



HOW DO I IMPROVE CASH FLOW?

BY MONICA MITCHELL MUIR

A Almost every business monitors cash closely, and they all seem to have their own systems. The following are 10 ways to help you improve cash flow in your business.

let you quickly see who pays slowly and who pays quickly. Wouldn't it be nice to have more fast-paying clients?

Planning
pointer

Look for patterns so you can drop the least profitable clients or jobs and do more for the most profitable.

1 Monitor your cash on hand. This includes money that has come in and might not have been entered in the accounting system yet, as well as payments that haven't cleared the bank yet.

2 Reconcile your bank and credit cards monthly. That will help make monitoring your cash on hand more accurate.

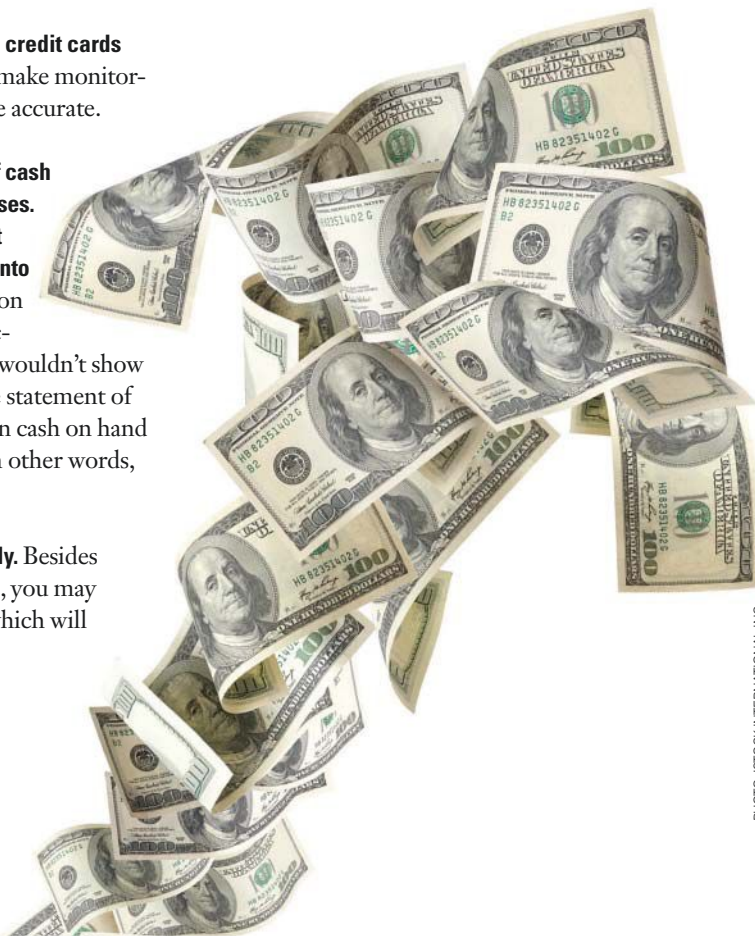
3 Review your statement of cash flows, income and expenses.

The P&L or income statement provides only partial insight into

the health of your business. Payments on loans would be an example of transactions that decrease cash on hand but wouldn't show up on your P&L. The purpose of the statement of cash flows is to explain your change in cash on hand throughout a given period of time; in other words, why it increased or decreased.

4 Monitor accounts receivable closely. Besides accounts receivable aging reports, you may have an average days to pay report, which will

5 Make it easy for customers to pay you. Many business owners don't like to accept credit cards, but sometimes accepting a credit card will pay you much faster. Perhaps you can have your customer's card on file so you can take monthly payments or whatever you prearranged with the customer. You may even



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find the customer will go with a larger project because you accept credit cards.

You also can have clients pay you online, and not only by credit card. Automated Clearing House, for instance, has lower transaction fees because it charges a flat, per-transaction fee instead of a percent-of-transaction fee. There may be a monthly fee.

6 Accept payments up front or at the time of service, then you don't have collection concerns.

Set prepayments aside, and use it for the client's work instead of other bills. If you're using it for other payments, that should be a warning. You need to look closer at your financials.

7 Run a cash flow forecast, if your software has the capability.

It can be quite helpful—this assumes customers pay you on time and you pay your vendors on time.

8 Monitor your payables closely.

To do this, you must enter your bills in your accounting system and not just simply write checks when it's time to pay bills.

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9 Look for most and least profitable patterns so you can drop the least profitable clients or jobs and do more for the most profitable.

Consider monitoring profitability by:

- › Product/service line;
- › Type of customer;
- › Project/job; and
- › Type of project/job.

10 Monitor your debt.

Loan and credit card payments may not show up

in your accounts payable aging reports, so consider these. The following can help:

- › The statement of cash flows (discussed in No. 3);
- › Current ratio, which looks at how easily you can pay your debt (total current assets/total current liabilities); and
- › Debt ratio, which calculates the percentage of your business financed by debt (total liabilities/total assets). **LM**

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