

Understand Your Cash Flow and Make More Money

Make it your goal to read and understand your cash flow statement



By Tonetta Weaver
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One of the questions I get the most as an accountant is, “If my profit and loss report shows I have \$5,000 in net income, why don’t I have that in my bank account?”

The answer is a simple one. Your profit and loss report only shows your income and expenses for a select period of time. As a restaurant owner you are more than likely paying for items that are on your balance sheet, but not on your profit and loss statement. These include items such as equipment leases, sales tax payables, SBA loans, credit cards and other items that affect your cash but not your profits.

To really get a handle on how your business is doing, you need to look at

your cash flow statement. This statement brings together the difference between what your profit and loss report shows and what your bank register shows at the end of a given period of time. Below is an example of a cash flow statement.

The cash flow statement shows the net income number at the top and then purchases and expenditures are added and subtracted to come up with the amount of cash that was provided by the operating activities of the restaurant. The same is done for the financing activities of the business.

For the sake of simplicity, I will not go into how these numbers are calculated. But I will say that the most important section of this statement is

at the bottom. The “cash at beginning of period” will match the total of all of your cash accounts on the beginning date of this report. This is true with the “cash at end of period” as well.

The key number is the “net cash increase (or decrease) for period.” This number tells you whether your cash is growing or shrinking. If you watch this number consistently, you will be able to see how your business is progressing. If the number is shrinking, then you can look at the other numbers in the report to see why. Likewise, if the number is growing, you can examine the above numbers to see if the cash increase is from the operating activities (that’s where you’d like it to be coming from) or whether it is because you have added cash from your financing (you had to put personal money in to help the business continue).

If you only have time to examine one of your financial reports, I’d start with this one. The other reports provide the detail for any questions you may have about this report.

As always, if you’re having a hard time understanding any of your numbers or financial reports, ask to sit down with your accountant. Don’t stop until you understand what is presented to you.

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	<u>Oct. 1-Oct. 3</u>
OPERATING ACTIVITIES:	
Net Income	\$18,465.53
Adjustments to reconcile Net Income to net cash provided by operations:	
Accounts Receivable	-5,000.00
Employee Advances	-100.00
Inventory Asset	-323.91
Accounts Payable	1,498.25
CalOil Card	48.50
Payroll Liabilities	0.01
Sales Tax Payable	<u>\$885.20</u>
Total Adjustments	<u>-\$2991.95</u>
Net cash provided by Operating Activities	\$15,473.58
FINANCING ACTIVITIES:	
Equipment Loan	-431.79
Bank of Anycity Loan	-868.42
Bank Loan	-1,270.50
Owner’s Equity: Owner’s Draw	<u>\$5,000.00</u>
Total Financing Activities	<u>-\$7,570.71</u>
Net cash increase for period	\$7,902.87
Cash at beginning of period	<u>+5,000.00</u>
Cash at end of period	<u>\$12,902.87</u>

