the following topics:

Cash flow projections. The first part of the session discusses budgeting and cash flow projections. How can you predict how much money will be coming in and how much money will be going out of your business? The answer is a cash flow projection. In this section, you will also learn what a **Chart of Accounts** is, and how it relates to cash flow.

Using cash flow as a management tool. Once you've developed a cash flow projection, you can learn how to use it to manage your cash. This is one of the most important things a businessperson can do!

Financial statements. The last part of the session will introduce you to two very important financial statements: the **Income Statement** and the **Balance Sheet**. You will learn what elements make up these statements. This is important because in a later session you will learn how to determine your company's financial health based on these two financial tools.

Cash Flow Projections

In previous sessions, we discussed the importance of business planning and goal-setting. You looked at the basics of personal budgeting, and prepared a personal budget that told how much money you expect to come into and go out of your household each month.

The cash flow projection is the business counterpart of a personal budget. It determines the cash requirements for your business: the actual amount of money you'll need to open your business (start-up costs), and the amount you'll need to keep it open (operating costs).

Cash flow projection documents four things:

1. Where cash comes from (e.g., sales)
2. Where cash is going (e.g., variable costs, operating costs, interest, taxes)
3. When the activity takes place (which month or quarter, over what time period)
4. How much is left over (profit or loss)

A cash flow projection estimates business activity over a period of time—usually a year, often by month or by quarter. It estimates the amount of cash coming into your business (usually deposits into your business checking account) from income (usually sales).

It also estimates cash flowing out of your business (checks written from your business account) to pay expenses, buy equipment, and so on.

Basically, a cash flow projection is a form of budget, because it's a prediction about the future. Rather than saying what your sales were in a previous month, you're estimating what they'll be in an upcoming month.

Creating a cash flow projection is the first step in building a sound financial plan for your business. To start, you'll need to identify a method of estimating your income and expenses. You can do this by using information from your suppliers, or by industry averages. Perhaps you know a family member or friend in your type of business, or a similar one. If not, use your network to find advisors and others who can help you.

The process of estimating income and expenses is called forecasting. The numbers you forecast in a cash flow projection give you a yardstick for measuring your progress. At the end of each month you can compare actual income and expenses to your estimates. By comparing what actually happens in your business with what you predicted would happen, you can evaluate how the business is doing, and what you're doing right or wrong.

Next, you can adjust your projections regularly (monthly, quarterly, or semi-annually) to reflect changes in your business. As you practice and gain experience, you'll learn to make increasingly accurate projections.

What Does a Cash Flow Projection Look Like?

A cash flow projection worksheet usually has 14 columns:

- One column for start-up and one-time expenses
- Twelve columns for the months of the year
- One column for a yearly total

It also has five basic sections:

1. Beginning Cash Balance
2. Cash From Operations
3. Cash From Investment or Loan Activities
4. Net Monthly Cash
5. Ending Cash Balance

In a moment, we'll look at each of these sections in detail. Before we start, please remember that the letters referred to in the following paragraphs (A, B, C, etc.) match the lettered sections on the *Cash Flow Projection Worksheet* on page 12-5.

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I was born and raised in Chino, California, but I moved to Houston about six years ago. I met Lucie out here, and we got married about a year later. I was driving a cab for a while, but I hated that. I wanted more out of life, and I started thinking about what else I could do.

Back in California I was involved with the Lowrider community. Airbrush artists like Wiro and Fonzy were my idols growing up, and I was just starting to make a name as an airbrush talent in my own right when I moved. So unlike a lot of people, I didn't have to sit around trying to figure out what kind of business I wanted to start. I had the equipment, and I had the talent and the energy.

What I didn't know was, that isn't always enough!

Al Briones runs a popular airbrush shop in Houston's Second Ward. He does custom work for cars, trucks, and motorcycles.

When he first decided to pursue airbrush work, he never thought about running a real business out of a shop. He was just looking to make some extra money on the side, when he wasn't driving a cab around Houston. His longtime hobby seemed like a good way to go.

He had no marketing plan, and kept no books or records. He didn't need them, he reasoned, because he was working off the books. His business was all word of mouth, and he could only handle one car at a time in his small garage. He made about $1,000 a month, on average.

At first, I was just doing odd jobs off the books, like most people do at one time or another. But then more business started coming in, and I started to feel like I wanted to be legit. I wanted to advertise, and call attention to myself. Working under the table, it was like I couldn't be proud of my skills. I felt like I was hiding.

And then I'd be driving by these other shops where the work wasn't even as good as mine, and they've got the big signs out, saying "Best in the Barrio." They've got a nice big work space, good ventilation, everything. After a while, I thought, "If they can do it, I can do it better. If they're getting by, I'm gonna get rich."

Even after he decided to start a legitimate business, Al didn't give much thought to financial management. He figured his energy, his talent, and his luck would get him where he needed to go. Once he got there, it'd be easy enough to hire someone to do the books for him.

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A. Beginning Cash Balance

This section represents the amount of cash available to you at the beginning of each month or period. In the first column on the worksheet, this is the cash you have available to start your business (your own funds, personal loans, etc.).

As you go through the worksheet, it shows you the amount of start-up money required to get your business going. If your Beginning Cash Balance doesn't cover those expenses, it's time to ask yourself some tough questions. Do you have enough cash to open the doors of your business? If not, where will the cash come from? Family members? A bank loan?

Cash Flow Projection

A – Beginning Cash Balance
B – Cash in From Operations
C – Operating Cash Out
D – Net Operating Cash
E – Cash from Investment or Loan Activities
F – Net Monthly Cash
G – Ending Cash Balance

Don't Be Confused

Different terms can be used to say the same thing:

Variable Expenses

= Cost of Goods Sold

= Direct Costs

= Cost of Sales

Variable Expenses include:

- Cost of materials
- Labor to make your product
- Commissions
- Shipping/packaging/delivery

The ENDING CASH BALANCE in the Start Up Column then becomes the BEGINNING CASH BALANCE in the January column. And the ENDING CASH BALANCE in the January column becomes the BEGINNING CASH BALANCE in the next month column, and so on.

B. Cash In From Operations

This section lists all categories of income from sales of your products. Only sales income goes in this section.

Accounts Receivable are the amounts that customers owe you for products that you already delivered. If your business has Accounts Receivable, the amount of the receivables collected each month is also included here. By adding up all the sales categories in this section, you get TOTAL OPERATING CASH IN.

C. Operating Cash Out

This represents the cash that goes out each month in order to run the business. It has two parts: Variable Expenses and Operating Expenses.

