

## Food & Beverage - Hidden Cash - By Joe Dunbar

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Let's imagine you have had a slow down in business and your state sales tax payment is due in four days. Should you borrow more money to finance your sales tax payment to your state? This decision is faced by many restaurateurs during their off-season months.

Both your balance sheet and income statement may be used to find cash. For those without any accounting skills, debits eat cash and credits produce cash.

On the asset side of the balance sheet, you'll find lots of items burning cash. You could sell unproductive fixed assets (e.g. obsolete equipment, extra vehicles, unused land, etc.) or close losing units. Reducing your inventory level is another way to improve cash flow. Review your food, beverage and supplies inventories and try to get by with 10% less on hand. Collect any overdue receivables.

On prepaid expenses, renegotiate prepayment terms. Try to convert quarterly prepayments to monthly auto-transfer payments. Try to minimize future increases in fixed assets through operating leases.

The equity side of the balance sheet contains the liability and capital accounts. Many restaurateurs go to this side of the balance sheet to find cash. This may be very expensive money. Fail to take advantage of a vendor early payment option and you'll give up from 1% to 2% of purchases. Vendors who do not offer favorable prepayment terms build their cost of capital into the prices they charge. Poor payers are penalized with higher prices making vendor financing very expensive.

Delaying a tax payment could keep the cash in the bank a bit longer but the cost is astronomical. Taxing authorities charge major penalties with interest on these late payments. Delaying a payroll will create morale problems and productivity can suffer.

Generally, you need to stay current on payments of all current liabilities. This applies to repayment of credit lines and mortgages. In addition to late fees, your ability to fund future growth could be impaired.

Long term debt is the best source from the liabilities side of the balance sheet. This is all debt which does not need to be repaid in the next 365 days. Use this 365day reprieve very wisely if you decide to refinance current liabilities with long term debt. If this becomes habitual, the business could reach a point where debt repayment becomes the sole focus of management.

Raising capital from outside investors may make sense. The cost of this money is usually equal to the growth rate of the company. If you can manage your liabilities well, you'll keep all future growth with the current investors. If you intend to grow sales by 10% each year for the next 5 years and you budget a profit improvement from 5% to 8% net, your profit in year 5 will be 150% higher than today. Do you want to give away this future equity to new investors?

Thanks!!!

Joe

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