



Understanding and Managing Cash Flow

- **CASH FLOW** – INCOMINGS AND OUTGOINGS OF CASH, REPRESENTING THE OPERATING ACTIVITIES OF AN ORGANIZATION
- **PROFIT & LOSS** – A PROFIT AND LOSS (P&L) SHOWS A COMPANY'S REVENUE AND EXPENSES OVER A PARTICULAR PERIOD OF TIME, TYPICALLY EITHER ONE MONTH OR CONSOLIDATED MONTHS OVER A YEAR.

	CASH FLOW	PROFIT & LOSS
BEGINNING CASH	-0-	-
REVENUES FROM SALES/SERVICES	10,000	10,000
OPERATING EXPENSES (PAYROLL, RENT, ETC.)	(5,000)	(5,000)
BUSINESS LOAN	7,000	-
BUSINESS LOAN REPAYMENT	<u>(2,000)</u>	<u>-</u>
ENDING CASH	10,000	5,000

EXAMPLE MONTHLY PROFIT & LOSS

REVENUES	100,000
COST OF GOODS SOLD	<u>(50,000)</u>
GROSS PROFIT	50,000
GROSS PROFIT PERCENTAGE	50%
OPERATING EXPENSES:	
PAYROLL	20,000
RENT	5,000
UTILITIES	1,000
INSURANCE	1,000
PROPERTY TAXES	1,000
OFFICE SUPPLIES	1,000
OWNER COMPENSATION	<u>20,000</u>
TOTAL OPERATING EXPENSES	<u>49,000</u>
PROFIT	1,000
OTHER CASH REQUIREMENTS:	
LOAN PAYMENTS	5,000



HOW TO CALCULATE HOW LONG YOUR CASH WILL LAST WHEN THERE ARE NO BUSINESS OPERATIONS

STEP 1 – IDENTIFY YOUR FIXED COSTS

RENT	5,000
UTILITIES	1,000
INSURANCE	1,000
PROPERTY TAXES	1,000
OWNER COMPENSATION	<u>20,000</u>
TOTAL	<u>28,000</u>

STEP 2 – IDENTIFY YOUR OTHER CASH REQUIREMENTS

LOAN PAYMENTS	<u>5,000</u>
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STEP 3 – TOTAL YOUR FIXED COSTS AND OTHER CASH REQUIREMENTS

33,000

STEP 4 – CASH ON HAND

100,000

STEP 5 – DIVIDE CASH ON HAND BY TOTAL CASH REQUIREMENTS

100,000/33,000

= MONTHS CASH ON HAND

3.0



HOW TO CALCULATE HOW LONG YOUR CASH WILL LAST WHEN BUSINESS OPERATIONS ARE REDUCED

STEP 1 – IDENTIFY YOUR FIXED COSTS

RENT	5,000
UTILITIES	1,000
INSURANCE	1,000
PROPERTY TAXES	1,000
OWNER COMPENSATION	<u>20,000</u>
TOTAL	28,000

STEP 2 – IDENTIFY YOUR OTHER CASH REQUIREMENTS

LOAN PAYMENTS	<u>5,000</u>
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STEP 3 – TOTAL YOUR FIXED COSTS AND OTHER CASH REQUIREMENTS

33,000

STEP 4 – IDENTIFY YOUR VARIABLE COSTS

COST OF GOODS SOLD	50,000
PAYROLL	20,000
OFFICE SUPPLIES	<u>1,000</u>
TOTAL	71,000



STEP 5 – SUBTRACT YOUR VARIABLE COSTS FROM YOUR REVENUES TO CALCULATE GROSS PROFIT

REVENUES	100,000
VARIABLE COSTS	<u>(71,000)</u>
GROSS PROFIT	29,000

STEP 6 – CALCULATE YOUR GROSS PROFIT PERCENTAGE

GROSS PROFIT	29,000/
DIVIDED BY REVENUES	100,000
GROSS PROFIT PERCENTAGE	29%

STEP 7 – BUSINESS OPERATIONS REDUCED TO 50% OR 50,000 REVENUES

STEP 8 – CALCULATE GROSS PROFIT ON 50,000 REVENUES

REVENUES	50,000X
MULTIPLIED BY GROSS PROFIT PERCENTAGE	29%
GROSS PROFIT	14,500

STEP 9 – SUBTRACT MONTHLY CASH REQUIREMENTS FROM GROSS PROFIT

GROSS PROFIT	14,500
MONTHLY CASH REQUIREMENT	<u>(33,000)</u>
NEGATIVE MONTHLY CASH	(18,500)



