

Index

• A •

- ABIs (asset-based lenders), 220–221
- accelerated deductions, 235
- account offsets, 98, 100, 302
- accountants
 - CPAs, 2, 128, 129, 271
 - focus on errors by, 267
 - offsetting not allowed by, 44
 - usage in this book, 2
- accounting. *See also* cash management
 - accrual-basis, 13, 15, 27–28, 31–34, 62–65
 - business versus personal, 23
 - cash-basis, 13, 18, 24, 31–34, 228–229
 - controlling electronic-based systems, 259–262
 - disbursement cycle view, 312
 - errors masked in balance sheet, 44
 - for financial reporting, 27, 29–31
 - four functions of, 24–31
 - IRS requirements, 27, 28, 32, 33–34, 228
 - limiting access to records, 274
 - managerial, 26–27
 - more than recordkeeping, 23
 - purchase-order system, 314
 - recordkeeping, 23, 25–26, 31
 - scrubbing the balance sheet, 103–110
 - selling cycle view, 282
 - for tax law compliance, 28–29
- Accounting For Dummies* (Tracey), 11
- Accounting Periods and Methods* (IRS publication), 28
- accounting-driven budgets, 184–185
- accounts payable. *See also* disbursement cycle; vendors and suppliers
 - on balance sheet, 34, 49, 89
 - cash trail in, 242–243
 - decrease in statement of cash flows, 64–65
 - described, 35
 - disputed, 101
 - expected payment terms for, 101
 - in expense accounting, 12
 - JIT payment strategies, 320
 - leveraging, 111–112
 - negotiating terms for, 89, 225
 - NSTOP figured using, 117
 - trade receivable offsets, 98, 100, 302
- accounts receivable. *See also* customers; selling cycle
 - allowance for returns and discounts, 98
 - on balance sheet, 34, 48, 86
 - bankrupt customers, 294
 - cash trail in, 242–243
 - collectability of, 97–98
 - concentration of, 305
 - converting to cash, 110–111
 - currency for payment, 303
 - days sales outstanding, 86, 95
 - described, 35
 - electronic payments, 257–258, 286, 288, 300
 - eligible for leveraging, 304–305
 - factoring, 223–224
 - increase in statement of cash flows, 62
 - invoices, 291–292
 - liquidity issues for, 144
 - loan advances against, 152
 - mismanaging, 341–342
 - NSTOP figured using, 117
 - old trade, liquidating, 149
 - overdue amounts in, 42
 - in revenue accounting, 12
 - with sales growth or decline, 75, 76
 - scrubbing (case study), 104
 - terms and conditions, 289–291
 - trade payable offsets for, 98, 100, 302
- accredited investors, 200
- accrual, meaning of, 31
- accrual-basis accounting
 - cash flows not well shown by, 13, 15, 27
 - cash-basis compared to, 13, 31–33
 - defined, 31
 - deriving statement of cash flows, 62–65
 - deviations from, 33–34

- accrual-basis accounting (*continued*)
 - IRS requirements for, 27, 28
 - recognizing in financial reports, 32–33
 - required for business, 23
 - accrued expenses payable, 34, 35, 49, 65, 117
 - accrued liabilities, 89, 105–106
 - accumulated depreciation, 43–44, 49, 63–64
 - ACH (automated clearing house),
 - 257, 288, 301
 - acid-test or quick ratio, 95, 139
 - advance rates, 305–306
 - advances from customers, 299–300
 - Alight Planning Enterprise software, 174
 - amortization on intangible assets, 74, 104
 - angel investors, 200
 - Arm forecasting, 186
 - asset-based lenders (ABLs), 220–221
 - assets. *See also* depreciation
 - in accrual accounting, 33
 - appraising regularly, 274–275
 - on balance sheet, 34, 84, 85–88
 - book value of, 43
 - cash flow effect of changes, 63
 - cash sources in, 110–111
 - changes in statement of cash flows, 69–72
 - current, 84
 - evaluating, 96–100
 - fixed, 43, 52
 - intangible, amortization on, 74
 - leasing as capital source, 221–223
 - leveraging, 151–152
 - liquidating, 149–151
 - liquidity affected by, 143–145
 - loan advances against, 152
 - long-term operating, 20, 43, 52, 84
 - material versus immaterial, 88
 - nonrecurring write-downs of, 19
 - off-balance-sheet, 155
 - offsetting liabilities against, avoiding, 44
 - quick turnover for small businesses, 337
 - ratios to liabilities, 95
 - as real accounts, 38
 - real cash availability for, 97
 - revenue compared against, 52
 - sale lease-back of, 152–153
 - scrubbing (case study), 103–104
 - securing debt, 213, 214–215
 - soft, 343–344
 - audit trails, 273–274
 - audited financial statements, 85
 - audits
 - of cash activity, 253
 - by CPAs, 128, 129, 271
 - internal auditing, 280
 - internal controls required for, 271
 - surprise, 273
 - automated clearing house (ACH),
 - 257, 288, 301
 - available current working capital, 140
- **B** •
- back of the envelope (BOTE), 163
 - balance sheet
 - accrued liabilities on, 89
 - age of values on, 46, 96–97
 - assets segregated from liabilities on, 42
 - benchmarks with income statement, 52
 - capital on, 49–52
 - cash rules for, 115, 119
 - cash sources on, 86–89, 110–112
 - comparative format for, 45
 - condensed, 115–118, 121
 - current and longer-term categories, 44
 - current assets on, 84, 86–88
 - current liabilities on, 85, 89–90
 - current portion of long-term debt on, 90
 - defined, 30, 34
 - disclosure issues for, 43
 - evaluating assets, 96–100
 - evaluating liabilities, 100–102
 - external cash sources not shown, 92–93
 - fraud or errors masked by, 44
 - Great Recession driven by, 83
 - guaranteed debt commitments on, 91
 - historical nature of, 91–92
 - importance of, 83–84
 - information shown by, 37
 - intent issues for, 97
 - interrelation with other statements, 37
 - inventory on, 48, 86–87
 - knowledge presumed in reader of, 45
 - layout of, 42, 46
 - limitations of, 45–47, 91–93
 - line of credit borrowings on, 90
 - location of items on, 34, 84–85
 - long-term assets on, 84, 88
 - long-term liabilities on, 85, 90, 91

