

Top tips on cash flow

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Cash is king. Manage it with the care and attention it deserves. It's very unforgiving if you don't. Remember, cash is king, because no cash means no business!

1. Set yourself a budget at least six months ahead

Monitor actual results against the budget and keep revising it - things change very fast these days and you need to be ready. Make sure you know what tax, VAT and PAYE bills you will have to pay over the next six months so you avoid any surprises.

2. You need regular management accounts to monitor your cash flow

Monthly is essential, weekly is better, daily is best. If bookkeeping's not your thing, get a bookkeeper or accountant to help. The money spent on preparing regular accounts should reduce your year-end accountancy bill so the extra cost shouldn't be so great.

3. Check bank statements daily and reconcile them

Banks do make mistakes, so keep an eye open for incorrect items on your statements. You can only spend the money you've got, so make sure you know how much you have so you avoid unauthorised overdraft and returned cheque charges.

4. Keep business and personal spending separate

Take regular lump sum drawings, pay them into your personal bank account, and make all personal payments from that account. Don't pay your personal bills out of the business bank account, it increases the volume of transactions you have to record in your business accounts and makes managing expenditure more difficult - and increases your bank charges unnecessarily.

5. Learn to be a credit controller, you are not your customers' banker!

Invoice promptly and make sure you get paid on time. On longer jobs, agree monthly stage payments. Get up front deposits if you have to buy in materials in advance. Don't hesitate to ask new customers to pay up front until they have established a track record.

6. When you do get paid, bank the cheque promptly

The money is no good to you until it's in your bank account, and cleared. Bank Friday's cheques on Friday, don't lose time hanging on to them until the next week.

7. Negotiate longer credit terms with suppliers

But be fair, don't put your suppliers out of business, and don't jeopardise your own credit rating. If suppliers offer discounts for early settlement, make sure you take them - the saving represents a good return on your money. To make your cash go further, arrange monthly payments to spread annual costs such as professional fees and utilities.

8. Make sensible use of credit cards

Use them to pay bills and get another four to six weeks of interest-free credit - then pay off the balance in full, don't pay excessive interest. If you can't afford to pay, don't buy in the first place.

9. Stock is not cash, it's only potential cash in the future

In the meantime it's a dead weight on the shelf, so aim to hold as little stock as possible and to turn it over as quickly as possible. Sale or Return arrangements keep the shelves filled with no upfront cost to you.

We have software and services designed to help keep your finances correct and your cash flow healthy.
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