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Cash Reigns Supreme



NDC GAF Financed: Ponty Bistro

CASH REIGNS SUPREME

Tracking the Financial Results of Your Business

COURSEBOOK

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CASH REIGNS SUPREME

Tracking the Financial Results of Your Business

Table of Contents

	Page
Lecture Notes	1
Case Study: Bread for Life, Inc.	72
Glossary.....	76
Worksheets.....	84
Accounts Receivable Worksheet for Credit Sales (blank).....	85
Accounts Payable Worksheet for Credit Sales (blank).....	86
Cash Flow Forecast (blank).....	87

Lecture Notes

Cash Reigns Supreme

Lecture Notes

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What We'll Cover

- 📖 **Why Is Cash so Important**
- 📖 **Accounting 101 Review**
- 📖 **Demonstration of a Start-Up Business
[Bread for Life, Inc. (BFL)] with its opening
Balance Sheet and Profit & Loss (P&L)**
- 📖 **Forecasting**
 - Profit & Loss
 - Cash Flow
 - Balance Sheet
- 📖 **Summary & Recommendations**

Introduction

- **Keep these concepts in mind as we go through our Accounting Review**
 - **The importance of tracking financial results for every business**
 - **The importance of having an accounting system**
 - **The importance of CASH**
 - **The importance of budgeting for the future**
 - **The importance of projecting and managing cash flow**

Why Do We Need These Records?

- 📁 **To make business planning decisions**
 - e.g., pricing, hiring and capital expenditures
- 📁 **To meet governmental requirements**
 - e.g., taxes
- 📁 **To communicate the scope of our business to others**
 - e.g., lenders and investors

Cash Reigns Supreme

- 📄 **Only CASH starts the business**
- 📄 **Only CASH pays the bills**
- 📄 **Only CASH gives your business credibility**
- 📄 **Only CASH provides breathing room during seasonal, economic and other downturns**



Benefits of Having Cash

- ▣ **Allows you to amass the materials and services to be in business**
- ▣ **Allows you to pay your bills**
- ▣ **Improves your ability to borrow**
- ▣ **Allows you to take advantage of discounts on purchases**
- ▣ **Makes it possible to extend terms to your customers**



How Do We Keep Track of Cash?

- 📄 **We express our business in terms of money**
- 📄 **We create an accounting system**
- 📄 **We make a record of all financial events**
- 📄 **We measure our profit and loss**
- 📄 **We determine how much our business is worth**



Who Does What? Bookkeeper vs. Accountant

- 📑 **Bookkeeper:** the person who records the transactions of a business in the accounting system
- 📑 **Accountant:** an expert involved in the methods of recording business transactions and preparing the resulting financial statements

Simplest Form, the Checkbook!

What is Recorded:

- Date of transaction
- Amount of money
 - Deposited or
 - Spent (by writing and issuing checks) and
 - Balance remaining in the account
- Who was involved
- Deposits (where and how was the money earned)
- Checks (why was the money spent)
- Cash balance (deposits minus checks equals the cash balance in the account)

Accounting Overview

- Accounting merely organizes the information recorded in the checkbook or other registers and creates an easy way to look at the total results by type of transaction.
- Rules of an accounting system
 - Uses a “double entry” system
 - Entries are identified as Debits or Credits (left versus right)
 - Summaries (or statements) available:
 - Balance Sheet: a point in time (snap shot)
 - Profit & Loss Statement: a period of time (video)
 - Cash Flow Statement: the affect of changes in balance sheet accounts and income on cash

Case Study: Bread for Life, Inc.

- 📖 **Start-up business**
- 📖 **Selling wholesale and retail – a bakery**
- 📖 **Financed with both equity and debt**
- 📖 **Simple inventory records – raw materials only**
- 📖 **Sales and purchases on credit**



Financial Details at Start-up of Bread For Life, Inc.

First six transactions from the case study:

1. **Personally invested \$100,000**
2. **Paid rent deposit of \$20,000**
3. **Borrowed \$75,000**
4. **Purchased machinery & equipment for \$65,000**
5. **Purchased packaging supplies for \$3,500**
6. **Purchased raw materials of \$7,500 on credit**

Check Register - December 2009

Bread for Life, Inc.

Register: Checking Account

From 12/01/2009 through 12/31/2009

<u>Date</u>	<u>Number</u>	<u>Payee</u>	<u>Account</u>	<u>Memo</u>	<u>Payment</u>	<u>Deposit</u>	<u>Balance</u>
12/01/2009		Joan L. Owner	Common Stock	Initial Investment		100,000.00	100,000.00

Check Register – December 2009 (cont.)

Bread for Life, Inc.

Register: Checking Account

From 12/01/2009 through 12/31/2009

<u>Date</u>	<u>Number</u>	<u>Payee</u>	<u>Account</u>	<u>Memo</u>	<u>Payment</u>	<u>Deposit</u>	<u>Balance</u>
12/01/2009		Joan L. Owner	Common Stock	Initial Investment		100,000.00	100,000.00
12/01/2009	101	Landlord	Rent Deposit		20,000.00		80,000.00

Check Register – December 2009 (cont.)

Bread for Life, Inc.

Register: Checking Account

From 12/01/2009 through 12/31/2009

<u>Date</u>	<u>Number</u>	<u>Payee</u>	<u>Account</u>	<u>Memo</u>	<u>Payment</u>	<u>Deposit</u>	<u>Balance</u>
12/01/2009		Joan L. Owner	Common Stock	Initial Investment		100,000.00	100,000.00
12/01/2009	101	Landlord	Rent Deposit		20,000.00		80,000.00
12/02/2009		Economic Development	split	Borrower Funds		75,000.00	155,000.00

Check Register – December 2009 (cont.)

Bread for Life, Inc.

Register: Checking Account

From 12/01/2009 through 12/31/2009

<u>Date</u>	<u>Number</u>	<u>Payee</u>	<u>Account</u>	<u>Memo</u>	<u>Payment</u>	<u>Deposit</u>	<u>Balance</u>
12/01/2009		Joan L. Owner	Common Stock	Initial Investment		100,000.00	100,000.00
12/01/2009	101	Landlord	Rent Deposit		20,000.00		80,000.00
12/02/2009		Economic Development	split	Borrower Funds		75,000.00	155,000.00
12/03/2009	102	Equipment Manufacturer	Machinery & Equipment	Machinery & Equipment	65,000.00		90,000.00

Check Register – December 2009 (cont.)


Bread for Life, Inc.


Register: Checking Account

From 12/01/2009 through 12/31/2009

<u>Date</u>	<u>Number</u>	<u>Payee</u>	<u>Account</u>	<u>Memo</u>	<u>Payment</u>	<u>Deposit</u>	<u>Balance</u>
12/01/2009		Joan L. Owner	Common Stock	Initial Investment		100,000.00	100,000.00
12/01/2009	101	Landlord	Rent Deposit		20,000.00		80,000.00
12/02/2009		Economic Development	split	Borrower Funds		75,000.00	155,000.00
12/03/2009	102	Equipment Manufacturer	Machinery & Equipment	Purchase Products	65,000.00		90,000.00
12/05/2009	103	Packaging Materials	Packaging Supplies	Purchase of Packaging Materials	3,500.00		86,500.00

Check Register – December 2009 (cont.)

-  **The sixth transaction (purchase of raw materials on credit) does not immediately affect cash, thus cannot be recorded in the checkbook at this time.**

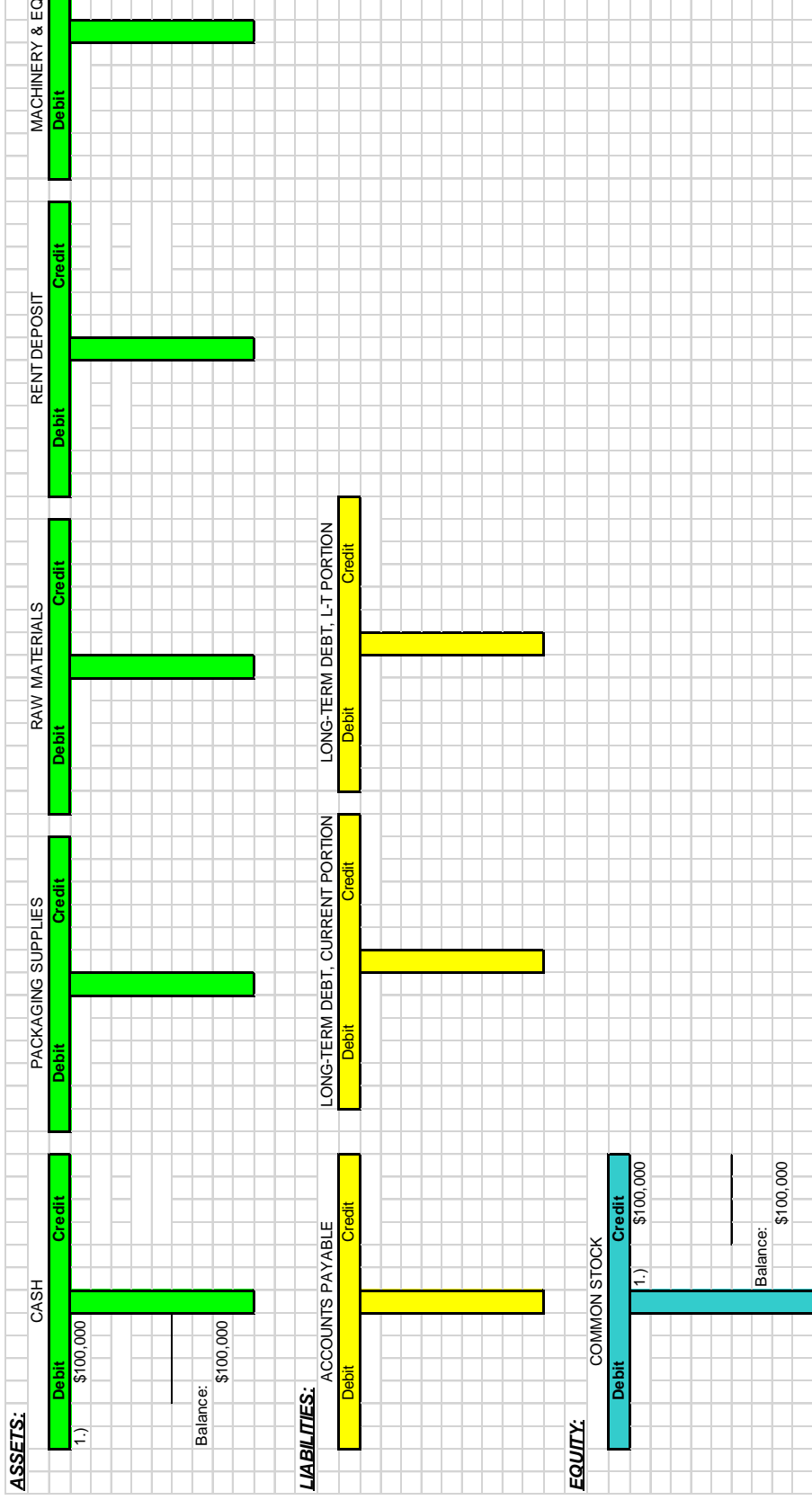
-  **Conclusion, already the checkbook is inadequate to fully represent the transactions of the business!**

Beginning of a Double Entry Accounting System

- Simplest form were “ledger sheets”; one for each account affected
- One can graphically represent these ledger sheets by “T-accounts” (Defined as: The simplest account structure and is shaped like the letter T. Debits always go on the left side of the T, and credits always go on the right.)

