

Ins and outs of cash flow

Written by By Sandy Nelson Finance New Mexico
Friday, 12 April 2019 07:30



WESST workshop teaches business essentials

Keeping track of the money flowing in and out of a business is challenging even in the best of times — when cash is flooding in and the outflow is a comparative trickle. But any business that wants to stay in business needs to master cash flow management.

To help small-business owners get a handle on this essential skill, WESST in Albuquerque is conducting a workshop, *Learn the Language of Your Business Finances*, that includes demonstrations of how businesses can manage their finances, including cash flow, by having participants work with a spreadsheet for a fictitious venture.

The exercise gives tangible examples of the costs that businesses can expect to pay - advertising, supplies, raw materials, loan payments, payroll, rent, insurance premiums, and so on - and the revenue they can anticipate for a given period. The hypothetical example shows trouble looming as bills come due and the revenue falls short of what's needed to meet obligations.

“Once we complete the exercise of filling in all of the data in the cash flow projection,

we start getting the participants to make some management decisions to avoid the negative cash flow that results,” said Julianna Silva, managing director of the WESST Enterprise Center.

A statement of cash flows shows the net change in cash that results from a company's

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operating, investing and financing activities during the period being measured. But many business owners, especially inexperienced ones, manage their finances by monitoring only the profit and loss or income statement and the balance sheet.

These are good practices, but they don't give the complete picture of the business's health and don't help the business anticipate cash shortfalls.

"We find an incredibly helpful tool that pulls information together from both the profit and loss and balance sheet is a cash flow projection or cash flow budget," Silva said. "This pulls all cash events — money coming in and money going out — and records them in the month they occur. It's created in a spreadsheet application and projects 12 months of beginning and ending cash for each month."

Because only cash movements are recorded, credit card purchases wouldn't register on the cash flow projection, but credit card payments would, she said. This is why the cash flow projection should be reviewed alongside the profit and loss and balance sheet summaries.

The three-part workshop meets from 5:30 pm - 7:30 pm Tuesdays beginning April 23. The session on cash flow is the third in the series.

Session one tackles the break-even analysis, which helps companies project minimum sales to cover fixed and variable expenses and can inform their pricing strategies.

The second session is an introduction to financial statements — how they're created and what the numbers and ratios mean to the business and to lenders.

Session three shows how a cash flow projection can reveal why a business might have little cash on hand even though their income statement shows a profit.

The workshop series costs \$75, though scholarships are available by calling Lorena Schott at

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505-246-6939. Register by April 22 at <https://www.wesst.org/training-event/learn-the-language-of-your-business-finances-5-2-2-2/>.

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