MANAGING A GROWING BUSINESS

Presented at the DuPage County Job Fair
1997

Cash Flow Forecasting

- **By the time the need for funds is apparent, the required lead time to acquire the funds is generally inadequate**. Cash flow forecasting is required to:

    - navigate through peaks or seasonal fluctuations of business cycle
    - ensure that all obligations such as tax, payroll, and interest are met
    - assist in planning for growth and indicate financing needs well in advance of requirements
    - assist in securing credit
    - allow maintenance of satisfactory bank relationships
- Companies need both a long-range and a short-range plan;
    - The short-range plan should be a rolling 13-week forecast. It's purpose is to keep you from running out of cash on a day-to-day basis. Input factors include:
        - estimated cash collections on sales
        - estimated payments of cost of sales, expense items
        - other cash requirements - debt repayments, taxes, capital expenditures
        - other sources of cash - borrowings, equity infusions, etc.
    - Long-range plans are needed to ensure that capital is adequate for the business to achieve its strategic goals. Input factors for the long-range plan should include;
        - projected balance sheets
        - projected income statements
        - anticipated capital spending
        - anticipated financing

Budgeting

- **Budgeting is the process of developing quantitative expressions of operating plans and expectations**. The process of budgeting converts the expectations and plans for sales and revenues, costs and expenses, capital expenditures, changes in levels of cash, accounts payable, loans, and other balance sheet items into a cohesive, integrated month-by-month financial model of the company. In its ideal form the completed budget shows the monthly sales and profit levels of every product line and/or profit center and the monthly spending plans of every department and cost center, following the lines of the organizational structure. Within each department and cost center, expenses should be budgeted for each type of expense, such as wages, fringe benefits, travel, entertainment, supplies, occupancy cost, and all other types that will be recorded as "actuals" during the year.

- The operation plan is essentially a summary of the principal action programs. The plan should contain the following information for each of these programs:
    - Description of program and how it relates to the strategy objective
    - Resource requirements, including manpower and costs
    - Expected results
    - Time schedule to reach key decision points
    - Assignment of responsibilities
    - Support or input required from other organizations within the company
- Benefits of a good budget process:
    - An accurate, timely analytical tool.
    - The ability to predict performance.
    - Assistance in allocating resources.
    - The ability to control ongoing (current) performance.
    - Early warnings of departure from forecasts.
    - Early signals of oncoming opportunities or threats.
    - As an organizational learning device.
    - Leads to organizational consensus.
    - Promotes understanding among members of management of their co-workers' problems.
    - It forces the firm to examine itself.
    - It is a means of communicating.
    - It reduces uncertainties.
    - Frees managers from day-to-day operational problems through the formulation of plans, procedures, and policies.
    - Forces managers to think in concrete terms.

Monitoring

- **Actual performance against cash-flow forecasts and budgets must be accurately and consistently monitored** to allow:

    - feedback as to accuracy of assumptions and plans
    - attainment of standards for all business activity
    - attainment of standards for individual performance
    - timely determination and execution of corrective action

- Since sales and costs are controlled by individuals, it follows that the accounting system must reflect both standard and actual performance in such a manner that individual performance can be measured. “Responsibility accounting” must be adopted and used.

- Monitoring should be used in:

  - planning and forecasting
  - motivation of employees
  - rewarding employees
  - performance measurement
  - analyzing alternative courses of action
  - pricing decisions
  - inventory valuation
  - control and cost reduction

Internal Control

- **Internal Control is the plan of organization and all the methods and procedures adopted by the management of a company to assist in achieving management's objectives** of ensuring, as far as practicable;

  - the orderly and efficient conduct of its business, including adherence to management policies
  - the safeguarding of assets
  - the prevention and detection of fraud and error
  - the accuracy and completeness of accounting records
  - the timely preparation of reliable financial information

- Steps in developing Internal Control:

  - identify the boundaries of the areas of operations and responsibilities
  - identify the amount of potential benefit or of exposure to loss and the associated risk
  - identify the alternative controls that will give a reasonable assurance against loss while providing for an acceptable level of productivity
  - assess the possibility of integrating the proposed controls with those of related activities to avoid unnecessary duplication and obtain synergetic benefits
  - determine the cost of implementing various alternatives and levels of control
  - compare the estimated costs of alternative controls to the estimated benefits and select appropriate control
  - implement the internal controls and provide for periodic monitoring to ensure that the controls are working as intended