

U.S. NATIONAL DEBT AS OF:

APRIL 2018

\$21,113,576,555,836

APRIL 2017

\$19,846,255,248,406

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President's Message

Of Course Cash is King; Of Course. But *maybe...*

I listen to Pandora internet radio on a fairly regular basis, and have different "channels" set up for various genre's of music I like. One channel I set up is for stand-up comedians that I listen to when walking or exercising or when I want to decompress and laugh. The comedy channel cycles through a variety of comedians, and one day it served up comedian Louis CK. Louis is a bit of a sick mind, usually vulgar, and has been one of many high profile men in the news in the last six months for "inappropriate behavior"- which isn't surprising if you listen to his comedy. I hadn't really heard him before, so I gave it a go.

On this particular day Pandora served up Louis with a comedic bit he calls "**Of Course; but *Maybe***" where he makes a statement virtually everyone would agree with, but then adds a provocative observation as a counter point that is usually ridiculous, frequently awful, and yet somehow funny. I'd like to give you an example, but they're all inappropriate.

Louis has a foul mouth, and I don't condone any of his work or how he's conducted himself; but the title of his bit stuck with me. And it got me thinking about a topic that we see quite often, that fits in with his theme.

Of Course Cash is King. Of Course. But *maybe....* sometimes it isn't.

Specifically, *Cash isn't King when referring to the Accounting Method a business uses for financial statement presentation.* Tax reporting may be better in Cash basis, but as I've said many times in this newsletter – "**We Don't Do Taxes**". And you can use one method for tax, and another for Book (internal) subject to IRS rules.

Cash basis accounting may be useable if the business is small, simple, and substantially profitable with known, clear margins. A good example of this might be a small health insurance broker. They earn a percentage commission on what they sell, so the margins are both known and clear.

But for most businesses above \$1M in sales, cash basis accounting is terrible for analysis, and can easily lead to inaccurate conclusions and decision making. In order to draw accurate conclusions, you need to monitor and analyze **economic activity**, not when checks or cash happen to arrive or depart. Yes, cash management is important, if not critical. But in most businesses **cash follows profit**. You'll have more cash to manage if you first ensure you're profitable. And you ensure you're profitable by accurately analyzing economic activity in the business.

Accrual accounting is intended to record revenue and expenses in the period they were earned or incurred, and when done right provides **a way to monitor and analyze economic activity**. This allows you to determine your margins on that activity, with the assumption that the cash will eventually follow (both collections and/or payments).

If you're struggling with cash, then you're probably struggling with profitability. And if you're struggling with profitability, accrual accounting helps pinpoint the root cause.

If you've never used accrual accounting, there is a learning curve; but when done correctly, your financial statements will begin to make sense and provide clarity in decision making.

Todd Rammler

Photos Around Town



Zingerman's co-founder Ari Weinzweig, and Todd at the EO Detroit Chapter retreat



Marketing Coordinator Alisha gets a birthday serenade from the mariachi band!



Al Zabkowski, Todd, Toby Dahm and Dan Felstow inspiring the Wings to victory!



Brian and son Harrison visiting the newly built wall in Mexico. Oops! Sorry. . . It was China!

Michigan CFO featured in USA Today!

Fraud & Embezzlement is currently a hot topic in the news. Michigan CFO Associates contributed to this USA Today article—check it out at <https://bit.ly/2EqA9JP>

speaking of Fraud. . . we're doing a workshop!

Michigan CFO & Oxford Bank Present:

Fraud & Embezzlement In Small-Business:

How It Happens, Why It Happens, And What You Can Do About It

Join us for an in depth workshop on one of the biggest vulnerabilities in Small-Business: Fraud & Embezzlement. We'll cover the conditions that allow fraud to occur, actual local examples of frauds, and practical steps for identifying and correcting weak points in your organization.

Date: Thursday, April 26th 11:30—1:30 (lunch included)

Location: Columbia Center, Troy

Please email Kellee Warren at kwarren@michigancfo.com to register!

Seating is limited; register today!





What is the Right Cash Balance for Your Business?

I've been working with a few clients recently where the question came up "How much cash should I have in the bank"? It's a good question and as a CFO it seems like I should have a good answer. The truth is, there is no simple answer because it depends on the type of business, access to financing and the business owner's risk tolerance.

Take for instance a seasonal business which has more cash management complexities than non-seasonal businesses. Some owners like a large "rainy day fund" in case something goes wrong while others pull money out and if needed loan it back to the business. Some businesses are in growth mode and need cash for investing, while others are steady or shrinking.

While there is no simple answer, we recommend managing your cash balance with two separate bank accounts, one being your day-to-day general checking account and the second being either a savings or checking account. The general checking account is used to meet daily obligations while the savings or second checking account is used to build a "rainy day fund" which is a cash cushion to cover contingent or unexpected cash needs.

How much should I have in the "Rainy Day Fund?":

The answer depends on you and your business needs, however there are some general rules of thumb:

Two to three months of fixed operating expenses – total up your normal fixed monthly operating expenses. This would include rents, payrolls, loans payments and any other recurring costs that happen regardless of sales activities. If the monthly amount is \$50,000 then multiply by 2 or 3 and that would be your rainy day target balance.

Whatever makes the owner feel comfortable – use 2 to 3 months of fixed operating as a starting point than

add to that whatever makes an owner feel comfortable. It's not scientific but we know businesses are run by people who are emotional.

There are a number of ways to build a rainy day fund, however the key is to be disciplined and consistent in putting cash aside.

Transfer a fixed dollar amount every week or month – decide on what you can put aside each week or month and make it a habit.

Determine a percentage of Collections – maybe 2% or 3% per week or month based on collection amounts. This way the amount will vary based on cash collection volume.

When actual balances exceed targets - establish an average target balance for the general checking account and when the actual averages higher than the target, transfer the difference to the rainy day fund.

You need to be careful since the ability to build a rainy day fund is based on the assumption a business is profitable and generating cash flow dollars. This will be a faulty assumption if a business is increasing inventory, investing in plant or equipment, paying down loans and/or taking out bonuses. So whatever approach used should be adjusted based on profitability and cash management needs.

The key is to have a system and disciplined approach to setting aside and building a rainy day fund. This will give an owner comfort that if the unexpected happens, and it starts raining, his business wouldn't get soaked.

This can be complicated, and subjective; if you need help in evaluating your company give us a call.

**WELCOME,
New Clients!**

Detroit Training Center
www.DetroitTraining.com

American Generators
www.AmericanGeneratorsMI.com

HAPPY ANNIVERSARY!

12 Years—Michigan Custom Machines, Inc.
8 Years—Giffels-Webster
6 Years—Unitex Direct, Inc.
3 Years—Troy Gastroenterology
Right Brain Network
UTEC
2 Years—QuadWest
1 Year—Aluminum Blanking Company

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Outsourced CFO & Controller Services Including:

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NEWSLETTER