- **C1. Variable Expenses (or Cost of Goods Sold)**. This section lists all variable expenses associated with Cost of Goods Sold (COGS). If you're a manufacturer, COGS includes the cost of materials, labor, and so forth. If you're a retail business, COGS might include the cost of inventory, freight, and other costs. Service businesses usually don't have a COGS. By adding up all the variable expenses, you get TOTAL VARIABLE EXPENSES.

- **C2. Operating Expenses**. This section lists all operating expenses necessary for running a business. These usually include rent, utilities, advertising, legal, accounting, fees and permits, taxes, the owner's salary, and so forth. By adding up all the operating expenses, you get TOTAL OPERATING EXPENSES.

D. Net Operating Cash

This represents the amount of cash after operations. By subtracting TOTAL VARIABLE EXPENSES and TOTAL OPERATING EXPENSE from TOTAL OPERATING CASH IN, you get NET OPERATING CASH. It looks like this:

Total Operating Cash In

- Total Variable Expenses (COGS)

- Total Operating Expenses

= Net Operating Cash

Your Net Operating Cash is a very important number, because it's the clearest picture of how your business made and used cash from its own operations for that month.

E. Cash From Investment or Loan Activities

- **E1. Other Cash In**. This describes sources of cash besides sales. It includes any business loans you may get. It also includes any investments in the business, including any cash you personally put into the business. The sum of these cash sources equals TOTAL OTHER CASH IN.

- **E2. Other Cash Out**. This section forecasts the cash required to pay for Balance Sheet items (we will discuss the Balance Sheet later in this session). This includes the purchase of equipment and machinery (asset items), and loan principal (the payments of principal you will make on your business loans—a liability item). This represents cash being paid out that is related to "other" business activities (not to "sales" activities). The total for these payments equals TOTAL OTHER CASH OUT.

MONTHLY CASH FLOW PROJECTION WORKSHEET

Months	START UP	1 January	2 February	3 March	4 April	5 May	6 June	7 July	8 August	9 September	10 October	11 November	12 December	YEAR TOTAL
(A) BEGINNING CASH BALANCE														
(B) CASH IN FROM OPERATIONS														
Operating Cash In														
1. Product / Service #1														
2. Product / Service #2														
3. Product / Service #3														
4. Product / Service #4														
5. Product / Service #5														
Total Operating Cash In (B)														
(C) OPERATING CASH OUT														
(C1) Variable Expenses (Cost of Goods Sold)														
6. Inventory Purchases														
7. Materials														
8. Packaging/Shipping														
9. Other Direct Labor														
10. Commissions														
11. Other														
Total Variable Expenses (C1)														
(C2) Operating Expenses														
12. Advertising														
13. Bank Service Charge														
14. Credit Card Fees														
15. Delivery														
16. Health Insurance														
17. Insurance														
18. Interest														
19. Miscellaneous														
20. Office														
21. Payroll														
22. Payroll Taxes														
23. Professional Fees														
24. Rent or Lease														
25. Salary (owner draw)														
26. Subscriptions and Dues														
27. Supplies														
28. Taxes and Licenses														
29. Utilities and Telephone														
30. Other:														
Total Operating Expenses (C2)														
(D) Net Operating Cash (B - C1 - C2)														
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES														
(E1) Other Cash In														
31. Investments in Business														
32. Loan Proceeds														
33. Other:														
Total Other Cash In (E1)														
(E2) Other Cash Out														
34. Capital Purchases (Assets)														
35. Loan Principal Payments														
36. Other:														
Total Other Cash Out (E2)														
(E) Net Other Cash (E1 - E2)														
(F) Net Monthly Cash (D + E)														
(G) Ending Cash Balance (A + F)														

- **E3. (E1 minus E2) Net Other Cash**. This represents the amount of cash after investment activities. By subtracting TOTAL OTHER CASH OUT from TOTAL OTHER CASH IN, you get NET OTHER CASH. It looks like this:

  Total Other Cash In
  <u>- Total Other Cash Out</u>
  = Net Other Cash

F. Net Monthly Cash

This section summarizes the cash position each month. It starts with NET OPERATING CASH. This is the cash you have left over after operations. To this, you add the cash left over from other investment activities (if there are any) called NET OTHER CASH. Together, they make up your NET MONTHLY CASH. It looks like this:

Net Operating Cash
<u>+ Net Other Cash</u>
= Net Monthly Cash

G. Ending Cash Balance

This section summarizes all of the cash you have at the end of the month. Start with your BEGINNING CASH BALANCE—the amount of money you had at the beginning of the month (see section A). Add to this the NET MONTHLY CASH (the amount of cash you made during the month). Together, they make up your ENDING CASH BALANCE.

It looks like this:

Beginning Cash Balance
<u>+ Net Monthly Cash</u>
= Ending Cash Balance

The ENDING CASH BALANCE for the first month becomes the BEGINNING CASH BALANCE for the second month.

Chart of Accounts

Sample Categories

Cash
Accounts Receivable
Inventory
Equipment
Other Assets
Accounts Payable
Loans Payable
Equity
Sales
Cost of Goods Sold
Expenses
Owner's Draw

Creating a Chart of Accounts

Before you develop a cash flow projection for your business, you must set up categories for the types of income and expenses relevant for your business. The categories are your Chart of Accounts. The Chart of Accounts is a chart (or list) of all the accounts you have. For instance, "sales" might be one of your accounts. Or you might want to have five sales accounts—one for each of your five main products.

If you set up the chart properly from the start, you'll find it easy to add new accounts as necessary. It's usually a good idea to assign numbers to the account name. Numbered accounts are much easier to keep track of, especially if you're using a computerized spreadsheet or accounting system. An accountant or bookkeeper can help you establish a chart of accounts that meets your needs.

You must also consider the timing of income and expenses. If you sell to people on credit, it will affect your cash flow. Suppose you make a sale and deliver the products in one month, but you don't get paid until a later month. What money will you use to run the business while you're waiting for payment?

Expenses vary, too. If you have to make large payments every so often—like quarterly insurance payments or large inventory purchases—you need to plan for these in your cash flow projections. You may also want to establish reserve accounts to take care of emergencies such as repairs and maintenance. Many business owners put aside enough cash to cover 3 - 6 months of operating expenses. It helps to be prepared for the unexpected!

As you can see, there are many expenses to plan for, and your cash flow projection gives you the tool to do this.

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A year later, Al's airbrush shop was thriving, and Lucie's brother Ciro was keeping Al's books. He was living with the couple while finishing up his last year of college—he was studying business and accounting—and handling Al's accounts was his way of paying rent.

Ciro had often told Lucie that Al really needed to get more involved in managing the business, But Al always seemed to have something else going on. His garage was always full, for one thing, and he figured that as long he had customers, the best use of his time was to serve them.

