Welcome to
The EWH University for Small Business
Cash Flow Fundamentals

Welcome to the EWH University for Small Business and our Cash Flow Fundamentals program. We thank you for attending this workshop and for taking the time to work ON your business and not IN it.

The EWH University for Small Business was created for one very simple reason; to help you and your business become more successful than you already are. Success leaves clues and after observing so many small business owners over the years, we began to notice patterns, patterns that lead to success and patterns that were less than successful. This workshop was created to allow you to compress decades into days and allow you to learn what we have observed over 3 decades in a matter of days.

Running a small business can be a challenge and not understanding how to use your financial information to make sound business decisions only makes it harder than it already is. We believe you deserve the tools and skills to be able to run your business more profitably and sustainably and to have them taught to you in a way that is simple, fun and easy. We know that success starts with having proper tools. Your financial tools are your financial reports. These items in your business toolbox will empower you to run your business with more control. However, no tool is useful if you don't know how to use it.

This workshop was designed to make sure you know how to use the financial tools you have in your business toolbox. We look forward to teaching you these tools and helping you build a more thriving, sustainable and profitable business.

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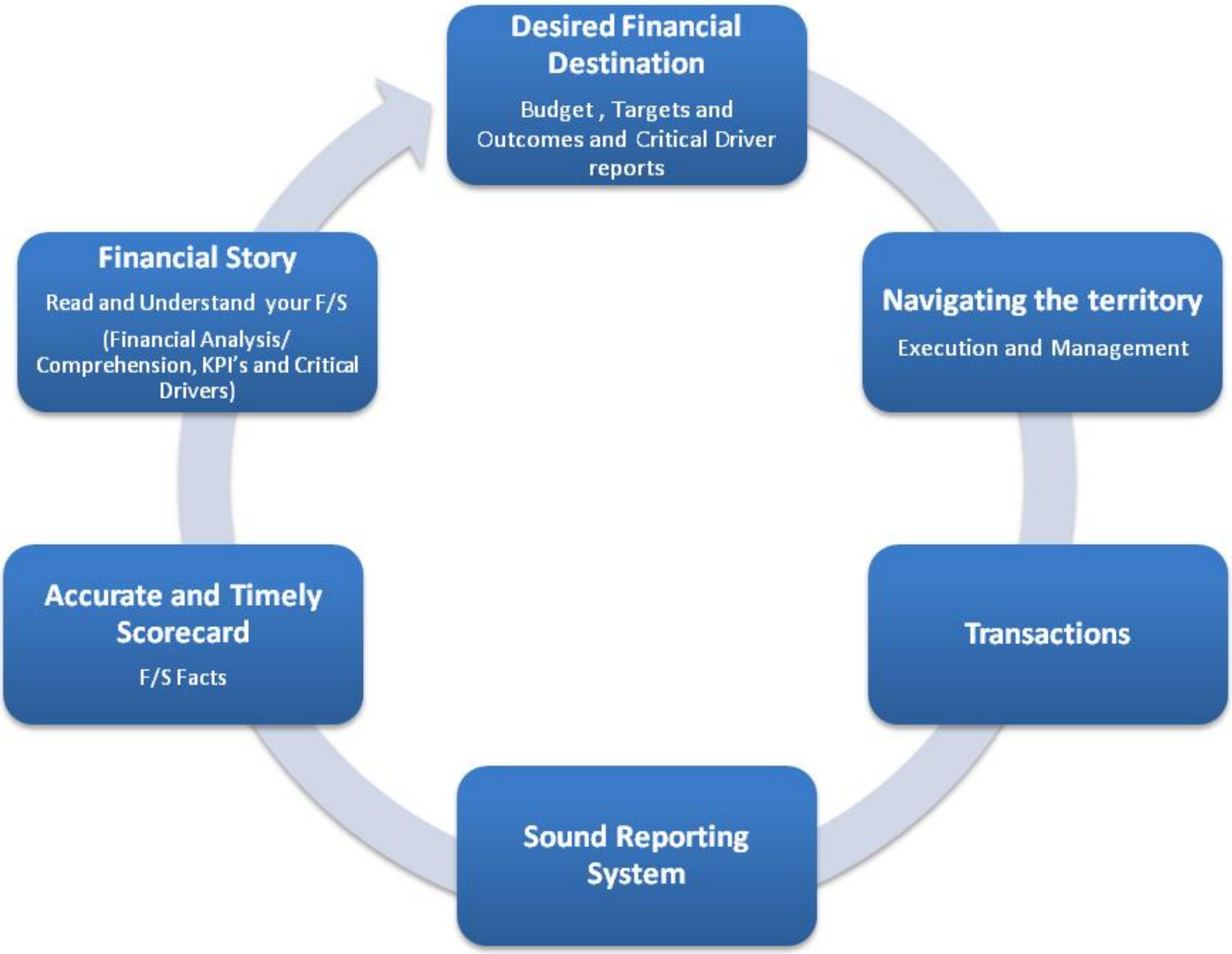
Implementing a Numbers Based Strategy

Management, Leadership and Operations



Measurement/Accounting/Recordkeeping

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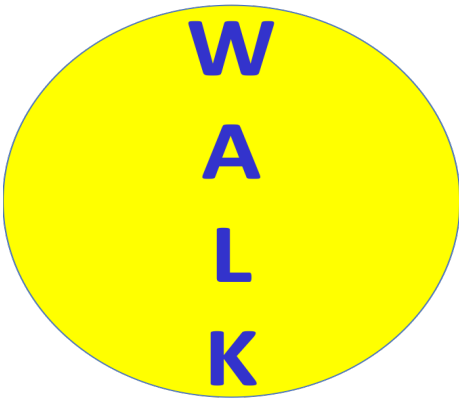

