PARTICIPANT GUIDE

FDIC

Money Smart

Financial
Education Curriculum

SBA

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Welcome

Welcome to the *Financial Management for a Small Business* training. By taking this training, you are taking an important first step to building a better financial future for your business. This guide accompanies the *Financial Management for a Small Business PowerPoint Presentation.*

Objectives

After completing this training, you will be able to:

- Explain the concept of financial management and why it is important to a small business
- Identify financial management practices, rules, and tools that are commonly available to a small business
- Explain how these financial management practices, rules, and tools work
- Explain financial management basics for a small business
- Explain the basics of start-up financing
- Explain the basics of financing for a growing business
- Explain the basics of financing working capital
- Explain the basics of financing fixed assets

What Do You Know?
Financial Management for a Small Business

Instructor: ____ Date: __________________

This form will allow you and your instructors to see what you know about financial management, both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before Training				**After** Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I can explain the concept of *financial management* and why it is important to a small business.	1	2	3	4	1	2	3	4
2. I can identify financial management practices, rules, and tools that are commonly available to a small business.	1	2	3	4	1	2	3	4
3. I can explain how these financial management practices, rules, and tools work.	1	2	3	4	1	2	3	4
4. I can explain financial management basics for a small business.	1	2	3	4	1	2	3	4
5. I can explain the basics of start-up financing.	1	2	3	4	1	2	3	4
6. I can explain the basics of financing for a growing business.	1	2	3	4	1	2	3	4
7. I can explain the basics of financing working capital.	1	2	3	4	1	2	3	4
8. I can explain the basics of financing fixed assets.	1	2	3	4	1	2	3	4

Pre-Test

Test your knowledge of financial management before you go through the training.

1. **Which of the following are reasons for good financial management? Select all that apply.**
   a. Helps to show which products or services are profitable
   b. Provides information on the size of a loan a business can afford
   c. Helps in deciding what inventory a business should purchase
   d. Provides a tool for planning to reach new markets

2. **New businesses should start financial management with a(n) _______________________?**
   a. Business credit card
   b. Budget
   c. Inventory purchase
   d. Profit and loss statement

3. **Sound bookkeeping is the basis for all financial management.**
   a. True
   b. False

4. **When business owners pay themselves, it is called _______________________.**
   a. Owner's draw
   b. Check cashing
   c. Profit and loss
   d. Ownership transfer

5. **What is the definition of cash flow?**
   a. Sales minus cost of goods sold
   b. Moving cash in or out of a business
   c. Balance of cash received less the amount of cash paid out over a period of time
   d. Both b. and c.
   e. All three: a., b., and c.

6. **Which of the following is a good use of a cash flow projection? Select all that apply.**
   a. Setting sales and expense goals
   b. Determining the breakeven point for a business
   c. Tracking sales
   d. Planning equipment purchases
   e. Tracking liquidity

7. What is the basic formula for a profit and loss statement?

a. + Sources of Cash
– Operating Uses of Cash
<u>– Non-operating Uses of Cash</u>
= Ending Cash

b. + Sales
<u>– Cost of Goods Sold</u>
= Gross Profit
<u>– Overhead</u>
= Net Profit

c. + Purchase Price
<u>– Cost of Goods Sold</u>
= Profit

d. + Cash Flow from Operations
+ Cash Flow from Financing
<u>+ Cash Flow from Investments</u>
= Net Cash Flow

8. For most small businesses, debt financing comes from owner or family savings and is frequently the only source of funds for start–up small businesses.

a. True
b. False

9. Which of the following might be an element of a small business loan package? Select all that apply.

a. Business plan
b. Business financial statements
c. Business tax returns
d. Credit report
e. Collateral
f. Personal financial statements
g. Personal tax returns
h. Purchase agreements

Benefits of Financial Management

Quality financial management offers many benefits to you as a business owner. Financial management includes bookkeeping, projections, financial statements, and financing, which forms the foundation for reaching your goals through sound business decisions.

Financial management is one of your main avenues to success as a business owner. Financial management is the way you know if you are making a profit. Financial management helps you decide what you can afford in terms of store or office location, inventory purchases, employees, and equipment. You need sound financial information to set your prices and select your vendors. Financial management gives you the tools to plan for overall business growth, for diversification of your product lines, or for reaching new markets. Financial management helps you decide which products, services, and markets are profitable. Effective financial management gives you tools to chart your course into the future, adjust your direction when needed, and help you find your way through challenging times.

