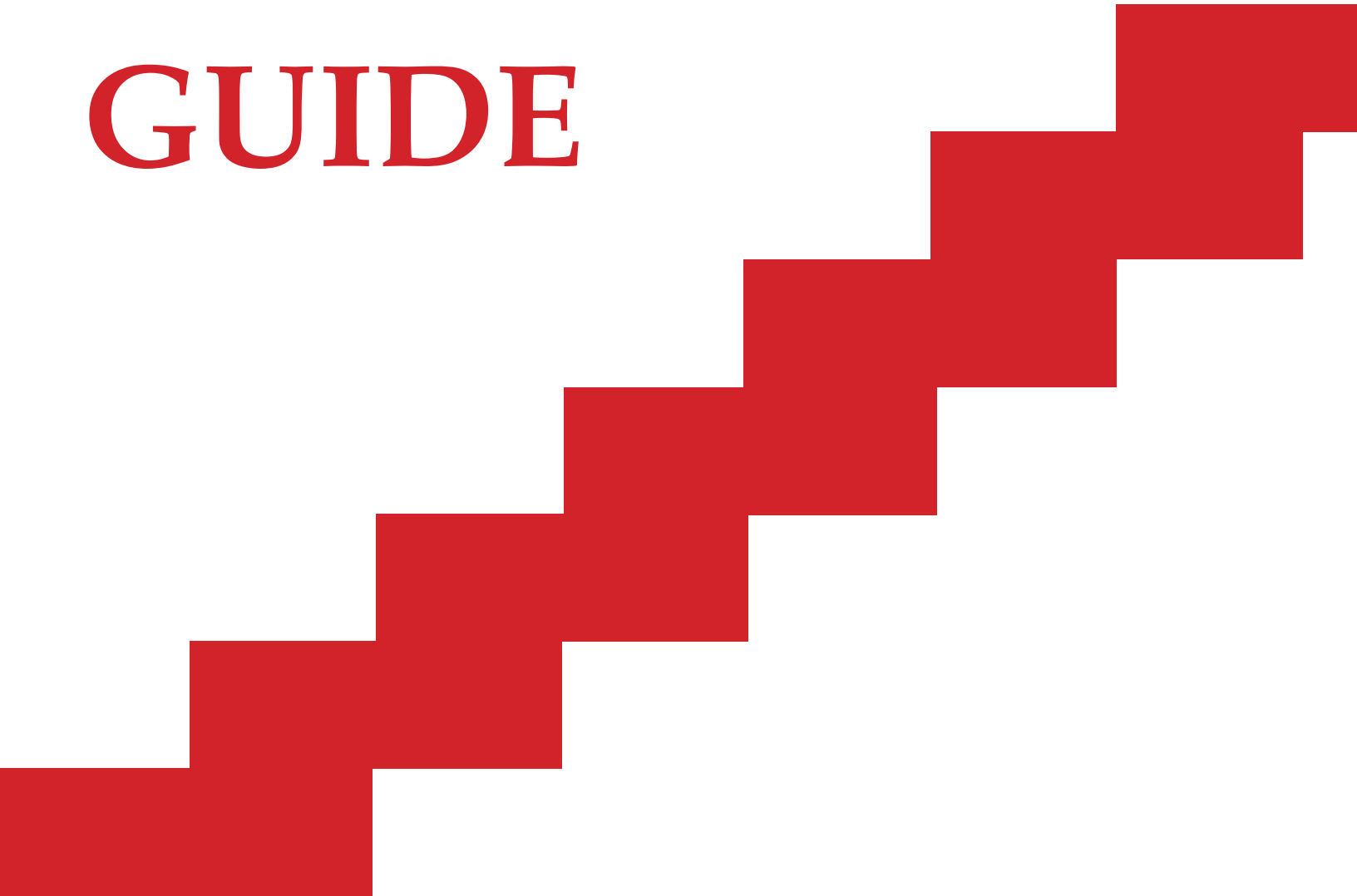




Online Accounting Software

CASH FLOW GUIDE



What Is Cash Flow?

Cash flow is the movement of money into and out of a business. In other words, how much money is coming into your business from sales and how much money is going out on purchases, expenses and wages?

Don't confuse your profit with cash flow. You can make a loss and still have a positive cash flow. More importantly, your business can make a profit but still fail due to a negative cash flow. This happens when the business has not yet received the revenues it is owed. The net result, there is not enough cash for the business to operate.

Example: A restaurant

Customers may pay by debit or credit card and there is generally a delay in receiving payment from the card merchants. This delay can have major consequences as the restaurant needs cash to buy fresh ingredients on a daily basis and to pay wages. Remember that cash (flow) is king.

Remember that your profit and cash flow are different. Always be aware of your cash flow even if you're profitable.

How Does Cash Flow Affect You?

Your cash flow will have significant effects on how your business operates over short and long periods of time, particularly if you have a negative cash flow:

1. Paying Employees

You may struggle on pay day to cover your employees' salaries or wages. If this continues to happen how will it affect your employees? Not only do you have to pay employees you also have to account for employer's taxes to the government authorities as well.

