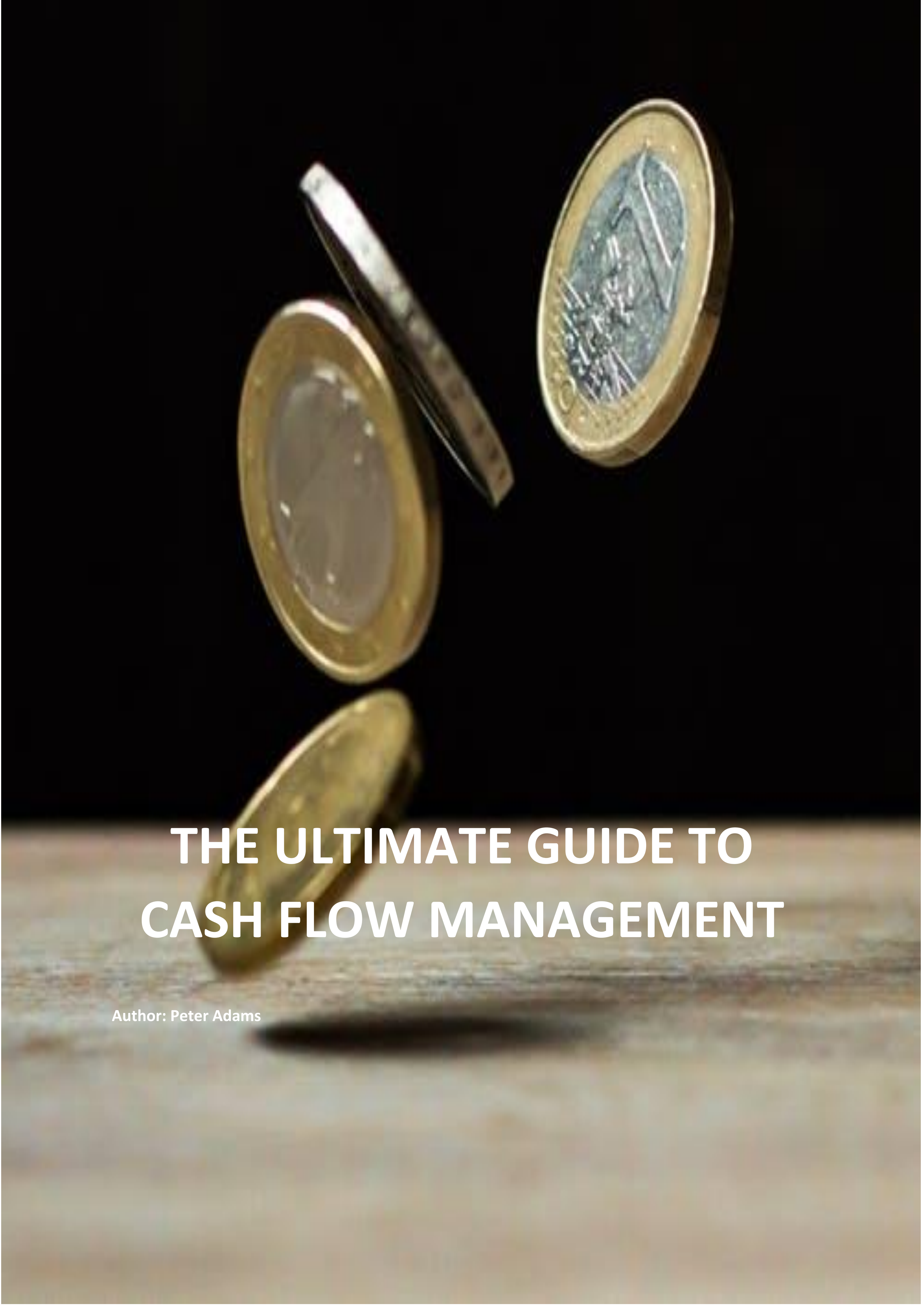

THE ULTIMATE GUIDE TO CASH FLOW MANAGEMENT

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Contents

Introduction

Small businesses are a critical part of any economy. In most countries, small businesses form the backbone of the economy. Small and medium-sized enterprises (SMEs) account for over 95% of firms and 60%-70% of employment and generate a large share of new jobs in OECD economies.

When you are a small business entrepreneur, it is easy to feel as if the problems your business faces are unique. You become so immersed in your daily duties and issues that you may fail to recognize that your major problems are essentially the same as what the competition is facing.

In today's world, the number of businesses starting up is growing by the day. With more companies displacing employees, the market has shifted from employment to small business entrepreneurs. The consequence of employees now turning business entrepreneurs comes at a risk mainly through lack of education and management skills. There is no formal training that helps you with business set up, growing your business coupled with exit strategies. This philosophy also applies to established businesses with the lack of training.

