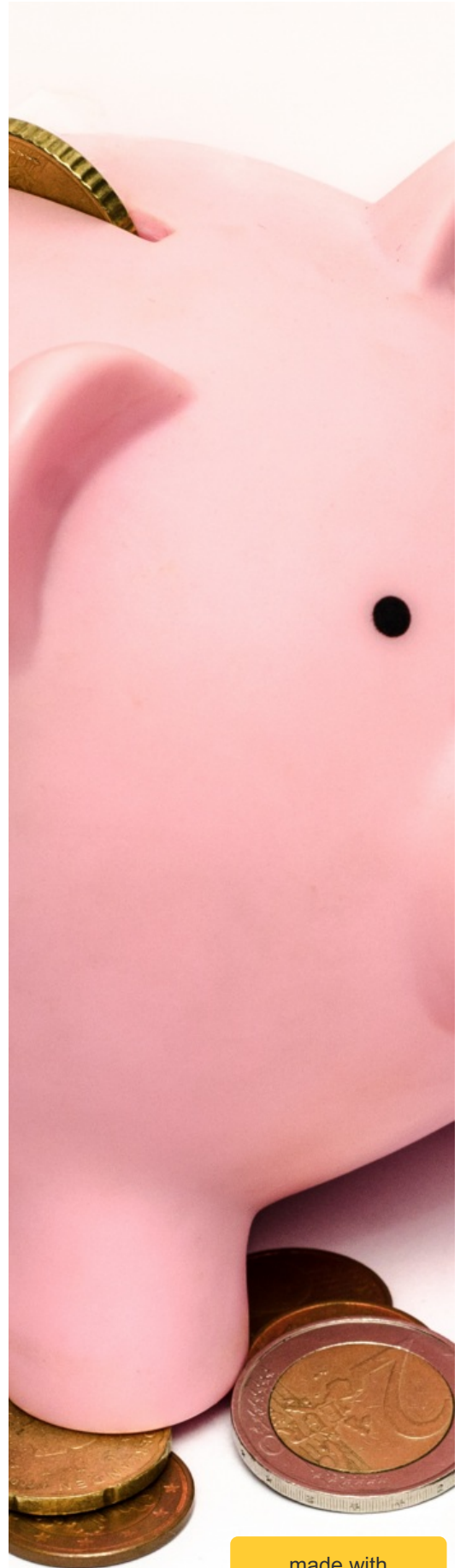




Barba CFO

The Small Business Owner's Guide to Company Finances

How to manage and improve your
company's finances to curb costs
and raise revenue



made with
Beacon

Table of Contents

1. **Losing Money in Your Small Business is More Expensive Than You Think!**
2. **Why Does Your Small Business P&L Show a Profit, but the Bank Account is Empty?**
3. **Top 10 Ways to Reduce Your Small Business Costs**
4. **Crunched for Cash to Grow Your Small Business?**
5. **6 Tips for Small Business Credit Card Management**
6. **Top 5 Reasons Why Your Small Business Needs A Rolling Forecast**
7. **5 Ways to Improve Your Cash Forecast from Your CFO for Hire**
8. **Save Time & Money with Barba CFO**

Losing Money in Your Small Business is More Expensive Than You Think!

When your small business loses money, financial expenses may not be the only burden - There are other significant expenses involved that you may be overlooking.

by Jeff Barba



Losing money in your small business doesn't just involve a simple equation of more financial expenses than income, it also includes other types of expenses that you may not be even be aware of.

If Yogi Berra were a CFO instead of a professional baseball player, I think

these would have been his words. Obviously if you have a business that is losing money, you are losing money. But there are even additional expenses that come from a company that is losing money or going deep in debt that the most profitable, financially healthy companies do not have. Here are some examples:

- **Higher interest rates on debt** – the worse off you are financially, the more you need money to get out of the hole you have dug yourself. This requires you to take on higher interest financing options. Whereas a healthy company could get a business loan at 4% - 5% interest rates, you may have no other options than to take on debt at credit card rates or higher (typically 18% and up). At \$500,000 of financing, that's at least an extra \$75,000 per year of interest expense...not very good for a company already losing money.
- **Time spent chasing customers for payment** – Rather than allowing customers a little bit of grace for late payments, you have to make sure they pay on time or else you aren't going to make payroll. This is time that could have been spent growing the business, or something more impactful.
- **Time spent dodging vendors and figuring out who to pay** – Healthy companies are able to pay vendors within due dates without having to blink an eye. Financially struggling companies have to spend time trying to work all kinds of mathematical gyrations. Or, unfortunately, too often, we find that they spend money on resources like us trying to determine who they can pay and who they can strategically put off for yet another week. While we want to help our clients, our value is better placed helping reduce spending, and figuring out how to dig out of the hole. Agreeing on a plan for spending and sticking to it, is time and money better spent.
- **Stress** – Owners of companies struggling financially feel more personal stress. If they are tired and stressed they may not be executing properly, and making the best decisions. But they can't afford to take a break, they must get through the day.
- **Inability to grow** – Rather than having extra money to propel the business forward, financially struggling companies must use money to simply stay alive.

- **Taking more risks** – Rather than being prudent and diligent with your money, financially struggling companies will take more risks with money – like a gambler trying to get even. They either hope to hit a homerun, or skirt laws to avoid certain expenses. But likely what happens instead is that you will strike out again because you can't hit a single, let alone a homerun – because you have no money. You are now down to your last out, and the umpires have caught you with a corked bat. You have nowhere else to turn.

Frequently, making money is a choice...and the difference between making money and losing money is a leader's courage to make difficult financially responsible decisions. If you know why you are losing money, be courageous and do something about it – don't gamble, but rather decide to spend less than you KNOW you will make. Look for areas in your business that you are spending money on and not getting any value from. If you need help figuring out those areas, we have helped many clients solve exactly these kinds of problems. And, the companies that gain freedom from these struggles, are the ones who follow our advice.

For some practical ways to reduce costs [click here](#) to get the free guide for business owners.

Why Does Your Small Business P&L Show a Profit, but the Bank Account is Empty?

How can you earn a profit but still not have enough cash? Let's review the difference between having a healthy cash flow and generating profit.

by Jeff Barba

Made a mean profit this year but still no cash in your account? Your CFO for hire will explain the difference between profit and cash flow.



This can be a frustrating thing for small business owners...you and your

team worked hard all year and your accountant tells your business made a “profit” - problem is, your bank account balance doesn't reflect those profits or worse, you had to borrow from your line of credit or credit cards.

Truth is, profit doesn't equal cash flow in a business. To find out if you made a profit or had a loss for the year, you look at the bottom line on your P&L (profit and loss) statement. Unfortunately, the bottom line on your P&L does not tell you cash flow from your profit-making activities.

Don't ever assume that making profit increases cash the same amount. A business's cash flow can be higher, or lower, than bottom-line profit. Cash flow can be negative when you earn a profit, and cash flow can be positive when you have a loss. There's no natural or intuitive correlation between profit and cash flow.

The image below illustrates the differences between sales and expenses on your P&L and the cash flows of sales and expenses. For the purpose of this illustration, only three expenses categories are shown: cost of goods sold, depreciation, and one total amount for all other expenses. Please note that reporting expenses this way is not recommended or adequate but I did it in the interest of simplifying this example.

Sample Chart of Differences Between Profit and Cash Flow

	Profit and Loss (or Income) Statement	Cash (or Bank) Accounts	Difference
Sales	\$2,000,000.00	\$1,800,000.00	(\$200,000.00)
Cost of Good Sold	(\$1,200,000.00)	(\$1,250,000.00)	(\$50,000.00)
Depreciation	(\$50,000.00)	\$0.00	\$50,000.00
Other Operating and SG&A Expenses	(\$675,000.00)	(\$650,000.00)	\$25,000.00
Net Income (or Profit)	\$75,000.00	(\$100,000.00)	(\$175,000.00)

Here is an explanation of the cash flow differences in the chart:

1. Your accounts receivable (from credit sales) increased \$200,000 during the year, so actual cash collections from customers were only \$1.8 million during the year — a cash flow shortfall of \$200,000.
2. You built up your inventory \$50,000 during the year, so your cash outlays for products were \$50,000 higher than the cost of goods sold expense for the year.

3. Depreciation expense is not a cash outlay in the period recorded; the cash outlay took place when the fixed assets being depreciated were acquired in a prior period (possibly, some years ago).
4. Total cash outlays for other expenses were \$25,000 lower than the amount of expenses recorded in the year, mainly because your accounts payable and accrued expenses payable liabilities increased during the year — you had not paid this amount of expenses by year-end.

