THE TYREX LEARNING FOUNDATION

Learning in 3D while Visualizing the Future in 4D

LEADERSHIP ACADEMY

for Grades K-12

featuring 3D Printing

RecognizeGood

in Partnership with

TYREX

GROUP, LTD.

Functional Accounting & Financial Controls

Cash Tracking: A Guide To Understanding Entrepreneurial Cash Flow

STREETSMART MBA®

Module C-4, Seq. #41 ✦ tyrexlearningfoundation.com

Functional Accounting and Financial Controls

Cash Tracking: A Guide to Understanding Entrepreneurial Cash Flow
C-4, Sequence #41

John Bosch, Jr.
Author, Serial Entrepreneur,
and Professional Entrepreneur®
Coach & Mentor

Cash Tracking: A Guide to Understanding Cash Flow

Austin Texas, USA
ISBN 978-1-105-52484-4

Published in the United States of America 2017 by The TyRex Learning Foundation
ISBN 978-1-947371-01-9

Staff:
Judy Rock – Executive Administrator
Karolyn Knaack – Legal Consul
Henry Shepard – Editor

Cash Tracking: A Guide to Understanding Entrepreneurial Cash Flow
C-4, Seq. #41
Latest Update: 2/19/19

Table of Contents

The TyRex Entrepreneur Institute (TEi)

What TEi Does

TEi educates, coaches, and mentors all levels of students, as well as the general public who seek to start and run their own entrepreneur business.

Objectives

The objectives of the TyRex Entrepreneur Institute are threefold:

- To inform and enlighten individuals about the entrepreneurial journey ahead, and provide the business intelligence for aspiring entrepreneurs to make an informed decision if becoming an entrepreneur is right for them.
- To provide a basic understanding of the educational requirements of the knowledge necessary to start and successfully run an entrepreneurial company and be certified as a **Professional Entrepreneur**SM.
- To create, design, distribute, and successfully execute an ongoing learning educational program for multiple levels of aspiring entrepreneurs, especially those who desire to achieve **Professional Entrepreneur** status.
- To provide assistance and support in the areas of searching for initial funding and financing, business structuring, and product and service market channels and day-to-day business coaching and mentoring.

Programs

StreetSmart MBA ModulesSM

The StreetSmart MBA consists of ninety-six program modules that represent an estimated eighty-percent of the necessary professional entrepreneur business understandings to achieve start-up business success. The program covers fifteen areas of entrepreneurial knowledge categories. It is intended to be a complimentary entrepreneur program to higher education business curriculums; it is estimated that only five to ten percent of the StreetSmart MBA module coursework overlaps.

Professional Entrepreneur Program

The Professional Entrepreneur program is uniquely different and does not follow traditional business thinking, it is <u>not</u> a pure capitalist play; it includes such elements as responsibilities and individual moral and ethical principles. Its purpose is to produce a new breed of 21st century national and international professional entrepreneurial business managers. In addition, it keys on six cultural principals of longevity “Built to Last” and “Built to Work” business philosophies including prosperity to longevity, professionalism, entrepreneurship, employee well being, community citizenship, and imagination and innovation.

Leadership Academy for K-12

An entrepreneurial program specifically for K-12 students, many who will seek to commercialize their creative innovations. The Leadership Academy is a program for youths under RecognizeGood: THE Foundation, a 501C-3 Nonprofit Austin based entity.

Introduction

Let's begin with this truth: for non-financial, professional entrepreneurial business managers, once you reach the 90% reliability factor, time is more important than the accuracy of the information.

Really, would you ever change a management decision for the last 10% if there was a significant time delay? That's why I appreciate these simplified accounting and cash flow techniques. You can get summary financial reports quickly at the end of an accounting period and without a large accounting staff. It is timely, and you know what the numbers mean so future business decisions can be made quickly and efficiently.

I have placed these concepts in a standardized framework to share with other entrepreneurs and non-financial managers. It is my hope that this method of "cash tracking" will help other entrepreneurial business managers understand and more effectively use their financial information to make timely, critical business decisions.

This publication is dedicated to the managers of successful companies who will spend the extra effort to keep the companies they manage successfully. Many non-financial managers seem to hold finance and accounting in disdain. Because of this disdain, they refuse to acknowledge financial activities as an integral part of their current and future business operations. They have their reasons. The financial community, the accounting and controllership groups in particular, have raised the level of sophistication necessary to communicate to a plateau that exceeds many operating manager's abilities to participate in a meaningful manner.

If accounting and controllership practices weren't so extremely important, this program would not be necessary. Many technical financial types look upon this program as an oversimplification. They contend that every manager must comprehend the details of accounting and adhere to strict accounting conventions (along with years of accounting training) to understand the big picture in a business.

At the same time, many non-financial types feel that CPA-types represent a profession they don't understand and fear the control that accountants can have in their companies, even when they are in a strictly support position.

Modern-day financial communicators find their genesis in the true spirit of financial management, fundamental accounting, and cash flow. Many years ago the era of barter and trade began to blossom. Kings and royalty would exchange slaves, sheep, barrels of olive oil, and wives (I'm told) depending on surplus. The only problem was that they couldn't count. They had no idea how many slaves, sheep, and wives arrived at their destination or whether the deal they struck was a profitable one. What to do? They had no controls and no feedback.

The answer was to make symbols out of stone for each of the pieces traded, wrap them in a clay ball for security, and deliver the un-tampered clay ball with the merchandise to its final destination. The receiving royalty broke the clay balls and matched each symbol with each sheep, wife, etc. and validated their shipment. Only one problem; what to do about the control and the accountability during shipment?

The solution to this challenge was to make an impression of the symbols into the wet clay before the clay ball dried. In time, the clay ball became flat for easier handling and the modern day tabloid you read each day was born, all for the sole purpose of accounting control and financial understanding.

It is important to reach each person who reads this "cash tracking" program. I hope that this simpler format will unravel the accounting puzzle for you. Be brave, my friend, your only alternative may be to chance financial failure and defeat. Join me as we go "cash tracking" through the mysterious and previously unchartered cash rivers of your company.

John Bosch, Jr.
Principal & Partner, Business Coach
TyRex Group, Ltd.

A Coach's Story

After 90% accuracy, time becomes more important than the accuracy of information in critical decision-making management reporting.

Leonard Sturm
Sturm Machine Company
Barboorville, West Virginia, Spring 1978

Leonard Sturm's Entrepreneurial Accounting

My first assignment after accepting a position as Group Controller for seven manufacturing companies with Chromalloy American (at the time a Fortune 200 Company) was to financially integrate a mid-sized, highly sophisticated entrepreneurial machining company in Barboursville, West Virginia. The company's founder Leonard Sturm had elected to remain President and run the company as he saw fit with one provision, the accounting had to comply with Generally Accepted Accounting Principles (GAAP) and SEC Accounting Compliance Regulations. Sturm Machine had no accounting department or system, not even a trace of one.

Having just received my CPA certification, I was dangerously close to knowing everything possible about accounting. By hiring a pool of accountants and working day and night, I was barely able to meet the reporting deadlines required by Chromalloy and ultimately the SEC. Each presentation of these financial reports to Sturm for review would typically lead to Sturm's grunting something like "close, but way too costly." After several sessions of not being appreciated for my financial input, I challenged Leonard to what he called "the ultimate accounting duel" to see who could provide the most accurate and timely financial statements. They billed it as the battle between the professional accountant and the entrepreneur.

On the second day of the following month, Sturm announced his profit number with some fanfare. He also announced his cash-generated number and various balance sheets numbers as well. With an arrogance and attitude only youth could provide, I labored an additional 26 days to an unceremonious announcement that my numbers were similar to his. How could this be?

After receiving my acceptance of defeat, Sturm began to explain his accounting theory. "Well," he said, "with Accounts Receivable, you start with a beginning balance and add sales, then subtract collections and finally compute the ending balance."

Upon completion of his entrepreneurial accounting dissertation, I conceded to his methods. They were unusual; however, they were technically correct. They were also logical and simple. It was at that moment I begin creating this Cash Tracking book and agreed with Sturm that after 90% accuracy, timeliness is more important in critical decision-making management reporting. I also ate a lot of humble pie, made a friend, and learned one of the most valuable lessons of my life.

The TyRex Truths

TyRex Truths are not thought to be self-evident, but rather insightful pieces of knowledge that hold truths about entrepreneurial business management.

In essence, they are the "teaching points" of each specific TyRex Entrepreneurial Institute's Entrepreneurial Financial Partnering module.

The following are the **TyRex Truths**, or TEi Professional Entrepreneurial teaching points for C-4, Cash Tracking: A Guide to Understanding Entrepreneurial Cash Flow.

- The fundamental foundation of finance and accounting can be a very logical process! It does not have to be hard to understand.
- Most entrepreneurs have difficulty understanding the fundamentals of cash flow, as many entrepreneurial companies go out of business not because of economic failure but failure to manage their money and business information properly.
- Failure to manage your entrepreneurial company's financial information properly may result in bankruptcy even though the company is making a profit and has a positive net worth.
- Numbers describe business functions. Accounting can provide the knowledge to understand your business operations.

Why Take This TEi Module?

1. Learn the fundamentals, or underlying math principals of finance and accounting in a simple, basic format.
2. Visualize how money goes through a company like two competing rivers or streams, one an upstream river originating at the company's financial source of funding, i.e. sales revenues, and the other a downstream cash user river.
3. Learn how profits and cash in their short term function and fluctuate independently of one another.
4. Learn how to communicate with your financial partner(s) using the simplified financial language described in this module. One of the objectives of this module is to begin to demystify accounting terminology.

Chapter 1: The Need for Understanding of Cash Flow

It is imperative that non-financial professional entrepreneurial business managers understand cash flow. Think of a company's cash flow as being similar to a river flowing through the countryside. Sometimes the river rages with fury and force, and sometimes it doesn't seem to move at all. Sometimes the cash river seems deep and endless, and sometimes it may seem very shallow indeed.

Your company, every company, has two cash rivers. One is a slow, steady uphill flowing river that fights significant resistance to bring substance to the company. The other river is white-water cash expenditure-rapids that potentially act as a downhill drainage system of the company's finances.

The need for management to gauge and control the flow of these cash rivers is essential. This program intends to develop a better understanding of cash flow for non-financial professional entrepreneurial managers, and to create a communication link between these non-financial managers and their financial staff. The approach is based on common sense and simple logic. We present this information to you with straightforward information and without any esoteric jargon.

Most managers are unaware that rapid sales success can mean financial failure. What causes this phenomenon? How can a non-financial professional entrepreneurial manager diagnose the symptoms of this problem in his company? What are the solutions to this problem?

With your help, we will begin to build the financial foundation for understanding these questions. If you, as a manager, can resist succumbing to the mystical financial powers that create ineptness or the sirens of mathematical boredom, you will gain a working knowledge of the financial network of your company.

The key word in business today is "cash flow." Your bankers want to see it, and every vendor talks about it. How would you like to understand your company's cash flow for yourself? You would not have to rely on someone else to paint your company's financial picture for you ever again. Greater financial understanding and improved knowledge in the minds of top professional entrepreneurial managers lead to better, more timely business decisions and a higher probability of business success.

