

# Understanding and Managing Cash Flow

---

MONEY MAKERS, WEEK 4

MARTY PARISIEN, CO-FOUNDER

SINGING DOG VANILLA

# What we will learn today.

---

1. Breakout #1: What does cash flow Feel like?
2. Group exercise to get a sense of how cash moves a company.
3. Quick Review of the “report cards” from last week.
4. Anatomy of a Cash Flow Statement
5. How cash flow affects different types of businesses.
6. Tools for measuring and controlling cash flow.
7. Breakout #2: A new look at Laura’s Landscaping Supply.
8. Q&A

# Break Out #1– A familiar story?

---

Laura's Landscaping Supply sells tools and equipment to lawncare and gardening companies. They started in 2016 with \$100,000.00 in loans from family and friends. The company is small but has grown by about 40% per year and has been profitable each of those years. 2020 was the most profitable with \$26,639.42. Laura is doing everything right: The family loans plus interest are almost paid off; expenses are kept to a minimum; the Profit & Loss statement shows they are a profitable company.

**Then why are they always struggling to pay bills?** The shovel supplier won't send the next order until they pay for the last PO. They are behind on rent and not sure how they manage to make payroll each month.

Does any of this sound familiar? What are some possible reasons why this profitable company would be struggling?

# Refresher: Report Card No. 1

---

**Profit and Loss** (P&L, Income Statement)

$$\begin{array}{rcl} \text{Revenue} & & 50 \\ - \text{Expenses} & & 30 \\ \hline = \text{Profit} & & 20 \end{array}$$

-

# Refresher:Report Card No. 2

---

## Balance Sheet

Things & Stuff 100 =  
What we owe 80 +  
What we Own 20

# Cash Flow Statement- Indirect

Balance Statement			
Dec 31,2020			Jan 1,2020
Assets			
Bank Balance	\$ 12,467.00		\$ 25,456.78
Accounts Receivable	\$ 73,483.85		\$ 55,583.60
Inventory	\$142,098.37		\$150,063.07
Other Current Asset	\$ 5,892.00		0
Accounts Payable	\$ (21,271.39)		\$ (13,742.77)
Other Asset			
	\$217,007.12		\$216,635.99
Liabilities			
	\$125,040.46		\$112,720.38

## Cash Flow Statement

FINANCIAL ROW	AMOUNT
<b>Operating Activities</b>	
Net Income	\$26,639.42
<b>Adjustments to Net Income</b>	
Accounts Receivable	(\$17,900.25)
Inventory Asset	\$7,964.70
Other Current Asset	(\$5,892.00)
Accounts Payable	(\$7,528.62)
Other Current Liabilities	(\$22,011.44)
<b>Total Adjustments to Net Income</b>	<b>(\$45,367.61)</b>
<b>Total Operating Activities</b>	<b>(\$18,728.19)</b>
<b>Investing Activities</b>	
Other Asset	\$371.13
<b>Total Investing Activities</b>	<b>\$371.13</b>
<b>Financing Activities</b>	
Long Term Liabilities	(\$12,320.08)
<b>Total Financing Activities</b>	<b>(\$12,320.08)</b>
<b>Net Change in Cash for Period</b>	<b>(\$30,677.14)</b>
Cash at Beginning of Period	\$18,743.30
Cash at End of Period	(\$11,933.84)

# Cash Flow Report Types

---

Direct vs. Indirect

Different Business Types = Different Metrics

# Let's Take Control of Cash Flow (one full year)

---

First you need:

Cost of Goods Sold per Day =  $\text{COGS}/365 = \$1087$

Sales per Day =  $\text{Revenue}/365 = \$2932$

# Data we can use!

---

Then you can calculate:

AP Days = AP/COGS per Day

(21,271.39) / \$1087 = -20

AR Days = AR/Avg Sales per Day

\$73483.85 / \$2932 = 25

Inventory Days = Inv/COGS per Day

\$142098.37 / \$1087 = 131

# Cash Conversion Cycle

---

**Cash Conversion Cycle = Inventory Days + AR Days – AP Days**

$$\text{CCC} = 131 + 25 - (-20) = 175.30$$

This example from Singing Dog Vanilla 2011

# Dashboard

Put your numbers in the yellow boxes

## Input Fields

Revenue	\$ 1,070,247.06
COGS	\$ 396,889.71
Gross Profit	\$ 673,357.35
Interest Expense	\$ 15,415.67
Net Income / Profit	\$ 26,639.42
Ending A/R	\$ 73,483.85
Ending A/P	\$ (21,271.39)
Inventory	\$ 142,098.37
Total Assets	\$ 217,007.12
Total Equity	\$ 66,241.76
Current Assets	\$ 207,996.35
Current Liabilities	\$ 125,040.46
Total Liabilities	\$ 150,765.36

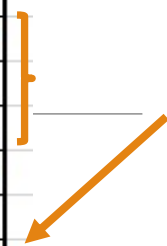
Blu: find it on the balance sheet

green: find it on income statement

Don't touch These!

## Output Fields

COGS per day	1087
Avg Sales per Day	2,932
DII (Inventory Days)	131
Inventory turn per year	3
A/R days	25
A/P Days	-20
TAT (total asset turnover)	4.93
CCC	175.30
COGS %	37%
GM %	63%
Net Margin	2.49%
ROA	12.28%
ROE	40%
Current Ratio (>2)	1.66
Quick Ratio (>1)	0.53
Asset/Equity	3.28
Sustain Growth Rate	40.22%
Cost of Capital	10.22%
Debt to Equity (>2)	1.89
Interest Coverage	1.73



# Breakout #2: Back to Laura's Landscaping

---

The company is small but has grown by about 46% per year and has been profitable each of those years. 2020 was the most profitable with \$26,639.42. Laura is doing everything right: The family loans plus interest are almost paid off; expenses are kept to a minimum; the Profit & Loss statement shows they are a profitable company.

A/R Days: 32      A/P Days: 35      Inventory Days: 48

What is the Cash Conversion Cycle? How does it look?

So, what could be wrong? Why are they having cash flow problems?

# Sustainable Growth Rate

---

How much can your company afford to grow without taking on new debt or investment.

Basic formula is:  $\text{Return on Equity (ROE)} \times \text{Retention Rate (1-Dividend Payout)}$ .

# Dashboard

Put your numbers in the yellow boxes

Input Fields	
Revenue	\$ 1,070,247.06
COGS	\$ 396,889.71
Gross Profit	\$ 673,357.35
Interest Expense	\$ 15,415.67
Net Income / Profit	\$ 26,639.42
Ending A/R	\$ 73,483.85
Ending A/P	\$ (21,271.39)
Inventory	\$ 142,098.37
Total Assets	\$ 217,007.12
Total Equity	\$ 66,241.76
Current Assets	\$ 207,996.35
Current Liabilities	\$ 125,040.46
Total Liabilities	\$ 150,765.36

Blu: find it on the balance sheet

green: find it on income statement

Don't touch These!

Output Fields	
COGS per day	1087
Avg Sales per Day	2,932
DII (Inventory Days)	131
Inventory turn per year	3
A/R days	25
A/P Days	-20
TAT (total asset turnover)	4.93
CCC	175.30
COGS %	37%
GM %	63%
Net Margin	2.49%
ROA	12.28%
ROE	40%
Current Ratio (>2)	1.66
Quick Ratio (>1)	0.53
Asset/Equity	3.28
Sustain Growth Rate	40.22%
Cost of Capital	10.22%
Debt to Equity (>2)	1.89
Interest Coverage	1.73

