Cash management: managing your business dollars; Business advice from CPAs

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IMPROVING CASH MANAGEMENT

Developing a cash management plan requires a complex analysis of your business' policies and procedures. Because of their technical knowledge, training, and business experience, CPAs are particularly qualified to assist businesses in improving their cash management functions. They can analyze cash systems and make recommendations that will help you run your business more efficiently and profitably.

A CPA CAN HELP YOU

- Review your current cash management system.
- Develop a budget.
- Forecast cash flow.
- Increase net cash inflow.
- Decrease net cash outflow.
- Select appropriate investments.
- Evaluate banking procedures.
- Improve your billing and collection policies.
- Analyze your inventory and purchasing practices.
- Reduce borrowing costs.
- Monitor managerial controls.

By reviewing your cash management techniques, CPAs may recommend changes for immediate implementation, or for future benefit—helping you to fulfill whatever plans you may have for your business’ growth. Contact a CPA to find out how your cash management techniques can be improved.
Cash management involves forecasting, receiving, controlling, disbursing, and investing funds from your company's operations. Besides helping to improve liquidity and increase profits, effective cash management will:

- **INCREASE CASH INFLOW.**
- **REDUCE CASH OUTFLOW.**
- **INCREASE THE YIELD ON IDLE FUNDS.**

Working with a certified public accountant (CPA) to establish an effective cash management system will enable you to stretch your business dollars—and in many instances, increase your earnings.

### FORECASTING CASH FLOW

Cash flow forecasts provide important data for estimating cash requirements, or investing idle funds not needed for day-to-day transactions. CPAs can help you develop cash flow forecasts using the following information:

#### Cash on hand.
This should be easily determined from your accounting records.

#### Expected cash receipts.
These can be determined by estimating sales of goods or services, assets, and capital stock or securities.

#### Expected cash disbursements.
These can be determined by estimating the timing and amounts to be spent on operating costs, including:

- Payroll and employee benefits
- Material and supply purchases
- Taxes, dividends and interest
- Debt payments
- Capital acquisitions

### ENHANCING CASH FLOW

Increasing the flow of money that your business takes in requires a careful analysis of your billing and collection procedures. Here are some points to consider:

#### Billing schedule.
Should you mail your customers' monthly statements, bill them at the time of the transaction, or both? Under what situations are advance payments and progress billings desirable? CPAs can help you find the right answers to these questions.

#### Early payment discounts.
Should you offer your customers discounts for early payments? CPAs can analyze discount policies to determine if they are effective in speeding up collections.

### CONTROLLING CASH DISBURSEMENTS

Controlling cash disbursements to improve the availability of cash is a major objective of cash management. Minimizing the effects of cash outflow requires timing payments to maximize your use of funds, while maintaining good vendor relations. This may result in reduced borrowing costs. In addition, reducing operating costs in certain areas can help minimize your expenditures.

CPAs can help you determine when to make payments and if you should take advantage of early payment discounts. What's more, they can study inventory and purchasing policies to see if your company has maintained proper inventory levels, adopted the most cost-effective purchasing procedures, and determined the vendor with the most favorable terms.

### INVESTING CASH

Investing your idle funds in appropriate vehicles earning interest or dividends may increase your company's earnings or minimize tax liabilities. CPAs can help you plan your investments and advise you of the tax consequences.

Credit and collection procedures. Who should be given credit and how can collections be improved? CPAs can recommend credit-granting policies. They can also evaluate the cost-effectiveness of allowing customers to make payments using major credit cards, or of selling the accounts receivable to a third party.

Deposit of cash receipts. Should you deposit daily cash receipts through a lockbox system, wire transfer or some other method? CPAs can prepare a cost analysis to determine the cost-effectiveness of each method.

Valuate your current situation.
CPAs can assist you in evaluating and improving your current cash management practices or in formulating new practices. The first step may involve a study of your financial statements and budgets, using various ratios such as the following:

- Accounts receivable turnover
- Average collection period
- Outstanding accounts receivable as a percentage of total revenue
- Inventory to current assets
- Inventory turnover
- Current assets to current liabilities
- Current liabilities to tangible net worth
- Total debt to equity
- Net profit on sales

Once these ratios are developed and compared to industry norms, you can review your policies and procedures to determine the effectiveness of cash management.