Starting a business is a big achievement for many business entrepreneurs but maintaining one is the larger challenge. There are many standard challenges that face every business whether they are large or small. These include things like hiring the right people, customers, production, cash flow, building a brand and so on. However, there are some that are unique to small businesses - ones most large companies have grown out of long ago.

In this environment the small business entrepreneur will have to balance these external factors with the usual challenges for SMEs of remaining relevant and sustainable in a competitive market. No doubt there will be many sleepless nights ahead for most small business entrepreneurs planning the best path for their business.

My EBook takes on the journey of understanding the shortcomings that can occur with cash flow management in your business. I shall guide you through the processes needed to overcome these cash flow issues and set your business on the road to enjoying excess cash.

The Key Issues Affecting Cash Flow

Why is cash flow so difficult to manage? A small business must maintain realistic working capital balances to manage the normal trade cycle. Without an understanding of your cash requirements and particularly where your bank is involved with loans, failure to meet the commitments can easily result in a good business getting into trouble fast. Cash flow problems can kill businesses that might otherwise have survived. According to a U.S. Bank study, 82 per cent of business failures are due to poor cash management.

Think of cash flow as a leaking bucket, you fill the bucket from the top and the water drains out from the sides and the bottom of the bucket. Therefore, you need more money coming in than leaking out of the bucket. Get good financial advice and take the time to analyse the business risk of failing to meet cash flow commitments before undertaking any new project.

While revenues and net income look good on paper, cash flow from operations is dismal: or worse, unknown. As a business entrepreneur it is up to you to know where your money is coming from in the short and mid-term: whether this is from cash revenues, accounts receivable collections, factoring, loans, or from the re-sale of other assets. In many of the Businesses reviewed, there was no management of cash flow and in most cases, business entrepreneurs were caught at least once within the last six months where they had a cash flow strain that they “didn’t see coming.” Managing your cash flow is about knowing the timing of your inflows and outflows of money, and making sure there is more inflow than outflow, regardless of the source.

Cash flow is the integral part of your business. Without sufficient cash flow coming into the business means that you are unlikely to be able to pay your staff, suppliers, tax office and any loan repayments. Positive cash flow means your business is running smoothly. High positive cash flow is even better and will allow you to make new investments (hire employees, open another location) and further grow your business. Conversely, when there is negative cash flow: more money paying out than being coming in. Positive cash flow is driven by two things: organization and planning.

Some business entrepreneurs consider profit on paper is same as cash flow but get confused as to why that profit is not in the bank. WRONG! Profit may be high due to increase in sales that are accounts receivable collections whilst cash flow may be poor because of many reasons such as your investment in stock, a fixed asset or timing issue due to tax payment. There are many reasons why cash flow can be poor but if your cash flow is managed properly through proper internal control systems, this will give you a big sigh of relief.

The problem stems from a domino effect of one business having poor profitability earlier on in the chain that then starts to directly affect all the others, as many small businesses trade with other small business. Thus, the situation compounds itself.

It is commonly known that the biggest obstacle facing small business is easy access to the "right" capital. Funding gaps for smaller firms are a major impediment to growth. Wide variance in the profitability, survival and growth of SMEs compared to larger firms brings special financing problems. Owners and managers of smaller firms often lack commercial experience and/or a track record as entrepreneurs. Early stages of growth are marked by uncertainty both in production and marketing. Smaller, innovative firms operate in environments of high complexity and rapid change and rely heavily on intangible assets. SMEs often have trouble obtaining financing because banks and traditional lending institutions are averse to risky ventures.

Bank loans are extremely difficult to get (strict underwriting) and online "alternative" loans can be costly and nebulous. Small business entrepreneurs are so busy managing their business, how are they supposed to researching what's right for them? That's why many wind up in the first, best-marketed option instead of the financing that's appropriate. Failing here sinks too many businesses.

Expansion of private equity markets is greatly improving access to venture capital for SMEs, but there are considerable differences across countries. Venture capitalists provide more than equity capital to their portfolio companies. They also offer management assistance, performance monitoring and the staged infusion of additional risk capital as the enterprise evolves. Venture capital can be supplied by specialised funds which raise money from a range of sources: private individuals, corporations, government agencies, pension funds, banks and insurance companies, endowments and foundations. Or it can be provided directly by the same range of investors.

