INSTRUCTOR GUIDE

Money Smart for Small Business

Financial Education Curriculum

U.S. Small Business Administration



Updated: 09-2016

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Getting Started

These ideas will help you plan and present engaging and productive sessions:



- **Effective use of PowerPoint.** Use the slides to introduce key concepts only. They are provided to enhance *your* presentation, they are not *the* presentation. Avoid reading slides to the learners. Add your perspective. Learners appreciate examples and brief anecdotes that make the concepts come alive.
- **Introductions.** Introductions allow you to break the ice, create active instructor–participant dialogue, and set the tone for the class. They also provide indicators of the experience levels of your learners.
- **Diversity of learner needs.** Assume that some learners are just getting started while others are already business owners. Address the diverse needs of learner groups.
- **Agenda.** The agenda helps participants understand how the training will be conducted.
- **Expectations.** Discussing expectations gives participants the opportunity to tell you what they hope to learn from the training.
- **Objectives.** Establishing objectives helps participants place the information to be learned in the proper context and ensures that the content is consistent with their expectations.
- **Participant Guide format and contents.** The participant guide keeps participants on track with the presentation. Several worksheets help them apply key concepts to their own specific contexts.
- **Pre-and Post-Tests.** The Pre-Test provides a baseline measurement for evaluating the impact of this class. The Post-Test gauges how well participants learned the content. Both the pre- and the post-test are on one form at the end of the Participant Guide.
- **Discussion points.** Discussion points help participants reinforce learning.
- **Parking lot flipchart/ chart paper.** This option is helpful if participants ask questions that you do not have time to answer. Instead of answering right away, agree to answer at a later time. “Park” the questions on a flipchart or chart paper, and make arrangements to follow up with the participant(s) after the class.
- **Breaks**. No formal breaks are recommended. Encourage participants to take rest room breaks if they need them.

Training Overview

Icons Guide



- *Refer participants to the Participant Guide (PG) to locate information, descriptions, or relevant worksheets.*



- *Engage the group in a conversation about the topic.*



- *Assess participant comprehension or previous experience with the topic by asking them to complete a quick pre- and post-test.*



- *Ask "high gain" questions to check comprehension, or present a problem such as "What would you do if this were your business?"*

Purpose

This module—*Managing Cash Flow*—is a highly interactive learning experience that encourages the participants to focus on cash flow management as an essential competency of business ownership. No matter where learners are in the development of their businesses, this 90-minute module encourages them to ask and answer great questions about their business and to get ready to interact with accountants to analyze the flow of cash in and out of their businesses.

This Instructor Guide is the key document for this class. Please read it thoroughly. We provide plenty of white space for you to add notes and examples from your own experience. Please also review the related PowerPoint slides and Participant Guide in detail. These documents contain information or visuals you will reference during the class.

Preparing for Class

Each participant will require a Participant Guide (ideally printed two-sided). Participants do not need copies of the slides. Before printing the participant guides, consider adding local information to the *For More Information* section. In the space provided, list local resources that offer technical assistance or financing options to small businesses.

Objectives

After completing this training, the participants will be able to:

- Describe the purpose of cash flow management in a start-up small business.
- Assess a cash flow cycle and make some cash flow projections.
- Describe how a cash flow statement can help assess and improve the financial health of a start-up.
- Identify some ways to manage cash flow in terms of managing costs and potential income.
- Identify ways to seek out expert technical assistance to improve cash flow management.

Presentation Time

To ensure high engagement levels with your learners, allow at least 90 minutes to deliver this class. Use the suggested times to personalize the class based on the needs of your participants and the given time. Allow extra time for discussion and questions when teaching larger groups.

Materials and Equipment

You will need the following materials and equipment to present this class:

- Instructor Guide (for your use only).
- Participant Guide – ideally printed two-sided – for each participant. As noted above, you may add local resources to the *For More Information* section of the Participant Guide.
- PowerPoint slides (for your use only).
- Audiovisual equipment such as a computer, Microsoft Office PowerPoint, overhead projector, and microphone, if appropriate.
- Optional: flipchart easel, chart paper, markers.

Discussion Points

- Managing cash flow is a core competency of small business ownership.
- A balance sheet tells a compelling story.
- A cash flow statement continues that story. Use it to monitor projected and actual income and expenses.
- Plan for seasonal fluctuations.
- Try to maintain a rapid cash conversion cycle.
- Manage your paperwork like a pro.
- Ask an accountant for advice.

Note

The participants should ideally attend this class after they complete the *Financial Management* module in the Money Smart series. *Financial Management* introduces fundamental cash flow concepts and terms.

The Class at a Glance

This 90-minute experience includes several group discussions designed to actively engage the learners. Pay careful attention to timing and pacing.

