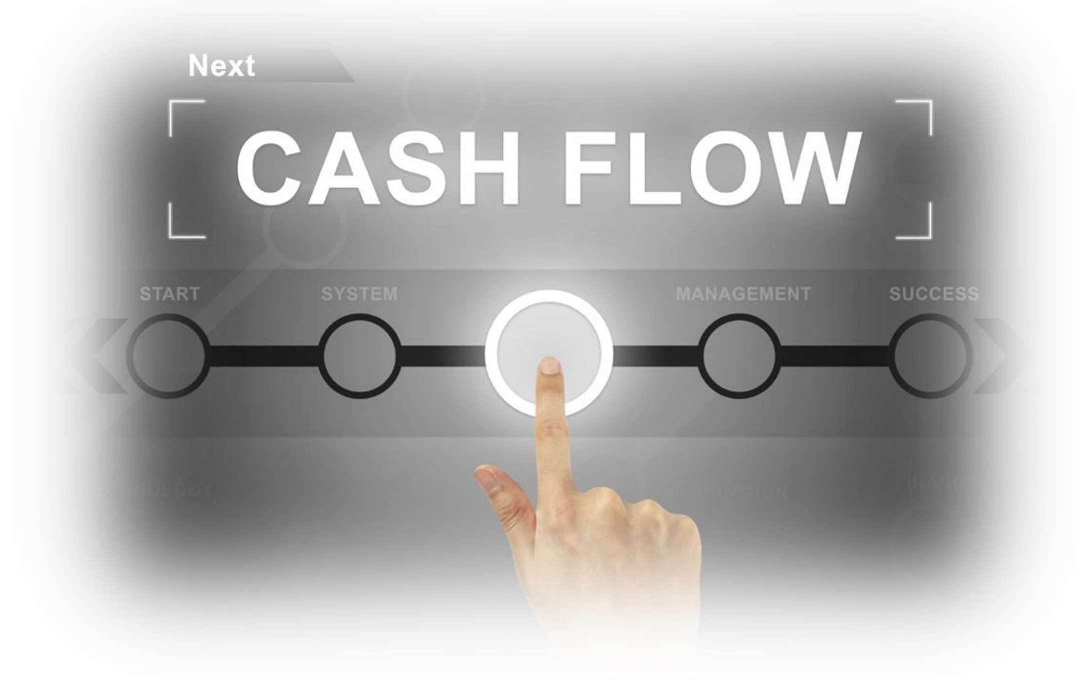


Managing Your Small Business Cash Flow

KRS CPAs, LLC
Accountants & Advisors

Contents

Introduction

Cash flow is the lifeblood of your business and critical to its growth. As a small business owner or financial manager, you know how dependent your operations are on cash flow – the amount of money that is flowing into and out of your business.

When cash flow is healthy, you can fund payroll and business improvements, pay expenses, repay loans, and maybe even give your management team a bonus. When money is tight and the flow dries up – well, let's just say this is a major cause of many a business executive losing sleep at night.

At KRS CPAs, we often get asked by our small business and startup clients what they should be doing to manage their cash flow better. This guide includes many of the tips we share with them.

On the following pages you will learn more about:

- Managing receivables, payables and inventory to keep cash flow positive
- Tapping lines of credit and other vehicles to finance cash flow
- Keeping your cash working by implementing the right bookkeeping and budgeting tools
- Using excess cash to strengthen your business and motivate your team

Note that the advice in this guide is meant to be general, and may or may not apply to your specific situation. Always consult your tax or accounting professional for formal advice and opinion.

Master the Basics

Cash is king! Successful business owners know that they must master the basics of cash management if they want to stay in business. The tips below for managing A/R, inventory, and receivables will help you boost cash flow. Our tips on credit lines will help you smooth out cash flow peaks and valleys.

Manage Accounts Receivable

Convert sales into cash flow as quickly as possible by billing for products and services on-time and consistently.

