

It's your business



Checklist for a
healthy

CASH FLOW

Cash crunches are a frequent cause of business failure, while a healthy cash flow lets a business thrive and grow.

Any business owner who has fended off calls from unpaid creditors or who has wondered how to meet the next payroll knows the importance of cash flow. Ironically, business success and cash shortages often go together. If growing sales are on credit, they create a larger accounts receivable which your company is funding. Your income statement may show a hefty profit, but profit doesn't pay the bills – cash does! That's why understanding and controlling the cash flow in your business is so important.

There are three elements to cash flow management: collecting cash as fast as is reasonable, paying out cash as slowly as is sensible, and making the best use of cash held in your business. Use this checklist to see if you're doing all you can to maintain a healthy cash flow in your company.

Speed Cash Collection



- Speed cash collections by invoicing customers when you ship the goods or provide a service, not a few days or weeks later.
- Make sure invoices clearly show the payment due date and the penalty, if any, for late payment.
- Even better than invoicing customers, arrange for payment when the product is delivered.
- For jobs that take a long time to complete, bill the customer in stages.
- Consider offering customers a discount for early payment.
- Review your credit and collection policies, and tighten them if you find you have too many late payers or overdue accounts.
- Follow up promptly and in person on disputed bills or delinquent accounts.

Manage Cash Outflows



- Pay only the minimum estimated income tax payments needed to avoid penalties.

- Delay payment to your suppliers and other vendors until the latest date which still allows you to take advantage of discounts.
- If you have employees who travel, consider using credit cards instead of cash advances.
- Age your accounts payable every month. This schedule will show how much you owe, to whom you owe it, and the age of each debt. With it, you can quickly identify cash flow problems, mounting interest charges, and possible billing errors.

Use Cash Wisely



- Open all mail immediately and deposit checks daily.
- Keep in your checking account only the amount of cash needed to clear outstanding checks. All other idle funds should be placed in an interest-bearing account or invested.
- Forecast your cash needs regularly to avoid costly last-minute borrowing.
- Establish a business line of credit before you need it.
- Use a report called the "statement of cash flows" to monitor your business cash and track the relationship between cash and profits. This statement records the changes in cash from period to period and helps you see what cash is available for operations, expansion, or investment.

Practice Cost Control



- Continually review your operation for cost-cutting efficiencies. Control costs all the time – even when business is good and cash flow is strong.
- Enlist the help of employees in controlling costs. Provide rewards for the best suggestions.
- If you occupy expensive space, consider moving to a less costly location that will not mean losing clients or business.
- If a move is out of the question, consider sharing space with a compatible company to cut operating costs.
- Consider a sale-leaseback of your building to generate funds for operations and transfer the burden and costs of ownership to the buyer from whom you rent back the space.
- Consider outsourcing certain activities that either consume a great deal of time and resources or are prone to errors. For example, you may be able to have payroll processing done by a vendor at a fraction of the current cost to you.

Monitor Inventory



- Watch inventory levels. Identify slow-selling items and high-priced items. If you must continue carrying them, consider making them special order items.
- Maintain just enough inventory to meet customer demand without buying more than necessary.
- Sell obsolete inventory that is taking up space, and donate what can't be sold.



- Look for suppliers who deliver quickly so you can wait longer before reordering. Pay attention to turnover ratios and inventory backlogs when deciding when and how much to order.
- Periodically conduct a competitive review of suppliers, and select those who can deliver good quality and service at the lowest cost.
- Negotiate with your suppliers for the most favorable terms you can get. If you're a good customer with a good payment record, you may be able to negotiate a bigger discount or a longer payment period.

Analyze and Plan



- Analyze your business's breakeven point in order to make better business choices. Break-even is simply the point at which costs equal income – there is no profit and no loss. It's an excellent starting point for making decisions that affect the ultimate profitability of your business.
- Make sure more sales translate into higher profits. How much more will you have to sell to cover the additional expense of adding staff and equipment?
- Keep your taxes as low as the law allows through planning. Saving a dollar of taxes can be even better for your company's finances than cutting a dollar of costs. When you cut taxes, you keep 100% of the savings. When you increase sales or cut costs, you must share a portion of the resulting profit increase with the IRS.

For more information or assistance with cash flow concerns in your business, contact our office. We're here to help your business prosper.



Gilliland
& ASSOCIATES, PC
Certified Public Accountants

7700 Leesburg Pike, Suite 402B • Falls Church, VA 22043
(703) 448-9121 • FAX (703) 893-6485
E-mail: dngg@gillilandcpa.com • www.gillilandcpa.com