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Stephen Deason • Feb. 17, 2017

Cash, not income, is King!

We've all heard the statement, "Cash is King." Unfortunately, many business owners focus exclusively on Profit and Loss, often to their detriment. Income is not cash, and the money in your bank account pays your employees, purchases your inventory, and expands your business. Cash flows, not accounting profits, form the life-blood of your business. Thus, accurately creating and maintaining your cash flow projections

also help you successfully manage receivables, payables, and stock, and plan strategies such as investments, expansions, and borrowings. So, how do we go about projecting cash flows?

What You'll Need

Cash flow projections forecast changes in your cash position on a periodic basis, typically monthly. To most accurately project cash flows, you'll need your financial forecast or pro forma statements. *Online Resource #1: If you would like additional information on financial forecasting, Rosemary Peavler does a good job covering the topic in a recent article* here.

5 Repeatable Steps

In producing your cash flow projections, you're going to repeat the following steps for each period, typically a month. Step 2 and step 3 are discussed in greater detail below the steps:

1. You'll need to begin by determining your beginning cash balance, often found by simply looking at the bank account balance(s) for your business, and you're going to want a target amount of cash you want available each month.

2. Determine how much cash is going to flow into your business during the month.

3. Determine how much cash is going to flow out of your business during the month.

4. Determine your "financial runway." That is, how long do you have before you need to increase capital through investing or financing activities? If your cash outflow is greater than your cash inflow, determine your Cash Burn Rate. The Gross Cash Burn Rate is the total amount of operating costs that reduce cash (operating costs=expenses paid for with cash during a period) while the Net Cash Burn Rate is the total amount of cash a company loses each month (operating cash outflows

A Key to the 5 Steps

The most important part of creating accurate cash flow projections is understanding how and when your income differs from your cash flow. We will begin using your Profit and Loss projection. Since you've already projected sales and expenses, we're going to move through each line and note when you expect to collect from customers on your sales and when you will pay the expenses you incur, typically by making a payment reducing a liability. Fortunately, many items are identical between the projected P&L and you're Cash Flow Projection.

The items that often differ include insurance, prepaid rent, and taxes. Items that certainly differ include Depreciation, Amortization, Owner Draws, Capital Purchases, and Loan Principal Payments. While you should never expect to achieve 100% accuracy, the objective is to be as realistic as possible for each line item. *Online Resource #3: Freely downloadable templates including all these line items and more are available from www.score.org,* here.

Webinar and Quick Assessment Resources

During a recent webinar with The Marks Group founder, Gene Marks, and Entryless founder and CEO, Mike Galarza – which can be accessed here: *Online Resource #4: The Automated Bill Payment Revolution* – I had the pleasure of discussing cash flow management and financial measures such as cash flow projections, unlevered free cash flow, working capital, and NOPAT. If you'd like to learn more about these topics and how Sage Live and Entryless can make cash flow projections easier for businesses, please feel free to listen!

Finally, if you need a quick "back of the envelope" method to determine whether you have potential cash flow problems, Susan Ward discusses comparing total unpaid purchases and total sales due in her recent article. She also provides more detail and

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