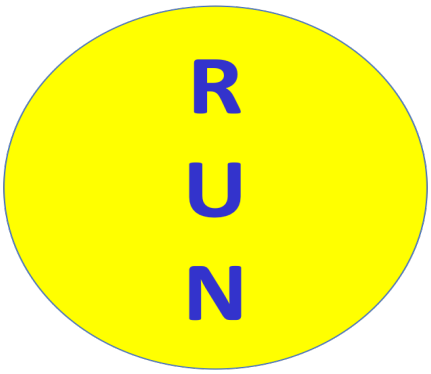

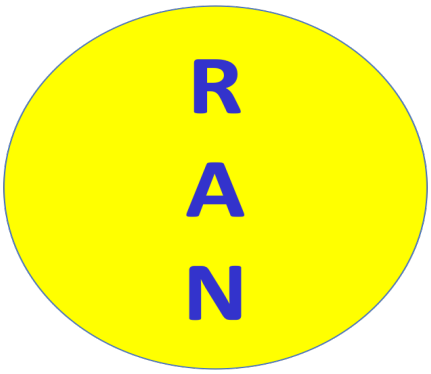

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Becoming the "BEST" You

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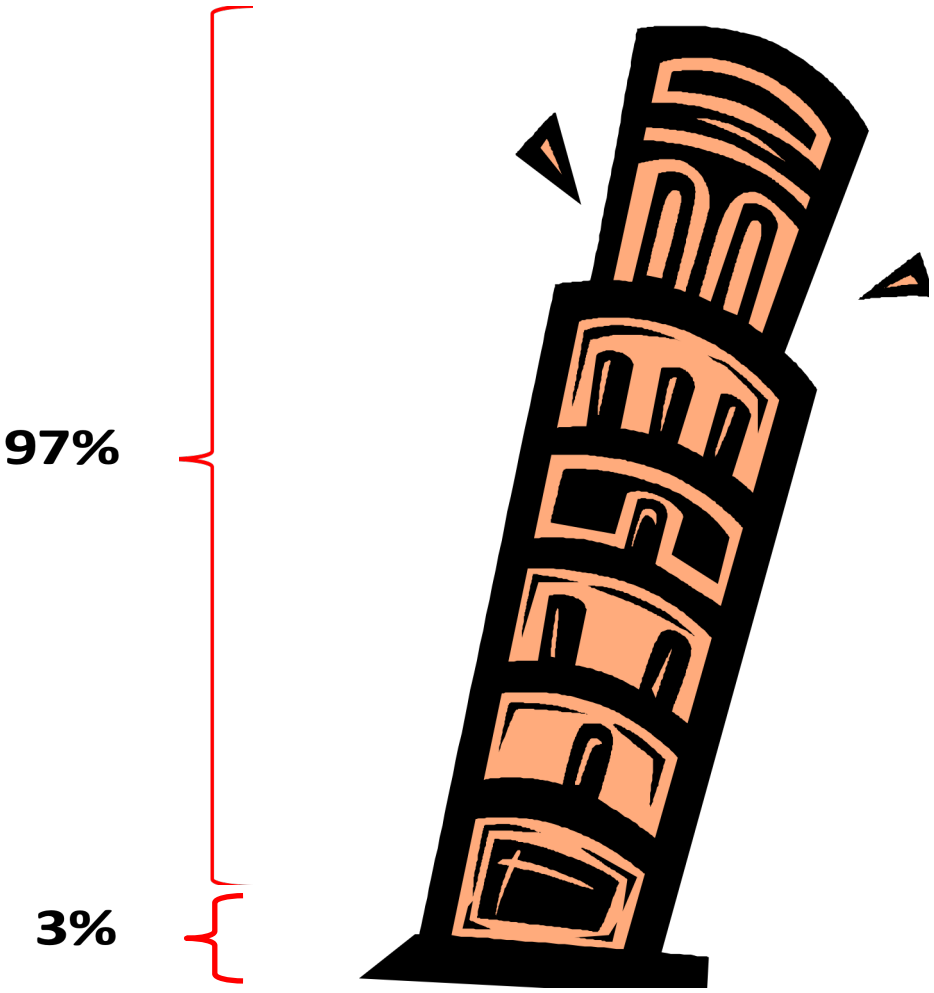
Cause and Effect



The Leaning Tower of Pisa

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The Cash Flow Track

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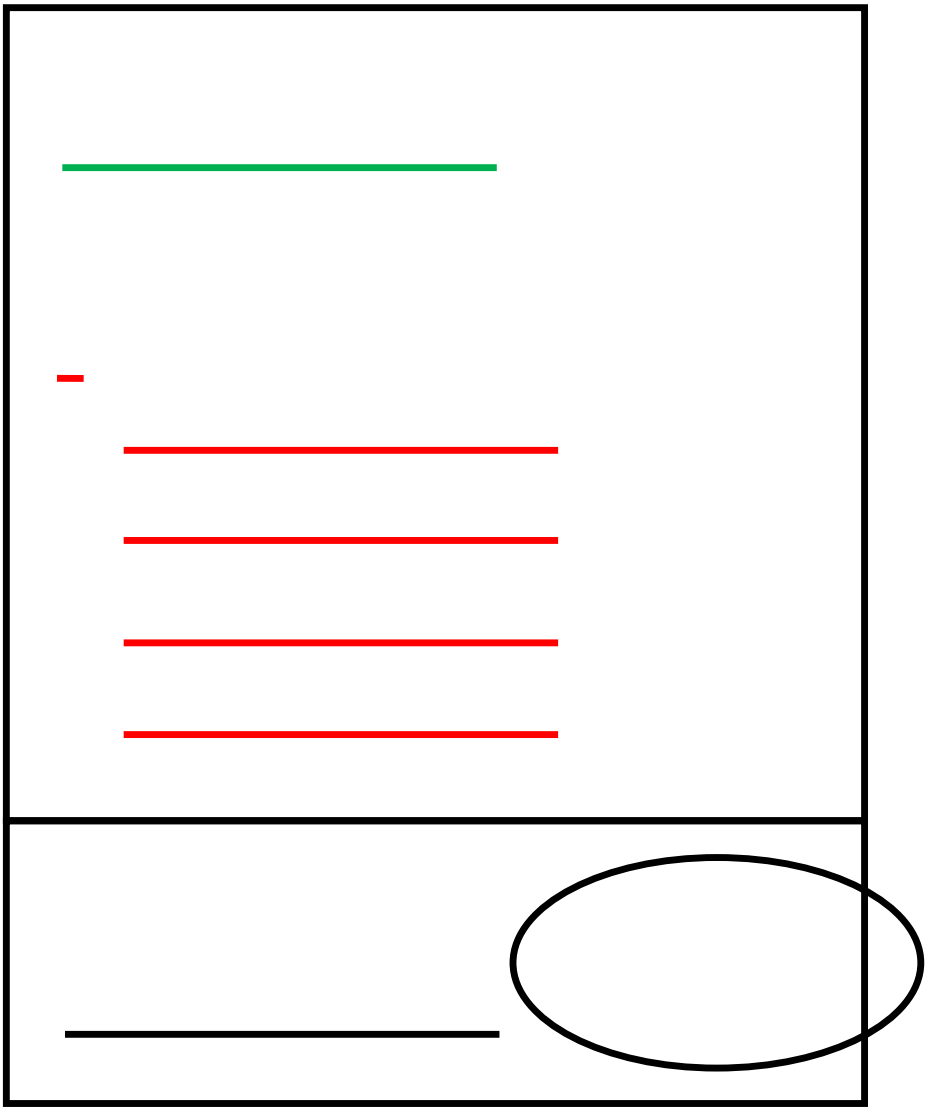
_____

a.k.a _____

for the Month of December



Profit and Loss Statements are: Fact or Theory?

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_____

a.k.a _____

as of December 31, 2012

ASSETS = _____

LIABILITIES = _____

EQUITY = _____

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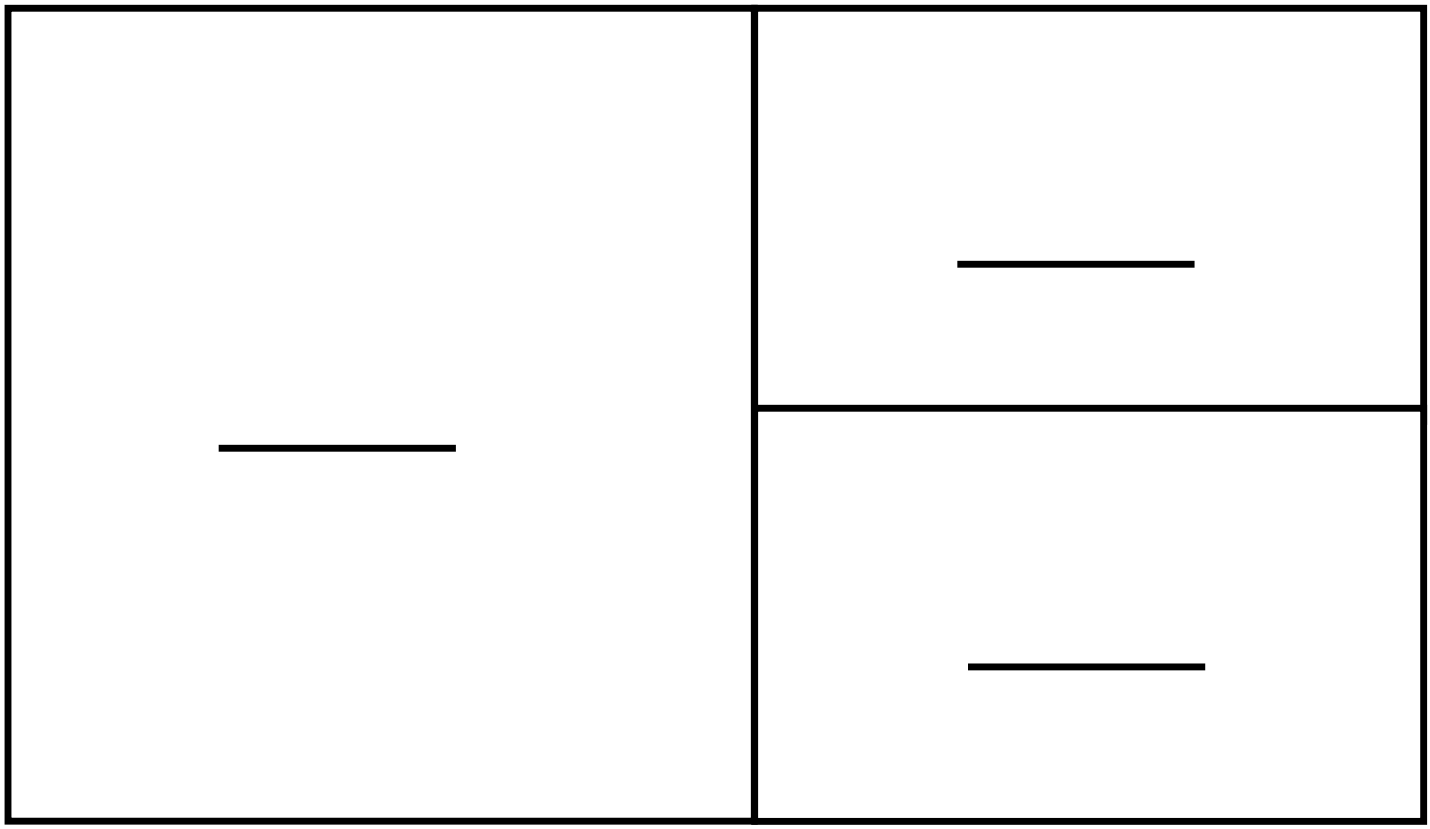
Balance Sheet