Don't forget, once you've paid your employees, you still need to pay the tax man.

2. How You Analyse Your Business

As we mentioned earlier, cash flow, and not profit should be at the front of your mind as regards to the day to day operation of your business.

Any decisions that are made regarding the finances of the business (pricing, suppliers) should be made with your cash flow in mind.

3. Serving Your Customers

If you can't pay your suppliers then eventually you won't be able to get your hands on the inputs your business needs to operate.

Without the necessary supplies you may not be able to fill outstanding orders. It could also mean a restricted offering for your customers. This could affect your sales which could lead to recurring cash flow issues.

Measuring Your Cash Flow

If you know how to accurately measure your cash flow then you will be better prepared to accurately forecast for the coming months. At the most basic level, cash flow is the receipts coming into the business minus cash paid out of the business. This results in your cash position for that period. If you have a positive cash position for the period then your business has been able to meet all of its obligations. However if it is negative then you may have problems paying bills and wages.

$$\text{Cash Receipts} - \text{Cash Payments} = \text{Net Increase/Decrease in Cash}$$

$$\text{Previous Cash Position} +/- \text{Net Increase/Decrease in Cash} = \text{Current Cash Position}$$

Cash Flow Forecasting

Cash flow forecasting is some of the most important analysis you can do to ensure the ongoing success of your business. Forecasting for the coming months will allow you to predict your cash position moving forward. This can show if you will be able to meet your obligatory payments. More importantly

though, it will give you time to take necessary action if you feel there may be issues on the horizon. Forecasting your cash flow mitigates any nasty surprises in the future, and builds a foundation of accurate data to ensure the success of your business going forward.

Managing & Improving Your Cash Flow

Keeping on track of your cash flow is obviously important. Following these best practice recommendations should result in a better cash position for your business and a good foundation for success going forward.

1. Plan

The first step to a good cash position is to be aware of what it will be. Forecasting your cash flow over the coming months will alert you to any possible issues ahead of time, allowing you to take preventative measures. Being aware of recurring revenues and outgoings is the first step.

2. Invoicing

A sale isn't a sale until it has been invoiced. If you wait 3 days to invoice your customers then 3 days have automatically been added onto the time it will take to receive payment.

The quicker you invoice, the quicker you will get paid. Make sure that your invoice contains the necessary bank information and any customer required entries such as PO numbers. It should also be addressed to the right person to guard against any delays in payment.

3. Identify Major Outgoings

By using your accounts to gather information on your business you should be able to see what outgoings are the largest. Is there room to reduce them without sacrificing your offering? Perhaps through bulk ordering?

4. Credit Control

Credit control is a system used in business to make certain that it gives credit only to customers who are able to pay. Each business should have a credit policy outlining what is allowable.

As part of the policy a credit limit could be enforced on customers who have had a history of payment difficulty. Accept deposits up front for large orders. Deposits can help finance the cost of providing goods/services without negatively impacting your own cash position too much.

It is extremely important that you remind customers to pay their invoices. Don't assume that because it has fallen due that it will be paid. Chase your revenue.

5. Payment Terms

Make sure that your payment terms reflect your cash flow situation. You can improve your cash position by shortening your payment terms if you need money to come in quicker.

When paying your own suppliers, you should wait until the payment becomes due. This period of time is free credit for your business that you should use to manage your cash flow.

6. Tax Collecting

Money that you collect for taxes, particularly VAT isn't actually yours. You are collecting on behalf of the government.

Perhaps consider opening a second bank account which is solely for the taxes that you collect and is not to be accessed for any other reason. This way you won't spend this money on your operations and leave yourself open to interest and penalties.

7. Payroll

As your employees' salaries or wages are likely to be one of your main outgoings in your business, it is important that they are processed properly.

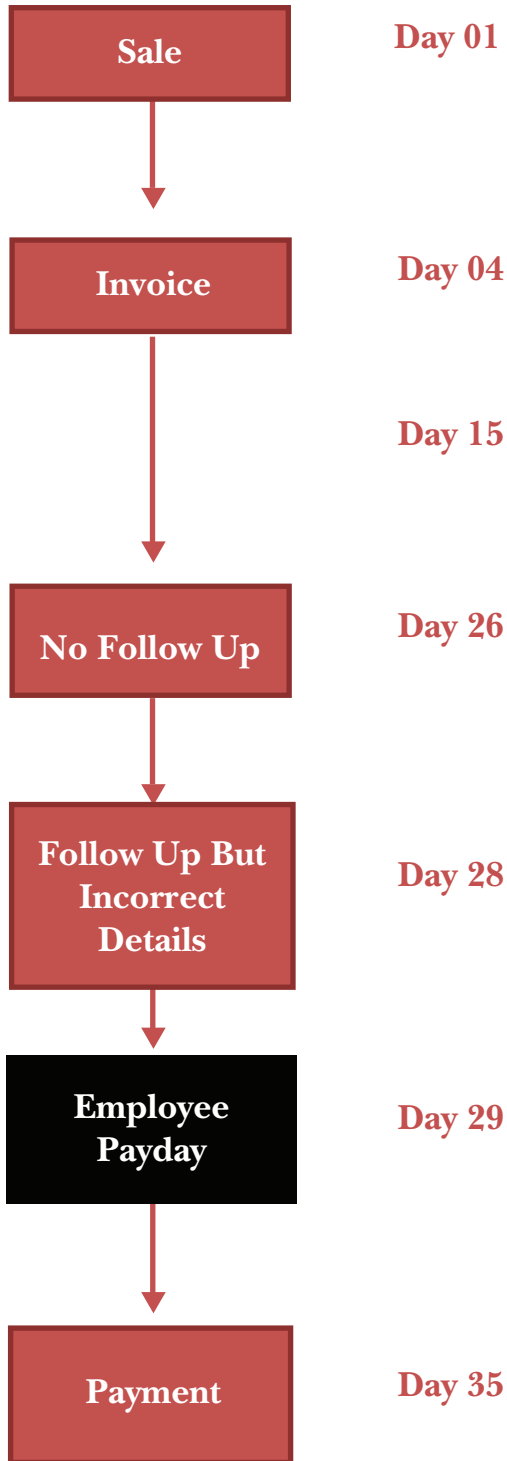
In addition you may be liable for employer's taxes. Investing in a [simple payroll system](#) could save you headaches in the long run.

