

Managing Cash Flow



FDIC



SBA

U.S. Small Business Administration

Pre-Test

- Locate the Pre- and Post-Test Form at the back of your Participant Guide.
- Complete the BEFORE Training column to assess your knowledge on this topic *before* participating in this class.

In your
Participant Guide

DON'T
FORGET

Agenda

- Welcome, Pre-Test, Agenda, and Learning Objectives
- Introductions
- Case Study: Bob and The Wired Cup
- The Opening Balance Sheet
- Three Views of Cash Flow
- What Can Bob Do?
- Summary, Post-Test, and Evaluation

Learning Objectives

- Describe the purpose of cash flow management in a start-up small business.
- Assess a cash flow cycle and make some cash flow projections.
- Describe how a cash flow statement can help assess and improve the financial health of a start-up.

Continued ...

Learning Objectives, cont.

- **Identify some ways to manage cash flow in terms of managing costs and potential income.**
- **Identify ways to seek out expert technical assistance to improve cash flow management.**

Introducing Bob and The Wired Cup

Bob's case begins on page 4 in your Participant Guide.

- **The Wired Cup café has had a great start.**
- **Bob faces some cash flow issues and needs to juggle his priorities.**
- **The good news: Bob is thinking ahead and he has great advisors: you!**



Introductions: Where are you on the cash flow continuum?

Beginner

**Intermediate: I know
some, still have
questions**

**I'm an expert (and
still have questions)**

Cash Flow Continuum

Opening Balance Sheet for The Wired Cup

The Wired Cup		Year 1 Opening Balance Sheet	
Assets		Liabilities	
<i>Current Assets:</i>		<i>Current Liabilities:</i>	
Cash	\$ 5,000	Bank Note	\$ 3,371
Accounts Receivable	\$ -	Accounts Payable	\$ -
<i>Pre-Opening Expenses</i>		<i>Long Term Liabilities:</i>	
Accounting	\$ 250		\$ 16,629
Advertising	\$ 500		
Bank Charges	\$ 350		
Cable/Internet Services	\$ 200		
Insurance	\$ 2,000		
Ingredients	\$ 3,500		
Janitorial Supply	\$ 75		
Lease	\$ 1,350		
Legal Fees	\$ 2,500		
Licenses/Fees/Permits	\$ 1,500		
Payroll	\$ 2,400		
Payroll Taxes	\$ 360		
Telephone Services	\$ 150		
Utilities	\$ 365		
Total Current Assets	\$ 15,500	Total Liabilities	\$ 20,000
<i>Fixed Assets:</i>		Equity	
Kitchen Equipment	\$ 9,000	Owner's Capital	\$ 30,000
Lease Hold Improvements	\$ 18,200		
Office/Techn Equipment	\$ 2,300		
Total Fixed Assets	\$ 29,500	Total Equity	\$ 30,000
Total Assets	\$ 50,000	Total Liability & Equity	\$ 50,000

Assumptions: Loan \$20,000 5 years 14.54%; Payroll 3 workers \$10/hr = \$30/hr * two 40 hr. weeks = \$2,400

Page 5 in your Participant Guide



A Few Notes About Debt

- It takes effort to obtain a small business loan.
- Your credit score will directly influence your ability to secure a loan.
- Talk with a bank's commercial loan officer before you need the loan.
- Other modules in this Money Smart series can help!



