

MANAGING CASH

The Small Business Owner's Guide to Financial Control



Trinity Valley SBDC

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Trinity Valley SBDC

SMALL BUSINESS DEVELOPMENT CENTER

Your Partner in Success

Our mission is to help start and grow business' in the five counties of Trinity Valley Community College. Whether you're just getting started or ready to expand, we're here to provide the knowledge, tools, and confidence you need to achieve your goals of a stronger, more successful business.

Who we are

We are part of the North Texas SBDC network established in 1986, which is a statewide partnership dedicated to supporting small businesses through professional advising and training. Hosted by Trinity Valley Community College, we proudly serve Henderson, Anderson, Kaufman, Rains, and Van Zandt counties.

What we do

We provide no-cost business advising, low-cost training, and access to vital resources to help new and existing businesses grow and thrive. Our experienced advising staff supports entrepreneurs and small business owners at every stage of the business life cycle—from pre-venture and startup to expansion, growth, and exit.

- **Business plans**
- **Market Research**
- **Loan Structuring & Capital Access**
- **Sales and marketing strategies**
- **Recordkeeping/QBO Training**
- **Cash Flow Analysis/Financial Analysis**
- **Organizing a Business**
- **Employer Resources**

This **Resource Book** is one of the many **no-cost** tools available to our clients. In addition, we have access to a broad range of financial, market, and demographic research reports customized for your industry and geographic location. Take advantage of our innovative services and allow the SBDC to help you **start, grow, and strengthen your business venture.**

Training Calendar

www.tvccsbdc.org/calendar

How to Sign-Up

Complete a Client Request for Advising form at tvccsbdc.org and click the "Sign-up" page

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Click "Schedule an Advisor" on tvccsbdc.org for options



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CASH

THE FUEL THAT RUNS YOUR BUSINESS

HOW MUCH MONEY comes into your business and how much goes out is called cash flow. Gaining financial control by understanding cash flow is crucial to your business success.

MANY PEOPLE THINK their business is sound as long as “more money is coming in than going out.” This can weaken short-term stability and long-term growth.

A CERTAIN AMOUNT OF CASH must always be on hand for day-to-day operations and to pay expenses on time. But what about the gap that occurs when your bills are due before you collect the cash that’s owed you? What about unexpected expenses, like repairs?

WITHOUT PROPER CASH FLOW, even a thriving business can fail. Think of your business as a rope with three intertwined strings. If one string weakens, it affects the strength of the rope.



- The first string is what you sell.
- The second string is what you earn.
- The third is what you spend.

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Key Terms

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This material is not intended to provide or take the place of legal or professional financial advice. If you need advice, look for a professional financial manager, consultant, accountant and/or attorney.

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Trio of Financial Tools

The Cash Flow Statement is valuable, but one statement does not show your company's financial health. You also need to review your Income Statement and Balance Sheet to gain a complete picture and make smart financial decisions.



CASH FLOW STATEMENT

The Cash Flow Statement shows when cash should arrive and how much is needed for your expenses.

Tips and Tools

- Companies can produce a profit, but still not have positive cash flow (see pages 8 and 9)
- Increased sales can cause a "cash drain" due to more expenses (like supplies, labor, etc.) so you need cash to cover this.
- A sample of a Cash Flow Statement is on page 5.
- New Businesses: Show monthly figures in the first year, quarterly figures in the second year, and a lump sum in the third year. Cash jumps up from Year 1 to Year 2 due to start-up costs. Negative balances, common in the first year, need to be covered with cash from loan, owners' investments, or by reducing expenses.
- The Cash Flow Statement should be refined over time. Make sure the numbers you're using are realistic. Develop a habit of reviewing the numbers since they will provide an early warning when cash is low and more is needed.

Statement differences

- Cash is recorded when it is

received and when an expense is paid, which differs from the Income Statement that uses accrual accounting.

- Includes loan payments broken down into principal and interest while the Income Statement only shows loan interest, not principal.

INCOME STATEMENT

The Income Statement is your business "report card" that shows your performance over time on a monthly, quarterly, and annual basis.



Tips and Tools

- Also called an Operating Statement, Profit-and-Loss Statement, and P&L
- Includes income, expenses, and your profit (or loss)
- Shows if sales are going up or down, changes in net income, and how much money is left for owners or to grow the business.

