

Business Health Series

Generating Profit is Critical, Cash Flow is Survival

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The Cash Flow is the survival tool for a business.

You can be profitable on paper and still run out of cash,
so getting this right matters.



How cash flow differs from other financial statements

Statement of Operations (Income Statement)

Purpose: Am I profitable?

Focus: Revenue and expenses

Accounting basis: Accrual (earned/incurred, not paid)

Example:

- You record a sale today
- Cash arrives 45 days later

Profit goes up today, cash does not.

Balance Sheet

Purpose: What do I own and owe at a point in time?

Focus: Assets, liabilities, and equity

Snapshot: One specific date

It explains *why* your cash is what it is—but not whether it's enough going forward.

How cash flow differs from other financial statements

Cash Flow Statement

Purpose: Can I pay my bills?

Focus: Actual cash movements

Timing: When cash is received or paid

Simple way to remember the difference

- **Income Statement:** “Did I make money?”
- **Balance Sheet:** “What do I own and owe right now?”
- **Cash Flow:** “Can I survive and grow without running out of cash?”

What you should include in your cash flow statement

Opening cash balance

- Cash in bank at the start of the period

Cash inflows

- Cash sales
- Collections from credit customers (based on payment terms)
- Other income (loans, owner contributions, asset sales)

Cash outflows

- Operating expenses (paid in cash)
- Payroll and payroll taxes
- Inventory or cost of goods purchases
- Capital expenditures (equipment, vehicles, software)
- Loan repayments
- Taxes
- Owner draws or dividends

Closing cash balance

- Opening balance + inflows – outflows
- This becomes the next period's opening balance



What period of time your cash flow forecast should cover

Best practice:

- **Short-term:**
 - Weekly or monthly cash flow for the **next 3–6 months**
- **Medium-term:**
 - Monthly cash flow for **12 months**
- **Long-term (planning only):**
 - High-level annual view for **2–3 years**

If cash is tight or sales are volatile, weekly forecasting is worth the effort.



**There are Five Important
Things to Know When
Preparing a Cash Flow Forecast**

Important Item 1

Cash flow is about timing, not profit

Cash flow tracks **when money actually comes in and goes out**, not when revenue or expenses are recorded.

- An invoice sent \neq cash received
- An expense booked \neq cash paid
- Timing differences are the #1 reason profitable businesses get into trouble.



Important Item 2

Know your cash inflows and outflows in detail

Inflows

- Customer payments (by date you expect to be paid)
- Loans or capital injections
- Grants, refunds, interest

Outflows

- Payroll (gross wages + taxes)
- Rent, utilities, insurance
- Inventory purchases
- Loan repayments (principal + interest)
- Taxes (sales tax, payroll tax, income tax)
- One-off or seasonal costs



Important Item 3

Separate fixed vs variable cash costs

This helps you see how flexible your cash needs are.

- **Fixed:** rent, salaries, loan payments, insurance
- **Variable:** inventory, commissions, shipping, utilities

If cash gets tight, variable costs are your first lever.



Important Item 4

Always include a cash buffer

Never plan to run your cash balance to zero.

- Aim for a **minimum cash balance** (often 1–3 months of fixed expenses)
- This protects you from late-paying customers or unexpected costs

Cash flow plans without a buffer are fantasy plans.



Important Item 5

Cash flow forecast is a living document, not a one-time exercise

You should:

- Update it **monthly** (or weekly for tight businesses)
- Compare forecast vs actual
- Adjust assumptions quickly

Cash flow is a management tool, not just a report.



		MY COMPANY							
		CASH FLOW ILLUSTRATION							
		Week	Week	Week	Week	Week	Week	Period	
		1	2	3	4	5	6	Total	
Description									
Opening Cash Balance		\$ 250,000	\$ 202,525	\$ 191,525	\$ 193,675	\$ 266,675	\$ 185,950	\$ 250,000	
Cash Inflows:									
Cash Sales		\$ 2,000	\$ 1,000	\$ 3,000	\$ 4,500	\$ 1,500	\$ 1,000	\$ 13,000	
Accounts Receivable Collected		\$ 525,000	\$ 200,000	\$ 375,000	\$ 150,000	\$ 425,000	\$ 190,000	\$ 1,865,000	
Officer Loans to Company		\$ -					\$ 10,000	\$ 10,000	
Miscellaneous Cash Receipts		\$ 1,000		\$ 2,000		\$ 1,500		\$ 4,500	
Total Cash Inflows		\$ 528,000	\$ 201,000	\$ 380,000	\$ 154,500	\$ 428,000	\$ 201,000	\$ 1,892,500	
Cash Outflows: Fixed Payment									
Rents		\$ 15,250				\$ 15,250		\$ 30,500	
Salaries		\$ 150,000		\$ 150,000		\$ 150,000		\$ 450,000	
Payroll Taxes		\$ 25,500		\$ 25,500		\$ 25,500		\$ 76,500	
Insurance		\$ 10,000				\$ 10,000		\$ 20,000	
Bank Loans			\$ 5,000				\$ 5,000	\$ 10,000	
Vehicle Loans		\$ 1,725		\$ 600		\$ 1,725		\$ 4,050	
Employee Benefits			\$ 30,000				\$ 30,000	\$ 60,000	
Other		\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 12,000	
Total Fixed Payments		\$ 204,475	\$ 37,000	\$ 178,100	\$ 2,000	\$ 204,475	\$ 37,000	\$ 663,050	
Cash Outflows: Variable Payments:									
Inventory		\$ 300,000	\$ 150,000	\$ 75,000	\$ 50,000	\$ 250,000	\$ 160,000	\$ 985,000	
Commissions				\$ 15,000			\$ 15,000	\$ 30,000	
Utilities		\$ 24,000				\$ 28,000		\$ 52,000	
Shipping Costs		\$ 45,000	\$ 22,500	\$ 11,250	\$ 7,500	\$ 25,000	\$ 20,800	\$ 132,050	
Other		\$ 2,000	\$ 2,500	\$ 3,500	\$ 2,000	\$ 1,250	\$ 1,000	\$ 12,250	
Owner Distributions					\$ 20,000			\$ 20,000	
Capital Expenditures				\$ 95,000				\$ 95,000	
Total Variable Payments:		\$ 371,000	\$ 175,000	\$ 199,750	\$ 79,500	\$ 304,250	\$ 196,800	\$ 1,326,300	
Total Payments		\$ 575,475	\$ 212,000	\$ 377,850	\$ 81,500	\$ 508,725	\$ 233,800	\$ 1,989,350	
Net cash Inflow (Outflow)		\$ (47,475)	\$ (11,000)	\$ 2,150	\$ 73,000	\$ (80,725)	\$ (32,800)	\$ (96,850)	
Ending Cash Balance		\$ 202,525	\$ 191,525	\$ 193,675	\$ 266,675	\$ 185,950	\$ 153,150	\$ 153,150	
Minimum Cash Balance		\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	
Excess (Shortage) of Minimum		\$ 52,525	\$ 41,525	\$ 43,675	\$ 116,675	\$ 35,950	\$ 3,150	\$ 3,150	

Example of a Cash Flow Forecast

To Summarize

1. Cash flow forecast is a survival tool
2. The cash flow period is dependent upon the status of an organization
3. 5 important things to remember:
 - Cash flow is about timing, not profit
 - Know your cash inflows and outflows in detail
 - Separate fixed vs variable cash costs
 - Always include a cash buffer
 - Cash flow is a living document, not a one-time exercise

Thank you!

Questions?



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