Time (in minutes)	Activity	Instructor Comments/Notes
10	Welcome, Pre-Test, Agenda, and Learning Objectives	In the back of the Participant Guide; participants complete the BEFORE Training column
10	• Introducing Bob and The Wired Cup • Introductions: Where are YOU on the Cash Flow Management Continuum?	
15	• Opening Balance Sheet for The Wired Cup • A Few Notes About Debt	
40	Three Views of Cash Flow • The Cash Conversion Cycle • The Cash Flow Diagram • The Cash Flow Statement • What Can Bob Do?	
15	Summary, Post-Test, and Evaluation	In the back of the Participant Guide; participants complete the AFTER Training column
Total: 90		

Optional Ideas

- *Consider inviting a panel of small business owners to provide stories about how they manage their cash flow.*
    - *Note: Time management can be a challenge. Most panelists need at least 15 minutes to share stories and respond to questions. If you invite panelists, you may need to adjust the schedule.*
- *Another option: schedule a follow up session about two weeks after this class. The participants can return with their cash flow statements to share ideas with each other and advisors.*

Instructor Notes and Presentation Guidelines

Instructor Notes	Presentation Guidelines

10 minutes

Slide1



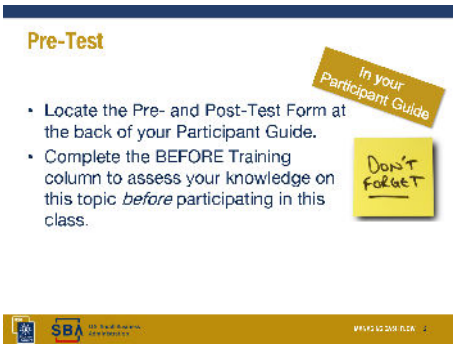
Welcome, Pre-Test, Agenda, and Learning Objectives

Welcome to *Managing Cash Flow.* Taking this class is an important step to building a better financial future for you and your family.

As a small business owner, it is important to know how much cash is moving in and out of your business. You need to think ahead in order to meet financial obligations and run a profitable business on a long-term basis. This class introduces some basic cash flow concepts that can get you started.

My name is _____. (*Briefly* introduce yourself.)

Slide 2



Pre-Test

Before we begin, please assess what you already know about this topic. Turn to the Pre- and Post-Test Form in the back of your participant guide and complete the BEFORE Training column.

At the end of this class you will complete the AFTER Training column.

If you need to leave a bit early, make sure to return your completed Pre- and Post-Test and the Evaluation Forms on the last pages of your Participant Guide before you leave.

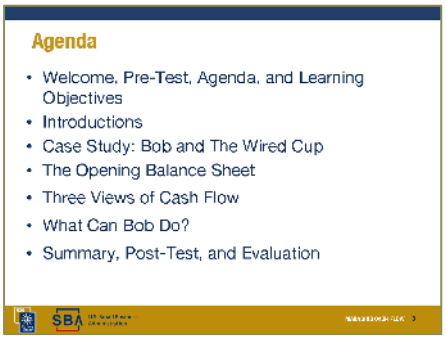


Facilitation Note

- *Do not read the slides to the learners. Instead, use the slides to actively engage learners in two-way conversations. Add the occasional brief story or anecdote to illustrate key concepts.*

Instructor Notes	Presentation Guidelines

Slide 3



PG

Agenda

Here is the agenda for today's class. We will discuss concepts, start some self-assessments, complete some interactive activities, and respond to your questions.

Time Management

Please help us stay on schedule. We do not include a formal break. If you need to visit the rest room, please feel free to do so.

Optional: Explain Parking Lot Chart Paper

If you have questions about your own business that we do not have time to answer, I will "park" your questions on chart paper. We can make arrangements after this class to help you find some answers.

Ground Rules

One of the best ways to learn is from each other. You probably have some great ideas to offer. You may know of a process that works well for you or some pitfall to avoid. Please speak up. Also, if something is not clear, please ask questions!

Participant Materials

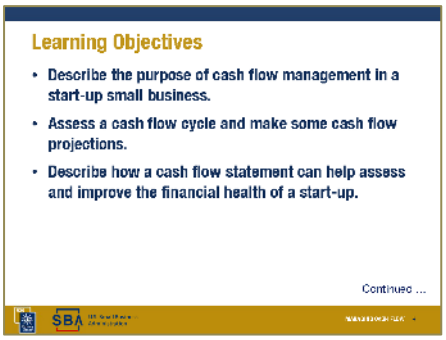
Each of you should have a copy of the *Managing Cash Flow Participant Guide*. It contains:

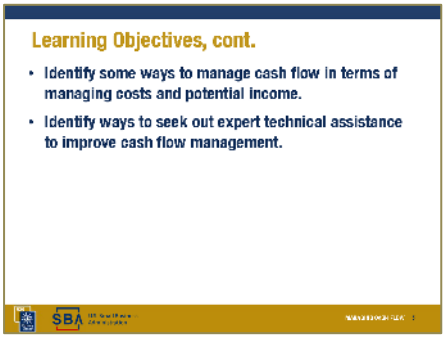
- Information and discussion points about this topic.
- Worksheets for you to start in class and finish up on your own
- A Toolkit of Resources to help continue your self-education (including a list of agencies that provide technical assistance to small businesses)

Please note that we will not have time to review the entire Participant Guide in class. We suggest that you review it in detail on your own time.

Instructor Notes	Presentation Guidelines

Slides 4 and 5





Learning Objectives

Facilitation Note:

- *Do not read the objectives to the learners. Instead, whenever possible, briefly paraphrase the objectives.*
- *Point out that you will use the Bob's Wired Cup case to introduce concepts.*
- *Emphasize that what is most important is how these concepts apply to the unique situations of the learners.*

Instructor Notes

10 minutes

Slide 6



Presentation Guidelines

Introducing Bob and The Wired Cup

We will use a realistic example to review a new business owner's cash flow management decisions. As we review Bob's cash flow issues, you may find that these concepts relate to your own cash flow questions.