Statement Differences

- Does not show Accounts Receivable (money owed to you) and Accounts Payable (money you owe) like the Balance Sheet.
- Does not show what you own (assets) and what you owe (liabilities) like the Balance Sheet.

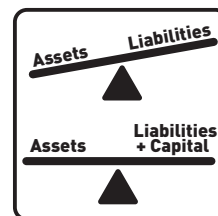
BALANCE SHEET



The Balance Sheet is a picture of your business, or a moment frozen in time, since the numbers change daily. This statement shows what you own (Assets), what you owe (Liabilities), and what's left (Capital/Net Worth).

Tips and Tools

- Assets and Liabilities are divided into two categories: Current (under one year) and non-current (over one year or Long-Term).
- The Balance Sheet is like a



scale. Assets and Liabilities are out of balance until you add Capital to the scale.

Capital, also called Net Worth, includes money owners have invested in the business and retained earnings (money left in the business from the company's profits).

Statement Differences

Retained earnings does not mean cash, since some money is tied up in Accounts Receivable, expenses, and inventory. Review the Cash Flow Statement to see how much cash is left (each month).



Cash Flow Statement Sample

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
CASH IN													
A. Cash On Hand (Beginning of month)	10,000	6,900	21,700	26,200	39,700	53,400	57,800	76,200	98,800	118,300	140,800	168,500	
B. Cash Receipts													
1. Cash Sales	2,000	5,000	5,000	5,000	10,000	10,000	15,000	15,000	10,000	10,000	15,000	15,000	
2. Collections from Credit Accounts	30,000	75,000	75,000	80,000	85,000	85,000	90,000	90,000	85,000	85,000	80,000	80,000	
3. Loan or Other Cash injection (Specify)													
C. Total Cash Receipts (B1+B2+B3)	32,000	80,000	80,000	85,000	95,000	95,000	105,000	105,000	95,000	95,000	95,000	95,000	
D. Total Cash Available (A+C, before cash paid)	42,000	86,900	101,700	111,200	134,700	148,400	162,800	181,200	193,800	213,300	235,800	263,500	
E. Cash Paid Out													
1. Purchases (ex: Merchandise)	0	30,000	40,000	40,000	45,000	45,000	45,000	40,000	40,000	40,000	35,000	35,000	435,000
2. Gross Wages (excludes withdrawals)	10,000	10,000	10,000	10,000	10,000	15,000	15,000	15,000	10,000	10,000	10,000	10,000	135,000
3. Payroll Expenses (Taxes, etc.)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
4. Outside Services	800	700	800	800	800	900	900	900	800	800	800	700	9,700
5. Supplies (Office and operating)	400	400	400	400	400	400	400	400	400	400	400	300	4,700
6. Repairs and maintenance	400	400	400	400	400	400	400	400	400	400	400	300	4,700
7. Advertising	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
8. Car, Delivery and Travel	2,000	2,000	3,000	2,000	2,000	2,000	3,000	3,000	2,000	2,000	2,000	2,000	27,000
9. Professional Services (Accounting, legal, etc.)	1,000	0	0	1,000	0	0	0	0	0	1,000	0	0	3,000
10. Rent	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
11. Telephone	300	300	300	300	300	300	300	300	300	300	300	300	3,600
12. Utilities	400	400	400	400	400	400	400	400	400	400	400	400	4,800
13. Insurance	0	400	400	400	400	400	400	400	400	400	400	0	4,000
14. Taxes (real estate, etc.)	0	800	0	0	800	0	0	800	0	0	800	0	3,200
15. Interest (on loans)	500	500	500	500	500	500	500	500	500	500	500	500	6,000
16. Other/Miscellaneous Expenses (Specify)	0	0	0	0	0	0	0	0	0	0	0	0	0
17. Subtotal	22,800	52,900	63,200	63,200	68,000	72,300	73,300	69,100	62,200	63,200	58,000	56,500	724,700
F. Other Operating Costs													
1. Loan Principal Payment	300	300	300	300	300	300	300	300	300	300	300	300	3,600
2. Capital Purchases (ex: Buy a computer)	0	0	0	0	0	5,000	0	0	0	0	0	0	5,000
3. Other Start-up Costs (specify)	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Reserve and/or Escrow (ex: Pay \$100K loan)	10,000	10,000	10,000	5,000	10,000	10,000	10,000	10,000	10,000	5,000	5,000	5,000	100,000
5. Owner's Withdrawal	2,000	2,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000	4,000	4,000	4,000	36,000
G. Total Cash Paid Out (E17 + F1 through F5)	35,100	65,200	75,500	71,500	81,300	90,600	86,600	82,400	75,500	72,500	67,300	65,800	
H. Cash Position (End of month, D minus G)	6,900	21,700	26,200	39,700	53,400	57,800	76,200	98,800	118,300	140,800	168,500	197,700	

BALANCE This company always has **positive cash flow** that confirms the business is consistently generating more cash than it spends and has the ability to pay debts.