Opening Balance Sheet for The Wired Cup

Page 5 in your Participant Guide

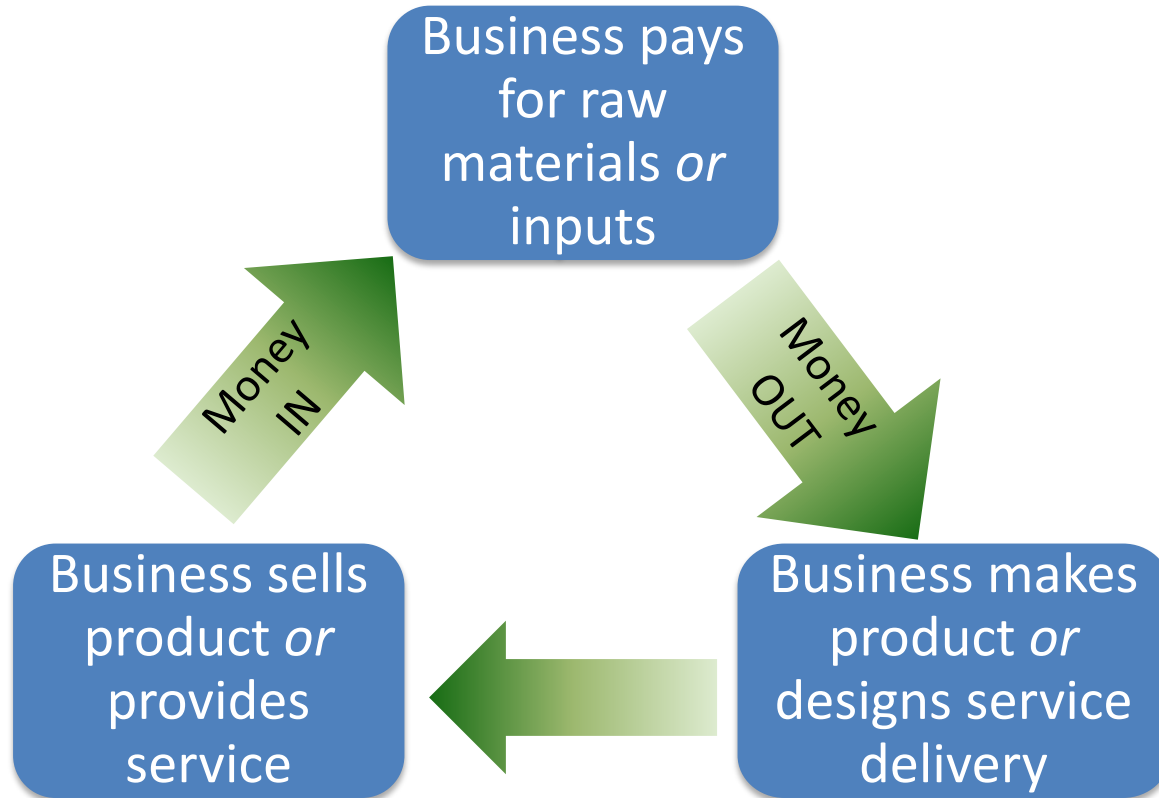
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Three Views of Cash Flow