As of December 31, 2012



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For the Month of December

Profit

OPERATING

+

-

INVESTING

+

-

FINANCING

+

-

Ending Cash

Statement of Cash Flows is: Fact or Theory?

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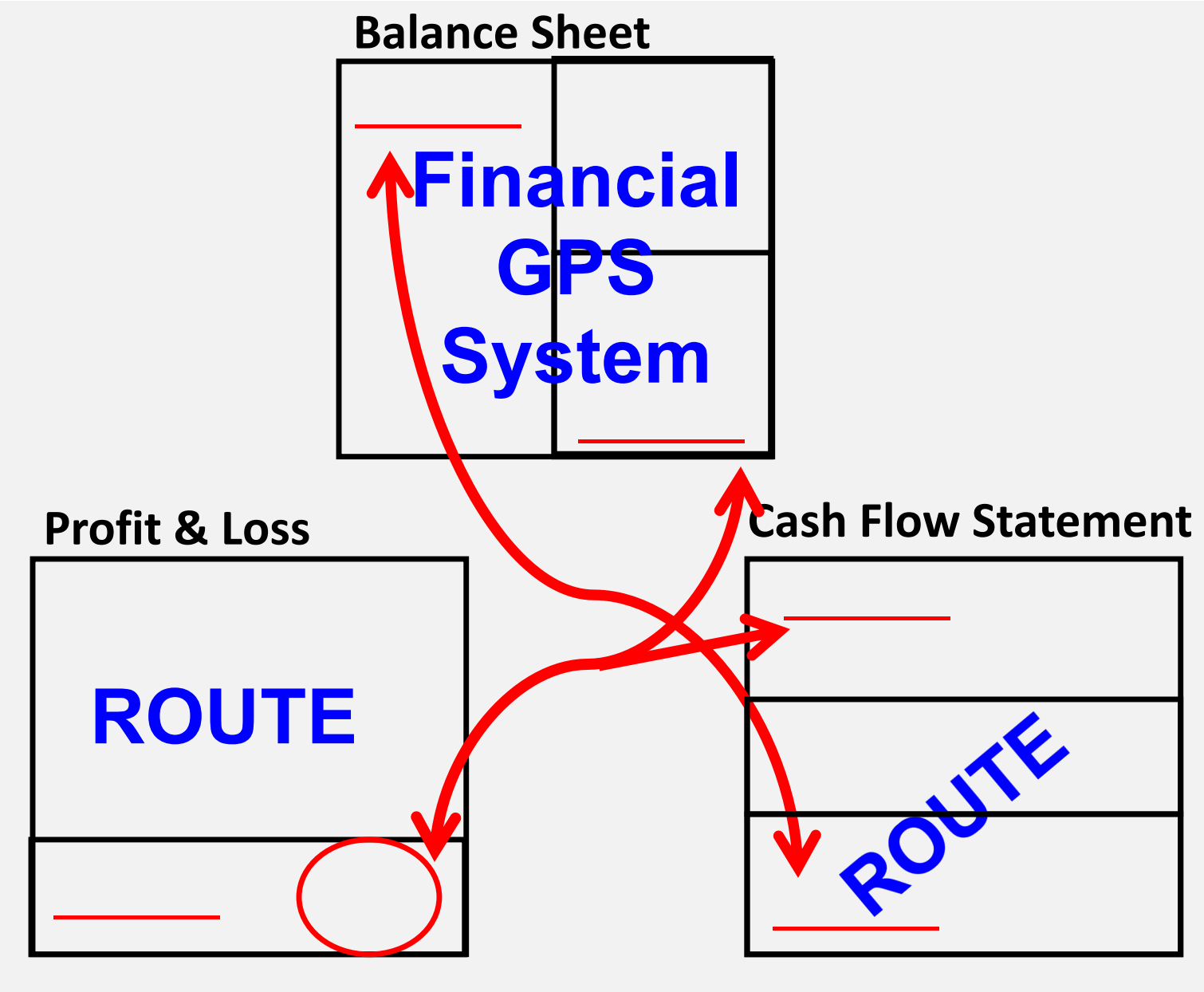
Bringing it All Together



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Where's the Cash?

Profit & Loss

Cash Flow Statement

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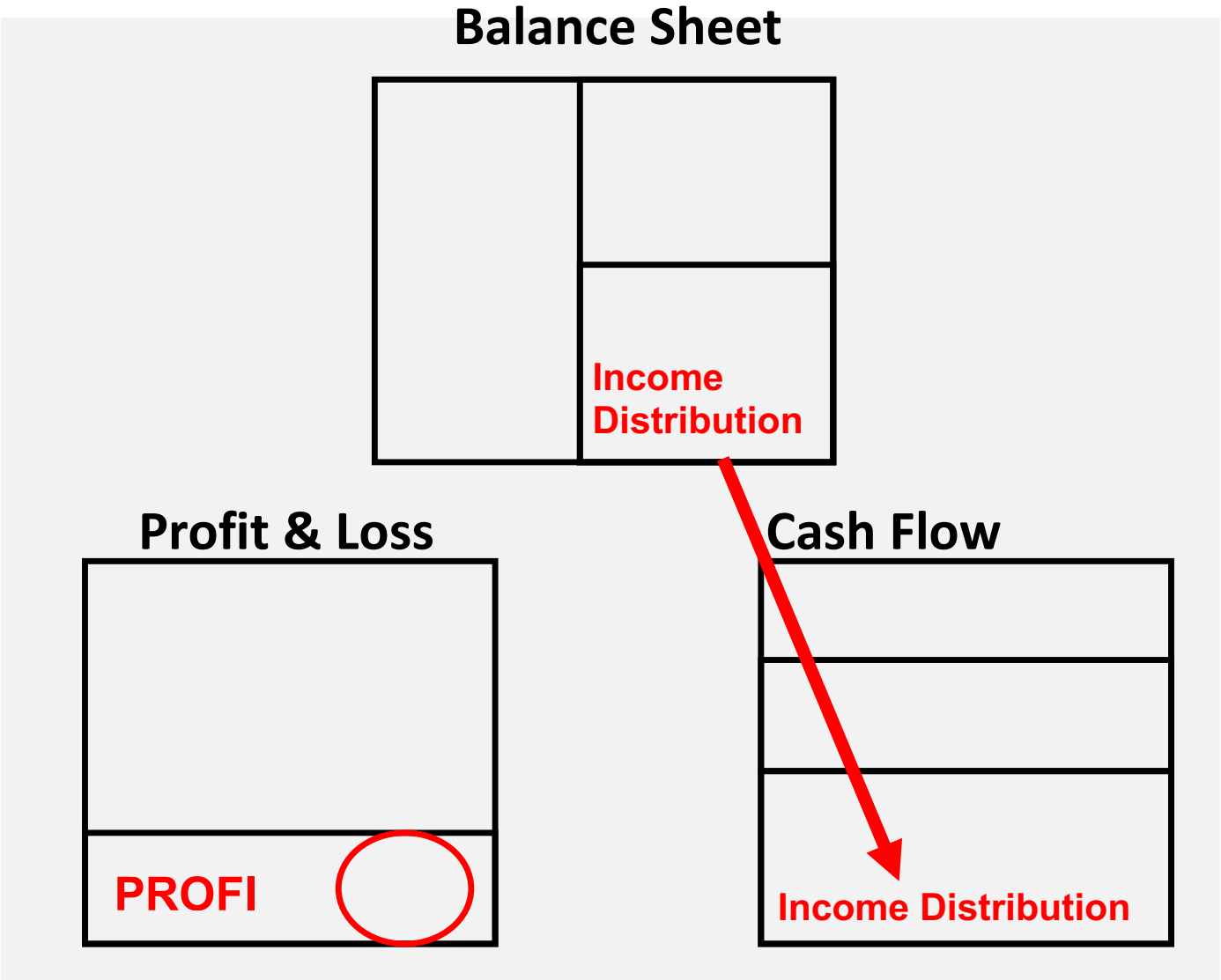
Income Distributions