Every situation is different, of course. Cash flow isn't always lower than profit for the year. Suppose accounts receivable had remained flat during the year; your cash flow would have been \$200,000 higher. If you had not built up your inventory, then your cash would have been \$50,000 higher at the end of the year, etc... you get the picture. You must keep close tabs on the changes in the assets and liabilities (found on your balance sheet) that impact cash flow from profit.

Top 10 Ways to Reduce Your Small Business Costs

Cutting costs is always a priority for your business - Check that your business is following these 10 guidelines.

by Jeff Barba



Are your small business costs getting out of control? Do you feel like you're working harder for every dollar of profit?

When small businesses start to feel the pinch in their profits, the go-to response is often to focus on increasing sales. While this is a valid strategy, there are some circumstances where this is not feasible or realistic, i.e. when economic factors are less than ideal or your product mix is struggling to meet customer needs.

And, even when increasing sales is a realistic, worth-while strategy, you should also be consistently looking at your costs to find ways to keep more of your hard earned sales dollars.

First Things First - Get Your Head In The Game!

Before you even begin reviewing your costs, change your mind set in 2 main ways:

Stop being emotional!

Start thinking, "Saving is Exciting, Not Spending!"

Once you've got your mind right (and believe me that is 90% of the battle), here are 10 things you can do to get started.

1. Analyze All Labor Costs

Labor costs include everything from salaries and wages to employees and family, overtime pay, fringe benefits, payroll taxes, contract labor, sales commissions, bonuses and payroll processing fees. Nothing is sacred when it comes to keeping your business healthy, so look at all of these. Consider the following as some ideas:

- Remove family members from payroll if they don't provide any business benefit
- Freeze hiring and restructure roles and responsibilities
- Alter how you pay sales people by lowering base pay and increasing commission
- Eliminate overtime by improving scheduling or revamping workflow processes
- Restructure bonus plans to align with company profitability
- Outsource or contract certain services, like specialty areas or for seasonal businesses
- Research other payroll service options
- Reduce officer pay and corresponding payroll taxes

2. Revisit Insurance Policies

Often times when businesses change, insurance policies don't change accordingly, resulting in being over or improperly insured. Meet with your insurance agent at least once a year to review all your policies to be sure your agent understands your business and that your coverage levels align with your business's operations and risks.

Also, check to be sure you are properly categorizing your employees for

worker's compensation insurance purposes. Insurers rate employees based on the highest risk areas of their jobs if you don't track those hours separately. A little extra effort categorizing employees' hours can save big on your worker's comp bill.

3. Reduce or Eliminate Bank and Credit Card Fees

Paying credit card bills late or not reconciling your bank accounts monthly can result in hefty late fees, finance charges and bounced check fees. Staying on top of paying these bills on time and recording all of your bank account transactions as you go will make it easier to reduce or even eliminate these charges. Many accounting software packages allow you to set up reminders to pay certain recurring bills on a regular schedule, or use reminders in your email application so you don't forget important due dates. If you have an accountant or bookkeeper, make sure they understand that late fees or bank charges for bounced checks will not be acceptable.

4. Review Utilities Costs

Some ideas for reducing your utility costs include:

- Turn off those lights
- Shut down computers at night
- Switch to laptops from desktops (they consume far less power)
- Install programmable thermostats
- Change all of your light bulbs to energy efficient compact fluorescent lamps (CFLs) and light-emitting diodes (LEDs)
- Install motion detectors that automatically shut off the lights in lesser-used areas of your business
- Install skylights and make use of natural daylight
- Replace old equipment with Energy Star appliances
- Install water efficient appliances, low-flow faucets, low-flow toilets, and high-efficiency urinals
- Install an energy efficient water heater.

5. Examine Telecommunication Costs

Look at:

Land lines – do you really need one?

Cell phone bills – is there a better plan available or do all your employees need one on your dime?

Internet costs – is there a bundled plan that might be better?

6. Create and Manage to a Budget

This is an important discipline that's often overlooked. Creating and managing to a budget keeps you on track and creates accountability for you and your employees. Reviewing your financials at least once a month against your budget can help you crack down on costs before they get out of control.

7. Ask Employees for Ideas

Your employees are a good source of ideas for how you can save money and cut costs. Often they are closer to some of your business's spending than you might be. It also gives them an awareness that you are watching costs and that can be a sense of comfort for them to know you want your business to get and stay financially fit.

