accrued).
(3). All cash withdrawals by the owner.
(4). All payments for fixed assets.

Suppose further that these expenses totaled $2,800. Thus, your cash balance at the end of last January $1,760 ($4,560 minus $2,800).

This $1,760 was your cash on hand at the start of last February. Repeat the process of adding cash income for that February and subtracting cash paid out in order to get your cash balance at the end of February. Do the same for each of the 12 months in that year.

As a final step, you may want to:
(1). Underestimate cash receipts by 5 percent.
(2). Overestimate cash payments by 5 percent.

Allowing such margins gives you a 10 percent leeway which helps provide for unforseen expenses and overestimated cash receipts.

Look for Trouble Spots

The exercise of working up last year's cash balances by months should give you an exact idea of what the cash flow pattern of your business was for that year. However, before trying to predict your cash balances for each month of next year, look again at your records.

This check is for trouble spots. Were there any in last year's there are cash deficits. They there months when:

- Expenses were greater than the gross profit you made from sales?
- Cash was inadequate at the start of the month?
- There was expansion of the business without new capital being made available?
- There were excessively high accounts receivable which were not discounted?
- Cash was reduced below an adequate balance because you had to buy fixed assets — such as new equipment — that are recoverable only through depreciation?

Some of these trouble spots can be caused by seasonal fluctuations. One way to avoid them is by short-term borrowing.

Many owners borrow at various times during the year to tide their businesses over months when there are cash deficits. They know that they can pay the costs (interest) of borrowing and repay the loan, and still make a profit on the money they borrowed. Thus, they are able to get by with less cash of their own in the business. Such bank loans, for example, enable them to take advantage of the dating on their suppliers' invoices.

List Your Long-Range Needs

Before you start to plot out how you will improve your control of future cash, take time to list the long-range needs of your store. List items such as:
(1). Equipment, displays and other fixed or depreciated assets which will need replacing.
(2). Additional equipment or other fixed assets which you may need in order to hold your own with competition.
(3). Remodeling or expansion of your facilities which may be needed to increase sales and boost your net profit dollars.

You need to have an idea of these long-range requirements so you can provide for them without crippling your cash. Some small retailers fail, for example, to depreciate their fixed assets and set up financial reserves for their replacement. Thus, they have to dip into their cash balances — into funds for paying the firm's day-to-day bills — to pay for the replacement of worn out items.

Such a situation can be avoided by planning — that is, by trying to chart the course of your business for the next one to five years. In addition to budgeting for the short range needs, you should at least make a tentative plan for handling your firm's long-range needs.

ESTIMATE YOUR CASH BALANCES

At this point, you should be ready to estimate your cash balances for the next 12 months. These estimates are made by working out a budget.

As was discussed earlier, budgeting is a means of forecasting the income and expenses of your business during the next month, during the next 6 months and up to the next 12 months.

The knowledge which you gained about your last year's cash flow pattern can be the basis for your estimates of future cash balances.

In looking ahead, keep your peak seasons in mind. Then you can have the cash on hand, or arrange for a loan, to take care of the increased inventory and increased accounts receivable which are part of a peak season.

A good rule is to keep your forecasting as simple as possible. Tailor it to your business so it will help you to know the amounts of cash you can expect to have on hand at various times during the next year. It is also a good idea to provide for growth by setting up a reserve fund in accordance with your estimated future sales.

USE BALANCE TO PRODUCE INCOME

Knowing what your cash balances will be — provided things go as you expect them to — helps you to achieve dynamic control of your cash. This sort of control is similar to driving your automobile in a safe manner on a highway. You not only have it under control, but are also using it to accomplish a purpose. Cash control helps you in three ways.

First, it guards your cash balances so that they will be available when you need them. For example, resist the temptation to use your cash for new fixtures or other fixed assets, which should be paid for out of other funds.

Second, cash control will warn you of the month, or months, when the cash balance is less than expected expenses. Meet this problem head-on by arranging for a short-term bank loan to tide your business over the gap and to its next peak.

Third, knowing your cash balances can help you to determine your rate of growth. It is your roadmap in using cash surpluses. In the month, or months, when your cash inflow is greater than your business needs, be prepared to put that excess cash into something which will earn income.

As was suggested earlier, you may want to invest such excess cash in:
(1). New NAPA lines which can increase sales and profit.
(2). In short-term securities.

The important thing is to keep such investments fairly liquid so you can turn them into cash should the need arise. Put the excess cash where you can get it when your business needs it.