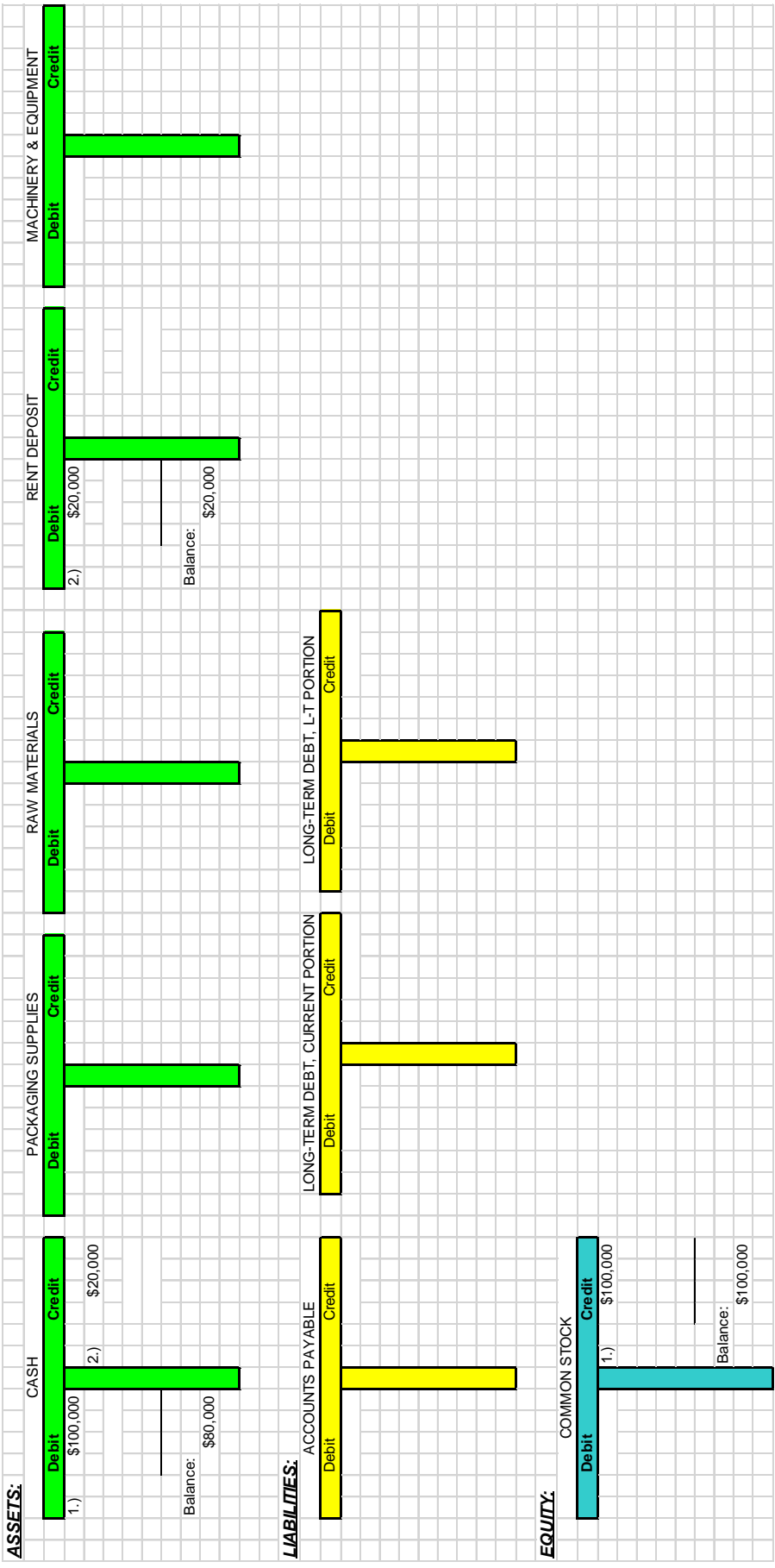
Bread For Life, Inc.

First Transaction

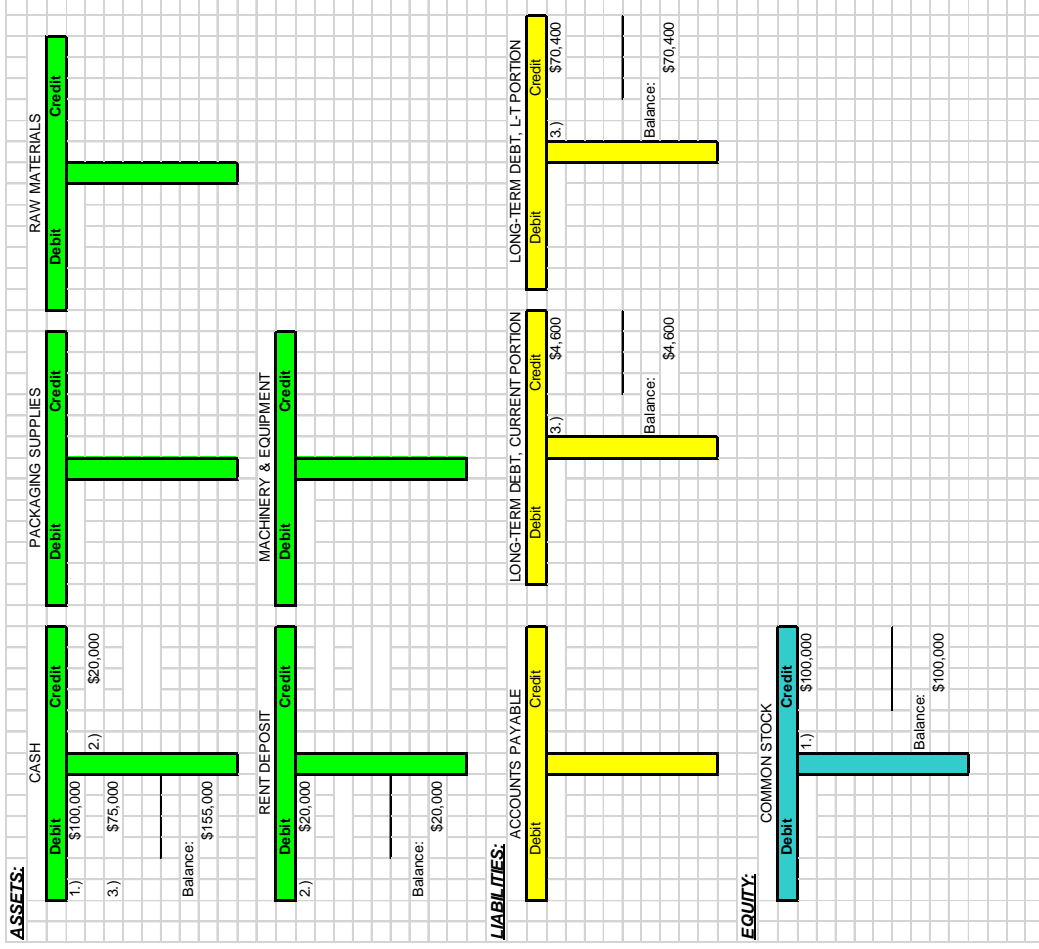


Bread For Life, Inc.