Lucie was worried by what Ciro was telling her, but she was easily steamrolled by Al's enthusiasm and optimism. Although it bothered her that Al didn't take more of an interest in management issues, Lucie trusted Ciro to take up the slack.

And for a while, Ciro did exactly that. But as time went on, it started to seem as though there weren't enough hours in the day to do everything he was expected to do. While he dealt with one crisis, three more would come up. He tried to talk to Al about it, but Al was always dealing with customers and trying to meet deadlines. He was the most energetic guy Ciro had ever known…and he was never more energetic than when he was looking for an excuse not to talk about budgeting, accounting, and cash flows!

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Preparing the Cash Flow Projection

There are lots of ways to fill out a cash flow projection. Use a method that makes sense to you. Most people start either with income or expenses. Here's one way to do it.

Step 1: Beginning Cash Balance

Assume that your BEGINNING CASH BALANCE at start-up time is the amount of money you wish to invest in your new business. You can think of this as the amount of money you'll have in your business checking account on the day your doors open.

Step 2: Determine Your Start-up Costs

Determine all the costs you will have in starting your business, such as purchases of equipment, deposits, licenses, fees, and other costs. All of those start-up costs are recorded in the START-UP column on the worksheet in the proper categories. Don't forget to include all the CASH OUT and OTHER CASH OUT expenses you're planning for as start-up costs.

Step 3. Determine Your Ending Cash Balance for the Start-up Column

Now, subtract your start-up costs from the BEGINNING CASH BALANCE amount to see your NET MONTHLY CASH requirement at start-up. Again, this is a critical decision point. Do you have enough Beginning Cash to cover your anticipated start-up expenses? If not, where will that money come from? If you borrow for START-UP costs, can you borrow again for OPERATING COSTS to keep the business running? Just working through this first START-UP column can help you think about what it will take to get the doors open!

If you decide that you need to borrow money to cover your start-up costs, that amount will be recorded in the CASH FROM INVESTMENT or LOAN ACTIVITIES section of the worksheet. Then, you can refigure the NET MONTHLY CASH and ENDING CASH BALANCE.

After looking at the START-UP column and making decisions about how you will pay for the start-up expenses, you will copy the ENDING CASH BALANCE from the START-UP column to the top of the January column on the worksheet. The ENDING CASH BALANCE becomes the BEGINNING CASH BALANCE of the following column.

Start-Up Costs

- Fixtures & Equipment
- Vehicles
- Starting Inventory
- Office Supplies
- Remodeling Expenses
- Installation of Equipment
- Deposits on Utilities
- Research Costs
- Insurance
- Legal and Professional Fees
- Licenses and Permits
- Signage
- Promotional Costs
- Grand Opening Costs
- Business Cards/other printing
- Operating Cash
- Purchase a Business
- Closing Costs
- Other

Researching and Estimating Expenses

Remember your industry and market research skills? Use them again to figure out how to get the information you need to estimate expenses. For example, you may not know for sure where you want to locate your business, but you have a good idea about the general area of town. To estimate rent, you can call real estate agents and ask them about the usual rental rates for space in the area you are considering. Building managers can also give you information on rental rates. For other expenses, try the library. Here you can often get valuable information on your industry, called **industry averages**. How about your banker? Bankers often have a copy of the Robert Morris Associates publication on **Annual Statement Averages**. This book is full of operating statistics for a lot of industries.

Step 4: Operating Cash Out

Most people find it is easiest to begin their projections with the operating expense portion of the OPERATING CASH OUT (section C2 on the Cash Flow Worksheet). It's relatively easy to make assumptions about operating expenses, because they usually don't change every month. (Remember that these expenses are the ones that stay the same no matter how much you sell, like rent and telephone service.) Other expenses, like utilities and advertising, vary from month to month, but can be estimated. Complete this section by adding all expenses to determine your total operating expenses for each month.

Step 5: Operating Cash In

The next section most people fill out is OPERATING CASH IN (section B on the *Cash Flow Worksheet*). Here, you'll need to project your sales. There are many ways to project sales. One of the best is to estimate the number of units you will sell, and multiply that number by your sale price (e.g., 100 units x $5 = $500).

Service businesses should estimate the average number of jobs for the period. To get the sales amount, multiply that number by the average amount you think each job will earn. If you plan 20 jobs at an average price of $50 per job, monthly sales would be $1,000 (20 x $50).

Retail stores often estimate sales based on the amount they had last year at that time—plus or minus. They might take last year's sales for January and increase them by 10%, if they believe their business is on the rise. Or they might start with last year's sales for September, and reduce them by 25% because a Wal-Mart opened in August.

Of course, it's hard to estimate retail sales when you're a start-up, because you have no past sales! You'll need to make an educated guess. Consult your network, and seek the advice of people who know about your type of business. Then, estimate the number of sales you think you can make per month, and multiply it by your price.

Step 6: Variable Expenses (Cost Of Goods Sold)

Variable Expenses (section C1 on the *Cash Flow Worksheet*) can be based as a percentage of sales. These expenses vary with sales, so it's easiest to base them on your projected sales. Sometimes, your COGS varies depending on the time of the year (this is called seasonality).

Retail businesses need to estimate when inventory will actually be purchased and paid for. Remember, cash flow projection reflects when cash actually goes out of the business to pay for expenses. So inventory cost is not recorded by a percentage of the sale made, but by the dollar amount paid for the inventory when payment is made.

Note: Service businesses have COGS if that expense is significant—usually anything over 5 - 10% of sales. If it isn't, these expenses are just included under operating expenses.

Step 7: Other Cash Out

Next, look at the OTHER CASH OUT EXPENSES (E2). List purchases of equipment or machinery in this section. You can also list the principal portion of any business loan payments.

Step 8: Other Cash In

This section (E1) is where you show other cash that you receive that is related to "investing" in your business. This includes the proceeds of loans you take out for business purposes.

Before you figure your OTHER CASH IN, this is a good time to get a feel for your cash balance. Here's how to do it:

1. Add all sales to get TOTAL OPERATING CASH IN (B).
2. Add all variable expenses to get TOTAL VARIABLE EXPENSES (C1).

3. Add all OPERATING EXPENSES (C2).
4. Subtract VARIABLE EXPENSES and OPERATING EXPENSES from TOTAL OPERATING CASH IN (B minus C1 minus C2).

Doing this will give you an idea of your cash balance for that month. Can your cash sales (and any accounts receivable you collect) support the variable and operating expenses of your business? Will you need cash, given the way you've projected cash in and cash out?

