



Cash is King?

Steps to Perform a Cash Flow Analysis

Step One: Cash Flow Analysis

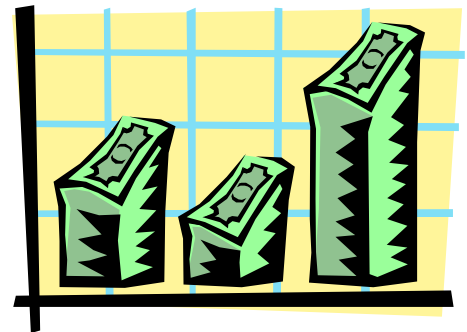
The first step is to analyze what you are currently doing. Below we focus on two critical areas of cash flow; accounts receivable and accounts payable. The questions asked should be thought provoking in terms of doing everything you can to “maximize” cash flow in these areas.

Step Two: Perform the “MAX” Test

Preparation work before you create your budget is required. To assist you, perform this self assessment questionnaire.

Account Receivables “MAX” Test

- Are you offering discounts to customers who pay rapidly?
- Do you ask for deposit payments at the time of order?
- Have you looked into having ACH applied to customers?
- Do you do credit checks on new customers?
- Do you have policies and procedures that address the late payers?
- Do you charge interest?



Account Payable “MAX” Test

- Are you taking full advantage of payment terms?
- Can you utilize electronic funds transfer (EFT) to make payments on the last day they are due?
- Are you negotiating discounts and terms up front when choosing suppliers?

Step Three: Create a Cash Flow Budget

Budgets are educated guesses you start with that include the following factors: 1.) customer payment history, 2.) your ability to identify future expenditures (should be in two brackets, fixed and variable), and 3.) your vendor’s patience. Net cash flow is the difference between the inflows and outflows within a given period. You can find a cash flow budget worksheet download on our web site at www.cpamadison.com. This will assist you in projecting your businesses capacity to generate a positive cash flow. Often times business will have several reserves of cash flow based upon a set of “what if” assumptions for the next year. Always factor in a consecutive set of “what ifs” in your set of budgets.

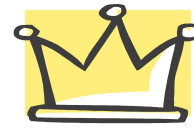
CAUTION: Beware of the Pitfalls - Yellow Flag in your race to build an accurate budget

Watch out for assuming, without justification, that receivables will continue coming in at the same rate they have been historically, that payables can be extended as far as they have in the past, that you have included expenses such as capital improvements, loan interest and principal payments and any fluctuations in seasonal sales.

When completing a cash flow budget, be aware of the dangers of:

- Overstating sales forecasts/budgets.
- Understating costs/seasonal fluctuations.
- Ignoring historic trends/payment trends.
- Uninformed assumptions about your banking relationship.
- Not knowing your top three cost/expense drivers.





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Step 4: Manage the Cash Crunch

Now you have complete cash flow budget/projections. Everything should work according to your plan, right? I wish I could tell you this is fail safe approach, but we all know that even the best laid plans experience surprises. For those surprises or other cash flow issues, proceed to Step 4 to uncover some strategies for surviving the “cash crunch”.

Sooner or later we all experience a situation where you lack the cash to pay your bills. This doesn't mean you are a failure as a business person. You may not have predicted everything in the future according to your crystal ball. So you ask, “What can I do?”

Cash Crunch Tools

1. Catch it early! What controls do you have in place to tell you when this might occur? Is it preemptive or reactive?
2. Work with your bank! Bankers appreciate being involved in these discussions early. They would much prefer lending you money before you need it. Credit lines can be a great tool to assist in managing fluctuations, periods of growth, environment changes, etc. Bankers can offer valuable advice to assist you during this period.
3. Communicate with your vendors! You can often get extended terms from suppliers that equate to a low-cost loan just by asking. You build on credibility if you are proactive in your discussions.
4. Leverage your accounts receivable. Most lending institutions will extend funds against current receivables. When I say current, I mean within sixty (60) days. Again, it pays to stay on top of your collection policies and procedures.
5. Sell/lease back assets. Do you have big ticket items like machinery, equipment, computers or phone systems? Leasing companies may be willing to perform buy back transactions. Proceed with caution, as there is a cost to this.
6. Be aggressive with collections. Offer a discount for immediate payment. Customers over ninety (90) days should be called every day until payment is received or payment has been negotiated.

Whether you are a new business or have been around for several years, cash flow will always be a significant component contributing to the success of your operation. The devil is in the details!

For questions or assistance in completing your company's cash flow budget call Stephanie Barganz, CPA, SPHR, Partner at Bodilly CPAs & Consultants, LLP at 608-664-1047 or via email at stephanie.barganz@cpamadison.com.

For additional suggestions, see 30+ *Ways of to Create Positive Net Cash Flow* on our web site at www.cpamadison.com.

Please email us if you are interested in attending a cash flow seminar/workshop!