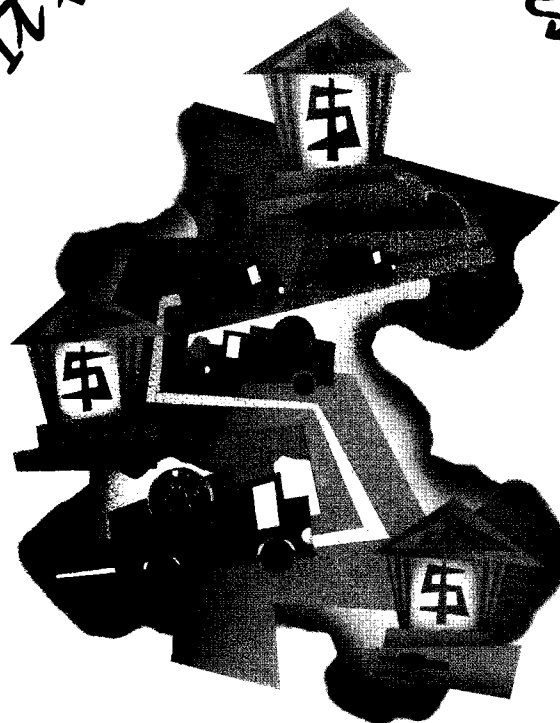


It's Your Business



**Improving Cash Flow in
Your Business**



friedman kannenberg
and company pc

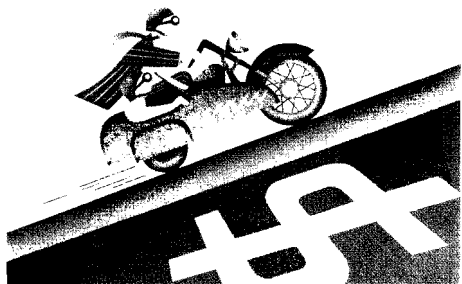
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*For more information or assistance with cash flow
concerns in your business, contact our office.*

Cash is crucial to business success



Any business owner who has fended off calls from unpaid creditors or wondered how to meet the next payroll

knows the importance of cash flow – and the frustration of being distracted by a cash shortage just when sales are booming. Yet, ironically enough, business success and cash shortages often go together.

If those skyrocketing sales are on credit, they create a huge accounts receivable which your company is funding. Your income statement may show a hefty profit, but profit doesn't pay bills – cash does! Profit is just an accounting measurement. Cash is reality. That's why understanding and controlling the cash flow in your business is so important.

There are three elements to cash flow management: collecting cash as fast as possible, paying out cash as slowly as possible, and making the best use of the cash held in your business. You should understand the way cash flows through these three stages and the timing associated with each.

■ Monitor receivables

In every business the major focus of the first stage must be monitoring the collection of receivables. This includes understanding the impact of factors such as the credit terms you offer and your approach to delinquent accounts.

To speed cash collections, invoice customers when you ship the goods, not a few days later. Make sure that your invoice clearly shows the payment due date and the penalty for late payment. If you use a monthly billing statement, time it to arrive a week or so before

the end of the month. Many companies pay bills just before month-end, and that way you may catch their payment cycle. Another tip: Follow up promptly and in person on disputed bills or delinquent accounts. It's human nature to avoid these problems, but time only makes them harder to resolve.

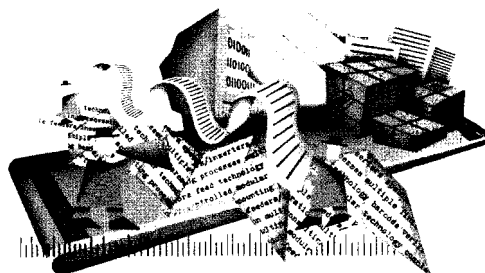
■ Control inventory

Review your inventory to identify slow-selling and high-priced items. Are you carrying too many of these items? Can you make them special order items? Are there ways to cut your re-supply time, allowing you lower levels in inventory?

Look for suppliers who deliver quickly so you can wait longer before reordering. Pay attention to turnover ratios and inventory backlogs when deciding when and how much to order.

■ Manage payables

Look at payables to see where better management can improve your cash flow. Here are some suggestions that you should consider:



- **Use a voucher system.** Although most large businesses use such

a system, many small business owners view it as "more paperwork."

Using a voucher system means that all purchases require a purchase order number and advance approval. This helps to prevent unauthorized and duplicate purchases, as well as excess shipments and overcharging by suppliers.

- **Age your accounts payable every month.** This will show how much you owe, to whom you owe it, and the age of each debt. An aging schedule can quickly identify cash flow problems, mounting interest charges, and possible billing errors. This

information can help you prioritize your debt payments and prevent embarrassing situations with critical suppliers.

- ***Take advantage of purchase discounts.*** It is usually advantageous to pay a bill within the discount period, even if you have to borrow to do so. You should track the discounts in a separate account to give you a clear picture of how much cash you're saving. Also, if a vendor doesn't offer early payment discounts, don't be afraid to ask up front for better payment terms.



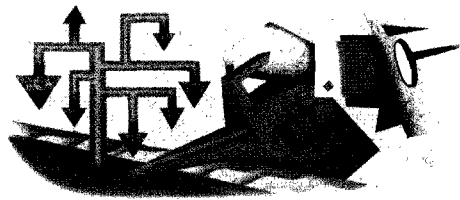
■ Put cash to work

Monitor the cash sitting idle in your bank accounts. Put any excess to work earning interest. Your goal should be to have cash available when you need it, but not before.

■ Use cash flow statements

Cash flow information is essential to the successful management of any business. The best way to capture the information you need is with the regular use of cash flow statements. The cash flow statement records the changes in cash from period to period and lets the business owner know what cash is available for operations, expansion, or investment.

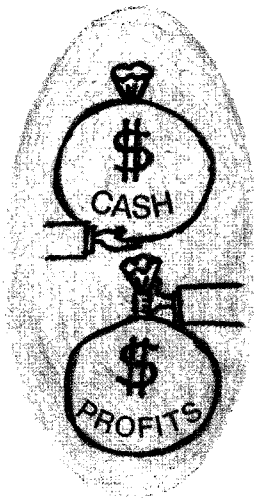
Best results are usually obtained by using monthly cash flow statements and projections based on prior experience. Building a history of cash flow needs by using historical financial records will provide an invaluable tool for managing your business.



CASH or PROFITS?

Make sure you know the difference

If you run a business, it's important to distinguish between cash and profits. A business can be profitable even if cash is tight, and a company with free-flowing cash can be in serious trouble.



At first glance, it might seem that profits and cash should always go hand-in-hand, but this is seldom the case. For example, borrowing money for your business may boost your cash balance, but the additional interest expense may eat into your profits. Purchasing a new piece of equipment may temporarily drain your cash, even though productivity and profits are likely to increase in the long run.

If your company has accounts receivable, cash and profits are almost never in line. That's because income is recorded when a sale is made, although you may not receive payment until much later.

If you've been in business for a few years, you may have a good sense of how cash and profits are related for your company. But be careful if you engage in any out-of-the-ordinary business transactions, such as major expansions, purchases, or borrowing. Any one of these could disturb the traditional relationship between your cash and profits.

If your business is relatively new, make sure you fully understand how cash and profits are related for your particular company. Determine your ongoing need for working capital, and don't automatically draw out all your cash or spend all your profits.

A report called the "statement of cash flows" is one of the best ways to monitor your business cash and track the relationship between cash and profits. For assistance in using a cash flow statement, give us a call.