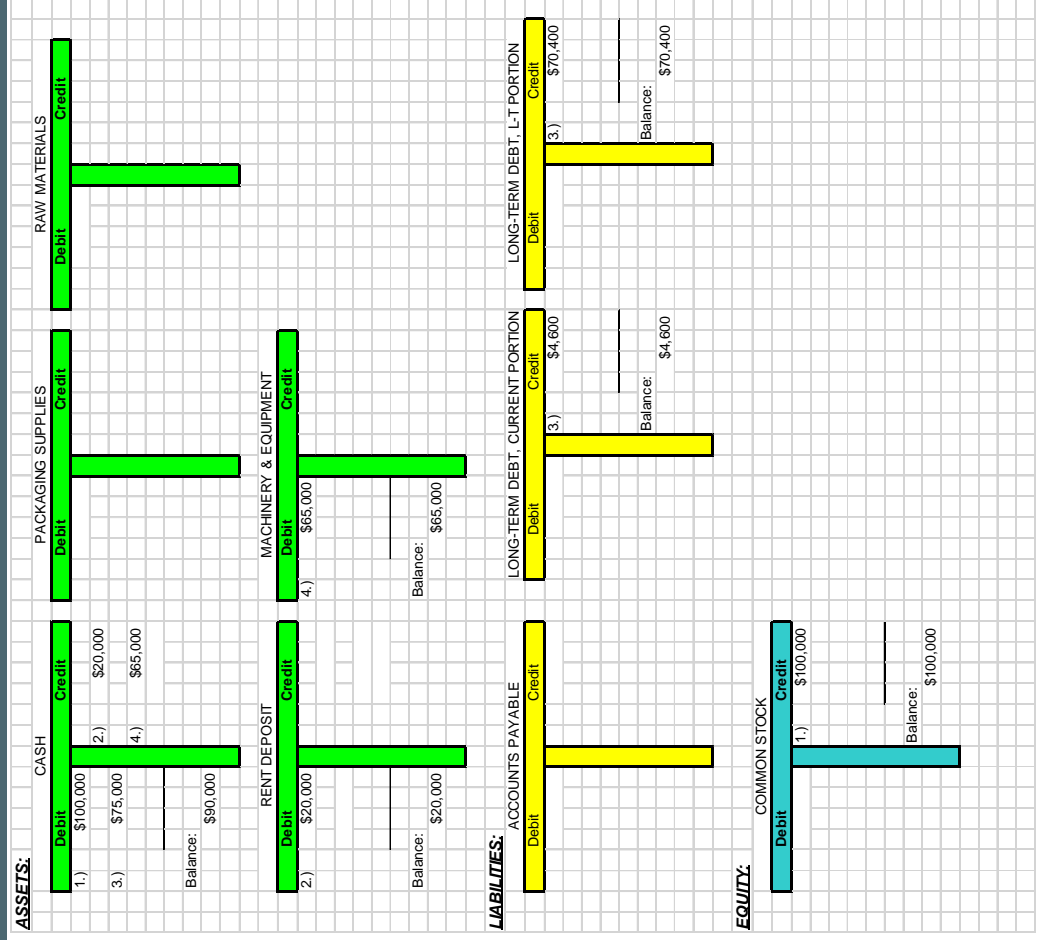
Add Second Transaction



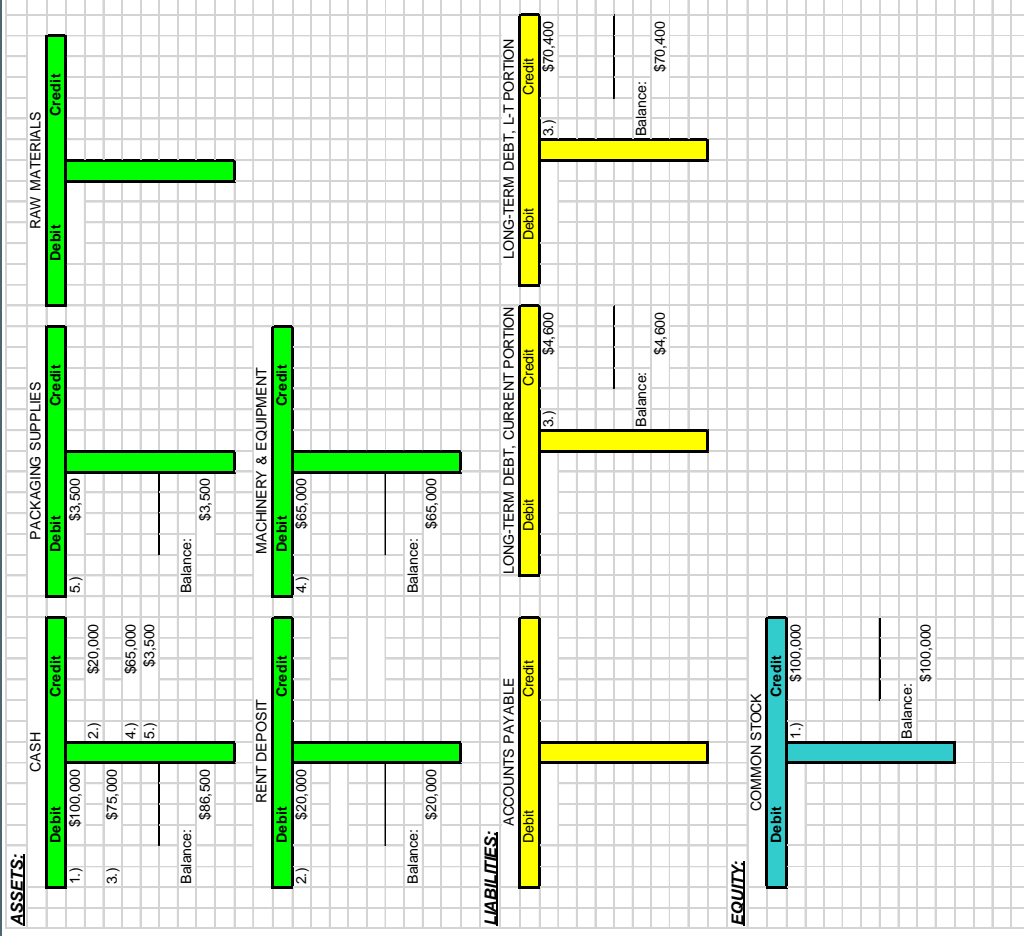
Bread For Life, Inc. Add Third Transaction



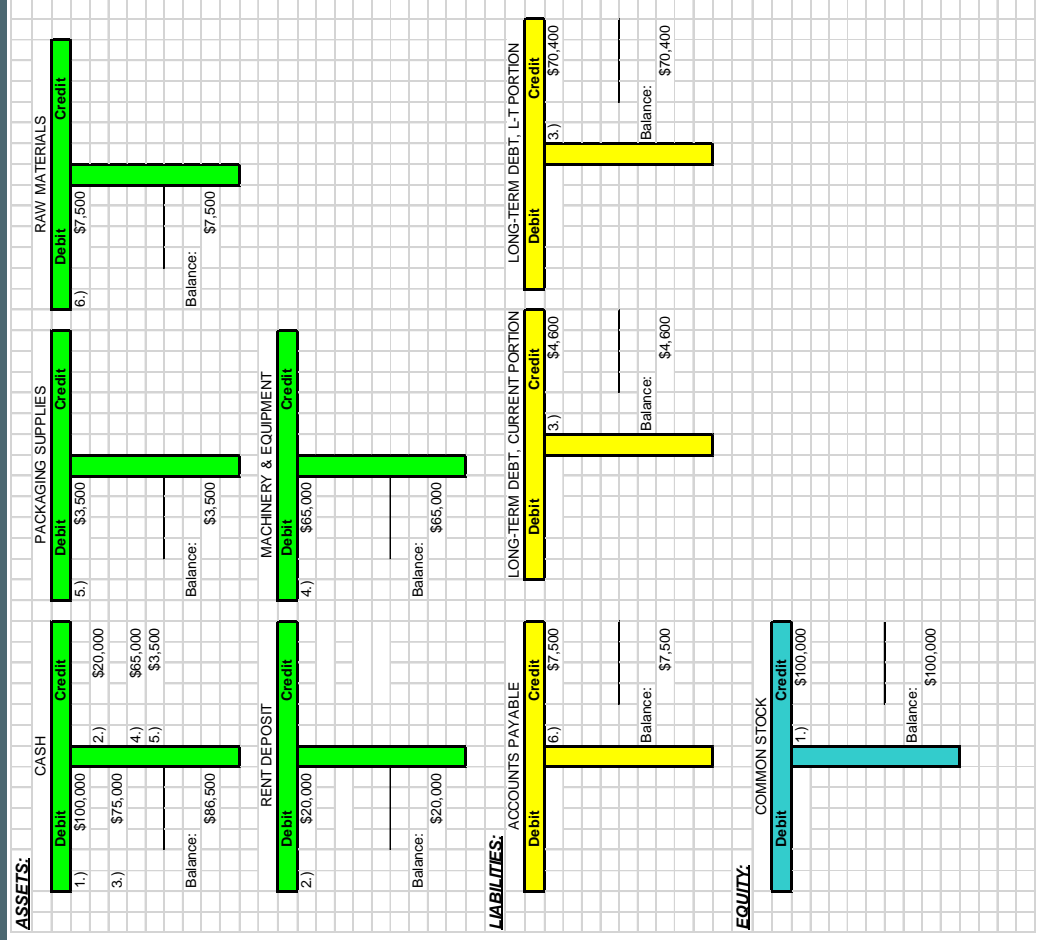
Bread For Life, Inc. Add Fourth Transaction



Bread For Life, Inc. Add Fifth Transaction



Bread For Life, Inc. Add Sixth Transaction



Balance Sheet

Basic formula for a balance sheet:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

A balance sheet shows where a company gets cash & how it uses it by reflecting:

- Changes in all other assets and liabilities
- Building of the worth of the company through additional owner investments in the business
- Retaining the profits generated by the business, and
- Subtracting any losses generated by, and assets drawn out of the business by the owner(s).

Organization of the Balance Sheet

Assets (What a Business <u>Ow</u> ns)	Liabilities (What a Business <u>Owe</u> s)
Current Assets Nearest to Cash (most liquid) Operating Uses Current < 12 Months	Current Liabilities Soonest Due Operating Sources Due within 12 Months
Long-term Assets Furthest from Cash (least liquid) Non-Operating Uses Mature into Cash in > 12 Months	Long-term Liabilities Non-Operating Sources Due > 12 Months
TOTAL ASSETS	Equity (What's Due to Owner(s)) No due date
TOTAL ASSETS	= TOTAL LIABILITIES + EQUITY

Bread for Life, Inc. Balance Sheet

Initial Accounts used in the first six transactions

- **Assets**
 - Cash
 - Inventories
 - Machinery and Equipment (M&E)
 - Rent Deposit
- **Liabilities**
 - Accounts Payable
 - Long-Term Debt, split between Current and Non-Current
- **Equity**
 - Common Stock



Bread for Life, Inc.
BALANCE SHEET BUDGET OVERVIEW
As of December 31, 2009

ASSETS		
Current Assets		
Checking/Savings		86,500
Any Bank Checking Account		86,500
Total Checking/Savings		
Other Current Assets		7,500
Inventory, Raw Materials		3,500
Packaging Supplies		11,000
Total Other Current Assets		97,500
Total Current Assets		
Fixed Assets		65,000
Machinery & Equipment		65,000
Total Fixed Assets		
Other Assets		20,000
Rent Deposit		20,000
Total Other Assets		20,000
TOTAL ASSETS		182,500
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		7,500
Accounts Payable		7,500
Total Accounts Payable		
Other Current Liabilities		4,600
Long-Term Debt Current Portion		4,600
Total Other Current Liabilities		12,100
Total Current Liabilities		
Long Term Liabilities		70,400
Long Term Debt		70,400
Total Long Term Liabilities		82,500
Total Liabilities		
Equity		100,000
Common Stock		100,000
Total Equity		100,000
TOTAL LIABILITIES AND EQUITY		182,500

Profit & Loss Statement

Total Income – Cost of Goods Sold – Expenses = Net Income

	Total Ordinary Income	
-	<u>Cost of Goods Sold (COGS)</u>	
=	<u>Gross Profit</u>	
	Less, Expenses	
	- Depreciation	
	- Rent	
	- Owner's Salary	
	- Other Selling, Gen'l & Admin. Exp. (SGA)	
-	<u>Total Expenses</u>	
=	<u>Net Ordinary Income</u>	
+	Other Income	
-	<u>Other Expenses (Interest, etc.)</u>	
+	<u>Net Other Income</u>	
=	<u>Net Income</u>	

Examples of Other Typical SGA Expenses

Selling

- Advertising
- Sales, Salaries and Commissions

General

- Legal and Audit
- Rent
- Utilities
- Janitorial and Building Maintenance
- Property Taxes
- Liability Insurance

Administrative

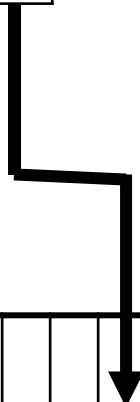
- Office Salaries
- Office Supplies

What Happens To the Profit or Loss?