Step 9: Adjust Your Numbers

In this step, you can adjust your numbers based on how much cash you need to operate your business. For instance, suppose you determined that in your first month you'll be building sales. But when you subtract your variable and operating expenses from the total of your sales, the loss gets bigger!

Next, you add up all the investments you'll have to make to operate during those early months, and the loss grows still larger. Don't fret—many businesses lose money during the first few months of operations. The questions are: How much will your business need? Do you have the ability to borrow that much? From whom?

This is a good time to check your assumptions about the way money will flow in and out of your business. If you're seeing that the business needs a lot of cash to operate, and you can't borrow enough to cover it, where can you make adjustments? Can you put off the equipment purchase listed in the START-UP column? Can you lease the equipment instead of buying it? Are there any expenses you could cut during the early months of operation?

You should also look at the adjustments to the CASH IN section. Have you projected too low? Too high? Checking your assumptions will make projecting for the next month that much more realistic. Be sure to document all assumptions for future reference.

Step 10: Ending Cash Balance

After you've adjusted your numbers, you can determine the ENDING CASH BALANCE, starting with your figure for Beginning Cash. You do this by adding the NET MONTHLY CASH (F) figure to your BEGINNING CASH BALANCE (A). The ENDING CASH BALANCE then becomes your BEGINNING CASH BALANCE for the next month. From there, you can complete the worksheet column by column.

This may seem complicated to you at first, but don't worry. You'll be doing an example in class that will help you understand how the worksheet is prepared. It's not as hard as it sounds!

Many business owners input their cash flow worksheets into a computer program called a spreadsheet. Spreadsheets allow you to make changes in your assumptions, and instantly see the impact on your bottom line.

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Early in January, Al went through his mail and saw an envelope that said "Final Notice." He opened it, and was amazed and angered to learn that one of his paint suppliers was turning him in to a collection agency!

He tore open the rest of the mail, and found that almost every other bill was past due. How on earth had this happened? What was Ciro thinking?

He decided he'd worry about Ciro later. First, he needed to pay every single one of the past-due bills, before any more of them ended up in collections.

Unfortunately, that wasn't an option. Al looked at the bank statement, and found that he didn't have enough money to pay the upcoming month's rent, let alone a half-dozen overdue bills.

I felt totally betrayed. I'd been working so hard, and doing so well. I had a lot full of cars outside

Operating Expenses

Ongoing Monthly Costs

- Supplies
- Rent
- Utilities
- Business Insurance
- Health Insurance
- Shipping/Postage
- Professional Fees
- Dues/Subscriptions
- Office Supplies
- Advertising/Promotional Costs
- Wages
- Inventory repurchases
- Equipment
- Repairs
- Owner's Draw
- Loan Payments
- Taxes
- Other

every day. I was holding up my end. I'm working twelve hours a day, and now I'm supposed to take over Ciro's job too?

The thing I kept telling myself—as angry as I was—was that Ciro had just made a mistake. He was a kid, and didn't have that much experience, and he must've just made a mistake.

But at the same time, I knew that anything can happen with people. A good kid can get into trouble, or even turn bad. So for all I knew, anything could've been going on with my money. Luckily, I had a while to calm down before Ciro and Lucie got back from the supermarket. I was able to think about what I was going to say, instead of just blowing up. I was still really mad, though. This was my future at stake.

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A Cash Flow Example: Michele's Photography Studio

Michele wants to open a one-person photography studio as a sole proprietor. To keep expenses down, she'll operate the business out of her home. Here's how she figures out her cash flow projection.

Step 1: Beginning Cash Balance

Michele has $1,000 that she saved to invest in her start-up business. (See MICHELE'S CASH FLOW PROJECTION WORKSHEET on page 12-14.)

Step 2: Determining Start-up Costs

- Equipment. Since photography has been Michele's hobby for years, she can use her existing equipment and cameras. Still, she'll also have to make some purchases, including one new expensive camera.
- Promotions. In addition to her monthly budget for advertising, she'll need to budget for start-up marketing expenses. Michele has spoken to the local printer, who can print 2000 flyers for .05 each. Thus, the cost of the flyers will be $100. Michele's business cards and stationery will cost $89. Michele also wants to place a small business sign outside her house, to make her business easy to find. She estimates this will cost $125.
- Bank charges. Michele will open a business checking account to keep her business and personal expenses separate. The cost for checks is $58.
- Insurance. $50 will start the policy in force.
- Inventory. Michele will invest $500 in inventory, including film, frames, and photo albums.
- Office supplies. The initial supply includes paper, pens, markers, and so on. Michele estimates these costs at $45.
- Capital purchases. Michele will need various backdrops for her photography business. Since she has limited studio space for her in-home business, Michele has decided to create her own backdrops by using spray paints on sheets. She will also need props. Michele has estimated the costs at $550. She will also need a new camera, which will cost $1,000.
- Taxes and licenses. Michele has checked with the zoning board, and the cost for a sign permit to make her business more visible will be $25 per year. In addition, Michele will need to purchase a vendor's license, which will cost $25.

Step 3. Determining Ending Cash Balance for the Start-Up Column

At this point, Michele stops and adds the Start-Up costs just posted in the Start-Up column ($1,567). Since Michele had $1,000 as her BEGINNING CASH

BALANCE, she'll have to make some decisions. Can she borrow the additional money she needs from friends or family? Would that be wise? Can she go to the bank for a loan?

Since she's only calculated the start-up costs at this point, she decides to carry that number forward to the actual cash flow projection for her business, and see how much cash she'll need for start-up costs *and* to run her business for the first three months. Afterwards, she can make some decisions about how much she might need to borrow from the bank (or from another source), without having to go back and borrow again after the first month the business is open.

Step 4: Operating Cash Out

This is the Operating Expenses portion of the Cash Out (section C2 on the cash flow PROJECTION worksheet).

- **Advertising and promotion**. Michele believes her ongoing advertising and promotion will consist of stationery and brochures. The quotes she received suggest this will cost an average of $50 per month.
- **Insurance**. Michele will purchase liability insurance to cover the cost of any customers getting hurt while on her premises. She also has insurance to cover her equipment against theft or damage. The cost is $265 per year, which she can pay monthly. Later, Michele will add insurance coverage that will cover her business in case photos she's taken for a special occasion are ruined or destroyed.
- **Professional fees**. Michele will have a tax professional prepare her tax return at the end of the year, which will cost $150. She'll also have a quarterly consultation with a bookkeeper who will review her recordkeeping. The quarterly fee is $50, or $200 per year.
- **Subscriptions and dues**. Books and magazines will keep Michele informed about the changes in her industry. Michele estimates this expense at $15 per month.
- **Telephone and utilities**. Michele will start with a basic business service package from her phone company, which includes a business telephone line, voicemail and a small yellow pages ad. The cost is $55 per month. Since Michele is using her home, she has projected a $15 per month increase in her utility bills.
- **Auto/fuel**. Michele estimates her fuel cost to distribute and run errands for her business at $20 per month.
- **Owner's salary**. For the first three months, she has budgeted a salary for herself of $500 per month.