If your business growth requires financing (loans), financial management provides the information to know how much you can afford for your business. Financial management gives you not only the documentation needed for a loan application, but also helps you discuss your business circumstances with a lender in terms that improve your ability to qualify for the loan.

Budgeting

Creating a budget is the first place to start with your financial management practice. A budget is a list of all your (monthly or yearly) expenses, organized by categories. A budget is a tool that helps you:

- Track all your business expenses
- Plan for the future
- Economize when you need to
- Plan for expansion
- Make a profit

Once you create a budget, use it to compare what you've budgeted with your actual expenditures.

Discussion Point #1: Budgeting

Use the sample business budget for this discussion. Review each category.

What budget categories do you use?

Category	Monthly Budget	Actual Monthly Expenditures
Rent		
Utilities		
Telephone and Internet		
Insurance		
Employees or Contractors		
Office Supplies		
Inventory Purchases		
Permits and Licenses		
Dues, memberships, subscriptions		
Income Taxes		
Owner’s Draw		
Travel		
Interest		
Bank Service Charges		
Postage		
Legal and Accounting		
Other		
TOTAL		

Bookkeeping

Bookkeeping is the organized process of tracking all income and expense transactions. Bookkeeping is a critical component of financial management, which leads to better business decisions regarding financing, taxes, owner’s draw, and retirement.

Here are eleven basic bookkeeping steps:

1. **Obtain business accounting software.** Proper software selection is critical for success.
2. **Open a separate business checking account.** Do not mix business and personal checking accounts.
3. **Reconcile your checking account.** Each month, reconcile your account using business accounting software or a cloud computing reconciliation process.
4. **Track sales.** Create an airtight system for tracking sales using tools such as a register tape, invoices, and a sales book. Always use this sales tracking system.

5. **Deposit all sales.** Using the duplicating deposit slips, deposit *all* sales in your business checking account. Alternately, "remote deposit capture" (RDC) may be available for depositing checks—this technology allows you to deposit a check into your account from your office by sending the bank an electronic image of the check. Total sales should equal total deposits. Do not spend cash sales. Link all forms of sales documentation (such as invoices, cash register tapes, and sales books) with a specific deposit.
6. **Write business checks for all business expenses (or use a business check card).** Don't use a petty cash system until you are experienced at bookkeeping.
7. **Obtain a separate business credit card.** If you plan to use a credit card for business expenses, consider obtaining a card in your company's name. Doing so will help you keep track of business expenses.
8. **Pay business expenses first.** Most businesses start out as a sole proprietorship. In sole proprietorships, you, the owner, do not get a salary; rather you take an owner's draw. A common question is how much draw to take? Here's a rule of thumb: Sales pays for business expenses first, personal expenses second (step 10, below).
9. **Run a profit and loss (P&L) statement.** A checking account balance is not a good indication of how much profit the business has made or what amount is available for owner's draw. A P&L statement can provide a better picture of the financial health of the organization.
10. **Pay yourself with owner's draw.** Owners should pay themselves by writing a check or making an electronic transfer from the business account to a personal account. If you are a sole proprietor, assign those draw checks to an equity account called "Draws."

Cash Flow

Cash flow can be defined two ways:

- Balance of cash received less the amount of cash paid out over a period of time
- Moving cash in or out of a business

Cash Flow Projection

A *cash flow projection* is a financial statement that tries to show how cash is expected to flow in and out of a business over a future period of time. A cash flow projection is used to see if projected cash receipts (in flows) will be sufficient to cover projected cash disbursements (out flows). A business can be profitable and still run out of cash. As an investment banker might say, "Cash flow projections provide the visibility needed to avoid liquidity problems." In other words, a cash flow projection is a tool to help you manage your cash so you can pay your bills on a timely basis and keep the doors of your business open.

A cash flow projection is a great tool for setting sales goals and for planning for expenses to support those sales. A related use for a projection is to determine your breakeven point during a start-up or expansion phase. If you need to plan for a large expenditure, such as an equipment purchase or move to a new location, a cash flow projection is the perfect tool. Similarly, if you have a seasonal business with large inventory purchases, a projection can help you have the cash on hand to make a large inventory investment when you need it.