See pages 6 and 7 about creating positive cash flow and avoiding negative cash flow.



Maximize Cash Flow: Accounts Receivable

Accounts Receivable is the money customers owe you. It is also called A/R or Receivables. Your cash is “tied up” in these accounts, so it’s good business to collect your money as quickly as possible. This requires maintaining accurate records so you know when an overdue account needs to be contacted. The more money your business can accumulate and add to its surplus, the greater your stability and strength.

As a business owner, you want to give your customers a choice of payment options and make it easy for you to get paid.

CREDIT CARDS

- Accept credit card payments in person, remotely, and online.
- Digital payments: “Mobile wallets” allow customers to make payments with mobile devices since credit card information is securely stored inside.
- Merchant account: A secure holding account that accepts credit card payments for your business. Most providers charge a monthly, ongoing fee for merchant account services.
 - Payment gateways encrypt transactions and send the customers’ credit card information to a payment processor.
 - Payment processors send transaction information to the credit card networks (like Visa) who verify the transactions before funds are deposited in your bank account.
 - You pay a 1% to 4% fee per credit card transaction, plus a processing fee.
- Think of a merchant account like a train station, the payment gateways/processors are the tracks connecting the station to your customers’ banks, and the credit card transactions are the trains.

PRE-AUTHORIZED PAYMENTS

- Get regular or recurring payments (for services like subscriptions and memberships) from your customers by billing them at certain intervals with their permission.
- Money is automatically withdrawn from a customer’s bank account when the payment is due and deposited into your account.

CASH, CHECKS, MONEY ORDERS

- Preferred by some customers.
- Require more of your time to tally and deposit plus they require good record keeping.

Tips and Tools

- References: Ask potential customers for companies that have extended them credit (so you can contact them to make sure they pay on time).
- Require deposits.
- Divide invoices. For example, ask for a third up front, a third when the job is in progress, and a third when the job is done.
- Work on *retainer* whenever possible.
- Send an invoice when a job is completed with payment due dates.
- Send a work-in-progress invoice if a project stalls, with a breakdown of the completed work
- Develop a *credit application* and *policies*. Print them on your invoices and quotes.
- Check a potential customer’s *credit rating* by ordering a *credit report*.
- Offer *early payment discounts* to encourage customers to pay bills before they are due.
- Overdue Invoices
 - Sort late invoices by date and work on larger balances first.
 - Mail/email the invoice and note that it is overdue. If no response, call the customer.
 - If a customer cannot pay the entire invoice, offer a schedule of smaller payments with deadlines.
 - Use a *collection agency* if you are not successful collecting a debt from a customer.



Maximize Cash Flow: Accounts Payable

Accounts Payable is the money you owe. It is also called A/P or Payables. For example, you bought equipment but did not pay for it yet. Managing Accounts Payable requires finding a balance between paying bills on time and maintaining enough cash for daily operations. In order to keep your good credit, you must pay your bills on time.

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Predict sales realistically so you can determine your expenses accurately. Understanding your expenses allows you to change and control them. Your aim should always be decreasing expenses.

EXPENSES

Your costs are divided into fixed and variable expenses. Fixed expenses do not change with the amount you sell, but variable expenses do go up and down.

- Fixed expenses remain the same (like business loan payments).
- Overhead costs are not directly related to the production and sale of your products and services but are necessary to run your business. Examples include rent, utilities, insurance, and office supplies.
- Variable expenses relate to your business income. If sales drop, so should your variable expenses. Examples include materials to produce your products, credit card fees, and delivery/ shipping charges.

Reducing your expenses improves cash flow since the less you spend, the more cash your business will have.