Facilitation Note:

- *The case is theoretical. If participants ask questions about the numbers on Bob's statements, remind them the case is intended to introduce fundamental cash flow* concepts.
- *Ask one of the participants to read Bob's story out loud from page 4 in the Participant Guide.*

PG

From Participant Guide:

Introducing Bob and The Wired Cup

Bob recently opened a new bakery café, The Wired Cup. The café has a great location in a small college town. To get started, Bob invested $30,000 of his own money and received a $20,000 loan from a commercial bank. He spent $45,000 on start-up costs, leaving $5,000 to run the business.

The Wired Cup is already popular with students, university staff, and neighbors. Everyone loves the coffee and baked goods. A college dean has started to order croissants for the faculty dining hall. Bob is building a great new business.

However, Bob has concerns. He has not yet paid himself, and he wonders when he can. The $5,000 is almost gone. Given that his key customers are students, he assumes many will go home over holiday breaks and the summer. Questions Bob is now asking:

- How will he pay his bills if there are fewer customers?
- Will he have enough money to ramp up again in September?
- Should he buy in bulk to reduce costs?
- Will suppliers allow Bob to buy on credit, or does he still have to pay cash?

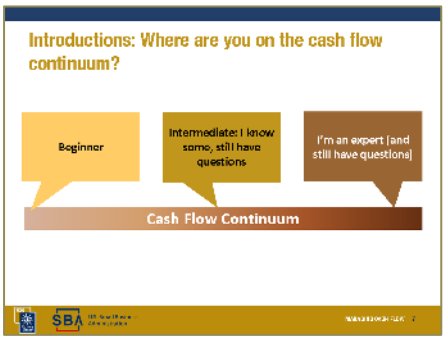
The good news is that Bob is *thinking ahead*. He has time to find some solutions. As we review the Wired Cup's cash flow issues, you will be able to apply these concepts to your own business.

Instructor Notes	Presentation Guidelines

Facilitation Note:

- *Thank the volunteer for the assistance.*

Slide 7



Group Discussion

Introductions: Where are YOU on the Cash Flow Management Continuum?

Before we go on and learn more about Bob's cash flow experiences it will be helpful to learn *your* backgrounds and experiences so far with cash flow management.

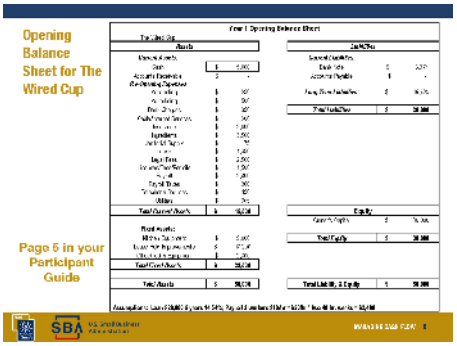
Facilitation Note:

- *Ask the participants to briefly introduce themselves and their experiences so far with cash flow management – from beginner to expert.*
- *Validate each person's experience level as valid.*
- *Encourage the experts in the class to offer ideas and examples from their experience to the rest of the group.*

Instructor Notes

15 minutes

Slide 8



PG

See next page for a copy of the Opening Balance Sheet

Presentation Guidelines

Opening Balance Sheet for The Wired Cup

Please turn to page 5 in your Participant Guide to see The Wired Cup's opening balance sheet.

Facilitation Note:

- *Given the layout of the opening balance sheet, it is not easy to read the numbers on the slide. Ask the participants to turn to the opening balance sheet on page 5 in their Participant Guide while you refer to the opening balance sheet on the next page of this guide.*

Year 1 Opening Balance Sheet

The Wired Cup

Assets			Liabilities		
Current Assets:			**Current Liabilities:**		
Cash	$	5,000	Bank Note	$	3,371
Accounts Receivable	$	-	Accounts Payable	$	-
Pre-Opening Expenses					
Accounting	$	250	**Long Term Liabilities:**	$	16,629
Advertising	$	500			
Bank Charges	$	350	**Total Liabilities**	**$**	**20,000**
Cable/Internet Services	$	200			
Insurance	$	2,000			
Ingredients	$	3,500			
Janitorial Supply	$	75			
Lease	$	1,350			
Legal Fees	$	2,500			
Licenses/Fees/Permits	$	1,500			
Payroll	$	2,400			
Payroll Taxes	$	360			
Telephone Services	$	150			
Utilities	$	365			
Total Current Assets	**$**	**15,500**	**Equity**		
			Owner's Capital	$	30,000
Fixed Assets:					
Kitchen Equipment	$	9,000	**Total Equity**	**$**	**30,000**
Lease Hold Improvements	$	18,200			
Office/Techn Equipment	$	2,300			
Total Fixed Assets	**$**	**29,500**			
Total Assets	**$**	**50,000**	**Total Liability & Equity**	**$**	**50,000**

Assumptions: Loan $20,000 5 years 14.54%; Payroll 3 workers $10/hr = $30/hr * two 40 hr. weeks = $2,400

Note: This balance sheet lists pre-opening expenses as current assets. In this example, the pre-opening expenses listed were expensed or realized before the end of the year. Entrepreneurs should always keep track of pre-opening expenses as some may or may not be considered by financial institutions or investors as a business asset or owner investment/equity.

Instructor Notes	Presentation Guidelines

PG

Opening Balance Sheet for The Wired Cup, Cont.

This opening balance sheet tells a story: how much money Bob had to start his business, how he financed it, what he did with that money, and how much was left over to run the business.

The balance sheet tells us that Bob invested $30,000 of his own money or owner's equity, and he borrowed $20,000. The $20,000 loan is over five years, with an 14.54% interest rate. In year one, Bob will pay back $3,371 of principal and will pay the remaining balance of $16,629 in years two through five.

