Grow and Succeed PUBLISHING

Business Owners and Executives:

The Secret to Taking Control of Your Cash Flow

Do you feel like you have the cash flow of your business under control? Or do you feel uncomfortable because you know you're basically flying blind? In this report, I will share with you an easy-to-understand, step-by-step solution so you always know exactly what's going on with one of your most precious assets – your CASH.

by Philip Campbell

Have you ever said this to yourself…

"I know I'm making money, but what happened to it? Where did all the cash go?"

In my seminars and speaking engagements I ask the participants if they believe as I do that cash is the lifeblood of the business – a precious asset that, if it ever runs out, will send their business swirling down the drain.

100% of the participants say "YES". Then I ask for a show of hands for all those who feel like they have the cash flow of their business under control. 10% to 15% raise their hand.

Why is My Cash Flow Such a Mystery?

Those results are consistent with my experience over the last 20 years working with business owners. The vast majority are doing the best they can to create a successful business and hoping and praying that the cash flow will take care of itself.

That's scary when you consider that cash is the lifeblood of your business – the fuel that keeps your business alive.

The key to taking control of your cash flow is to first understand why your financial statements, by themselves, do not present a clear picture of your cash flow.

There are three very important reasons why this is true… and why so many business owners are confused and constantly worry about their cash flow.

Learning each of these reasons will transform the way you manage your business forever.

Reason Number 1.

Revenue minus expense does NOT equal cash flow.

Most business owners believe their cash flow is defined as the revenues they generate less the expenses they have to pay. NOT true.

It's very important that you stop for a minute and really make sure you understand this point. I guarantee you will see your business in a whole new light (and discover several ways to put lots of cash back into your bank account real fast) when you really understand this.

Turn the page to learn more ⇨

Below is an income statement for a portion of a year for a small retail business.

Sales	$ 384,176
Cost of goods sold	188,559
Gross profit	195,617
Selling, general and administrative	120,402
Depreciation & amortization	6,727
Total operating expense	127,129
Operating income	68,488
Interest expense	(2,570)
Pretax income	65,918
Income tax expense	(22,412)
Net Income	$ 43,506

The income statement shows net income of $43,506. This represents nine months of results for this business. Now for the important question - Looking at the income statement above, tell me how much cash this business added during the nine-month period.

And the Answer Is…

The business actually USED cash during the period. The cash balance went DOWN by $40,400. That's right! Revenues were greater than expenses in the income statement by $43,506 (meaning the business generated a profit), but the business actually has $40,400 LESS cash as a result.

The big question is – Why. How do you create a profit in your business and lose cash as a result? Good question.

The answer lies in the fact that certain cash flow items never show up in an income statement while other cash flow items will show up there but in different periods and in different amounts.

In this case, the difference between net income and cash flow was primarily a result of the purchase of a truck for cash, sales made during the period that were not collected (accounts receivable), estimated tax payments made in an amount different than tax expense for the period, increased inventory levels in preparation for the coming selling season, distributions to the owner, and principal payments on a bank loan.

The rules of accounting determine when transactions are recorded in your financials and how they are recorded. The reality of business determines when you receive, or let go of, your cash.

Try this same test with your income statement. Look at a recent period and see if you can tell what actually happened to your cash.

Reason Number 2.

Your financial statements are focused on the past.

The basic financial statements are always historical, meaning they show you what has already happened. Which is very useful so you can look at what you set out to do (what's in your budget or business plan), and what actually happened.

You can then determine what you need to do in the future to ensure you achieve your goals. You are adjusting your target and approach based on real time feedback about what's working and what's not working – it's smart – it's mature.

If you don't measure what happened you can't decide what, if anything, you need to do different this month or next month. That's what the historical financial statements are giving you – the information so you can answer the question – "what do I need to do right now to make sure I achieve the financial results I want."

But let's not try to use them as our only tool to understand and manage our cash flow.

Your financial statements are a bit like the rear view mirror in your automobile.

The rear view mirror is very helpful when you need to see what is behind you. However, when you are driving down the highway at 70 miler per hour, your primary focus needs to be on what's in FRONT of you.

An occasional glance in the rear view mirror is all that's required.

You have to have a good clear view of what's ahead of you in order to get where you're going safely. Look in the rear view mirror for too long and you'll end up crashing into something in front of you.

It's the same with your cash flow.

You have to know what your cash flow was in prior months, you have to know what your cash flow (and your cash balance) is right now, and you have to know what you expect your cash flow (and your cash balance) to be over at least the next six months.

Reason Number 3.

The so-called "cash flow statement" required by generally accepted accounting principles is seriously flawed.

Now this will probably only affect you if you have a larger company or have some bank debt and have to provide audited financial statements. GAAP, or generally accepted accounting principles, requires that a complete set of financial statements include what it calls a cash flow statement.

The name of that statement would suggest it's the perfect tool to use to manage your cash flow. It's not! Not by a long shot.

The basic problem with that schedule is the format and approach used to create it.

It takes net income as reported on the income statement and then computes changes in a number of balance sheet accounts, together with other investing and financing activities, to arrive at the change in the cash balance for the period.

It is a convoluted and difficult to understand approach. You pretty much need a degree in accounting to begin to make any sense out of that schedule.

Don't try to use it as a tool for managing your cash flow. Despite its name, it's a lousy tool for understanding and managing your cash flow each month.