Step 5: Operating Cash In

Michele's next step is to calculate Cash In (section B on the cash flow projection worksheet). She'll have several types of customers, so she decides to project her sales by units of each. She decides on three types of photography accounts: family portraits, weddings, and graduation pictures. She's also selling frames and albums, so that makes four accounts total.

By using these categories, she'll notice seasonal fluctuations in her sales. For instance, she can expect demand for family portraits to increase before the holidays, while wedding sales will rise in the summer months.

Next, Michele needs to estimate when she'll receive the actual cash from the sale. If people pay cash on the day they have their photos taken, she can count the cash then. If she allows them to pay later (e.g., within 30 days), she can't count the cash until she gets paid. Although Michele knows it might lose her a small number of customers, she decides not to

Developing Your Projections

- Remember, your projections are based on estimates you obtained by talking to your advisors and other business owners, gathering written industry information, and researching the actual costs you of running your business.

Some things to consider about sales and receivables

- Cash sales are just that—cash in the cash register.
- If you take credit cards you will have to establish an account with a bank and pay fees. You do not get the full amount on credit card sales—the bank discounts them 2 – 5%. If you accept credit cards you will need to estimate what portion of your sales will be by credit card, and factor in the right percentage discount.
- If you decide to have Accounts Receivables, have an advisor show you how to develop the proper way to decide whom to extend credit to (underwriting criteria). You are not a "banker," but you do want to make sure customers will pay you.

carry any Accounts Receivable. In other words, her customers must pay when the work is delivered, either by cash, checks, or credit cards.

Michele is now ready to start projecting her monthly sales.

She has calculated that she'll receive a 2% response rate from the 2,000 flyers she distributed (2% of 2,000 = 40). Of the 40 people who contact her, Michele estimates that she will sell approximately ten jobs as follows:

- Three wedding packages, at an average price of $600 each, between January and March
- Four graduation packages, at an average price of $275 each. Two in January, one in February and one in March.
- Three general portrait packages per quarter, at an average price of $125.

Michele believes she can create add-on sales by offering frames and albums. She thinks she can sell about $55 of frames during the first month, and anticipates that going up by $10 each month. She thinks she can actually sell more albums, starting with $125 in January, and then averaging $155 per month after that.

If she's set her sales goals in terms of the revenue they'll generate, she must figure out how many sales it'll take to reach her revenue goals. She also needs to know her break-even point. How many sales will she need just to cover her variable and operating expenses? (Refer back to Session 9 on pricing.)

Finally, she has to consider how many jobs she can realistically expect to do, given set-up and delivery time. If she can only handle 10 jobs per month, she can't estimate that she'll do 20 jobs!

Step 6: Variable Expenses (Cost Of Goods Sold)

Next, Michele projects the actual payments she'd make for her Variable Expenses (COGS— section C1). She develops her estimates by taking a careful look at her expected sales. One thing she has to do is make sure she has the right amount of inventory; not too little, but not too much, either.

Michele makes the following estimates of her variable expenses:

Variable expense:	**Jan**	**Feb**	**Mar**
Materials	50	45	60
Film Processing	10	10	10

Step 7: Other Cash Out

The next part of Michele's cash flow projection represents Other Cash Paid Out. Michele had already added the cost of her equipment in the Start-Up column, so there's nothing to record on the worksheet in the section for now.

Step 8: Other Cash In

This is where Michele shows Other Cash In: money that's related to "investing" in her business. Again, she wants to see the ending cash balance at the end of three months before deciding how much to borrow and when, so she doesn't record anything in this section yet.

Step 9: Adjust Your Numbers

In this step, Michele plays around with her numbers. She asks questions like, "What if I don't buy all the backdrops I need at once? Can I find a used camera lens instead of a new one?" She decides not to change her numbers at this point, but will consider her options after seeing how much she'll need to borrow for her first three months of operation.

Step 10: Ending Cash Balance

Here's how Michele calculates her ending cash balance.

1. She adds up the Operating Cash In to get the Total Operating Cash In (B). This is the amount she thinks she can actually earn during the month.

2. She adds up her Total Variable Expenses (C1) to see what her direct costs of selling are. This number varies with the amount of sales.
3. She totals her Operating Expenses to get Total Operating Expenses (C2). This represents all the fixed costs she'll have to pay, whether she sells anything or not.
4. She subtracts Total Variable Expenses (C1) and Total Operating Expenses (C2) from Total Operating Cash In (B) to get NET OPERATING CASH (D) for the month.
5. Since Michele doesn't want to borrow any money yet, and doesn't plan on buying any more equipment for her business, she puts zeros in the Total Other Cash In (E1) , Total Other Cash Out (E2), and Net Other Cash (E) spaces on the worksheet. Thus, there are no adjustments to NET OPERATING CASH (D), so that same figure can be carried down to NET MONTHLY CASH (F).
6. She calculates ENDING CASH BALANCE (G) by adding the NET MONTHLY CASH (F) and the BEGINNING CASH BALANCE (A) together.
7. From here, she will work each column on the *Cash Flow Projection Worksheet* separately, carrying the Ending Cash Balance to the start of the next column as the Beginning Cash Balance.

Michele's cash flow

So, what does all this mean to Michele?

At this point, she has to make some decisions about her business. Although she has $1,000 to start her business, it isn't enough to fund all her start-up costs and supply enough cash to the business for the first three months.

Michele has to stop and analyze how she will fund this phase of her business, or whether she can afford to do the business at this time. She needs to start by making sure that her assumptions are as accurate as possible. Then, she needs to think about her funding sources.

She decided to seek the advice of a local lender. She shared her cash flow projection with an expert from a nonprofit community development loan fund, who agreed that she needed to borrow $2,000 to cover her start-up costs and her first three months of operations, and to provide a "cushion" in case of emergencies.

First, the lender had Michele finish her cash flow projections for the entire year. Based on this, and the lender taking the new equipment as collateral, her loan was approved. As part of the loan agreement, Michele would take a financial class, so that she could learn about financial statements. She also agreed to provide regular financial statements to the lender.

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The moment Lucie and Ciro walked in the door, Al confronted them with the stack of overdue bills.