8. Your Relationship With Your Bank

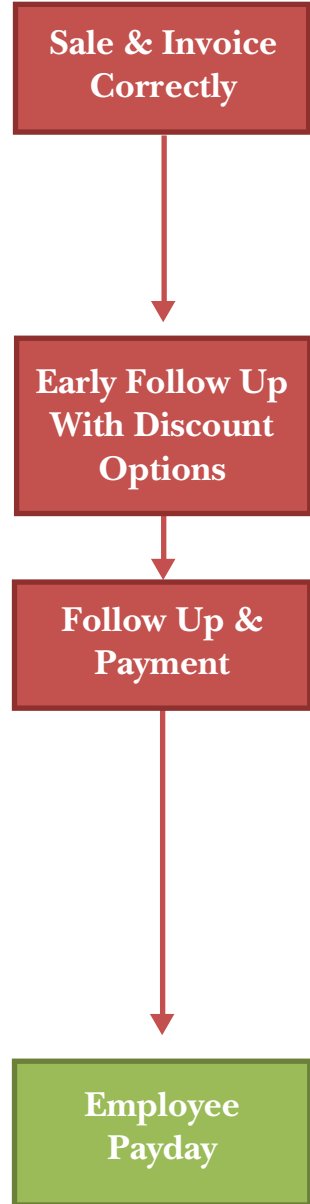
As a start up or small business the relationship you have with your bank manager can be important. They may be able to help with overdrafts, loan facilities or even a short term moratorium on existing loan repayments if it is a particularly bad time for you.

Keep them informed of what position you are in and what is forecast for the future.

Bad Cash Flow Management



Good Cash Flow Management



The Benefits Of Good Cash Flow Management

Hopefully the issues that we have outlined above will help you to be more aware of your cash position and ultimately help you to improve it. As cash flow is paramount to the success of your business monitoring your cash flow will actually help your business thrive. While it is helpful in ensuring the liquidity of your business, good cash flow procedures will help build and grow a sustainable business.

1. Pay Your Debts

You should be better able to pay any bills that fall due when your cash flow is strong. Paying promptly on the due date will lead to a better relationship with your supplier.

This in turn means they may be more understanding if you have difficulty paying for one particular order on time. Paying your debts will mean your credit rating will not be impacted, meaning that you should be able to get debt financing a lot easier if you need it in the future.

2. Less Stress

The most important personal benefit for you as a business owner is the reduction in stress levels when you have a good cash position. It is not a nice position to be constantly worried about whether or not you will be able to pay bills.

When you're a business owner you could be responsible for the salaries of employees too. With a good cash flow you can spend less time worrying and more time growing your business towards success.

3. Expansion

Growing your business is far easier with a good cash position. Good cash flow can reduce your reliance on debt financing when the time comes to expand. This might save you having to pay expensive interest on expansion loans in the future.

Cash Flow Checklist

Forecast: Have you planned for your future incomings & outgoings? Identify large and recurring outgoings.

Invoice Immediately: How long does it take after you make a sale to invoice?

Details: Is your invoice addressed to the right person and are your correct bank details included?

Payment Term: Is your payment term correct for your current cash position?

Follow Up: Have you followed up promptly seeking payment once the payment term has elapsed?

Deposit: Is the order from a customer large? Do you need to spend a lot to complete it? Consider taking a deposit.

Credit Limit: Do you have a customer that pays late regularly? Consider a credit limit to protect your cash position.

Your Bills: Are you waiting until the payment term is up before you pay? This is a free period of credit for you.



Online Accounting Software

WHO WE ARE

Big Red Cloud is a leading supplier of online account's software to the SME market.

Our online account's software is simple and easy to use and takes only minutes to set up. It is designed to enable smart business people get on with doing what they do best which is to sell their products or services.

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