- net worth in, business value versus, 47
 - NSTOP on, 116–119
 - number of accounts on, 42
 - off-balance-sheet data, 92–93, 102, 154–155
 - original costs used for, 46
 - other names for, 34
 - performance-measurement tools, 93–96
 - PP&E on, 43–44, 48–49, 52, 88
 - prepaid expenses on, 48, 87
 - prevalence of distortion in, 96
 - prototype, 42
 - revenue and expenses on, 47–49
 - rounding of balances on, 45
 - scrubbing, 103–110
 - for small businesses, 338
 - as snapshot in time, 91
 - standard structure for, 84–85, 86
 - statement of cash flows compared to, 70–72
 - statement of cash flows not reconciled with, 78–79
 - subsequent events, 47
 - timing and frequency for, 45, 47
 - trade accounts payable on, 49, 89
 - trade accounts receivables on, 48, 86
 - unaudited versus audited, 85
 - bank reconciliations, 253
 - bankrupt customers, 294
 - banks
 - account types, 250
 - authorization for accounts, 251
 - borrowing from, 218–220
 - cash management tools from, 260–261
 - compensating balances, 254–255
 - controlling accounts, 252–254
 - criteria for loans from, 219–220
 - establishing accounts, 249–252
 - FDIC insurance for accounts, 251
 - lockboxes at, 254, 255, 300
 - number of accounts needed, 251
 - percent of people without accounts, 261
 - roll over refusal by, 73
 - signers for accounts, 251–252, 276
 - stop payments, 254
 - sweep accounts and ZBAs, 255
 - bartering, 302
 - behavior of accounts analysis, 117
 - Better Business Bureaus, 287
 - bonuses, timing, 325–326
 - book entry, 64
 - book value net of accumulated depreciation, 43–44
 - book value of assets, 43
 - bookkeeping, 23, 25–26, 31
 - BOTE (back of the envelope), 163
 - bottom line, 59, 128, 182
 - bottom-up forecasting strategy, 175–176
 - break-even cash-flow scenario, 74
 - break-even point, 181
 - budget. *See also* financial forecasts
 - department responsible for, 173
 - information for, 174
 - operating plan implementation, 190
 - sales-driven versus accounting-driven, 184–185
 - software for, 174
 - variance analysis, 188–190
 - Budget Maestro software, 174
 - Buffet, Warren (investor), 241, 347
 - burn rate, 76–77, 126, 140, 182
 - business plan
 - accumulating data for, 160, 166, 170
 - basic outline for, 160–163
 - CART concept for, 171–172
 - coordinating the timing of, 166
 - creators mirrored in, 160
 - developing, 163–169
 - GIGO principle for, 167
 - historical information for, 165–166
 - involving key management in, 166
 - KISS principle for, 169
 - methods for starting, 163–164
 - required for loans, 159, 220
 - SWOT analysis for, 167–169
 - third-party information in, 169–171
 - business valuation, 39, 79, 92
- C •
- CA (confidentiality agreement), 317
 - cap table, 182
 - capital. *See also* debt and debt capital; equity capital
 - on balance sheet, 36, 49–52
 - in capital expenditures, 20
 - cash on hand versus, 195
 - concept of, 194–195
 - condensed balance sheet showing, 118

- capital (*continued*)
 - essence of, 194
 - free, 51
 - from generating internal cash flow, 224
 - gifts and grants for, 225
 - good use of, 204–208
 - government aid for, 225
 - importance for success, 193, 194, 196
 - net working capital, 95
 - off-balance-sheet sources of, 92–93, 154–155
 - from partnerships, 225
 - qualifying sources of, 209
 - seed, 197
 - small business focus on, 335
 - tips for raising, 209–210
 - types of, 194
- capital expenditures, 20, 61, 66
- capital stock, 50, 67–68, 195–196, 203–204
- capitalization structure analysis, 118
- capitalization table, 182
- capitalized start-up costs, 100
- CART (complete, accurate, reliable, and timely) information
 - for business plan, 171–172
 - internal management aided by, 109
 - invoices, 291–292, 305
 - for outsiders' confidence, 109–110
 - for small businesses, 340
- cash
 - benchmarks for cash level, 265–266
 - capital versus, 195
 - creating from inventory, 323
 - importance of managing, 241–242
 - investing in, 51–52
 - as key business indicator, 262–266
 - liquidity versus available cash, 133, 142
 - location on balance sheet, 34
 - as one component of solvency, 142
 - presence in every transaction, 242–243
 - protecting in small businesses, 339–340
 - recordkeeping for collections, 25
 - seasonal ebb and flow of, 263–265
 - selling cycle as consumer of, 283–284
 - selling cycle generation of, 281
 - small business focus on, 335
 - cash burn rate, 76–77, 126, 140, 182
 - cash flow, defined, 1
 - cash flow from activities
 - financing activities, 57, 61, 66–69
 - investing activities, 57, 61, 66
 - operating activities, 56–57, 61, 62–66
 - cash flow per share, 124–125
 - cash inflow, 1
 - cash management
 - available lender for, 244–245, 246
 - controlling accounts, 252–254
 - controlling electronic-based accounting systems, 259–262
 - electronic transactions for, 256–259
 - establishing accounts, 249–252
 - having too much cash, 248
 - maximizing the cash balance, 254–256
 - normal cash balance, 245–249
 - planning for needs, 246
 - cash outflow, 1
 - cash payments. *See* disbursement cycle
 - cash rules, 115, 119
 - cash-basis accounting, 13, 24, 28, 31–34, 228–229
 - cash-flow analysis
 - cash flow as ratio to net income, 125
 - cash flow compared to sales revenue momentum, 121–123
 - cash flow per share, 124–125
 - cash rules for, 115, 119
 - of changes in financial condition from making profit, 119–121
 - comparing dividends to cash flow, 125
 - condensed balance sheet for, 115–118, 121
 - earnings per share (EPS), 124
 - EBITDA for, 127
 - financial reports needed for, 113
 - fraud considerations, 115
 - free cash flow, 126
 - importance of, 113–114
 - massaging the numbers, 127–129
 - price-earnings ratio, 124
 - cash-flow scenarios
 - break-even, 74
 - monitoring, 72
 - negative cash flow, 73, 76–77

