

## CASH FLOW – CASH HAS ALWAYS BEEN KING, BUT ESPECIALLY IN TIMES OF UNCERTAINTY



Cash is ultimately the key measure in how a business is doing. Strong revenues and a solid bottom line are important but never more has a positive cash flow been so vital to businesses.

Cash flows into businesses in the form of customer invoice payments and out in the form of rent, rates, wages, national insurance, VAT, and tax. Put simply if you have a “positive” cash flow position you have more money coming in than is going out. Where you have more financial obligations than cash coming in, short term cash flow solutions may be required.

### **Why is cash flow so important?**

Running out of money is the main reason why businesses fail. It appears counter-intuitive that profitable businesses can fail. Profit is however an accounting concept and can be hiding a balance sheet which is not analysed or well-managed.

A well-managed balance sheet can generate positive working capital; a cycle where customers pay you on shorter terms than you need to pay suppliers or meet rent or loan obligations.

### **When do I need a cash flow?**

All businesses should understand their “run rate”. This is a key question and fundamentally means how much does it cost me to run this business every month.

With this number in mind, you can always know how many months of cost your bank account balance can cover.

There are a number of key business events when a considered, robust cash flow is essential, such as set-up, expansions, acquisitions or during an investment process. Dealing with cash flow and forecast issues when starting a business is often more challenging as you have an unproven product or estimated revenue streams and overheads are complex to forecast until you have experience of what resources the growing business will need.

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In the current environment, businesses need to know in real time, how much does it cost to run my business, how much cash do I have, what are my short and long term committed cash outflows?

Decisions whether to close business units or make redundancies need to be based on robust data and a forecast based on a holistic understanding of the business and external pressures.

## **How do I keep on top of my cash flow?**

There are some simple things that all business owners must do:

- In the current climate, look at your bank balance every day. Check which customer and supplier invoices have been paid. This sounds simple, but unless this is done regularly it is almost impossible to go back and reconcile.
- Keep a thorough check on any overdue invoices. Do not leave it until month end to remind clients to pay.
- Create a list and review all direct debits you have set up, you may find that you have forgotten to cancel some.
- Keep a note of key dates for any large payments that need to be made such as VAT or corporation tax. There can be unwelcome penalties or interest for not meeting your obligations to HMRC.

Whilst we are operating in the current business environment, it is never more important to make decisions based on good financial information.

At Nunn Hayward, we have over 30 years' experience supporting our clients and managing their businesses through tough times.

We have the skills and experience to get your finances straight and to work with you to forecast your run rate and cash flows to help you to make the right business decisions.

We can help you understand HMRC advice or deferment of VAT and other cash flow reliefs.

**Should you need help with this or have any specific questions relating to your cash flow, please contact us on 01753 888211 or email [info@nhllp.com](mailto:info@nhllp.com)**