- Small purchases, when combined, can put a drain on your cash flow.
- Avoid ordering more supplies than you need.
- Buy used items when possible.
- Lease equipment rather than buying, which allows you to pay a fixed monthly amount for the use of equipment.
- Negotiate with vendors about prices.
- Check with other vendors to see if they offer lower prices.

VENDORS

Good relationships with your vendors are important. If you miss payments or pay late, vendors could become hesitant to work with your business. This could result in slower delivery times, less willingness to fix problems, slower responses to your requests, and stricter payment terms.

- Monitor invoice due dates to avoid extra costs like late fees and interest charges.
- Ask for *extended payment terms*, which allows more time to pay bills.
- Read the terms of your invoices to see how long you can wait to make a payment.
- Ask vendors if they offer *early payment discounts*.
- If cash is too tight to make a payment, let your vendor know.

Tips and Tools

- Employees: Use a *payroll service* to calculate wages and pay the associated taxes.
- Record bills when received.
- Automate payments: It takes time to manually calculate and pay invoices plus it is difficult to track payments that have or have not been paid.
- Use accounting software that automates the process.
 - Software reduces piles of paper invoices, etc.
 - Your accountant/bookkeeper can see your numbers remotely
 - You can access your business numbers from any location.
 - Software organizes and processes your bills by vendor, status, and outstanding balances.



Negative Cash Balance

Income	\$5,000
Expenses	-\$9,000
Balance	-\$4,000

Working with a small cash surplus is risky and you cannot run a business with negative cash. Before you're dangerously low on money, arrange for cash infusions by increasing sales, speeding up cash collections (see page 6), slowing down expenses (see page 7), getting cash from business owners, and financing.

FINANCING

Financing is one way to infuse a business with cash. Key questions: How large a loan will you need? How will the loan be used? How will the loan be repaid? How much *collateral* do you have?

Term

How long will it take to repay the loan?

Short-Term Loans

Short-term financing has a term of under a year and is typically used for *working capital*, turning negative cash flow positive, purchasing inventory and prepaying expenses.

- Line of Credit (LOC): The lender will determine a maximum amount of money available to you, then you borrow as you need it. You make a monthly payment, but it is not a fixed amount, since the loan amount varies according to how much you have "used." Interest is calculated on the balance you owe.
- Business Credit Cards: Make sure the card's credit limit is enough for what you need. Balances should be paid back within months.
- Accounts Receivable Financing: Your company's Receivables are sold to a lender or third party.
- Inventory Financing: This method gives you money based on your inventory.

Intermediate-Term Loans

These loans are for one to five years and are used for a specific purpose, such as buying equipment. You receive the amount of the loan in one lump sum up front, then repay it in monthly installments for the length of the loan. Interest is charged on the outstanding balance.

Long-Term Loans

A long-term loan has a term of six years or longer and is usually for larger expenses, like commercial real estate or expensive equipment.

- Commercial Real Estate Loans: Used for new construction and to purchase or refinance commercial/investment property.
- Equity Loans: Lenders let you borrow money using your real estate as security.

Tips and Tools

When you look for a loan, the financial health of your business will be uncovered. This information will help lenders decide how much money to finance and what interest rate to charge. As a business owner, your personal financial health will also be examined when applying for business financing. Order *personal credit reports* for yourself and any other owners of the business.

Example: A Growing Business Loses Its Sparkle

Gemma's Jewels received new orders at a trade show, but when production was increased to fill those orders, here's what happened: Gemma had enough money to pay for labor. Accounts Payable increased, since Gemma buys materials on credit. Accounts Receivable increased because Gemma sells her products on credit. Before the money from her sales was received, Gemma's bills were due! Sixty days after filling the new orders, Gemma was out of cash.

What's The Lesson?

Gemma learned that **fast growth can eat cash quicker than it produces it**. A Cash Flow Statement would have shown her that the business was low on cash three times a year. She has since gotten a line of credit to help cover expenses during those lean months.