Join me in an adventurous journey down the cash-rivers. Let's go "cash tracking" together. The search for knowledge should be exciting and enjoyable. Alas, a little knowledge left alone can be dangerous. Stay with your "cash river" guide all the way up the cash-generating river and down the white water cash expenditure rapids.

Chapter 2: Cash Flow Framework and Principles

"Cash Tracking" was founded on two fundamental concepts. First, the fundamental foundation of entrepreneurial finance and accounting is as simple as A, B, C, and D:

A	**START**	**Beginning Balance**	________
B		**Add**	+
C		**Subtract**	–
D	**END**	**Ending Balance**	________

You start with A: Beginning Balance, then B: add something, and C: subtract something. After you do the math, you have D: your new Ending Balance.

This is the basis for understanding cash flow and the fundamentals of all accounting systems. These simple but fundamental math principles allow us to understand cash flow and the fundamentals of accounting, the essential tools to understanding your company's business operations.

For non-financial professional entrepreneurial managers who are interested in only summary numbers, accounting and cash flow can be simplified in this way. The detailing of financial numbers is an exact and necessary science practiced by true professionals. However, determining the significance of these numbers is management's responsibility and is more of an art than a science.

Communications between the entrepreneur and their financial partners are absolutely necessary and critical to long-term viability of an entrepreneur business.

Second, as a non-financial entrepreneur manager, you do not appreciate financial lectures and the excesses of accounting terminology. Who does! The answer is this "Cash Tracking" module that seeks to make the subject matter as interesting as possible and will attempt to motivate you, the participant, to work right along with the program.

There are five featured areas: Accounts Receivable, Inventory, Accounts Payable, Capital Assets, and Cash in Bank Account.

To simplify the system, each step is numbered and the relevant information highlighted. These steps are numbered to the right of the amount column.

Additionally, on each side of the "amounts" are references to where the money flows "To" (Left) and where the amount flows "From" (Right).

You might say this is learning and understanding the finances of your company by the numbers.

IT'S GOING TO BE EASIER THAN YOU THOUGHT!

So let's get started. There are **seven major categories** with a total of forty-one line descriptions. The major categories are:

CASH	**(Line 1)**
ACCOUNTS RECEIVABLE	**(Line 9)**
INVENTORY	**(Line 15)**
ACCOUNTS PAYABLE	**(Line 21)**
SALES AND INCOME	**(Line 28)**
NET PROFIT BEFORE TAXES	**(Line 35)**
CAPITAL ASSETS	**(Line 37)**

As in all "ongoing" financial concerns, begin the current accounting period with established beginning balances. In the example, the beginning balance is as follows:

Cash (Line 2) is 0:
Accounts Receivable (Line 10) is $2200K;
Inventory (Line 16) is $2300K;
Accounts Payable (Line 22) is $1000K;
The Beginning Capital (Net) Asset Amount (Line 38) is $2500K and the monthly Depreciation (Line 34) will be $13K.

Depreciation is a non-cash item. It is recorded on financial reports to reflect the financial performance of the company. However, depreciation does not enter into the cash stream.

One final note, no provision is made for Federal Income Taxes. This part is best left to the professional tax preparers. After all, the results of operations are what the manager is most interested.

Chapter 3: Cash Flow - 32 Steps to Complete

While flying over Houston several years ago, the pilot discovered a giant thunderstorm between the runway and the plane. There was more lightning and thunder than a "Star Wars" movie. Fear gripped all of the passengers on the plane about the time the pilot cleared his throat and in a very southern drawl began:

"Ladies and gentlemen, we are so blessed today because God has chosen you to witness one of his most wonderful and spectacular natural phenomena. Contrasted against a canvas of billowing, pearly white, stratocumulus clouds are a deep purple and olive green little rain cloud highlighted by a spontaneous and spectacular light and lighting show.

"We have been spared no expense. The energy used for the special effects is enough to light every city in the world five times over. And the topping on the cake is the grand finale, a multi-colored rainbow. So beautiful and bright it may hurt your eyes. So ladies and gentlemen let's all tug a bit on the seatbelts, sit back, and enjoy. Let the show begin."

We couldn't wait to get into that thunderstorm. We had just experienced a change of attitude.

Is your financial attitude properly adjusted? Let the cash flow show begin. Start with Step #1, and then follow each step to completion.

Cash Flow Worksheet 1

Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1. **CASH**			
2. …. Beginning Balance		**-0-**	
3. Add: Collections			
4. Sub: Payroll			
5. Sub: A/P Disbursement			
6. Sub: Capital Equipment Payments			
7. …. Ending Balance			
8.			
9. **ACCOUNTS RECEIVABLE**			
10. …. Beginning Balance		**2200**	
11. Add: Sales			
12. Sub: Collections			
13. …. Ending Balance			
14.			
15. **INVENTORY**			
16. …. Beginning Balance		**2300**	
17. Add: Mtrl. Purchases Received			
18. Sub: Mtrl. Cost of Sales			
19. …. Ending Balance			
20.			
21. **ACCOUNTS PAYABLE**			
22. …. Beginning Balance		**1000**	
23. Add: Mtrl. Purchases Received			
24. Add: O/H Purchased Regrd.			
25. Sub: A/P Disbursements			
26. …. Ending Balance			
27.			
28. **SALES AND INCOME**		**-0-**	
29. Sales 100%			
30. Less:			
31. Payroll 29%			
32. Material Cost 32%			
33. O/H (Less P/R) 18%			
34. Depreciation		**13**	
35. **NET PROFIT BEFORE TAXES**			
36.			
37. **CAPITAL ASSETS**			
38. …. Beginning Balance		**2500**	
39. Add: New Capital Purchases			
40. Sub: Depreciation			
41. …. Ending Balance			

RELAX; THE STEPS GO BY FAST IF YOU CONCENTRATE ON THEM ONE AT A TIME!

STEP #1

Step one is the reduction from the Sales Revenues for Payroll expense. We are told that Sales Revenues equal 100% and the amount of dollars paid to the employees on a period or monthly basis averages 29% of the total Sales Revenues. The calculation for the $261K amount recorded on Line 31 can be observed below.

#1 Calculation

900K Sales
x .29
261K Payroll Costs

STEP #2

Step two; Material cost averages 32% of total Sales Revenues for the month for a net reduction from Total Sales Revenues of **$288K recorded on Line 32.**

#2 Calculation

900K Sales
x .32
288K Material Costs

STEP #3

Step three is OVERHEAD COSTS LESS PAYROLL COSTS AND DEPRECIATION (O/H Less P/R) are the costs of all charges which are not (1) Payroll, (2) Prime Material Costs or (3) Depreciation. Examples of these types of charges are office supplies, utilities, and advertising. The O/H (Less P/R) costs average 18% of Sales Revenues.

The **$162K O/H (Less P/R) is recorded on Line 33.**

#3 Calculation

900K Sales
x .18
162K Overhead Costs

Cash Flow Worksheet – Steps #1 #2 & #3

Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1. **CASH**			
2. …. Beginning Balance		-0-	
3. Add: Collections			
4. Sub: Payroll			
5. Sub: A/P Disbursement			
6. Sub: Capital Equipment Payments			
7. …. Ending Balance			
8.			
9. **ACCOUNTS RECEIVABLE**			
10. …. Beginning Balance		2200	
11. Add: Sales			
12. Sub: Collections			
13. …. Ending Balance			
14.			
15. **INVENTORY**			
16. …. Beginning Balance		2300	
17. Add: Mtrl. Purchases Received			
18. Sub: Mtrl. Cost of Sales			
19. …. Ending Balance			
20.			
21. **ACCOUNTS PAYABLE**			
22. …. Beginning Balance		1000	
23. Add: Mtrl. Purchases Received			
24. Add: O/H Purchased Regrd.			
25. Sub: A/P Disbursements			
26. …. Ending Balance			
27.		-0-	
28. **SALES AND INCOME**			
29. Sales 100%		900	
30. Less:			
31. Payroll 29%		**(261) #1**	
32. Material Cost 32%		**(288) #2**	
33. O/H (Less P/R) 18%		**(162) #3**	
34. Depreciation			
35. **NET PROFIT BEFORE TAXES**			
36.			
37. **CAPITAL ASSETS**			
38. …. Beginning Balance		2500	
39. Add: New Capital Purchases			
40. Sub: Depreciation			
41. …. Ending Balance			

STEP #4
Step five is DEPRECIATION, as mentioned earlier. It is a "given" amount and is also a "non-cash" item. It simply means the payment for this item was accounted for in another manner and in a different period. For example, the cash related to Depreciation was originally outlaid when we acquired the new Capital Equipment (see Line 39). Depreciation (STEP #4) is given on **Line 34 as $13K.**

> **#4 Comment**
> No calculation. The Amount is a **non-cash item**. It is a product of a depreciation schedule. Here, it is a given amount of 13K.

STEP #5
Step five is simply a straight math calculation attempting to figure out how much NET PROFIT BEFORE TAXES (Line 35) the company made for the month. By subtracting the Payroll Costs, Material Costs, Overhead Costs, and Depreciation from the Sales Revenues, we deduce that the profits for the month are **$176K as recorded on Line 35.** We do not account for Federal Income Taxes. Taxes are accounted for in a variety of methods and any discussion of taxes is excluded from this presentation.

As a rule, you will be better able to review your day-to-day business operations by providing for the tax consequences separately.

#5 Calculation (Straight Math)

900K	Sales
–261K	Payroll Cost
–288K	Material Cost
–162K	Overhead Cost
–13K	Depreciation
176K	**Net Profit Before Taxes**

Cash Flow Worksheet – Steps #4 & #5

	Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1.	**CASH**			
2.	…. Beginning Balance		-0-	
3.	Add: Collections			
4.	Sub: Payroll			
5.	Sub: A/P Disbursement			
6.	Sub: Capital Equipment Payments			
7.	…. Ending Balance			
8.				
9.	**ACCOUNTS RECEIVABLE**			
10.	…. Beginning Balance		2200	
11.	Add: Sales			
12.	Sub: Collections			
13.	…. Ending Balance			
14.				
15.	**INVENTORY**			
16.	…. Beginning Balance		2300	
17.	Add: Mtrl. Purchases Received			
18.	Sub: Mtrl. Cost of Sales			
19.	…. Ending Balance			
20.				
21.	**ACCOUNTS PAYABLE**			
22.	…. Beginning Balance		1000	
23.	Add: Mtrl. Purchases Received			
24.	Add: O/H Purchased Regrd.			
25.	Sub: A/P Disbursements			
26.	…. Ending Balance			
27.				
28.	**SALES AND INCOME**			
29.	Sales 100%		900	
30.	Less:			
31.	Payroll 29%		(261) #1	
32.	Material Cost 32%		(288) #2	
33.	O/H (Less P/R) 18%		(162) #3	
34.	Depreciation		**(13) #4**	
35.	**NET PROFIT BEFORE TAXES**		**176 #5**	
36.				
37.	**CAPITAL ASSETS**			
38.	…. Beginning Balance		2500	
39.	Add: New Capital Purchases			
40.	Sub: Depreciation			
41.	…. Ending Balance			

We start the river journey on the upstream cash-generating river.

