Learning lab and How-To

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The Managing Cash Flow Forecasting Playbook

Cash flow management is vital to all companies big and small. Establishing good cash flow forecasting practices provides you with clarity into your money and lets you stay ahead of the game.

Get your bookkeeping in order

In order to anticipate what is to come, you need to have real and reliable information on what happened then and what's happening now.

Make sure your bookkeeping is done weekly and monthly.
Interpret your financials

Get clear on your financials. This doesn't mean just printing your 'Profit & Loss' statement and looking at the number at the bottom of the page.

- **Figure out your trends.** Review how much money you made and spent. Run these numbers by day, week, and month to see your trends.

- **Favorite a set of reports.** Look at what the reports reveal and choose reports that help you identify what's happening in your business. Compare them to similar reports from this month, this time last year, by month, and by week.
  
  *Reports we suggest: Profit and Loss, Balance Sheet, Accounts Payable Aging, Accounts Receivable Aging*

- **Scrutinize those numbers.** You need to know every nook, cranny, and detail of your numbers.

- **Explain your numbers.** Do they make sense? Is there a pattern? Is there a positive or negative trend? Is this expected or a surprise?

Identify the flow of your money

- **List out ALL the money you owe people and the money people owe you.** Include auto pays and subscriptions.

- **Define what each debt/collection is for.** Money to run your operations (operating), money to make more money at a later date (investing) or money to obtain more money and/or ownership (financing).

- **Describe the nature of the money.** When will I collect/pay it? How much will I get/do I owe?
  
  - Debt: What did I promise? Have I negotiated? When will I pay it off?
  
  - Collections: What is the likelihood that it will be paid? Is it going to be timely? Have I done everything possible to guarantee it?

Calculate your cash flow runway

- **Predict what could happen tomorrow.** Base predictions on what happened last week and last month.
• **Reflect on your expectation.** Challenge your perspective. What information are you basing your assumption on? Is it reasonable?

• **Create a matrix and align all your money assumptions by week and by month in order of what will come first.**

• **Align your money inflow and outflow against a timeline and on a calendar from today to tomorrow.**

• **Calculate your net burn.** Collections-payable=net burn. Ideally you want more positives than negatives.

• **Calculate your runway.** The cash available in your bank is your cash start. Add your burn each week to find your cash end. Your cash end this week is your cash start next week. Continue the calculation to find your cash flow.

• **Extra credit:** Divide your cash balance by the average burn to find how many weeks or months you have until you run out of money.

**Confront your numbers weekly**

• Get over your fears. Look at these numbers and look at them often.

• Break down your questions and attack them one at a time.

• Form a habit. Financial clarity is work. It requires commitment and discipline.

The good news is that calculating cash flow is like building muscle. The more you do it, the stronger you'll get.

**Questions and Answers**

▼ **Q: Can I use my EIDL money to pay myself as a sole proprietor?**

   **A:** Since the EIDL is a loan to the company that bears interest, you can use that money in whatever way you see fit in regards to maintaining and building back your business. Keep in mind that any money you take out as a draw will be considered "taxable distribution" to your name. It would be wise to discuss your plans with a tax CPA to evaluate your potential tax liability.

▼ **Q: What is the relationship between managing your P&L vs cash flow forecasting?**
A: You will need to have a good understanding of your income and expense to make assumptions about how much money you will collect and spend in the future. This means that good bookkeeping and the reports resulting from it, including the profit and loss statement, will help you predict your trends and validate your assumptions about your cash flow runway.

▼ Q: Should you include money you're owed but haven't gotten yet in your cash flow forecasting?

A: Cash flow forecasting is like a game. Your predictions are never going to be 100%, but you want to try and get them as close as possible. The goal is to be as real as possible so you know what to expect.

If the goal is clarity, then you should only put in what you know to be accurate. If you put in money that you're hoping to get on a certain date but it's unlikely, your prediction will not accurately represent the real financials of your business.

▼ Q: Any advice for getting caught up in my bookkeeping?

A: First, create a bookkeeping checklist detailing the exact tasks that need to be done on a monthly basis (weekly if you have a lot of volume). Then block out 1-2 days a month on your calendar to dedicate to completing this task list. If you are really behind and are feeling overwhelmed, it might be a good idea to seek professional help. Professional bookkeepers can probably help you get caught up quickly, saving you time and anxiety. From that point, you just need to maintain and keep it up.