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Fun Department Incorporated (S Corp)
STATEMENT OF ASSETS, LIABILITIES AND EQUITY
Year Ended December 31, 2012

ASSETS

CURRENT ASSETS		
102 - Cash in Bank - Checking	$ 1,600.00	
106 - Accounts Receivable	9,000.00	
130 - Inventory - Fun	10,000.00	
Total Current Assets		20,600.00
FIXED ASSETS		
146 - Fixtures & Equipment	2,250.00	
149 - Accumulated Depreciation	(750.00)	
Total Fixed Assets		1,500.00
OTHER ASSETS		
183 - Franchisee Fee (Intangible Asset)	3,750.00	
189 - Accumulated Amortization	(250.00)	
Total Other Assets		3,500.00
TOTAL ASSETS		$ 25,600.00

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
205 - Accounts Payable	$ 2,000.00	
236 - Tax Payable	1,000.00	
Total Current Liabilities		3,000.00
LONG-TERM LIABILITIES		
265 - Note Payable	7,500.00	
Total Long-Term Liabilities		7,500.00
TOTAL LIABILITIES		10,500.00
STOCKHOLDERS' EQUITY		
281 - Issued Capital Stock	15,000.00	
285 - Income Distribution	(2,700.00)	
Net Profit/(Loss)	2,800.00	
Total Stockholders' Equity		15,100.00
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 25,600.00

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Fun Department Incorporated (S Corp)
STATEMENT OF REVENUES AND EXPENSES
Year Ended December 31, 2012

	Year Ended December 31, 2012	%
Sales		
302 - Sales - Fun	$ 25,000.00	100.00
Total Sales	25,000.00	100.00
Cost of Goods Sold		
402 - Purchases - Fun	10,000.00	40.00
Total Cost of Goods Sold	10,000.00	40.00
Gross Profit	15,000.00	60.00
Operating Expenses		
550 - Interest	1,200.00	4.80
575 - Depreciation Expense	750.00	3.00
576 - Amortization	250.00	1.00
590 - Operating Cost	10,000.00	40.00
Total Operating Expenses	12,200.00	48.80
Net Income (Loss)	$ 2,800.00	11.20

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Fun Department Incorporated (S Corp)
STATEMENT OF CASH FLOWS
For the 12 months Ended December 31, 2012

		2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$	2,800.00
Adjustments to reconcile Net Income (Loss) to net Cash provided by (used in) operating activities:		
Depreciation and Amortization		1,000.00
Losses (Gains) on sales of Fixed Assets		0.00
Decrease (Increase) in Operating Assets:		
Accounts Receivable		(9,000.00)
Inventory		(10,000.00)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable		2,000.00
Accrued Liabilities		1,000.00
Total Adjustments		(15,000.00)
Net Cash Provided By (Used in) Operating Activities		(12,200.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures		(6,000.00)
Proceeds From Sale of Fixed Assets		0.00
Net Cash Provided By (Used In) Investing Activities		(6,000.00)
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes Payable Borrowings		15,000.00
Notes Payable Repayments		(7,500.00)
Income Distribution		(2,700.00)
Capital Investment (Proceeds from Sale of Stock)		15,000.00
Net Cash Provided By (Used In) Financing Activities		19,800.00
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,600.00
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		0.00
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	1,600.00

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Numbers are your BUD!

B

B _____

U

U _____

D

D _____

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How do we keep Score?

Chart of Accounts

Sales

Expenses

Balance Sheet Accounts

Cash vs. **Accrual** Accounting

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Cash Accounting

Transactions are only recorded in your accounting system … when cash is paid out or received.

Benefits:
More representative of cash position

Weaknesses:
Doesn't tell you the whole story

Accrual Accounting

A transaction gets recorded once a transaction occurs in your business… regardless of whether cash was paid out or received.

Benefits:
Shows you the whole story!

Weaknesses:
Is a more detailed and complex method of accounting.

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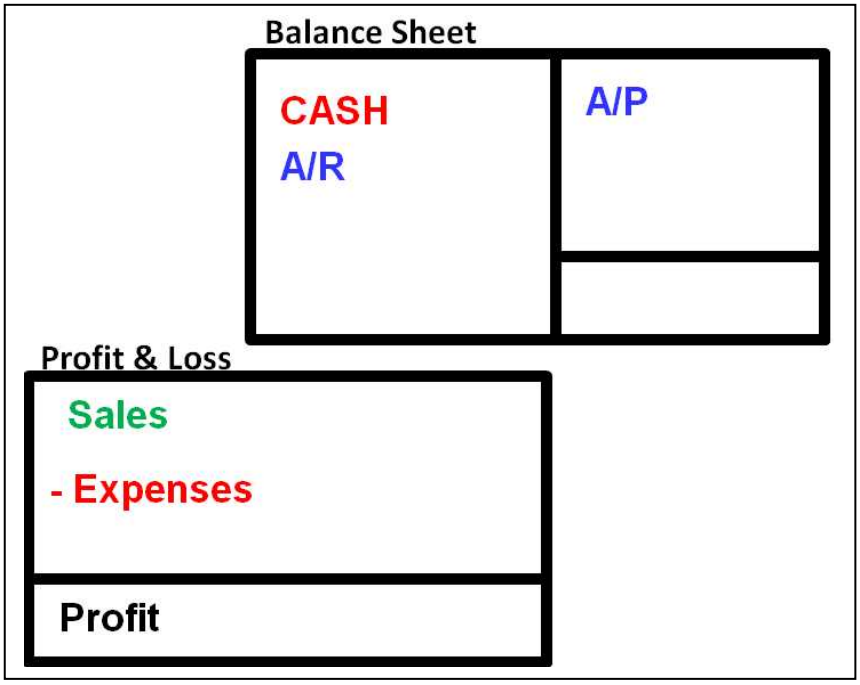
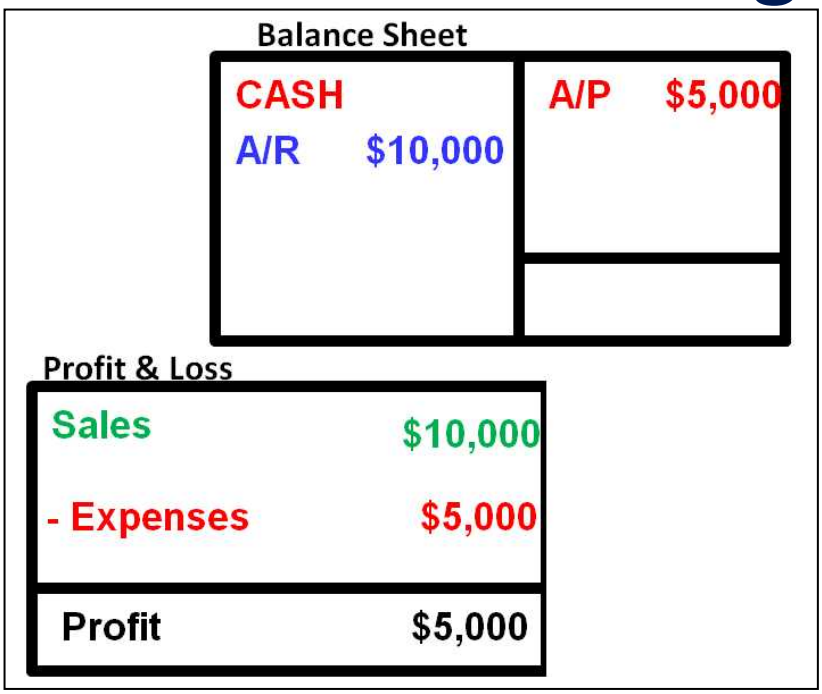
Cash Accounting