STEP #6

Step six shows the cash flow of the Sales Revenues (Line 29) to the Accounts Receivable (Line 11). This company extends terms to its customers, which is not unlike most companies operating today. Therefore, the cash receipts from Sales will not be received until a later date and therefore must be recorded and held in another special account entitled "Accounts Receivable."

Note the "Flow to Line No" by the Sales (Line 29) amount of $900K is Line 11 while the "Flow from Line No" by the Add: Sales (Line 11) figure is Line 29. These columns tell you where the figure came from and where it goes.

If you find yourself lost following the steps just ask yourself where the figure came from or where it is going.

#6 Comment

The 900K sales figure recorded on Line #11 is a straight (copy) from Line #29

Cash Flow Worksheet – Step #6

Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1. **CASH**			
2. …. Beginning Balance		-0-	
3. Add: Collections			
4. Sub: Payroll			
5. Sub: A/P Disbursement			
6. Sub: Capital Equipment Payments			
7. …. Ending Balance			
8.			
9. **ACCOUNTS RECEIVABLE**			
10. …. Beginning Balance		2200	
11. Add: Sales		**+900 #6**	**29**
12. Sub: Collections			
13. …. Ending Balance			
14.			
15. **INVENTORY**			
16. …. Beginning Balance		2300	
17. Add: Mtrl. Purchases Received			
18. Sub: Mtrl. Cost of Sales			
19. …. Ending Balance			
20.			
21. **ACCOUNTS PAYABLE**			
22. …. Beginning Balance		1000	
23. Add: Mtrl. Purchases Received			
24. Add: O/H Purchased Regrd.			
25. Sub: A/P Disbursements			
26. …. Ending Balance			
27.			
28. **SALES AND INCOME**			
29. Sales 100%	**11**	**900**	
30. Less:			
31. Payroll 29%		(261) #1	
32. Material Cost 32%		(288) #2	
33. O/H (Less P/R) 18%		(162) #3	
34. Depreciation		(13) #4	
35. **NET PROFIT BEFORE TAXES**		176 #5	
36.			
37. **CAPITAL ASSETS**			
38. …. Beginning Balance		2500	
39. Add: New Capital Purchases			
40. Sub: Depreciation			
41. …. Ending Balance			

STEP #7

Step seven on Line 12 refers to the Collection of the outstanding Accounts Receivables. In real companies, the amount recorded on Line 12 comes from customer checks and cash received which is then deposited into a bank account. We are simulating this step by using a collection factor of .4 or 40% of the outstanding Accounts Receivable Balance on Line 10. If we collect 40% of the outstanding Accounts Receivable for the month, the collections would equal **$880K as recorded on Line 12 ($2200K x .40 = $880K).** The collection of these $880K Accounts Receivable represent a reduction of the total Accounts Receivable balance and should therefore be subtracted.

#7 Calculation/Comment	
2200K	Beginning Balance
x .4	Collection Factor
880K	**Collections**

The .4 represents a day's sales outstanding of approximately 73 days

STEP #8

Step eight is a straight math calculation. Remember the basic formula? You START with a Beginning Balance of $2200K and ADD Sales of $900K and SUBTRACT Collections of $880K, resulting in an Ending Balance . . . Accounts Receivable of $2220K. From a dollars standpoint, you have just covered 95% of Accounts Receivable. The balance of the many activities in Accounts Receivable involves relatively small dollar amounts. Examples of some of these activities would be sales returns and allowances, discounts, etc.

#8 Calculation (straight math)	
2200K	Beginning Balance
+900K	Sales
–880K	Collections
2220K	**Ending Balance**

Cash Flow Worksheet – Steps #7 & #8

Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1. **CASH**			
2. …. Beginning Balance		-0-	
3. Add: Collections			
4. Sub: Payroll			
5. Sub: A/P Disbursement			
6. Sub: Capital Equipment Payments			
7. …. Ending Balance			
8.			
9. **ACCOUNTS RECEIVABLE**			
10. …. Beginning Balance		2200	
11. Add: Sales		+900 #6	29
12. Sub: Collections		**(880) #7**	
13. …. Ending Balance		**2220 #8**	
14.			
15. **INVENTORY**			
16. …. Beginning Balance		2300	
17. Add: Mtrl. Purchases Received			
18. Sub: Mtrl. Cost of Sales			
19. …. Ending Balance			
20.			
21. **ACCOUNTS PAYABLE**			
22. …. Beginning Balance		1000	
23. Add: Mtrl. Purchases Received			
24. Add: O/H Purchased Regrd.			
25. Sub: A/P Disbursements			
26. …. Ending Balance			
27.			
28. **SALES AND INCOME**		900	
29. Sales 100%	11		
30. Less:			
31. Payroll 29%		(261) #1	
32. Material Cost 32%		(288) #2	
33. O/H (Less P/R) 18%		(162) #3	
34. Depreciation		(13) #4	
35. **NET PROFIT BEFORE TAXES**		176 #5	
36.			
37. **CAPITAL ASSETS**			
38. …. Beginning Balance		2500	
39. Add: New Capital Purchases			
40. Sub: Depreciation			
41. …. Ending Balance			

STEP #9
Step nine is on Collections, it is the transferring of funds from Line 12 to Line 3; simulate the depositing of collected funds into a bank account.

<u>#9 Comment</u>
The $880K collections recorded on Line #3 is a straight transfer (copy) from Line #12 – Collections of Out-standing Customers Accounts Receivable

Cash Flow Worksheet – Step #9

	Category & Line Description	Flow TO Line No.	($000's) Amount		Flow FROM Line No.
1.	**CASH**				
2.	…. Beginning Balance		-0-		
3.	Add: Collections		**+880**	**#9**	**12**
4.	Sub: Payroll				
5.	Sub: A/P Disbursement				
6.	Sub: Capital Equipment Payments				
7.	…. Ending Balance				
8.					
9.	**ACCOUNTS RECEIVABLE**				
10.	…. Beginning Balance		2200		
11.	Add: Sales		+900	#6	29
12.	Sub: Collections	**3**	**(880)**	**#7**	
13.	…. Ending Balance		2220	#8	
14.					
15.	**INVENTORY**				
16.	…. Beginning Balance		2300		
17.	Add: Mtrl. Purchases Received				
18.	Sub: Mtrl. Cost of Sales				
19.	…. Ending Balance				
20.					
21.	**ACCOUNTS PAYABLE**				
22.	…. Beginning Balance		1000		
23.	Add: Mtrl. Purchases Received				
24.	Add: O/H Purchased Regrd.				
25.	Sub: A/P Disbursements				
26.	…. Ending Balance				
27.					
28.	**SALES AND INCOME**				
29.	Sales 100%	11	900		
30.	Less:				
31.	Payroll 29%		(261)	#1	
32.	Material Cost 32%		(288)	#2	
33.	O/H (Less P/R) 18%		(162)	#3	
34.	Depreciation		(13)	#4	
35.	**NET PROFIT BEFORE TAXES**		176	#5	
36.					
37.	**CAPITAL ASSETS**				
38.	…. Beginning Balance		2500		
39.	Add: New Capital Purchases				
40.	Sub: Depreciation				
41.	…. Ending Balance				

We have just completed the cash generating leg of the upstream journey.
This process will be repeated month after month with the primary variables being (1) the change in sales volume and (2) the collection percent or the change in the DSO (Days Sales Outstanding).

Now, prepare for the second half of the journey: an exciting ride down the cash-flow expenditure-rapids.

STEPS 10, 11, and 12 refer to Inventory transactions in the company.

A company spends its money for a variety of reasons. These expenditures generally fall into three major classifications (1) for raw materials or product inventory, (2) for overhead expenses, and (3) for new capital expenditures. . Please note that payroll is also recognized as major company expenditure as well. However, it is more of an internal expenditure rather than an external expenditure.

STEP #10

Step ten is the Adding of Material Purchases received (Line 17) which is a "given" amount.

The $238K recorded on Line 17 represents the cumulative dollar amount of goods and materials received by the company's shipping and receiving department. This figure represents the dollar amount of the goods received and placed in Inventory as well as the liability (Line #23) established for the payment to the vendor for these goods.

#10 Comment - No Calculation

Normally this amount is the cumulative dollar amount of goods and materials received by the shipping and receiving department. For now, this amount is given, $238K

STEP #11

Step eleven is a straight copy from Line 32 – Material Costs. This figure ($288K) represents the dollar amount of goods and materials sold and forwarded to the customers.

#11 Comment

This amount ($288K) is a straight copy from line #32 – Material Cost of Sales

STEP #12

Step twelve is the math involved in computing the Ending Balance . . . Inventory.

#12 Calculation (Straight Math)

2300K	Beginning Balance
+238K	Matrl Purch. Recd.
–288K	Matrl Cost of Sales
2250K	**Ending Balance**

Cash Flow Worksheet – Steps #10 #11 & #12

Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1. **CASH**			
2. …. Beginning Balance		-0-	
3. Add: Collections		+880 #9	12
4. Sub: Payroll			
5. Sub: A/P Disbursement			
6. Sub: Capital Equipment Payments			
7. …. Ending Balance			
8.			
9. **ACCOUNTS RECEIVABLE**			
10. …. Beginning Balance		2200	
11. Add: Sales		+900 #6	29
12. Sub: Collections	11	(880) #7	
13. …. Ending Balance		2220 #8	
14.			
15. **INVENTORY**			
16. …. Beginning Balance		2300	
17. Add: Mtrl. Purchases Received		**+238 #10**	
18. Sub: Mtrl. Cost of Sales		**(288) #11**	**32**
19. …. Ending Balance		**2250 #12**	
20.			
21. **ACCOUNTS PAYABLE**			
22. …. Beginning Balance		1000	
23. Add: Mtrl. Purchases Received			
24. Add: O/H Purchased Regrd.			
25. Sub: A/P Disbursements			
26. …. Ending Balance			
27.			
28. **SALES AND INCOME**			
29. Sales 100%	11	900	
30. Less:			
31. Payroll 29%		(261) #1	
32. Material Cost 32%		(288) #2	
33. O/H (Less P/R) 18%	17	(162) #3	
34. Depreciation		(13) #4	
35. **NET PROFIT BEFORE TAXES**		176 #5	
36.			
37. **CAPITAL ASSETS**			
38. …. Beginning Balance		2500	
39. Add: New Capital Purchases			
40. Sub: Depreciation			
41. …. Ending Balance			

STEP #13
Step thirteen is a straight copy of Flow of Funds from Line 17 (Add: Material Purchases Received) to Line 23, in the Accounts Payable.
This step simulates the recognition and recording of the liability resulting from the purchasing and receiving of goods and materials.

> **#13 Comment**
> **The amount recorded on Line #23 ($238K) is a straight copy from Line #17.** We now have placed the bills for the material received in line for payment to the vendors.

