

SHOULD YOU PAY MORE ATTENTION TO CASH FLOW IN YOUR BUSINESS?

In assessing their business, most owners focus on growth in sales and profits. Yet these do not guarantee business health and success. Another important gauge is cash flow. Simply put, is there enough cash inflow to cover cash outflow? Cash flow needs change on a daily basis. The more you're aware of cash flow needs, the more control you'll have over your business.

- » **Calculating cash flow.** Cash flow from operations can be calculated by taking net profit, adding back depreciation and amortization (noncash outlays), subtracting increases in accounts receivable and inventories during the period, and adding increases in accounts payable. Calculations can be done on whatever operating cycle time frame is most meaningful to you (monthly, quarterly, etc.). Best results are usually obtained by using monthly cash flow statements and projections based on prior experience.
- » **Using cash flow.** Building a history of cash flow needs by using historical financial records will provide an invaluable tool for projecting the timing of receipts, expenditures, and financing needs. Periods of negative cash flow can seriously hinder expansion plans and may even lead to business failure. Cash flow statements and projections can forewarn you of cash needs and allow you to implement changes.
- » **Improving cash flow.** Proper management of accounts receivable and inventory can strengthen cash flow. Review billing procedures to reduce lag time between shipping and invoicing. Reexamine credit and collection policies. Consider offering discounts for early payment and charging interest on delinquent balances. Review inventory levels. Be alert for stockpiles and excess inventory. Dispose of obsolete inventory by reducing prices or selling for scrap.

Effective cash flow management will permit better utilization of cash, generate additional funds from internal sources, and provide advance notice of financing needs. Knowing your cash flow requirements is imperative for business success.

Please contact our office at (888) 388-1040 for additional information on cash flow management.

NOTE: This article is written to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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