

Small business owners 'more worried about cash flow than ever'

by James Quinn

The terms "cash flow" and "cash management" may be largely misunderstood by small, business owners, both new and experienced, some Midlands CPAs and business consultants caution. Cash flow is a subject that causes great concern to those who advise businesses, and those charged with running a business should study specific procedures in management of their cash resources, they said.

David W. Baas, CPA, of Baas-Bruce & Associates, 9802 Nicholas St, Omaha, said this is an age in which small business owners are more worried about cash flow than ever.

"The success of a business will come from the consistency of the cash flow," said Baas. "Profits may be the main contributor to cash flow, but there are others."

Baas said some of the things he tells clients are: Look specifically at accounts receivable, study carefully the accounts payable, keep an eye on inventory and constantly look for ways to trim overhead.

Accounts receivable can quickly build up and absorb large amounts of a firm's cash, Baas said. "I advise clients to monitor receivables regularly and talk to those clients who are slow in paying before they become problems."

In the retail area, it is important to keep an eye on inventory, Baas said. "If the inventory is slow in moving, that means there are dollars sitting on the floor, not generating any profit," he said. "It's very important that inventory be turned over at the industry norm, to keep the company operating with the same cash flow as competitors," he said. "It is important that inventory be turned over even at cost or a slight profit."

The study of accounts payable should determine whether it is feasible to finance payments for inventory so that cash may be set aside for other things, he said. "It's really important in this day and age to maintain contacts with vendors, remembering that the vendors are monitoring their accounts too," Baas said.

"Many times our clients deal with banks to take them over seasonal variations, and it is important to cultivate banking relationships," he said. "Keep the banker informed by providing him or her with statements, and see him when things are going well, not just when a loan is needed. It is good to have the banker come and visit so he comes to understand the business."

In reviewing overhead, Baas said, every business owner should go over checks he has issued in the last 60 or 90 days to see if they went for absolute necessities. "Cutting back on overhead is a good way to improve any business's cash flow," he said.

Baas said in working with client quarterly income taxes, he makes sure they are paying enough estimated taxes to avoid penalties, but not more than they should

expenditures such as furniture into the forecast so we can see how they are going to impact the cash flow," Baas said. "We put these figures in front of the owner and show him the months in which he has to be careful of cash expenditures."

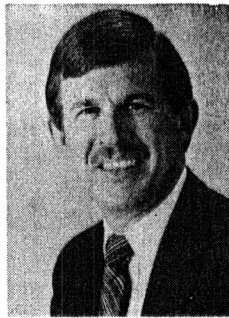
Statements of assets, liabilities and income are important, Baas said, but in the last four years, his firm has begun issuing a statement of cash flow, as well.

William Cheese, CPA, of Dutton & Associates at 515 N. 87th St, Omaha, said the business owner should remember that the cash flow has nothing to do with profits, and vice versa. "A month with a great cash flow may be a month of poor profits," he said.

Cheese, who has taught money management courses for the Nebraska Society of Certified Public Accountants, said the five things that go into the wheel of good money management are sales, collections, cash concentration, disbursements and inventory management.



Baas



Emry



Hughes



Cheese

In connection with sales, a business should bill as quickly as possible after shipment or sale, he said. Follow up on accounts receivable is a key element, as is management of inventory to keep excess inventory down, possibly through "just in time" delivery practices.

On disbursements, Cheese advises that bills should be paid on time to take advantage of discounts, but they should not be paid early. He advises owners to "take advantage of all the interest possible on your cash." Regarding cash disbursements, Cheese said it is important to keep excess cash invested, rather than in a checking account.

Cheese said there are other goals in an efficient cash management system. The owner should seek to reduce the operating costs of the cash flow system so that cash benefits exceed costs. He should minimize investment in noncash assets to their most effective level in order to increase cash or reduce borrowing requirements. The businessman should "work" cash funds as hard as possible to gain the greatest interest benefits or reduce borrowing costs, he said, but he also should reduce management's involvement in day-to-day cash management operations to provide time for sales and other matters. "Every employee should be involved," he said.

Cheese said any self-evaluation by a business owner would include the question, "Do you or a designee carefully review the monthly bank statements for items of cash management, rather than merely reconciling the account?"

Other questions might include, "Have you explored the advantages of paying for bank services using compensating balances versus fees for service?" and "Have you discussed the account analysis with your banker within the past three months?"

David Emry, CPA, of Darst & Associates, 14707 California St., Omaha, said very often when a business gets into a cash crunch it finds that it has not managed its accounts receivable as well as it should have.

"Management of accounts receivable goes hand-in-hand with cash management," he said. "Not having cash in hand within a 30-day period in which it was expected often is the cause of a cash crunch in small business."

Accounts payable, inventories, occasional bad decisions on loans and unnecessary expenditures are other causes for inadequate cash flow, Emry said, aside from

the ever-important matter of profitability.

"A business owner needs to know from day to day how much money he has in the bank, how much overhead is costing, what the accounts receivable are and what the accounts payable are," Emry said. "Even though he has an accountant's monthly statement, he should know where he is every day."

Familiarity with tax matters also is important. Emry said. "Many small businesses are guilty of not watching taxes carefully," he added. "They get down to the end of the year and suddenly, they need \$10,000 cash."

The human trait of spending too much in good times and running low in bad times also spills over into a world in which much of the business transacted is cyclical, Emry said.

"My suggestion is to work by and live by a budget, so that you know how much you have spent each month, what commitments you have, and what you have in

receivables," he said. "If you don't you will have a tendency to overspend your cash. Businesses fail as a result of this."

Steven R. Hughes, owner of the Financial Express franchise at 421 West Broadway, Council Bluffs, said his business advisory and payroll firm advises clients to work hand-in-hand with their banker.

"You've got to keep the checkbook balanced, but a close relationship with a bank is still a definite advantage in keeping the cash flow stable," Hughes said.

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Hughes said he also regards accounts receivable as a key element in the operation of a small business. To help assure that customers pay instead of charging, he said, he often recommends that the client permit use of credit cards, even if a fee may be charged.

"Some businesses collect when they deliver and some allow no credit," he said, "but that is often hard to do in a small business and with customers."

Hughes, who goes to clients' offices with a portable computer to handle monthly statements, said it's important that a client keep current on his balances.

An important procedure is keeping a close record of expenditures, so that projections of the cash to be needed in coming months can be made.

"I like my clients to keep a daily sales sheet and make it correspond to daily bank deposits," Hughes said. "It takes time but it's important that the dollars taken in the day before are in the bank today."

Hughes also suggests firms with in-house bookkeeping make sure that their procedures couldn't be done at less expense by an outside firm.

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The owner's draw may have to be adjusted now and then, he said, to make sure he is not drawing out more than the business can afford.

A business now and then should evaluate its billing to make sure that bills or invoices go out as quickly as possible after a sale is completed, he said. Also, one should shorten as much as possible the time between collection of cash and its deposit in the bank.

There are options to be studied in the paying of bills, he said. Sometimes it is better to pay quickly to gain a discount, but sometimes it is not. This all should go into long-term planning, he said.

Baas said businessmen should prepare budget forecasts which show what the cash flow should be. "We build