- ❏ **Net profit or loss flows through to the Equity section of the Balance Sheet as the current year's net income portion of the Retained Earnings section.**
- ❏ **Retained Earnings is the link of the P&L to the Balance Sheet**
- ❏ **On the P&L, net income or loss is for the period covered by the P&L**
- ❏ **On the Balance Sheet, Retained Earnings measures cumulative earnings for the life of the entity**
- ❏ **And, this all happens automatically when you use software like QuickBooks**

Company Name Spread Sheet	
I. BALANCE SHEET Compiled/Revised/Audited Date (Month/Day/Year)	
ASSETS	
Current Assets	
Cash & Marketable Securities	
Accounts Receivable	
Inventory	
Prepaid Expenses	
Other Current Assets	
Total Current Assets	
LIABILITIES & EQUITY	
TOTAL CURRENT LIABILITIES	
Long-term Debt	
TOTAL LIABILITIES	
Common Stock	
Retained Earnings (NET INCOME)	
TOTAL NET WORTH	
TOTAL EQUITY	
TOTAL LIABILITIES & EQUITY	

Company Name Spread Sheet	
II. PROFIT & LOSS STATEMENT Number of Months Period Ending	
Income	
- COGS	
Gross Profit	
- Depr & Amort.	
- Rent	
- Owner's Salary	
- S G & A	
= NET OPERATING INCOME	
+/- Other Inc./Exp.	
= NET INCOME BEFORE TAXES	
- Income Taxes	
= NET INCOME AFTER TAXES	



Check Register - January 2010

Bread for Life, Inc.

Register: Checking Account

From 01/01/2010 through 01/01/2010

<u>Date</u>	<u>Number</u>	<u>Payee</u>	<u>Account</u>	<u>Memo</u>	<u>Payment</u>	<u>Deposit</u>	<u>Balance</u>
01/01/2010	104	Landlord	Rent		10,000.00		76,500.00

Profit & Loss - First Day of Operations

Accrual Basis

Bread for Life, Inc.
Profit & Loss
for the day of January 1, 2010

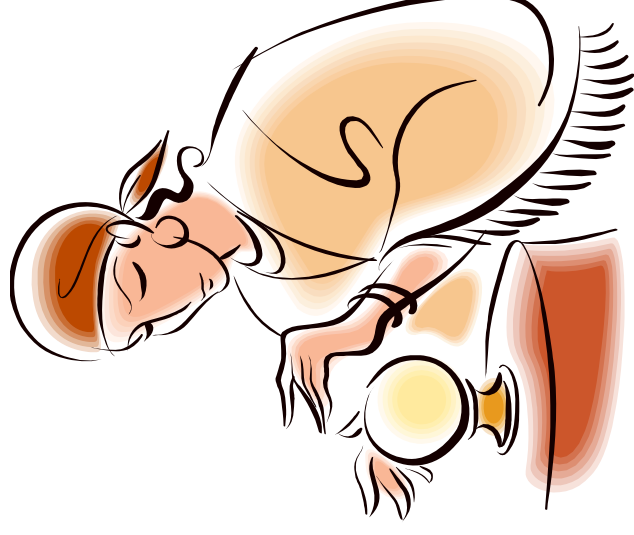
Ordinary Income	-
Expenses:	0-
Rent	10,000.00
Total Expenses	<u>10,000.00</u>
Net Ordinary Income	<u>(10,000.00)</u>
Net Income/(Loss)	<u>(10,000.00)</u>

Bread for Life, Inc.
BALANCE SHEET BUDGET OVERVIEW
As of January 1, 2010

ASSETS		
Current Assets		
Checking/Savings		76,500
Any Bank Checking Account		76,500
Total Checking/Savings		
Other Current Assets		7,500
Inventory, Raw Materials		3,500
Packaging Supplies		11,000
Total Other Current Assets		87,500
Total Current Assets		
Fixed Assets		65,000
Machinery & Equipment		65,000
Total Fixed Assets		
Other Assets		20,000
Rent Deposit		20,000
Total Other Assets		172,500
TOTAL ASSETS		
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		7,500
Accounts Payable		7,500
Total Accounts Payable		
Other Current Liabilities		4,601
Long-Term Debt Current Portion		4,601
Total Other Current Liabilities		12,101
Total Current Liabilities		
Long Term Liabilities		70,399
Long Term Debt		70,399
Total Long Term Liabilities		82,500
Total Liabilities		
Equity		100,000
Common Stock		(10,000)
Net Income		90,000
Total Equity		172,500
TOTAL LIABILITIES AND EQUITY		

Projecting the Future

- 📄 **Projecting Sales**
- 📄 **Projecting Profits**
- 📄 **Projecting Cash Flow**
- 📄 **For Whom:**
 - You
 - Lenders
 - Investors



Budgeting the Profit & Loss

1. **Start with a revenue or sales forecast**
2. **Complete a production forecast of units necessary to be produced in order to have the inventory on hand to support the sales forecast**
3. **Calculate cost of goods sold**
 - **Base it on the labor, material and other costs directly related to the product (primarily for manufacturer)**
 - **Or, keep COGS level as a percentage of sales (primarily for retailer)**
4. **Schedule out the known selling, general and administrative expenses**
5. **And, all these numbers are scheduled by month**

**BREAD FOR LIFE, INC.
SALES FORECAST
for the year 2010**

<u>Units:</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
Wholesale	10,000	10,000	15,000	15,000	20,000	20,000	25,000	25,000	30,000	30,000	30,000	60,000	290,000
Retail	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500	5,000	5,000	5,000	10,000	47,000
Total	11,000	11,500	17,000	17,500	23,000	23,500	29,000	29,500	35,000	35,000	35,000	70,000	337,000

Sales Price per Unit:

Wholesale	\$ 1.00 per unit
Retail	\$ 3.00 per unit

Revenue:

1) Wholesale	\$10,000	\$10,000	\$15,000	\$15,000	\$20,000	\$20,000	\$25,000	\$25,000	\$30,000	\$30,000	\$30,000	\$60,000	\$290,000
1) Retail	\$ 3,000	\$ 4,500	\$ 6,000	\$ 7,500	\$ 9,000	\$10,500	\$12,000	\$13,500	\$15,000	\$15,000	\$15,000	\$30,000	\$141,000
Total	\$13,000	\$14,500	\$21,000	\$22,500	\$29,000	\$30,500	\$37,000	\$38,500	\$45,000	\$45,000	\$45,000	\$90,000	\$431,000

1) These lines go to the Income Accounts on the Profit & Loss Budget.

BREAD FOR LIFE, INC.
PRODUCTION FORECAST
for the year 2010

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
<u>Units:</u>													
Wholesale	10,000	10,000	15,000	15,000	20,000	20,000	25,000	25,000	30,000	30,000	30,000	60,000	290,000
Retail	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500	5,000	5,000	5,000	10,000	47,000
Total	11,000	11,500	17,000	17,500	23,000	23,500	29,000	29,500	35,000	35,000	35,000	70,000	337,000

Cost of Goods Sold Price per Unit:

1) Labor	\$ 1,100	\$ 1,150	\$ 1,700	\$ 1,750	\$ 2,300	\$ 2,350	\$ 2,900	\$ 2,950	\$ 3,500	\$ 3,500	\$ 3,500	\$ 7,000	\$ 33,700
1) Raw Materials	\$ 2,200	\$ 2,300	\$ 3,400	\$ 3,500	\$ 4,600	\$ 4,700	\$ 5,800	\$ 5,900	\$ 7,000	\$ 7,000	\$ 7,000	\$ 14,000	\$ 67,400
1) Supplies	\$ 330	\$ 345	\$ 510	\$ 525	\$ 690	\$ 705	\$ 870	\$ 885	\$ 1,050	\$ 1,050	\$ 1,050	\$ 2,100	\$ 10,110
Total	\$ 0.10	\$ 0.20	\$ 0.03	\$ 0.33									

Cost of Goods Sold in Dollars:


Total	\$ 3,630	\$ 3,795	\$ 5,610	\$ 5,775	\$ 7,590	\$ 7,755	\$ 9,570	\$ 9,735	\$ 11,550	\$ 11,550	\$ 11,550	\$ 23,100	\$ 111,210
--------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------	------------------	------------------	------------------	------------------	-------------------

1) These lines go to the Cost of Goods Sold Accounts on the Profit & Loss Budget.

Forecasting Expenses For the P&L Budget

- Fixed monthly expense estimates
- BFL's list includes
 - Rent - fixed @ \$10,000 per month
 - Owner's Salary - fixed @ \$5,000 per month
 - Selling, Gen'l & Admin - fixed @ \$11,500 per month

Special Line Items to Consider

 **Depreciation** – divide the cost of the asset by the life, in months (usually have your accountant provide)

- M&E – 5,7,10 or 15 years
- Buildings – 39 years
- Leasehold – term of lease
- Bread for Life:

$$\frac{\text{Equipment Cost}}{\text{No. of yrs x 12 mos.}} = \frac{\$65,000}{(10 \times 12)} = \$541$$

Special Line Items to Consider

Interest –

- Have your lender or accountant provide you with an amortization schedule showing the amount of each payment that goes to interest and principal reduction over the term of the loan
- Use a financial calculator, Excel Function, or Excel Template

“Only the interest portion is expensed on the P&L!”

**BREAD FOR LIFE, INC.
AMORTIZATION SCHEDULE
for the years 2010 & 2011**

for the year 2010:

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
1 Balance, beginning of period	5,000	74,634	74,265	73,892	73,517	73,139	72,757	72,372	71,984	71,593	71,198	70,800
2 Payment	991.13	991	991	991	991	991	991	991	991	991	991	991
3 Interest	10.00%	625	619	616	613	609	606	603	600	597	593	590
4 Principal reduction		366	369	372	375	378	382	385	388	391	395	398
5 Balance, end of period		74,634	74,265	73,892	73,517	73,139	72,757	72,372	71,984	71,593	71,198	70,800

5 = 1-4

Breakout of ending balance by current and long term:

2) Current	4,601	4,639	4,678	4,717	4,756	4,796	4,836	4,876	4,916	4,957	4,999	5,040
3) Long Term	70,399	69,995	69,587	69,176	68,761	68,343	67,921	67,496	67,068	66,635	66,200	65,317
Total	75,000	74,634	74,265	73,892	73,517	73,139	72,757	72,372	71,984	71,593	71,198	70,399

1) This line goes to the Interest Expense Account on the Profit & Loss Budget.

