

Financial Management

FOR A SMALL
BUSINESS



FDIC



SBA

Welcome



- 1. Agenda**
- 2. Ground Rules**
- 3. Introductions**

Objectives

- **Explain the concept of financial management and its importance to a small business and its owner**
- **Identify financial management practices, rules and tools commonly available to small businesses**
- **Explain how financial management practices, rules, and tools work**

Continued ...

Objectives

- **Explain financing basics for a small business, including:**
 - Start up financing
 - Financing for a growing business
 - Financing working capital
 - Financing fixed assets

What Do You Know?

What do you know or want to learn about financial management?



Benefits of Financial Management

Reach your goals by making good decisions.

- Know your profitability
- Forecast your growth
- Plan for diversification, new product lines, reaching new markets
- Prepare for financing (loans)

Budgeting

There are several financial management practices and tools that are commonly used for small business.

Let's start with **budgeting**.



Discussion Point #1: Budgeting

Review the sample budget in the participant guide.

1. Review each category
2. What other categories do you use?
3. Do you track your monthly expenses?
4. If so, how does this help with your business decisions?



Bookkeeping

- Critical component of financial management
- Organized process of tracking all income and expense transactions
- Basis for all financial management, business decisions, financing, taxes, owner's draw, and retirement.



Bookkeeping Steps

Here are 10 basic bookkeeping steps:

1. Obtain business accounting software
2. Open a separate business checking account
3. Reconcile your checking account
4. Track sales
5. Deposit all sales

Continued ...

Bookkeeping Steps

Here are 10 basic bookkeeping steps:

6. Write business checks for business expenses
7. Obtain a separate business credit card
8. Pay business expenses first
9. Generate and use a profit and loss (P&L) statement
10. Pay yourself with owner's draw

Cash Flow

What is cash flow?

Def. 1. Balance of cash received less the amount of cash paid out over a period of time

Def. 2. Moving cash in or out of a business



Cash Flow Projection

What is a cash flow *projection*?

A financial statement using assumptions to forecast:

- Company Cash flowing in and out
- *Future* cash flow during a specific time period
- Project whether cash receipts (in flows) will be sufficient to cover projected cash disbursements (out flows).



Cash Flow Projection

How can a cash flow projection help and when do I need one?

- Set sales and expense goals
- Determine breakeven point
- Plan equipment purchases for replacement or expansion
- Determine cash needed to purchase inventory for seasonal cycles

Continued ...

Cash Flow Projection

How can a cash flow projection help and when do I need one?

- Track liquidity when accrual accounting masks cash realities
- Helps you determine the need for financing
- Show lenders your ability to plan and repay financing (Frequently required with loan applications)

Cash Flow Projection Sample

Let's look at a sample cash flow projection.

Sources of Cash



Operating Uses of Cash



Non-Operating Uses of Cash



Sources of Cash	Opening Balances*	Month 1	Month 2
Beginning Cash		0	0
Cash Sales			
Collections on A/R			
Interest income			
Loan Received			
Equity Contribution			
Total Cash Available	0	0	0
Operating Uses of Cash			
Contract labor			
Wages			
Payroll Taxes			
Rent			
Phone			
Office Supplies			
Utilities			
Travel			
Insurance			
Licenses			
Marketing			
Professional Fees			
Other			
Total Op Uses	0	0	0
Net Cash	0	0	0
Non-Operating Uses of Cash			
Debt Service			
Equipment Purchases			
Self Employment Taxes			
Owner's Draw			
Inventory Purchases			
Ending Cash	0	0	0

Discussion Point #2: Cash Flow Projection

Review the cash flow projection spreadsheet.


To increase cash flow, the owner could:

1. Increase the number of items sold
2. Increase the price
3. Reduce expenses
4. Change the timing of expenses
5. Save money to have sufficient Opening Cash to get through the “start-up” period

Continued ...

Discussion Point #2: Cash Flow Projection

Review the cash flow projection spreadsheet.
(Continued)

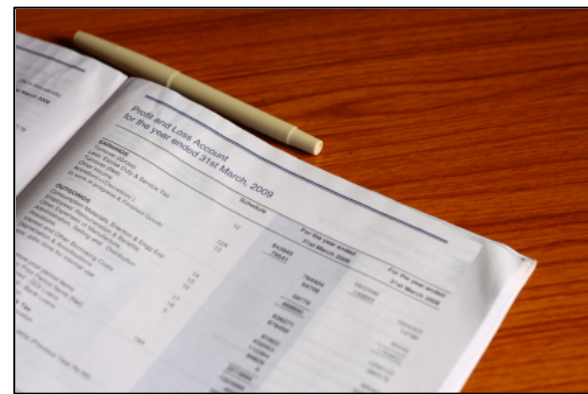
- 
6. Obtain sources of cash other than sales (e.g., line of credit)
 7. Reduce or change timing of Owner's Draw
 8. Buy inventory from vendor at lower price
 9. Obtain credit from vendor
 10. Establish policy to get paid sooner by customers

Profit and Loss Statement

What is a Profit and Loss Statement?

A P&L Statement:

- Measures revenues and expenses over a period of time
- Tracks profitability: whether the business is making a profit on what it sells



Continued ...

Profit and Loss Statement

What is a Profit and Loss Statement?