STEP #14
Step fourteen on Line 24 is the recording of overhead purchases (Less Payroll) from Line #33. This is a straight copy.

> **#14 Comment**
> **The 162K recorded on Line #24 is a straight copy from**
> **Line #33** – Overhead (less Payroll Cost). The reason for the (less Payroll) is because payroll is normally included in overhead.

STEP #15
Step fifteen is the actual payment of liabilities to the vendors. Normally the Payable Disbursement made is the cumulative dollar amount of checks released to vendors. In the exercise, we are simulating the cash disbursement to vendors by using a factor of .5 or 50% of the Beginning Accounts Payable Balance. Given the Beginning Balance of $1000K x .5 the resulting net cash disbursement is $500K. This disbursement figure is a direct reduction of the total Accounts Payable Liability.

> **#15 Calculation Comment**
> **The .5 or 50% represents a disbursement rate or Days Payroll Outstanding of approximately 60 days.**
> 1000K Beginning Balance
> x .5 Disbursement Factor
> **500K Disbursements**

STEP #16
Step sixteen is a math calculation, which is necessary to compute the Accounts Payable Ending Balance.

#16 Calculation

1000K	Beginning Balance
+238K	Mtrl. Prch. Recd.
+162K	O/H Prch. Recd.
–(500K)	A/P Disbursements
900K	**Ending Balance**

Cash Flow Worksheet – Steps #13 #14 #15 & #16

Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1. **CASH**			
2. …. Beginning Balance		-0-	
3. Add: Collections		+880 #9	12
4. Sub: Payroll			
5. Sub: A/P Disbursement			
6. Sub: Capital Equipment Payments			
7. …. Ending Balance			
8.			
9. **ACCOUNTS RECEIVABLE**			
10. …. Beginning Balance		2200	
11. Add: Sales	3	+900 #6	29
12. Sub: Collections		(880) #7	
13. …. Ending Balance		2220 #8	
14.			
15. **INVENTORY**			
16. …. Beginning Balance		2300	
17. Add: Mtrl. Purchases Received	23	+238 #10	
18. Sub: Mtrl. Cost of Sales		(288) #11	32
19. …. Ending Balance		2250 #12	
20.			
21. **ACCOUNTS PAYABLE**			
22. …. Beginning Balance		1000	
23. Add: Mtrl. Purchases Received		**+238 #13**	**17**
24. Add: O/H Purchased Regrd.		**+162 #14**	**33**
25. Sub: A/P Disbursements (50% Factoring Beginning Balance)		**(500) #15**	
26. …. Ending Balance		**900 #16**	
27.			
28. **SALES AND INCOME**			
29. Sales 100%	11	900	
30. Less:			
31. Payroll 29%		(261) #1	
32. Material Cost 32%		(288) #2	
33. O/H (Less P/R) 18%	**24**	**(162) #3**	
34. Depreciation		(13) #4	
35. **NET PROFIT BEFORE TAXES**		176 #5	
36.			
37. **CAPITAL ASSETS**			
38. …. Beginning Balance		2500	
39. Add: New Capital Purchases			
40. Sub: Depreciation			
41. …. Ending Balance			

STEP #17
Step seventeen works with the ($500K) in Line 5 that represents the cash reduction from the bank balance for the payments made to the vendors in Line 25. Payments made for liabilities of goods and materials received reduce both the liabilities and the cash balances.

#17 Comment
The amount recorded on Line #5 (500K) is a straight copy from Line #25. Payment of vendor invoices reduces cash as indicated by the 500K on Line #5

STEPS #18, 19, and 20 refer to transactions in the Capital Asset Accounts.

STEP #18
Step eighteen on Line 39 ($50K) represents the financial recording of new Capital Purchases. Examples of new Capital Purchases would be lathes, drill presses, trucks, and so forth.

#18 Comment
The $50K recorded on Line #39, new Capital Purchases, is for now a "given" figure. It represents for example, the addition of a new piece of production machinery.

STEP #19
Step nineteen is the Depreciation charge for the month. The $13K on Line 40 represents Step nineteen a systematic estimate of the cost to operate the Capital Equipment.

#19 Comment
The $13K recorded on Line #40 is a straight copy from Line #34.

STEP #20
Step twenty is a straight copy of the $13K from Line 34. Therefore, in order to evaluate the Ending Balance (STEP 20) in the Capital Asset Account, you follow the familiar formula.

Start with the Beginning Balance of $2500K, ADD new Capital Purchases of $50K, and SUBTRACT the Monthly Depreciation of $13K. Then the Ending Balance in the Capital Asset Account is $2537K

#20 Calculation (Straight Math)

2500K	Beginning Balance
+50K	New Capital Purchases
–13K	Period Depreciation
2537K	**Ending Balance**

Cash Flow Worksheet – Steps #17 #18 #19 & #20

	Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1.	**CASH**			
2.	…. Beginning Balance		-0-	
3.	Add: Collections		+880 #9	12
4.	Sub: Payroll			
5.	Sub: A/P Disbursement		**(500) #17**	**25**
6.	Sub: Capital Equipment Payments			
7.	…. Ending Balance			
8.				
9.	**ACCOUNTS RECEIVABLE**			
10.	…. Beginning Balance		2200	
11.	Add: Sales		+900 #6	29
12.	Sub: Collections	3	(880) #7	
13.	…. Ending Balance		2220 #8	
14.				
15.	**INVENTORY**			
16.	…. Beginning Balance		2300	
17.	Add: Mtrl. Purchases Received	23	+238 #10	
18.	Sub: Mtrl. Cost of Sales		(288) #11	32
19.	…. Ending Balance		2250 #12	
20.				
21.	**ACCOUNTS PAYABLE**			
22.	…. Beginning Balance		1000	
23.	Add: Mtrl. Purchases Received		+238 #13	17
24.	Add: O/H Purchased Regrd.		+162 #14	33
25.	Sub: A/P Disbursements (50% Factoring Beginning Balance)	**5**	**(500) #15**	
26.	…. Ending Balance		900 #16	
27.				
28.	**SALES AND INCOME**		-0-	
29.	Sales 100%	11	900	
30.	Less:			
31.	Payroll 29%		(261) #1	
32.	Material Cost 32%		(288) #2	
33.	O/H (Less P/R) 18%	24	(162) #3	
34.	Depreciation	**40**	**(13) #4**	
35.	**NET PROFIT BEFORE TAXES**		176 #5	
36.				
37.	**CAPITAL ASSETS**			
38.	…. Beginning Balance		2500	
39.	Add: New Capital Purchases		**+50 #18**	
40.	Sub: Depreciation		**(13) #19**	**34**
41.	…. Ending Balance		**2537 #20**	

STEP #21

Step twenty-one is the Flow of Funds straight copy from the New Capital Purchases to the Cash Accounts. The liability for the New Capital Purchases does not go to the Accounts Payable Account, but rather is recorded as a direct reduction of cash. Most major capital expenditures require special financing terms. It is a straight reduction to the cash account.

#21 Comment
The amount of $50 K recorded on Line #6 is a straight copy from Line #39.

STEP #22

Step twenty-two is a straight copy from Line 31, Payroll Expense. The $261K on Line 31 represents the immediate Disbursement of all Salaries and related Payroll expenses made in the current month's period.

#22 Comment
The amount of $261K recorded on Line 4 is a straight (copy) from Line #31 – Payroll.

STEP #23

Step twenty-three, is the final step and is straight math calculation that takes the Beginning Cash Balance of $0 and adds the Collection of $880K, while Subtracting Payroll of $261K, Accounts Payable of $500K, and Capital Expenditures of $50K. The Ending Cash Balance of $69K after calculation as recorded on Line 7.

#23 Calculation (Straight Math)

-0-	Beginning Balance
+880K	Collections
–261K	Payroll
–500K	A/P Disbursements
–50K	New Capital Purchases
69K	**Ending Balance**

Cash Flow Worksheet – Steps #21 #22 & #23

Category & Line Description	Flow TO Line No.	($000's) Amount	Flow FROM Line No.
1. **CASH**			
2. …. Beginning Balance		-0-	
3. Add: Collections		+880 #9	12
4. Sub: Payroll		**(261) #22**	**31**
5. Sub: A/P Disbursement		(500) #17	25
6. Sub: Capital Equipment Payments		**(50) #21**	**39**
7. …. Ending Balance		**69 #28**	
8.			
9. **ACCOUNTS RECEIVABLE**			
10. …. Beginning Balance		2200	
11. Add: Sales		+900 #6	29
12. Sub: Collections	3	(880) #7	
13. …. Ending Balance		2220 #8	
14.			
15. **INVENTORY**			
16. …. Beginning Balance		2300	
17. Add: Mtrl. Purchases Received	23	+238 #10	
18. Sub: Mtrl. Cost of Sales		(288) #11	32
19. …. Ending Balance		2250 #12	
20.			
21. **ACCOUNTS PAYABLE**			
22. …. Beginning Balance		1000	
23. Add: Mtrl. Purchases Received		+238 #13	17
24. Add: O/H Purchased Regrd.		+162 #14	33
25. Sub: A/P Disbursements (50% Factoring Beginning Balance)	5	(500) #15	
26. …. Ending Balance		900 #16	
27.			
28. **SALES AND INCOME**		-0-	
29. Sales 100%	11	900	
30. Less:			
31. Payroll 29%	**4**	**(261) #1**	
32. Material Cost 32%		(288) #2	
33. O/H (Less P/R) 18%		(162) #3	
34. Depreciation	40	(13) #4	
35. **NET PROFIT BEFORE TAXES**		176 #5	
36.			
37. **CAPITAL ASSETS**			
38. …. Beginning Balance		2500	
39. Add: New Capital Purchases	**6**	**+50 #18**	
40. Sub: Depreciation		(13) #19	34
41. …. Ending Balance		2537 #20	

Your journey has come full circle – the cash cycle is complete. Now it's time to move on into the Proof of Balance process.

Chapter 4: Cash Flow Proof of Balance

The initial conclusions that can draw from this exercise is that $900K Sales (Line 29) resulted in $176K Net Profit Before Taxes (Line 35), which resulted in a Cash Account of $69K (Line 7).

Why wouldn't the $900K sales result in the same amount of Net Profit before Taxes and Cash in the Bank Account?

First, you will need to check the math. There may be a mistake in one of the calculations or a number could have been copied wrong.

CASH FLOW PROOF OF BALANCES is the format for checking the numbers.

Are you beginning to understand "Cash Flow?" My wife, Nancy, does. She understands the "Ins" and "Outs" of cash flow. She contends my job is to bring the cash "In" and her job is to oversee the cash going "Out." Nancy also has a very unusual perspective on the positive factors of deficit spending in that the savings from a department store sale should be counted as profits on the income statement.

Take a baseball as another example: each before time a pitcher throws a ball, he gets a sign from the catcher. Well, a cash flow proof of balance relies on signs as well.

Each category has what is called a natural sign. Most of the signs are positive (+) signs, but occasionally a curve gets thrown in there like Accounts Payable and Depreciation, and the natural sign becomes a negative (–).