A P&L statement can mask cash shortages if you use accrual accounting. A cash flow projection helps you see the cash status of your business now and plan into the future. A cash flow projection is a good way to prepare and plan for your financing needs and is often a required part of a business loan application.

Cash Flow Projection Spreadsheet

Let's look at a sample cash flow projection. The first set of rows, titled *Sources of Cash*, document all sources of incoming cash, including cash from customer sales, interest earned, loan funds, and current checking and savings account balances. The second section, *Operating Uses of Cash*, contains all those expenditures associated with the day-to-day buying and selling process. Most of these expenses show up on the P&L statement. The third section, *Non-Operating Uses of Cash*, show expenses that normally show up on your Balance Sheet: equipment purchases, the principle portion of loan payments, inventory, taxes, and owner's draw. Subtract your Uses of Cash from your Total Cash Available, and you have Ending Cash for the month. Ending Cash for one month becomes Opening Cash for the next month.

Discussion Point #2: Cash Flow Projection

Take a few minutes and review the spreadsheet on the next page.

After reviewing the spreadsheet, which month had a positive cash flow?

Here are some strategies for creating a positive cash flow:

- Increase the number of items sold
- Increase the price of items
- Reduce expenses
- Change the timing of expenses
- Save money to have sufficient Opening Cash to get through the "start-up" period
- Obtain sources of cash other than sales, such as a line of credit
- Reduce or change the timing of your owner's draw
- Research vendor options for buying inventory at lower price or obtaining credit from vendors
- Establish policies to get paid sooner from customers

Sample Cash Flow Projection

Sources of Cash	Opening Balances	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Beginning Cash		(8,785)	(5,512)	(1,287)	(9,302)	(3,927)	10,198	7,573	13,398	20,193	18,988	21,518	23,963
Cash Sales		4,800	5,700	6,600	8,400	18,000	9,000	9,000	9,000	6,600	5,400	5,100	4,800
Collections on A/R													
Interest income													
Loan Received													
Equity Contribution													
Total Cash Available	-	(3,985)	188	5,313	(902)	14,073	19,198	16,573	22,398	26,793	24,388	26,618	28,763
Operating Uses of Cash													
Contract labor	1,000	700	600	1,200	1,800	1,800	1,200	750	500	400	400	400	400
Wages													
Payroll Taxes													
Rent	500	500	500	500	500	500	500	500	500	500	500	500	500
Phone	250	125	125	125	125	125	125	125	125	125	125	125	125
Office Supplies	200	50	50	50	50	50	50	50	50	50	50	50	50
Utilities													
Insurance	200			200			200			200			200
Licenses	200												
Marketing	450	152	200	150	50	600	40	250	30	175	95	180	100
Professional Fees													
Total Op Cash	2,800	1,527	1,475	2,225	2,525	3,075	2,115	1,675	1,205	1,450	1,170	1,255	1,375
Net Cash	(2,800)	(5,512)	(1,287)	3,088	(3,427)	10,998	17,083	14,898	21,193	25,343	23,218	25,363	27,388
Non Operating Uses of Cash													
Debt Service													
Capital Purchases													
Self Employment Taxes					500			500			500		
Owner's Draw						800	900	1,000	1,000	1,000	1,200	1,400	1,500
Inventory Purchases	5,985			12,390			8,610			5,355			
Ending Cash	(8,785)	(5,512)	(1,287)	(9,302)	(3,927)	10,198	7,573	13,398	20,193	18,988	21,518	23,963	25,888

Profit and Loss (P&L) Statement

The P&L statement is the best tool for knowing if your business is profitable. A P&L statement measures revenue (also called sales or income) and expenses over a month, quarter or year. With it you know if you have made a profit (and how much) or if you have incurred a loss.

The most important financial management report is the P&L statement. A P&L statement will reflect your business decisions on the basic buying and selling process. A P&L will tell you how well you are managing your business and provide information on how to grow your business.

Basic Formula for P&L Statement

+ Sales
– Cost of Goods Sold
= Gross Profit
– Overhead
= Net Profit

- **Sales (also called Income or Revenue)**: Total amount from selling your product or service during a certain time period.
- **Cost of Goods Sold**: Total expenditure for inventory items which customers buy. Cost of Goods Sold consists of the cost of purchasing the items, freight, manufacturing costs, modification costs, and packaging. For services, this is the cost of providing the services, including labor, material used, and transportation.
- **Gross Profit**: Sales less Cost of Goods Sold.
- **Overhead**: Expenses associated with your ongoing business operation, such as rent or utilities.
- **Net Profit**: Gross Profit less Overhead. Net Profit is what remains to pay for expansion, equipment, loan repayment, income taxes and owner's draw.

