

Where's the Cash?

It's very common to sit back during a busy period in your business and wonder, "Where's the cash?" You're working harder than ever and billing more but you can't seem to get the cash needle comfortably off of "E". Growth usually requires cash and you have to keep your eye on it so that it doesn't get away from you. Here are a few things you can do to keep your eye on cash and keep growing your business at the same time.

1. **Sign your own checks:** When your business is growing, paying bills is frequently one of the first things that gets handed off. It doesn't generate revenue so it can be delegated. When you delegate paying bills you frequently abdicate your strategy for paying bills. If you still sign the checks, you can pass off some of the work but still maintain control over disbursements. When you sign the checks you can confirm that the person to whom you have delegated takes the same approach that you would.
2. **Monitor your expenses by Vendor:** Most accounting packages include several reports to provide this sort of information. This really serves as a quick check against your P&L which will show you your expenses by category or account. Both are useful. Sometimes seeing expenses by category will mask that you are using your vendors differently or that spending with one vendor has dramatically changed.
3. **Look at your Statement of Cash Flows:** This is a standard report in accounting systems. Most business people know to look at their Income Statement. Some business people know that the Balance sheet provides vital information as well. The Statement of Cash Flows can provide great insight for a business growing in both size and complexity.

The Income Statement: Revenues less expenses provides the most basic measure of your business' ability to generate cash. The bottom line on your Income Statement reports this measure. When your business is young, you can rely on your net income as an indicator of cash. As your business grows and becomes more complex, your Income Statement becomes a less reliable indicator because your revenues and expenses are not as closely tied to actual cash receipts and disbursements.

Revenues, shown at the top, are typically invoiced revenues rather than received revenues. Cost of Goods sold reflects the cost of what you've sold; it doesn't show you the cost of what you still have in inventory. If you have built your inventory, you won't see this on your Income Statement. Even recurring expenses can start to stray from cash disbursed if you record your bills as they are received but pay them later. Frequently, the biggest cash disbursements missing from your Income Statement are capital expenditures. Purchases of equipment, improvements to your location, or even repayment of debt are not typically recorded as expenses that show up on you Income Statement when the cash is disbursed.

The Balance Sheet: You can see all of these things on your balance sheet. If you keep your records up to date and reconcile your bank statements, your balance sheet should show you how much cash you have. If you've made it this far into this article, I have to assume that the cash is not in your bank account. So, where is the cash?

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Take a closer look at the asset side of your balance sheet. Have your receivables increased? Maybe your new clients are slower payers than your older clients. Is your inventory higher than usual? It's possible that during your period of growth, you had to increase your inventory levels to make sure you maintained enough to meet customer demand. Maybe you've been building out a new location and you have larger than usual capital improvements. You can see all of these on your Balance Sheet.

Your Income Statement does not provide a complete picture of your business. Your Balance Sheet provides critical information about where your cash is going. There is a third standard financial statement that combines information from your Income Statement and Balance Sheet for easier review.

The Statement of Cash Flows can be very helpful when you are trying to figure out where your money is going. This report starts with your P&L and adjusts for changes on your balance sheet that have affected cash. This statement is organized into three sections:

1. Cash Flow from Operations will help you see if your day to day operations are generating cash.
2. Cash Flow from Investing will help you determine if your are spending more on capital improvements or equipment than you realize.
3. Cash Flow from Financing should help you see if repaying debt or distributions to owners are draining cash.

The Statement of Cash Flows can be a bit confusing. You should focus on the summary lines for the three sections before looking at any detail lines. The report presents changes in account balances rather than actual account balances. When you get a sense of the high level sources and uses of cash, you can start to evaluate the changes in individual accounts. The statement relies on the type of account to determine where the changes should be reflected on the statement. If the report doesn't look quite right, make sure you set up your balance sheet accounts correctly. Operating Cash Flows are calculated based on changes in current assets and liabilities. Investing Cash Flows will be determined by changes in fixed and long term assets. Changes in long term liabilities and Equity are reflected in Cash flows from Financing.

Summary: As your business grows it may become more difficult to keep an eye on cash. You won't be able to sign the checks forever but, if you are worried about cash, signing your own checks is a great way to stay on top of where it's going. Monitor your expenditures by vendor so that you can see if your expenses start to shift or move. Look at your Statement of Cash Flows along with your Income Statement and Balance Sheet to get a more complete picture of your business' ability to generate and retain cash.

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