Natural signs indicate the positive or negative nature of the numbers. Remember, a double negative (–) or two negatives together (– –) changes the sign to a positive (+).

From this point, you start with the Ending Balance Line No. of the CATEGORY AND LINE DESCRIPTION and subtract the Beginning Balance Line No from the same category. The resulting number is recorded in the amount column.

Cash Flow Proof of Balance 1

<u>Cash Flow Proof of Balance</u>

Natural Sign	Category and Line Description Of Cash Flow	Ending Balance Line No.	Beginning Balance Line No.	Amount ($000's)
+	Change in Cash	7 -	2	=
	Add			
+	Change in A/R	13 -	10	=
	Add			
+	Change in Inventory	19 -	16	=
	Minus			
-	Change in A/P	26 -	22	=
	Add			
+	New Capital Purchases	39 Only		
	<u>TOTAL OF ALL ABOVE</u>			______
+	NET PROFIT BEFORE TAXES	35 Only		
	Add			
-	Depreciation	40 Only		
	<u>TOTAL OF ALL ABOVE</u>			______

*TOTALS OF BOTH ALL ABOVES MUST EQUAL EACH OTHER

THAT'S SIMPLE ENOUGH! NO PROBLEM.

STEP #24

On step twenty-four, work on the completed period #1 and begin with the Change in Cash, Line 7 ($69K) Ending Balance less Line 2 ($0) Beginning Balance equals +$69K. Your cash position increased from $0 to $69K. That's good; that's positive (+).

#24 Calculation – Change In Cash

69K	Ending Balance Line 7
0	Beginning Balance Line 2
+69K	**Increase (+ Natural Sign)**

STEP #25

Step twenty-five shows that the change in Accounts Receivable (A/R) can be calculated by subtracting the **Ending Balance Line 13 from the Beginning Balance, Line 10** ($2220K – $2200K = +$20K).

#25 Calculation-Change in Accounts Receivables

2220K	Ending Bal. Line 13
2200K	Begin. Bal. Line 10
+20K	**Increase (+ Natural Sign)**

Remember that all the numbers in the Cash Flow Proof of Balance comes from the completed Cash Flow page.

Cash Flow Proof of Balance – Steps #24 & #25

Cash Flow Proof of Balance

Natural Sign	Category and Line Description Of Cash Flow	Ending Balance Line No.	Beginning Balance Line No.	Amount ($000's)
+	**Change in Cash**	**7 -**	**2 =**	**+69 #24**
	Add			
+	**Change in A/R**	**13 -**	**10 =**	**+20 #25**
	Add			
+	Change in Inventory	19 -	16 =	
	Minus			
-	Change in A/P	26 -	22 =	
	Add			
+	New Capital Purchases	39 Only		
	TOTAL OF ALL ABOVE			________
+	NET PROFIT BEFORE TAXES	35 Only		
	Add			
-	Depreciation	40 Only		
	TOTAL OF ALL ABOVE			________

STEP #26

Step twenty-six computes the **change in Inventory Line 19($2250K Ending Balance – Line 16 $2300K Beginning Balance = $50K)**. Notice the negative $50K. The math calculation derived a negative with a natural positive (+) sign. Therefore, we have a –$50K in the amount column.

#26 Calculation-Change in Inventory

2250K	Ending Bal. Line 19
2300K	Begin. Bal. Line 16
–50K	**Decrease with a Natural Increase sign +**

STEP #27

Step twenty-seven is the change in Accounts Payable (A/P). The calculation of $900K **Ending Accounts Payable Balance on Line 26 less Line 22 $1000K Beginning Accounts Payable Balance equals –$100K. A –$100K** with a natural negative sign is a double negative and therefore creates a +$100K. We are saying that the total amount we owe to the vendors has been reduced by $100K.

#27 Calculation-Change in Accounts Payable

900K	Ending Bal. Line 26
1000K	Begin. Bal. Line 22
–100K	**Decrease with a Natural negative sign. Therefore, the minus is reversed to a sign of + $100K**.

STEP #28

Step twenty-eight is a straight copy from Line 39 (New Capital Purchases). It has a natural sign of + so you put + $50k in the amount column.

#28 Comment-New Capital Purchase

The amount recorded for New Capital Purchases is a straight (copy) from Line 39.

Cash Flow Proof of Balance – Steps #26 #27 & #28

<u>Cash Flow Proof of Balance</u>

Natural Sign	Category and Line Description Of Cash Flow	Ending Balance Line No.	Beginning Balance Line No.	Amount ($000's)
+	Change in Cash	7 -	2 =	+69 #24
	Add			
+	Change in A/R	13 -	10 =	+20 #25
	Add			
+	**Change in Inventory**	**19 -**	**16 =**	**-50 #26**
	Minus			
-	**Change in A/P**	**26 -**	**22 =**	**+100 #27**
	Add			
+	**New Capital Purchases**	**39 Only**		**$50 #28**
	<u>TOTAL OF ALL ABOVE</u>			________
+	NET PROFIT BEFORE TAXES	35 Only		
	Add			
-	Depreciation	40 Only		
	<u>TOTAL OF ALL ABOVE</u>			________

STEP #29
Step twenty-nine is a straight math calculation.

+69K	Change In Cash
+20K	Change In Accounts Receivable
–50K	Change In Inventory
+100K	Change In Accounts Payable
+50K	New Capital Purchase
189K	**TOTAL OF ALL ABOVE**

STEP #30
Step thirty is a straight copy from Line 35, Net Profit before Taxes: The amount to be recorded in the amount column is $176K.

#30 Comment – Net Profit before Taxes
The amount recorded on Net Profit before Taxes is a straight copy from Line 35. If the Net Profit before Taxes is a positive + so is the natural sign in the Proof of Balances.

STEP #31
Step thirty-one (Depreciation) is a straight copy from Line 40. A natural sign of (–) and a -$13K amount equals a +$13K double negative.

#31 Comment-Depreciation
The amount recorded on Depreciation is a straight copy from Line #40. In all cases the sign for depreciation is "+." Natural (–) –$13K = $13K.

STEP #32
Step thirty-two is a straight math calculation.

+176K	Net Profit before Taxes
+13K	Depreciation
189K	**TOTAL OF ALL ABOVE**

Notice the Net Amount ($189K) in STEP 29 and STEP 32 are the same. With these two amounts being the same, you have proven that all of your math calculations are correct.

Cash Flow Proof of Balance – Steps #29 #30 #31 & #32

Cash Flow
<u>Proof of Balance</u>

Natural Sign	Category and Line Description Of Cash Flow	Ending Balance Line No.	Beginning Balance Line No.	Amount ($000's)
+	Change in Cash	7 -	2 =	+69 #24
	Add			
+	Change in A/R	13 -	10 =	+20 #25
	Add			
+	Change in Inventory	19 -	16 =	-50 #26
	Minus			
-	Change in A/P	26 -	22 =	+100 #27
	Add			
+	New Capital Purchases	39 Only		$50 #28
	<u>TOTAL OF ALL ABOVE</u>			**<u>+189</u> #29**
+	**NET PROFIT BEFORE TAXES**	**35 Only**		**+176 #30**
	Add			
-	**Depreciation**	**40 Only**		**+13 #31**
	<u>TOTAL OF ALL ABOVE</u>			**<u>+189</u> #32**

Still unexplained is why the amount of Net Profit before Taxes is different from the amount of the ending cash balance. This will be discussed in Chapter 6.

Chapter 5: Constructing the Balance Sheet

By now, you should be getting the idea this might not be too tough. Or, it's still tough enough, but you've got it under control. You must prepare for success. You must now acquire "Foresight."

There are four important progressions to successful foresight.

(1) Photo-realist – Myopic segmentation concentration. Popular among highly trained technicians (stovepipes).

(2) Impressionist – Ideas of great clarity whose color and clarity bleed as reality nears (Degreed Liberal Arts).

(3) Romanticist – Beautifully detailed images of design – for another time and place (Creative Ph.D.).

(4) Dreamer – Ideas just beyond the reach of the known. If the idea is good, work on the reality (so says the Entrepreneur).

Your goal is to become the Dreamer with a practical side – one who can envision how the unknown would work, how it would support your ultimate goal and objectives.

Let's go back to the Balance Sheet. Record each of the Ending Balances for each Cash Flow category for the completed Period 1.

The Ending Balances become the Beginning Balance for Period 2. They also form the basis of the Balance Sheet Accounts.

Balance Sheet Format 1

Balance Sheet Format

Current Asset	Amount	Cash Flow Line #	Current Liabilities	Amount	Cash Flow Line #
Cash			Accounts Payable		
Accounts Receivable			Total Current Liabilities		
Inventory			Owner's Equity:		
			Previous Balance		
Total Current Assets	________		Current Earnings		
Capital Assets					
Total Assets	________		Total Liability and Owner's Equity*	________	

***TOTAL ASSETS MUST EQUAL TOTAL LIABILITIES AND OWNER'S EQUITY**

The Ending Balances of your Cash Flow categories become the basis for the Balance Sheet. Let's just plug the numbers into the Current Assets. Cash $69K, Accounts Receivable $2220K, Inventory $2250K.

Cash	$69K	Line #7	**#33 Transfer**
Accounts receivable	2220K	Line #13	**#34 Transfer**
Inventory	2250K	Line #19	**#35 Transfer**
Total Current Assets	4539K		**#36 Addition**

STEP #37
Plug in the Capital Assets of $2,537K Line #41 (and add Step #38).

Step #38
Add the Current Assets amount of $4539K for Total Assets of $7076K.

STEP #39
Accounts Payable is very similar. Plug in $900K from Line #26. Now you are down to owner's Equity. A simple definition is in order. Owner's Equity is the amount of the investment in the company and all previous profits or earnings. Of these, this assumes we haven't taken any monies out of the company.

STEP #40
The Previous Balance is a given $6000K.

STEP #41
Add the current earnings of $176K from Line #35.

STEP #42
We can total the Current Liabilities and Owner's Equity.

Accounts Payable	900K	Line #26	**#39 Transfer**
Owner's Equity – Previous Bal.	6000K		**#40**
Owner's Equity – Current Equity	176K	Line #35	**#41 Transfer**
Total Liabilities and Owner's Equity	7076K		**#42**

Notice that the total Assets of $7067K equal the total Liabilities and Owner's Equity of $7076K.

You must be doing something right; let's celebrate. You made it!

Balance Sheet Format 2

	Current Assets	Amount	Cash Flow Line #	Current Liabilities	Amount	Cash Flow Line	
Step #33	Cash	$69K	(Line #7)	Accounts Payable	$900K	(Line #26)	**Step #39**
Step #34	Accounts Receivable	$2220K	(Line #13)	Total Current Liabilities	$900K	(Above)	
Step #35	Inventory	$2250K	(Line #19)	Owner's Equity:			
				Previous Balance	$6000K		**Step #40**
Step #36	Total Current Assets	$4539K	(Total of Above)	Current Earnings *Total Liability and Owner's Equity	$176K	(Line #35)	**Step #41**
Step #37	Capital Assets	$2537K	(Line #41)				
Step #38	Total Assets	$7076K			$7076K		**Step #42**

***TOTAL ASSETS MUST EQUAL TOTAL LIABILITIES AND OWNER'S EQUITY**

Chapter 6: Profits VS. Cash Generation

If you are still reading, you have made it. Now we can just talk. You can now call yourselves "financial analysts," give financial opinions, and feel safe that you understand how the business operates. Right? Not quite yet.

