1. Small Business Accounting: Cash Flow Statements - YouTube

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Transcript:

 hey Aidan from bench accounting here today we're going to talk about patch flow statements cash flow is the lifeblood of every business even fancy venture-backed startups live or die by their cash flow and if you're asking how do you measure cash flow the answer is with a cash flow statement in this video we'll walk you through everything you need to know about cash flow will share a few handy tips on how you can better manage your cash flow how to create a statement and how to use your cash flow

 statement to make smart decisions with your money so what is it cash flow is a measurement of how much money comes in and out of your business and where it comes from and goes to when you have positive cash flow you have more cash coming in to your business then you have leaving it so you can pay your bills and cover some other expenses when you have negative cash flow you're spending more than you're making so you will run out of money to make those payments okay so why does it matter well if your cash

 flow isn't healthy you could go out of business even if you're making more money than you're spending overall how does that work let's say you run a small web design agency you have three full-time employees they each get paid twenty five hundred dollars every two weeks you just signed a huge contract to redesign the website for global mega core pink which means this year your revenue is going to double compared to last year the only problem is you're gonna run out of cash in four months and your first payday

 from global mega Corp isn't for another six months which means you won't be able to pay your employees for two months which means they're going to quit and your agency will have to shut down unless you can scrounge a loan theoretically your revenue is going to double and your expenses are gonna stay the same that's great the problem is that revenue is going to come later than you need it that is a cash flow problem and a cash flow statement can help keep you out of trouble but what is a cash flow

 statement exactly it summary of how cash moved in and out of your business during a specific period let's see what that looks like a cash flow statement is made up of three sections cash flow from operations cash flow from investing and cash flow from financing at the bottom you get the total summary of cash flows for that time period each section shows how much cash entered and left your business so you can see at a glance how healthy your cash flow was if you're looking for a cash flow statement to use or look at

 we've got that covered download our template in the description below alright let's take a look at how our cash flow template works and how you can go about filling window here's what the template looks like the first section we'll focus on is cash from operating activity this section is what people normally refer to as profit and loss it shows how much money you made after interest was paid to the bank and taxes to the government you would only fill out a mature ization and depreciation here if you already have

 those categories on your income statement this section is basically correcting your income statement to reflect where cash was actually spent rather than how the IRS views it for tax purposes for example you might depreciate a work vehicle over five years smoothing out the cost on your taxes but on your cash flow statement you would show the cash reality you paid for the whole vehicle upfront so you would make that correction on the cash statement to only show the cash that you've spent the second section is cash

 from investing activities any money you spend investing in your business is reflected here so if you bought an expensive piece of equipment to double your t-shirt printing capacity the cost of that investment would go here or if you sold a piece of equipment that positive cash flow would also be noted here the third section is cash from financing activities this is where you'll see things like cash received from bank loans or cash spent on loan repaid and at the bottom we have a summary this shows where your cash was before this

 period where it is now and the difference between the two now what can you actually learn in the real world from analyzing a cash flow statement let's take a look at a fictional cash flow statement from the Toronto Raptors keyword fictional I made this up we'll see what we can learn about their fictional business just from looking at a cash flow statement this cash flow statement is only for the month of October 2019 and again this is not their actual financials just a fictionalized version I literally made this up first

 let's take a big-picture look to see what we can learn about their business at a glance if we skip down to the summary we can see the actual change in cash what was it in September 1.5 million dollars not bad now let's see the major line items affecting that first where did most of that money come from as we can see here overwhelmingly from ticket sales and their TV contract that all looks good but keep in mind they won't get any ticket sales during the offseason and revenue will be affected during months where there are

 fewer games so we want to keep an eye on that in the future next we want to see where they're spending money obviously player salaries are the biggest expense costing 10.5 million each month keep in mind NBA players get paid on different schedules many get paid every two weeks even in the offseason but some people prefer to get paid a few times a year like Kobe Bryant who only got paid twice a year so the Raptors will want to carefully plan when their stars get paid if their biggest stars want just a few

 checks a year and one of those pay periods falls during the offseason when they don't have ticket sales revenue they could have a cash flow crunch on their hands so the net profit the amount of cash left after making their money and spending their money is 1.6 million but we have these two adjustments to make first accounts payable in their accounting they've set aside bonuses to pay their players in case they win the NBA championship this year they have to treat that money as if the players are going to get it but they