If you do not have the necessary capital to start your business, you have two options to get the capital that you need:

- Equity. Friends, family and/or business partners invest in your business. They provide you with cash; you give them equity or a piece of the business.
- Debt. You borrow the money from family, friends, or a lending institution, such as a bank. You do not give up equity or ownership but you do have to pay back the loan. You will pay back both principal and interest. There are many types of lending or borrowing options.

Slide 9



A Few Notes About Debt

It takes some effort to obtain a small business loan. As part of the process you will need to provide a business plan. The *Money Smart for Small Business* module, *Planning for a Healthy Business* provides a lot of information about various ways to plan a successful business.

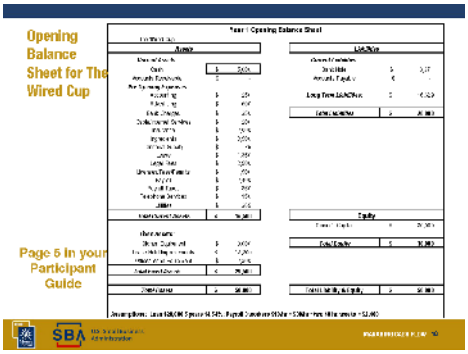
Know your credit score. The higher your score the lower the risk for creditors. For more information, attend the Money Smart module on *Credit Reporting*.

Banks have differing criteria for lending. Talk with your local bankers *before* you need a loan. The stronger your relationship, the more supportive they will be to help you secure a loan if you meet their lending criteria. The Money Smart module on *Banking Services* can help. Be prepared to personally sign for the loan. If a business is unable to meet its financial obligations, you will be held responsible. Also be prepared to pledge collateral.

One last note: manage your credit cards to avoid high fees and interest. Business credit cards may be one of the most expensive forms of business credit.

Instructor Notes

Slide 10 (This slide is intentionally repeated – it is the same as slide 8.)



PG

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Presentation Guidelines

Back to the Opening Balance Sheet

In total, Bob had $50,000 to spend to open The Wired Cup. He spent $45,000 on equipment, materials, and other assets as indicated on the balance sheet ($29,500 fixed assets and $15,500 for current assets = $45,000).

He had $5,000 cash remaining to run his business ($50,000 - $45,000 = $5,000).

If I were Bob's lender, a potential business partner, or a vendor, I would look at this opening balance sheet and ask the following:

- Has he invested enough of his own money in this venture?
- Did he finance the business wisely? For instance, does he carry too much debt? The terms and time requirements for loan repayment can make a huge impact on cash flow.
- Did he wisely spend the $50,000?
- Is there enough available cash left over to run the business? Is $5,000 enough to carry him through a six month period?

We do not have time to discuss these questions and the answers in detail. I am just explaining that an opening balance sheet tells a story which can prompt constructive dialogues with stakeholders.

A balance sheet tells a story, but it is just the first chapter. The story continues on into the cash flow statement.

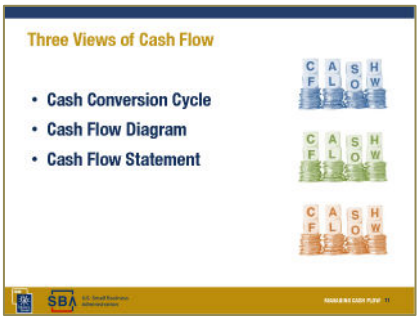
Clarify and Transition

Are there any more questions about opening balance sheets before we move on?

Instructor Notes	Presentation Guidelines

40 minutes

Slide 11

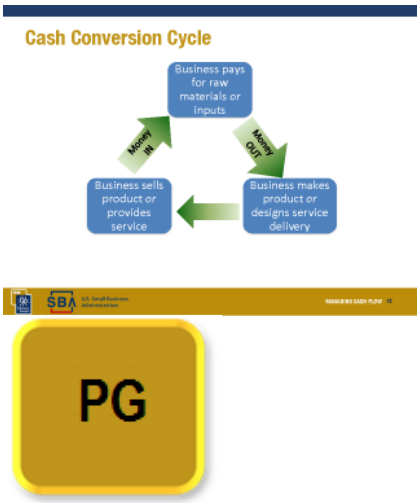


Three Views of Cash Flow

Let's look at three views of cash flow: a cash *conversion cycle*, a cash flow *diagram*, and The Wired Cup's cash flow *statement*.

Combined together, these three views provide a comprehensive overview of a cash flow system.

Slide 12



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The Cash Conversion Cycle

A cash conversion cycle consists of three components:

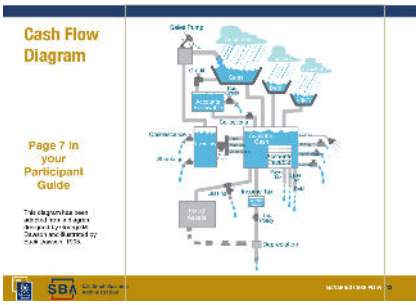
1. A business pays for raw materials.
2. The business makes a product or service using those materials.
3. The business sells products or services.

The trick is to know how long it will take to complete the cycle. That rate of conversion impacts cash flow.

If you have a short cycle, you sell inventory or turn it back into cash quickly, which puts money back into the cash flow system.

If you have a long cash conversion cycle you will not be able to use that money while inventory is sitting on your shelves.