- sales growth or decline, 75–76
- steady state, 73–74
- cash-flow statement. *See* statement of cash flows
- checks
 - accepting payment by, 300
 - advanced controls for, 261
 - electronic cash versus, 259
 - signing authority for, 252, 276
- collateral, 150, 217, 219, 288–289
- collection agencies, 295
- collection efforts, 292–296
- commissions, 325–327
- common stock, 195–196
- compensating balances, 254–255
- computer controls, 275
- concentration of receivables, 305
- confidentiality agreement (CA), 317
- contra accounts, 43, 64
- cooking the books, 128, 271
- cost of goods sold expenses, 17, 28, 96, 177
- CPA (certified professional accountant), 2, 128, 129, 271. *See also* accountants
- cram down, 321
- credit cards, 258, 288, 301
- credit reporting agencies, 286–287
- credit review and approval, 257–258, 286–289
- creditors
 - external, managing, 316–317
 - priority, 216
 - unsecured, 215, 225
- critical economic drivers, 176–177, 179
- cross-aging factor, 306–307
- currency for payment, 303
- current assets, 84, 110–111, 146
- current, defined, 44
- current liabilities, 85, 101–102, 214
- current ratio, 95, 139
- customers. *See also* selling cycle
 - bankrupt, 294
 - data sheet for, 287
 - diversifying the base of, 289–290
 - 80/20 rule for, 289–290
 - as liquidity sources, 153–154, 225
 - qualifying, 284–286
 - reputation risk with, 285
 - terms and conditions for, 289–291, 292
- **D** •
 - days costs of goods sold outstanding in inventory, 96, 139
 - days sales outstanding (DSO), 86, 95, 139
 - debit cards, 258, 261, 301
 - debt and debt capital. *See also* lending agreements; liabilities
 - appropriate use of, 112, 213, 216–218
 - from asset-based lenders, 220–221
 - assets securing, 213, 214–215
 - available lender for, 244–245, 246
 - on balance sheet, 36
 - bank refusal of roll over, 73
 - from banks, 218–220
 - basics, 214–216
 - business plan required for, 159, 220
 - cash flow from financing activities, 67
 - collateral for, 150, 217, 219
 - cost of, 51
 - current versus long-term, 101–102
 - debt capital, defined, 194
 - debt, defined, 21, 30
 - default provisions for, 216
 - eligible receivables for, 304–305
 - equity capital compared to, 205–208
 - exit strategies for capital sources, 210
 - external capital markets, 338–339
 - factoring receivables for, 223–224
 - financial reporting required for, 30–31
 - finite life of debt, 30
 - from government programs, 223
 - inappropriate use of, 145–147
 - leasing as source of, 221–223
 - lending agreements, 216, 304–310
 - leveraging equity for, 50
 - liquidity issues for, 145–147
 - loan advances against assets, 152
 - long-term debt, 67–68, 85, 90, 101–102, 214
 - misapplying, 345–346
 - notes payable, 105, 112, 153
 - personal guarantees for, 216, 219–220
 - priority creditors for, 216
 - private equity groups' use of, 202
 - proactive management of, 338
 - pros and cons of, 155–156, 237
 - recording interest paid on, 21

- debt and debt capital (*continued*)
- roll over, 67
 - rules for asset investments, 146–147
 - secondary repayment sources, 219–220
 - for small businesses, 338–339
 - subordinated debt, 224
 - subordination agreements with, 216
 - tax management for cash flow, 226–237
 - treating sources as partners, 210
 - from unsecured creditors, 215, 225
 - vendor-provided financing, 324
- debt holders. *See* lenders
- debt load, 50
- debt maturity, 214
- debt security, 214–215
- debt service coverage ratio, 139
- debt-to-equity ratio, 96, 139, 205
- declining sales, 75–76, 148–149
- default provisions for debt, 216
- deferring tax obligations, 104, 227
- deposits from customers, 299–300
- depreciation
 - accounting methods for, 18, 19
 - accumulated, 43–44, 49, 63–64
 - adding to profit for cash flow calculation, avoiding, 18
 - as book entry, 64
 - book value net of accumulated, 43–44
 - with break-even scenario, 74
 - cash flow due to, 74
 - in expense accounting, 13
 - historical nature of, 75
 - as noncash expense, 15, 18
 - nonrecurring write-downs of assets versus, 19
 - recovery of cash through, 52
 - with steady state scenario, 74
- dilution ratio, 306
- disbursement cycle
 - accounting/financial view of, 312
 - approval and authorization, 315
 - controlling, 314–316
 - creating cash from inventory, 323
 - float strategies, 322
 - grading vendors and suppliers, 320–322
 - improving cash flows, 318–324
 - invoice verification, 315
 - JIT payment strategies, 320
 - leveraging employees, 324–329
 - managing external creditors, 316–317
 - negotiating with vendors, 89, 225, 318–319
 - payment authorization, 316
 - purchase-order system, 314
 - qualifying vendors and suppliers, 313–314
 - recordkeeping, 25–26
 - separation of duties, 315
 - for small businesses, 336–337
 - strategic view of, 312
 - vendor-provided financing, 324
- disclosure
 - balance sheet issues regarding, 43
 - of capital-raising activities, 209–210
 - of income statement, 53
 - NDA (nondisclosure agreement), 317
 - of terms and conditions, 291
- discounts, 98, 290, 296–297
- distributions of earnings, owner W-2 wages versus, 232–234
- dividends, 21, 68–69, 125, 195
- doctoring the numbers, 127–129
- DSO (days sales outstanding), 86, 95, 139
- dual bottom lines, 182
- due diligence, 200, 211