You have succeeded in completing a set of financial statements and tracked the cash in the process. Seriously, you have just put together a complete set of financial statements. They include a Profit and Loss Statement, a Balance Sheet, and a Change in Financial Position (you know it as a Proof of Balance). Not bad for a beginner. Now put on your financial analyst hat so you can figure out why your cash increased only by $69K while your profit was $176K.

The best place to find the answer is the Proof of Balance.

The Net Profit before Taxes of $176K represents the money you made.
The depreciation is a non-cash item so you can add $13K to the $176K profit you made.
The key concept to remember is that Profits are not cash until you collect the accounts receivable associated with the business transaction, but really there is more to it. Look at how the money was used.

Category	Increase / Decrease Amount	Comments
Cash	69K	Put that money in the bank. No problem.
Accounts Receivable	+20K	Loaned our customers an additional $20K to buy the products.
Inventory	-50K	Converted $50K of inventory to cash by reducing the inventory (a conversion of a tangible asset to cash).
Accounts Payable	+100K	Used $100K to pay off additional bills. Although they weren't past due, we decide to use part of the profits to pay the vendors and make them happy. Better discounts next time.
New Capital Assets	+50K	Decided to use some of the profits for new equipment. The expenditures should increase sales in later months.
Total Profits Used	**189K**	**Net Profits before taxing of $176K (Line #35), and $13K of non-cash Depreciation (Line #31).**

It wasn't hard to spend, was it? Will you make up the difference next month? When will profits turn to cash?

The money used in accounts such as Accounts Receivable, Inventory, and Accounts Payable is known as "working capital." It's a funny term until you really look at it. It means that to support the business you have to invest in the company's operational activities. Since it is the money being used every day, your money or capital is really working for you. Don't get too hung up on this. Tracing cash through a company can be achieved without a full or comprehensive knowledge of working capital. What is important is to watch where the profits are used. Excessive start up Accounts Receivables, along with too much Inventory can cause a serious cash flow problem.

So, why do some successful companies that are making a profit have a cash shortage and go broke? Well, first, “broke” usually means Chapter 11 Bankruptcy - a voluntary reorganization of the business. It usually means an inability to pay <u>at the present time only</u>. Total Assets may exceed Total Liabilities.

Let's relate this to the practice company's financial status.

The cash position increased by $69K. What if you have to pay taxes on $176K of the profit? You would have probably spent more than we took in. What if the bank wouldn't make a loan to your company? You can't pay your vendors. What do you do now? Declare Chapter 11 or bankruptcy? Do you sell off assets quickly? Not necessarily, but there is a problem.

Interesting to note, the answer to a company’s ability to create strong revenue growth from the increase in profits may result in not being able to increase its sales as long as the percentage of profitability after taxes is less than the percentage of working capital requirements. The point is that you or the driver of the company must accept the accountabilities and responsibilities of leadership. This includes understanding the day-to-day dynamics of your business operations by applying basic accounting concepts and principles that will aid in the understanding of the business. Also, find your financial partner as soon as your company can afford the incrase in expenditures or overhead.

Chapter 7: Cash Flow Practice

Mind over matter is a well-known cliché. The Professional Entrepreneur adaptation is:

<u>Mind (over)</u>SM = Business Success and Being SPECIALSM
"Things that Matter"

Since you already know that understanding cash flow is essential to becoming a complete professional entrepreneurial decision maker, it should come as no surprise that you are expected to perfect the materials you have just covered.

The following form includes three practice periods for you to calculate. If you get into trouble, the answers are on the subsequent pages.

Remember to follow the STEPS. The dollar amounts have changed but the STEPS remain the same. It's time to navigate the cash-rivers and streams on your own. You've just earned your river pilot's license.

Notice that all of the ending balances for each category in Period 1 have become the beginning balances for Period 2. Notice the STEPS are numbered on the right side of Period 1 numbers. Additionally, the FLOW TO LINES and the FLOW FROM LINES indicate which numbers should be transferred and where they "go" or where they come "from."

Cash Flow Practice

	Category & Line Description	($000's) Amount		
1.	**CASH**			
2.	…. Beginning Balance	-0-		**69**
3.	Add: Collections	+880	#9	
4.	Sub: Payroll	(261)	#22	
5.	Sub: A/P Disbursement	(500)	#17	
6.	Sub: Capital Equipment Payments	(50)	#21	
7.	…. Ending Balance	69	#23	
8.				
9.	**ACCOUNTS RECEIVABLE**			
10.	…. Beginning Balance	2200		**2220**
11.	Add: Sales	+900	#6	
12.	Sub: Collections (40% Factoring Beginning Balance)	(880)	#7	
13.	…. Ending Balance	2220	#8	
14.				
15.	**INVENTORY**			
16.	…. Beginning Balance	2300		**2250**
17.	Add: Mtrl. Purchases Received	+238	#10	
18.	Sub: Mtrl. Cost of Sales	(288)	#11	
19.	…. Ending Balance	2250	#12	
20.				
21.	**ACCOUNTS PAYABLE**			
22.	…. Beginning Balance	1000		**900**
23.	Add: Mtrl. Purchases Received	+238	#13	
24.	Add: O/H Purchased Regrd.	+162	#14	
25.	Sub: A/P Disbursements (50% Factoring Beginning Balance)	(500)	#15	
26.	…. Ending Balance	900	#16	
27.				
28.	**SALES AND INCOME**			
29.	Sales 100%	900		
30.	Less:			
31.	Payroll 29%	(261)	#1	**176 (Not Necessary)**
32.	Material Cost 32%	(288)	#2	
33.	O/H (Less P/R) 18%	(162)	#3	
34.	Depreciation	(13)	#4	
35.	**NET PROFIT BEFORE TAXES**	176	#5	
36.				
37.	**CAPITAL ASSETS**			
38.	…. Beginning Balance	2500		**2537**
39.	Add: New Capital Purchases	+50	#18	
40.	Sub: Depreciation	(13)	#19	
41.	…. Ending Balance	2537	#20	

We’ve provided all the “given” information for you to practice your new skills.

Line 29 is the given sales amount.
Line 34, Depreciation, is $13K for all 4 periods.

In a real company, depending on the Depreciation method, the depreciation would increase with equipment additions or decline with equipment retirements. The other “Given” is Material Purchases on Line 17.

Complete the remaining three periods.
Check your calculations with the Cash Flow Proof of Balance and prepare the Balance Sheet for each period.

If you encounter problems, the answer sheets that follow can be used to get you back on the right path.

Good Luck!

Cash Flow ($000's)

Category and Line Description	Flow to Line No.	Flow From Line No.	Period 1	Period 2	Period 3	Period 4
1. **CASH**						
2. . . . Beginning Balance			-0-	69		
3. Add: Collections		12	+880 #9	+	+	+
4. Sub: Payroll		31	(261) #22	( )	( )	( )
5. Sub: A/P Disbursement		25	(500) #17	( )	( )	( )
6. Sub: Capital Eqpt. Pymts.		39	(50) #21	( )	( )	( )
7. . . . Ending Balance			69 #23			
8.						
9. **ACCOUNTS RECEIVABLE**						
10. . . Beginning Balance						
11. Add: Sales			2200	2220		
12 Sub: Collections		29	+900 #6	+	+	+
(40% Factoring Beginning Bal.)	3					
13. . . . Ending Balance			(880) #7	( )	( )	( )
14.			2220 #8			
15. **INVENTORY**						
16. . . . Beginning Balance						
17. Add: Mtrl. Purchases Recd.			2300	2250		
18. Sub: Mtrl. Cost of Sales	23		+238 #10	+275	+358	+270
19. . . . Ending Balance		32	(288) #11	( )	( )	( )
20.			2250 #12			
21. **ACCOUNTS PAYABLE**						
22. . . . Beginning Balance						
23. Add: Mtrl. Purchases Recd.			1000	900		
24. Add: O/H Purchases Reqrd.		17	+238 #13	+	+	+
25. Sub: A/P Disbursements		33	(+162)#14	+	+	+
(50% Fact. Beg. Bal.)						
26. . . . Ending Balance	5		(500) #15	( )	( )	( )
27.			900 #16			
28. **SALES AND INCOME**						
29. Sales 100%	11		900	860	1120	1000
30. Less:						
31. Payroll 29%	4		(261) #1	( )	( )	( )
32. Material Cost 32%	18		(288) #2	( )	( )	( )
33. O/H (Less P/R) 18%	24		(162) #3	( )	( )	( )
34. Depreciation	40		(13) #4	(13)	(13)	(13)
35. **NET PROFIT BEFORE TAXES**			176 #5			
36.						
37. **CAPITAL ASSETS**						
38. . . . Beginning Balance			2500	2537		
39. Add: New Capital Purchases	6		+50 #18	+25	+0	+50
40. Sub: Depreciation			(13) #19	( )	( )	( )
41. . . . Ending Balance		34	2537 #20			

Cash Flow Worksheet – Proof of Balances

Cash Flow – Proof of Balances ($000's)

Natural Sign	Category and Line Description of Cash Flow	Ending Balance Line	Beginning Balance Line	Period 1	Period 2	Period 3	Period 4
+	Change in Cash	7 -	2 =	+69			
	Add						
+	Change in A/R	13 -	10 =	+20			
	Add						
+	Change in Inventory	19 -	16 =	-50			
	Minus						
-	Change in A/P	26 -	22 =	+100			
	Add						
+	New Capital Purchases	39 Only		+50			
	TOTAL OF ALL ABOVE			189	___	___	___
+	NET PROFIT BEFORE TAXES	35 Only		+176			
	Add						
-	Depreciation	40 Only		+13			
	TOTAL OF ALL ABOVE			189	___	___	___

Balance Sheet Period 1 ($000's)

Current Assets	Amount	Cash Flow Line	Current Liabilities	Amount	Cash Flow Line
Cash	69K	(Line #7)	Accounts Payable	900K	(Line #26)
Accounts Receivable	2220K	(Line #13)			
Inventory	2250K	(Line #19)			
Total Current Assets	4539K	(Total of Above)	Total Current Liabilities	900K	(Above)
Capital Assets	2537K	(Line #41)	Owner's Equity: Previous Balance Current Year Earnings	6000K 176K	 Line (#35)
Total Assets	7076K		Total Liability and Owner's Equity	7076K	

Balance Sheet Period 2 ($000's)

Current Assets	Amount	Cash Flow Line	Current Liabilities	Amount	Cash Flow Line
Cash		(Line #7)	Accounts Payable		(Line #26)
Accounts Receivable		(Line #13)			
Inventory		(Line #19)	Total Current Liabilities		(Above)
Total Current Assets		(Total of Above)			
Capital Assets		(Line #41)	Owner's Equity Previous Balance Current Year Earnings		Total All Line #35s
Total Assets			Total Liability and Owner's Equity		