Slide 13



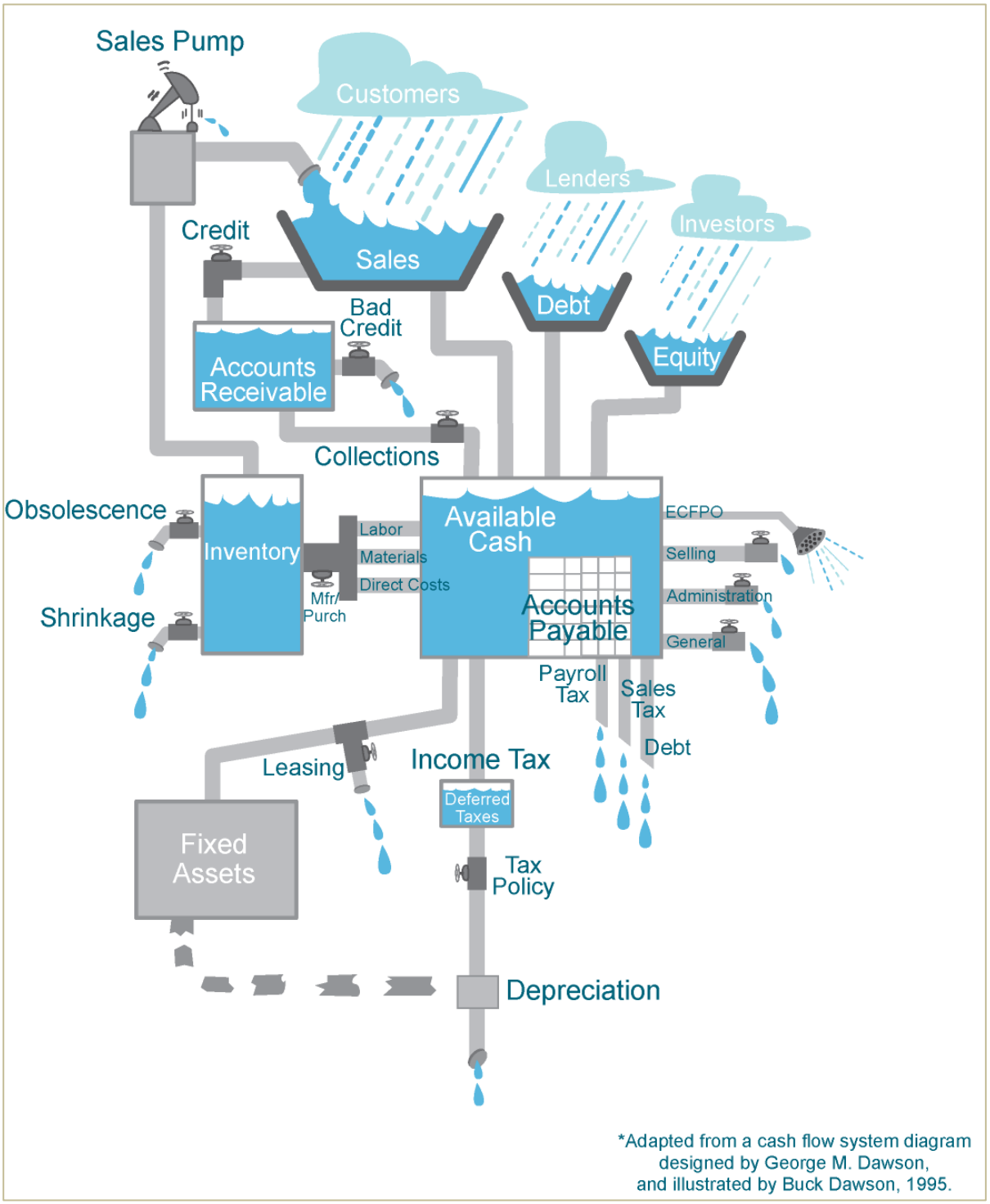
PW

The Cash Flow Diagram

Another way to describe cash flow is with a diagram, like the one on page 7 in your Participant Guide. Page 8 provides descriptions of the elements that make up this diagram.

We will review this diagram to get a big picture of cash flow and how all the elements – the pipes and valves– work together.

Instructor Notes	Presentation Guidelines



Instructor Notes	Presentation Guidelines

Cash Flow Diagram Descriptions

This diagram is a representation of how cash flows in and out of the system. It depicts many decision points or **valves** you control.

When you start a business, money flows into the business via debt or equity. In the case of The Wired Cup, Bob had $30,000 of his own money invested in the business, the equity bucket in this diagram. In addition, Bob borrowed $20,000, the debt bucket. The combined $50,000 is the available cash working capital.

The **valves** in this cash flow diagram **represent decision points.** Your decisions impact cash flow and increase or decrease your probability of success.

Some valves are open all the time such as sales taxes and debt. You have to pay them. They are a constant drain on your cash, which is why they are on the bottom.

Some valves are partially open, like the sales, general, and administrative valves. What you spend is up to you. As you spend available cash, the balance in the center tank drops.

Inventory. You spend money on raw materials, labor, and other direct costs to produce a product to sell -- assuming you are producing a product; the same principles apply for services as well. If you spend a lot on inventory you tie up your money until you sell the inventory, and turn it into cash.

Fixed assets are usually expensive: buildings, upgrades to space, vehicles, equipment, computers, and technology. If you purchase an expensive fixed asset, it ties up cash. A better option may be to lease to keep cash flowing.

Profit generator (sales pump). In the top left corner, we have a sales pump. Keep this primed to pump sales back into the system.