● E ●

- earnings before income tax, 54
- earnings before interest and income tax (EBIT), 54
- earnings before interest, tax, depreciation, and amortization (EBITDA), 127
- earnings per share (EPS), 53, 115, 124, 205, 207
- earnings statement. *See* income statement
- economic drivers, critical, 176–177, 179
- EFT (electronic funds transfer), 257, 288, 301
- electronic payments, 257–258, 286, 288, 302
- electronic-based systems, 255–262
- eligible receivables, 304–305
- embezzlement. *See* fraud and embezzlement
- employees
 - allowances versus expense reports, 329
 - background checks for, 274
 - commissions and bonuses, 325–326
 - compensation tied to performance, 326–327
 - leveraging, 304, 324–329

- as liquidity sources, 154
 - managing advances, 87
 - noncash compensation for, 327–328
 - staffing companies for, 319
 - vacations, 276, 329
 - whistle-blowing by, 273
 - worker's compensation insurance, 286
 - environment fees and taxes, 236
 - equipment. *See* property, plant, and equipment
 - equity. *See* owner's equity
 - equity capital
 - accredited investors, 200
 - from angel investors, 200
 - on balance sheet, 36
 - capital stock issues for, 20
 - capital stock versus retained earnings, 50
 - cost of, 51, 196, 199
 - criteria of private sources of capital, 199–200
 - debt capital compared to, 205–208
 - defined, 194, 195
 - dividends or distributions with, 195
 - due diligence by investors, 200, 211
 - equity preference, 195–196
 - exit strategies for capital sources, 210
 - from FF&CBAs, 198–199
 - financial reporting required for, 30–31
 - from founders, 197
 - good use of, 204–208
 - as long-term source, 30
 - management influence with, 196
 - for noncash compensation, 327–328
 - from other private groups, 202–203
 - from private equity groups, 201–202
 - public sources of, 203–204
 - realities of capital markets, 210–211
 - rules for asset investments, 146–147
 - seed capital, 197
 - tips for raising, 209–210
 - treating sources as partners, 210
 - from venture capitalists, 201
 - equity kicker, 203
 - equity preference, 195–196
 - equity shareholders. *See* investors
 - estimated tax payments, 231–232, 264
 - evading taxes, 29
 - Example icon, 6
 - Excel (Microsoft) for budgeting, 174
 - exception reports, 260
 - executive summary in business plan, 161
 - exit strategies for capital sources, 210
 - expense accounting, 12–13
 - expense reports, 329
 - expenses
 - accounting for, 12–13
 - on balance sheet, 47–49
 - capitalized start-up costs, 100
 - cash outflow versus, 17, 18
 - cash-basis accounting for tax purposes, 228–229
 - critical economic drivers, 177
 - limits on reducing, 55
 - owner advances as, 100
 - as percentage of revenue, 14
 - reduced by electronic cash, 259
 - relationship of profit or loss to, 11
 - revenue more important than, 54–55
 - with sales decline, 75
 - extending the runway, 182
 - external capital sources. *See* debt and debt capital; equity capital
 - external collection efforts, 294–296
 - external financial reports
 - for creditors, 316–317
 - income statement for, 53
 - for investors and lenders, 19–20, 27, 30–31
 - projections, 184–185
 - recordkeeping for, 31
 - statement of cash flows in, 19–20
 - for tax authorities, 27
- F ●**
- factoring receivables, 223–224
 - FDIC (Federal Deposit Insurance Corporation), 251
 - FF&CBAs (family, friends, and close business associates), 155, 198–199
 - financial forecasts. *See also* budget accumulating data for, 173–174
 - Arm forecasting, 186
 - basic projection model for, 178–180
 - bottom-up strategy for, 175–176
 - broadening the use of, 191–192
 - combination strategy for, 176
 - complete, 178

- financial forecasts (*continued*)
- detail in, 185
 - internal versus external, 184–185
 - key economic drivers for, 176–177, 179
 - low, medium, and high scenarios, 186
 - for management discussion, 190–191
 - as management tools, 183–184, 188–192
 - operating plan using, 190
 - overly optimistic, 348–349
 - quarterly information on, 178
 - recasting to avoid surprises, 183
 - rolling, 183–184
 - for small businesses, 334–335
 - summary format for, 179
 - terminology for, 181–182
 - top-down strategy for, 174–175
 - variance analysis using, 188–190
 - what-if analysis using, 185–187
 - year-end financials in first column, 178
- financial reporting
- to capital sources, 211
 - defined, 29
 - exception reports, 260
 - external, 19–20, 27, 30–31, 53, 184–185, 316–317
 - financial statements for, 29–30
 - flash reports, 253, 260, 266
 - fraudulent, 271
 - identifying accrual accounting in, 32–33
 - internal, 27, 79, 85, 184–185
 - to investors and lenders, 19–20, 27, 30–31
 - knowledge presumed in reader of, 45
 - for lending agreements, 307–308
 - to managers, 27, 72, 79
 - for profit-sharing plans, 41
 - purposes of, 39
 - to the SEC, 41
 - to tax authorities, 27
 - types of reports, 27
 - unaudited versus audited statements, 85
- financial statements. *See also specific statements*
- about the examples in this book, 2
 - availability and distribution of, 40–41
 - interrelated nature of, 37
 - need for, 38–39
 - periodic, for monitoring purposes, 177
 - primary, 29–30
 - for privately owned companies, 40–41
 - as privileged information, 40
 - for publicly owned companies, 40, 41
 - for small businesses, 334
 - standards for, 38
 - supplemental information for, 30
- financial summary in business plan, 163
- financing activities. *See also* debt and debt capital
- cash flow from, 57, 61, 66–69
 - defined, 20
 - on statement of cash flows, 20–21
- fixed assets, 43, 52. *See also* long-term assets
- flash reports, 253, 260, 266
- float, 254, 255, 322
- flow-through taxable entities, 229, 230–231, 345
- FLV (forced liquidation value), 92
- FOB (free on board), 290–291
- forecasting. *See* financial forecasts
- founders, equity capital from, 197
- fraud and embezzlement. *See also* internal controls
- accounting errors versus, 268
 - balance sheet masking, 44
 - bank account signers, 251–252, 276
 - cash-flow analysis uncovering, 115
 - financial reporting fraud, 271
 - fraudulent business practices, 270–271
 - internal controls, 268–270, 272–278
 - limitations of internal controls, 278–280
 - policy of absorbing, 279
 - procedure when discovered, 278
 - reduced by electronic cash, 259
 - security measures for preventing, 278
 - vulnerability to, 268, 269
 - ways of finding, 279–280
- free capital, 51
- free cash flow, 126
- fume date, 182
- G ●
- general operating account, 250
 - gifts of capital, 225
 - GIGO (garbage-in, garbage-out), 94, 167
 - gold, payment in, 303
 - government programs, 223, 225, 226
 - grading vendors and suppliers, 320–322

