

MONTHLY ONLINE EVENT WITH NETWORKING
OPPORTUNITIES

Profit Maximization Strategy Series

Running Your Business by the Numbers



Ensure That Your Cash Flows in the Right Direction

(Session #7)

Andrew Frazier

Jimmy Newson



ANDREW FRAZIER

MBA, CFA

**Business Growth
Pro and CFO**



- Paperboy
- Entrepreneur
- MIT Engineer
- Navy Supply Officer
- Business Manager
- NYU- Stern MBA
- CFA Designation
- Corporate Executive
- Real Estate Investor
- Non-Profit Leader
- Business Owner
- Coach & Consultant
- Teacher & Trainer
- Outsource CFO
- Author / Speaker

Session #7

Ensure That Your Cash Flows in the Right Direction



- Most businesses experience cash flow challenges
- Learn to determine what drives your cash flow issues
- Plan and manage your cash more effectively



The Challenge



- Most businesses are less profitable than they should be.
- Many business owners don't know how to maximize their profitability.
- Economics aside, there are proven strategies to maximize your profitability.



Is This For You?



- Business Owners who are:
 - Generating revenue
 - Looking to increase profitability
 - Wanting to create a sustainable business
 - Seeking to Work ON Their Business Not IN It
 - Looking to maximize value of their business





What You'll Learn Today

- Fundamentals of the Cash Flow Statement
- Cash Flow Is Not Profit and Profit Is Not Cash Flow
- Cash Flow Management Strategies



Review

- What are the 3 key financial statements?
- Which one is most important?
- What are the major categories on each?

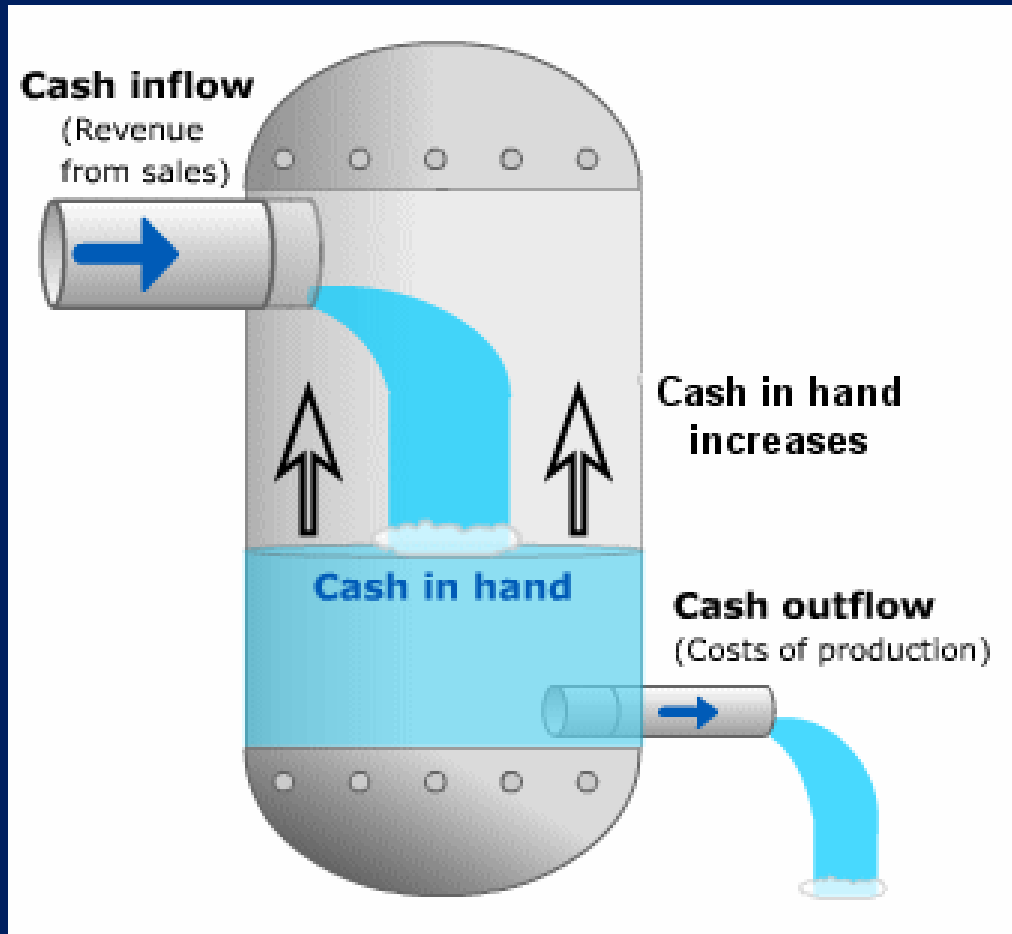


Fundamentals of the Cash Flow Statement

- Cash In
 - Transactions That Increase Cash
- Cash Out
 - Transactions That Decrease Cash
- Cash Flow
 - $\text{Cash Flow} = \text{Cash In} - \text{Cash Out}$
- Ending Cash Balance
 - $\text{Ending Cash} = \text{Beginning Cash} + \text{Cash Flow}$
- Cash Flow Activities
 - Operating, Investing, and Financing