A P&L Statement:

- Shows how successfully the buying and selling process has been managed
- Measures the ability of your business to grow, repay debt service and support you

The P&L is the most important report from your accounting software program.

Profit and Loss Statement

What is the basic formula for a Profit and Loss Statement?

+ Sales

- Cost of Goods Sold

= Gross Profit

- Overhead

= Net Profit

Continued ...

Profit and Loss Statement

What is the Basic Formula for a Profit and Loss Statement?

Net profit pays for:

- Owner's Draw (sole proprietor)
- Future expansion and equipment
- Principal loan repayment
- Income taxes

Profit and Loss Statement


How do I compile a Profit and Loss Statement?

Easy!

If you have set up a business accounting software program.

Discussion Point #3: Profit and Loss Statement

Review the sample profit and loss statement in the participant guide.

- 
1. What do you see about this business?
 2. Is the business well-managed?
 3. Does any problem stand out?
 4. What about growth potential?
 5. Will the business support the owner?
 6. Will the business be able to get a loan?

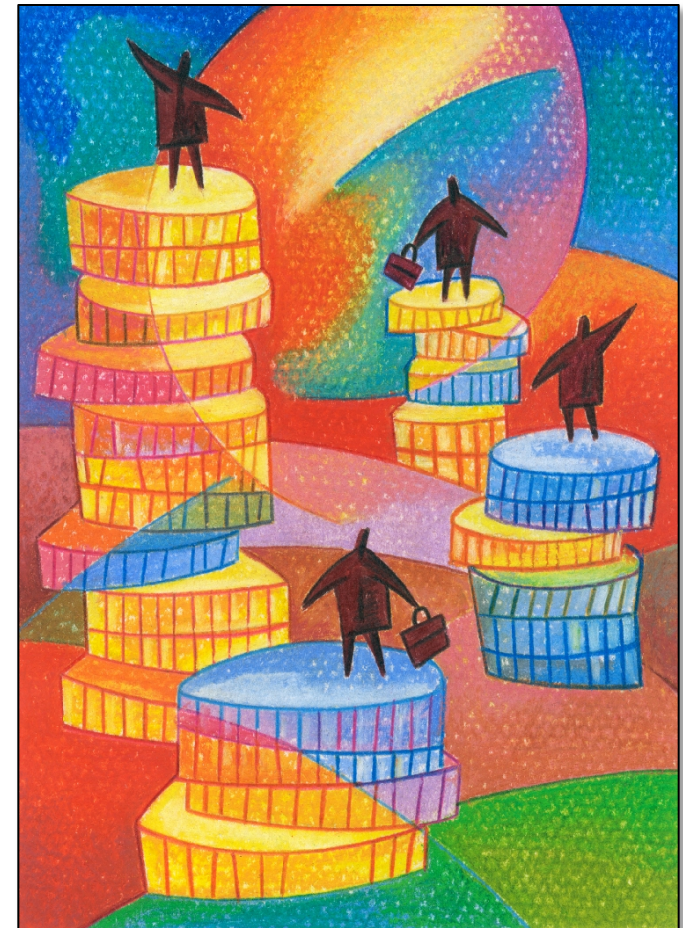
Business Financing

What is business financing?

Financing is getting the money you need to start, operate or grow your business.

Basic Financing Concepts:

- Equity financing vs. debt financing
- Financing working capital vs. financing fixed assets



Business Financing

What are the Do's and Don'ts for small business financing?

- Invest your own money
- Earn the right to borrow
- Show profitability
- Understand and keep working capital
- Be lean on fixed assets
- Match sources and uses of funds

Continued ...

Business Financing

What are the Do's and Don'ts for small business financing?

- Understand your financial statements
- Understand collateral options
- Understand risks and costs for loan types
- No grants
- Shop around
- Get expert advise (e.g. SBA or your bank)

Loans

Steps for Getting Ready for a Loan

1. Have a business plan (include profit plan)
2. Know what you can afford
3. Study Your financial statements
4. Check your credit report
5. Establish collateral options
6. Show your equity contribution
7. Research your financing options

Loan Package

What are common elements of a loan package?

- Business plan
- Business financial statements (current and historical)
- Personal financial statements
- Personal and business tax returns

Continued ...

Loan Package

What are elements of a loan package?

- Source and amount of equity contribution
- Credit report
- Collateral
- Purchase agreement, appraisals, contracts, and estimates

Qualifying for a Loan

What are the criteria for qualifying for a loan?

- Good credit score
- Equity contribution
- Repayment ability
- Loan to value ratio



Start Up Financing

What are the financing options for a start-up business?

- Equity
- Sweat equity
- Business credit card
- Family



Looking for a Loan

Where should you look for a business loan?

- Banks
- Regional lending organizations



Top Five Key Points to Remember

- Financing is getting the money you need to start, operate or grow your business
- Start financial management with a budget
- Sound bookkeeping is the basis for all financial management
- Cash flow projections will help to see cash shortages even when accrual accounting may be masking cash realities
- A P&L statement is the best tool for knowing if your business is profitable

Summary

- What final questions do you have?
- What have you learned?
- How would you evaluate the training?



Conclusion

You learned about:

- What financial management is and why it's important.
- Common financial management practices, rules and tools
- Financing basics, such as:
 - Start up financing
 - Financing a growing business
 - Financing working capital
 - Financing fixed assets