grants, 225
 Great Plains software, 174
 Great Recession
 as balance-sheet driven, 83
 customer credit changed by, 289
 deposits, advances, and prepayments
 in, 299
 FLV use in, 92
 lessons from, 346–347
 liquidity's importance in, 131
 gross margins, effect on liquidity, 136–137
 gross wages or gross earnings, 25
 growth
 cash-flow scenario, 75–76
 liquidity issues with, 147–148, 350
 not liquidating assets needed for, 151
 sustainable growth rate, 182

• H •

haircut, 321
 hiding internal controls, 277
 high forecast scenario, 186
How to Read a Financial Report (Tracy),
 114, 271

• I •

icons in book margins, explained, 5–6
 immaterial assets, 88
 income statement
 benchmarks with balance sheet, 52
 cash flow not shown on, 9, 14–16
 defined, 30
 disclosure of, 53
 for external financial reports, 53
 as focus before recent downturn, 83
 importance of revenue on, 54–55
 interest expenses on, 21
 interrelation with other statements, 37
 other names for, 9, 14, 30
 profit or loss revealed by, 37
 rounding of balances on, 52
 statement of cash flows numbers versus,
 16–18
 income tax payable, 65, 117
 ineligible receivables, 304–305
 insurance, 251, 286, 324
 intellectual property, 88, 151

interest expenses, 18, 21
 internal auditing, 280
 internal collection efforts, 292–294
 internal controls. *See also* fraud and
 embezzlement
 for accounting reliability, 269–270
 antifraud purpose of, 270
 audit trails, 273–274
 checklist for, 272–276
 computer controls, 275
 cost effectiveness of, 277, 279
 curbing indifference to, 275
 defined, 268–269
 to deter and detect, 269
 employee background checks, 274
 employee whistle-blowing, 273
 fraudulent business practices, 270–271
 hiding, 277
 for high-risk areas, 272
 importance of implementing, 268
 job sharing, 276
 key asset appraisal, 274–275
 legal implications of, 276–277
 limitations of, 278–280
 limiting access to records, 274
 periodic review of, 274
 procedure after fraud discovery, 278
 required for CPA audits, 271
 separation of duties, 273, 276, 315
 for small businesses, 275–276
 surprise audits, 273
 internal financial reports, 27, 79, 85, 184–185
 inventory
 appropriate levels of, 86–87
 on balance sheet, 34, 48, 86–87
 converting to cash, 110–111
 creating cash from, 323
 days costs of goods sold outstanding in, 96
 decrease in statement of cash flows, 63
 defined, 26
 described, 35
 excessive, problems from, 144–145
 in expense accounting, 12
 IRS requirements for accounting, 28
 LCM value for, 98
 liquidating, 63, 150
 liquidity issues for, 144–145
 NSTOP figured using, 117
 obsolescent, 342–343

- inventory (*continued*)
 - recordkeeping for, 26
 - with sales growth or decline, 75, 76
 - scrubbing (case study), 104
 - subcomponents of, 86
 - valuing correctly, 98–99
 - investing. *See also* equity capital
 - bank account for, 250
 - in cash, 51–52
 - defined, 20, 57
 - rules for asset investments, 146–147
 - in soft assets, 343–344
 - on statement of cash flows, 20, 57, 61
 - types of, 66
 - investors
 - accredited, 200
 - angel investors, 200
 - due diligence by, 200, 211
 - financial reports for, 19–20, 27, 30–31
 - financial statements needed for, 39
 - management influence of, 196
 - other private groups, 202–203
 - private, criteria of, 199–200
 - private equity groups, 201–202
 - venture capitalists, 201
 - invoices, 291–292, 305, 315
 - IRS
 - financial reports for, 27
 - requirements of, 27, 28, 32, 33–34, 228
 - safe harbor rules, 232
- **J** •
- Jargon Alert icon, 6
 - JIT (just in time) payment strategies, 320
 - job sharing for internal control, 276
- **K** •
- Key Concept icon, 5
 - key economic drivers, 176–177, 179
 - KISS principle for business plan, 169
 - Koo, Richard (financial expert), 83
- **L** •
- LCM (lower of cost or market) value, 98
 - leases, 152–153, 221–223, 324. *See also* liabilities
 - lenders. *See also* banks
 - asset-based, 220–221
 - available, 244–245, 246
 - financial reports for, 19–20, 27, 30–31
 - financial statements required by, 39
 - as liquidity sources, 152–153
 - need and availability of, 93
 - lending agreements
 - advance rates for, 305–306
 - CART invoices for, 306
 - concentration of receivables affecting, 305
 - covenants, 216, 307
 - cross-aging factor, 306–307
 - dilution ratio, 306
 - eligible receivables for, 304–305
 - getting competitive fees and bids, 309
 - hidden fees and charges, 308–310
 - proactive management of, 309–310
 - reporting requirements, 307–308
 - restrictions on borrowing, 308
 - leverage, defined, 50
 - leveraging. *See also* debt and debt capital; equity capital
 - assets, 151–152
 - employees, 304, 324–329
 - equity versus debt capital for, 205, 207
 - the float, 255, 322
 - liabilities, 111–112
 - to manage seasonality, 303–304
 - payment terms, 290
 - professional counsel for, 151
 - pros and cons of, 155–156, 237
 - unsecured creditors, 225
 - vendors and suppliers, 304, 337
 - liabilities. *See also* debt and debt capital
 - in accrual accounting, 33
 - on balance sheet, 34, 84, 89–91
 - cash flow effect of changes, 63
 - changes in statement of cash flows, 69–72
 - current, 85, 101–102, 214
 - evaluating, 100–102
 - leveraging, 111–112
 - off-balance-sheet, 102
 - offsetting, avoiding, 44
 - properly accounting and accruing, 101
 - ratios to assets, 95
 - as real accounts, 38
 - recognizing earned revenue, 102
 - scrubbing (case study), 104–106

