

how can my business be profitable - but there's no money in the bank?



matt richards
from accounting north

bm

Last edition we discussed the value of a budget in mapping out guidelines to reach your annual targets. This month, we discuss the importance of managing liquidity and understanding your cash flow.

Net Profit is an important indicator of financial health and our key focus from a taxation point of view. However, too often, we run our business according to the 'bottom line', not adequately planning for all those non-deductible 'below the line' cash outgoings such as:

- investment in working capital
i.e. inventory, accounts receivable
- capital investments and plant & equipment
- deposits (received, paid out and returned)
- hire purchase and loan repayments
- taxation payments (GST, fringe benefits, PAYG)
- Director's drawings and dividends

These regular outgoings seem to catch us unaware and before we know it, that next BAS payment is due and the overdraft is at its limit. These cash outgoings need to be planned for and managed.

There are various ways of smoothing payments, bringing forward customer payments and

extending outgoing payments, many offered through major banks. For example, by submitting your BAS through your accountant, you could receive an extension of between 2-4 weeks on the payment due date. Alternatively, consider submitting your BAS monthly rather than quarterly to smooth out your cash flow.

The major banks are offering smart services to manage trade commitments through invoice financing, as opposed to factoring, where you lose control of your debtor book.

**NET PROFIT IS AN
IMPORTANT INDICATOR
OF FINANCIAL HEALTH
AND OUR KEY FOCUS
FROM A TAXATION
POINT OF VIEW.**

For example, ANZ Invoice Finance accelerates your cash flow by providing quick access to funding up to 85% of suitable outstanding invoices. The remaining 15% (less fees and charges) is made available following payment by the debtors so funding is linked to sales, accelerating cash flow, and making your money work for you. Such an approach particularly suits businesses with a high proportion of assets in working capital or rapidly expanding and funds the gap.

Comparable to this, Bank of Queensland offers a similar Debtor Finance (DF) facility aimed at unlocking cash flow and linked to your unpaid

receivables, providing you with quick access to funds. Importers and exporters may be drawn to Trade Finance (TF) solutions for lengthy transactions with foreign currency exposure. In essence, the TF can fund raw material purchase and repayment is linked to the cash cycle of the business. Then following manufacture and invoicing a DF can provide up to 80% of the face value of the invoice and can be used to repay the TF loan, fund more stock and pay operating expenses.

The key indicators of liquidity within the business are debtor days, creditor days, inventory, and work in progress days. You could be surprised what impact a reduction of 1 day's Working Capital will have on your business. Understanding and managing these measures will directly affect overdraft levels and free-up valuable cash.

In preparing a cash flow, I recommend developing a spreadsheet and linking it to your Budget. A 'big picture' cash flow needs to be prepared for the year ahead, picking up all the main items and using it as a guide to manage the levels of overdraft and debt required. Depending on how tight liquidity is, this should be updated on a monthly or quarterly basis.

Essentially, the Budget is adjusted to reflect when money flows in and out of the bank account – not when the income or expense is recognised from an accrual accounting perspective. It is essential you understand how cash flows with business activity and adjust it for seasonal variation, non-cash items and creditor/debtor terms. **bm**



▲ Matt Richards



▲ Toni McCulloch



▲ Grant Callaghan

Get an Expert on Your Team...

PROACTIVE accounting & tax services
PROGRESSIVE management consulting
PROFESSIONAL super fund management

5443 4988

Level 1, 59 The Esplanade, Maroochydore
enquiries@accountingnorth.com.au
www.accountingnorth.com.au

AccountingNorth
PROACTIVE. PROGRESSIVE. PROFESSIONAL.