▼ Q: Do you have any recommendations for setting up bank transactions to automatically upload to Quickbooks, or is it okay to do it manually?

A: You can do it manually, but it is a lot quicker and less overwhelming to link your bank account directly to your Quickbooks.

You can also import transactions as a CSV if they happened outside of the 90 days Quickbooks allows when your bank is linked to it.

1. Go to your bank
2. Download transactions as a CSV
3. Import to Quickbooks
**Pro tip:** If your company has repeating transactions that are all coded the same, make a rule that automatically codes it. That will automatically code every transaction that matches the rule when you upload it, which cuts down on the amount of transactions you have to code manually, saving you time.

**Q: What are best practices for managing your budget?**

**A:** Foremost, compare your actual to your budget every month. You should have a budget for inventory purchases (based on your sales trends) and budgets for each line item of your overhead such as rent and subscriptions. List this out accordingly, then every month populate the actual spending side by side with your anticipated budget. Calculate if you went over or under. If there are variances, evaluate why and investigate. If you have a bookkeeper, have them do this for you monthly. Then you just need to do the questioning part of the work.

**Q: What are best practices for integrating your accounting software with multiple POS systems?**

**A:** Before you consider integration with any software, evaluate what exactly the need is. Integration works differently with different software. Integrating does not always mean less work or accurate data. With our clients, we often do a study of the software and ask ourselves if the integration is necessary. Sometimes reconciling your revenue and fees against the reports provided by your robust POS system with a single entry is good enough. Remember, you paid good money for that POS system to manage that sales data. You do not always have to duplicate every single data point again into your accounting system.

**Q: Am I doing double data entry if I record my inventory in Shopify and on QuickBooks?**

**A:** Good question. It’s hard to determine without understanding how often and what you are inputting to account for inventory. Generally speaking, inventory is adjusted at least once a month. I believe Shopify has a feature where you can add new inventory and it would subtract from stock every time you sell. This only works with finished goods and not raw goods. Even with very good inventory management systems, you will still have to create at least one entry.
a month to true your balance sheet. Then every quarter or so, you will still need to spot check and adjust for items lost or stolen or operator errors.

▼ Q: What are some software and tools beyond QuickBooks?

A: Outside of Quickbooks for small business accounting there is Xero. QuickBooks and Xero have some of the most comprehensive features for accounting. There is also Patriot software that is up and coming, Wave Accounting if you want something free. Freshbooks advertises themselves as an accounting tool, but it really focuses on customer billing and invoicing. Harvest, Freshbooks, Invoiced, and Square are for invoicing. Stitch Labs and Unleashed are for inventory. Airbase, Concur, and Expensify are for employee expense management.

▼ Q: What should I be handling verse what my bookkeeper should be handling?

A: This really depends on the service your bookkeeper is offering. With our practice, we offer full charge controller work, meaning anything from invoicing to paying bills, to financial reporting and forecasting and payroll processing. I think the more appropriate question is what is necessary to maintain your financials, and of that list, what do you enjoy working on. As much as you can, you should put your time and energy in doing the things you love.

▼ Q: How should I look for in a bookkeeper?

A: Different bookkeepers offer different services. The first step in finding a bookkeeper is to define what you need from your bookkeeper. Is it data entry for a CPA and taxes? Is it a partner to have a conversation with? Do you want someone who can do analytics and explain things to you?

Once you are clear on what it is you need, you can start interviewing bookkeepers. Ask them:

- What is the purpose of your firm?
- What's the end goal of your service?
- What services do you provide?

▼ Q: How can I improve my cash flow?
A: You want to manage your terms. In terms of customer collections, you want cash in the door always, so billing more frequently, requiring advance, retainer or deposits, and offering incentives for people paying early. In terms of payables, you want to negotiate for longer terms, 30 days or longer, request for payment plans, request for discounts if you agree to pay earlier.

▼ Q: How can I improve my cash flow predicting?

A: You do your homework. You compare your assumptions with actuals every week, then tighten up where your assumptions were off. Always investigate and understand why your assumptions are off and whether you knew about it in advance or not.

▼ Q: Are you accepting new clients?

A: Yes! We are always accepting new clients. We love working with business owners who are passionate and enthusiastic about their business, and enthusiastic about being inspired to tell their story through numbers. We are always accepting new clients, no matter their business size.