Compiling a P&L Statement

All quality business accounting software programs compile a P&L statement at the push of a button. The *accuracy* of your P&L statement will depend on how it is set up for your company and your input data. Print out your P&L regularly to track your business progress. Use your P&L statement as the basis for building a cash flow projection.

Discussion Point # 3: P&L Statement

Please review the P&L statement on the next page.

Does any problem stand out?

Sample P&L Statement

Larry's Landscaping & Garden Supply
Profit & Loss
October 2011 through September 2012

	Oct '11 - Sep 12
Ordinary Income/Expense	
Income	
Landscaping Services	57,860.36
Markup Income	815.00
Retail Sales	383.03
Service	6,640.00
Total Income	65,698.39
Cost of Goods Sold	
Cost of Goods Sold	4,220.25
Total COGS	4,220.25
Gross Profit	61,478.14
Expense	
Payroll Expenses	37,820.65
Automobile	738.05
Bank Service Charges	73.50
Delivery Fee	15.00
Insurance	1,835.00
Interest Expense	470.91
Job Expenses	2,427.25
Mileage Reimbursement	0.00
Professional Fees	375.00
Rent	2,400.00
Repairs	45.00
Tools and Misc. Equipment	735.00
Uncategorized Expenses	0.00
Utilities	655.55
Total Expense	47,590.91
Net Ordinary Income	13,887.23
Other Income/Expense	
Other Income	
Misc Income	762.50
Interest Income	91.11
Total Other Income	853.61
Net Other Income	853.61
Net Income	**14,740.84**

Business Financing

The following items are core elements in business financing:

- **Equity financing**: Invested funds that stay in the business, often permanently. For most small businesses, equity comes from the owner or from family savings and is frequently the only source of funds for start–up small businesses. For large, fast-growing quality companies, venture capital can sometimes be accessed for equity.
- **Debt financing**: Borrowed funds that are paid back. The cost of debt financing is interest paid to the lender.
- **Working capital**: The money that is used to pay for the daily operations of the business incurred in the short-term, such as inventory and overhead expenses.
- **Fixed asset financing**: Used for purchasing equipment, vehicles and real estate.

Here are some "do's and don'ts" for small business financing.

- **Invest your own money**: You need to invest your own money first, before you ask for equity or debt from other sources. Having your "skin in the game" shows your commitment and also shows your skill in running a successful business.
- **Earn the right to borrow**: Generally, borrowing is not a "right." Rather, the ability to borrow is an earned privilege. To obtain others' investment, you need to demonstrate your ability to manage debt well and run a profitable business.
- **Show profitability**: Profits are what lenders or investors want to see. Don't let lax management inhibit a healthy bottom line.
- **Understand and retain working capital**: Experienced business owners know that working capital is critical. On the other hand, working capital is sometimes overlooked or misunderstood by new business owners. As your business grows, the amount of working capital cycling through the business to support operations should grow. Successful business owners stay aware of the working capital needed to grow and sustain their businesses.
- **Be lean on fixed assets**: New business owners sometimes think they need to purchase fixed assets to start or grow a business. Fixed assets consume precious working capital (through down payments and monthly loan payments), so whenever possible new business owners should buy as few fixed assets as possible. When acquiring fixed assets, new business owners should consider buying used assets or leasing the assets.
- **Match sources and uses of funds**: When financing, current assets (accounts receivables and inventory) should be financed with current liabilities (line of credit or credit card). Fixed assets should be financed with long term loans that match the use life of the asset. New business owners can make the mistake of buying a fixed asset with short-term debt, forcing them to pay for an asset faster than that asset can generate profits for the loan repayment.
- **Understand your financial statements**: Most types of financing require an application process that asks for business financial statements such as your P&L statement, balance sheet and a cash flow projection. You want to know your financial statements well and be able to discuss them intelligently with a lender.
- **Understand your collateral options**: Most loans require assets (collateral) be pledged as security for a loan. In the event a borrower defaults on a loan, the collateral may be sold. Be prepared to discuss collateral options with your lender.
- **Understand risks and costs for loan types**: Each type of loan carries associated risks and costs. For example, while a credit card may be easy to use, credit card financing may be a very expensive form of credit. In many cases a small business loan, guaranteed by the SBA, will be a better form of loan than a credit card.