line of credit, 90, 136, 146

liquidity

- available cash versus, 133, 142
- defined, 131, 133
- example illustrating, 136–137
- growth leading to issues, 147–148, 350
- importance during recession, 346
- importance of, 131
- liquidating assets, 149–151
- liquidating inventory, 63, 150
- measuring, 133, 136–137, 140–142
- of public sources of capital, 204
- solvency versus, 131, 133–137
- sources of, 152–154, 225
- traps to avoid, 143–149

liquidity availability analysis, 140

loans. *See* debt and debt capital

lockboxes, 254, 255, 300

long-term assets

- on balance sheet, 84, 88
- book value of, 43
- cash flow and purchase of, 111
- cash recovery through depreciation, 52
- defined, 84
- as fixed assets, 43
- as investing activities, 20

long-term debt

- on balance sheet, 85, 90
- classification of, 101–102
- current portion of, 90
- defined, 85, 214
- moving line of credit borrowings to, 90
- on statement of cash flows, 67–68

loss. *See also* fraud and embezzlement

- defined, 11
- on income statement, 14
- income statement showing, 37
- negative cash flow due to, 126
- noncash expenses, 74
- for year, in retained earnings, 36

low forecast scenario, 186

lower of cost or market (LCM) value, 98

• M •

management accounting, 26–27

management exposure, 204

management influence, 196

management integrity and credibility, 191

management of earnings, 127–129

market assessment in business plan, 161–162, 163

market conditions, changing, 347–348

market stability, cash needs and, 247–248

massaging the numbers, 127–129

material assets, 88

MDA (management discussion and analysis), 190–191

MDOR (management discussion of operating results), 190–191

medium forecast scenario, 186

Microsoft Excel for budgeting, 174

• N •

NDA (nondisclosure agreement), 317

negative cash flow, 73, 76–77, 126

net income

- adjustments to arrive at cash flow, 62–65
- as bottom line, 59
- cash flow as ratio to, 125
- cash flow from operating activities versus, 57, 61
- on income statement, 54
- return on investment measure using, 52

net short-term operating position (NSTOP), 116–121, 124–125

net 30, 290, 296–297, 324

net working capital, 95, 119, 139

net worth, 47

netting, 117–118

nexus, 236–237

noncash expenses

- amortization on intangible assets, 74
- depreciation as, 15, 18, 74
- employee compensation, 327–328
- losses, 74

nondisclosure agreement (NDA), 317

nonroutine cash flows, 244

notes payable, 105, 112, 153

• O •

obsolescent inventory, 342–343

offsetting, 44

operating activities

- alternative method of reporting, 21
- bank account for, 250

- operating activities (*continued*)
 - cash flow from, 56–57, 61, 62–66
 - defined, 21
 - multiple operating plans, 346–347
 - on statement of cash flows, 21
 - operating conditions, cash needs and, 247–248
 - operating margin, measuring, 54
 - operating plan, 190
 - operational overview in business plan, 162–163
 - operations expenses, cash outflow versus, 17
 - owner advances, 100
 - owner's equity. *See also* equity capital
 - on balance sheet, 36, 85
 - capital stock, 50, 67–68
 - cash flow from financing activities, 67–69
 - changes in statement of cash flows, 69–72
 - debt-to-equity ratio, 96, 139, 205
 - defined, 20, 30
 - justifying use of, 51
 - owner advances against, 100
 - as real account, 38
 - retained earnings, 36, 50, 68–69
 - return on investment measure using, 52
 - scrubbing (case study), 104–106
 - owner's equity shareholders. *See* investors
 - owners, financing by, 154–155
- p ●**
- P&L report. *See* income statement
 - partnerships, capital from, 225
 - password protection, 260
 - past-due accounts and collection, 292–296
 - PayPal, 288
 - payroll, 25, 29, 250
 - PEGs (private equity groups), 201–202
 - performance-measurement tools
 - available current working capital, 140
 - for balance sheet evaluation, 93–96
 - benchmarks, 52, 265–266
 - cash as key indicator, 262–266
 - cash burn rate, 76–77, 126, 140
 - current ratio, 95, 139
 - day sales outstanding, 86, 95
 - days costs of goods sold outstanding in inventory, 96, 139
 - days sales outstanding, 139
 - debt service coverage ratio, 139
 - debt-to-equity ratio, 96
 - liquidity availability analysis, 140
 - liquidity measurements, 140–141
 - net working capital, 95, 139
 - quick or acid-test ratio, 95, 139
 - return on investment, 52
 - solvency measurements, 139
 - using after scrubbing, 106–108
 - personal guarantees for debt, 216, 219–220, 288–289
 - phantom equity, 328
 - plant. *See* property, plant, and equipment
 - positive pay, 260–261
 - PP&E. *See* property, plant, and equipment
 - preferred stock, 195
 - prepaid debit cards, 261, 301
 - prepaid expenses, 35, 48, 63–64, 87, 117
 - prepayment by customers, 299–300
 - price increases, 177
 - price-earnings ratio, 124–125
 - priority creditors, 216
 - private equity groups (PEGs), 201–202
 - private sources of capital, 199–203, 210, 211
 - privately owned companies, 40–41, 128
 - privileged information, 40
 - procurement, recordkeeping for, 26
 - profit
 - cash flow from, 11, 15–18
 - cash flow versus, 16–17, 55, 333
 - changes in financial condition from making, 119–121
 - defined, 11
 - dividends from, 21
 - on income statement, 14
 - income statement showing, 37
 - as percentage of revenue, 14
 - statement of cash flows not showing, 22
 - for year, in retained earnings, 36
 - profit and loss statement. *See* income statement
 - profit-sharing plans, 41
 - projections. *See* financial forecasts
 - property, plant, and equipment (PP&E)
 - accumulated depreciation deducted from, 43
 - on balance sheet, 43–44, 48–49, 52, 88
 - balance sheet reporting of, 43–44
 - book value of assets, 43