Let us look at the major cash flow issues affecting small business today. Perhaps your business is suffering from one or more of these issues:

- Not enough cash to start your business.
- No internal control processes.
- A credit management policy that is not strong.
- A lack of control on expenses.
- Records are kept manually rather than through accounting software.
- Survival day by day

If you suffer from any of these issues, do not feel afraid, you will not be the only business entrepreneur to have suffered from this experience. It's your choice whether to stay in this position or to come out of the comfort zone into a new zone that will:

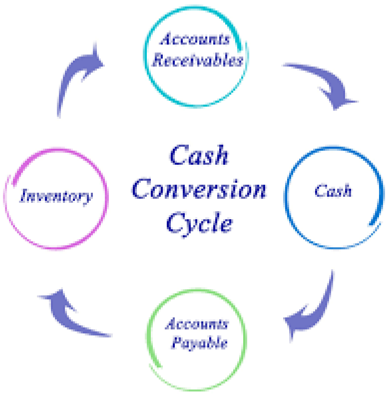
- Give you better clarity about your business.
- More money in your bank account.
- Happier employees and
- Less STRESS for you.

This is a common international challenge that faces most small businesses across the world is cash flow and the management of cash flow.

Cash Flow Life Cycle

Have you heard of the term “**Cash Flow Cycle**”? The “**Cash Conversion Cycle**” is a follow on from the understanding of cash flow cycle.

This terminology applies to all businesses that are selling products or services. The Cash Flow Cycle describes how the cash flows in and out of business. Money flows through a business in predictable ways. If you understand how revenue, expenses, receivables, and credit work, you can ensure that you continue to have enough purchasing power on hand to continue operation and maximize your available options.



The Cash Flow Cycle describes how cash flows through a business. Think of your business’s bank account like a bathtub. If you want the water in the bathtub to rise, you add more water and keep it from leaking out via the drain. The more water that flows in and the less that flows out, the higher the level of water in the tub. Revenues and expenses work the same way.

The Cash Conversion Cycle is a metric that expresses the length of time, in days, that it takes for a business to convert resource inputs into cash flows. The cash conversion cycle attempts to measure the amount of time each net input dollar is tied up in the production/service and sales process before it is converted into cash through sales to customers. This metric looks at the amount of time needed to sell inventory and/or complete a project before billing, the amount of time needed to collect receivables, and the length of time the business is afforded to pay its bills without incurring penalties.

The cash conversion cycle is calculated as:

$$\mathbf{CCC = DIO + DSO - DPO}$$

Where:

DIO = days inventory outstanding

DSO = days sales outstanding

DPO = days payable outstanding

The cash conversion cycle (CCC) measures the time between the cash outlay and the cash receipt. The cash conversion cycle cannot be observed directly in cash flows, which are affected by financing and investment activities as well; rather, the cycle refers to the time span between a firm's disbursement and collection of cash.

Examples

Two examples are shown below to illustrate this concept.

The **first example** illustrates Company A has an unfavourable cash conversion cycle.

DIO = 180 days inventory outstanding

DSO = 90 days sales outstanding

DPO = 30 days payable outstanding

The cash conversion cycle is calculated as CCC = DIO + DSO – DPO

= 180 + 90 – 30

= 240 days

This example shows that it takes Company A 240 days to collects its money from the sell of inventory. The company has 30 days credit terms but is holding 6 months of inventory. Company A's problem is further aggravated by allowing its customers to pay within 90 days.

The **second example** shows Company B has a favourable cash conversion cycle.

DIO = 30 days inventory outstanding

DSO = 7 days sales outstanding

DPO = 45 days payable outstanding

The cash conversion cycle is calculated as CCC = DIO + DSO – DPO

= 30 + 7 – 45

= - 8 days

Company B has a favourable cash conversion cycle. Company B is holding only 30 days of inventory for which it collects its cash from customers within 7 days. Company B has the absolute advantage that it has 45 days payment terms with its suppliers.

Present Conditions and Risk Analysis

Present Conditions

The most important step is to understand your present cash flow situation. There is no point striving towards business excellence until your present cash flow circumstances are under control.

Do you have enough cash in the bank that will enable you to pay your bills on time? Is there enough cash in the bank that will allow you to grow your business this year? If your answer is yes to these two questions, then perhaps my ultimate guide is not for you, but you are most welcome to continue reading on. If you answered no to any of these questions, then, my ultimate guide is for you.

To properly assess your business's cash flow, you must first analyze the components that affect the timing of your cash inflows and cash outflows. A good analysis of these components will point out problem areas that lead to cash flow gaps for your business. Narrowing, or even closing, cash flow gaps are the key to good cash flow management.

Some of the more important components to examine are:

- **Accounts receivable**. Accounts receivable represent sales that have not yet been collected in the form of cash. An account receivable is created when you sell something to a customer in return for his or her promise to pay at a later date. To properly manage your cash flow, you must know the negative cash flow affects caused by the time it takes your customers to pay on their accounts.