8. Replace Aging Equipment or Vehicles

Take a look at how much you are spending on maintenance and repairs for your aging vehicles and equipment. Older vehicles consume more gas and older equipment doesn't run as efficiently as it did when it was new, plus as technology advances, newer equipment is built with a mind toward saving energy and fuel. The cost to keep that old clunker might now be exceeding the cost to replace it.

9. Take Advantage of Purchase Discounts

Often your vendors and suppliers will offer their customers a discount for early payment or bulk purchasing. If it's not clear on the invoice, there is no harm in asking. Cash is king and many suppliers will gladly give you a discount to pay early or to buy over a certain order quantity so they can get their money little sooner.

10. Rework Obsolete Inventory, Sell As Salvage or Donate

The cost to carry obsolete inventory can be crippling to a small business. If you can re-work the inventory to make it salable, do it as soon as possible. If the inventory is truly obsolete, consider donating it to a non-profit and getting a tax deduction or scrapping it for whatever value you can. Inventory sitting on your shelves that is not moving provides no value, and any value you can eke from it is better than none.

There are many other ways to cut your costs, but these are just some ideas that can be very impactful. The most important thing is to start now. If you don't have the time to do this yourself, consider hiring a cost saving consultant, who gets paid only if they save you money, or contact us at **Barba CFO** by clicking [here](#) for our contact form. We can help you get a handle on your small business costs!

Crunched for Cash to Grow Your Small Business?

How business owners can improve their cash flow and create a plan building out financial projections and cash flow forecasts.

by Jeff Barba



Know Your Cash Requirements and Understand Common Sources of Working Capital

You've heard the term working capital, but what is it? The strict formula in the accounting world for working capital is:

Current Assets - Current Liabilities

Put more simply, working capital is the cash available to fund day-to-day

operations, take advantage of opportunities, purchase assets and grow your business.

As a small business, you will inevitably face the dilemma of funding your business' activity from sources other than profits or owner contributions. Depending on your particular industry and the reason your business needs additional capital, those sources can include the following options.

Common Sources of Working Capital

(ranked in terms of most recommended to least recommended)

Excellent:

1. Better Cash Flow Management

Often, the first and best line of attack in generating more capital for your business is to understand and actively manage your cash flow. Look closely at activity in the following [balance sheet](#) accounts.

Balance Sheet Account	Suggestion for Improving Cash Flow
Accounts Receivable:	When your customers owe you money and aren't paying consistently within terms, evaluate your practice for extending credit and focus some resources on collecting outstanding customer balances.
Inventory:	If you carry inventory, analyze how long stock sits on your shelves and reduce that time.
Accounts Payable:	Review your credit terms with your suppliers to be sure your time to pay appropriately aligns with the time it takes your business to produce, deliver, invoice and collect from your customers.

2. Equity investor

If your business is poised for growth and profits, you may be able to get additional entities to infuse capital into your business, giving your business instant capital, with little risk, or additional expense. The only downside is that you will have to share the profits of the company with more parties.

Good:

3. Loans from Primary Financial Institutions and Government Programs

Lines of Credit

Obtaining a line of credit can be very helpful for small businesses. It can provide an on demand source of capital to help your business through seasonal fluctuations, or to support growth opportunities such as acquiring new customers or offering new products of which you would be unable to take advantage with your current level of free cash flow.

Term Loans

Term loans are a one-time receipt of funds that are paid back over a specific period of time. Unfortunately, the process for obtaining a loan for a small business can be rigorous and time-consuming. Also, applications are still often met with denial and may not be an option for your business. To find out more about the loan programs available by SBA go to <https://www.sba.gov/category/lender-navigation/sba-loan-programs>.

OK:

4. Loans from Private Lending Companies

As traditional banks have become more risk averse in their lending, private lenders have become an alternative for businesses to turn to. While they generally command a slightly higher interest rate than traditional banks, they may be more willing to lend to companies with worse credit or collateral.

5. Internal Revenue Service

While it is not recognized as a lending source, you could get a loan from the IRS simply by managing your taxes. You can pay in less during the year while knowing to expect a larger balance due by your tax return due date. The IRS will charge you 3% on underpayment during the year. They will also charge you 0.5% each month after the due date the balance remains unpaid. But if you can't get financing elsewhere, if managed properly, managing your tax payments can be an effective method of financing. Compared to the cost of other sources of working capital this a relatively

inexpensive option.

Contact us if you use any of these in your financing:

6. Credit Cards – unless you pay them off timely, the high interest rates of credit cards make them too expensive while accumulating debt.

