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Personal planning UPDATE

Improving cashflow

A guide to improving cashflow and tackling late payment

More than any other factor, a business is defined by the balance between the money coming in and the money going out over any period of time. Ideally, the scales should be tipped in favour of the former, but the reality of the business environment is often more complicated.

When you start a business, it's easy to concentrate your efforts into getting sales. Whether you are selling a product or a service, gaining your first order or making your first sale is incredibly exciting. It provides tangible proof that you made the right decision to set up your enterprise.

However, as many people discover, making a sale can seem like the easy part.

Getting paid for that sale is where problems often start and where cashflow – or rather lack of it – comes in.

What is cashflow?

Cashflow is the movement of money into or out of your business. If more money is going out, or due to go out, than you have available, then you have a cashflow problem. There could be a number of reasons for this: it could be down to mismanagement or poor buying decisions but in many cases it can be attributed to not being paid on time.

Knowledge about cashflow and an awareness of how it works as part of a company's day-to-day operations is important for anyone in business, not just those who are starting out. Even if your business has been up and running for some time there is always opportunity to pick up new advice and tips on how to spot customers who may cause you problems, the right and wrong way to chase payment and, most crucially, what to do if the scales tip dramatically out of your favour.

Get in touch today to talk about your cashflow.

Defining late payment

Unless you have agreed when you'll be paid, a payment becomes late 30 days after the customer receives the invoice or you provide the goods or service (if this is later).

You can claim interest and debt recovery costs if you experience late payment.

Need action now?

If like many small businesses, you're relying on a payment coming in to pay your VAT bill or wages and it fails to materialise, what can you do?



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Before considering legal action, check that you have done nothing to reduce the likelihood of being paid.

A surprising number of businesses open themselves up to being taken advantage of by not being able to confirm any of the following:

- your invoices are in the right name and contain all the information the customer needs
- do you have proof of delivery or a signed order for services?
- does the customer have the funds to pay you?
- have you got a record of all your orders and invoices?

Another crucial point is to ask for a purchase order number. Many people don't because they haven't used them before. This is particularly true of creative businesses that have grown over time. The days of a gentleman's agreement or a handshake are long gone if you want to guarantee that you will get paid.

The next area to look at is the methods of payment you accept. While some businesses have leapt at the opportunity to use technology to ensure they get paid, others have yet to do so.

Do your invoices include your online banking details?

Do you accept credit or debit cards as payments?

If your business is too small to justify the costs of having permanent chip + pin terminals, with the ongoing merchant fees, have you looked into using companies that use mobile card payment systems?

Contact us today to discuss your cashflow planning.

Check your prospects

Is that great order you're hoping to get likely to turn into a bad debt? There are a number of ways you can become proactive about your cashflow rather than reactive.

Before you accept an order from a new contact, check them out on the Companies House register.

Checking out a sole trader is more difficult, but asking for a VAT registration number or proof of business insurance or membership certificate from a trade or professional body can help. In addition, online reviews, LinkedIn details and other social media sites can give you a feeling for that person.

You may not feel like you are in a position to be picking and choosing your clients and customers, but there is a virtue to exercising a little bit of caution that can save a whole lot of pain later on.

Check your own vulnerability

When you're busy getting business in, it's sometimes hard to take a step back to see if your business is under threat from lack of cashflow.

The following are some of the symptoms that could indicate it's time to take stock:

- running out of working capital
- relying on your overdraft
- finding it difficult to pay salaries each month
- not paying your tax, rent or other regular costs
- a lack of profitability.

Time for a check-up?

If you recognise this it would certainly be worth asking us for help before the symptoms become terminal or public knowledge. We can help you get your internal processes in order and advise you on any external action you can take in order to tip the scales back into your favour.

Talk to one of our experts today about your options.

Prompt Payment Code

The Prompt Payment Code is a government initiative administered by the Chartered Institute of Credit Management. It is designed to encourage, promote and set an example of best practice between organisations and their suppliers. Companies that sign up for it undertake to:

- pay suppliers on time
- give clear guidance to suppliers
- encourage good practice.

Following industry feedback, the code is in the process of being strengthened and is now asking signatories to pay their suppliers within 30 days as the norm.