- **Credit terms**. Credit terms are the time limits you set for your customers' promise to pay for the merchandise or services purchased from your business. Credit terms affect the timing of your cash inflows. Offering trade discounts is one way you might be able to improve your cash flow.

- **Credit policy**. A credit policy is the blueprint you use when deciding to extend credit to a customer. The correct credit policy is necessary to ensure that your cash flow doesn't fall victim to a credit policy that is too strict or to one that is too generous.

- **Inventory**. Inventory describes the extra merchandise or supplies your business keeps on hand to meet the demands of customers. An excessive amount of inventory hurts your cash flow by using up money that could be used for other cash outflows.

- **Accounts payable**. Accounts payable are amounts you owe to your suppliers that are payable sometime within the near future, "near" meaning 30 to 90 days. Without payables and trade credit you'd have to pay for all goods and services at the time you purchase them. For optimum cash flow management, you'll need to examine your payables schedule.

- **Bank Statement** – Review last month’s bank statement to review the expenditure pattern that is occurring. Are there any expenses coming out of your bank account that do not appear familiar to you? Are there regular payments for leases or subscriptions or insurance renewals that are continually coming out of your bank account that are no longer required or exists?

- **Business Credit Card** – Does your business have a credit card? Is the credit card paid entirely by the due date or are you paying off the monthly instalments? You will need to consider the interest rate that applies to unpaid balances left on the business credit card possibly 20% per annum interest. The credit card is an expensive form of financing.

These are just a few points for consideration to understand your present cash flow circumstances.

Risk Analysis

Risk Identification

A primary reason that small businesses fail at start-up is due to insufficient capital. Small businesses may survive the start-up phase but fail in later years. Although business owners can point to difficulty obtaining a loan or falling sales in a poor economy, various other factors influence cash flow. Reduced cash flow often is a symptom of ineffective management. Other times it can result from neglecting to review the cash flow statement and make predictions about cash needs. These and other factors impact both the level and riskiness of cash flows.

Minimizing and controlling the effects of risks can improve and maintain business cash flow. The continuation of cash flow creates stability for your organization and helps sustain credit relationships, while helping to build additional credit.

Why is risk management important? Good risk management will help your business continue in operation. Mitigated risk leads to better cash flow and greater stability. Creditors will see this stability and good cash flow reflected in your business's financial reports. Greater stability will mean your business will last into the future. The rewards of risk management are all linked together: good cash flow leads to stability, which leads to good credit, which leads to longevity.

The setting up of your internal control systems is important for you to understand the risks that your business is exposed too. All businesses are exposed to some form of risk on a daily basis. Risks can occur from within your business and externally too. We will look at a few of the internal and external major cash risks that your business can come across. Each one of the risks mentioned below has a direct or indirect impact upon the business' cash flow.

Internal Risks

Internal risks are faced by a business from within its organization and arise during the normal operations of the business. These risks can be forecasted with some reliability, and therefore, a business has a good chance of reducing internal business risk. The three internal risk factors are human factors, technological factors and physical factors.

- Ineffective management or leadership
- Employee fraud
- Low staff morale
- Illness or death
- Changes in delivery or distribution of a business's product or service.

External Risks

The three external risks include economic factors, natural factors and political factors. Economic risk includes changes in market conditions. Natural risk factors include natural disasters that affect normal business operations. Political risk is comprised of changes in the political environment. Since external risks cannot be foreseen with accuracy, it is difficult for a business to reduce these three risk factors.

- Competitor pricing in market
- Competitor – new technology, new product, superior product
- Government legislation or taxation
- Customers not paying you for your products or services
- Employees leaving to go to competitors.
- Suppliers increasing their pricing so potential loss of profits
- Economy – home and abroad

In your business, there are many early warning signs that you can monitor to measure risk against your cash flow. Check out the following early warning signs:

- External debt vs equity financing
- Reliance on Small Numbers of Customers, Products and Suppliers
- Customers slow to pay
- Inventory levels increasing
- Irregularities in Accounting or Bank Records
- Irregularities in Computer System Administrative Reports
- Employee turnover rate

Risk Evaluation

Once risks have been identified, consider next the impact each risk has on business operations and continuity. Also evaluate risks with regard to potential expansion or future growth. On a day-to-day basis, consult with your team, as they may be more alert to possible risks.

Performing an analysis of your business's internal strengths and weaknesses and your business's external opportunities and threats may uncover overlooked risks. To be effective, a strengths, weaknesses, opportunities, threats (SWOT) analysis should be a very candid and honest assessment of the business. Remember, some risks can also be opportunities.

Risk Measurement

Once risks are identified and evaluated for their potential consequences, they should be measured by how they affect earnings, cash flow, and business operations.

