

## Notes on The 3 Rules

**Rule 1** Cashflow is the net of all the money your company receives and pays out **over a period of time**.

We recommend that you prepare a cashflow forecast each month for the coming month.

**Rule 2** Margin is the net of your company's total sales minus the total direct costs of the products or services it sells **over a period of time**.

For example, if your company sold a T-shirt for \$25, and it cost \$15, the margin on that sale is \$10.

Operating costs are all the costs of operating your business that are not direct costs of the products or services it sells **over a period of time**.

For example: salaries, rent, and advertising.

We recommend that you prepare margin and operating costs forecasts each month or quarter for the coming month or quarter.

**Rule 3** Cash, receivables, inventory, payables, and short-term debt are collectively called Working Capital.

Your company's Working Capital Ratio is:

$$\frac{\text{Cash} + \text{Receivables} + \text{Inventory}}{\text{Payables} + \text{Short-term Debt}}$$

**on a specific date**...This is a measure of its ability to pay its bills as they come due.

If your company's Working Capital Ratio is consistently less than 1.00, you may have a reason to be concerned.

We recommend that you review your company's Working Capital Ratio at least once a month.

### **And one more thing: Create better products**

- ++** To help your customers
- ++** To create customers that love you – and
- ++** To raise your company's margin