STEP 10 – CASH ON HAND	100,000
STEP 11 – DIVIDE CASH ON HAND BY TOTAL CASH REQUIREMENTS	100,000/18,500
= MONTHS CASH ON HAND	5.4



HOW TO MAKE YOUR CASH LAST

LOOK FOR SOURCES OF CASH

- **GRANTS**
- **LOANS**
- **OTHER SOURCES OF REVENUE**
 - **TAX REFUNDS**
 - **TAX CREDITS**
 - **UNEMPLOYMENT**
 - **LOANS/DISTRIBUTIONS FROM RETIREMENT PLANS**
- **ACCOUNTS RECEIVABLE**
- **OTHER LINES OF REVENUE**

LOOK FOR WAYS TO REDUCE CASH OUTFLOW

- **DEBT RELIEF/DEFERMENT**
- **DEFER TAX PAYMENTS**
- **REDUCED PAYMENTS & INTEREST ON CREDIT CARDS**
- **REDUCED PAYMENT/RELIEF TO VENDORS**
- **REDUCED OWNER COMPENSATION**



About Your Presenter

This presentation is being presented by **Sylvia Lagerquist**, founder and president of **Haines & Lagerquist CPAs**. Sylvia is a certified public accountant with more than thirty years' experience working with business owners and individuals to help them understand their numbers and improve the revenue and profitability of their businesses. She holds a Bachelor of Music degree from Catholic University and has worked in public accounting since 1985. Sylvia is a recognized business leader in the Baltimore-Washington region, having been named a Washington SmartCPA®, Top Accountant™ and a *SmartCEO* Center of Influence award winner.

About Haines & Lagerquist, CPAs

Headquartered in Silver Spring, Maryland, Haines & Lagerquist CPAs is a full-service public accounting firm that offers strategic, analytical and creative guidance to forward-thinking businesses in the Baltimore- Washington region. The firm focuses on offering these services:

- Tax & Compliance
- Bookkeeping & Accounting
- Accounting Systems
- Outsourced CFO

The firm's practice focus includes professional services, government contracting, technology, small business and retail. To learn more about how Haines & Lagerquist can serve your business needs, please contact us at sylvial@hainesandlagerquist.com or call **(301) 927-0020**.



KEY TERMS:

- **VARIABLE COSTS:** Costs vary in direct relationship to revenues
- **FIXED COSTS:** Costs remain fixed within a certain volume
- **GROSS PROFIT:** Revenues per unit less variable costs per unit
- **GROSS PROFIT PERCENTAGE:** Gross profit divided by revenues

FORMULAS:

- **BREAKEVEN REVENUES** = Fixed Costs divided by Gross Profit Percentage
- **BREAKEVEN UNITS** = Breakeven Revenues divided by revenues per unit



EXERCISES:

1 – Service Company, sole proprietorship, no employees, no variable costs, all billings are 100% billable and everything billed is collected.

Billing Rate \$100/hr.
Fixed Costs \$50,000

What are the breakeven revenues?

If owner wanted \$50,000 profit/compensation, what would the breakeven revenues be?

How many breakeven units (billable hours) does the company need to bill?



2 – Service Company, sole proprietorship, 1 employee who is 100% billable, owner has no billable hours

Billing Rate \$100/hr.

Employee compensation, including benefits \$25/hr.

Fixed costs \$50,000

Owner desired profit or compensation \$50,000

What are the variable costs?

What are the fixed costs?

What is the gross profit per hour?

What is the gross profit percentage?

What are the breakeven revenues?

How many breakeven units (billable hours) does the company need to bill?



3 – Product Company, corporation, 1 owner, not employees, sells T-shirts

T-Shirt sales price \$15
Unit cost of T-Shirt \$5
Selling & administrative costs \$50,000
Owner compensation \$50,000

What are the variable costs?

What are the fixed costs?

What is the gross profit per T-Shirt?

What is the gross profit percentage per T-shirt?

What are the breakeven revenues?

How many breakeven units (T- shirts) does the company need to sell?



4 – Product Company, corporation, 1 owner, not employees, sells T-shirts

T-Shirt sales price \$15 for 40% of its shirts

T-Shirt sales price \$10 for 60% of its shirts

Selling & administrative costs \$50,000

Owner compensation \$50,000

Gross profit percentage 67%

What is the weighted average sales price?

What are the fixed costs?

What is the gross profit percentage per T-shirt?

What are the breakeven revenues?

How many breakeven units (T-shirts) does the company need to sell?