
Cash Requirements For Your Business

To Operate Any Business Successfully You Need Cash—And
Knowing How Much is Needed is Vital

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“How much cash is required in my business?” is often a troublesome question facing the owner-manager of small construction companies. And rightly so, because cash is the fuel which is necessary for operating a successful business.

Actually, there are no set guidelines because the amount considered adequate for one type of business may be wholly insufficient for another. In thinking about cash needs, businessmen should take into account the variables existing in an individual situation—current debt, expected cash receipts, length of collection period, and plans for expansion.

An adequate cash supply for your business is one which will enable you to pay your current operating costs on time and to provide for future expansion costs. Thus, you need to think about and to provide cash for two kinds of costs.

Working cash, as the term implies, is the cash needed to purchase materials, to pay wages, and to pay for overhead expenses such as rent, utilities, insurance and office and maintenance of business premises.

Capital cash is the cash needed for purchase of fixed assets—delivery vehicles, tools, fixtures and machinery.

The source of *working cash* is usually from fees collected, from sales of merchandise, both current and prior, while *capital cash* is from fees or sales, from borrowed monies, or from accumulations of sales collected in excess of *working cash* and personal requirements. When the contractor attempts to meet expansion needs without

resorting to financing, it will be necessary to ration personal drawings until such time as enough cash is accumulated.

An owner-manager should have some concept of which portions of his cash he is going to use as *capital cash* and which as *working cash*. Short of segregating cash in separate accounts, an individual owner should at least mentally set aside funds so that adequate cash is available for each purpose.

Cash supply is not just the money on deposit in one's bank account; It also includes deposits in transit, cash on hand, certificates, and notes readily

convertible into cash.

Under ordinary circumstances the net cash flow of a business should be in excess of net profit because of the depreciation charge-off against profits.

But profit cannot be used for additional working capital requirements if it has been completely distributed or withdrawn by the owner-manager. Thought should be given to the future needs for cash brought about by possibly outgrowing present office or business premises, and by obsolescence of present equipment.

One way to chart a path is to prepare a record showing the bus-

iness's estimated gross income, the estimated overhead expenses and monthly cash analyses of income and outgo. Those who have not previously kept such records should find it easier if they would start with the short-term projection so as to leave room for correction of estimates too far out of line.

No budget is worth the time and effort if there is no follow-through. While the businessman can't control the gross sales generated, he can exercise some measure of control of cash income by seeing that there is an adequate system for collecting outstanding fees. On the pay-out side, control over purchasing should be exercised, and any deviation of total overall cash spent over budgeted figures, should be examined.

One of the most obvious ways of adhering to a budgeted figure for the owner-manager's personal drawing is to decide on a figure and then to draw a check from the business checking account and deposit this amount to a personal checking account. This arrangement will take away the tempta-

CASH BUDGET						
PERIOD OF JANUARY 1, 19 ____ to MARCH 31, 19 ____						
	January		February		March	
	Budget	Actual	Budget	Actual	Budget	Actual
Expected Cash Receipts:						
1—Cash sales	\$		\$		\$	
2—Accounts Receivable collected						
3—Miscellaneous income		_____		_____		_____
4—Total cash receipts	\$	_____	\$	_____	\$	_____
Expected Cash Payments:						
5—Material purchases	\$		\$		\$	
6—Wages						
7—Office Expenses						
8—Maintenance of premises						
9—New equipment, Printing						
10—Advertising						
11—Selling expenses						
12—Contractor drawing						
13—Rent						
14—General expenses						
15—Taxes, insurance, etc.		_____		_____		_____
16—Total cash payments	\$	_____	\$	_____	\$	_____
17—Cash balance at beginning of month		_____		_____		_____
18—Cash increase or decrease Line 4-16	\$	_____	\$	_____	\$	_____
19—Expected cash balance						
end of month (Line 17 plus or minus Line 18)	\$	_____	\$	_____	\$	_____
Note: If the figures in the actual column are deficient in amount to cover expenses and drawings, additional cash is needed through borrowing, or through reduction of line 12, or through greater exercise of control over expenses. Where line 18 constantly shows increases, the owner-manager can make plans for expansion, for the acquisition of capital equipment, or for an increase in drawings for own use. The above is but an over simplification of what each businessman has to prepare to chart a course of action in order to conduct an orderly business.						

tion to pay all personal bills—often in excess of a practical amount—from the business checking account.

There are ways to improve a cash position. One is to time personal withdrawals so that they don't conflict with the time of the month when creditor's bills are ordinarily paid. Another way is to send out bills immediately after sale of goods is made, and to send statements early and often. Extra payments to the owner-manager should be made periodically, only after first ascertaining that such additional payments are warranted by the figures shown on the actual cash statements. Finally, proper purchasing is a way to save cash. Avoid duplication of purchases and payment of high prices by establishing a proper inventory and supply record; and, either delegate the authority to only one employee or retain the authority yourself.

The businessman who is hard pressed for cash can examine leasing as a means of conserving cash and of maintaining a better cash position. While it sometimes costs more, the overall cash saving in capital outlay is a prime consideration in deciding to lease instead of making an outright purchase.

Cash is a valuable commodity. It allows for growth; it provides the wherewithal for making timely, profitable purchases and investments; it tides one over temporary rough spots, and it gives rise to a favorable credit rating through the prompt payment of bills.