

Surviving or Thriving

How to beat the cash flow crunch

Background

We recently advised a wholesale and retail business that was experiencing large fluctuations in its sales, profits and cash flow. The business supplies goods to energy and rural businesses and is required to carry large stock holdings and significant credit accounts. Heavy rains also caused damage to the business's stock and premises and it was unable to supply refrigerated goods for a period of 2 months.

The owners, William and Laura, wanted advice on how to improve their profit, better manage their cash flow and prevent the loss of income from future unplanned events.

This case study highlights the importance of small business owners understanding the true costs of running their business and factors influencing their profit and cash flow. It also provides guidance on how to structure funding arrangements for unique business circumstances and how to use insurance as a means of protecting business income.

Client Issues	Unsure of breakeven sales level. A lack of understanding the benefits of ratio analysis and budgeting. Funding shortfall. Inadequate business insurance.
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How Resolved	1. Breakeven Sales William and Laura, with support from their accountant, completed a breakeven sales analysis. This enabled William and Laura to pin point the minimum sales required to cover their business expenses. <table><tr><td>Total fixed business expenses</td><td>\$350,000</td></tr><tr><td>Average gross profit margin</td><td>55%</td></tr><tr><td>Minimum weekly sales required</td><td>\$12,250</td></tr></table>	Total fixed business expenses	\$350,000	Average gross profit margin	55%	Minimum weekly sales required	\$12,250
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Average gross profit margin	55%						
Minimum weekly sales required	\$12,250						
	2. Improving Profit To better manage their stock, William and Laura, with support from their accountant, completed a series of key profit ratio calculations. This included Gross Margin Return on Inventory and Gross Profit Margin. It was agreed William and Laura would upgrade their stock management system to improve their gross profit margin and to reduce shrinkage.						
	3. Improving Cash Flow To improve their cash flow, William and Laura, with support from their accountant, completed a series of key cash flow ratio calculations. This included Account Receivable and Stock Turnover and a Flow of Funds Statement. It was agreed William and Laura would prepare a cash flow budget every year to determine their funding requirements.						
	4. Finance and Business Disruption Insurance William and Laura's Financial Advisor was able to negotiate an extension on the their overdraft limit to meet their working capital requirements. William and Laura's Financial Advisor also purchased new Business Disruption Insurance to protect their business from a loss of future income.						

Client Process	William and Laura completed a Business Life Plan to determine their business growth and succession objectives.
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