Cash Flow Statement Overview



Sample Cash Flow Statement

STATEMENT OF CASH FLOWS Year Ended December 31, 2100

Cash flows from operating activities:

Net income	\$ <u>197,100</u>
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	5,200
Changes in operating assets and liabilities:	
Accounts receivable	(20,000)
Inventories	(15,000)
Prepaid expenses	(4,000)
Accounts payable	30,000
Accrued expenses	5,000
Deferred revenue	<u>2,000</u>
Total adjustments	<u>3,200</u>
Net cash used in operating activities	<u>200,300</u>

Cash flows from investing activities:

Purchase of property and equipment	(324,300)
Intangible asset purchase	(4,000)
Investment purchase	(10,000)
Net cash used in investing activities	<u>(338,300)</u>

Cash flows from financing activities:

Proceeds from notes payable	10,000
Proceeds from additional paid-in capital	20,000
Proceeds from issuance of common stock	10,000
Proceeds from bond issuance	200,000
Purchase of treasury stock	(2,000)
Net cash provided by financing activities	<u>238,000</u>

Net increase (decrease) in cash and cash equivalents	100,000
--	---------

Cash and cash equivalents, beginning	<u>0</u>
Cash and cash equivalents, ending	<u>\$ 100,000</u>



Sample Transactions

- Transaction #1 – Initial Investment
 - Personal Investment of \$1,000
- Transaction #2 – Buy Inventory
 - Bought \$400 of inventory COD
- Transaction #3 – Buy Equipment
 - Purchase used computer for \$500
- Transaction #4 – Cash Sale
 - Sold \$350 worth of products w/ 100% mark-up
- Transaction #5 – Electric Bill
 - Received bill for \$100 due next month

	#1	#2	#3	#4	#5
Cash IN	\$1,000	\$0	\$0	\$350	\$0
Cash OUT	\$0	\$400	\$500	\$0	\$0
Cash Flow	\$1,000	-\$400	-\$500	\$350	\$0
Cash Balance	\$1,000	\$600	\$100	\$450	\$450
Type	Financing	Investing	Operating		



Cash Flow Is Not Profit

- Profit (Loss)
 - Revenue – Expenses
 - Fixed & Variable Costs
 - Cash/Non-Cash Transactions
- Cash Flow
 - Cash IN – Cash Out
 - Operating, Investing, and Financing Flows
 - Includes Assets and Liability Cash Transactions

	#1	#2	#3	#4	#5
Cash IN	\$1,000	\$0	\$0	\$350	\$0
Cash OUT	\$0	\$400	\$500	\$0	\$0
Cash Flow	\$1,000	-\$400	-\$500	\$350	\$0
Revenue	\$0	\$0	\$0	\$350	\$0
Expenses	\$0	\$0	\$0	\$175	\$100
Profit (Loss)	\$0	\$0	\$0	\$175	-\$100



Making A Profit, But Running Out of Cash

- Growing revenue causes a drain on cash in your business

	Profit	Cash Flow
Purchase \$1,000 of Inventory COD	\$0	-\$1,000
Invest \$500 in Marketing	-\$500	-\$500
Sell \$2,000 and invoice customers	\$2,000	\$0
Cost of inventory in sale for \$2,000	-\$1,000	\$0
Credit Card Payment of \$200 (\$25 is Interest)	-\$25	-\$200
Net	\$475	-\$1,700



Cash Flow Management

- Revenue
 - Get customer to pay at time of purchase/delivery
 - Collect accounts receivable as quickly as possible
- Inventory
 - Maintain appropriate level of inventory (maximize turnover)
- Property, Plant, and Equipment
 - Finance rather than paying from existing cash balances
 - Finance with long term liabilities not short term
- Liabilities
 - Purchase on credit and pay on due date, not early



Cash Flow Management Strategies

- Shorten Cash Flow Cycle
- Offset Receivables with Payables
- Asset Liability Management
- Cash Flow Planning



Review

- What are the 3 cash flow activities on the cash flow statement?
- Will your cash flow be positive if you are making a profit?
- How do payables and receivables impact your cash?



QUESTIONS

Session #8

To Pay Taxes or Not To Pay Taxes, that is The Question



- Nobody wants to pay more taxes, but...
 - Everyone wants to make more profit
- Profit maximization strategies could affect your taxes.
- Your tax strategy may affect your profitability





Small Business Pro University

Learn - Profit - Grow

www.SBProU.com