Ciro said, "I guess you finally noticed our little cash-flow problem." He explained that payments from customers often came in after the bills were already past due, sometimes as much as 60 days late. One of the main problems was that Al often let people take time to pay, without collecting a down payment. That meant he was burning through money for labor, rent, and materials, without taking in enough to cover it.

In the past, Ciro had always been able to keep things from ending up in collections, but the cash flow problems had gotten a lot more serious lately.

"Lately? Why didn't you say something about it before now?" demanded Al.

"He's said things over and over," said Lucie. "But the minute anyone talks about account-

MONTHLY CASH FLOW PROJECTION WORKSHEET - Michele's Photography Studio

Months	START UP	1 January	2 February	3 March	Quarter Subtotal
(A) BEGINNING CASH BALANCE	1,000	(1,567)	(849)	(361)	1,000
(B) CASH IN FROM OPERATIONS					
Operating Cash In					
1. #1 Wedding Package		600	600	600	1,800
2. #2 Graduation Package		550	275	275	1,100
3. #3 Portrait Package		125	125	125	375
4. #4 Frames		55	65	75	195
5. #5 Albums		125	155	155	435
Total Operating Cash In (B)	0	1,455	1,220	1,230	3,905
(C) OPERATING CASH OUT					
(C1) Variable Expenses (Cost of Goods Sold)					
6. Inventory Purchases	500				500
7. Materials		50	45	60	155
8. Film Processing		10	10	10	30
9. Other Direct Labor					
10. Commissions					
11. Other					
Total Variable Expenses (C1)	500	60	55	70	685
(C2) Operating Expenses					
12. Advertising/Promotion	314	50	50	50	464
13. Bank Service Charge	58				58
14. Credit Card Fees					
15. Delivery					
16. Health Insurance					
17. Insurance	50	22	22	22	116
18. Interest					
19. Miscellaneous					
20. Office	45				45
21. Payroll					
22. Payroll Taxes					
23. Professional Fees				50	50
24. Rent or Lease					
25. Salary (owner)		500	500	500	1,500
26. Subscriptions and Dues		15	15	15	45
27. Supplies	550				550
28. Taxes and Licenses	50				50
29. Utilities and Telephone		70	70	70	210
30. Other: Auto Fuel		20	20	20	60
Total Operating Expenses (C2)	1,067	677	677	727	3,148
(D) Net Operating Cash (B - C1 - C2)	(1,567)	718	488	433	72
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES					
(E1) Other Cash In					
31. Investments in Business					
32. Loan Proceeds					
33. Other:					
Total Other Cash In (E1)	0	0	0	0	0
(E2) Other Cash Out					
34. Capital Purchases (Assets)	1,000				1,000
35. Loan Principal Payments					
36. Other:					
Total Other Cash Out (E2)	1,000	0	0	0	1,000
(E) Net Other Cash (E1 - E2)	(1,000)	0	0	0	(1,000)
(F) Net Monthly Cash (D + E)	(2,567)	718	488	433	(928)
(G) Ending Cash Balance (A + F)	(1,567)	(849)	(361)	72	72

ing and money, you just turn your ears off. You run out of the room the first chance you get."

I couldn't argue with that. Lucie was right. I didn't want to hear anything about money. I'm no good at the financial stuff. I never was. I didn't want to be.

The truth is, one of the things I hated about being a cabdriver was having to make change. And it's not because I can't do math. I wish it were that simple!

I think it's something about the pressure, and being on the spot. I just don't trust myself to get it right the first time, and I guess that makes my brain freeze up. I don't know what the reason is. All I know is, it's never come naturally to me.

And that's the whole reason I had Ciro doing it. If I were good at it or wanted to do it, I'd do it myself. So from my perspective, my attitude was not the issue. The issue was that we had a deal, and Ciro wasn't holding up his end.

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Using Cash Flow as a Management Tool

It is important to watch the cash that goes in and out of your business. This will help you reduce your need to borrow, and increase your flexibility in managing your business.

What If?

After you have finished your cash flow projection, you can ask yourself a series of "What If" questions.

- What if sales go up faster than I anticipate? What happens to my "bottom line?"
- What if sales and Accounts Receivable go up at the same time? Do I have enough cash on hand to finance the growth in sales?
- What if sales drop? Do I have enough cash to pay my expenses each month? Can I pay myself? If so, for how long?
- What if I need to purchase some new equipment? Will I have to take out a loan?

You can learn the answers to these and other questions by changing the numbers in your projection. Change your sales numbers—or perhaps your COGS percentage (based on realistic assumptions, not guesses or wishful thinking!)—and watch what happens to your Ending Cash Balance as you change the various values.

Some entrepreneurs complete their cash flow projections and decide that the business will never make enough money to be profitable. Thus, they decide not to go ahead with the business idea. This is not a bad thing. It's much, much better to discover cash flow concerns on paper, than in real life when your business is open!

Cash Management Tips

- Bill your customers promptly. The sooner they get your bill, the sooner they'll pay!
- If you know that certain customers must receive that bill by a certain date in order to pay within that month, try to make sure they get the bill in time.
- Collect a portion of the payment up front, and ask for the balance when the job is due.
- Watch accounts receivable carefully. When they're overdue, send payment reminders immediately. If possible, add late charges to overdue accounts.
- Consider a cash-only policy. Can you really afford to carry (and manage) accounts receivable?
- Deposit your cash receipts every day. Some forms of payment take a while to clear, so the sooner the process starts, the better!

- Never pay your bills until just before they come due, unless you get a discount or other reward for paying sooner.
- Keep an eye on inventory that moves slowly, or doesn't sell. Consider lowering prices to sell them, so they won't take up space and money by sitting on the shelf.
- Be sure you're not paying more estimated income taxes than you have to. You may be allowed to defer payments until the end of the year. Seek professional advice to see if you're eligible to do this.

• • •

Lucie's loyalties were divided. On the one hand, she understood Ciro's position. He'd tried to talk to Al, and Al wouldn't listen to him. She knew how much this upset Ciro, and she felt bad about it.

On the other hand, it seemed like Al had a point too. He'd hired Ciro to do the work so he wouldn't have to. That was fair enough, wasn't it? Shouldn't Ciro have figured things out himself? Maybe the problem really *was* his inexperience.

Over a rather tense dinner, Ciro made a proposition. They'd make an appointment with a counselor at the local Small Business Development Center, and learn from an expert what they were doing wrong, and how to fix it.

Al agreed. Although he wasn't happy about taking time away from work, he also didn't like the bad feelings in his house. Lucie and Ciro were his two favorite people in the world, and if going to some dull meeting with a counselor would make them feel better, he was more than willing to do it.

