

# Contents at a Glance

---

<b><i>Introduction</i></b> .....	<b>1</b>
<b><i>Part I: Improving Your Profit, Cash Flow, and Solvency ... 7</i></b>	
Chapter 1: Managing Your Small Business Finances .....	9
Chapter 2: Understanding Your P&L and Profit Performance .....	15
Chapter 3: Getting Up to Speed on Cash Flow from Profit .....	41
Chapter 4: Keeping Your Business Solvent .....	59
<b><i>Part II: Using Tools of the Trade</i></b> .....	<b>79</b>
Chapter 5: Protecting the Family Jewels .....	81
Chapter 6: Scrutinizing Your Costs .....	105
Chapter 7: Practical Budgeting Techniques for Your Business .....	127
Chapter 8: Making Decisions with a Profit Model .....	147
<b><i>Part III: Dealing with Small Business Financial Issues</i></b> .....	<b>171</b>
Chapter 9: Jumping Through Tax Hoops .....	173
Chapter 10: Raising Capital for Your Business .....	197
Chapter 11: Diagnosing Your Financial Condition .....	219
<b><i>Part IV: Looking at Service and Manufacturing Businesses</i></b> .....	<b>243</b>
Chapter 12: When You Sell Services .....	245
Chapter 13: When You Make the Products You Sell .....	259
<b><i>Part V: Reaching the End of the Line</i></b> .....	<b>273</b>
Chapter 14: Putting a Market Value on Your Business and Selling .....	275
Chapter 15: Hanging Up the Spikes and Terminating Your Business .....	297
<b><i>Part VI: The Part of Tens</i></b> .....	<b>315</b>
Chapter 16: Ten Management Rules for Small Business Survival .....	317
Chapter 17: Ten Hard-Core Financial Tools and Tactics .....	323
<b><i>Appendix: About the CD</i></b> .....	<b>331</b>
<b><i>Index</i></b> .....	<b>337</b>



# Table of Contents

---

## ***Introduction*..... 1**

About This Book.....	1
Conventions Used in This Book .....	2
What You're Not to Read.....	2
Foolish Assumptions .....	3
How This Book Is Organized.....	3
Part I: Improving Your Profit, Cash Flow, and Solvency .....	3
Part II: Using Tools of the Trade.....	4
Part III: Dealing with Small Business Financial Issues .....	4
Part IV: Looking at Service and Manufacturing Businesses.....	4
Part V: Reaching the End of the Line .....	4
Part VI: The Part of Tens .....	5
About the CD .....	5
Icons Used in This Book.....	5
Where to Go from Here.....	6

## ***Part I: Improving Your Profit, Cash Flow, and Solvency.... 7***

### **Chapter 1: Managing Your Small Business Finances ..... 9**

Identifying Financial Management Functions.....	9
Tuning In to the Communication Styles of Financial Statements .....	10
Previewing What's Ahead.....	13

### **Chapter 2: Understanding Your P&L and Profit Performance ..... 15**

Getting Intimate with Your P&L (Profit and Loss) Report .....	16
Measuring and Reporting Profit and Loss .....	20
Accounting for profit isn't an exact science .....	21
Your accounting records may have errors.....	21
Someone needs to select the accounting methods for recording revenue and expenses.....	22
Recording unusual, nonrecurring gains and losses .....	23
Keeping the number of lines in your P&L relatively short.....	23
Remembering that many business transactions are profit neutral (don't affect revenue and expenses).....	24
Including more information on inventory and purchases .....	24
Presenting the P&L Report for Your Business.....	25
Figuring out the reasons for your profit improvement .....	29
Knowing how your expenses behave .....	31

Breaking Through the Breakeven Barrier .....	33
Improving Profit .....	35
Improving markup .....	36
Improving sales volume .....	38
<b>Chapter 3: Getting Up to Speed on Cash Flow from Profit .....</b>	<b>41</b>
Sorting Out Your Sources of Cash .....	42
Avoiding Confusion Between Profit and Its Cash Flow .....	43
Deciding How to Have Cash Flow Information Reported to You .....	44
Appending cash flow to your P&L report .....	45
Reporting differences of cash flows from sales revenue and expenses in the P&L .....	46
Introducing the Statement of Cash Flows .....	49
Running down the balance sheet from the cash flow point of view .....	51
Doing a quick calculation of cash flow from profit .....	52
Classifying cash flows in the statement of cash flows .....	53
Presenting the statement of cash flows .....	54
Summing Up the Critical Importance of Cash Flow from Profit .....	56
<b>Chapter 4: Keeping Your Business Solvent .....</b>	<b>59</b>
Liquidity and Business Solvency .....	60
Business Solvency Measurements Tools .....	63
Liquidity Measurements Tools .....	65
Liquidity Traps .....	67
Asset investment .....	68
Inappropriate use of debt .....	70
Excessive growth rates .....	71
Untapped Sources of Liquidity .....	72
Asset liquidations .....	72
Lending sources .....	73
Unsecured creditors .....	74
Equity and off-balance sheet sources .....	75
Financial Leverage — the Good, the Bad, and the Ugly .....	76
 <b>Part II: Using Tools of the Trade .....</b>	 <b>79</b>
<b>Chapter 5: Protecting the Family Jewels .....</b>	<b>81</b>
Recognizing the Need for Controls .....	82
Preventing fraud and theft against your business .....	82
Avoiding errors in your accounting system .....	83
Clarifying Terminology .....	84