2) This line goes to the "Long-Term Debt Current Portion" account in the Liabilities Section of the Balance Sheet Budget.

3) This line goes to the "Long-Term Debt" account in the Liabilities Section of the Balance Sheet Budget.

for the year 2011:

1 Balance, beginning of period	70,399	69,995	69,587	69,176	68,761	68,343	67,921	67,496	67,068	66,635	66,200	65,760
2 Payment	991.13	991	991	991	991	991	991	991	991	991	991	991
3 Interest	10.00%	587	583	580	576	573	570	566	562	559	555	548
4 Principal reduction		404	408	411	415	418	422	425	429	432	436	443
5 Balance, end of period		69,995	69,587	69,176	68,761	68,343	67,921	67,496	67,068	66,635	66,200	65,317

Input the Budget Into QuickBooks™

- 📅 **Creates a monthly P&L budget**
- 📅 **Gives you the ability to compare actuals to budget during the year**
- 📅 **Helps in managing (analyzing) your profitability, pricing, cost controls, etc. as you proceed through the operating year**
- 📅 **Highly important for start-up and seasonal businesses**
- 📅 **Communicates to potential lenders or investors the financial summary of your business plan**

Accrual Basis

Bread for Life, Inc.
Profit & Loss Budget Overview
January 2010

	January 2010
Ordinary Income/Expense	
Income	
Sales, Wholesale	10,000
Sales, Retail	3,000
Total Income	<u>13,000</u>
Cost of Goods Sold	
Packing Supplies Used	330
Materials	2,200
Labor	1,100
Total COGS	<u>3,630</u>
Gross Profit	<u>9,370</u>
Expense	
Depreciation	542
Rent	10,000
Owner's Salary	5,000
Selling, Gen'l & Admin	11,500
Total Expense	<u>27,042</u>
Net Ordinary Income	<u>(17,672)</u>
Other Income/Expense	
Other Expense	
Interest	625
Total Other Expense	<u>625</u>
Net Other Income	<u>(625)</u>
Net Income	<u>(18,297)</u>

Bread for Life, Inc. Profit & Loss Budget Overview

January through December 2010

Accrual Basis

	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	TOTAL Jan-Dec 10
Ordinary Income/Expense													
Income													
Sales, Wholesale	10,000	10,000	15,000	15,000	20,000	20,000	25,000	25,000	30,000	30,000	30,000	60,000	290,000
Sales, Retail	3,000	4,500	6,000	7,500	9,000	10,500	12,000	13,500	15,000	15,000	15,000	30,000	141,000
Total Income	13,000	14,500	21,000	22,500	29,000	30,500	37,000	38,500	45,000	45,000	45,000	90,000	431,000
Cost of Goods Sold													
Packing Supplies Used	330	345	510	525	690	705	870	885	1,050	1,050	1,050	2,400	10,410
Materials	2,200	2,300	3,400	3,500	4,600	4,700	5,800	5,900	7,000	7,000	7,000	16,000	69,400
Labor	1,100	1,150	1,700	1,750	2,300	2,350	2,900	2,950	3,500	3,500	3,500	7,000	33,700
Total COGS	3,630	3,795	5,610	5,775	7,590	7,755	9,570	9,735	11,550	11,550	11,550	25,400	113,510
Gross Profit	9,370	10,705	15,390	16,725	21,410	22,745	27,430	28,765	33,450	33,450	33,450	64,600	317,490
Expense													
Depreciation	542	542	542	542	542	542	542	542	542	542	542	542	6,500
Rent	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Owner's Salary	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Selling, Gen'l & Admin	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	138,000
Total Expense	27,042	27,042	27,042	27,042	27,042	27,042	27,042	27,042	27,042	27,042	27,042	27,042	324,500
Net Ordinary Income	(17,672)	(16,337)	(11,652)	(10,317)	(5,632)	(4,297)	388	1,723	6,408	6,408	6,408	37,558	(7,010)
Other Income/Expense													
Other Expense Interest	625	622	619	616	613	609	606	603	600	597	593	590	7,293
Total Other Expense	625	622	619	616	613	609	606	603	600	597	593	590	7,293
Net Other Income	(625)	(622)	(619)	(616)	(613)	(609)	(606)	(603)	(600)	(597)	(593)	(590)	(7,293)
Net Income	(18,297)	(16,959)	(12,271)	(10,932)	(6,244)	(4,906)	(218)	1,120	5,808	5,812	5,815	36,968	(14,303)

Is a Forecasted Profit & Loss Statement Enough?

NO!

- 📄 **Why is forecasting the P&L not enough:**
 - Non-cash expenses like depreciation do not negatively impact cash
 - Principal payments on debt are not reflected on the P&L
 - A business grants its customers credit terms
 - Suppliers grant credit terms for the purchase of the inventory

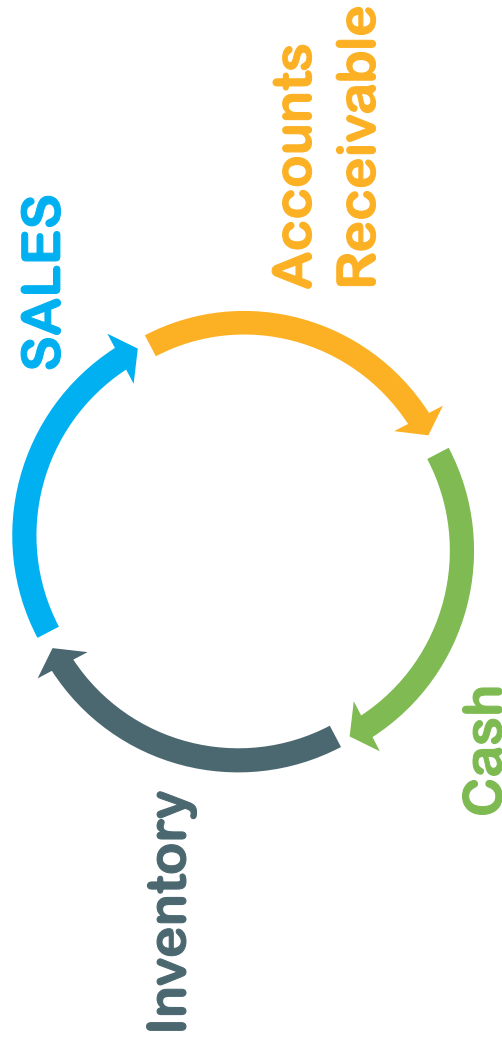
(Continued)

Profits Don't Equal Cash

- 📄 **Why is forecasting the P&L not enough (continued):**
 - **Goods are finished and will not be sold until later months**
 - **Employees are not paid each day for their work**
 - **Therefore, profitability and cash flow are not the same**
 - **You can be profitable and not have enough cash!**

Operating Cycle

- Summarized graphically as an Operating Cycle (aka the “Cash to Cash Cycle”)
 - That is, how long is it from the time you pay for raw materials until you collect from your customers?



Operating Cycle Formulas

- + **Days Receivables**
 - = $(\text{Receivables} / \text{Sales}) \times 360$
- + **Days Inventory**
 - = $(\text{Inventory} / \text{COGS}) \times 360$
- **Days Payables**
 - = $(\text{Payables} / \text{COGS}) \times 360$
- **Days Accruals**
 - = $(\text{Accruals} / \text{COGS}) \times 360$

What is your business' operating cycle?

Typical Operating Cycles

	Service w/Govt. Contract	Clothing Store	Your Business
+ Days A/R	60	0	
+ Days Inv.	0	120	
- Days A/P	30	30	
- <u>Days Accrual</u>	<u>7</u>	<u>7</u>	<u> </u>
= Operating Cycle	23	83	

BFL Expected Operating Cycle

Bread For Life

+ Days A/R	30
+ Days Inv.	12
- Days A/P	30
- <u>Days Accrual</u>	<u>15</u>
= Operating Cycle	(3)

How Much Cash Does Your Business Need?

- Are your profits providing enough cash?
- Do you need long-term and/or short-term working capital?
- Do you plan to buy capital assets during the year?

Benefits of Cash Flow Projections

- ☞ **Encompasses all the variables in your business**
- ☞ **Provides a plan or road map for the future**
- ☞ **Identifies the rough times in seasonal and economic cycles**
- ☞ **Gives you the foundation for short-term borrowing**
- ☞ **Indicates your working capital position for the long-term**

Typical Additional Schedules Needed

- Accounts receivable month end estimates
- Inventory build-up or depletion
- Expected changes in accrued assets (like prepaid insurance)
- Capital Assets purchase (or disposition) schedules
- Accounts payable month end estimates
- Expected changes in accrued liabilities (like accrued taxes)
- Expected borrowings or debt reductions
- Expected changes in owner's investment or withdrawals (e.g. for income taxes on an S Corp.)

BREAD FOR LIFE, INC.
ACCOUNTS RECEIVABLE (Credit Sales) WORKSHEET
for the year 2010

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
1 Customer Balances, Beginning of Month	\$ -	\$ 10,000	\$ 10,000	\$ 15,000	\$ 15,000	\$ 20,000	\$ 20,000	\$ 25,000	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
2 Wholesale Sales on Account	\$ 10,000	\$ 10,000	\$ 15,000	\$ 15,000	\$ 20,000	\$ 20,000	\$ 25,000	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 60,000	\$ 290,000
3 Collection of Accounts Receivable	\$ -	\$ 10,000	\$ 10,000	\$ 15,000	\$ 15,000	\$ 20,000	\$ 20,000	\$ 25,000	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 230,000
4 Customer Balances, End of Month = 1 + 2 - 3)	\$ 10,000	\$ 10,000	\$ 15,000	\$ 15,000	\$ 20,000	\$ 20,000	\$ 25,000	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 60,000	\$ 60,000

Line 3 goes to the "Cash Receipts, Collection of Accounts Receivable" line on the Cash Flow Projection.

Line 4 goes to the "Accounts Receivable" account in the Asset Section of the Balance Sheet Budget.