The counselor was a guy named Kevin. A nice guy, very no-nonsense. He listened to both sides. And he was polite about it, but he made it clear that I'd messed up in a big way. I wasn't happy to hear that. But coming from someone neutral, it was a little easier to accept.

He explained to me that I had to get personally involved with the financial stuff, at least enough to understand it. The main thing was, my ability to make decisions depended on knowing how our cash flow stood at a given time. My way of doing things was to say "I finished two hood jobs this week, so that's $1,500." If I needed to spend $1,000, I just did it, and tossed the receipt at Ciro. But sometimes that money wasn't even there. Because some jobs, it could take two weeks or more to finish. And even after that, sometimes I let people pay me in installments. I didn't realize that a lot of times, money that came in was already earmarked for a bill from last month.

I took away two things from that first meeting. One, I felt guilty. I'd put Ciro in a really difficult position, and made his job a lot harder than it had to be. Two, I understood it didn't have to be like that. My financial problems were bad, but they could be fixed as long as I was willing to get involved.

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Financial Statements

In the previous exercise, you learned how to make a cash flow projection, and predict income and expenses. This section will introduce you to two financial statements: the **Income Statement** and the **Balance Sheet**. These financial statements allow you to evaluate the history of your business, compare your financial health with similar businesses, and plan your business's future.

Income Statement

The Income Statement is also called the **Profit and Loss Statement**, or the **Operating Statement**. It details the performance of your business over a certain period of time (e.g., for the month of January, or for the year January 1st to December 31st). The Income Statement's purpose is to match the expense required to offer your product with the income generated by sales. Thus, the Income Statement answers questions like "How much did I have to spend to generate this amount of business?" and "How profitable was my business?"

The Income Statement is a useful way to evaluate sales, expenses, and profit. If you're a sole proprietor and file Schedule C with your income tax statement, the income portion will come from your business Income Statement. Most lenders use the Income Statement to assess the profitability of your business and the risk of loaning you money.

The Income Statement looks at:

- **Income**. This is the money you earn from sales.
- **Variable expenses** (aka Cost of Goods Sold). These are costs that vary with the amount of sales, such as costs for raw materials, labor, and packaging.
- **Operating expenses**. Also called fixed costs. These are the costs of being in business that must be paid whether or not you sell a single unit. Examples are rent, utilities, advertising, interest on loans, and so on.

The Income Statement is basically a formula you can use to find your net profit:

Sales
- Variable expenses
= Gross profit
- Operating expenses
= Profit before taxes
- Taxes
= Net Profit

The Income Statement consists of the following items:

ITEM 1—**Sales**. This represents the total dollars from the sales of all your products and services, regardless of when you receive the payment.

ITEM 2—**Variable Expenses** (Cost of Goods Sold). This is the cost of the products a retail business sells, or a manufacturer makes. (Most service businesses do not have COGS.) It includes materials, labor, and so forth.

ITEM 3—**Gross Profit**. This is the amount remaining after covering the cost of the products sold. When you subtract all expenses from the gross profit, the result is net income (or loss).

ITEM 4—**Operating Expenses**. All expenses (other than cost of goods sold) of your business (e.g., wages, rent, advertising, payroll taxes, utilities, and depreciation). For small businesses, operating expenses normally include all expenses except cost of goods sold, interest, and income tax.

ITEM 5—**Profit Before Taxes**. This is equal to Gross Profit minus Total Operating Expenses.

ITEM 6—**Income Taxes**. Income taxes are an expense of doing business, but whether or not you may include this on your income statement depends upon the legal structure of your business. Income taxes are not considered an expense for sole proprietorships or partnerships, because the taxes are levied on the owners rather than on the business. Income taxes are levied on corporations, so they appear on the corporation's income statement.

ITEM 7—**Net Profit**. We have worked our way to the bottom line. Again, for the income statement, that means:

Revenues - Expenses = Net income

Remember: As revenues go up, so does net profit. As expenses go up, net profit goes down. Therefore, selling as much as you can while keeping expenses as low as possible is fundamental to success.

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Over the next few weeks, Kevin helped Al and Ciro analyze their business from top to bottom. They found a lot of areas for improve-

SAMPLE INCOME STATEMENT

JANUARY 1, 20xx through DECEMBER 31, 20xx

The Income Statement provides a statement of the performance of your business over a certain period of time (usually one year or less).

Your Business Income Statement
For the Year End
December 31, (20xx).

Manufacturers, Retailers (& some Service businesses)

Sales

- Cost of Goods Sold (Variable Costs)

Materials Used or Cost of Inventory Used to Make the Sale
+ Direct Labor
+ Other Manufacturing Expense
=Total Cost of Goods Sold

=Gross Profit (Sales minus Cost of Goods Sold = Gross Profit)

Operating Expenses

Wages—(administrative)
+ Payroll Taxes
+ Rent
+ Utilities
+ Telephone
+ Outside Services
+ Supplies
+ Advertising
+ Professional Fees
+ Insurance
+ Interest
+ Repairs/ Maintenance
+ Depreciation
+ Other
=Total Operating Expenses

Gross Profit
-Total Operating Expenses
=Net Profit Before Tax

Net Profit Before Tax
-Income taxes due
=Net Profit (Loss)

ment. For instance, Al's haphazard buying had been keeping him from taking advantage of bulk discounts, as well as discounts for early invoice payment.

Al didn't want to give up his flexible payment terms completely, but he did agree to charge a 50% down payment on all jobs of $100 or more, with the balance due when the car was picked up. There were a lot of little things like that, and when you put them together, they had a real effect on cash flow.

When it came to getting involved with day-to-day management, Al was as good as his word.

To be honest, I had to force myself at first. It was more about keeping the promise, and not so much about the actual work. But after a while, I actually started enjoying it. I liked knowing how the business was doing.

One day I was going over the financial ratios with Ciro, and I said, "I get it now. It's like when I was little, and my parents would stand me against the wall and mark how tall I was, so we could see how much I'd grown." I was proud when I grew then, and I'm proud when my business grows now.

With Kevin's help, they prepared a marketing plan, which included expanding beyond the Lowrider market and into promotional designs for commercial vans. This secured a loan from a foundation that was interested in supporting minority-owned businesses in the Houston area. The loan gave Al the operating funds he needed to improve his cash flow, buy more airbrush equipment, and hire a couple of assistants. Soon, the business had paid off its creditors. Sales were up and morale was high.

It came as a total surprise to me. I was spending all this time and money on keeping the financial side of the business in order. But at the end of the day, there was more money available, and things were moving more smoothly! It really proves what Kevin kept saying: sometimes, a shortcut is the longest way to get where you want to be.