A good example is water damage. A business that flooded may be cleaned up, reopened, and continue operations. But, the expenses for clean-up put a strain on the budget for months to come. Lost income is not the only thing to consider. For example, customers may move to businesses that did not flooded and not return to your business. This customer migration may require new advertising or new products to renew interest.

Loss of future profits (due to customer migration, for example) may be more costly than the direct loss of income. Scrutiny of all the costs associated with a risk is important for measuring risk.

The identification and management of potential risks will help your business survive. Proper monitoring of risk will enable your business to manage risks when they occur.

Goals of the Business

The goals that you set for your business must be goals that you want to be successfully achieve and these goals must be quantifiable. It's important to ensure that your goals are clear for you and your team. You should know exactly where you want to take your business and you should not waiver from your target regardless of failures along the way. Your goals must be specific and measurable. It is important that once the goals have been established that you set systems in place to measure your actual performance against your goal. You will know when you have reached your goal.

Do not set unrealistic goals for your business that are not achievable. Once you realise that you are not achieving your goal, you will quickly lose motivation towards achieving the goal plus wasted your time and effort.

Now that you have identified your present scenario and the risks that are attached to your present situation, let us focus on moving your business forward. Your business should now identify several goals that it wants to achieve within the next 3, 6 and 12 months.

Take a moment now to list down the goals that you want your business to achieve within the next 3, 6 and 12 months. Keep in mind that most goals that are set will have some impact on your cash flow – directly or indirectly.

3 month goals	
1.	4.
2.	5.
3.	6.
6 month goals	
1.	4.
2.	5.
3.	6.
12 month goals	
1.	5.
2.	6.
3.	7.
4.	8.

Inventory Control Management

The cashflow of your business is determined by how well you manage your inventory level. If you keep growing your inventory level without sufficient turnover, you are putting your business at a disadvantage. The reason is that your cash is tied up in your inventory. If your inventory is not moving, you are facing a serious cash flow challenge.

Determining the right level of inventory can be challenging in itself. There are many factors to consider when determining the correct inventory level especially if your business sells many different lines of inventory items and spare parts.

Holding too much inventory stock ties up cash that could be invested in other areas of the business. Conversely, not holding enough inventory means that your business suffers from lost revenue, reduced customer satisfaction and the potential loss of future sales. Revenue and profitability can decrease and cashflow will be affected so you need to achieve good inventory control to get the balance right.

Using the inventory turnover ratio is a key measure to seeing how quickly your business is turning over its inventory. The inventory turnover ratio determines the number of times inventory stock is brought and sold within the business's financial year. High turnover implies strong sales and requires increasingly efficient inventory control to meet this high demand and respond to market needs plus you will have a stronger cash flow. Low turnover means inventory that is sitting on shelves and is tying up your cash until this inventory is sold.

The formula for calculating inventory turnover is as follows:

Cost of Goods Sold ÷ Average Inventory (beginning + ending inventory/2)

Example 1

Cost of Goods = $150,000

Beginning inventory = $40,000

Ending inventory = $60,000

Inventory turnover = $150,000 / (($40,000 + $60,000)/2)

= 3 times

Example 2

Cost of Goods = $50,000

Beginning inventory = $40,000

Ending inventory = $60,000

Inventory turnover = $50,000 / (($40,000 + $60,000)/2)

= 0.5 times

Example 1 shows that the business is turning over its inventory 3 times per year meaning that it has a more stronger cash flow than the second example which is only turning over its inventory 0.5 times per year.

Take a moment to calculate your inventory turnover ratio.

Cost of Goods	
Beginning inventory	
Ending inventory	
Inventory turnover	
How will you increase your inventory turnover ratio?	

Tips

- Review Inventory periodically and revise stocking patterns and norms. Inventory is dependent upon the demand as well as the supply chain delivery time. Often companies follow one stocking policy for all items. For example, all A, B & C categories may be stocking inventory of 15 days, which may not be the right thing that is required. While some items may have a longer lead-time thus affecting the inventory holding, the demand pattern and the hit frequency in terms of past data may show up differently for each of the inventory items. Therefore, one standard norm does not suit all and can lead to over stocking of inventory as well as in efficiencies in the system.
- Get into detailed inventory planning. Understand the inventory types and the specific characteristics of the items you are carrying. From amongst your inventory list, you will find that all types of materials are not of the same value. Some might be very expensive and need to be carried in stock for a longer period, while another item might have a shorter lead-time and may be fast moving. Quite a few items often have shelf life and hence require separate norms and focus to manage such items.

There are many more tips that I shall offer at a later date.

