

Carnegie Mellon University  
Swartz Center for Entrepreneurship

**Strength in Numbers**

# Welcome to CMU!

- Dave Mawhinney, Executive Director,  
Swartz Center for Entrepreneurship
- Christine Ferguson-Rau, CMU Alumna
- Donald Bonk, CMU Alumni
- Sonya Ford, Program Manager, CMU
- Aleks Petkov, Program Manager, CMU

# Why Convene this Cohort?

- Build capacity in women and minority owned businesses in communities close to CMU
- First pilots in Homewood and Wilkinsburg

# **Where** and **When** will Cohort Meet?

- Fourth Session: Wednesday, **December 1<sup>st</sup>**
- Educational sessions at **Swartz Center for Entrepreneurship** at CMU Tepper Quad

# Program **Strategy**

- Identify the **road to profitable growth**
- Understand **blocks on that road**
- Work together to **clear them away**

# The Cash Cycle

The **cash cycle** is the time period between when a business **pays cash** for materials, inventory, and payroll, and when it **receives cash** from its customers.

# The Cash Cycle

The **Cash Cycle** is used to determine the **amount of cash needed** to fund ongoing operations, and is a key factor in estimating **financing requirements**

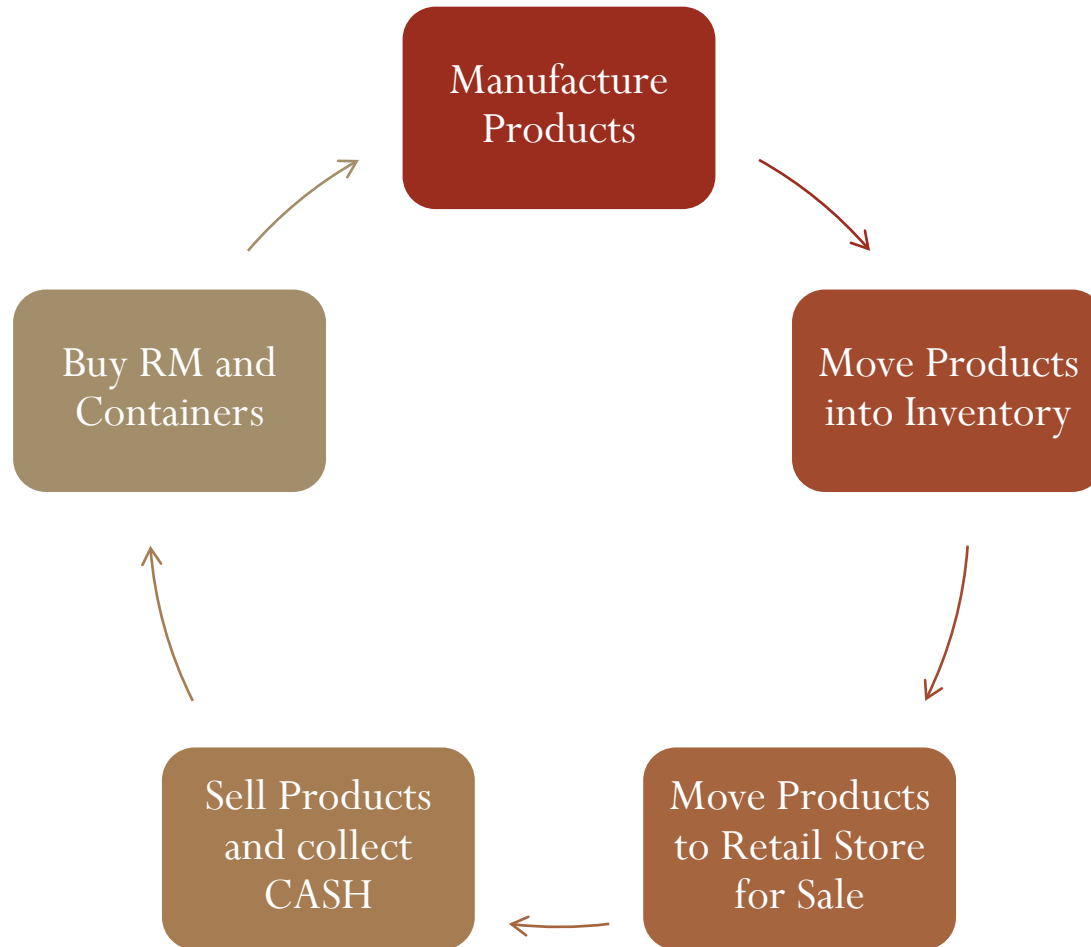
# Cash Cycle Example

**Acme Manufacturing Co** is a **manufacturer** of organic beauty products

Needs **cash** to buy materials, pay workers, and **manufacture products before** they can **sell** the products and **collect cash**



# Cash Cycle



# Cash Cycle Example

Acme **manufactures** the products  
then **sells** them in their **retail store**  
**and on-line** before they collect  
**cash**

# Cash Cycle Example

## **Acme** Direct Manufacturing Costs:

<b>Raw Materials</b>	<b>\$ 25,000</b>
<b>Containers</b>	<b><u>\$ 40,000</u></b>
	<b>\$ 65,000</b>

