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How to improve your cashflow



“Cash is king”! Without **control** of your cash, it doesn’t matter how successful your business is, it cannot survive or continue without cash, so management of that cashflow is key to your success. The secret to eliminating cashflow -firefighting is to look ahead of time and forecast. Provided you are producing a regular cashflow forecast that predicts the major payment items such as VAT, PAYE or Corporation Tax, that ties in with your accounts, you will soon have the ability to predict any problems long in advance. This will remove the need to firefight. An example of a cashflow forecast can be seen later on in this guide.

Cashflow definitions:

Cash in these terms is the money that can be made readily available in a relatively short space of time, the obvious ones being cash itself, bank accounts i.e. current accounts and savings accounts.

Quick Wins – Short term solutions:

There are some quick wins for short term cash flow problems and then more involved solutions for long term successful cash flow management. Here are some of the short term things that you can do:

Quick Wins:	Short term solutions on your payments
Don't pay Creditors early!	You would be surprised at how many times bills are paid before they need to be!
Negotiate better Creditor terms	See if you can find out what your industry standards are, and try to agree to better payment terms. Some industries pay as late as 60 or 90 days as standard.
Delay your payment.	Most suppliers are very reasonable if you explain the circumstances and ask for longer to pay. Make sure you pay when you promise to, it could affect your reputation.
Regular payment runs	If you have fortnightly payment runs or even monthly ones, suppliers are willing to wait for their payment provided they know they are on that payment run. It will also save you time overall and reduce the number of phone calls you receive.
Book keeping	Keep your accounts completely up to date so that you know how much money is available before you make your payments.
Cashflow Forecast	Prepare a Cashflow Forecast so that you know how much you can pay and when, this will give you the bigger picture and eliminate the surprises.
HMRC payment plans	If you have a genuine short term problem you can often phone HMRC and ask for more time to pay your Corporation Tax, VAT or PAYE & NI, we call this a payment plan. Once you have negotiated the payment plan, you have to stick to it, so it is worth doing your homework before you make the call, to ensure your forecasts are robust. You will have to pay interest on any late payments the rates can be found on the HMRC website.

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Debtors – Credit control

There are some simple ways to help your cash come in;

Quick Wins:	Short term solutions on your Debtor receipts
Call your customer earlier	If it is a large invoice amount, you might benefit from an early call to your customer to confirm that they have received and logged the invoice.
Find out who will authorise the payment	The earlier the invoice is approved the more chance you have of prompt payment.
Chase sooner	Chase for payment before the invoice is due, to ensure the invoice has been approved and included on the next payment run. Gain confirmation of when the payment run will be. Write down all your conversations, this can be very useful!
Negotiate better terms	Try to get your customers to agree to pay you as early as possible.
Be persistent	Although you cannot control when your customer pays, you can influence when they choose to. Try to be polite but firm, expect them to stick to the agreed terms.
Cashflow Forecast	Prepare a Cashflow Forecast so that you know how much you can pay and when, this will give you the bigger picture and eliminate the surprises.
Include your findings onto your forecast	Make sure your Cashflow Forecast reflects a realistic estimate of when your money may come in, be cautious rather than optimistic!

Frequently asked questions:

Is my bank balance the same as my accounts “cash book” balance?

No. It’s very dangerous to use your bank balance as a guide to your cash position because you may have made payments that have not appeared on your statement yet.

Surely I can tell how my company is doing by my bank balance?

Yes, its true, if your balance is continually going up there is a good chance you are doing well but it is not the full picture. There is a misconception that your bank statement balance is your profit amount, this is not the case, there are many expenses that impact profit, that do not affect cashflow in the same way; e.g. depreciation, finance leases, prepayments etc. The only thing that is true to say is that if you continually make losses then eventually you will have cashflow issues to address.

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Cashflow Forecast

Every business is different, but the principles are the same. This is an overview example of a basic cashflow forecast that you might use to monitor your cashbook levels to make sure you do not exceed your limit. It is not the same as the Cashflow Statement that you might give to the bank or include in your Annual Accounts, it is purely a working document for you, to help you control your cash. You will need to choose how far ahead to want to forecast.

Cashflow Forecast	Week or month in columns				
Cashbook Balance brought forward					
Income Such as: Debtor payments (incl. VAT), Interest Received, Grants, Capital and Loan injections.					
Expenditure Such as: BACs payments, Online bill payments, cheque payments, Direct Debit and Standing Order payments, Interest paid, Salaries/Wages, PAYE, VAT payment, Corporation Tax.					
Cashbook Balance carried forward					

The carried forward balance from the previous column will always be the new brought forward figure for the next column

The better the cashflow forecast the better control you will have of your cash. You will need to balance your frequency of forecasting with your other time constraints. It has to be updated regularly to be meaningful.

Once you have your forecast in place you will know whether you have enough cash to keep trading or whether you need to find a further solution:

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Long Term Solutions:

Research and Development or new start up?

If you need more time before the money comes in, maybe you are at an initial research and development stage etc. then you will need to look at long term funding. There may be grants or start up loans available. There are also some very good tax credits available in certain circumstances.

Previous year losses holding you back?

If you have been experiencing losses but know you can turn the business around but need a cash injection then there are many options;

	Long term solutions to your Cashflow
Overdraft	An overdraft facility from your bank will give you flexibility, but you will need to pay interest when overdrawn.
Factoring	Factoring businesses are willing to give you a percentage of your invoice as soon as it is raised, they will also expect to do your credit control for you. Shop around, each company charges different administration fees and interest rates on your borrowing.
Discounting	This is just like factoring but you still chase your Debtors. See above Factoring comments.
Mortgage or Debenture	The banks may be willing to lend you money but they will want to secure the loan against something you or your company owns. Shop around and negotiate!
Family funding	This is a great way to fund your business, be sure to agree everything up front in writing, so there are no misunderstandings later.
Sell shares	Selling shares is a good way to get a cash injection into your company but be careful what you are giving away as the shareholder own part of your business and will be entitled to a share of the profits. It is possible to have different classes of shares or different types of shares to control this and make it work for you.

If you would like help or advice on any aspect of your cashflow please feel free to contact us no question is too small to ask if it means we can help you move your business forward and give you peace of mind.

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