- **Cash Conversion Cycle**
- **Cash Flow Diagram**
- **Cash Flow Statement**



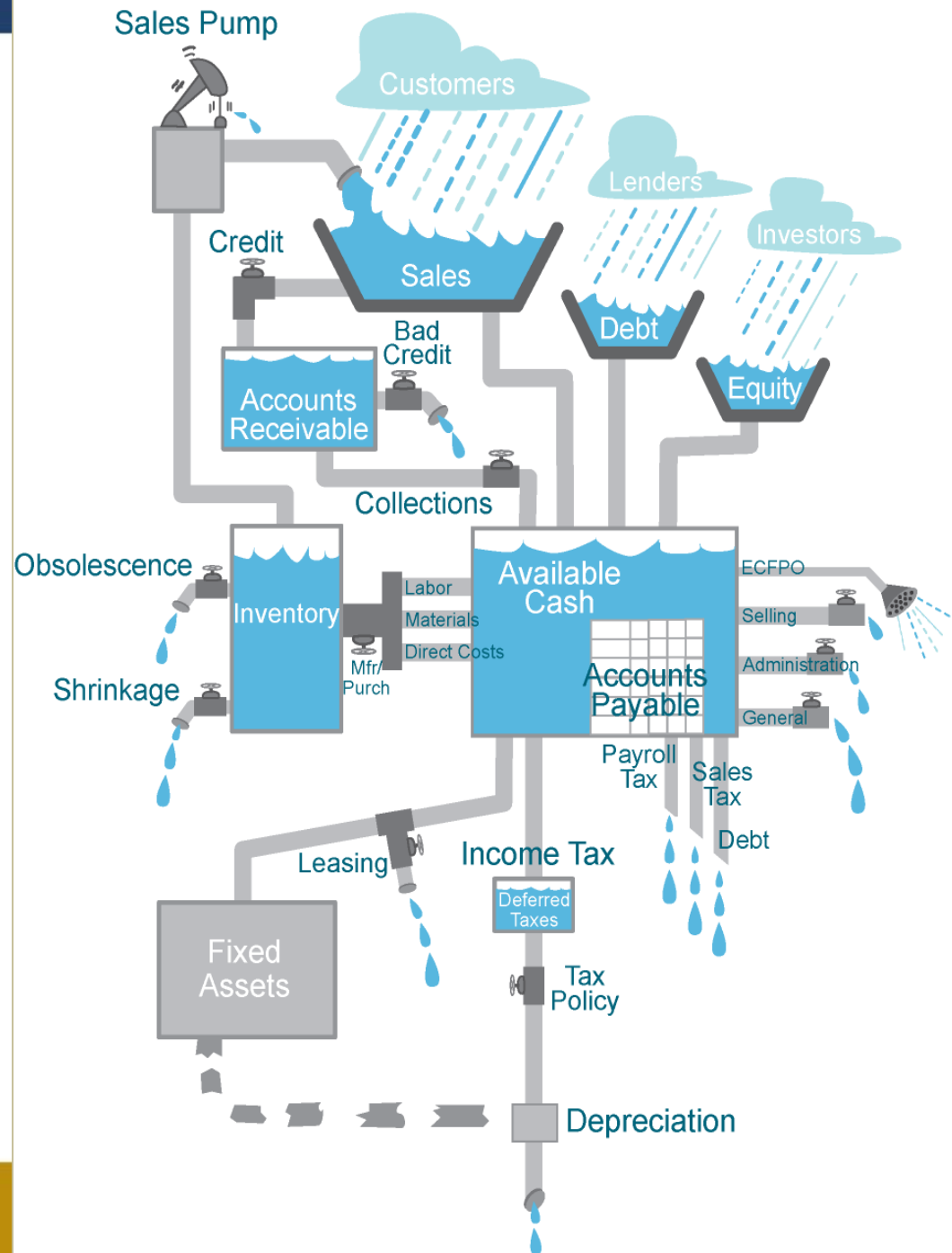
Cash Conversion Cycle



Cash Flow Diagram

Page 7 in your Participant Guide

This diagram has been adapted from a diagram designed by George M. Dawson and illustrated by Buck Dawson, 1995.



The Wired Cup Cash Flow Statement

Page 10 in your Participant Guide.

This statement tells a story:

- How much money Bob has to run his business.
- How much money is moving in and out of The Wired Cup.
- Where the money is coming from and where it is going.
- When that money is moving in and out of the business.



What Can Bob Do?

Group Discussion:

- How can Bob increase sales revenue at The Wired Cup?
- How could Bob negotiate a better deal with his vendors and suppliers?
- How can Bob plan for seasonal ups and downs?
- Is it wise for Bob to use a credit card to offset cash flow issues?
- What do YOU recommend?

Possible Ideas for Bob

Increase revenue

- Provide incentives for customers to pay in cash
- Start catering
- Sell gift cards
- Increase number of corporate accounts

Negotiate with vendors and suppliers

- Ask for better terms or payment plans
- Landlord: pay entire year's rent in 10 months not 12

Reduce costs during slow months

- Staff
- Store hours
- Reduce menu options

What NOT to Do

- Do not postpone paying estimated taxes
- Do not hide from loan officers – they can provide invaluable advice
- Do not pay vendors late (they can cut off supply)
- Do not overestimate revenue
- Do not underestimate costs



It Is Professional to Ask for Help

Ask for advice and feedback:

- **Seek out expert technical assistance.**
- **An accountant can help find ways to increase income and reduce expenditures.**
- **Share ideas with other businesses to find ways to both compete and cooperate (co-opetition!)**



Key Points to Remember

1. **Managing cash flow is a core competency of small business ownership.**
2. **An opening balance sheet tells a compelling story.**
3. **A cash flow statement continues the story. Use it to monitor projected and actual income and expenses.**
4. **Plan for seasonal fluctuations.**
5. **Try to maintain a rapid cash conversion cycle.**
6. **Manage your paperwork like a pro.**
7. **Ask an accountant for advice.**

Toolkit of Resources

- **Glossary of Cash Flow Terms**
- **Cash Flow Statement Template**
- **Negotiating Better Terms**
- **For More Information: technical assistance options – many of these are free!**

See the **Toolkit of Resources** in your Participant Guide for more details.

Pre-Post Test and Evaluation

In your
Participant Guide

- If you have not already done so, assess what your knowledge on this topic was *before* you participated in this class.
- Assess your knowledge on this topic *after* taking this class.
- Complete the Evaluation Form. Your feedback is helpful!
- Return both forms to the instructor before you leave. Thank you!