- **No grants**: There is a common mistaken belief that government grants are available for businesses. With a few rare exceptions, grants are not available to business owners.
- **Shop around**: Shop around for the best loan. You may want to start where you already have a personal relationship. For example, if you have a personal account at a bank, start there. Check out SBA loan guarantees, which are available at most commercial banks.
- **Get expert advice**: You can get mentoring and advice with the SBA. Do not rule out banks, especially ones with which you have a good working relationship. The FDIC has educational resources that can help as well.

Loans

Here are some steps you can take to prepare for a loan.

- **Have a business plan (including a profit plan)**: The best way to get a loan is to have a solid plan for using the loan. Make sure you have a good up-to-date business plan which incorporates a profit plan. A profit plan will show how the loan proceeds will be used to increase sales and profitability. Showing a lender a reasonable proposition with a solid repayment plan will help as well. Your plan should include any research you have undertaken to establish your costs and your marketing or sales strategies. Typically a business plan will:
    - Have a statement of purpose
    - List the owners of the business
    - Describe the business and how it will make a profit
    - Provide financial statements like a P&L statement and a cash flow projection
    - Provide other documents such as references and proof of insurance
- **Know what you can afford**: Using the likely loan terms, calculate the amount of funds you will need and the monthly loan payment. Your plan should include a repayment plan with projections that show your ability to make your monthly loan payment.
- **Study your financial statements**: As mentioned earlier, a lender will want to see your financial statements. Not only do you need to provide accurate current and historical statements, you need to know what your statements say about your business. Be prepared to discuss the details of your statements and explain any issues.
- **Check your credit report**: You can get a free copy of your personal credit report from each of the three major credit bureaus every 12 months. Study your credit report, make sure it is accurate, fix any inaccuracies, and be prepared to explain any credit issues.
- **Establish collateral options**: Be prepared to discuss collateral with lenders. When you are purchasing a fixed asset, the asset is often the collateral for the loan. Lines of credit are sometimes unsecured if a business owner can show a strong history of profitability, but it is not uncommon to use personal assets to collateralize a business loan.
- **Show your equity contribution**: Lenders usually require an equity contribution for a start-up loan or a loan for an expansion project. The required cash contribution can range from 10 to 30 percent of the total project costs.
- **Research your financing options**: You will need to choose between many lenders and many types of loans. Research your options to ensure you obtain financing from credible sources.

Loan packages require a lot of preparation and documentation. Here is a list to get you started**:**

- **Business plan**: Most lenders require a business plan that describes your costs and your management and sales strategies.

- **Business financial statements**: Lenders generally want to review business financial statements from the past three years, as well as current statements.
- **Personal financial statements**: A personal financial statement shows your personal assets, liabilities, and net worth.
- **Personal and business tax returns**: Lenders often ask for up to three years of past tax returns, both business and personal.
- **Source and amount of equity contribution**: Business loans usually require the business owner to contribute between 10 and 30 percent of total project costs in cash or equity. Include a write-up documenting the amount and source of your equity contribution.
- **Credit report**: Lenders will order your credit report, but it is important you know what they will see in the report. Make sure you have addressed any credit issues that are contained in the report.
- **Collateral**: Lenders usually require collateral. Include options for collateral in your application.
- **Purchase agreements, appraisals, contracts, and estimates**: Include purchase agreements, appraisals, contracts, and official estimates to document costs that pertain to your project.

Qualifying for a Loan

What do lenders look for when evaluating a loan application?

- **Good credit score**: Your credit report gives the history of how you have managed debt for the past seven years. A good credit score tells a lender that you have the ability to manage and repay a loan.
- **Equity contribution**: Sufficient equity contribution shows a lender that you have a commitment to the project and the ability to earn, save, and manage money.
- **Repayment ability**: Lenders often analyze financial statements from the past three years to see if the business has the historic ability to pay debt service. Lender criteria vary, however, you will probably need to show that you have strong profits, good cash management skills, and growth potential. The need to show historical evidence is why it is harder for a start-up business to obtain a loan. On the other hand, while most loan applications require projections, it is more difficult to qualify for a loan on projections alone.
- **Loan-to-value ratio**: Lenders tend to loan between 70 and 90 percent of the market value of an asset. If you are buying real estate, an appraisal will be used to determine the maximum loan amount.

