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Building and Maintaining Your Cash Flow

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Learning Objectives

- Strategies to Predict Cash Cycles
- Protect your Business by Understanding the Difference between Cash and Profit
- How to Increase Cash Flow

4 Key Concepts

- Cash is not profit
- Improve cash inflow
- Manage cash outflow
- Cash flow forecasting

A Healthy Company

- A healthy company has healthy cash flow.
- The ultimate determinant of a business's success is its ability to generate positive cash flow



Cash Flow is

- The pattern of cash coming in and cash going out
- Positive cash flow is when cash coming in is greater than cash going out

Cash Inflows vs Cash Outflows

- | | |
|--------------------------|-----------------------|
| • Sales | • Overhead Expenses |
| • Borrowings | • Equipment Purchases |
| • Interest and Dividends | • Debt repayments |
| • Rent | • Taxes |

Positive Cash Flow



- Does not happen by luck alone but by careful planning and cash management

1. Cash is not Profit

- A business can be extremely profitable but experiencing poor cash flow
- Profit is the difference between income earned and related costs over a period
- A timing difference
- Cash is king
- Profits do not pay bills !

2. Improve Cash Inflows

- Increase sales (using our 4 Proven Ways)
- Ask for deposits / retainers
- Early payment incentives
- Cash incentives
- Efficient invoicing procedures

3. Manage Cash Outflow

- Do not cut costs at the expense of business productivity and growth
- Pay bills when due and not before – except where early payment discounts apply
- Negotiate favorable payment terms with suppliers
- Use short term debt for operating capital and long term debt for assets

4. Cash Flow Forecasting

- What you can measure you can manage



Cash Flow Cycles

- Every business has cash flow cycles determined by :
 1. the industry in which it operates
 2. the financial economy
 3. the owner's schedule

Goals of a Cash Flow Forecast

- To predict how much cash is needed
- To predict when extra cash is expected to be generated
- To predict when loans may be needed
- To plan to use slower periods effectively – for example for marketing or new product launch
- To plan for new equipment and other asset purchases

Sample Cash Flow and Profit Analysis

	JAN	FEB	MAR	APR	MAY	JUNE	TOTAL
sales	30	30	60	80	20	30	250
collections	0	30	30	60	80	20	220
variable	1	1	24	32	1	1	59
fixed	25	25	25	25	25	25	150
cash flow	(26)	4	(19)		54	(6)	11
profit	4	4	11	23	(6)	4	41
Loan/capital	26		15				41
Cash balance	0	4	0		58	52	

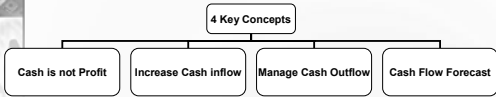
When will you pay back the loan/capital?
 When will you pay taxes?
 When will you purchase assets?
 When will you spend on other/non-regular expenses?

Start your Forecast Today

- Create a monthly schedule showing cash in and cash out
- Adjust schedule for changes in your business
- Roll schedule over from year to year



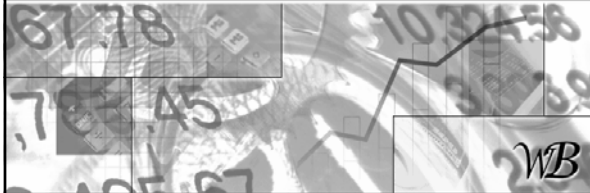
In Summary



And Remember...



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