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Balance Sheet

The Balance Sheet gives you a snapshot of your business's financial situation at a certain point in time (e.g., the end of a month, quarter or year). It reveals what your business owns (assets), what it owes (liabilities), and what is yours (equity). This statement is the business equivalent of the Personal Financial Statement you completed in Session 1.

Assets are what you own, such as cash, accounts receivable, inventory, buildings, land, equipment, deposits, and any other investments (short- or long-term).

Liabilities are what you owe to others, such as loans, taxes, and accounts payable.

Equity is what you have invested in your business, such as your own capital investment.

The formula for the balance sheet is:

Liabilities + Equity = Assets

In order to understand this formula, consider how you might get an asset.

Example: You decide to buy a computer that costs $3,500. You have $500 in your personal checking account that you can use as a down payment. You plan to borrow the rest. First, you deposit your $500 in your business checking account. This is your investment in your business. Your business cash increases and so does your owner's equity account. Next you borrow $3,000 and deposit that into your business checking account. Your business cash increases and you create a new liability (the loan) in the same amount. Finally, you write a check out of your business account and pick up your new computer.

Liability (loan)
<u>+ Owners Equity (down payment)</u>
= Asset (computer)

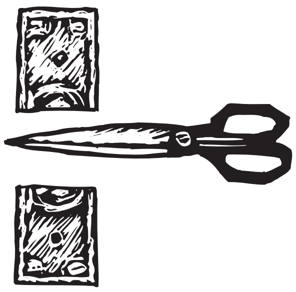
$3000 + $500 = $3500

What the Income Statement Can Tell You

- Are there any unusual expenses?
- Is the Cost of Goods Sold (COGS) too high for a certain product?
- Does COGS seem out of balance with sales volume? Price?
- Are sales sluggish in a certain category?
- What are the sales trends?
- Can you cover expenses, even in slow months?
- Are you able to take an owner's draw regularly?
- How do actual figures compare to projections?

What the Balance Sheet Can Tell You

- Do you have enough current assets?
- Are your debts under control?
- Do you have too much short-term liabilities (debts) to pay off in the short term?
- Are your long-term assets funded by long-term debt?
- Is your equity amount positive? Negative?



This may seem like a complicated way of buying the computer, but the steps are absolutely necessary. Many small business owners get into trouble by mixing up their personal and business accounts.

You must always keep your business transactions separate from your personal ones. One excellent reason for doing so is so that you can correctly report your state and federal tax returns. Another reason is that you'll want separate records to see how your business is performing. If you don't have separate records, you'll never know if your business is performing up to your expectations.

Lenders require a Balance Sheet. It helps the lender evaluate what your business owns, its outstanding loans, and the money you have invested in the business. Lenders are particularly interested in the relationship between liabilities and owner's equity. As an example, a lender will evaluate whether or not the business can afford more debt. Lenders are also interested in knowing whether or not the owner has drawn all the equity from the business to pay herself or himself.

The Balance Sheet consists of the following items:

ITEM 1—**Current Assets**. These are resources the business owns and expects to convert into cash or use up within one year of the balance sheet date. This provides information about the short-term ability of the business to make payments and stay in business.

ITEM 1—**Fixed Assets**. These are assets with a useful life of more than one year. When you buy an item qualifying as a fixed asset, it's considered an investment in the business—not an expense—at the time you buy it. The amount you paid for the item appears on the Balance Sheet, not the Income Statement. Example: if you buy a new desk for $300, it appears on the Balance Sheet as a fixed asset.

ITEM 3—**Depreciation**. This is the process of deducting part of the cost of an asset over a specified period of years. Each year, you are allowed to deduct a percentage of the asset's original price as a depreciation expense on the Income Statement. This provides a tax deduction, which allows you to accumulate cash that is not taxable (called accruing capital) to replace worn-out assets. For example, while the new $300 desk may appear as a fixed asset on the Balance Sheet, you can include a percent of the price as a depreciation expense on your Income Statement. This "non-cash" expense reduces the income you pay taxes on, but is not a typical cash-funded expense like rent. As you annually depreciate the desk, its value as an asset decreases on the Balance Sheet by the same amount.

ITEM 6—**Current Liabilities**. These are debts you must pay within the next year.

ITEM 7—**Long-term Liabilities**. These are debts due more than one year from the balance sheet date. They often include notes payable to the bank and investors.

ITEM 8—**Owner's Equity**. For a sole proprietorship, the owner's share of the business is listed as one amount, usually called capital. A partnership follows the same format, except that a capital amount is listed for each partner.

Sample balance sheet

The Balance Sheet shows the balance between your business assets (what your business owns) and your business liabilities (what your business owes) plus your equity (what you have invested in your business) on a particular day.

SAMPLE BALANCE SHEET

The Balance Sheet shows the balance between your business assets (what your business owns) and your business liabilities (what your business owes) plus your equity (what you have invested in your business) on a particular day.

ASSETS
What your business owns

LIABILITIES
What your business owes to others

EQUITY
What you have invested in your business (and your partners, if applicable)

BALANCE SHEET AS OF DECEMBER 31, (20xx)

Current Assets
Cash in Bank
+ Accounts Receivable
+ Inventories
=Total Current Assets

Fixed Assets
Equipment
- Less Depreciation
+ Furniture & Fixtures

- Less Depreciation
=Total Fixed Assets

= Total Assets

Current Liabilities
Accounts Payable
+ Payroll Taxes: due but not paid
+ Sales Taxes: due but not paid
=Total Current Liabilities

Long-Term Liabilities
Notes Payable
+ Mortgages Payable
=Total Long Term Liabilities

Owner's Equity
Owner's Capital
- Less Owner's Draw
± Profit/Loss Prior Year
± Profit/Loss Current Year
= Total Equity

= Total Liabilities

What You've Learned

This session illustrated the importance of cash flow to your business. It explained the idea of budgeting and cash flow projection, and how to use the Cash Flow Statement as a management tool. We also discussed how Income Statements and Balance Sheets are used.

In this session, you learned:

1. Budgeting and cash flow projections allow you to determine what money you need to have coming in, and how that money will be used. This gives you more control over your business's money, and suggests to lenders that you have what it takes to be a good money manager.

2. Cash flow projections allow you to play around with different cash flow scenarios, and see how they affect your bottom line.

3. If cash flow projections show that your business idea can't be profitable, you can save yourself a lot of trouble and grief by coming up with a new idea!

4. The Income Statement and Balance Sheet both help you to evaluate sales, expenses, and profit. They're also of interest to lenders, who use them to decide whether or not to give you a loan.