Accounts receivable (A/R). You may make a sale, but not receive the cash until you collect it. Ultimately you want to convert A/R into cash, so it flows into the center tank and becomes available. Some A/R will not be paid; this is called bad debt. Usually after 90 days, an A/R will not be paid. When you extend credit and create an A/R, you need to follow up to ensure you receive the payment.

Accounts payable (A/P). In the center tank, accounts payable are represented by bricks. This is money owed to vendors and suppliers who extend credit to you. For example, you receive a product or service but you have not yet paid for it. You still have use of that money. The bricks elevate the water. Instead of having to pay for a product or service, you can use that money for marketing or paying another bill.

Instructor Notes	Presentation Guidelines

It is challenging to balance accounts payable and accounts receivable. You want customers to pay you as quickly as possible (cash in) and you want to pay your vendors as slowly as possible (cash out).

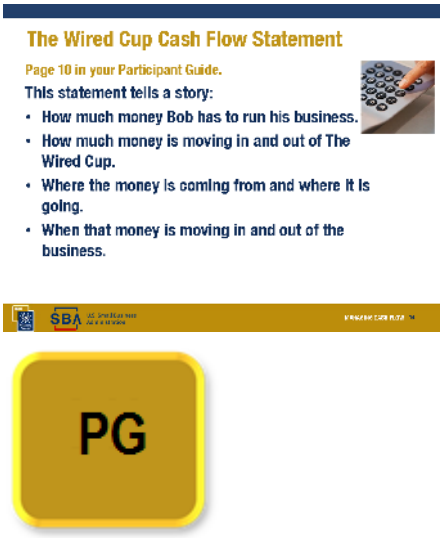
Ultimately, you want to have and be generating **excess cash flow from profitable operations or ECFPO.** The showerhead represents your paycheck.

The broken pipe represents how depreciation can be used to reduce your taxable income. We won't get into this in this class for time management issues. This is a good question to share with an accountant.

This diagram represents a cash flow system and decision points you control. Of course, in business we would not use a diagram. We use a *statement* which tells a story with numbers.

The Cash Flow Statement

Slide 14



Please turn to page 10 in your Participant Guide to see a cash flow statement for The Wired Cup.

A copy of the cash flow statement is provided on the next page. Descriptive details begin on page 19 of this guide.

The Wired Cup Cash Flow Statement		Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	
Year 1	**Start Up**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**Total**
Beginning Balance		$ 5,000	$ 2,309	$ 1,218	$ 1,978	$ 3,712	$ 1,446	$ 780	$ 2,514	$ 5,848	$ 8,882	$ 8,216	$ 1,950	
Loan Receipts	$ 20,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,000
Owner's Capital	$ 30,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,000
Sales Revenue		$ 25,000	$ 27,000	$ 29,000	$ 30,000	$ 25,000	$ 27,000	$ 30,000	$ 32,000	$ 32,000	$ 27,000	$ 20,000	$ 20,000	$ 324,000
Sales Tax (6.25%)		$ 1,563	$ 1,688	$ 1,813	$ 1,875	$ 1,563	$ 1,688	$ 1,875	$ 2,000	$ 2,000	$ 1,688	$ 1,250	$ 1,250	$ 20,250
Collections of A/R		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Cash Available	$ 50,000	$ 31,563	$ 30,997	$ 32,031	$ 33,853	$ 30,274	$ 30,133	$ 32,655	$ 36,514	$ 39,848	$ 37,569	$ 29,466	$ 23,200	$ 394,250
Operating Expenses														
Accounting	$ 250	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 350	$ 50	$ 50	$ 50	$ 1,150
Accounts Payable (Debt)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Advertising	$ 500	$ 500	$ 500	$ 250	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 2,425
Bank Charges	$ 350	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 950
Cable/Internet Services	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 2,600
Insurance	$ 2,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,000
Ingredients	$ 3,500	$ 5,000	$ 5,400	$ 5,800	$ 6,000	$ 5,000	$ 5,400	$ 6,000	$ 6,400	$ 6,400	$ 5,400	$ 4,000	$ 4,000	$ 68,300
Janitorial Supply	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 75	$ 975
Lease	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 17,550
Legal Fees	$ 2,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,500
Licenses/Fees/Permits	$ 1,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,500
Owner's Draw	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Payroll	$ 2,400	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 204,000
Payroll Taxes	$ 360	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 2,520	$ 30,600
Sales Tax	$ -	$ 1,563	$ 1,688	$ 1,813	$ 1,875	$ 1,563	$ 1,688	$ 1,875	$ 2,000	$ 2,000	$ 1,688	$ 1,250	$ 1,250	$ 20,250
Telephone Services	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 1,950
Utilities	$ 365	$ 525	$ 525	$ 525	$ 525	$ 525	$ 525	$ 525	$ 525	$ 525	$ 525	$ 525	$ 525	$ 6,665
Loan Principal	$ -	$ 271	$ 272	$ 274	$ 276	$ 278	$ 280	$ 282	$ 284	$ 286	$ 288	$ 290	$ 292	$ 3,371
Loan Interest	$ -	$ 200	$ 199	$ 197	$ 195	$ 193	$ 191	$ 189	$ 187	$ 185	$ 183	$ 181	$ 179	$ 2,280
Total Disbursed	$ 15,500	$ 29,253	$ 29,778	$ 30,053	$ 30,141	$ 28,828	$ 29,353	$ 30,141	$ 30,666	$ 30,966	$ 29,353	$ 27,516	$ 27,516	$ 369,066
Cash Balance	$ 34,500	$ 2,309	$ 1,218	$ 1,978	$ 3,712	$ 1,446	$ 780	$ 2,514	$ 5,848	$ 8,882	$ 8,216	$ 1,950	$ (4,316)	$ 25,184
Fixed Assets	$ 29,500													$ 29,500
Cash Balance	$ 5,000													$ (4,316)

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PG

The Cash Flow Statement, cont.