Accrual Accounting



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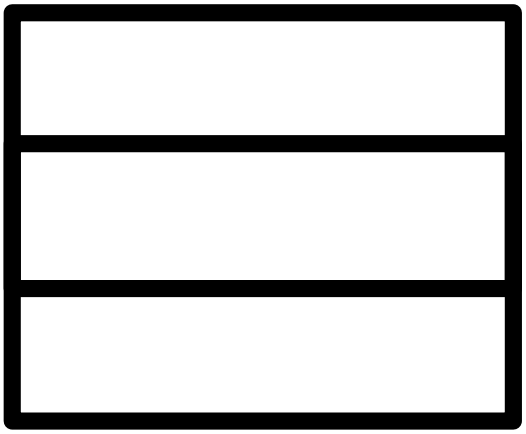
Rules 1 and 2 to Understanding Your Cash Flow Statement

Profit & Loss

Statement of Cash Flows



Rule 1

If the transaction impacted your P&L but did not impact your cash position, your Cash Flow Statement will do the opposite of what was on your Profit or Loss Statement

Rule 2

If didn't impact your P&L, add or subtract based on what happened to cash.

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Accrual Accounting

Balance Sheet

CASH	A/P $5,000
A/R $10,000	

Profit & Loss

Sales	$10,000
- Expenses	$5,000
Profit	$5,000

Statement of Cash Flows

_____	$ _____
_____	_____
_____	_____
_____	$ _____

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Accrual Accounting

Balance Sheet

Cash	A/P $5,000
A/R $10,000	

Profit & Loss

Sales	$10,000
- Expenses	$5,000
Profit	$5,000

Statement of Cash Flows

Profit	$5,000
A/R	$ -10,000
A/P	$5,000
Ending Cash	$ 0

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Accrual Accounting

Balance Sheet

Cash $10,000	N/P $10,000

Profit & Loss

Sales	$0
- Expenses	$0
Profit	$0

Statement of Cash Flows

Profit	$0
N/P	$10,000
Ending Cash	$10,000

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Rule 3 to Understanding Your Cash Flow Statement

Profit & Loss

Statement of Cash Flows

Rule 3

If the transaction impacted your P&L AND cash position, your Cash Flow Statement will be impacted by the difference between the two in regards to if cash was generated or used by the transaction.

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Accrual Accounting

Balance Sheet

Cash	$6,000
A/R	$4,000

Profit & Loss

Sales	$10,000
Profit	$10,000

Statement of Cash Flows

Profit	$10,000
A/R	-4,000

Ending Cash	6,000

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Notes

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Financial Mapping

Use with Exercise Sheet A

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The Fun Restaurant, Inc.

1. We invest $15,000 Cash to create The Fun Department, Inc. The company issues 15,000 shares of Common Stock (CS).

2. We borrow $15,000 cash from the bank. The note is for 2 years.

3. We purchased one workstation of computer equipment. Total price was $2,250 paid in cash.

4. Purchased a franchise (Intangible Asset) for $3,750

5. We purchased Inventory for The Fun Department Paid in cash $20,000.

6. A. Record Sales of $25,000:
   $16,000 was Cash
   $9,000 was on Accounts Receivable
   B. We sold $10,000 worth of Inventory.

7. Expenses for Operating Costs: rent, office supplies, sales, payroll and advertising, totaling $10,000.00:
   $7,000 Cash
   $2,000 on Accounts Payable
   $1,000 Taxes Payable

Yearend Transactions

8. Record yearend depreciation on Equipment. The estimated useful life is 3 years (no salvage value, straight- line depreciation).

9. Record Amortization for our franchise fee over 15 years.

10. A Cash payment is made at the end of the year on the Note Payable. Interest is 8%.
    A. Year 1 Interest is $1,200 ($15,000 * 8%).
    B. Year 1 Principal payment is $7,500.

11. The owner took Distributions totaling $2,000 in Cash.

12. The owner paid personal income taxes (cash). He is in the 25% tax bracket (2800 * .25 = $700).

Every transaction affects your Balance Sheet. Expenses reduce Earnings.

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1. We invest $15,000 Cash to create The Fun Dept. Inc.
   The company issues 15,000 shares of Common Stock (CS).

Cash _____	A/P
A/R	T/P
Inventory	N/P
F&E	Investments _____
Intangible Asset	RE
	Distributions
	Profit $0

Sales
- COGS Expenses
Gross Profit
- Operating Expenses
- Marketing Expenses
- Depreciation
- Interest
- Amortization
Profit $0

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1. We invest $15,000 Cash to create The Fun Dept. Inc.
   The company issues 15,000 shares of Common Stock (CS).

Cash	$15,000	A/P	
A/R		T/P	
Inventory		N/P	
F&E		Investments	$15,000
Intangible Asset		RE	
		Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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2. We borrow $15,000 cash from the bank. The note is for 2 years.

Cash _____	A/P
A/R	T/P
Inventory	N/P _____
F&E	Investments $15,000
Intangible Asset	RE
	Distributions
	Profit $0

Sales
- COGS Expenses
Gross Profit
- Operating Expenses
- Marketing Expenses
- Depreciation
- Interest
- Amortization
Profit $0

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2. We borrow $15,000 cash from the bank. The note is for 2 years.

Cash	$30,000	A/P	
A/R		T/P	
Inventory		N/P	$15,000
F&E		Investments	$15,000
Intangible Asset		RE	
		Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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3. We purchased one workstation of computer equipment.
Total price was $2,250, paid in cash.

Cash	_____	A/P	
A/R		T/P	
Inventory		N/P	$15,000
F&E	_____	Investments	$15,000
Intangible Asset		RE Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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3. We purchased one workstation of computer equipment.
Total price was $2,250, paid in Cash.

Cash	$27,750	A/P	
A/R		T/P	
Inventory		N/P	$15,000
F&E	$2,250	Investments	$15,000
Intangible Asset		RE Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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4. Purchased a franchise (Intangible Asset) for $3,750.

Cash	_____	A/P	
		T/P	
A/R		N/P	$15,000
Inventory			
F&E	$2,250	Investments	$15,000
Intangible Asset	_____	RE	
		Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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4. Purchased a franchise (Intangible Asset) for $3,750.

Cash	$24,000	A/P	
		T/P	
A/R		N/P	$15,000
Inventory			
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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5. We purchased Inventory for The Fun Dept. Paid in cash $20,000.