Credit Control Management

Granting credit in order to win sales is a fact of life for many businesses, as is the likelihood that more than 50% of your credit customers will fail to pay on time. Setting up a good credit control system will reduce your bad debts and improve your cash flow.

If your business struggles with poor-paying customers, then by setting up a simple credit control system and injecting a little more discipline into the process of granting credit and recovering cash, your customers will start paying you more promptly and you will reduce the number of debts that you are forced to write off.

This section is devoted to help you to set up an entire credit control system from scratch. If you already have a credit control system, you may still want to read through this section for ideas on how to improve it.

Credit Checking

You should only grant credit to customers who you are satisfied can and will pay for their goods within an agreed time frame. There are many reasons why many businesses do not perform credit evaluations including:

- an unwillingness to lose a sale
- pressure from sales staff (especially those on commission) not to prejudice the sale in any way
- the feeling that prospective customers will be annoyed or embarrassed by a credit evaluation process

- over-reliance on "gut feel" and instinct.

Evaluating a customer's creditworthiness is important as it gives you the chance to decline credit to those customers who may damage – and possibly ruin – your business by defaulting on payment. Typical customers include those businesses that:

- are insolvent
- have outstanding court judgements for non-payment of creditors
- have exceeded their bank borrowing facilities
- have a poor trade reputation for payment.

Customers will come in two types. The first type is the customers who is impressed that you have a credit control system in place. The second type of customer will be annoyed that you have a credit control system in place indicating that they may have a problem with payment.

Those customers that you declined credit for can still be your customer if they pay by cash or credit card. Once you have established a trading relationship and history with the customer, you can re-evaluate them and offer them credit, if circumstances have changed.

Most business entrepreneurs believe that a credit check should only be conducted when there is a new customer. However, a credit check should be conducted when existing customers start becoming slow with their payments and offering weak excuses for non-payment.

If you are granting credit to a customer, you will need to decide upon how much credit to give the customer. Start off with a small credit balance and see how the customer operates under this credit balance. As sales grow, you will need to review this limit regularly and decide whether you are prepared to increase the credit limit. Don't forget, increasing the credit limit is simply lending the customer more money. So, at each increase, you need to re-evaluate whether or not they can repay this larger amount.

Trading Terms

You should ask every customer (cash or credit) to read, sign and return your standard terms of trade. These set out your contractual relationship with the customer and provide the basis for settling any payment (or other) disputes that may arise in the future.

Many new businesses proceed without written terms. This often leads to debt recovery problems in the event of a dispute, owing to the difficulty of proving the commercial relationship between the parties.

Some of the more general points that could be included in the terms of business are outlined below:

- Definitions. Specifying who the contract is between.
- Price and price reviews. Whether the price is specified in the contract or taken from a published price list.
- Payment terms. Specifying payment in advance, on delivery, or within 30/60/90 days – or other period appropriate to your business – of invoice date.
- Delivery. Specifying the time and means of delivery.
- Returns. Procedures for returning goods.
- Title. When is the ownership of the goods passed from the seller to the purchaser?
- Warranties and conditions. Any guarantees associated with provision of goods or services.
- Cancellation. The rights of either the purchaser or the seller to cancel an order.

- Force majeure. What happens if delivery is delayed as a result of issues outside your control, e.g. civil disturbances, national strikes or "acts of God"?
- Jurisdiction. The law of which land is used to resolve disputes? (This is particularly important when dealing with overseas trade.)

There are many other areas to be covered regarding the establishment of a sound credit management system.

The quick test to measuring the days of sales outstanding is looking at the key performance indicator. Days sales outstanding (DSO) is a measure of the average number of days that it takes a company to collect payment after a sale has been made. DSO is often determined on a monthly, quarterly or annual basis, and can be calculated by dividing the amount of accounts receivable during a given period by the total value of credit sales during the same period, and multiplying the result by the number of days in the period measured. The formula for calculating days of sales outstanding is as follows:

Accounts Receivable/Total Credit Sales x Number of Days

Let’s apply this formula to two examples.

Example 1
Accounts Receivable = $10,000
Total Credit Sales = $100,000
Number of Days = 365
= 36.5 days
Standard trading terms = 60 days

Example 2
Accounts Receivable = $75,000
Total Credit Sales = $125,000
Number of Days = 365
= 219 days
Standard trading terms = 30 days

The first example illustrates a business that has strong control of their credit management system with averages days of sales outstanding of 36.5 days compared to their normal trading terms of 60 days. The second example portrays a business in disaster with no control over their credit management system. DSO are calculated to be 219 days compared to their standard trading terms of 30 days.

Take a moment now to calculate your days sales outstanding ratio.

Accounts Receivable	
Total Credit Sales	
Number of Days = 365	365
Days Sales Outstanding	
Standard Trading Terms	
Difference in DSO	
How will you improve your DSO ratio?	