Include the words "**Payable upon Receipt**" on your invoices. Your contracts and sales agreements should also include finance charges for payments that are made after 30 days.

Review credit terms for credit sales. Determine if you have to tighten your credit terms or change company policy for who qualifies to pay on credit.

A successful business owner we know tells his people, "A sale is not a sale until the money is collected."

Make it part of your sales team's compensation plan that their incentives don't get paid until the customer pays up.

Reps will be more motivated to follow up on late payments.

Get paid faster by accepting credit cards. There are many secure credit card systems available that work with laptops and mobile devices. These make it easy for you to accept credit cards from customers and the funds can be in your bank account in just a few days.

Monitor accounts receivable aging. Contact those customers who are slow paying. You will also want to routinely call or email your customers when invoices become past due. When customers see how proactive you are, they'll be more likely to move your invoice up in the payment queue.

Manage Inventory

Review inventory turnover. Although holding more inventory may prevent you from being caught short if you get a large order, the reality is that too much inventory eats up working capital and erodes profits. Look at what you've sold in the past, taking into account seasonality. If you're holding too much, take steps to whittle down your stocks.

Project sales for ideal inventory levels. This will help you determine how much inventory you need, and when you will need it. As a rule of thumb, 80% of your demand is generated by 20% of inventory items, so these are the items you need to stock routinely.

Manage Payables

Take advantage of purchase discounts for timely payment. If a supplier is willing to offer you a discount for paying early, it may help reduce your overall costs. Examine the details of the contract carefully, so that you get maximum benefit.

Manage payables timing. Get the best deal you can when negotiating payment terms. Extend your payables to net-45 or net-60, where possible. Just be sure you pay on time, because some suppliers will slam you with fees for late payments.

Get a Line of Credit

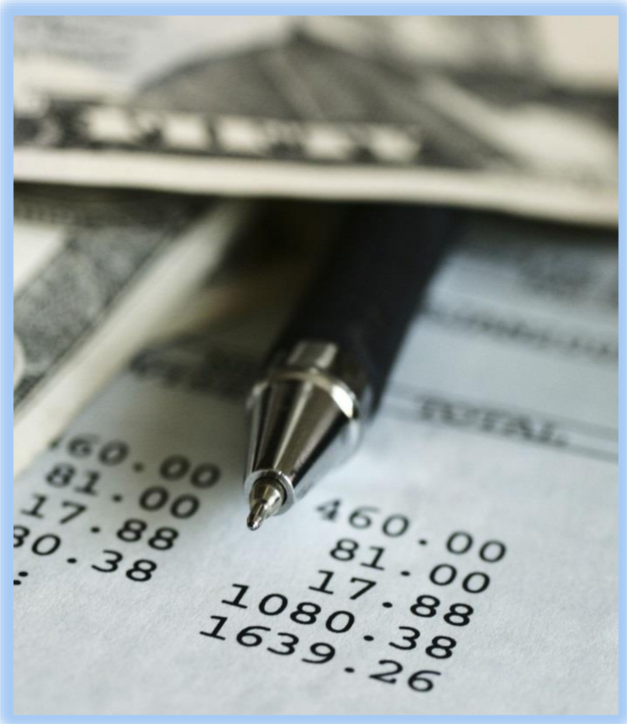
Build a banking relationship – before you need it. Bankers want to get to know you and your business before they will extend you a line of credit. So play it smart and develop a banking relationship and apply for a line of credit when business is good. Then use your credit line when cash flow is positive, so that you establish a good track record with your bank in advance of your need.

Use accounts receivable or inventory to secure a credit line. This can be especially helpful when you need to make advance payments to suppliers and don't immediately have the cash available to do so.

Consider factoring. It is also possible to sell your accounts receivable to specialized companies called factors, who take a transaction fee for advancing money based on the receivables' value. While this can be more costly than conventional borrowing, it is does allow you to get money quickly, without waiting 30 to 60 days for payment.