Reporting on Internal Controls .....85  
     Reporting by public companies .....86  
     Nonreporting by private companies.....88  
 Distinguishing Security and Safety Procedures  
     from Internal Controls .....88  
 Policing Internal Controls .....90  
 Surveying Internal Controls for Small Businesses .....91  
     Finding time for internal controls .....91  
     Thinking like a crook.....93  
     Looking at a study on business fraud .....93  
 Presenting Internal Control Guideposts for  
     Small Business Managers .....94  
         Identify high-risk areas .....94  
         Consider legal considerations .....95  
         Separate the duties of employees with an eye  
             on internal control.....95  
         Make surprise audits and inspections.....96  
         Encourage whistle blowing .....96  
         Leave audit trails .....96  
         Limit access to accounting records and end-of-year entries .....97  
         Perform new employee background checks.....97  
         Order periodic audits of your internal controls.....97  
         Do regular appraisals of key assets .....98  
         Discuss computer controls with your  
             chief accountant (Controller) .....98  
         Don't believe that you're too small for effective  
             internal controls .....98  
         Talk with other small business managers about  
             internal controls .....99  
         Learn from fraud cases that come to your attention.....100  
         Keep in mind the costs and limits of internal controls .....100  
         Understand the psychology of fraudsters .....102  
         Insist on internal control information with your  
             accounting reports .....103  
         Make yourself the centerpiece internal control.....104  
         Remember that your P&L and balance sheet may not  
             recognize unrecorded losses from fraud and theft .....104

**Chapter 6: Scrutinizing Your Costs . . . . .105**

Getting in the Right Frame of Mind.....105  
 Getting Down to Business .....106  
     Putting cost control in its proper context .....106  
     Beginning with sales revenue change.....108  
     Focusing on cost of goods sold and gross margin .....109  
     Analyzing employee cost.....111  
     Analyzing advertising and sales promotion costs .....112

Appreciating depreciation expense .....	113
Looking at facilities expense .....	115
Looking over or looking into other expenses .....	116
Running the numbers on interest expense .....	117
Comparing your P&L with your balance sheet.....	118
Looking into Cost of Goods Sold Expense .....	120
Selecting a cost of goods sold expense method.....	120
Dealing with inventory shrinkage and inventory write downs ....	122
Focusing on Profit Centers.....	123
Reducing Your Costs.....	125

## **Chapter 7: Practical Budgeting Techniques for Your Business . . . 127**

Deciding Where the Budgeting Process Starts.....	128
Honing in on Budgeting Tools .....	130
Complete, Accurate, Reliable, and Timely .....	130
Keep It Simple Stupid.....	131
Strengths, Weaknesses, Opportunities, and Threats analysis.....	132
Flash reports .....	133
Budgeting Resources .....	135
Preparing an Actual Budget or Forecast .....	135
Understanding Internal Versus External Budgets.....	139
Creating a Living Budget .....	140
Using the Budget as a Business Management Tool .....	143
Using Budgets in Other Ways .....	145

## **Chapter 8: Making Decisions with a Profit Model . . . . . 147**

Introducing the Profit Model .....	147
Net sales revenue .....	149
Product costs and variable operating costs .....	150
Fixed operating costs.....	151
Interest expense .....	153
Stopping at Profit Before Income Tax.....	154
Improving Margin.....	154
Increasing sales volume.....	154
Looking at a sales volume decline .....	157
Raising sales prices.....	158
Looking at a sales price decrease .....	160
Using the Profit Model for Trade-off Analysis .....	162
Cutting prices to gain volume.....	162
Sacrificing volume for higher prices.....	165
Pushing Cost Increases Through to Prices.....	167
Getting Behind the Reasons for Cost Changes.....	168
Looking into reasons for fixed costs increases .....	168
Looking into reasons for variable costs increases.....	169
Distinguishing Cost Decreases: Productivity Gains Versus Cutting Quality .....	169

***Part III: Dealing with Small Business  
Financial Issues* ..... 171**

**Chapter 9: Jumping Through Tax Hoops ..... 173**

Thinking about Business Taxes .....	173
Coming to Terms with Income Taxation and the Business Legal Structure .....	174
Filing Annual Income Tax Returns .....	180
Understanding How Taxable Income Is Calculated .....	182
Permanent differences .....	182
Timing differences .....	182
Managing Payroll Taxes .....	184
Remembering Other Types of Business Taxes (The Fun Is Just Starting) .....	190
Sales and use taxes .....	191
Property taxes .....	192
Other business taxes .....	193
Discovering Hidden Taxes .....	194
Workers' Compensation Insurance .....	194
Health/medical insurance .....	195
Business licenses, permits, and fees .....	196