Tips

- The most important tip that I can give anyone reading this book is to make sure that you have a credit control management system in place in your business that works. Ensure that all relevant team members (including the sales team) are aware of how the system works.
- Train all employees on how to use the credit control management system.
- Review your credit control management system on a regular basis to see if the processes are still valid with external market conditions.
- Credit check each new customer to determine their credit worthiness.
- Review your customers if payment patterns significantly change.

There are many more tips that I shall offer at a later date.

Supplier Control Management

A critical area of your business that needs to be under control is your suppliers. Typically, businesses can lose out on unexpected expenses or bad management decisions that can cost their business hundreds or thousands of dollars.

Relationships with suppliers is an integral part of the control management. If your business pays its bills on time, builds good relationships with your suppliers, you do not cut off suppliers with no reason, and you keep the lines of communication open, a good supplier should then offer your business the best trade credit terms possible. Good trade credit terms will maximize your profitability and keep the supply chain flowing.

Let me demonstrate a situation that is a bad supplier control issue. A small business has been taking an average of 68 days to pay its Suppliers. Even though they established payment agreements with each supplier, the business failed repeatedly to make prompt payments for as many as 60% of their invoices.

This sort of delayed payment behaviour is not a new problem, unfortunately. It happens time to time, particularly with large size businesses paying small businesses. Typically, when this happens with small business, it is due to the small business lacking the proper internal processes and systems needed to make payments on time. This delay left suppliers in an uncertain supply chain position with delayed finances and broken payment agreements.

Therefore, paying your suppliers on time is a tried and true way to ensure you keep their business. If you make timely payments and follow through with payment agreements, you will show you are a reliable business. And if you inform your supplier of potential payment delays as soon as you know about them, you will strengthen your relationship through transparency and communication.

A properly crafted supply control management system will help your business overcome these nightmares.

If you are using an accounting software program for the management of your suppliers' invoice, you are off to a great start. If you are using a manual system, consideration should be given to utilising a computerised accounting program. It will make your life so much easier as it the program is going to save you time and money.

An accounts payable software program (preferably integrated with other accounting modules) will enable you to track all of your outstanding bills and when they are due for payment. This will enable your business to properly determine the timing of cash flow expenditure out of your business. The benefits of having an accounts payable software package are as follows:

- Time saving,
- A more stream-lined process,
- Greater accuracy and less chance of errors,
- Increases process control,
- Less stress as you have greater control on your payments out of your business.

Tips

- Use a computerised accounting program rather than a manual system for your recording of supplier invoices.
- Negotiate trading terms with existing suppliers.

Expense Control Management

If your business is continually experiencing higher than budgeted expenses year after year, you may want to consider cost-control management. This is a formalized, systematic review of operations and resources with the stated goal of reducing or at least controlling costs at every level of your business or project. A blow out of expenses means lower profitability, lower cash flows and could lead to the closure of your business.

According to Will Kenton (Investopedia), cost control is the practice of identifying and reducing business expenses to increase profits. [1] Kenton states that all business owners should start with the preparing a budget. A business owner compares actual results with the budgeted expectations and if

[1] Source – Investopedia – Cost Control

actual costs are higher than planned, management takes action. The key benefits arising from cost control are (i) lower expenses and (ii) improved operational efficiencies. However, it is important to understand that the lowering of expenses can compromise the quality of your products, services and customer service.

Let me illustrate with an example. A company that employs hundreds of workers may use manual reports to monitor employee expenses. Business managers could spend significant amounts of time finding ways to track employee spending and may also devote substantial resources to ensure that all of these costs comply with corporate policies. Manual reporting is time consuming and inefficient. The employee expense reporting should be automated to make life easier for your business.

A simplified spreadsheet or your accounting software can identify overspends immediately. An example of a worksheet is shown below. This example illustrates a business that has major overspends.

Expense	Budget	Actual	Variance	Variance %
Payroll	$120,000	$152,000	($32,000)	(26.67%)
Rent	$20,000	$20,000	$0	0.00%
Motor Vehicles	$50,000	$48,000	$2,000	4.00%
Travel	$10,000	$15,000	($5,000)	(50.00%)
……				
……				
Total	**$200,000**	**$235,000**	**($35,000)**	**(17.5%)**

Tips

- Ensure that your business has an effective cost control policy and procedures in place and that all employees are aware.
- Prepare a budget for operational expenses for each department. Each department will be responsible for its own cost control.
- Ensure that you have adequate reporting processes in place so that you can monitor actual expenses vs budgeted expenses frequently. You can take immediate action for expenses that are out of control.
- Obtain two or three quotes from potential suppliers for the services that you need. When contracts are due to expire, re-negotiate terms and pricing with existing supplier plus obtain further quotes from other suppliers.
- Consolidate your purchasing habits. For example, if you are using various suppliers for your telephone and internet requirements, consolidate these services and obtain quotations for consolidation and better pricing.
- Expenses over a certain amount must be pre-authorised before incurred.
- Capital expenditure must be pre-authorised by the Board of Directors before incurred.
- The use of business credit cards should be minimised.
- Regularly review your expenses for potential fraudulent expenses.