Positive Cash Balance

Income	\$5,000
Expenses	-\$2,000
Balance	+\$3,000

If your business shows a positive cash flow, congratulate yourself, but don't relax! Remember, the numbers can change from month to month

GOOD USES FOR CASH RESERVES

- "Emergency" Fund: Unplanned expenses can damage your cash flow. What if your water heater breaks? What if you make an insurance claim and need a few thousand dollars to meet your deductible? It's smart to set aside a portion of your income for expenses like these.
- Capital Expense Fund: Equipment eventually needs to be replaced. A portion of the cost is regularly set aside in a fund so the money will be available when the item needs replacing.
- Purchase more supplies: Prices are always increasing so take advantage of sales and lower prices.
- Buy in bulk: Provides cheaper prices and larger margins.
- Buy buildings, property, and equipment: Set the stage for future growth and increase your business deductions.
- Pay employees: Reward employees with raises and bonuses. Employees who feel their work is valued are less likely to look for another job, which reduces expensive employee turnover

INVESTMENT ACCOUNT

Squeeze more profit out of your business by investing extra cash. Set up a routine for saving with automatic monthly withdrawals. Take the time to learn about your options. There are many ways to invest surplus cash:

- Savings accounts/Money market accounts: Earn interest on your funds.

- Certificates of Deposit (CDs): Have a fixed interest rate for a certain term.
- Bonds: Issued by governments and corporations when they want to raise money. By buying a bond, you're giving the issuer a loan that pays interest.
- Securities: Stocks or shares in a company
- Mutual, Index, and Bond Funds: Money is pooled in bonds or follow a market index.
- Real Estate: For commercial buildings or land. Real estate develops equity over time, which can be used as collateral to secure a loan.
- Retirement: Saving for retirement is a long-term investment in yourself.

Tips and Tools

Consider these factors when making investments:

- Return: The percentage you earn on an investment. Some products, like CDs, offer a *guaranteed* return.
- Safety: What's the risk? CDs are insured and the return is guaranteed but stocks are not.
- Liquidity: How quickly can you access your money?
- Diversity: Spread your money among several types of investments. For example, you could invest in CDs and own your business building.

EXAMPLE: A Small Business With Designs on Success

Claire Jones and Max Smith began an interior design firm with \$5,000 in personal savings. Their goals were to win big clients, collect money quickly and reinvest profits into the business. In three years, annual sales reached \$5 million. But Jones and Smith were so busy running the business, they lacked the time to deal with their "idle cash surplus." It was not unusual to have \$10,000-\$20,000 sitting in their checking account!

What's The Lesson?

After developing a Cash Flow Statement, Smith and Jones began investing monthly into a savings account and mutual funds. They also set up retirement accounts.

Key Terms

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ACCOUNTS RECEIVABLE

Collection agencies

Companies who try to collect your overdue invoices. The fee for this service varies, so be sure to ask.

Credit application

Form with a customer's financial information including bank and credit references. Contact the customer's bank and ask the date their account was opened, its 12-month average balance, and if any checks have been returned in the past six months.

Credit policies

Terms or rules that your company expects customers to follow, when you allow them to pay at a later date. For example, customers pay you in 30 days.

Credit Rating

Customers' credit worthiness based on their history of borrowing and repaying.

References

A list of organizations that have extended credit to this customer. Ask each reference how long they've been doing business with the company and their credit limit.

Retainer

Agreement in which your customer agrees to pay you a flat fee every month in exchange for a pre-determined amount of work. Retainers are usually used for long-term projects.

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ACCOUNTS PAYABLE

Early Payment discounts

An incentive to collect payments quickly by reducing the invoice amount. For example, 1% is deducted from an invoice if it is paid within 10 days.

Payroll service

A company that calculates wages, making the appropriate deductions for state and federal taxes, pension funds, medical insurance, etc.

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NEGATIVE CASH BALANCE

Collateral

Assets pledged to secure a loan. If the loan is not repaid, assets would be sold and the money used for that purpose.

Personal Credit Report

A complete picture of your financial history. Companies that offer these reports include:

- Equifax at 800-525-6285 or visit www.equifax.com
- Experian at 800-311-4769 or visit www.creditexpert.com
- Trans Union at 800-680-7289 or visit www.transunion.com

Working Capital

The difference between your current assets and liabilities (those that can be converted or paid within one year). This shows your available "liquid" money and your ability to pay current debts.

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POSITIVE CASH BALANCE

Equity

The difference between the fair market value of something and the balance due on the loan. For example, you own a building valued at \$100,000 but you owe \$60,000 on the mortgage. The equity is \$40,000.

Guarantee

A promise by the lender that you'll get your investment back, plus interest.

Maturity

Date on which the investment vehicle ends and the money (both principal and interest) are due to the investor.