BREAD FOR LIFE, INC.
PACKAGING SUPPLIES INVENTORY
for the year 2010

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
1 Balance On Hand, Beginning of Month	\$ 3,500	\$ 3,170	\$ 2,825	\$ 2,315	\$ 1,790	\$ 1,100	\$ 5,395	\$ 4,525	\$ 3,640	\$ 2,590	\$ 1,540	\$ 490	\$ 3,500
2 Purchases During Month						\$ 5,000						\$ 5,000	\$ 10,000
3 Usage During Month	\$ 330	\$ 345	\$ 510	\$ 525	\$ 690	\$ 705	\$ 870	\$ 885	\$ 1,050	\$ 1,050	\$ 1,050	\$ 2,100	\$ 10,110
4 Balance On Hand, End of Month (4 = 1 + 2 - 3)	\$ 3,170	\$ 2,825	\$ 2,315	\$ 1,790	\$ 1,100	\$ 5,395	\$ 4,525	\$ 3,640	\$ 2,590	\$ 1,540	\$ 490	\$ 3,390	\$ 3,390

Line 3 goes to the "Cost of Goods Sold, Packaging Supplies Used" account on the Profit & Loss Budget.
Line 4 goes to the "Packaging Supplies" account in the Asset Section of the Balance Sheet Budget.

BREAD FOR LIFE, INC.
ACCOUNTS PAYABLE (Credit Purchases) Worksheet
For the year 2010

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Annual</u>
1 Balances Owed Beginning of Month	\$7,500	\$2,200	\$2,300	\$3,400	\$3,500	\$4,600	\$4,700	\$5,800	\$5,900	\$7,000	\$7,000	\$7,000	\$7,500
2 Purchases on Credit	\$2,200	\$2,300	\$3,400	\$3,500	\$4,600	\$4,700	\$5,800	\$5,900	\$7,000	\$7,000	\$7,000	\$14,000	\$67,400
3 Payments of Account Payable	\$7,500	\$2,200	\$2,300	\$3,400	\$3,500	\$4,600	\$4,700	\$5,800	\$5,900	\$7,000	\$7,000	\$7,000	\$60,900
4 Balance Owed, End of Month (4 = 1+2-3)	\$2,200	\$2,300	\$3,400	\$3,500	\$4,600	\$4,700	\$5,800	\$5,900	\$7,000	\$7,000	\$7,000	\$14,000	\$14,000

Line 3 goes to the "Payment on Credit Purchases" line on the Cash Flow Projection.

Line 4 goes to the "Accounts Payable" account in the Liabilities Section of the Balance Sheet Budget.

BREAD FOR LIFE, INC.
WAGES AND PAYROLL TAXES
for the year 2010

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
<u>Total Wage Expense:</u>													
J. L. Owner (Salary as stated in Case)	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
I. M. Baker (From Production Forecast)	1,100	1,150	1,700	1,750	2,300	2,350	2,900	2,950	3,500	3,500	3,500	7,000	33,700
Total	6,100	6,150	6,700	6,750	7,300	7,350	7,900	7,950	8,500	8,500	8,500	12,000	93,700
Payroll Tax Accrual @ 25% of Wages	1,525	1,538	1,675	1,688	1,825	1,838	1,975	1,988	2,125	2,125	2,125	3,000	21,900
1.) Net Wages Paid Out to Employees	4,575	4,613	5,025	5,063	5,475	5,513	5,925	5,963	6,375	6,375	6,375	9,000	70,275
1.) Goes to the "Net Wages" line on the Cash Flow Projection.													
<u>Payroll Tax Accrual Balances:</u>													
1 Balance, Beginning of Month	-	1,525	3,063	-	1,688	3,513	-	1,975	3,963	-	2,125	4,250	-
2 Accrued During Month	1,525	1,538	1,675	1,688	1,825	1,838	1,975	1,988	2,125	2,125	2,125	3,000	23,425
3 Paid During Month			4,738			5,350			6,088			7,250	23,425
4 Balance, End of Month (4=1 + 2 - 3)	1,525	3,063	-	1,688	3,513	-	1,975	3,963	-	2,125	4,250	-	-

Line 3 goes to the "Payroll Taxes" line on the Cash Flow Projection.

Line 4 goes to the "Payroll Taxes Payable" account in the Liabilities Section of the Balance Sheet Budget.

Cash Flow Projection

 **Use a worksheet (either a pre-printed form or a computer spreadsheet)**

Beginning Cash Balance

+ Receipts

- Payments

= Ending Cash Balance

BREAD FOR LIFE, INC.
MONTHLY CASH FLOW PROJECTION
for the year 2010

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
1 Cash on Hand, beginning of month	86,500	54,934	40,130	21,577	13,123	5,657	(6,797)	(7,913)	(3,667)	(4,520)	4,614	13,748	86,500
2 Cash Receipts:													
a. Cash Sales (from Sales Forecast)	3,000	4,500	6,000	7,500	9,000	10,500	12,000	13,500	15,000	15,000	15,000	30,000	141,000
b. Collections of Accts. Rec. (from Accounts Receivable Worksheet)	0	10,000	10,000	15,000	15,000	20,000	20,000	25,000	25,000	30,000	30,000	30,000	230,000
c. Loans or Other Cash Injections	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Total Cash Receipts (3 = 2a + 2b + 2c)	3,000	14,500	16,000	22,500	24,000	30,500	32,000	38,500	40,000	45,000	45,000	60,000	371,000
4 Total Cash Available (4 = 1 + 3)	89,500	69,434	56,130	44,077	37,123	36,157	25,203	30,587	36,333	40,480	49,614	73,748	457,500
5 Cash Paid Out:													
Net Wages (ex. P/R Taxes, from the Wage & P/R Tax Worksheet)	4,575	4,613	5,025	5,063	5,475	5,513	5,925	5,963	6,375	6,375	6,375	9,000	70,275
Rent (from Case Assumptions)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Selling, Gen'l & Admin. (from Case Assumptions)	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	138,000
Payroll Taxes (from the Wage & P/R Tax Worksheet)	0	0	4,738	0	0	5,350	0	0	6,088	0	0	7,250	23,425
Packaging Supplies (from Packaging Supplies Inventory Worksheet)	0	0	0	0	0	5,000	0	0	0	0	0	5,000	10,000
Payment on Credit Purchases (from Acct. Pay. Worksheet)	7,500	2,200	2,300	3,400	3,500	4,600	4,700	5,800	5,900	7,000	7,000	7,000	60,900
Interest (from Amortization Schedule)	625	622	619	616	613	609	606	603	600	597	593	590	7,293
Other Expenses (ex. Non-cash):	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan Principal Payments (From Amortization Schedule)	366	369	372	375	378	382	385	388	391	395	398	401	4,601
Capital Purchases	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Costs or Cash Uses	0	0	0	0	0	0	0	0	0	0	0	0	0
Owner's Withdrawal of Profits (Ex. Salary detailed above)	0	0	0	0	0	0	0	0	0	0	0	0	0
6 Total Cash Paid Out	34,566	29,304	34,554	30,954	31,466	42,954	33,116	34,254	40,854	35,866	35,866	50,741	434,494
7 Cash on Hand, end of month (4-6)	54,934	40,130	21,577	13,123	5,657	(6,797)	(7,913)	(3,667)	(4,520)	4,614	13,748	23,006	23,006

Finally, Budgeting the Balance Sheet

- Accounting icon **Accounts Receivable Worksheet**
- Accounting icon **Inventory Purchases / Accounts Payable Worksheet**
- Accounting icon **Capital Equipment Expenditures**
- Accounting icon **Allowance for Depreciation**
- Accounting icon **Payroll Taxes and other Accrued Expenses**
- Accounting icon **Debt Increases or Decreases**
- Accounting icon **Retained Earnings Increases or Decreases**



Bread for Life, Inc.
BALANCE SHEET BUDGET OVERVIEW
As of January 31, 2010

ASSETS		
Current Assets		
Checking/Savings		54,934
Any Bank Checking Account		54,934
Total Checking/Savings		
Accounts Receivable	10,000	10,000
Total Accounts Receivable	10,000	10,000
Other Current Assets		
Inventory, Raw Materials	7,500	7,500
Packaging Supplies	3,170	3,170
Total Other Current Assets	10,670	10,670
Total Current Assets	75,604	75,604
Fixed Assets		
Machinery & Equipment	65,000	65,000
Accumulated Depreciation	(524)	(524)
Total Fixed Assets	64,458	64,458
Other Assets		
Rent Deposit	20,000	20,000
Total Other Assets	20,000	20,000
TOTAL ASSETS	160,062	160,062
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	2,200	2,200
Accounts Payable	2,200	2,200
Total Accounts Payable		
Other Current Liabilities		
Long-Term Debt Current Portion	4,639	4,639
Payroll Taxes Payable	1,525	1,525
Total Other Current Liabilities	6,164	6,164
Total Current Liabilities	8,364	8,364
Long Term Liabilities		
Long Term Debt	69,995	69,995
Total Long Term Liabilities	69,995	69,995
Total Liabilities	78,359	78,359
Equity		
Common Stock	100,000	100,000
Net Income (Loss) for period	(18,297)	(18,297)
Total Equity	81,703	81,703
TOTAL LIABILITIES AND EQUITY	160,062	160,062

Accrual Basis

Bread for Life, Inc.
Balance Sheet Budget Overview

As of December 31, 2010

Accrual Basis

	Jan 31, 10	Feb 28, 10	Mar 31, 10	Apr 30, 10	May 31, 10	Jun 30, 10	Jul 31, 10	Aug 31, 10	Sep 30, 10	Oct 31, 10	Nov 30, 10	Dec 31 10
ASSETS												
Current Assets												
Checking/Savings												
CityBank Checking Acct	54,934	40,130	21,577	13,123	5,657	(6,797)	(7,913)	(3,667)	(4,520)	4,614	13,748	23,006
Any Bank												
Total Checking/Savings	54,934	40,130	21,577	13,123	5,657	(6,797)	(7,913)	(3,667)	(4,520)	4,614	13,748	23,006
Accounts Receivable	10,000	10,000	15,000	15,000	20,000	20,000	25,000	25,000	30,000	30,000	30,000	60,000
Total Accounts Receivable	10,000	10,000	15,000	15,000	20,000	20,000	25,000	25,000	30,000	30,000	30,000	60,000
Other Current Assets												
Inventory, Raw Materials	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Packaging Supplies	3,170	2,825	2,315	1,790	1,100	5,395	4,525	3,640	2,590	1,540	490	3,090
Total Current Assets	10,670	10,325	9,815	9,290	8,600	12,895	12,025	11,140	10,090	9,040	7,990	10,590
Fixed Assets												
Machinery & Equipment	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Accumulated Depreciation	(542)	(1,082)	(1,626)	(2,166)	(2,708)	(3,250)	(3,792)	(4,332)	(4,875)	(5,417)	(5,959)	(6,500)
Total Fixed Assets	64,458	63,918	63,374	62,834	62,292	61,750	61,208	60,668	60,125	59,583	59,041	58,500
Other Assets												
Rent Deposit	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total Other Assets	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
TOTAL ASSETS	160,062	144,373	129,766	120,247	116,549	107,848	110,320	113,141	115,695	123,237	130,779	172,096

