

The YEBDC Small Business Information Column

by Sue Gingerich, Business Advisor

"Looking Into The Future"

Is your business anticipating making a purchase of an expensive asset? Yet, are you putting off making that purchase? Is it because you are not sure what the effect of that purchase will be on the future cash needs of the business and your year end profit? Then ease your mind, by looking into the future.

How can a business look into the future? Well, of course you can't really, but you can compare many different scenarios of how the future might look based on what you do or don't do now.

One of the ways to do this is create several cash flow forecasts. Create one without making the purchase at all. Perhaps create one scenario when you purchase now, and another one when you make the purchase in six months. Or how about if you lease instead of buy the item? How does that change the cash picture of the business? What if you bought used instead of new? (Don't forget to factor in more for maintenance and repairs, though.) Consider the differences if you pay cash for the item or, if you finance it.

Also look at the different tax implications. By creating several proforma income statements based on the same scenarios you used for your cash flow forecasts, you can determine how the company's profit picture might be affected. Don't forget the amount of tax you pay will also affect your cash flow forecasts.

These calculations can all be made relatively easy by using a computer spread sheet package. Once your spreadsheet calculations are set up, and your data is input, changing any number will result in the automatic recalculation of the totals. You will be able to create scenario after scenario, in a matter of minutes.

Make sure you include all the necessary data in your various calculations. The cash flow includes all money that leaves the business, for example, your down payment, and your monthly payments, principle and interest. On the other hand the proforma income statement will only show, interest and your depreciation, as allowable expenses. Compare this to a lease payment. (In many cases the entire amount of the lease payment is an allowable expense on the income statement.)

By creating all these scenarios, you will be able to see the different repercussions of the different choices. It may help you to see which decision fits best with your other long-term goals. It will also let you see if the purchase could cause a cash flow problem or a profit problem in the future. By analyzing the implications of all major purchases, you will be able to make your decisions today, with more confidence about the future.

If you have a small business and have a question or problem that you think The YEBDC could help you with please call or write to: The Yellowhead East Business Development Corporation, Box 249, Sangudo, Alberta, T0E 2A0
1-800-556-0328 or 1-780-785-2900, e mail: yebdc@yebdc.ab.ca, or access our Website at: www.yebdc.ab.ca

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