Cash	_____	A/P	
		T/P	
A/R		N/P	$15,000
Inventory	_____		
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE	
		Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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5. We purchased Inventory for The Fun Dept. Paid in Cash $20,000.

Cash	$4,000	A/P	
		T/P	
A/R		N/P	$15,000
Inventory	$20,000		
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE Distributions	
		Profit	$0

Sales	
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$0

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6. A. Record Sales of $25,000:
   $16,000 was Cash
   $9,000 was on Accounts Receivable
   B. We sold $10,000 worth of Inventory.

Cash	_____	A/P	
		T/P	
A/R	_____	N/P	$15,000
Inventory	$20,000		
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE	
		Distributions	
		Profit	_____

Sales	_____
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	_____

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6. A. Record Sales of $25,000:

$16,000 was Cash

$9,000 was on Accounts Receivable

B. We sold $10,000 of Inventory

Cash	$20,000	A/P	
A/R	$9,000	T/P	
Inventory	$20,000	N/P	$15,000
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE Distributions	
		Profit	$25,000

Sales	$25,000
- COGS Expenses	
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$25,000

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6. A. Record Sales of $25,000:
   $16,000 was Cash
   $9,000 was on Accounts Receivable
   B. We sold 10,000 of Inventory

Cash	$20,000	A/P	
A/R	$9,000	T/P	
Inventory	_____	N/P	$15,000
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE	
		Distributions	
		Profit	_____

Sales	$25,000
- COGS Expenses	_____
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	_____

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6. A. Record Sales of $25,000:
$16,000 was Cash
$9,000 was on Accounts Receivable
B. We sold 10,000 of Inventory.

Cash	$20,000	A/P	
A/R	$9,000	T/P	
Inventory	$10,000	N/P	$15,000
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE Distributions	
		Profit	$15,000

Sales	$25,000
- COGS Expenses	-$10,000
Gross Profit	
- Operating Expenses	
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$15,000

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7. Expenses for Operating, Sales & Marketing Expenses: Rent, supplies, sales, payroll and advertising, totaling $10,000.00.

$7,000 Cash
$2,000 Accounts Payable
$1,000 Taxes Payable

Cash	_____	A/P	_____
A/R	$9,000	T/P	_____
Inventory	$10,000	N/P	$15,000
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE Distributions	
		Profit	_____

Sales	$25,000
- COGS Expenses	-$10,000
Gross Profit	
- Operating Expenses	_____
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	_____

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7. Expenses for Operating, Sales & Marketing Expenses: Rent, supplies, sales, payroll and advertising, totaling $10,000.00.

$7,000 Cash
$2,000 Accounts Payable
$1,000 Taxes Payable

Cash	$13,000	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$15,000
F&E	$2,250	Investments	$15,000
Intangible Asset	$3,750	RE Distributions	
		Profit	$5,000

Sales	$25,000
- COGS Expenses	-$10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	
- Interest	
- Amortization	
Profit	$5,000

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8. Record yearend depreciation on Equipment. The estimated useful life is 3 years (no salvage value, straight-line depreciation).

Cash	$13,000	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$15,000
F&E	_____	Investments	$15,000
Intangible Asset	$3,750	RE Distributions	
		Profit	_____

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	_____
- Interest	
- Amortization	
Profit	_____

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8. Record yearend depreciation on Equipment. The estimated useful life is 3 years (no salvage value, straight-line depreciation).

Cash	$13,000	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$15,000
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,750	RE	
		Distributions	
		Profit	$4,250

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	
- Amortization	
Profit	$4,250

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9. Record Amortization for the franchise fee over 15 years.

Cash	$13,000	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$15,000
F&E	$1,500	Investments	$15,000
Intangible Asset	_____	RE	
		Distributions	
		Profit	_____

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	
- Amortization	_____
Profit	_____

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9. Record Amortization for the franchise fee over 15 years.

Cash	$13,000	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$15,000
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	
		Profit	$4,000

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	
- Amortization	- $250
Profit	$4,000

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10. A Cash payment is made at the end of the year on the Note Payable. Interest is 8%.

A. Year 1 Interest is $1,200 ($15,000 * 8%).

B. Year 1 Principal payment is $7,500.

Cash	_____	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$15,000
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	
		Profit	_____

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	_____
- Amortization	- $250
Profit	_____

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10. A Cash payment is made at the end of the year on the Note Payable. Interest is 8%.

A. Year 1 Interest is $1,200 ($15,000 * 8%).

B. Year 1 Principal payment is $7,500.

Cash	$11,800	A/P	
A/R	$9,000	T/P	
Inventory	$10,000	N/P	$15,000
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	
		Profit	_____

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

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10. A Cash payment is made at the end of the year on the Note Payable. Interest is 8%.

A. Year 1 Interest is $1,200 ($15,000 * 8%).

B. Year 1 Principal payment is $7,500.

Cash	_____	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	_____
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

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10. A Cash payment is made at the end of the year on the Note Payable. Interest is 8%.

A. Year 1 Interest is $1,200 ($15,000 * 8%).

B. Year 1 Principal payment is $7,500.

Cash	$4,300	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$7,500
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

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11. The owner took Distributions totaling $2,000 in Cash.

Cash	_____	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$7,500
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	- _____
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

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11. The owner took Distributions totaling $2,000 in Cash.

Cash	$2,300	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$7,500
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	- $2,000
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

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12. The owner paid personal income taxes (Cash). He is in the 25% tax bracket (2800 * .25 = $700).

Cash	_____	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$7,500
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	- _____
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

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12. The owner paid personal income taxes (Cash). He is in the 25% tax bracket (2800 * .25 = $700).

Cash	$1,600	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$7,500
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	- $2,700
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

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Statement of Cash Flows

Utilize this Page for Exercise Sheet B

Cash	$1,600	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$7,500
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	$2,700
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

Profit	
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Ending Cash _____

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Cash	$1,600	A/P	$2,000
A/R	$9,000	T/P	$1,000
Inventory	$10,000	N/P	$7,500
F&E	$1,500	Investments	$15,000
Intangible Asset	$3,500	RE Distributions	$2,700
		Profit	$2,800

Sales	$25,000
- COGS Expenses	- $10,000
Gross Profit	
- Operating Expenses	- $10,000
- Marketing Expenses	
- Depreciation	- $750
- Interest	- $1,200
- Amortization	- $250
Profit	$2,800

Profit	$2,800
A/R	- $9,000
Inventory	- $10,000
A/P	$2,000
T/P	$1,000
Depreciation	
Amortization	
Buy Equipment	- $2,250
Buy Intangible Asset	- $3,750
Investments	$15,000
N/P Borrowing	$15,000
N/P Repayment	- $7,500
Distribution	- $2,700
Ending Cash	$1,600

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Notes

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Notes

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Systematizing Cash Flow

- Accounts Receivable
- Accounts Payable
- Inventory

Managing Your Receivables:

Managing Your Payables:

Managing Your Inventory:

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Monitoring Cash Flow

H
B Beginning Balance

1st
A + Additions

2nd
S - Subtractions

3rd
E = Ending Balance

Once on Base, Stay on Base!

