Today I ask the question of business owners, Do you ever have problems with cash flow? This is the fourth column in a series where I challenge the small business owner to take a look at their financial practices and procedures. SCORE counselors observe first hand that how the business owner handles its finances on a day to day basis is at the core of whether that business will fail or succeed. Today’s topic is so common. We get asked a variety of questions on how to improve the cash flow of the business.

So, Business Owner, let’s consider this question: Does your company have adequate cash flow? Inflation and fluctuating interest rates have made it mandatory for small businesses to closely manage their cash flow. Given the added problem that many small businesses owe money, it is little wonder that an adequate cash flow is essential to the firm's health and financial stability. Businesses that are otherwise healthy can become insolvent simply because of poor cash flow management. Here is my suggested “checklist” for today’s topic:

- **Do you use pre-numbered cash receipts and make sure that they are monitored and accounted for?** The use of pre-numbered receipts is the simplest way to keep track of customers and sales. It is also the source document for building the accounting system. Another reason for using pre-numbered receipts is that they can reduce inventory shrinkage and reduce the time spent on physical inventory audits.

- **Are checks deposited properly each day?** A basic principle of cash management is to keep it moving. The faster cash moves from the customer to the bank and into appropriate short-term investments, the better. Another benefit of daily check deposits is that they decrease the possibility of loss, which creates numerous other problems.

- **Is customer invoicing done promptly (within two working days)?** Waiting to bill customers is a poor practice. It communicates to customers that it is okay to be late with their payments. Incorrect invoicing also creates delays and takes valuable time to correct.

- **Are collections are received within 60 days?** When it takes longer than 60 days to collect payments, the business needs to examine its credit and collection policies. Long collection periods increase operating expenditures through additional billing costs, lost interest and the need to borrow to meet current operations.

- **Does your business take advantage of cash discounts for Accounts Payable?** Taking advantage of cash discounts that suppliers offer saves money and is an important step for the business in its attempts to establish itself as a primary customer. Being considered such a customer can facilitate delivery, improve services and can be an excellent source of new business leads.

- **Does your company make disbursements by pre-numbered check?** Pre-numbered checks are primary source documents for accurately determining expenses. Not using them increases the time spent on bookkeeping, makes it difficult to monitor expenses accurately, increases the
probability of double payments and communicates to suppliers that the business is a marginal operation.

To learn more about cash flow management of a small business, contact SCORE for free and confidential business mentoring and coaching. We are "Counselors to America’s Small Businesses."

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