Bread for Life, Inc.
Balance Sheet Budget Overview

As of December 31, 2010

Accrual Basis

	Jan 31, 10	Feb 28, 10	Mar 31, 10	Apr 30, 10	May 31, 10	Jun 30, 10	Jul 31, 10	Aug 31, 10	Sep 30, 10	Oct 31, 10	Nov 30, 10	Dec 31 10
LIABILITIES & EQUITY												
Liabilities												
Current Liabilities												
Accounts Payable	2,200	2,300	3,400	3,500	4,600	4,700	5,800	5,900	7,000	7,000	7,000	16,000
Total Accounts Payable	2,200	2,300	3,400	3,500	4,600	4,700	5,800	5,900	7,000	7,000	7,000	16,000
Other Current Liabilities												
LT Debt Current Portion	4,639	4,678	4,717	4,756	4,796	4,836	4,876	4,916	4,957	4,999	5,040	5,082
Payroll Taxes Payable	1,525	3,063		1,688	3,513		1,975	3,963		2,125	4,250	
Total Other Current Liabilities	6,164	7,740	4,717	6,443	8,308	4,836	6,851	8,879	4,957	7,124	9,290	5,082
Total Current Liabilities	8,364	10,040	8,117	9,943	12,908	9,536	12,651	14,779	11,957	14,124	16,290	21,082
Long term Liabilities												
Long Term Debt	69,995	69,587	69,176	68,761	68,343	67,921	67,496	67,068	66,635	66,200	65,760	65,317
Total Long Term Liabilities	69,995	69,587	69,176	68,761	68,343	67,921	67,496	67,068	66,635	66,200	65,760	65,317
Total Liabilities	78,359	79,627	77,292	78,705	81,251	77,457	80,147	81,847	78,593	80,323	82,050	86,399
Equity												
Common Stock	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Retained Earnings	(18,297)	(35,255)	(47,526)	(58,458)	(64,703)	(69,609)	(69,827)	(68,706)	(62,898)	(57,086)	(51,271)	(14,303)
Total Equity	81,703	64,745	52,474	41,542	35,297	30,391	30,173	31,294	37,102	42,914	48,729	85,697
TOTAL LIABILITIES & EQUITY	160,062	144,372	129,767	120,246	116,549	107,848	110,320	113,140	115,965	123,237	130,779	172,096

Preparing for Growth

New Equity

- Funding working capital
- Funding losses

New Debt

- **Cardinal Rule: Match Sources and Uses**
 - Funding capital purchases
 - Funding working capital

Need more direct labor and/or management

-  **Will you maintain or increase your profitability?**

Why Keep Accounting Current?

- 📊 **Indicates how credible your forecast was and keeps you on target**
- 📊 **Identifies problems and opportunities quicker**
- 📊 **Shows outsiders that you know where your business stands financially**
- 📊 **Shows what you have done with the profits (either they have been reinvested back into business or you have used them for personal expenditures)**
- 📊 **Shows if you have invested more personal assets in the business (thus adding to the net worth)**

Choosing a Bookkeeper, an Outside Accountant and a Payroll Service

- 📑 **Tax preparation versus management information**
- 📑 **In-house versus outside professional**
- 📑 **Relationship between owner and accountant**
- 📑 **Assistance with internal accounting systems (e.g. QuickBooks and Peachtree)**
- 📑 **Payroll Services (e.g. ADP and PayChex)**

Choosing an Accounting System

- Automation versus added people
- Off the shelf versus custom
- Investment in good internal bookkeeping saves accounting fees
- Better accounting information will lead to better management information and more accurate and efficient production of financial reports, both internal and from outside accountants

Case Study

Bread for Life, Inc.

CASE STUDY

BREAD FOR LIFE, INC.

INTRODUCTION

Ms. Joan L. Owner was tired of working in corporate America. So she decided to take her life and all of her cash in her own hands to start her own business. J. LO cashed in a portion of her savings account on December 1, 2009, and deposited \$100,000 into a bank account for her new bakery – Bread for Life. She incorporated as a Subchapter S Corporation to sell both retail and wholesale in downtown Long Beach. She signed a lease on a 10,000 square foot facility and paid a \$20,000 rent deposit in December 2009. The first month's rent of \$10,000 was paid on January 1, 2010. Both of these payments to the landlord were made from her available cash.

THE BUSINESS

J. LO already has made contacts with several local grocery stores. She has contracts with two stores, each agreeing to purchase 5,000 loaves a month at \$1.00 per loaf. She projects adding one additional wholesale account every other month through September 2010. J. LO believes she can sell 1,000 loaves retail in the first month at \$3.00 per loaf. She projects adding retail sales of an additional 500 loaves each month through September 2010. During the month of December, all of her accounts will double their orders due to the holiday season. From these basic assumptions, J. LO prepared a month-by-month projection of sales for her business.



J. LO knows how important it is to project expenses for her business to make sure that she sells at the right price. Through her experience, she knew she would have the following costs:

	Cost	Terms
Labor	\$.10 per loaf	Paid last day of month
Materials	\$.20 per loaf	Paid on 10 th of month following purchase
Packaging	\$.03 per loaf	Paid on delivery

The bakery will receive 30 days credit from their suppliers, and during December, she makes her first raw materials order in the amount of \$7,500. J. LO will offer her wholesale accounts 30 days terms. Twenty-five percent of the gross salaries will be for payroll taxes. She will pay her employees monthly and the payroll taxes are due quarterly.

The bakery requires a commercial oven that costs \$65,000. The oven will be depreciated over a 10-year period.

FINANCING

J. LO also knew that she didn't have enough cash to buy equipment and fund other working capital needs, so she approached her bank about a business loan. They referred her to the City's Economic Development Loan Fund and Loan Officer Kevin Dollar. The Fund agreed to lend Joan \$75,000 for 10 years at 10 percent to purchase the oven. Monthly payments will be \$991. Dollar sent her an amortization schedule that shows the amount of the principal and interest payment each month. J. LO knows that she must use this information in constructing her financial statements.

The balance of the loan will be used for working capital. One of J. LO's first purchases will be packaging materials that cost \$3,500. She believes the packaging materials will last four to five months.

BUDGETING - PART I

J. LO wanted to keep track of her business finances to make sure she could track sales and expenses for preparing her tax returns. But she also knew that she needed to track her cash flow. However, she was not sure how to do it. She decided that her first step would be to prepare a forecast of future sales and expenses. She figured the information would be helpful in projecting cash flow. J. LO decided to purchase a copy of QuickBooks software and use it for projecting sales, expenses and cash flow as well as tracking her actual financial results.

J. LO's first task was creating her opening day Balance Sheet, showing cash in the bank and her investment of stock. By the end of December, J. LO had made several other transactions that are recorded on the Balance Sheet, including:

J. LO's cash in	\$100,000	
Payment of rent deposit	20,000	
Purchase of inventory –flour	7,500	on credit in A/P
Purchase of inventory – pkg.	3,500	with cash
Purchase of oven	65,000	
Receive loan	75,000	(CLTD - 4,600, LTD - 70,400)

J. LO also put together worksheets on Sales and Cost of Goods Sold that she will use in preparing her monthly Profit and Loss forecasts. Other monthly expenses that must be included are the following:

Rent	\$10,000.00
Depreciation	541.67
J. LO's Salary	5,000.00
Selling, General and Administrative Expenses	11,500.00

Joan's accountant helped her to compute her monthly depreciation, using the following formula:

$$\begin{array}{rcl} \text{Monthly Depreciation} & = & \frac{\text{Cost of Asset}}{\text{Depreciable Life} \times 12} \\ 541.67 & = & \frac{65,000}{10 \times 12} \end{array}$$

With this information, J. LO could put together a monthly Profit and Loss Budget Overview using QuickBooks.

BUDGETING - PART II

Joan was concerned with the Monthly P&L Budgets that she prepared since there were several months in which she showed losses – not profits. She was curious if she would have enough cash to get through the year. She had been advised by Kevin to watch her cash flow. He also said that projecting her balance sheet would predict her cash position from month to month. She prepared worksheets tracking her accounts receivable and accounts payable to project the Balance Sheet. Packaging materials will be decreased each month by the amount used during the month in production. She will re-order packaging supplies in June and December. The distributor of the materials required her to pay COD.

GLOSSARY

GLOSSARY OF TERMS

Accelerated Depreciation - A depreciation method by which a larger amount of depreciation is recognized in the early years of an asset's depreciable life and a reduced amount is recognized in the later years of the asset's life. This method of depreciation typically is selected to shield the company's earnings from taxes when the company is profitable.

Accounting - The bookkeeping methods involved in recording the business transactions and financial statements of a business.

Accounts Payable (A/P) - The current liability that represents the amounts owed to trade suppliers for goods or services provided to the company.

Accounts Receivable (A/R) - The current asset that represents the amounts owed to the company by its customers for the purchase of its product.

Accounts Receivable Financing - or "factoring" is a means by which the company can receive cash by selling its accounts receivable or pledging these assets as collateral for a loan. The receivables typically are discounted in these transactions. Therefore, the amount of the loan or the sale is less than the face value of the accounts receivable.

Accrual Basis Accounting - The method of accounting in which revenue is recorded in the period when it is earned, and expenses are reported in the period when they are incurred.

Accruals - The current liability that represents obligations owed but not billed such as wages and payroll taxes or obligations accruing but not yet due such as interest on a loan.

Accumulated Depreciation - The cumulative sum of an asset's depreciation expensed over the life of the asset.

Adjusted Basis - The original cost of an asset less depreciation or amortization expensed over the life of the asset.

Amortization - The gradual reduction of a debt, usually through installment payments.

Appreciation - The increase in the market value of an asset over its cost during the period of ownership.

Assets - What a company owns normally expressed as its purchase price.

Balance Sheet - A statement of an entity's financial position at a point in time.

Balloon Payment - The principal balance due at the maturity of a loan in which the periodic payments do not fully amortize the debt.

Book Value - The amount at which an item is currently being carried in the company's accounting records usually its original cost.

Bookkeeping - The recording of the accounts and transactions of a business.

Capital Expenditure - The purchase of a fixed asset such as land, building, machinery and equipment, furniture, fixtures, automobiles, trucks or leasehold improvements.

Cash Basis Accounting - The method of accounting in which income is considered earned when it is received, and expenses are recorded when they are paid.

Cash Flow Statement - This statement records the changes (both the sources of cash and the uses of cash) in a company's cash balance over a specific period of time.

