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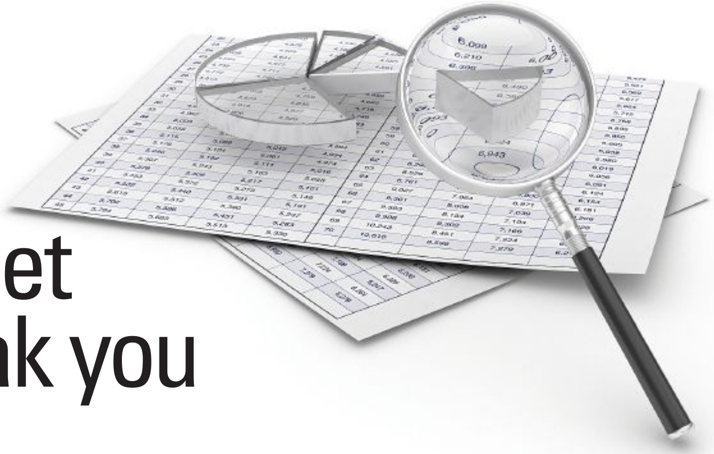

Your balance sheet can make or break you

News flash: Spring arrived about 45 days early this year. While this means opportunity and potential business for some companies, others will experience a substantial shortfall in profit and a tightening of cash flow. What happened to all the snow? Cutting warm-season grass in March? Yikes!

Steady the ship and get your arms around your balance sheet. Start with these:

How much profit and cash is being eaten up by balance sheet transactions? Look at your current amortization schedules on existing debt and identify the next 12 monthly required principal payments.

Take the amount and timing of any new loans you are trying to get approved and put the details into an amortization schedule. Add this expense on top of the existing principle debt payments.

Add monthly dollars for any owner draw or distribution. This would include taxes for S-Corporation owners.

Example: Monthly payments from schedules and requirements
A. $ 5,000 + B. $2,000 + C. $3,000 = $10,000 per month total

In simple terms, according to the example above, I need to generate $10,000 per month in profit to cover these balance sheet expenses. If I generate less than $10,000 per month in profit, then I have to borrow money to meet my obligations (line of credit) or eat into available working capital: (Cash + AR) – (Payables). Eating into available working capital assumes you have some.

Know your balance sheet benchmarks. A healthy balance sheet can help you ride out a rough patch (see table below). It is, by far, the most underutilized and misunderstood report with business owners. While we are just hitting a few a concepts at a high level, understand that if your balance sheet has errors on it, your profit and loss statement is flat-out wrong. Understanding the relationship of both reports is where the cash flow light will go off.

TABLE: BALANCE SHEET BENCHMARKS

Ratio	Formula	Result x 100
Debt to assets	LT debt dollars / Straight line net fixed asset dollars	40% or less
Asset turnover	Revenue dollars / Total assets dollars	375% or greater
Current ratio	Current assets (Cash + AR) / Current DB (Trade + LOC)	200% or greater
Debt coverage	Profit dollars / Debt payments	200% or greater

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