



CASH FLOW - The Key to Controlling Your Business

By Andrea Zeller

Where's the Cash?

Are you a business owner who struggles to pay your bills? How many of you have had to dip into personal pockets to make payroll or use high-interest credit cards to cover debts? The stress of doing business on emergency levels takes away from your business in more ways than you might think. You will have far greater control over your business and your personal stress level if you learn to project out the day-to-day cash flow—the money that flows in and out of your business. Using the simple steps outlined below, you can learn to control this essential aspect of your business.

Identify Money Flowing in to the Business

Here are simple techniques to help you understand how cash is flowing in to your business:

- **First**, count the cash you have on hand. Use the total cash on hand at the beginning of the first month in your projection. After completing the steps listed here, you will arrive at the end-of-month cash on hand. The ending cash balance will then become the beginning cash balance of the next month.
- **Second**, estimate the cash receipts expected during the month. This will include cash sales, credit card sales, collections from credit account and any interest income. The key here is to record the actual amount of money you expect to flow in. Do not include sales when cash is not received.
- **Third**, record the cash you expect from accounts receivables into the month in which you expect the cash to be received. It is a good idea to calculate your “average collection period” by dividing your total sales for the previous year by 365. This gives you an average daily sales volume. Then divide the dollar value of your current accounts receivable by the average daily sales volume. This number gives you the average number of days it takes you to collect on bills owed to your business. You can use this average time frame to estimate future payments as they come in over the next year.
- **Fourth**, add in any miscellaneous cash such as loan proceeds, stock offerings or owner cash infusions.
- **Subtotal cash available.** For each month in your projection, adding items as specified in steps one through four above will give you the total cash available to you in each month.

Identify Money Flowing out of the Business

Now for cash paid out. Yes, I know, this is the painful part. Now you need to list all your operating expenses. Be sure to document all expenses in the month in which you expect to actually pay for them. You can use last year's expense records to help you project this year's expenses. Here's a short list of items you'll want to include. Your business will undoubtedly have its own unique list of expected expenditures.

- | Gross Wages
- | Payroll taxes and benefits
- | Supplies
- | Repairs and maintenance
- | Postage, packaging, shipping costs
- | Advertising
- | Rent
- | Telecommunications
- | Utilities
- | Insurance
- | Professional service fees (accountants, lawyers, consultants etc.)
- | Interest due on loans
- | Loan principal payments
- | Other expenses unique to your business
- | Owner's draw
- | Capital expenditures (depreciable expenditures such as equipment, vehicle, leasehold improvements, building etc)
- | Miscellaneous (it's a good idea to pad your estimate with a small cushion)

Subtotal Cash Paid Out. When you finish listing the month's expenses, subtotal all the expenses of doing business. This reflects your estimate for the total cash you will need to have in that month.

Determine the Month's Cash Flow. Subtract the cash paid out subtotal from your total cash available to identify your cash flow for each month. As you project your cash flow over 12, 24, or 36 months, each month should be positive. If it is not, you'll need to take steps to mitigate those months where cash flow is expected to be short. A quick scan over each month's totals in a year can give you an idea of how much an alternative cash reserve should be.

Alternative cash reserve could be in the form of a savings account, a line-of-credit from your bank, or perhaps an action as simple as tightening up on the time needed for your accounts receivables to be paid.

If you'd like an MS Excel cash-flow spreadsheet to help you capture a cash flow picture, email info@MCSCorp.org. And, if you'd like more help with your projections, give us a call. We're here to help you learn to control and manage your business for success.

Andrea Zeller, Executive Director of Mission Community Services, coordinates Women's Business Partners (WBP) to ensure all community resources are leveraged and optimized to support entrepreneurial women. WBP serves everyone interested in establishing self-sufficiency through small business ownership while primarily focusing assistance towards socially and economically disadvantaged women. WBP can take you step by step towards success and can help those who speak only Spanish. Visit www.MCSCorp.org or call 595-1357 to find out more.