

# ADVICE FROM THE EXPERTS

ON MANAGING MONEY TO MAKE MONEY



# “POSITIVE” CASH IS CRITICAL

- Cash is certainly one of the most important aspects of a business. Some say it is the most important item in a business. You do not want to run out of cash. The term for this is insolvency. It sounds bad and is bad. It could spell the end of your business.
- It is also very important to understand that your “profits” ARE NOT your “cash.”
- This is a normal misconception. Profits are recorded on the income statement and are “what you pay tax on.” They become cash when you receive and cash the checks for the services or products you provided. Not before. Cash is what you have in your hands (not in the mail).
- Your cash position is recorded on the Balance sheet, which is simply a statement of what you own and what others own of your business.

# A CASH FLOW STATEMENT

Cash Flow Statement		2008	2009	2010	2011	2012
<b>SOURCES OF CASH</b>						
1	Beginning Cash	\$0	-\$11,767	\$143,765	\$416,274	\$924,480
2	Cash Receipts	\$1,366,986	\$2,662,548	\$3,416,123	\$4,565,616	\$5,981,959
3	Asset Sale Cash (if any)	\$0	\$0	\$0	\$0	\$0
4	Customers Paying in Advance	\$0	\$0	\$0	\$0	\$0
5	Loans (made to you)	\$0	\$0	\$0	\$0	\$0
6	Investor \$\$ (if any)	\$400,000	\$0	\$0	\$0	\$0
7	<b>AVAILABLE CASH</b>	\$1,766,986	\$2,650,781	\$3,559,888	\$4,981,890	\$6,906,439
<b>USES OF CASH</b>						
8	Salaries	\$1,355,000	\$1,676,000	\$2,044,000	\$2,557,000	\$3,355,000
9	Other Operating Expenses (Utilities, Finance, Engin. etc.)	\$423,753	\$759,933	\$900,245	\$1,187,340	\$1,533,432
10	Loan Payments (to others)	\$0	\$24,910	\$99,640	\$99,640	\$99,640
11	Capital Expenditure (Equipment, Buildings, etc.)	\$0	\$0	\$0	\$0	\$0
12	Taxes Paid	\$0	\$46,173	\$99,729	\$213,430	\$277,791
13	<b>CASH PAID OUT</b>	\$1,778,753	\$2,507,016	\$3,143,614	\$4,057,410	\$5,265,863
14	<b>NET CASH FLOW (Line 7 – Line 13)</b>	-\$11,767	\$143,765	\$416,274	\$924,480	\$1,640,576

# A “CPA'S” VIEW/SUGGESTIONS

## ON REVENUE

1. All cash and checks received must be deposited in a separate bank account established for the business and used exclusively for the business.
  - The exact amount collected must be deposited. Do not use collections to increase cash on hand, change fund or petty cash (see separate Petty Cash section below).
2. Each deposit slip should show what was deposited (e.g. sales, collection of accounts receivable, borrowing, capital contribution, tax refund, etc.). Keep a copy of all deposit slips and list the name of each payer on the deposit slip; it is a good idea to make a separate deposit slip for unusual deposits.
3. Retain a copy of an invoice for each sale or service. If extending credit, unpaid invoices should be filed separately and moved to a paid file as paid. Mark each invoice paid and show the date paid on the invoice. An alternative to this is to make an original (for the customer) and two copies of each invoice—one for a file of all invoices generated (kept numerically if invoices are numbered) and one for a loose-leaf binder of unpaid invoices (your accounts receivable). Use this copy on which to record payments on the invoice if paid in installments. See Internal Control section below.

The most important thing is to capture each transaction as it occurs to allow reconstruction of the financial statements as required. This can be done with Excel spreadsheets—probably 1 each for revenue and expenses.

# A “CPA'S” VIEW/SUGGESTIONS

## ON EXPENDITURES

1. **Pay all business related expenses, capital purchases and income distributions from the business account.** Do not pay personal expenses from this account. Describe expenditure in check register.
2. **Use a separate business credit card for business purchases.** Employees and owners who have a company credit card must always provide the copy of the charge to the bookkeeper; keep the copy in a Credit Card Company pending file until the statement arrives; compare copies with the statement and investigate differences. These expenses can be deducted when charged, not when the credit card company is paid, so provide the last unpaid statement at year end to your tax preparer.
3. Attach credit card receipts to monthly statement and mark statement as paid and show check number. Identify the nature of each charge on the statement or on the attached receipts.
4. Keep all purchase invoices and credit card receipts. Write the nature of the expenditure on the invoice or credit card receipt ASAP. It is very hard to remember later.
5. As invoices are paid, write the date paid, the check number, and the nature of the expense on the invoice.
6. Invoices paid for fixed assets (equipment, computers, vehicles, buildings, etc.) should be kept in a separate file for Fixed Assets, not filed with other paid invoices which can be filed by month, year, or company paid.

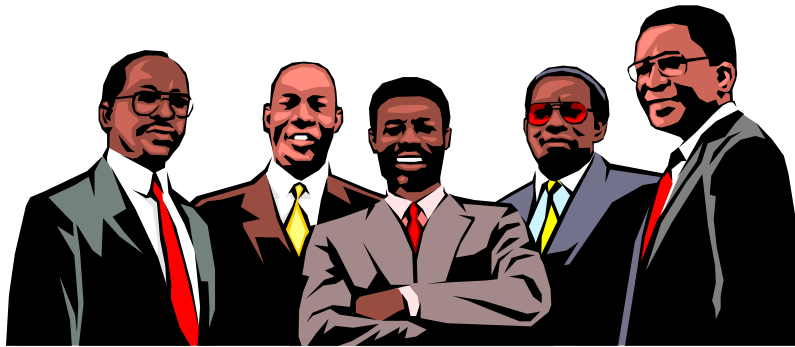
# PETTY CASH OR CHANGE FUND

1. Decide which of these types of cash funds you need and the amount needed in each and never take the amount from cash collected (see #1 under Revenue above).
2. Write a check for the amount to start your Petty Cash fund, to be kept hidden in a drawer from which can be paid small amounts by an employee when you are not there to sign a check. In your petty cash box or drawer, the total of the receipts for payments plus the actual amount of cash in the box must equal the original amount. To get the drawer cash back to the original amount, write a check for cash for the exact amount of the paid out slips.
3. If you need to make change, as in a retail business, decide the amount needed, write a check for that amount and get the appropriate cash. Each day, deposit the amounts collected exactly and deposit the remainder, including all other cash. This will always leave your change fund with the same amount.

# INTERNAL CONTROL

1. Any document, such as a check or sales invoice, can be a method of fraudulent disappearance of your assets. A blank sales invoice can be used to collect money from a customer for merchandise or services that go out the door without the money going into your bank account. Keeping a numeric file of all invoices and checks gives you the opportunity to determine if all of them can be accounted for—all copies of spoiled, voided invoices and checks must be kept in the numeric file.
2. Any write-offs of accounts receivable must be authorized by the owner.
3. The person responsible for accounts receivable reconciliation should not have access to incoming mail, especially the company bank statements.

# FORM YOUR TEAM



**SCORE Counselor**  
**CPA**  
**Insurance Person**  
**Banker**  
**Lawyer**  
**Other Advisors**