 haven't actually spent that money yet so even though it might be reported on their income statement as an expense reducing their profit we'll add it back to the cash flow statement since that money is still sitting in their bank account remember the cash flow statement accurately reflects the cash reality of the business rather than the theoretical accounting reality of your business next we subtract the cost of the NBA luxury tax if you spend too much on player salaries you have to pay a hefty tax since this tax isn't a normal part of

 earning and spending we add it in as an adjustment on your cash flow statement this is where you would add things like payroll taxes and sales tax so our total cash from operating activities is 1.7 million for the month of October next is our cash from investing activities there wasn't much activity here we can see the team purchase some ice bathtubs for players to jump into after the games they purchased one hyperbaric chamber for recovery and they sold one older hyperbaric chamber the net result is they spent $7,000 on investments in

 October finally we have cash from financing activities here we have only one item drawing and distribution this means that the owners of the team withdrew a total of 225,000 for themselves out of the business sports teams might be fun to own but they're still a business that exists for making money so if we add up all three summaries from operating activities investing activities and financing activities we get the total change in cash if we add that to the cash we had at the beginning of October we get our

 ending cash and finally we double check our bank account to make sure that our ending cash balance matches what our bank account is saying if it doesn't match we've made a mistake somewhere along the way all right so what did we learn about the Raptors as a business from looking at their cash flow statement we learned one the Raptors are heavily dependent on ticket sales for their revenue in October they sold out almost all of their games but what happens when the team isn't as good and sales are down they would have a cash

 flow problem to their big player salary expenses could potentially hurt them in the offseason unless they're diligent to save their profit during the season they could have a cashflow crunch if star players demand big checks in the summer months so what should the Raptors do with this information they should try to diversify their revenue sources they may want to consider giving the rights to a film crew to make a TV show about their season renegotiate their Jersey sponsorships and see if there are any new sponsorships that can give them

 revenue all year round they should create a plan for which players will get paid in which months if they know at the beginning of the season that some players would like to be paid in the offseason they can start planning for that today now what if you're not trying to learn from the past but you're trying to plan cash flow for the future unfortunately a cash flow statement can't help with that what you would need is a cash flow forecast something like this does the trick all you do is plot out how much money you think you'll earn

 and spend during each month of the year this can be a really useful document to keep updated for example if you have invoices or bills to pay and you know you're going to pay some of them this month and others next month you can plot out each expense in the month you plan to pay them you can do the same with your accounts receivable money you are expecting to receive if you have one check coming your way this month and three next month you can plan your expenses accordingly so you're not spending money until you actually have

 money in your bank account as each month passes you can go back and correct the previous month's forecast with your real spending that will make your future forecasts more accurate you can download a copy of this cash flow forecast by clicking the link in the description below now that you know how to measure your cash flow how do you improve your cash flow there are three main ways to boost your cash flow one you can increase revenue easy to say harder to do you can increase your revenue by getting more customers

 through advertising or promotions increasing the size of your average sale through upselling bundling or product recommendations increasing how often customers buy from you through loyalty programs or email reminders or you can try raising prices second you can improve your cash flow by reducing overhead how you cut costs will depend a lot on your specific business but for starters you can negotiate lower contracts with vendors or find new cheaper vendors you can buy less expensive materials or you can work with

 contractors instead of employees for more ideas on cutting costs check out our checklist for cost cutting linked in the description and third you can incentivize customers to pay you faster by giving them a small discount if they pay you within a week sometimes you don't even need to offer a discount just communicate upfront that your payment terms are 14 days instead of 30 days the faster you get paid the sooner you have cash to pay for your expenses here's the thing to manage your cash flow properly

 and create cash flow statements you need accurate and up-to-date bookkeeping to base your financial statements on if you don't want to do your own bookkeeping check out bench will do your bookkeeping for you and send you accurate financial statements each month we'll even create a cash flow statement for you upon request if you prefer to keep an eye on your cash flow daily you can always check out pulse in your bench account pulse is updated every few hours and shows you an aggregate cash balance across all your credit cards and bank

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