7. Short Term Emergency Loans from Private Lending Companies – these usually command very high interest rates.

8. Factoring – a factor can pay you on your open receivables, less a discount, typically between 2 and 6 percent. But don't be fooled by these low numbers, typically a 2 – 6% discount must be multiplied by 12 to get to the true annual interest rate – that's a hefty 24 to 72%!

Plan First

In addition to the options explained here, there are many other sources of working capital, each with their own advantages and disadvantages.

Deciding which one is best for your business has to begin with planning for your cash requirements by building a financial projection or budget that includes a cash flow forecast.

For help building a **budget** and cash flow forecast, click [here](#) for our contact information or send an email to sales@barbacfo.com. We have helped many small businesses understand their cash flow cycles and plan for their short and long term cash needs.

6 Tips for Small Business Credit Card Management

Learn 6 effective tips for managing a small business credit card without putting your credit or business at risk.

by Jeff Barba

Many of our small business clients have a business credit card. This can be a great thing as it allows them to take advantage of the convenience of making purchases on the go.



Other Advantages of a Business Credit Card:

* ***Build Your Business Credit:*** A business credit card provides a newly established business, or an existing business that has had some credit trouble in the past, the opportunity to build business credit. This will be useful in the future as your business grows and you need capital in the form of credit lines or loans.

* ***Avoid Co-mingling:*** Mixing your business and personal transactions creates potential tax and money management problems. By using a business credit card exclusively for business purposes, you will let the IRS and anyone else know you are serious about your business.

* **Easy Itemization:** Tracking your business expenditures at year-end can be a nightmare for small business owners. Many credit card companies will provide you with a year-end statement summary with your transactions itemized and categorized. Why worry about a shoebox full of receipts? Organize your bookkeeping process with a business credit card – and some accounting software and banks make it easy for you to import your credit card transactions directly into your accounting system.

* **Special Rewards:** The competitive credit card and business market has led to the development of reward and discount programs for business credit card users. Discounts and rewards range from office supplies and travel to software and phone services. Take advantage of using the credit card to lower your expenses.

* **Manage Employee Spending:** Another plus to business credit cards is the ability to provide cards for your employees with preset limits. Just make sure you monitor their spending on the separate statements you receive and make sure they understand that the card is for business purchases ONLY! Here's a link to a [sample credit policy](#) for company credit cards from the Society for Human Resource Management (SHRM). It includes a sample agreement for employees receiving a company credit card.

Remember: a business credit card is like most financial instruments...

Responsible use of credit can help your business.

Misuse of your business credit makes you personally liable in most cases and has the potential to destroy your business.

Use these **6 tips** to effectively manage your business credit card:

1. Apply with Someone You Already Know:

Always consider applying for your business credit card at your existing financial institution. Your banking relationship can aid with the approval process. In addition, when you determine the need for a line of credit or loan in the future, you will have a relationship established with your lender. This can greatly help with credit applications for more debt which do not use automated scoring systems.

2. Don't Card Hop:

Signing up for multiple cards to take advantage of deals can have a negative impact on your credit rating and make managing your cards more difficult. Do your research up front and choose a card based on your needs and not just the first company to say "yes".

3. Take Advantage of Grace Periods:

Many business credit cards offer a grace period (can be as many as 20-25 days) before you have to make payment on your purchases. Improve your cash flow using a credit card instead of checks since the Check 21 Act creates quicker clearing of checks (less float time).

4. Pay Online:

Save time and extra costs by paying your business credit card online versus paying by teller at your local branch or mailing in your payment.

5. Avoid Taking Cash Advances:

Reduce credit card fees and interest costs by not using the cash advance feature on your card. Cash advances incur more fees and costs.

6. Don't Pay Late:

Late fees and high interest rates quickly erode the merits of using your business credit card. Be responsible by paying off your business credit each month (within the grace period).

Top 5 Reasons Why Your Small Business Needs A Rolling Forecast

It's never too late to start budgeting. Our CFOs for hire talk about why using a rolling forecast can help any small business plan for the future.

by Jeff Barba

Maybe you read our blog post [Why Your Small Business Needs a Budget – 4 Compelling Reasons You Can't Ignore](#). Maybe you listened... maybe you didn't. Don't worry though, even if you didn't. It's never too late to start budgeting. In this section, we'll talk about why using a rolling forecast can help any business, at any time, to get things in order and plan for their small business's future.