The cash flow statement is a valuable decision making tool for business owners, investors, and creditors. It allows everyone to make smart, informed decisions about your business.

In this example, Bob made projections based on two months of actual experience in August and September. He does not know how much seasonality --summer vacations at the college-- will affect business. He assumes the impact will be significant.

The first column lists money in categories such as loan receipts, owner's capital, and so on, and money out such as operating expenses for accounting, accounts payable/debt, advertising, and so on.

The second column represents Bob's opening balance sheet start-up costs. *You would not typically see this on a cash flow statement.* We include this information to demonstrate how elements of an opening balance sheet transfer over to the cash flow statement.

The rest of the columns represent monthly income and expenses. As mentioned before, Bob has had two months of actual expenses. Based on what he knows so far, he projected income and expenses for the rest of the year.

Notice that Bob had $5,000 in available cash. His sales were $25,000, and sales tax was $1,563.

- A note about sales tax. Put this in a separate bank account. Do not co-mingle tax money in your regular bank account. You are collecting tax on behalf of the government. This is not your money to use. Most likely, you will be required to pay this quarterly or even monthly to the government. The payroll taxes rate used in this example is 15%. You will need to determine the appropriate local, state, and applicable federal taxes..

In August, The Wired Cup had a total inflow of cash: $26,563 ($25,000 of sales revenue plus $1,563 of sales tax). That means that at the end of August, Bob's total available cash was $31,563 ($5,000 + $26,563 = $31,563).

If we look at the bottom of the spreadsheet for August we see that $29,253 was the cash out flow for the month.

- Some cash outflows are fixed month to month, such as Bob's lease payment of $1,350 and the cable/Internet payment of $200.
- Some cash outflows are variable, such as advertising and utilities. Variable amounts fluctuate from month to month.

You have some control over how cash flows in and out of your

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business. For example, for sales you decide what you will sell, where, to whom, how, and at what price. The same goes for expenses. You can decide what space to lease, how much debt to carry, when to advertise, when and how much raw materials to purchase, and how many staff to employ.

In August, Bob has available cash of $31,563 and cash outflows of $29,253. $31,563 - $29,253 = $2,309 in his bank account at the end of August. This $2,309 becomes the beginning balance for the month of September, and the process starts all over again.

- In September: $2,309 + $27,000 + 1,688 = $30,997 available cash for September. Monthly expenses are $29,778. $30,997 - $29,778 = $1,218 cash available at the end of September, which becomes the beginning balance for October.

To sum up: Bob is happy. The Wired Cup is doing well, but he is worried about the rest of the year. He projects he will be able to pay all of his financial obligations but he will be cutting it close.

Some business owners overestimate revenue and underestimate costs. This means they will at some point have a cash flow crunch and will not have cash available to meet their obligations. To prevent this, consider developing a couple of cash flow statements:

- Best case scenario: This would be an ideal situation where all your dreams come true.
- Worst case scenario: This would be a much more conservative scenario where you do not get the sales revenue you would hope for and costs are higher.
- Most likely: This would be like the Goldilocks story—not too hot, not too cold, but just right. It is the most likely scenario, somewhere between a best and worst case.

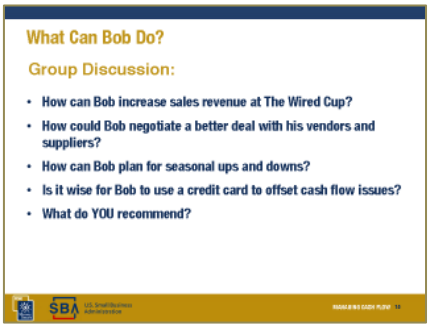
In this example, Bob created a most likely projection. Given that he knows the students and faculty leave for vacation, in July he projects a negative $4,316.

You can’t have a negative cash situation! Negative cash means game over.

What you want to achieve is excess cash flow from profitable operations. This is when you can shower yourself with some cash.

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Group Discussion

What Can Bob Do?

Please turn to page 11 of the Participant Guide. Bob needs to turn some valves wide open and turn down others in order to hold on to his cash as long as possible. If you were Bob's advisors, what would you advise him to do?

- How can Bob increase sales revenue at The Wired Cup?
- How could Bob negotiate a better deal or two with his vendors and suppliers?
- How can Bob plan for the seasonal ups and downs in his business?
- Is it wise for Bob to use a credit card to offset cash flow issues?

Facilitation Note:

- *These questions motivate the participants to think through common cash flow management scenarios.*
- *Thank participants for their ideas and suggestions.*
- *After the participants have a chance to offer suggestions, reveal the next slide which provides some answers.*

Slide 16



Possible Ideas for Bob

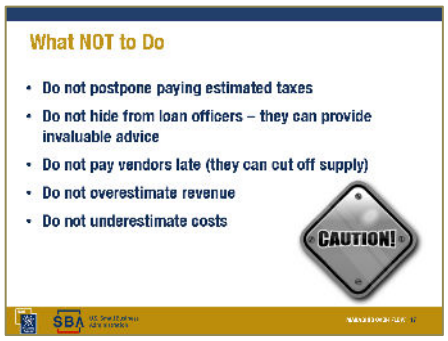
Note that some of the ideas you suggested are on this slide. Nice job advising Bob!