Collateral - A tangible asset such as land, building, inventory, machinery and equipment, etc., offered as security on a loan. Typically, the value of the offering is greater than the loaned amount.

Common Stock - The equity of a corporation evidenced in the form of a certificate. The owner(s) of the certificate(s) has claim to all of the company's assets after all debts are paid and any claims by preferred stockholders are satisfied.

Contingent Liabilities - Potential liabilities that may never become due and payable. Contingent liabilities are usually not listed on the balance sheet, but are included in the notes to the financials statements. Contingent liabilities include such items as warranties, guarantees, litigation, etc.

Cost of Goods Sold - A company's production-related expenses, typically comprised primarily of raw material, direct labor and manufacturing overhead.

Current Assets - Assets that mature into cash in less than one year.

Current Liabilities - Liabilities that must be paid in cash in less than one year.

Current Portion of Long-Term Debt - The amount of long-term debt (principal only) that must be paid within the next year.

Debt - Obligations incurred by a company, usually to third parties, that must be repaid generally on a fixed schedule. This differs from equity, which may never be repaid.

Debt to Equity Ratio - The measure of relative financing provided by outside lenders and the internal financing provided by the company's owners. The debt to equity ratio is computed by subtracting subordinated officer's debt from total liabilities, and dividing this amount by the total equity of the company plus subordinated officer's debt.

Depreciation - The portion of the cost of a tangible asset that may be claimed as an expense during a certain period. Depreciation is an allowance for the loss of economic value of an asset. Land is not depreciable. There are various methods of depreciation, but small businesses typically use the most advantageous method allowed for income tax purposes.

Economic Life - Equivalent to the time an asset is expected to provide an economic value to a business. For example, a delivery truck may have an expected economic life of four years, whereas a forklift may have an economic life of 10 years.

Entrepreneur - A person who organizes and manages a business and assumes the risk of loss.

Equity - A right to claim an interest in property after all obligations are satisfied. Equity in a company is measured as the excess of assets over liabilities. (Equity = Assets - Liabilities) For example, in a corporation, equity is the total amount of stock, capital surplus and retained earnings.

First In, First Out (FIFO) - A method for valuing inventory by assuming that the first goods purchased are the first goods used or sold.

Fixed Asset - A tangible asset with an expected useful life in excess of one year.

Fixed Interest Rate - An interest rate that does not change during the life of the loan.

Foreclosure - A legal procedure in which property mortgaged as security for a loan is taken by the lender and can be sold to pay the defaulting borrower's debt. **Goodwill** - An accounting transaction that records the difference between the purchase price of a company as a whole and its tangible assets. Goodwill arises when the seller establishes a price for the business as a going concern that is greater than the current market value of the assets minus any liabilities being assumed by the purchaser.

Income Statement - See Profit and Loss Statement.

Intangible Assets - When a business expends cash or purchases something having a useful life in excess of one year which may never mature into cash.

Interest - The amount charged by a lender for the use of its money.

Inventory - A current asset consisting of goods and materials. A retail business purchases to re-sell at a profit. A manufacturing business purchases raw material inventory, which is processed (work-in-progress inventory) to be sold as finished goods inventory.

Last In, First Out (LIFO) - An accounting method for inventory that assumes that the most recently purchased inventory (last in) is the first to be sold (first out).

Letter of Credit - A bank's guarantee of payment by a borrower.

Level Debt Service - The repayment schedule requiring equal payments over the life of the loan.

Leverage - The ability to increase the return on equity by borrowing capital that will generate income and, in turn, increase equity.

Liabilities - The obligations owed by a company to an outsider, be they trade suppliers, lenders or investors,

Lien - A security interest in an asset, such as a mortgage on real estate.

Liquidity - The ability of a company to convert its assets into cash.

Loan to Value Ratio - The measure of a lender's collateral cushion as determined by dividing the loan by the fair market value of the asset.

Long-Term Debt (LTD) - Also referred to as "term debt," a loan whose maturity exceeds one year. This liability is divided into two segments -- the portion due within 12 months (current portion of long-term debt or CLTD) and the portion due beyond one year (non-current of long-term debt or LTD). CLTD is listed as a current liability; LTD is listed as a non-current liability.

Matching Sources and Uses - The concept of structuring a company's balance sheet in a way that nearly matches the term of the financing to the life of the asset purchased.

Maturity - The time at which a note, loan, bond etc. becomes due and payable in full.

Mortgage - (Verb) The pledging of property to a creditor as security for repayment of a debt. (Noun) The document that evidences and accomplishes this pledging of property.

Net Book Value - The value that represents the gross book value of a fixed asset (usually its purchase price) less accumulated depreciation.

Net Operating Income (NOI) - The income available from an operation after all operating expenses have been paid.

Net Worth (NW) - See Equity.

Non-current Assets - Assets that mature into cash or will be in use for longer than one year.

Non-current Liabilities - Obligations that become due in more than one year.

Notes Payable (N/P) - These liabilities are obligations evidenced by promissory notes. They often are demand notes (payable on demand). Other times, they have specific maturity dates. The dollar amount of notes payable only includes the principal amount of the debt. Any interest due, but unpaid, is listed under accrued liabilities.

Notes Receivable (N/R) - These assets are due to a company because the company made a loan which was evidenced by a written promissory note. These can be current or non-current assets, depending on the maturity of the note.

Officer Loans - The owners of a company may choose to provide additional cash to a company through a loan. This can be in the form of a short-term note payable or long-term debt. Lenders often require officers to sign subordination or standby agreements that can lower the priority of the owner's lien on company assets or prohibit the owner from paying all or part of the officer loan until the lender's loan is repaid.

Permanent Working Capital (PWC) - The minimum adequate level of cash that must be invested in the company's operating cycle to maintain operations. Arithmetically, it is the sum of Accounts Receivable plus Inventory less Accounts Payable and Accruals.

Personal Guarantee - A pledge to pay the obligation of another person or entity.

Preferred Stock - Capital stock with a claim to income after all debt holders, but before common stockholders.

Prepaid Expenses - These current assets are the uses of cash in payment of goods or services, the benefit of which will be received in the subsequent accounting period, but usually within the next 12 months.

Prime Rate of Interest - The commercial rate of interest banks charge their best customers.

Principal - The amount owed by a borrower on a loan.

Profit and Loss Statement (P & L) - Also known as the "Income Statement," this statement records the cumulative revenues and expenses of a company over a specified period of time.

Pro forma - A projection or forecast of a profit and loss statement, balance sheet or cash flow statement.

Promissory Note - A written promise of one person to pay another a specified sum of money on a given date.

Rapid Growth Syndrome - Occurs in companies where the company's increasing investment in receivables may outstrip the company's ability to generate cash from its operation, thus causing the inability of the company to meet its current cash requirements.

Refinance - The act of paying off one loan with the proceeds of another loan.

Retained Earnings - Also called "earned equity" or "earned surplus," it represents profits earned by the company and retained within the business. It is a measure of past profitability and represents earnings the owners could have withdrawn but chose to reinvest into the business.

Sales - The revenues of a company arising from the purchase of its product (goods or services) by the company's customers.

Seed Capital - Capital for the earliest stages of a business, in small businesses, seed capital typically consists of those funds provided personally by the owner, family and friends to start the business.

Self-amortizing Loan - A loan that is completely repaid through regular payments of principal and interest. At the end of the loan term, there is no outstanding principal balance.

Selling, General and Administrative Expenses (SGA) - The expenses of a company that are not directly related to production (not COGS), and are therefore considered "overhead." SGA includes variable and fixed expenses, as well as selling, some indirect production and period expenses.

Straight Line Depreciation - The equal, periodic charge to expenses of the depreciation of an asset over the depreciable life of the asset. Accelerated depreciation, on the other hand, takes a higher depreciation in the earlier years and a lower rate for the remaining depreciable life. A business frequently chooses the method of depreciation that is governed by the income tax benefit to be derived from one method versus the other and Internal Revenue Service guidelines for depreciation allowance. It is not necessary to choose the same method for "book" purposes that the business chooses for "tax" purposes.

Subordination Agreement - An agreement changing the priority of interest (stating that one claim is subordinate to another). Banks often ask company owners to execute subordination agreements for their loan to the company.

Subsidiary - A business enterprise that is controlled by another corporation. A subsidiary has its own charter and structure, although it is controlled by a holding (or parent) company.

Tangible Personal Property - Property other than real estate or intangible assets such as machinery, equipment, and inventory.

Unearned (or Accrued) Income - Consists of revenue that a company has collected in advance for goods and services that will be provided at some point in the future.

Venture Capital - Risk capital for business investment. Generally, venture capitalists demand a high return on their investment, a controlling management position and a share in the ownership commensurate with the risk in the project.

WORKSHEETS

ACCOUNTS RECEIVABLE (Credit Sales) WORKSHEET

for the year _____

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
1.) Customer Balances, Beginning of Month													
2.) Wholesale Sales on Account													
3.) Collection of Accounts Receivable													
4.) Customer Balances, End of Month (Line 4 = Lines 1 + 2 - 3)													

ACCOUNTS PAYABLE (Credit Purchases) WORKSHEET

for the year _____

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
1.) Balances Owed, Beginning of Month													
2.) Purchases on Credit													
3.) Payments of Accounts Payable													
4.) Balance Owed, End of Month (Lines 4 - 1 + 2 - 3)													

MONTHLY CASH FLOW PROJECTION
for the year _____

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1 Cash on Hand, beginning of month													
2 Cash Receipts:													
a. Cash Sales													
b. Collections of Accts. Rec.													
c. Loans or Other													
3 Total Cash Receipts													
4 Total Cash Available (1+3)													
5 Cash Paid Out:													
a. Packaging Supplies													
b. Payment on Credit Purchases													
c. Direct Labor (ex. P/R Taxes)													
d. Rent													
e. Owner's Salary (ex. P/R Taxes)													
f. Selling, Gen'l & Admin.													
g. Payroll Taxes													
h. Interest													
i. Other Expenses (ex. Non-cash):													
j.													
k.													
l.													
m.													
n.													
o.													
p.													
q.													
r.													
s.													
t.													
u.													
v. Loan Principal Payments													
w. Capital Purchases													
x. Other Costs or Cash Uses													
y. Owner's Withdrawal of Profits													
6 Total Cash Paid Out													
7 Cash on Hand, end of month (4-6)													



We create and implement economic and community development strategies that increase the flow of capital to urban and rural communities, establish finance programs, and help to create a professional and economic community development workforce through our nationally recognized training program. NDC acts as a teacher, advisor, investor, developer and lender all in one, working tirelessly to increase the flow of investment capital, spur job creation and bring community development to America's economically challenged areas.

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