cash flow from investing activities, 61, 66
 cash-basis accounting for items, 34
 contra account for, 43
 cost of land (nondepreciable) in, 43
 described, 35, 88
 leasing as capital source, 221–223
 liquidating, 150
 liquidity affected by, 145
 recordkeeping for, 26
 scrubbing (case study), 104
 valuing correctly, 99
 property taxes, 236
 public sources of capital, 203–204
 publicly owned companies, 40, 41, 53
 purchase-order system, 314

• Q •

qualifying
 customers, 284–286
 vendors and suppliers, 313–314
 quick or acid-test ratio, 95, 139
 QuickBooks software, 174

• R •

raising capital. *See* debt and debt capital;
 equity capital
 ratios. *See also* performance-measurement
 tools
 cash flow to net income, 125
 current, 95, 139
 debt service coverage, 139
 debt-to-equity, 96, 139, 205
 dilution, 306
 performance measurement, 95, 96
 price-earnings ratio, 124
 quick or acid-test, 95, 139
 solvency measurement, 133, 136, 139
 real accounts, 38
 real estate, leveraging, 151
 recasting, 183
 recessions, drivers for, 83. *See also* Great
 Recession
 recordkeeping, 23, 25–26, 31
 references of customers, 287
 regular taxable entities, 230–231
 Remember icon, 5
 reputation risk with customers, 285

restricted cash accounts, 250
 retained earnings, 36, 50, 68–69
 return on investment, 52, 205, 207
 revenue
 accounting for, 11–12
 accounts receivable for, 36
 assets compared against, 52
 on balance sheet, 47–49
 book versus tax income, 191
 cash flow effect of changes, 75–76
 cash inflow versus, 17
 cash-basis accounting for tax purposes,
 228–229
 critical economic drivers, 177
 decline, liquidity issues with, 148–149
 expenses as percentage of, 14
 growth, liquidity issues with, 147–148
 IRS requirements for accounting, 28
 momentum, cash flow compared to,
 121–123
 more important than expenses, 54–55
 potential increase as limitless, 55
 profit as percentage of, 14
 relationship of profit or loss to, 11
 requirements for private capital, 199
 skimming (tax evasion), 29
 taxable income trap, 344–345
 as top line, 59
 revenue and expense accounting, 11–13, 32
 risk
 balancing reward with, 210
 with debt capital, 205, 207
 with discounts, 296–297
 with equipment leases, 222
 with equity kickers, 203
 of fraud, 268, 269
 internal controls for high-risk areas, 272
 managing capital risks, 205
 with private sources of capital, 200, 201, 203
 reputation, with customers, 285
 returns on, 199
 for unsecured creditors, 215
 rolling forecasts, 183–184
 routine cash flows, 244

• S •

safe harbor rules, 232
 sale lease-back of assets, 152–153

- sales revenue. *See* revenue
- sales skimming (tax evasion), 29
- sales taxes, 236
- sales-driven budgets, 184–185
- SALT (state and local taxation), 235–237, 264
- SBA (Small Business Administration), 223
- scientific wild-ass guess (SWAG), 164
- scrubbing the balance sheet, 103–110
- seasonality, 263–265, 303–304
- secondary repayment sources, 219–220
- Securities and Exchange Commission (SEC), 41
- security interest or position, 215
- security measures, 278
- seed capital, 197
- selling cycle
 - accounting/financial view of, 282
 - alternative forms of payment, 300–303
 - CART invoices, 291–292, 305
 - cash generated from, 281
 - as consumer of cash, 283–284
 - creative payment terms, 297–298
 - credit review and approval, 286–289
 - deposits, advances, and prepayments, 299–300
 - discounts, 290, 296–297
 - importance of managing, 281
 - improving cash flows, 296–304
 - lending agreement management in, 304–310
 - past-due accounts and collection, 292–296
 - qualifying the customer, 284–286
 - seasonality in, 303–304
 - setting customer terms and conditions, 289–291
 - for small businesses, 336
 - strategic view of, 282–283
- separation of duties, 273, 276, 315
- shareholders. *See* investors
- shocks to cash resources, 244
- signers for bank accounts, 251–252, 276
- silver, payment in, 303
- Small Business Administration (SBA), 223
- Small Business Financial Management Kit For Dummies* (Tracy and Tracy), 47, 79, 156
- small businesses
 - accounting adjustments in, 349
 - accrual accounting for, 24
 - balance sheet for, 338
 - CART information for, 340
 - cash-basis accounting use in, 24, 32
 - cash-flow management in, 333–340
 - creative cash generation for, 337–338
 - disbursement cycle for, 336–337
 - financial statements for, 334
 - focus on capital and cash, 335
 - internal controls for, 275–276
 - planning and forecasting for, 334–335
 - protecting cash in, 339–340
 - selling cycle for, 336
 - statement of cash flows for, 77–78
- soft assets, 343–344
- software for budgeting, 174
- solvency
 - cash component of, 142
 - defined, 133
 - example illustrating, 134–136
 - liquidity versus, 131, 133–137
 - measuring, 133, 136, 137–139
- staffing companies, employees from, 319
- staggering cash flow, 265
- start-up phases
 - capitalized start-up costs, 100
 - negative cash flow in, 76–77
 - normal cash balance for, 245–246, 248
- state and local taxation (SALT), 235–237, 264
- state lending programs, 223
- statement of cash flows
 - accounts payable decrease, 64–65
 - accounts receivable increase, 62
 - accrued expenses payable increase, 65
 - accumulated depreciation increase, 64
 - basic example, 60
 - business valuation tied to, 79
 - cash flow from financing activities on, 57, 61, 66–69
 - cash flow from investing activities on, 57, 61, 66
 - cash flow from operating activities on, 56–57, 61, 62–66
 - change in cash on, 21–22

