## **CPA**

## Practice **Advisor**

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new equipment? Hire staff to help grow your sales?

Dec. 26, 2013

What could your business do with an extra \$1 million in cash? Borrow less? Invest in new equipment? Hire staff to help grow your sales?

The answers likely depend on the goals for your specific business, but few entrepreneurs would argue they couldn't use the extra money. The issue, of course, is how you get it.

Surprisingly, business owners often have the ability to collect a lot more cash each year, but many don't realize it because they don't look at their financial statements. If they did, they might see several weeks' worth of sales sitting on the balance sheet in accounts receivable – the unintended result, perhaps, of a shift in the company's credit policies over time or a recent slowdown in collectability.

For a business with \$25 million in sales that routinely takes 45 days to collect accounts receivable, shaving off 14 days can mean nearly \$1 million more in the bank and off the books, even without increasing sales a dime.

It can be tough for business owners to find or make the time to read financial statements – the income statement, the balance sheet and the statement of cash flows. In addition to other seemingly more urgent demands on your time, obstacles can include the fact that many highly intelligent business owners may have little training or experience in interpreting numbers from a financial statement, so they may not understand them or understand their importance.

But financial statements tell the story of your business and your future fortunes. One way to learn more and get more from your financial statements is to meet with your accountant for a financial checkup at least once a year. Don't limit trips to tax time.

Ask your accountant to explain in plain language what he or she considers to be a

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product or providing the service) relative to sales across several time periods, a business owner can identify when cost increases are outpacing revenue gains, for example. Your review of gross margin might prompt you to re-negotiate prices with suppliers or eliminate inefficiencies in production.

Comparing operating income (which is the amount of profit left after the cost of goods sold, wages and depreciation are subtracted) and sales gives the operating margin, and looking at that number over time can help a business owner judge whether the company's cash position is likely improving or getting worse. The operating margin shows the full impact of a company's pricing strategy and its operating efficiency. Sometimes, increases in sales may decrease profits, and you'd rather know that as soon as possible, right?

"Keep in mind, analyzing trends is much more important than looking at where a company is right now," Sageworks Chairman Brian Hamilton said recently during a webinar for journalists on understanding financial statements. "It doesn't mean the current status of a company is not important. But really, it's the trend of the data we're looking for."

Benchmarking, or comparing your company's margins to others in the industry, can help you figure out whether you're ahead of or behind the curve, according to Amit Chandel, a CPA who is principal of Focus CPA Group in Brea, Calif.

He encourages clients to look at a few key financial-statement items regularly so they can continue to boost the worth of their biggest asset – even during the downturns that are inevitable in the economy. "You have to build value in the business," he said.

Another really important metric on financial statements can be found on the cash flow statement: The line showing cash flow from operations. Cash flow from operations identifies how much cash the business is generating from operations, and

the figure can't be negative for long or a company is in big trouble. Negative cash

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