Cash Flow Forecasting

Cash flow forecasting is just one of the many ways a business can better manage their cash flow. Other ways include managing stock, suppliers, and debt recovery. But even those can depend on what information you can dig up with your cash flow forecast.

A cash flow forecast is a projection of a business's future financial position based on anticipated payments and receivables. Many business owners find it difficult to predict the cash flowing in and out of their company.

Building a cash flow forecast is crucial to managing a small business. It helps predict liquidity within an organization, ensuring that they have the necessary cash, avoid funding issues, and get a better understanding of their working capital.

Other positive effects of building a cash flow forecast are the ability to predict cash shortages and surpluses, comparing business expenses and incomes for given periods, estimating the effects to new employees, proving to lenders your ability to repay on time, and determining if you need to make financial adjustments.

Forecasting also helps with interest and debt reduction, and overall long-term planning and budgeting.

An example of a cash flow forecasting template is illustrated below. You can download a Microsoft Excel template from Google or other search engines. You will need to manipulate the revenue and expense lines to suit your business.

3 Month Cash Flow Projections

	<-------------	-------------	Month 1	-------------	-------------	------------->	Month 2	Month 3	
	Week 1	Week 2	Week 3	Week 4	Week 5	Total			TOTAL
1. CASH ON HAND									
[Beginning of month]	-	-	-	-	-	-	-	-	-
2. CASH RECEIPTS									
(a) Eftpos Receipts						-			-
(b) Cash from Credit Collections						-			-
(c) Cash Sales Banked						-			-
(d) Asset Sales						-			-
(d) Loan funding						-			-
3. TOTAL CASH RECEIPTS	-	-	-	-	-	-	-	-	-
4. TOTAL CASH AVAILABLE	-	-	-	-	-	-	-	-	-
5. CASH PAID OUT									
Employee Payroll						-			-
Employee Tax on Salary						-			-
Employee Superannuation						-			-
Director Salary						-			-
Director Tax on Salary						-			-
Director Superannuation						-			-
Working Capital Growth						-			-
Accountant & Bookkeeping Fees						-			-
Inventory Purchases						-			-
Telephone Costs						-			-
Equipment & Supplies						-			-
Bank and Paypal Fees						-			-
Insurance						-			-
Motor Vehicle						-			-
Advertising & Promotion Expenses						-			-
Contractors						-			-
ATO BAS Liability						-			-
Office Rent						-			-
Travel Expenses						-			-
Other 1						-			-
Other 2						-			-
Other 3						-			-
Other 4						-			-
(r) Subtotal	-	-	-	-	-	-	-	-	-
(s) Loan Principal Payment						-			-
(t) Capital Purchases [Specify]						-			-
(u) Other Start-up Costs						-			-
(v) Reserve and/or Escrow [Specify]						-			-
(w) Owner's Withdrawal						-			-
6. TOTAL CASH PAID OUT									
[Total 5a thru 5w]	-	-	-	-	-	-	-	-	-
7. CASH POSITION									
[End of month] (4 minus 6)	-	-	-	-	-	-	-	-	-

Special Offer

I am offering my readers a FREE 30 minute consultation to discuss the contents of this EBook and how it can improve your business and ultimately your lifestyle. Everyone wishes to improve their lifestyle and you can take steps immediately to do so.

Contact Peter Adams to book your FREE 30 minute consultation now.

Book your FREE Appointment at - https://www.numberschef.co.uk/

Email = director@numberschf.co.uk

About the Author

Peter Adams has over 30 years of financial experience helping families and business entrepreneurs improve their lifestyles in Australia and internationally. Peter enjoys helping those people who want to help themselves. Peter has worked in small to large business across a vast range of industries and has successfully operated his own business for the last fifteen years. Peter commenced his own financial business 15 years ago so that he could offer more people the valuable experiences and education that he has learnt during his last 30 years.

As a business entrepreneur, Peter knows the issues faced by business entrepreneurs during the boom and downturn cycle as he has been through these issues himself.

Peter has produced his own internet radio shows plus has written many EBooks (published on Smashwords).

Peter's gift and passion is to help those people that desire help. These are the people who are determined to help themselves.

Other Titles by Peter Adams

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