Balance Sheet Period 3 ($000's)

Current Assets	**Amount**	**Cash Flow Line**	**Current Liabilities**	**Amount**	**Cash Flow Line**
Cash		(Line #7)	Accounts Payable		(Line #26)
Accounts Receivable		(Line #13)			
Inventory		(Line #19)	Total Current Liabilities		(Above)
Total Current Assets		(Total of Above)			
Capital Assets		(Line #41)	Owner's Equity Previous Balance Current Year Earnings		Total All Line #35s
Total Assets	________		Total Liability and Owner's Equity	________	

Balance Sheet Period 4 ($000's)

Current Assets	Amount	Cash Flow Line	Current Liabilities	Amount	Cash Flow Line
Cash		(Line #7)	Accounts Payable		(Line #26)
Accounts Receivable		(Line #13)			
Inventory		(Line #19)	Total Current Liabilities		(Above)
Total Current Assets		(Total of Above)			
Capital Assets		(Line #41)	Owner's Equity: Previous Balance Current Year Earnings		Total All Line #35s
Total Assets	________		Total Liability and Owner's Equity	________	

Cash Flow Answer Sheet ($000's)

Category and Line Description	Flow to Line No.	Flow From Line No.	Period 1	Period 2	Period 3	Period 4
1. CASH						
2. . . . Beginning Balance			0	69	233	345
3. Add: Collections		12	+880	+888	+877	+974
4. Sub: Payroll		31	(261)	(249)	(325)	(290)
5. Sub: A/P Disbursement		25	(500)	(450)	(440)	(500)
6. Sub: Capital Equipment. Payments		39	(50)	(25)	-0-	(50)
7. . . . Ending Balance			69	233	345	479
8.						
9. ACCOUNTS RECEIVABLE						
10. . . . Beginning Balance			2200	2220	2192	2435
11. Add: Sales		29	+900	+860	+1120	+1000
12 Sub: Collections	3					
(40% Factoring Beginning Bal.)			(880)	(888)	(877)	(974)
13. . . . Ending Balance			2220	2192	2435	2461
14.						
15. INVENTORY						
16. . . . Beginning Balance			2300	2250	2250	2250
17. Add: Mtrl. Purchases Recd.	23		+238	275	358	270
18. Sub: Mtrl. Cost of Sales		32	(288)	(275)	(358)	(320)
19. . . . Ending Balance			2250	2250	2250	2200
20.						
21. ACCOUNTS PAYABLE						
22. . . . Beginning Balance			1000	900	880	1000
23. Add: Mtrl. Purchases Recd.		17	+238	+275	+358	+270
24. Add: O/H Purchases Recd.		33	+162	+155	+202	+180
25. Sub: A/P Disbursements	5					
(50% Fact. Beg. Bal.)			(500)	(450)	(440)	(500)
26. . . . Ending Balance			900	880	1000	950
27.						
28. SALES AND INCOME						
29. Sales 100%	11		900	860	1120	1000
30. Less:						
31. Payroll 29%	4		(261)	(249)	(325)	(290)
32. Material Cost 32%	18		(288)	(275)	(358)	(320)
33. O/H (Less P/R) 18%	24		(162)	(155)	(202)	(180)
34. Depreciation	40		(13)	(13)	(13)	(13)
35. NET PROFIT BEFORE TAXES			176	168	222	197
36.						
37. CAPITAL ASSETS						
38. . . . Beginning Balance			2500	2537	2549	2536
39. Add: New Capital Purchases			+50	+25	0	+50
40. Sub: Depreciation	6		(13)	(13)	(13)	(13)
41. . . . Ending Balance		34	2537	2549	2536	2573

Cash Flow – Proof of Balance Answer Sheet ($000's)

Natural Sign	Category and Line Description of Cash Flow	Ending Balance Line	Beginning Balance Line	Period 1	Period 2	Period 3	Period 4
+	Change in Cash	7 -	2 =	+69	+164	+112	+134
	Add	7 -	2				
+	Change in A/R	13 -	10 =	+20	-28	+243	+26
	Add						
+	Change in Inventory	19 -	16 =	-50	-0-	-0-	-50
	Minus						
-	Change in A/P	26 -	22 =	+100	+20	-120	+50
	Add						
+	New Capital Purchases	39 Only		+50	+25	-0-	+50
	TOTAL OF ALL ABOVE			189	181	235	210
+	NET PROFIT BEFORE TAXES	35 Only		+176	+168	222	197
	Add						
-	Depreciation	40 Only		+13	+13	+13	+13
	TOTAL OF ALL ABOVE			189	181	235	210

Balance Sheet Period Answers 1 ($000's)

Current Assets	**Amount**	**Cash Flow Line**	**Current Liabilities**	**Amount**	**Cash Flow Line**
Cash	69K	(Line #7)	Accounts Payable	900K	(Line #26)
Accounts Receivable	2220K	(Line #13)			
Inventory	2250K	(Line #19)	Total Current Liabilities	900K	(Above)
Total Current Assets	4539K	(Total of Above)			Owner's Equity
Capital Assets	2537K	(Line #41)	Previous Balance Current Year Earnings	6000K 176K	Line (#35)
Total Assets	7076K		Total Liability and Owner's Equity	7076K	

Balance Sheet Period Answers 2 ($000's)

Current Assets	**Amount**	**Cash Flow Line**	**Current Liabilities**	**Amount**	**Cash Flow Line**
Cash	233K	(Line #7)	Accounts Payable	880K	(Line #26)
Accounts Receivable	2192K	(Line #13)			
Inventory	2250K	(Line #19)	Total Current Liabilities	880K	(Above)
Total Current Assets	4675K	(Total of Above)			Owner's Equity
Capital Assets	2549K	(Line #41)	Previous Balance Current Year Earnings	6000K 344K	Total All Line #35's (1)
Total Assets	7224K		Total Liability and Owner's Equity	7224K	

(1) Add 176 (Period 1) + 168 (Period 2) = $344K

Balance Sheet Period Answers 3 ($000's)

Current Assets	**Amount**	**Cash Flow Line**	**Current Liabilities**	**Amount**	**Cash Flow Line**
Cash	345K	(Line #7)	Accounts Payable	1000K	(Line #26)
Accounts Receivable	2435K	(Line #13)			
Inventory	2250K	(Line #19)	Total Current Liabilities	1000K	(Above)
Total Current Assets	5030K	(Total of Above)	Owner's Equity:		
Capital Assets	2536K	(Line #41)	Previous Balance Current Year Earnings	6000K 566K	Total All Line's (#35) (1)
Total Assets	<u>7566K</u>		Total Liability and Owner's Equity	<u>7566K</u>	

(1) Add 176 (Period 1) + 168 (Period 2) + 222 (Period 3) = $566K

Balance Sheet Period Answers 4 ($000's)

Current Assets	**Amount**	**Cash Flow Line**	**Current Liabilities**	**Amount**	**Cash Flow Line**
Cash	479K	(Line #7)	Accounts Payable	950K	(Line #26)
Accounts Receivable	2461K	(Line #13)			
Inventory	2200K	(Line #19)	Total Current Liabilities	950K	(Above)
Total Current Assets	5140K	(Total of Above)	Owner's Equity		
Capital Assets	2573K	(Line #41)	Previous Balance Current Year Earnings	6000K 763K	Total All Line #35's (2)
Total Assets	<u>7713K</u>		Total Liability and Owner's Equity	<u>7713K</u>	

(2) Add 176 (Period 1) + 168 (Period 2) + 222 (Period 3) + 197 (Period 4) = $763K

Chapter 8: Beyond Basic Cash Flow Technique

Okay, so you are asking yourself "Now that I understand basic cash flow, what's next?" It is no surprise that you aren't satisfied with just learning the basics of cash flow. Yes, there is more. Lots more!

Now comes the ability to test your business ideas and see their financial impact. You have the ability to put together pro forma cash flow statements for the financial community and demonstrate a solid knowledge of these statements.

The difference between a prediction and a forecast:

- **A prediction is evidence from a crystal ball.**
- **A forecast is a calculated statement based upon past performances modified by current and anticipated events.**

<u>Never completely rule out the crystal ball</u>. You may need one sometime. However, the closer you are to the real world with your planning, the greater accuracy you will need.

As a rule of thumb, good managers should be able to forecast short-range plans with a 90% accuracy factor established over the next several periods. <u>Anything less than that and you are not in control of your business, your business is in control of you.</u>

For an inventory plan to work, two requirements are absolute.

1. Top management must support the individuals who implement the inventory systems and delegate the necessary responsibilities that make the inventory system work.

2. A 95% or greater accuracy in quantity count and dollar value assigned must be maintained to have control.

Anything less will destroy (1) credibility, (2) inventory management effectiveness, and (3) financial statement and cash flow forecast accuracy.

The overall financial plan should be a composite of all departments - a coordinated business plan, reviewed by the financial staff and approved by top management.

Planning is also important. There is a true need for long-range planning, intermediate-range planning, and short-range planning:

A. Long-range planning (1 to 3 years) or logner
   1. Required for bank financing.
   2. Required for planning capital expenditure commitments.
   3. Required for overall business environment review and the company's position in that environment.
      a. to make long-term strategies
      b. to plan employee requirements

B. Intermediate-range planning (3-6 to 12 months)
   1. An indicator as to whether the long-range planning is realistic.
   2. An indication of what is on the horizon and should suggest any significant changes.

C. Short-range planning (1-3 months)
   1. In production, you schedule to the shortest lead-time of materials availability and excess operations capacity.
   2. In operational financial matters, you concentrate on the short-range plan. Why? Because this is the best forecast available. If any changes are to be made, they must be made quickly to impact actual results.

Use your cash flow program to model your company's particular strategies and decisions. Forecasting the cash implications of your strategies and decisions is as important as the profit considerations.

Chapter 9: Closing Comments

We've covered a lot of ground. Did we achieve the goal? If we have achieved nothing more than the ability to communicate better, we've succeeded. If we have broken the mystical qualities of finance and accounting, well enough. Hopefully we achieved more.

Do we have something you can use in the management of your company today? Do you know the warning signs associated with sales success into a financial failure of the business?

I hope that this program will help you to succeed quicker and more easily than otherwise expected.

One final comment, with the affordability of personal computers and notebooks it is strongly recommended that you utilize one with a good, but simple accounting program. However, always insist that your financial partner communicate in an accounting language you understand.

Once you understand the necessity of financial controls and timely communication feedback, along with understanding the concept and techniques of "cash tracking," computerizing the system and automating the procedures is a "must."