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6 Week Cash Flow Forecast

Exercise C Worksheet

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Converting Sales into Profit

Profit and Loss Statement

Fun Department Incorporated (S Corp)
STATEMENT OF REVENUES AND EXPENSES
Year Ended December 31, 2012

		Year Ended December 31, 2012	%
Sales			
302 - Sales - Fun	$	25,000.00	100.00
Total Sales		25,000.00	100.00
Cost of Goods Sold			
402 - Purchases - Fun		10,000.00	40.00
Total Cost of Goods Sold		10,000.00	40.00
Gross Profit		15,000.00	60.00
Operating Expenses			
550 - Interest		1,200.00	4.80
575 - Depreciation Expense		750.00	3.00
576 - Amortization		250.00	1.00
590 - Operating Cost		10,000.00	40.00
Total Operating Expenses		12,200.00	48.80
Net Income (Loss)	$	2,800.00	11.20

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Sales

Sales Bucket

Fun Department Incorporated (S Corp)
STATEMENT OF REVENUES AND EXPENSES
Year Ended December 31, 2012

	Year Ended December 31, 2012	%
Sales		
302 - Sales - Fun	$ 25,000.00	100.00
Total Sales	25,000.00	100.00

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Direct Cost

Cost of Goods Sold

Cost of Goods Sold		
402 - Purchases - Fun	10,000.00	40.00
Total Cost of Goods Sold	10,000.00	40.00

Expense Bucket

Direct Cost only occur when you produce your product or service

It is the cost that is directly related to producing your product or service.

Direct Cost increase or decrease, proportionally with Sales.

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Gross Profit and Gross Profit Margin %

Cost of Goods Sold		
402 - Purchases - Fun	10,000.00	40.00
Total Cost of Goods Sold	10,000.00	40.00
Gross Profit	15,000.00	60.00

Profit Bucket

Gross Profit is how much you have left after the Direct Cost to produce your product or service

Your Gross Profit Margin % is for every dollar you sell, you make profit $X or X%.

For every dollar you sell above your Break-even, you get to keep $X or X%.

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Indirect Costs

Operating Expenses

Operating Expenses		
550 - Interest	1,200.00	4.80
575 - Depreciation Expense	750.00	3.00
576 - Amortization	250.00	1.00
590 - Operating Cost	10,000.00	40.00
Total Operating Expenses	12,200.00	48.80
Net Income (Loss)	$ 2,800.00	11.20

Expense Bucket

Assumption: If you stayed in business and stopped doing business, what expenses would you still have?

The costs that is not directly associated to producing your product or service - everything else!

Costs that are fixed, meaning they do not increase or decrease in relation to your Sales

OVERHEAD

Rent - Utilities - Office Staff

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I SELL CHEESEHEADS!

Sales Price $10
Direct Costs $ 6
Indirect Cost $20

Fill in the blank cells based on the prices stated above.

	Sell 1 Unit	%	Sell 5 Units	%	Sell 10 Units	%
Sales	_____	_____	_____	_____	_____	_____
Direct Cost / COGS	_____	_____	_____	_____	_____	_____
Gross Profit	_____	_____	_____	_____	_____	_____
Indirect Cost / Operating	_____		_____		_____	
Profit / Loss	_____		_____		_____	

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Fun Department Incorporated (S Corp)
STATEMENT OF REVENUES AND EXPENSES
Year Ended December 31, 2012

	Year Ended December 31, 2012	%
Sales		
302 - Sales - Fun	$ 25,000.00	100.00
Total Sales	25,000.00	100.00
Cost of Goods Sold		
402 - Purchases - Fun	10,000.00	40.00
Total Cost of Goods Sold	10,000.00	40.00
Gross Profit	15,000.00	60.00
Operating Expenses		
550 - Interest	1,200.00	4.80
575 - Depreciation Expense	750.00	3.00
576 - Amortization	250.00	1.00
590 - Operating Cost	10,000.00	40.00
Total Operating Expenses	12,200.00	48.80
Net Income (Loss)	$ 2,800.00	11.20

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Break-even Exercise

Exercise D Worksheet

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Break-even
Notes

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Break-even

Profitability Break-even

$$\text{Break-even} = \frac{\text{IDC / FC}}{\text{GPM\%}}$$

Fun Dept Profitability Break-even: _____ = _____

_____

Cash Flow Break-even

$$\text{Break-even} = \frac{\text{IDC / FC + Cash Outlays – Non-Cash Expenses}}{\text{GPM\%}}$$

Fun Dept Cash Flow Break-even: _____ = _____

_____

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Break-even

Profitability Break-even

$$\text{Break-even} = \frac{\text{IDC / FC}}{\text{GPM \%}}$$

Your Business's

Profitability Break-even: _____ = _____

_____

Cash Flow Break-even

$$\text{Break-even} = \frac{\text{IDC / FC + Cash Outlays – Non-Cash Expenses}}{\text{GPM\%}}$$

Your Business's

Cash Flow Break-even: _____ = _____

_____

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$$\text{Break-even} = \frac{\text{IDC / FC}}{\text{GPM \%}}$$

Fun Department Incorporated (S Corp)
STATEMENT OF REVENUES AND EXPENSES
Year Ended December 31, 2012

		Year Ended December 31, 2012	%
Sales			
302 - Sales - Fun	$	25,000.00	100.00
Total Sales		25,000.00	100.00
Cost of Goods Sold			
402 - Purchases - Fun		10,000.00	40.00
Total Cost of Goods Sold		10,000.00	40.00
Gross Profit		15,000.00	60.00
Operating Expenses			
550 - Interest		1,200.00	4.80
575 - Depreciation Expense		750.00	3.00
576 - Amortization		250.00	1.00
590 - Operating Cost		10,000.00	40.00
Total Operating Expenses		12,200.00	48.80
Net Income (Loss)	$	2,800.00	11.20

$$\frac{\text{IDC}}{\text{GMP\%}} = \underline{\qquad\qquad}$$

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Cash Flow Break-even

Fun Department Incorporated (S Corp)
STATEMENT OF ASSETS, LIABILITIES AND EQUITY
Year Ended December 31, 2012

ASSETS

CURRENT ASSETS		
102 - Cash in Bank - Checking	$ 1,600.00	
106 - Accounts Receivable	9,000.00	
130 - Inventory - Fun	10,000.00	
Total Current Assets		20,600.00
FIXED ASSETS		
146 - Fixtures & Equipment	2,250.00	
149 - Accumulated Depreciation	(750.00)	
Total Fixed Assets		1,500.00
OTHER ASSETS		
183 - Franchisee Fee (Intangible Asset)	3,750.00	
189 - Accumulated Amortization	(250.00)	
Total Other Assets		3,500.00
TOTAL ASSETS		$ 25,600.00

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
205 - Accounts Payable	$ 2,000.00	
236 - Tax Payable	1,000.00	
Total Current Liabilities		3,000.00
LONG-TERM LIABILITIES		
265 - Note Payable	7,500.00	
Total Long-Term Liabilities		7,500.00
TOTAL LIABILITIES		10,500.00
STOCKHOLDERS' EQUITY		
281 - Issued Capital Stock	15,000.00	
285 - Income Distribution	(2,700.00)	
Net Profit/(Loss)	2,800.00	
Total Stockholders' Equity		15,100.00
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 25,600.00

Fun Department Incorporated (S Corp)
STATEMENT OF REVENUES AND EXPENSES
Year Ended December 31, 2012

	Year Ended December 31, 2012	
Sales		
302 - Sales - Fun	$ 25,000.00	10
Total Sales	25,000.00	10
Cost of Goods Sold		
402 - Purchases - Fun	10,000.00	4
Total Cost of Goods Sold	10,000.00	4
Gross Profit	15,000.00	6
Operating Expenses		
550 - Interest	1,200.00	
575 - Depreciation Expense	750.00	
576 - Amortization	250.00	
590 - Operating Cost	10,000.00	4
Total Operating Expenses	12,200.00	4
Net Income (Loss)	$ 2,800.00	1

$$BE = \frac{\text{IDC/FC} + _____ - _____}{\text{GPM\%}}$$

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Cash vs. Profit

The 7 Critical Drivers

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

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Notes

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Hitting Your Target Sales

4 Levers to Increase Sales/Revenue

1. **# of Leads/Prospects/Prospecting Activity**
2. **Conversion Rate (Start Rate)**
3. **Average Transaction Size**
4. **Frequency of Purchase (# of Transactions)**

