

THE POWER OF BEING UNDERSTOOD

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CASH FLOW WORKSHOP

Kara Golding

Principal

RSM in Geraldton



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- This presentation contains general information only and should not be used or treated as personal advice. Readers should rely on their own enquiries and that matters addressed in this paper are only some of the matters that should be considered when making decisions.
- Laws and practice change frequently and without warning, therefore, caution must be exercised before relying on any information.
- The information covers taxation advice for educational purposes only and taxation is only one factor to consider when making decisions.
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Items we will discuss

- Debtors
- Creditors
- Stock
- Sales, Billings & Records
- Timely Information/Reliable Data
- Cash Flow Budgeting

Debtors – Effects on a business

- Debtors – Represents a future economic benefit which is measurable, tangible, and reasonably expected to be received – Accounting Definition
- Debtors – People you have done work for who haven't paid you yet – Reality
- The longer a debt remains unpaid, the more it costs a business – WHY – TIME VALUE OF MONEY

Debtors – Effects on a Business

- 1 – Expenses paid before monies received such as Wages, PAYG Withholding, Materials, Fuel, etc.
- 2 – GST – If in accruals system, paid to ATO when billed not received
- 3 – Management – Staff time to ring, mail out statements, your time reviewing over and over again
- 4 – Value of money used else where – Opportunity Cost – what else could I be doing with this money, i.e. interest in term deposit, interest saved on loans, investment in machinery and plant, **WAGES FOR YOURSELF**

Debtors – What to do about Problem Debtors

- Ensure all paperwork is correct. Make sure issues such as legal holds, credit terms and conditions are correctly and clearly addressed on invoices and contracts.
- Ensure statements are sent
- Ring outstanding debtors. Ring the debtor straight away, don't wait for the debt to get to 90 days before you ring.
- Be sure to record the details of the phone call, don't rely on your memory, remember firm, fair and friendly.
- If they still haven't paid, send a letter informing intending to take legal action.

Debtors – What to do about Problem Debtors

- Follow through – send to Lawyer or credit agency
- Turn off the tap – If people don't pay, don't continue to do the work.
- Don't be afraid to lose bad clients. Clients who don't pay you or pay after 90 days consistently, are not good clients. They are actually costing you money.

Creditors – The other side of the coin

- Creditors – Represents a future financial obligation that is measurable and tangible – Accounting definition
- Creditors – People I haven't paid yet – Reality
- Creditors are another side of the cash equation, and good Creditor management is just as important as Debtor management - WHY?

Expense management & Opportunity Cost

Creditors – Expense Management

- A good creditor management system will allow a business to manage its expenses, especially as a business is growing. Correct authorisation of invoices, especially with an orders system, matching of invoices to statements, ensures
- 1 – Only authorised purchases are paid for
- 2 - Paid invoices are as per quotes received
- 3 – Correct coding for accounting purposes – providing better information and lower accounting bills. Enables efficient review of costs
- 4 – Important in the control of Stock and fraud.
- 5 – Improves Debtor invoicing - especially those who invoice Cost plus.

Creditors – Opportunity Cost

- Some creditors give discounts for early payment – is it worth your while to pay them quicker, 5% discount better or 1% in normal bank account.
- Overpayment of accounts – ongoing credit with suppliers, which is effectively money in their accounts not yours.
- As before, what could you do with that money – Term deposit, payment of interest incurring debt, **PAY YOURSELF A WAGE**
- Time – what could you or your staff be otherwise doing

Stock- Can't sell it if you don't have it vs. can't sell everything

- Stock is expensive to hold as it consumes working capital
- Typically, only 20% of a businesses inventory turns over quickly
- Business have a challenge
 - Too much stock = Cash flow stress
 - Too little stock = stock sell outs = Customer Loss

Stock – How to manage it

- There is no golden rule – good knowledge of your business and industry is required
- Most accounting programs have a stock system – make sure you understand yours and use it. Modern systems have automatic cost updating, stock tracking and graphing systems.
- Review you sales data – what sells, what doesn't.
- What are clients prepared to pay, if you cant meet that mark do you consume working capital holding what doesn't sell?

Sales, Billings, and Records

- Selling goods or providing services is only half the job. How do you ensure you are invoicing your clients correctly and getting paid.
- Billing procedures – Consequences of getting it wrong
- Timing of Billings

Sales, Billings and Records – Billing Correctly

- Ensuring your Bills will be paid – The Paper Trail
- All work performed or goods sold must have some documents which provide proof if a bill is disputed
- These include – An order from your customer detailing the goods or service to be provided, when how much etc.
- A job card for all works which the order is attached and all relevant information is included on.
- If billed correctly, it should mean less work down the track for you and your staff
- Large organisations, especially Government and Insurance companies will not pay invoices for which no order numbers where authorised, or policy, contacts, reference numbers are missing.

Sales, Billings and Records - Timing

- The timing of billing clients for goods or services performed is critical.
- The sooner an account is sent, the sooner its is paid.
- When dealing with big companies, and government, they do monthly payment cycles, if you miss a cycle, you will wait another 30 Days – Opportunity Cost
- Studies show bills need to be sent within the first 10 days of the month.
- Is sending invoices in the mail the most efficient way now – Email costs nothing, gets there straight away, is traceable.

TIMELY INFORMATION/RELIABLE DATA

- Important to make decisions on data that is up to date
- Can not make good business decisions with out of date data
- Poor quality data leads to poor quality data
- Data entry is the key, should not be a time consuming task
- Are you making the best use of your existing data?
- If you are only preparing this data when its time to do your BAS, it is neither timely nor useful.

CASH FLOW BUDGETING

Where to start:

1. Good, reliable, up to date data
2. Review of 3 years data for revenue and expenditure, Averaging for abnormal items, identification of trends.
3. Identify from previous years monthly data cash flow timing, when are Debtors received, when do you incur your expenses, including yearly bills like rates, licences.

Cash Flow Budgeting

4. Allocation of projected Income and Expenditure over 12 month cycle, in line with known Cash collection and Payment periods.
5. Compare each months projected cash flows. If there months with deficit cash flows. Is there periods with excess cash inflows.
6. Graph it if you like
7. Use excel or a specialist app

CONCLUSION

1. Review your internal procedures for Debtors, Creditors, Sale, & Billings. Does everyone know them?
2. Make a routine to take time at start or end of week to review these areas where “CASH” is, prepare it for you or your staff to address.
3. Take “Ownership” of the issue. It is your business, lead the way, make the changes.
4. Make sure accounting information is correct – good decision making requires good data

“Rubbish in, Rubbish out”

BUILDING A BUDGET

- If you need a basic excel budget come and see me and I can email you a basic version to get you started.

THANK YOU FOR
YOUR TIME AND
ATTENTION