Start-Up Financing

Here are options for financing a start-up business:

- **Equity**: Equity is simply—it's your money. Many businesses are started with savings from a "day job" or through the sale of an asset. You can launch your business by starting small and re-investing the profits over time to build up the business.
- **Sweat equity**: Sweat equity means "doing it yourself." Owners of start-up businesses are often a" jack of all trades." You put in the hours to cover the many activities of your business, rather than hiring others or buying equipment.
- **Family**: Some business owners turn to their families for an equity contribution.

Understand the different types of financing. For most small businesses, there are three key ways to finance operations:

- *Personal lines of credit,* such as credit cards (either an owner's personal card or a business card guaranteed by the owner) or home equity lines of credit (the small business owner's home serves as the collateral) are commonly used, but there are risks. Small business owners may find a credit card convenient, but it can be an expensive financing tool. Owners using a credit card also can quickly find themselves taking on debt that cannot reasonably be supported by revenues from the business. Interest rates on credit cards are also usually much higher than on business loans. Here are some tips to using a credit card wisely:
  - Get a separate credit card for business use.
  - Use only one credit card, not multiple cards.
  - Keep your balances modest.
  - Pay the balance before the due date to avoid paying interest.
  - Don't use a credit card to prop up an unprofitable business. Remember, *profits* are the best way to grow your business.
- *Business lines of credit,* which provide a convenient way for a business to borrow up to a certain dollar amount and repay it in installments with interest over several years, also present risks. Business owners should think carefully before borrowing on a line of credit. Consider how and when the business will generate revenue to repay the loan, and make sure you aren't using a short-term financing tool to finance costly, long-term investments.
- *Business term loans,* which establish a set dollar amount to be repaid in installments over three or more years, are commonly recommended for purposes such as financing the purchase of equipment or a vehicle. These loans often are secured by the asset that is purchased. Term loans mean predictable payments for businesses, but unlike lines of credit, a business may have to make a new application if it needs to borrow additional funds.

Looking for a Loan

If you need to borrow money, comparison shop for government-guaranteed loans that may be offered by your bank and a few other financial institutions serving your community. The U.S. Small Business Administration backs a certain portion of loans to help borrowers qualify for attractive financing terms. If you need a loan for less than the lender's minimum amount, ask your bank for a referral to a lender participating in the SBA's microloan program, which combines business coaching and technical assistance with access to loans up to $50,000 (although the average loan amount is about $13,000). Also be aware that certain borrowers, such as veterans or victims of disasters, may be eligible for special loan programs. Here are places to look for business financing as well as referrals to local financing :

- **Banks**: Many banks provide business loans, lines of credit, equipment leasing loans, and SBA-guaranteed loans. Start by gathering information from the bank with which you currently do business. Find out what types of business financing your bank offers. Make an appointment with your bank's lending officer to discuss products offered by the bank. If your bank is not active in small business lending, ask your accountant or other business owners in your area for referrals to other banks.
- **Regional Lending Organizations**: Many are nonprofit, community development organizations that have revolving loan programs for business development in their region. To locate these organizations (or organizations that can refer you to lending programs) in your area, search the internet for:
  - Community Development Financing Institutions (CDFI)
  - Small Business Administration (SBA) Resource Partners such as Small Business Development Centers (SBDC), SCORE, Women's Business Centers, Veterans Business Outreach Centers, and US Export Assistance Centers
  - Your city, county, state, or community economic development department

- Certified Development Corporations (CDCs), part of the National Association of Development Companies (NADCO)
- Microenterprise development organizations, part of the Association for Enterprise Opportunity (AEO)
- SBA lenders, by looking on the SBA website for Community Advantage Approved Lenders
- Your state USDA Rural Development office
- Your regional SBA office

Five Key Points to Remember

1. *Financing* is getting the money you need to start, operate or grow your business. Before borrowing money for your business, develop a business plan to help determine whether your business can afford a loan. If you need to borrow money, take time to comparison-shop for the best loan option.
2. Start financial management with a budget.
3. Sound bookkeeping is the basis for all financial management.
4. Cash flow projections will help you to see cash shortages even when accrual accounting may mask these shortages.
5. A Profit & Loss (P&L) statement is the best tool for knowing if your business is profitable.