Source/Adapted: Action COACH

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Hitting Your Sales

Restaurant: 4 Levers to Increase Revenue				
		Targeted Increase		
Number of Leads Per Day/Prospects	100	0%	100	
Start Rate (Conversion Rate)	50%	4%	52.00%	
# of Customers Per Day	50		52	4.00%
Average Transaction Size	25	7%	26.75	
# of Transactions a Day/Frequency of Purchase	1	0%	1	
Total Revenue	1,250		1,391	11.28%
Per Month	$37,500		$41,730	
Per Year	$450,000		$500,760	
			$50,760	

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Hitting Your Sales

Restaurant: 4 Levers to Increase Revenue				
		Targeted Increase		
Number of Leads Per Day/Prospects	150	0%	150	
Start Rate (Conversion Rate)	100%	0%	100%	
# of Customers Per Day	150		150	0%
Average Transaction Size	9.25	8%	9.99	
# of Transactions a Day/Frequency of Purchase	1	0%	1	
Total Revenue	1,388		1,499	8%
Per Month	$41,625		$44,955	
Per Year	$499,500		$539,460	
			$39,960	

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Hitting Your Sales

Landscaper: 4 Levers to Increase Revenue				
		Targeted Increase		
Number of Leads Per Day/Prospects	90	6%	95	
Start Rate (Conversion Rate)	100%	0%	100%	
# of Customers Per Day	90		95	6%
Average Transaction Size	80	50%	120	
# of Transactions a Day/Frequency of Purchase	12	25%	15	
Total Revenue	86,400		171,720	98.78%

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KPI's

Key Performance Indicators: *a number that's important in monitoring and measuring the performance of your business.*

Benefits of KPI's:

- Anticipate and solve challenges before they occur
- Tell you the story behind your numbers
- Becomes the benchmark to measure progress within your business and financial goals

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Pattern Recognition

Why is it important?

Trends

What should I look for?

Trends are _____.

Relationships are _____.

Enough _____ makes a _____.

Compared to _____?

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Putting it All Together

	July	August	September	October	November	December
Sales	100,000	75,000	50,000	75,000	100,000	100,000
COGS/DC	75,000	56,250	37,500	56,250	77,000	75,000
Gross Profit	25,000	18,750	12,500	18,750	23,000	25,000
Operating Expenses/FC	15,000	15,000	20,000	15,000	15,000	15,000
Owner's Salary	5,000	5,000	5,000	5,000	5,000	5,000
Profit	5,000	-1,250	-12,500	-1,250	3,000	5,000
Operating Cash						
Investing Cash						
Financing Cash				10,000		-4,000
Cash Position	5,000	3,750	-8,750	0	3,000	4,000

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A Numbers Based Strategy

	Fun Dept. Inc	A Co. Inc.	B Co. Inc.
Financing		⇩	⇧
Assets	$25,600	$10,000	$50,000
Customers	10	5	250
Sales	$25,000	$25,000	$25,000
Profits	$2,800	$5,000	$10,000
Cash	$1,600	$2,000	$7,500

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KPI's

Key Performance Indicators

See Exercise E Worksheets

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Ownership:
Owning a Small Business

Accountability

Responsibility

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KPIs and Critical Drivers

10 Ways to Increase Profits and Cash Flow

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

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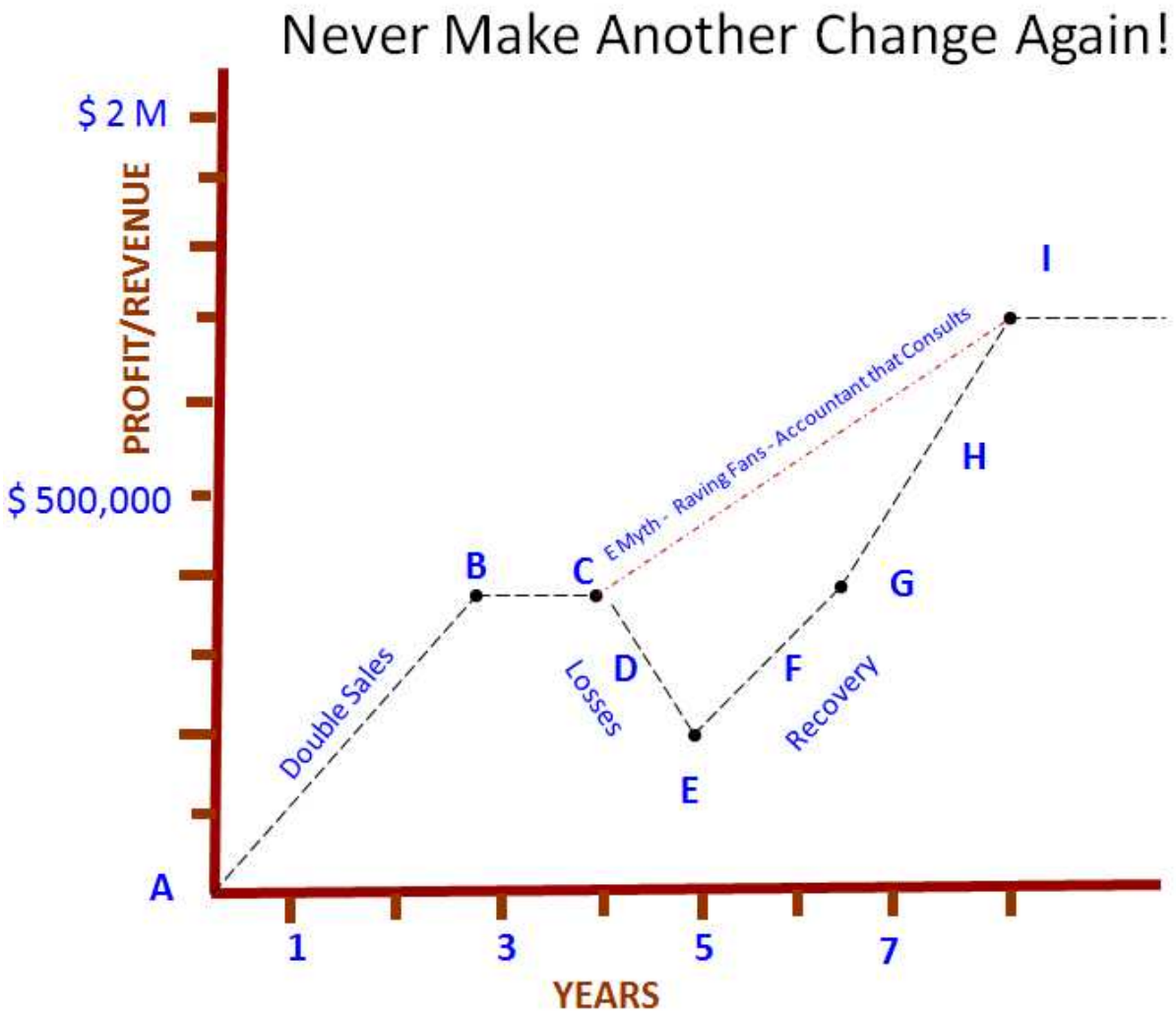
Change vs. Progress



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Going Forward
Back into Your Business

Secret #9: Grow S.M.A.R.T by Setting Written Goals

~ Ten Secrets to Achieving Results In Your Small Business by Edward Hastreiter

What did I learn?
How and when will I use it?

Write down 1 – 3 goals and a timeline of when you will put them into action:

- **Time spent reviewing KPI's every month**
- **Target your Cash Flow Break-even**
- **Read 1 book a month**
- **Schedule a time to review F/S every month**
- **Develop a budget and operate to it**
- **Break-even Monthly**
- **Do 6 Week Cash Flow Forecast on Monday**
- **Leave a cushion in the checking account of $_____**

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Setting Written Goals

Write down 3 goals you want to achieve for your company. Make them reasonable and attainable. List a start date and a completion date.

1. _____

Start Date _____

Completion Date _____

2. _____

Start Date _____

Completion Date _____

3. _____

Start Date _____

Completion Date _____

ewh small business accounting

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