**Chapter 10: Raising Capital for Your Business ..... 197**

Getting the Scoop on Capital .....	198
Debt .....	199
Equity .....	201
Developing a Business Plan .....	202
Finding Sources of Capital .....	205
Family, friends, and close business associates .....	205
Private capital .....	206
Banks, leasing companies, and other lenders .....	207
Public capital .....	208
Other creative capital sources .....	210
Understanding Business Legal Structures and Raising Capital .....	211
Putting Your Capital to Good Use .....	212

**Chapter 11: Diagnosing Your Financial Condition ..... 219**

Connecting the P&L and Balance Sheet .....	220
Sales Revenue⇄Cash .....	224
Credit sales revenue⇄accounts receivable .....	225
Cost of goods sold⇄inventory.....	226
Inventory⇄accounts payable–inventory purchases .....	226
Operating expenses⇄prepaid expenses .....	227
Operating expenses⇄accounts payable–operating expenses.....	228
Operating expenses⇄accrued expenses payable .....	229

Fixed assets⇨depreciation expense .....	230
Notes payable⇨interest expense .....	232
Side-stepping around two other connections.....	232
Spotting Financial Condition Problems.....	233
Finding the problem(s) – Case #1.....	234
Finding the problem(s) – Case #2.....	235
Finding the problem(s) – Case #3.....	237

## ***Part IV: Looking at Service and Manufacturing Businesses* .....243**

### **Chapter 12: When You Sell Services .....245**

Comparing the Financial Statements of Service and Product Businesses.....	245
P&L reports of a product and service business.....	246
The balance sheet and statement of cash flows of service and product businesses.....	248
Looking at the Expense Structures of Product and Service Businesses.....	249
Fixing on fixed costs .....	249
Calculating profit yield from sales over breakeven .....	252
Measuring profit sensitivity to variations in sales.....	253
Contrasting Sales Volume and Sales Price Changes Impact on Profit.....	253
Adapting the profit model for a service business.....	254
Analyzing sales volume and price changes .....	255
Exploring tradeoffs between sales volume and price for a service business .....	256
Selling Some Products with Services.....	257

### **Chapter 13: When You Make the Products You Sell .....259**

Setting the Stage.....	260
Introducing a Manufacturing Example .....	260
Computing Product Cost (Per Unit) .....	263
Essential aspects of product cost computation.....	263
Indirect manufacturing overhead costs .....	264
Idle production capacity issues .....	265
Tweaking the Basic Product Cost .....	265
Misclassifying manufacturing costs.....	266
Dealing with manufacturing inefficiencies .....	268
Boosting profit by boosting production.....	269
Looking at Cost Accounting Beyond Manufacturing.....	272

---

***Part V: Reaching the End of the Line* .....273**

**Chapter 14: Putting a Market Value on  
Your Business and Selling** .....275

Why You Need Business Valuations.....	276
How Businesses are Valued .....	278
The Keys to a Successful Business Valuation.....	282
Types of Business Acquisitions.....	287
Structuring the Sale of Your Business .....	288
The Business Acquisition Process.....	292

**Chapter 15: Hanging Up the Spikes and  
Terminating Your Business** .....297

Looking into Business Terminations .....	298
Voluntary terminations.....	298
Involuntary terminations .....	299
Delving into Bankruptcy Protection .....	302
Planning the Burial.....	304
Managing Assets to Maximize Value.....	306
Satisfying Liabilities .....	308
Personal guarantees.....	309
Other unrecorded obligations .....	310
Equity preferences .....	310
Thinking about Employees, Insurance, and Taxes .....	311
Managing Logistics .....	313

***Part VI: The Part of Tens* .....315**

**Chapter 16: Ten Management Rules for  
Small Business Survival** .....317

Remember That Planning Counts .....	317
Secure Capital.....	318
Don't Overlook Management Resources.....	318
Understand the Selling Cycle.....	319
Don't Fail to Communicate .....	319
Practice CART.....	320
Remember to KISS.....	320
Comply, Comply, Comply .....	321
Execute Your Exit Strategy.....	321
Know When to Say When .....	322

<b>Chapter 17: Ten Hard-Core Financial Tools and Tactics . . . . .</b>	<b>323</b>
Understand Profit Mechanics .....	323
Understand Cash Flow.....	324
Know Your Sources of Profit.....	325
Analyze Year-to-Year Profit Change .....	326
Keep Sizes of Assets Under Control.....	327
Budget Profit and Cash.....	327
Audit Your Controls .....	328
Choose the Right Legal Entity .....	328
Stabilize Your Sources of Capital .....	328
Don't Massage Your Financial Numbers.....	329
<b>Appendix: About the CD . . . . .</b>	<b>331</b>
System Requirements .....	331
Using the CD .....	332
What You'll Find on the CD .....	332
Troubleshooting.....	335
Customer Care.....	335
<b><i>Index</i>.....</b>	<b>337</b>