Keep Your Cash Working

Having the right financial and accounting systems in place – and then utilizing them correctly – is the foundation for effectively managing your company's cash flow. Here are some tips to help you create the foundation and build on it to keep your cash working.



Keep accurate, timely accounting records. Your bookkeeper should have you set up on QuickBooks, or similar accounting software, so that it is easier to prepare and review monthly and year-to-date cash flow statements.

Use historical data to project future operational needs. Reviewing historical data can help you see where your money is coming in and going out. You will also want to use this data to create a cash flow projection for the next 6+ months, which will give you a heads up on any anticipated cash shortfalls.

Create and follow a budget. Think of a budget as a tool for providing control. It can help you better manage your expenses and increase your profits. You will also need to have a budget in place if you plan to get a business loan.

Consider bi-monthly payroll and direct deposit. Bi-monthly payroll, with paychecks issued on the 15th and the last day of the month, can help you optimize cash flow and take advantage of your bank's interest rates by leaving the money in the bank longer. When you direct deposit your employees' pay into their checking or savings accounts, you can save money on payroll processing costs.

Get your customers to prepay. Motivating your customers to prepay, whether through discounts or other incentives, can even out cash flow peaks and valleys. It can also decrease administrative expenses since your employees will spend less time on billing calls and questions. Depending on the type of business you run, you may also want to consider offering a subscription model which gives you the ability to predict revenue through recurring sales.

Pay down high-interest credit cards or loans. The credit card or loan with the highest interest rate is usually the one that will cause you the most financial pain. Pay off these balances consistently, with more than a minimum required payment, and you will free up cash in the long run.

Use Excess Cash Flow Wisely

When you manage your cash flow well, you may end up with excess cash available – not a bad problem to have! These tips can help you put the excess to work.

Reinvest in the business. Now is the time to look at those projects in your game plan that, with proper investment, will help you grow your existing business, work more efficiently, cut costs, or develop new products or services. Determine which of these efforts you can start or move forward with the cash you have available.

Pay down existing debt. You can often cut the total amount of interest you owe by making larger payments or paying off a debt entirely. Check your loan agreement to ensure that it does not include prepayment penalties.

Invest the surplus. Talk to your banker about investment options that offer an acceptable level of liquidity, given your company's cash flow cycle. Keep in mind as well that the higher the returns generated by an investment vehicle, the greater the risk associated with it. Consider investment options such as checking accounts with interest, sweep accounts, Treasury bills, Treasury Notes, Certificates of Deposit and Money Market Funds.

Start a retirement plan. You will not only help your employees save for the future, your company may also save on taxes or garner tax credits. Talk to your accounting professional about the best way to get a plan started.

Pay it out to the business owners. Talk to your accountant to determine the best way to take the cash out of the company to pay owners. Maybe you pay a higher salary, issue dividends, or take a loan from the business. Depending on the business structure and the owners' personal finances, each option will have different legal and tax advantages.

About Us

Accountants & Advisors Who Go Beyond The Numbers

Paramus, New Jersey-based KRS CPAs is known for being responsive and following through for clients. The firm's goal is to make it as easy as possible for clients to get the advice and counsel needed, so they can focus on running their businesses and living their lives.

KRS first began serving clients a decade ago with an entrepreneurial spirit, high standards, and solution-oriented expertise. The firm believes that clients benefit the most by having a trusting working relationship with an accountant who provides an independent view to enable better decision making.

Need help managing your cash flow?

Contact Maria Rollins at mrollins@krscpas.com.

Clients value that the KRS team is proactive in giving them expert guidance on their most challenging business issues,
so that they can make
real-time decisions.
If you're ready to work with a firm that understand cash flow inside and out, give us a call
at 201.655. 7411.

KRS CPAs, LLC
80 Route 4 East, Suite 370
Paramus, NJ 07652
Tel: 201.655.7411 Fax: 201.655.7412
www.KRSCPAS.com

KRS CPAs, LLC
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