Forecasting (like budgeting) involves future projections. Traditionally businesses look at a static period, for example, 1 year ahead in monthly increments. So, if your financial year (aka fiscal year) is January to December, then budgets and forecasts are prepared in the October to December before the new year starts to cover that period. By April, 3 months of business activity has already taken place leaving only 9 months

remaining of the forecast. With static forecasts you run the periods down to zero and then start again.

What Is a Rolling Forecast?

With a rolling forecast, the number of periods in the forecast remains constant so that if, for example, the periods of your forecast are monthly for 12 months then as each month ends, it drops out of the forecast and another month is added onto the end of the forecast so you are always forecasting 12 monthly periods out into the future.

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
At January 1st	Traditional Budgets															
At February 1st		Rolling Forecast Feb-15 through Jan-16														
At March 1st			Rolling Forecast Mar-15 through Feb-16													
At April 1st				Rolling Forecast Apr-15 through Mar-16												
					...And So On											

Again, as actual financial and operational information become available for a period, it moves from being a future prediction to a current reality (i.e. it is no longer part of the forecast). It then drops out of the forecast and another month is added onto the end of the forecast (you “roll” the forecast forward one month). This way, you are always forecasting 12 months out into the future.

And Here They Are - Top 5 Reason You Need A Rolling Forecast:

1. Real time response!

Identifies opportunities and risks in a dynamic business environment in REAL time. Your small business can adapt quickly to volatility and rapid changes in your business's environment.

2. No more annual budget process!

Rolling forecasts allow you to focus on your business forecast in smaller time increments throughout the year, instead of a big push once a year.

3. No big cash surprises!

Future cash requirements are always known if a rolling forecast is used

with rigor. There are no big surprises come year end when you find out you need to make a big capital or technology investment, for instance.

4. Discipline!

Using a rolling forecast forces you to look at your business's financial performance every month, which we always advocate as a best practice and necessary discipline for a small business.

5. Culture of Inclusion and Empowerment!

Rolling forecasts help to bring everyone into the process and align your valuable human capital resources to your small business strategy.

5 Ways to Improve Your Cash Forecast from Your CFO for Hire

Problems forecasting cash for your small business on a daily or weekly basis? Learn better alternatives from our CFO for hire.

by Jeff Barba

Does this sound familiar?

You're a little tight on cash or trying not to dip into your line of credit so you carefully decide which vendors to pay. Then an employee comes to you with a expense report from 2 months ago...you graciously pay it so the employee can pay his rent. Then a few days later, an automatic ACH comes out of your account...oops forgot that was coming. Next thing you know you are overdrawn.



You start realizing that you need to manage your cash better, so you start preparing a weekly cash forecast on a spreadsheet. It's a simple spreadsheet...the weeks going across the top and primarily vendors along the left side, with amounts filled in for each vendor for the next several weeks.

It works well the first week. You start updating week 2 by deleting the week 1 column. Oops...you accidentally deleted a deposit that never made it in week 1. Oops again, you realize you split a vendor payment

in half. But now you have a #REF in that cell in week 2. You have to go back and put that in again. You get back on track until week 5 when you are overdrawn again! Now what? Oh no.. You realize you accidentally overwrote the ending cash balance in week 5. It wasn't a formula!

Next thing you know you are spending 17 hours a week making sure every formula in your cash forecast spreadsheet is perfect. As a CFO for hire, I can tell you it doesn't have to be this way.

Here are 5 ways to improve your cash forecast:

1. **Integrate it with your accounting system** - there is a good chance that as almost every number you are entering in the spreadsheet is already in your accounting system. Why duplicate the data entry when you can link to your accounting software?
2. **Never delete a column** - rather have formulas that look at data on another spreadsheet tab. The data on that other tab should be expected transactions including descriptions, amounts, and expected disbursement dates
3. **Never delete any of those transactions, rather mark them after they happen**
4. **Use your check register balance, not the bank balance, which will not reflect outstanding checks.**
5. **Use our template**, which can incorporate all of the above.

[Click here](#) to get our free cash flow forecasting spreadsheet. It's time to take your cash flow forecast seriously!

Save Time & Money with Barba CFO

Barba CFO provides the financial management that is necessary to run your small or medium-sized business. Our wide variety of **services** range from personalized projects to bookkeeping and CFO for hire.

Contact us below to discover how outsourcing your financial management will save your company hours and dollars:

[CLICK HERE TO CONTACT US!](#)

made with
Beacon