SOLUTIONS FOR BUSINESS OWNERS

Cash Flow

One of the most important things to measure is cash generated from operations each month, and I like to do this in two stages. The first stage is to turn the P&L into ***Cash Generated from Operations.*** The second step is to produce a statement that I call ***Quick Cash Flow*** – an approach which links the Profit and Loss and the Balance Sheet in a very effective fashion. Click here to complete your own analysis.

The goal here is to start with the Profit and Loss Statement and turn it into ***Cash Generated from Operations***. Once that is done, you can overlay the balance sheet impact by bringing in the net working capital change and any balance sheet items that have a cash impact. The result is what I call ***Quick Cash Flow***.

Remember, we're not creating "financial accounts" here for the IRS or the Bank to be used much later, but something to help the owner steer the ship and make mid-course corrections to avoid hitting the iceberg.

Cash Generated From Operations

To arrive at first base, use accrual accounting to get to the "net profit" (or loss) figure.

Then make the following adjustments to non-cash expense numbers contained in the P&L that relate to the following:

·Add back non-cash items expensed but not paid in cash (depreciation, amortization, accruals etc)

·Add back any interest accrued but not paidThen apply the following adjustments for any cash payments that have been made that do not appear in the P&L.

·Deduct any payments made to banks for loan amortization (but not interest as that is already in the P&L)

·Deduct any other capital repayments

Quick Cash Flow

When you reach this point, it is time to deal with the balance sheet items and the following adjustments need to be made relating to movements in current assets/liabilities:

Deductions

·Deduct any increase in receivables

·Deduct any increase in inventory

·Deduct any reduction in payables

Additions

·Add any decrease in receivables

·Add any decrease in inventory

·Add any increase in payables

The resulting figure is ***Quick Cash Flow*** and should be tracked monthly.