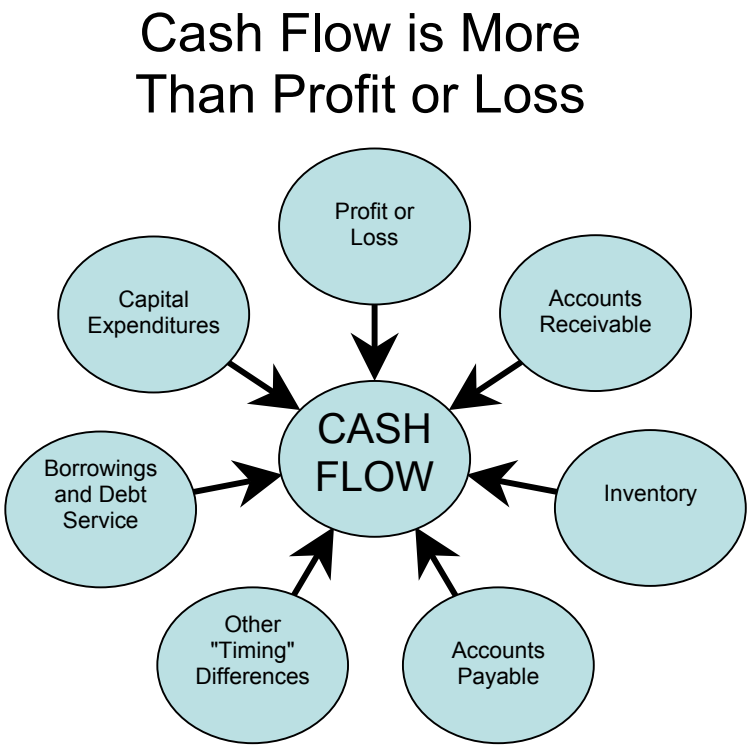
How to Take Control of Your Cash Flow

Imagine having a schedule in front of you every month that showed you exactly what was going on with your cash flow. A schedule that made it simple and easy to know exactly what was going on with the lifeblood of your business - your CASH.

That's the secret to taking control of your cash flow.

You need an easy-to-understand view of each component of your business that affects your cash flow. You need to create a tool, a schedule, that gives you a clear view into the true cash flow of your business.

Your cash flow schedule needs to show you what's going on with each of the components of cash flow shown in the diagram below.



Here are the four keys to creating a powerful tool for taking control of your cash flow.

1. Show Your Cash Flow by Month

The schedule should show twelve months of cash flows. The first six months should be actual results for your last six-month period. The next six months should be projections. There are several benefits to having the schedule set up this way.

First, you need to have a good clear of what has been going on with your cash flow so you know whether you need to start doing things different in the future.

Second, creating your projections is easier when you have the last six months of activity in front of you. You have a perfect view of what your cash flow is likely to be (the windshield view) because you have your ACTUAL cash flow results right there to look at (the rearview mirror view).

2. Your Cash Flow Should Be Presented Logically

The schedule should start with the beginning cash balance for the month, show the different components of cash flow for the month, and end with the ending cash balance for each month. That seems like common sense, right?

You won't get this view in any of the standard financials you look at. That's why you have to create this schedule. And because we have to prepare it, we might as well create one that is easy-to-understand, and presents the cash flow of your company in a logical, common-sense fashion.

3. Revenues and Expenses Should Agree with your Income Statement

Since profit and loss is a *component* of cash flow, it needs to be in the schedule. But here's a very important point. You should include your revenues and expenses just as they appear in your income statement. Don't make the mistake of trying to show "cash receipts" and "cash disbursements" here. This is the format almost any other cash flow schedule uses. It's WRONG. You will sabotage your objective of creating cash flow projections you can trust if you attempt that method.

Unless you can quickly and easily relate your revenues and expenses on your cash flow schedule to your income statement, you will forever be confused.

4. Clearly Set Out Each of the Remaining Components of Cash Flow

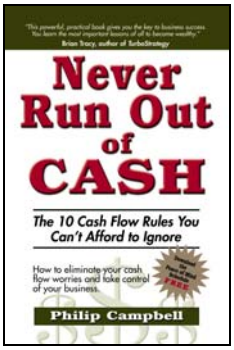
This is where you bring all the other components of your cash flow together so you can see them each month. Things like borrowings and debt service payments, capital expenditures, capital invested in the business, accounts receivable, inventory, accounts payable, etc. Each of these components must be shown here so you have the complete cash flow picture in front of you.

This is what makes the schedule so unique and powerful. You will find that you begin to better understand what's really going on with your cash balance when you can see in one place exactly how these "timing differences" impact your cash flow and your ending cash balance each month.

Download the Peace of Mind Schedule FREE

The schedule I teach to hundreds of business owners is called the "Peace of Mind" schedule. If you would like to download the schedule for FREE (it is an Excel spreadsheet pre-formatted for you), you can go to www.NeverRunOutOfCash.com/freetools.htm and click on the link to download the schedule.

Once you discover the secret to taking control of your cash flow, you will find your business is so much easier to manage (not to mention more financially rewarding).



The tips and strategies in this report are based on Philip's new book "Never Run Out of Cash: The 10 Cash Flow Rules You Can't Afford to Ignore".

It's a 190 page, easy-to-understand guide to eliminating cash flow worries and taking control of your business.

Philip Campbell is a consultant, speaker, and the author of "Never Run Out of Cash: The 10 Cash Flow Rules You Can't Afford to Ignore".

Philip is a CPA who has been helping businesses take control of their cash flow for over 20 years.

You can get your copy of Never Run Out of Cash by calling **1 800 247 6553**. You can read excerpts from the book FREE at www.NeverRunOutOfCash.com.