



# *Managing cash flow*

PREPARE FOR BUSINESS, PREPARE FOR SUCCESS

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# *Managing cash flow*

When running your own business, planning and managing your own cash flow is extremely important. Ensure you take all of your costs into consideration – such as contracts with suppliers, demand from customers, and your bank balance – so you can avoid problems along the way which may cause your business to fail.

We outline here why you should manage your cash flow and what you should do to achieve this.

An ICAEW survey revealed that 58% of micro businesses (less than 10 employees) and 35% of small and medium-sized businesses (between 10 and 250 employees) had no debt. Many business people must wonder how they can manage without borrowing. The answer is largely because of good management of cash flow.

## **WHY IS CASH FLOW IMPORTANT?**

You might think that profitability is more important. Well, there is an old maxim that no business ever collapsed because of lack of profitability but many have gone under because they lacked cash. Having cash allows a business to operate. So managing your cash resources and making sure you have enough to meet your needs eg, paying wages, buying supplies, or meeting your personal financial requirements, is absolutely critical.

## **STARTING UP - THINGS SOON GET COMPLICATED**

Most businesses start with a small amount of cash from the proprietor. As they build up the business they leave sufficient funds in the business to cover the bills. Problems often start when they offer credit to customers or buy on credit. Or they take on an employee or a sub-contractor who requires regular payment. Suddenly cash flow – payment from customers and payment of supplies bought on credit – becomes an issue.

## **GET A GRIP - DO A REGULAR CASH FLOW FORECAST**

It's at this point that you need to establish some good habits. Start by making sure that the business accurately and regularly records details of trading transactions. This might be in a manual cashbook, on a computer using a spreadsheet or accounting software, or using a simple 'paid'/'unpaid' system for bills. The essential point is that the accounting records allow the business to instantly find out what monies are owed from customers and the amounts it owes to suppliers.

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Whatever system you use, it should provide the basis for preparation of a cash flow forecast. You start with what bills are already owed or owing and known commitments of weekly or monthly expenses such as payroll, rent and leasing or hire purchase payments. You then build in predictions of receipts and payments from future sales and purchases over the forecast period. Cash flow forecasts should be a key tool in your management toolkit. They can highlight when the business might run low on cash and can be the basis for an action plan to remedy the situation before it happens.

### **MANAGING RECEIPTS FROM CUSTOMERS**

There are some vital steps that all businesses should take to maximise receipts from customers.

- For big value sales on credit, check the customer's credit rating.
- Agree the terms of payment with the customer before starting work.
- Invoice as soon as the goods have reached the customer or the service has been rendered.
- Regularly progress payment with the customer, starting after a few days.
- If payment is not received within the agreed period, progress payment higher up the customer's management and consider how quickly you stop supplies or services.
- If still unpaid, use solicitors' letters and threaten court proceedings.
- If still not paid, consider whether to go to court, or are you throwing good money after bad?

### **MAKING PAYMENTS TO SUPPLIERS**

- Agree payment terms with suppliers when you start trading with them and always try to stick to them.
- If you think it may not be possible to pay, contact the suppliers concerned and ask for more time. Provided you consistently pay on time, and requests to defer payment are rare, they will probably agree to delay payment.
- Letting suppliers down will reflect in your credit rating which may affect future supplies.

Managing cash flow is, in part, a mirror image of the business's investment in working capital. Generally, the higher the value of stock or work-in-progress, or monies owed by debtors, the greater the difficulty in keeping control of cash flow. So maintaining a tight grip on stocks and debtors should free up cash for use elsewhere in the business.

### **CAPITAL EXPENDITURE**

Decisions to invest in capital equipment such as computers, equipment or motor cars should be scrutinised carefully. The acid test is - can the money be more profitably used elsewhere? If the new asset is essential to the business, think about deferring payment by hire purchase, leasing or hiring. Also consider the tax perspective. If you have been making losses, leasing or hiring might be preferable. If you are buying premises, consider a commercial mortgage.



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## **CONSIDER FACTORING OR INVOICE DISCOUNTING**

Factoring or invoice discounting can offer financing up to 90% of the value of a sales invoice. This is likely to be much more than a bank will allow on an overdraft secured on your sales invoices. Invoice finance requires a disciplined approach to credit checking and only business-to-business invoices can be covered.

**More information**  
**Asset Based Finance Association**  
[abfa.org.uk](http://abfa.org.uk)

## **INTERNET FINANCE MAY BE A WAY FORWARD**

Factoring or invoice discounting through the internet may offer an alternative solution.

These platforms such as Market Invoice and Platform Black can be more flexible than conventional factors and discounters. Some will not seek the wholesales ledger but are prepared to lend against individual invoices. Obviously the sales must be to creditworthy businesses.

**More information**  
**Peer2Peer Finance Association**  
[p2pfa.info](http://p2pfa.info)

## **TRADITIONAL BANKING IS ALWAYS AN OPTION**

If you decide on a bank loan or overdraft, you may be asked for personal guarantees or asked for security. Be aware of the interest rate and charges to be paid as well as any covenants with the finance.

**More Information**  
**Better Business Finance**  
[betterbusinessfinance.co.uk](http://betterbusinessfinance.co.uk)

## **TIPS FOR CASH FLOW**

### **Know your current cash situation**

You should always know how much cash your business has to draw upon and what the position will be in three months' time.

### **Regularly prepare and update cash flow forecasts**

You must be able to predict the effect of a lost sale or a bad debt on the cash position. So, regular updates of cash flow forecasts are vital.

### **Raise awareness about cash**


Make it clear to colleagues how important it is to know when customers are expected to pay, and go through aged debtor schedules to make sure delinquent customers are chased up. Assign actions to staff and check they happen.

### **Think about your credit rating**

Paying suppliers when agreed can help improve your credit rating. Preparing monthly management accounts and sharing the information with your bank or the credit reference agencies might also help your credit score.

### **If you need finance, allow time for the provider to make a decision**

If you think you are going to require finance, try to make an application to a finance provider in plenty of time. Dependent upon the type of finance you seek, the process of approving a finance application can take anything from two days for peer-to-peer lending to three or four weeks for a bank.



**If you need further help with managing your cash flow, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit [businessadvice.service.com](http://businessadvice.service.com)**

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## *Prepare for business*

Decisions you take in the early years of your business can be the most difficult as well as the most important, particularly if you are a first-time entrepreneur.

## *Prepare for success*

The **ICAEW Business Advice Service** experts will help you make those crucial first steps and then grow your business with confidence.

Book a free consultation **NOW**  
[businessadvice.service.com](https://businessadvice.service.com)



## *Prepare for business, prepare for success*

**The ICAEW Business Advice Service (BAS)** provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

**ICAEW** connects over 147,000 chartered accountants worldwide, providing this community of professionals with the power to build and sustain strong economies. Training, developing and supporting accountants throughout their career, we ensure that they have the expertise and values to meet the needs of tomorrow's businesses.

Our profession is right at the heart of the decisions that will define the future, and we contribute by sharing our knowledge, insight and capabilities with others. That way, we can be sure that we are building robust, accountable and fair economies across the globe.

ICAEW is a member of Chartered Accountants Worldwide (CAW), which brings together 11 chartered accountancy bodies, representing over 1.6m members and students globally.

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