- Bob can increase the flow of revenue into his business.
- Bob can reduce outflow, perhaps by making arrangements with vendors or his landlord. If Bob pays his entire rent in 10 months he will pay more during the 10 busy months and no rent in July and August which promise to be slow.
- Bob might cut back when he expects business to slow down. Perhaps his staff can work fewer hours or he can cut back on menu items.

The point is that by managing cash flow, Bob is able to control his business over the long term. He can be strategic and plan ahead.

Instructor Notes	Presentation Guidelines
15 minutes	**Summary, Post-Test, and Evaluation**

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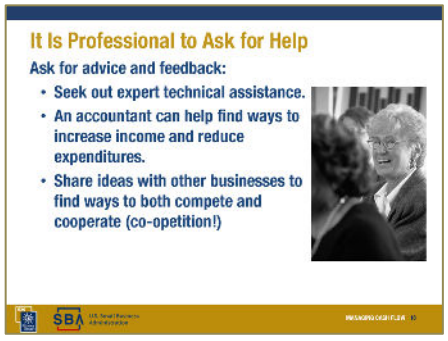
What NOT to Do

Never use your sales tax as a financing option. Some business owners use sales tax in a cash crunch hoping they replace the tax when things look up. This is a risky bet. Penalties are high for not paying taxes on time.

If you anticipate that you might miss or be late on a loan payment, talk to your loan officer as soon as you know. Loan officers understand cash flow and typical business challenges. It is in their interest to help. They don't want to see you fail. They make money when you are successful and pay back the principal and loan interest.

- Do not pay vendors late; they can cut off supply.
- Do not overestimate revenue. This is a common mistake many new business owners tend to make.
- Do not underestimate costs. Again, this is a common mistake in start-up businesses. Do your homework to find out the real costs of doing business.

Slide 18



It Is Professional to Ask for Help

It is not a sign of weakness if financial management is new for you. Find a great accountant or technical advisor at SBDC or SCORE who can explain cash flow in ways that relate the concepts to your own business.

An accountant will encourage you to use a computer to manage your cash flow documentation. If you do not already use financial management software, take a course to develop this skill. You also need to manage your paperwork in a professional manner. Set up a reliable filing system to keep track of all financial documents such as tax forms, receipts, invoices, and so on.

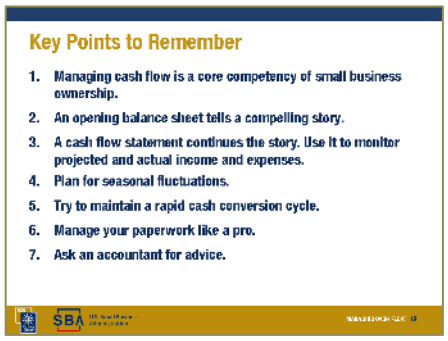
"Co-opetition"is a real term. Competitors can be good advisors as they cope with the same cash flow issues you do. Find ways to cooperate and share information with them. They have experience to share.

Check out the Toolkit of Resources in your Participant Guide for ideas about where to locate technical assistance.

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Presentation Guidelines

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Key Points to Remember

- Managing cash flow is a core competency of small business ownership.
- A balance sheet tells a compelling story. A cash flow statement continues that story. Use it to monitor projected and actual income and expenses.
- Plan for seasonal fluctuations. Every business has ups and downs. Ask some of your competitors when their usual slow times tend to occur.
- Try to maintain a rapid cash conversion cycle. Try not to tie up too much cash in inventory. Lease equipment instead of buying it. If you do buy equipment, buy used whenever you can.
- Manage your paperwork like a pro. Your accountant will expect to see spreadsheets, an accounting program, well-organized receipts, invoices, and financial statements such as banking and credit card statements.
- Ask an accountant for advice. Ideally this class has helped you prepare for a series of helpful conversations.
-

Slide 20



Toolkit of Resources

The Toolkit in the back of your Participant Guide provides helpful information such as:

- A glossary of common cash flow terms.
- A sample cash flow template (get the complete template online).
- Tips for negotiating better terms with customers, vendors and suppliers, and landlords.
- A list of great resources where you can get more information. Many of these are free or very inexpensive.

Facilitation Note

- *If you added Local Resources to the list in the Participant Guide, point out some of these.*

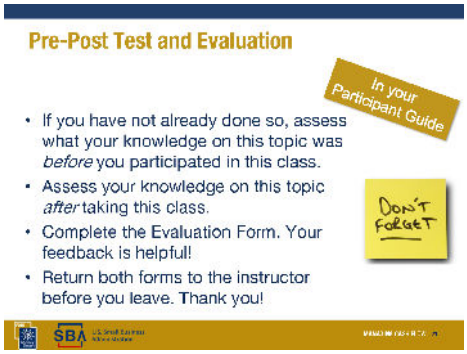


Clarify and Transition

Are there any questions before we wrap up?

Instructor Notes

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Presentation Guidelines

Pre- and Post-Test and Evaluation

Please turn to the Pre- and Post-Test form in the back of your Participant Guide.

If you have not already done so, complete the BEFORE Training column to assess what your knowledge was before you participated in this class. Then complete the AFTER Training column.

Take a few minutes to complete the Evaluation Form as well. Please return both forms to me before you leave.

Thank you for your feedback and comments.