# Cash Cycle Example

**Each month**, Acme Manufacturing must also pay **\$20,000** for indirect costs:

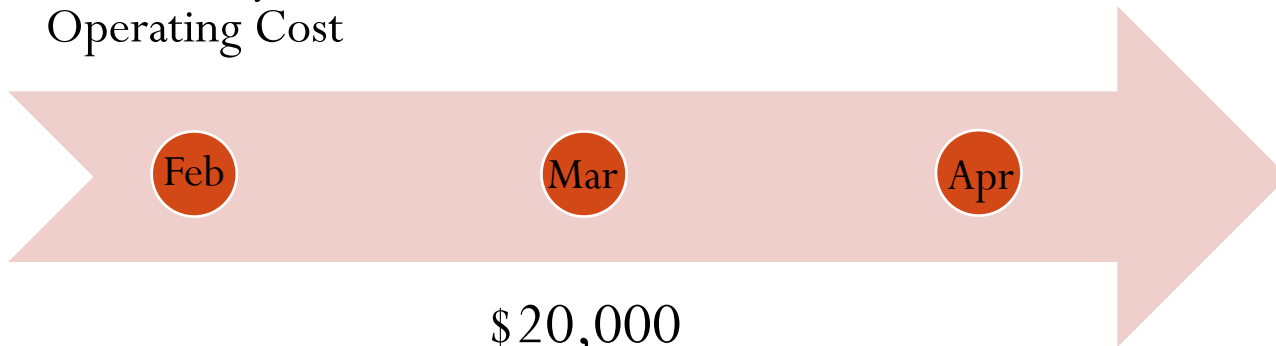
- Rent
- Payroll
- Utilities
- Office Expenses

# Acme Mfg Cash Need

\$65,000 Direct  
Costs +  
\$20,000  
Monthly  
Operating Cost

**Receive**

**\$\$\$**



Feb

Mar

Apr

\$20,000  
Monthly  
Operating  
Cost

# Cash Cycle Example

**Financing Needed** to Fund Cash Cycle:  
**\$105,000 Less \$25,000 Cash on Hand**

**\$80,000**

# Line of Credit

A **Line of Credit (LOC)** is used to **cover** a business's **Cash Cycle**

**LOC** is a **credit facility** provided by a **bank** or a **CDFI** (Community Development Financial Institution)

# LOC Amount

The Amount of a **LOC** is tied to:

- **Accounts Receivable (A/R) - 75% to 80%**  
collateral

**\$80,000 in A/R – LOC of approx. \$60,000**

- **Inventory - <50% collateral**

**\$100,000 in inventory – LOC up to \$50,000**



# LOC is Different than a Term Loan

## LOC Features and Benefits

- Interest **Only**
- Borrow, Repay, **Re-borrow**
- Principle clearance may **not** be **required**
- **Less expensive** (lower rate) **than Term Loans**

# Required to get a LOC: Pro forma!

Requirements to apply **for financing** through Banks,  
Bridgeway Capital, URA:

**All Require 3 Year Projections** a.k.a. **Pro forma  
Income Statements** for **3 years** into the future

# The Income Statement

**Revenues**

**Expenses**

**Profit or Loss**

# Sample Income Statement

## Income statement example

TEDDY FAB INC. STATEMENT OF INCOME Year Ended December 31, 2100	
Revenues	\$ 1,000,000
<u>Cost of goods sold</u>	<u>200,000</u>
Gross profit	<u>800,000</u>
<b>Operating expenses</b>	
Selling, general, and administrative expense	357,700
Interest expense	20,000
<u>Depreciation and amortization expense</u>	<u>5,200</u>
Operating income	<u>417,100</u>
Interest income	20,000
<b>Net earnings before taxes</b>	<u>437,100</u>
Income tax expense	<u>240,000</u>
<b>Net income</b>	<u>\$ 197,100</u>

# Accurate Financial Statements

Building **accurate financial statements** is **essential** to understand your company's financial performance and being able to **convey** that performance to those that can provide **capital**

# How Financial Statements are Created

## The Chart of Accounts (**COA**)

- The **COA** is **the foundation** of your **accounting system**
- The COA determines **how** your **transactions** are categorized and **reported in** your **financial statements**
- Companies **use a COA to organize** their **finances** and **give** interested parties, such as **banks**, a clearer **insight into their financial health**

# What is a Pro forma?

- **Pro forma** financial statements are **based on past** performance
- Provide a **glimpse into the future** financial performance
- **Tell a story** to banks of your **“what-if”** scenario
- Pro forma financial statements **use assumptions** about things that might occur in the future

# How to begin

Use **year-to-date** income statement **results** **by MONTH** along with **what is expected** for the remainder of the year to **create a full-year pro forma** statement for 2021



# Start the Process

List **events** that will **impact your income statement** in the **future** such as:

- New hires, retirements, and employee raises
- New customers
- New marketing campaigns
- New property, machinery, website, etc.

# Mirror your Income Statement

Examine the **Monthly** Income Statement **line by line; consider if each line will change** in the next year **based on changes in:**

- Revenue
- Number of employees
- Amount of real estate space used
- Increases in costs or pricing

# Explain the changes

- Keep the reader's perspective in mind – **this is for a BANK**
- Make sure to **thoroughly explain** the basis for and **changes you have made** to your monthly income statement
- Your **Pro forma tells a story** – and like any good narrative – you need to **provide sufficient background on the characters, events, and plot points!**

Apply for a LOC!

When your **pro forma Income Statement** (*by month for 3 years*) shows **profitable** progress for your business – you will be **ready to apply for a Line of Credit** to fund your Cash Cycle and **GROW!**

# Preparation for December Meeting

- **Connect with your mentors weekly**
- **Build a pro forma income statement for 2022** in **Excel**; this will be the first year of 3-year monthly pro forma income statements that are **required to obtain a line of credit**
- **Create a monthly pro forma income statement for 2023 and 2024.** Review the pro forma with your mentor. *Note all assumptions used and ask your mentor if they seem reasonable.*

# Contacts

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