Profit Mastery "Not so Frequently Asked Questions"

1. **Where does the cash flow "other income (expenses)" come from?**

In your cash flow section you have three Profit Plan/Cash Budgets for Olympic flooring. The 1st is for Account Receivables collected in 60 days, the 2nd at 45 days and the 3rd at 30 days.

On the **60 day schedule** you will note that line 15, "other income (expense)" is blank.

45 day schedule
As you review the 45 day schedule you will note that line 15 now contains $26,950 in additional income reflected at $5,000 per month from January through May with an additional $1,950 added in June. An attendee may ask you where this money came from and the answer is as follows:

This is the additional cash flow produced by improving collections by 15 days (a half month). The total of $26,950 represents half the total sales from last November (2 months ago) and is spread over 6 months (rather than in the first month of the projected year) as the improved efficiency of receivables management will likely take that long to bear fruit.

30 day schedule
On the 30 day schedule, the monthly amount on Line 15 is now $8000, and a final $5900 in July for a total of $53,900. This is the additional cash flow produced by improving collections from 60 to 30 days (a full month), which is the total sales made last November (2 months ago). Again, it's spread over 7 months as it will likely take at least that long to see the efforts of the improved management efficiencies.

This "catch-up" from prior months' sales, along with maintaining faster collections in the projected year, causes short term borrowing needs to significantly decrease, faster payoff of the short term debt, and higher ending cash balances in the 45 and 30 day forecasts.

This is why the short-term loan requirement is only $75,000, and it the reason that the company now ends the year with a cash balance of 93,200, as you see circled on your 30 day report.

This exercise is designed to show the significance of improving Accounts Receivable and the value that such an effort brings to the cash flow of a business. Remember, that on page 4R: 8 you have an excellent list of specific actions that your clients can take to improve their Accounts Receivable. I would encourage you to add several of these items to their action steps and hold them accountable for implementation by a scheduled monthly meeting with them. Challenge your clients to think about what would happen to cash flow (and profits) if they also improved inventory management, margins, cost controls, productivity, buying, etc. Every step they take to improve their company's efficiency will incrementally improved cash flow and profit!

2. **<u>Why is there $89,600 in Purchases in January when their cost of good sold is only $53,600?</u>**

Purchases made in any given month on line 12 are for sales that are anticipated to occur two months later. So, January's materials purchases of $89,600 will be produced as finished goods for March's sales. However, you'll note that March's cost of sales, $96,600 are $7,000 more than what he purchased in January. This is because he's made a goal to reduce his existing excess inventories (which according to our Profit Mastery Assessment of last actual year totaled some $95,000) by $7,000 per month in the coming year. This is reflected in every step of the forecast: what he purchases in any given month on line 12 is always $7000 less than his cost of sales two months later, with the difference being made up with what's already in stock.

Profit Mastery can be the difference between success and failure for your clients if you will teach them these principles and help them apply them in their businesses. Please let us know how we can help you set up training programs for your clients early next year.