- changes in assets, liabilities, and owner's equity on, 69–72
 - comparing with balance sheet, 70–72
 - defined, 30
 - in external financial reports, 19–20
 - financial condition indicated by, 69–70
 - financing activities on, 20–21
 - importance of, 59, 83
 - income statement numbers versus, 16–18
 - income tax payable increase, 65
 - information shown by, 37
 - interrelation with other statements, 37
 - inventories decrease, 63
 - investing activities on, 20
 - mandate in reports, 55, 59
 - massaging the numbers, 127–129
 - with negative cash flow, 73, 76–77
 - not reconciled with balance sheet, 78–79
 - number of lines on, 78
 - operating activities on, 21
 - prepaid expenses increase, 63–64
 - profit not knowable from, 22
 - purposes of, 55, 69
 - redesigning for internal reports, 79
 - rounding of balances on, 55
 - with sales growth or decline, 75–76
 - for small businesses, 77–78
 - with steady state scenario, 73–74
 - strategies and policies not shown by, 78
 - timing and frequency of, 72
 - statement of financial condition or position. *See* balance sheet
 - statement of operations. *See* income statement
 - steady state cash-flow scenarios, 73–74
 - stop payments, 254
 - subchapter S corporations, 229, 230–231
 - subordinated debt, 224
 - subordination agreements with debt, 216
 - subsequent events, 47
 - suppliers. *See* vendors and suppliers
 - surprise audits, 273
 - sustainable growth rate, 182
 - Sutton, Willie (bank robber), 267
 - SWAG (scientific wild-ass guess), 164
 - sweat equity, 197
 - sweep accounts, 255
 - SWOT analysis for business plan, 167–169
- T ●
- taxes
 - accelerated deductions, 235
 - accounting for compliance, 28
 - basing economic decisions on, 227
 - book versus tax income, 191
 - cash flow impacted by, 264
 - complying with requirements, 227, 236
 - deferring obligations, 104, 227
 - estimated payments, 231–232, 264
 - evading, 29
 - financial reports for authorities, 27
 - financial statements for returns, 39
 - flow-through taxable entities, 229, 230–231, 345
 - income tax payable increase, 65
 - managing to improve cash flow, 226–235
 - owner W-2 wages versus distributions of earnings, 232–234
 - professional counsel for, 227
 - recordkeeping for, 25
 - regular taxable entities, 230–231
 - reporting income on cash basis, 228–229
 - specialized incentives, 235
 - state and local (SALT), 235–237, 264
 - structuring the business for, 229–231
 - tax credits, 234
 - taxable income trap, 344–345
 - Technical Stuff icon, 5
 - terms and conditions
 - creative payment terms, 297–298
 - for customers, 289–291, 292
 - disclosure of, 291
 - expected payment terms, 101
 - for government programs, 226
 - negotiating with vendors, 89, 225, 318–319
 - vendor, liquidity affected by, 136
 - third-party information in business plan, 169–171
 - Tip icon, 5
 - top line, 59
 - top-down forecasting strategy, 174–175

366 Cash Flow For Dummies

top-line approach, 326–327

Tracy, John A.

Accounting For Dummies, 11

How to Read a Financial Report, 114, 271

Small Business Financial Management Kit

For Dummies, 47, 79, 156

Tracy, Tague C. (*Small Business Financial*

Management Kit For Dummies),

47, 79, 156

trade payables. *See* accounts payable

trade receivables. *See* accounts receivable

trades, 302

treasurer, 25

• U •

unaudited financial statements, 85

unsecured creditors, 215, 225

use taxes, 236

• V •

vacations, 276, 329

variance analysis, 188–190

VCs (venture capitalists), 201

vendors and suppliers

financing provided by, 324

float strategies with, 322

grading, 320–322

JIT payment strategies for, 320

leveraging, 304, 337

liquidity affected by terms, 136

as liquidity sources, 154

negotiating terms, 89, 225, 318–319

qualifying, 313–314

resources for references on, 313

sample or trial runs from, 313

as unsecured creditors, 215, 225

using multiple like suppliers, 319

venture capitalists (VCs), 201

• W •

WAG (wild-ass guess), 164

Warning! icon, 6

what-if analysis, 186–187

window dressing, 128

wire funds transfer, 257, 301

worker's compensation insurance, 286

World Gold Council, 170

write-downs, 19, 137

W-2 wages for owners, distributions

versus, 232–234

• Z •

ZBAs (zero balance accounts), 255

zero cash balance, 10

Mobile Apps

FOR DUMMIES®

There's a Dummies App for This and That

With more than 200 million books in print and over 1,600 unique titles, Dummies is a global leader in how-to information. Now you can get the same great Dummies information in an App. With topics such as Wine, Spanish, Digital Photography, Certification, and more, you'll have instant access to the topics you need to know in a format you can trust.

To get information on all our Dummies apps, visit the following:

www.Dummies.com/go/mobile from your computer.

www.Dummies.com/go/iphone/apps from your phone.