For Further Information

Federal Deposit Insurance Corporation (FDIC)
http://www.fdic.gov
The Federal Deposit Insurance Corporation (FDIC) preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

The FDIC encourages bank lending to creditworthy small businesses. The FDIC also encourages small businesses that may have an inquiry or concern about the availability of credit to contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ or http://www.fdic.gov/smallbusiness. Another FDIC web site, http://www.fdic.gov/buying/goods, provides resources to assist small businesses that may want to do business with the FDIC.

U.S. Small Business Administration (SBA)
http://www.sba.gov
SBA Answer Desk: 1-800-827-5722
The U.S. Small Business Administration (SBA) web site provides resources, answers to frequently asked questions and other significant information for small business owners.

U.S. Financial Literacy and Education Commission
http://www.mymoney.gov
1-888-My-Money (696-6639)
MyMoney.gov is the federal government's one-stop web site that provides financial education resources from more 20 federal agencies.

Post-Test

Now that you've gone through the course, see what you've learned.

1. **What does good financial management provide? Select all that apply.**
   a. Backup documentation for a loan application
   b. Fixed assets for a loan
   c. Help with discussing business circumstances with a lender
   d. Collateral for a loan

2. **A budget is one of many financial management tools.**
   a. True
   b. False

3. **As a rule of thumb, in a sole proprietorship, "Sales pay for expenses ______________________, personal expenses ____________________."**
   a. When they occur … in advance
   b. First … second
   c. In advance … when they occur
   d. Second … first

4. **It may be a good financial management practice to get a separate business credit card that is used exclusively for business expenses.**
   a. True
   b. False

5. **How might a business be profitable and still run out of cash? Select all that apply**
   a. Cash is central to operations, so this would never happen.
   b. The business has a backlog of inventory.
   c. The amount of cash received is greater than the amount of cash paid out over a period of time.
   d. A business has a high amount of receivables because it does an inadequate job of collecting money owed.

6. **Despite its name, a profit and loss statement is *not* a tool for knowing if a business is profitable.**
   a. True
   b. False

7. **What is the basic formula for a profit and loss statement?**
   a. + Sales
      <u>– Cost of Goods Sold</u>
      = Gross Profit
      <u>– Overhead</u>
      = Net Profit

   b. + Purchase Price
      <u>– Cost of Goods Sold</u>
      = Profit

   c. + Cash Flow from Operations
      + Cash Flow from Financing
      <u>+ Cash Flow from Investments</u>
      = Net Cash Flow

   d. + Sources of Cash
      – Operating Uses of Cash
      <u>– Non-operating Uses of Cash</u>
      = Ending Cash

8. **Working capital are the funds needed to run the daily operations of a business, including _______________.**
   a. Inventory and overhead expenses
   b. Fixed assets
   c. Equipment, vehicles and real estate
   d. Office furniture purchases

9. **Which of the following is *not* a good small business financing practice? Select one.**
   a. Invest personal money first before asking for equity or debt from other sources.
   b. Purchase fixed assets as much as possible when starting a new business (for collateral).
   c. Current assets (accounts receivables and inventory) are financed with current liabilities (line of credit or credit card).
   d. Fixed assets are financed with long-term loans that match the use-life of the asset.

Evaluation Form

Your feedback is important. Please fill out this evaluation of the *Financial Management for Small Business* training.

Training Rating

1. Overall, I felt the module was (check one):
   [ ] Excellent
   [ ] Very Good
   [ ] Good
   [ ] Fair
   [ ] Poor

Please indicate the degree to which you agree by circling a number.	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The PowerPoint slides were clear.	1	2	3	4	5
5. The PowerPoint slides enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this module.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

Please indicate the degree of knowledge/skill by circling a number.	None				Advanced
9. My knowledge/skill level of the subject matter **before taking the training**.	1	2	3	4	5
10. My knowledge/skill level of the subject matter **upon completion of the training**.	1	2	3	4	5

Instructor Rating

11. Instructor Name:

Please use the response scale to rate your instructor by circling a number.	Poor	Fair	Good	Very Good	Excellent
12. Made the subject understandable	1	2	3	4	5
13. Encouraged questions	1	2	3	4	5
14. Provided technical knowledge	1	2	3	4	5

15. What was the most useful part of the training?

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16. What was the least useful part of the training and how could it be improved?

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