Appendix

M·B·A®
STREETSMART

Professional Entrepreneur®

Appendix A. Test Yourself

True or False Questions

Name: ____ Date: ____________

1. Depreciation does not enter the cash stream of the company.
(TRUE or FALSE)

2. Profits and cash should be calculated and be represented by the same dollar amounts at all times.
(TRUE or FALSE)

3. The definition of a non-cash expenditure is that it is the systematic amortization of expenditure previously purchased and accounted for (expensed) in accordance with the amount of its usage.
(TRUE or FALSE)

4. The use of money for accounts such as Accounts Receivable, Inventory less Accounts Payable is known as Working Capital.
(TRUE or FALSE)

5. Top management must support individuals implementing inventory systems and delegate to these individuals the responsibilities to make the inventory system work.
(TRUE or FALSE)

6. A company's profits are the external indication of a company's ability to increase its working capital requirements.
(TRUE or FALSE)

7. Proper inventory management is a key factor in the management of the professional entrepreneurial company's cash.
(TRUE or FALSE)

8. Profits are not cash until you collect the accounts receivables associated with the profit transaction.
(TRUE or FALSE)

9. Entrepreneurial companies can be profitable but still be required to declare bankruptcy.
(TRUE or FALSE)

10. Increased sales can quickly resolve the financial problems associated with an entrepreneurial company's working capital requirements even though its percent of net profitability doesn't change.
(TRUE or FALSE)

11. Understanding cash flows is not essential to becoming a complete professional entrepreneurial business decision-maker.
(TRUE or FALSE)

12. _____Mind___ = Business Success and Being SPECIAL "Things that Matter"
(TRUE or FALSE)

13. Forecasts and predictions have different meanings.
(TRUE or FALSE)

14. According to the author, if you cannot forecast 90% accuracy over the next several periods, you are not in control of your business.
(TRUE or FALSE)

15. In operational financial matters, the professional entrepreneurial management team must concentrate on the short-range plan.
(TRUE or FALSE)

Ten Multiple Choice or Completion Questions

Name: ____ Date: ____________

1. After 90% accuracy, according to the author, what is more important than accuracy in critical decision-making management reporting?
    A. Review
    B. Management Sign-Off
    C. Timeliness
    D. None of the above
    E. All of the above

2. What is the formula for the fundamental foundation of basic accounting?
    A. Beginning Balance + - = Ending Balance
    B. Beginning Balance - + = Ending Balance
    C. Both A and B
    D. Neither A nor B

3. Which one of the following is not a component of a P & L statement?
    A. Material cost
    B. Capital Expenditure
    C. Sales
    D. Payroll
    E. None of the above

4. What is not a major classification of the capital assets account?
    A. Beginning Balance
    B. Add: New Capital Purchases
    C. Subtract: Old Capital Purchase
    D. Subtract: Depreciation
    E. Ending Balance

5. According to the author, what are the three major expenditures of an entrepreneurial company?
    1.
    2.
    3.

6. When a company receives collections, the amount collected is transferred out of ______________, and goes to the ___________________ ACCOUNT.

7. Why is payroll not part of accounts payable?
    A. It is usually an immediate cash expenditure
    B. It is difficult to compute
    C. Its frequency of payment
    D. None of the above

E. All of the above

8. On page 29, why did the inventory go down?
   A. Possible stock outs
   B. Material costs expended purchase dollar amounts
   C. Anticipated sales were off
   D. None of the above
   E. All of the above

9. The ________________ _____________ represents the amount of your investment in the company, as well as all-previous profits or earnings of the company.

10. The completed "proof of balance" represents which one of the following accounting techniques?
   A. The income statement
   B. Change in financial position
   C. The balance sheet
   D. None of the above

Three Short Essay Questions

Name: ____ Date: ____________

Please type your responses to the short essay questions. Be sure to include your name, and date.

A) In the example used in the book, explain why the cash generated for a specific period is different from the net profits (before taxes) of that period. In the example, the net profits before taxes were $176K, but the cash only increased $69K.

B) Explain the short-term, long-term, and future revenue effects of capital expenditures. How do these expenditures affect the company's cash and profits on a short-term and long-term basis?

C) Describe the fundamental concept of finance and accounting. In your own words, describe the logic associated with its simplicity. Can you add the accounting language elements of debits and credits and what they mean to your answers? **Did you miss these two accounting terms? They were never mentioned.**

Appendix B. Professional Entrepreneurship StreetSmart MBA Modules

Fifteen areas of entrepreneur business understandings:

A. **Fundamental Entrepreneurship** – Discussions of the fundamental and philosophical sides to becoming an entrepreneur.

B. **Basic Sales and Marketing** – Describes special sales and marketing programs for start-up and growing companies.

C. **Fundamental Accounting and Financial Controls** – Covers the three (3) Financial Programs necessary to manage and fundamentally financially control a growing company.

D. **Manufacturing Management and Controls** – Details the basic manufacturing controls, as well as, provides the fundamental framework for managing a strong manufacturing operation.

E. **E-Business Development** – A series of programs on managing growing companies and the tools used in managing potentially explosive growth.

F. **Entrepreneurial Leadership** – Describes the necessity for all forms of leadership in entrepreneurial company management. Details the importance of entrepreneurial vision.

G. **Entrepreneurial Coaching** – A series of programs on training successful entrepreneurs on how to put more into the role of being an entrepreneurial coach.

H. **Entrepreneurial Company Culture** – Programs describing the importance of a company's culture and the employee empowerment programs in the 21st Century Business Management concepts.

I. **Just Entrepreneurial** – Innovative ideas and business concepts on the outer edge of Entrepreneurial programming.

J. **Entrepreneurial Global Thinking** – A look at entrepreneurs in an increasingly competitive global economy and environment.

K. **Entrepreneurship In the 21st Business Century** – An exploration of the role of entrepreneurial characteristics such as speed, flexibility and creativity in the 21st Business Century.

L. **Bidding and Estimating** – The Fundamentals of the technical support role played by the communication process of exchanging goods and services for compensation and customer satisfaction.

M. **Quality as a Company Culture** – A series of programs detailing the fundamentals of quality for a growing company and the importance of quality as the fabric of a company's culture.

N. **Entrepreneurial Partnering Disaster Recovery Program** – Stories and details of past Entrepreneurial business disasters, and suggestions for turning disasters into futures with solid foundations, and significant upside potential. It's never over until you quit.

O. **Entrepreneurial Business Decision-Making** – Studies the entrepreneurial philosophies regarding how to make quick, decisive, sound entrepreneurial decisions.

Appendix C. Related Entrepreneur Institute Materials

Modules, Books, Manuals, and Materials

The purpose of the TyRex Entrepreneurial Institutive (TEi) and Professional Entrepreneur business educational program is to provide prospective aspiring entrepreneurs with a comprehensive and detailed development outline that they will be required to know in order to progress as a successful Professional Entrepreneur® Business Manager.

The StreetSmartMBA® modules are not intended to be an "all-inclusive" entrepreneurial business education program. Its purpose is to provide a comprehensive initial understanding and framework for understanding the Professional Entrepreneurial 3P's:

42. Philosophies
43. Principles
44. Practices

It is also intended to provide students an understanding of the necessary basic business knowledge to manage and control a growing successful entrepreneurial business. Students engaged in the program are encouraged to receive training and support from multiple sources:

- The TyRex Entrepreneurial Institute (TEi) with,
- On-the-Job Entrepreneurial Training and
- Individual Support From Experienced Entrepreneurial Coaches
- Professional Entrepreneur Education Programming
- StreetSmartMBA® Modules

The Professional Entrepreneur business educational program is a complete and comprehensive professional entrepreneurial development program for competing in the 21st Business Century. It is a three to five year classroom educational program combined with on-the-job training. This classroom education program is most effective in conjunction with on-the-job training with coaching and mentoring by dedicated experienced, successful entrepreneurial coaches who are deeply committed (not just involved) to the aspiring entrepreneur's success.

Appendix D: What You Have Learned About TyRex Truths

Name: ____ Date: ____________

The following are the **TyRex Truths**, or TEi Professional Entrepreneurial teaching points for C-4, Cash Tracking: A Guide to Understanding Entrepreneurial Cash Flow.

Truth	Indicate understanding 1-5 (5 highest)
I've learned that the fundamental foundation of finance and accounting can be a very logical process, and it isn't difficult to understand.	
I understand that most entrepreneurs have difficulty understanding the fundamentals of cash flow, and that many entrepreneurial companies go out of business not because of economic failure, but failure to properly manage their money and business information.	
I understand that failure to properly manage the entrepreneurial company's financial information may result in bankruptcy even though the company is making a profit and has a positive net worth.	
I understand how numbers describe business functions, and that Accounting is the system that can provide the knowledge to understand your business operations.	
I've learned the fundamentals, or underlying math principals of finance and accounting in a very simple format.	
I can visualize how money goes through a company like two competing rivers or streams; one an upstream river originating at the company's financial source of funding, i.e. sales revenues, and the other a downstream cash user river.	
I've learned how profits and cash in the short term function, and fluctuate independently of one another.	
I've learned how to communicate with your financial partner(s) using the simplified financial language described in this module.	
This module has demystified accounting terminology for me.	

TEi is always looking for ways to improve and provide better materials for its aspiring Professional Entrepreneurs. Please provide us with your feedback. Email this page to **info@tyrexlearningfoundation.com**

TyRex, A Professional Entrepreneurial Technology Family of Companies

TyRex provides the high-tech market with quality products and services. The TyRex Technology Family of Companies is comprised of:

TyRex Entities

- Megladon Manufacturing Group, Ltd.
- iRex Group, Ltd.
- Arctos Assembly Group, Ltd.
- SabeRex Group, Ltd.
- Austin Reliability Lab (ARL)
- SaberData, Ltd.
- Digital Light Innovations (DLi)
- TekRex

TyRex Associates

- TyRex Learning Foundation
- RightStuff Marketplace, LLC
- RF Scientific, Ltd.
- tri/REX
- Crypto Prospectors

Each one of the TyRex companies has carved out a niche in the high-tech, electronics, or additive manufacturing markets in order to provide quality products and services that hopefully exceed their worldwide customer expectations.

Company's Educational Development History

TyRex opened its doors on January 1, 1995 as a premier copper cable manufacturer. The company has migrated into many different areas that serve the high-tech and electronics markets. From original design and product manufacturing, logistics and supply chain management, contract manufacturing, to advanced levels of software security development, product testing, additive manufacturing, and digital state-of-the-art marketing. The TyRex Technology Family is involved in six types of light and five special technologies.

The TyRex Technology Family of Companies has developed into a multi-faceted company serving a growing list of clients worldwide. TyRex's professional entrepreneurial spirit is derived from its **TyRex Learning Foundation** featuring the **TyRex Entrepreneurial Institute (TEi) StreetSmart MBA®** education materials and **Professional Entrepreneur** business development programing that promotes the entrepreneurial exploration and education of individuals who aspire to be Professional Entrepreneurs.

TyRex Entrepreneur Institute (TEi)

What makes the TyRex Entrepreneur Institute distinctively unique is that each TyRex business entity serves as the real world laboratory for TEi. In the TEi classroom and in connection with the StreetSmart MBA entrepreneur business materials, we continue to source and test new theories of entrepreneurial business to share with our Professional Entrepreneur students and followers.