CASH FLOW SURVIVAL GUIDE

STEPS TO TURNING THE TIDE

NOTHING IS CERTAIN IN BUSINESS OR IN LIFE. CRISIS OR NOT, CREATING POSITIVE CASH FLOW IS AN ESSENTIAL FOR ANY ENTERPRISE AND CAN BE ONE OF THE TOUGHEST HURDLES TO GET OVER. MANY SMBS STRUGGLE TO SURVIVE DUE TO LACK OF CASH FLOW UNDERSTANDING.

In this guide, we gathered advice and strategies from experts within the wider accounting and bookkeeping industry. It starts with keeping a finger on your financial pulse and taking a granular look at your income and expenditure.

Here are the two ways any business can manage their finances and gain clarity over their cash flow. We will dive into cash flow statements to better understand where you've been, then explore cash flow forecasting so your business can know where it's headed.

Walk away from this guide with the know-how and knowledge needed to:

- Understand your cash flow
- Modernise your systems
- Manage the unexpected

Let's begin.

PAIN POINT	SOLUTION
Not enough visibility over your own expenses	Put it all in one digital place.
Don't have the right financial tools to tackle data	Start building a cloud accounting app stack, use software that integrates with your general ledger.
Limited view of financial health	Run more profit and loss reports using real time financial data.
Not enough cash flow throughout the year for a rainy day	Use a cash flow statement and forecasting system to determine your position now and in the future.

FIRST THINGS FIRST: KNOW YOUR POSITION

Businesses are often born from a passion, but for many owners, that isn't always accounting or bookkeeping. First rule of thumb - money in the bank does not mean you will have enough for the rainiest of days.

Business health and growth is directly tied to your cash flow, so the first step in your assessment should be asking the hard questions. What does your current situation look like?

Use the **Cash Flow Statement** system

The cash flow statement displays your past and current cash position. It's an important member of your company's financial report family, along with an income statement, cash flow forecast and balance sheet.

It details how money has entered and exited your business over a period of time and defines company solvency. This is what investors (if applicable) will look at first.

By observing these inflows and outflows, you will develop a much clearer picture of your true financial status and maintain a positive flow.

Let's dive deeper:

Inflow

Inflow is the sources of cash injection and can be broken down into three categories:

1. Investments

This inflow is money made from company investments, so if you were to sell an asset or one or many long held investments.

2. Operations

Cash from your business operations is money you've actually been paid from customers.This means daily income from goods and services or debts through accounts receivable.

3. Financing

Financing inflow is money from investors and donor contributions.

Outflow

The things that provide also take away. Outflow is the cash disbursed from your company over a set period of time.

1. Investments

Buying fixed assets such as equipment, furniture, buildings and vehicles. Investing in assets like other companies.

2. Operations

It costs a lot to run a business. Operational costs take the biggest chunk, these include employee salaries, rent, mortgage and supplies.

3. Financing

Payments for liabilities like loans and equity, i.e. business owner's draws and distributions.

RECEIPT BANK PARTNER SPOTLIGHT:

ACHIEVING HEALTHY CASH FLOW IN HOSPITALITY

Phool Ashraf and Gains Accountants work with the goal of helping the hospitality industry manage and maintain healthy financial environments. For Phool, better cash management starts with getting cash flow right.

"Cash is vital for the survival of any business and something to which the vast majority of restaurant owners do not give adequate attention. Seasonal sales trends put strains on cash flow, leaving restaurant owners concerned about paying their staff and regular liabilities. Lack of effective cash flow management can cause the business serious risk and can ratchet up pressures for dealing with supplier payments, staff wages and tax bills in a timely manner.

It can also have a detrimental effect on stock purchasing power, causing stock to be purchased at higher prices and reducing the owner's access to cash. Cash flow management goes beyond cash flow forecasting.

It involves understanding the underlying cash inflow and outflow figures, expenditure requirements, any cash shortfall, developing a cash flow model and the avoidance of overspending. It actively promotes optimum employment of available cash within the business."

TO CREATE CASH FLOW CERTAINTY, YOU NEED TO START BY LOOKING AT GRANULAR DATA SUCH AS:

- Supplier relationships and credit terms
- Seasonal cash inflow trends
- Staff wages and premises
- Capital expenditure plans
- Tax payments deadlines
- Operational cash flow requirements
- Owner's drawing requirements
- Shortfalls between inflow and outflow and other sources of fulfilling those shortfalls.

WHAT SHOULD YOUR CASH FLOW STATEMENT LOOK LIKE?

BREAK DOWN YOUR CASH FLOW STATEMENT USING THE THREE CATEGORIES PREVIOUSLY DISCUSSED.

Traditionally a cash flow statement resembles this:

Cash Flows from (used in) operating activities

Cash receipts from customers	**9,500**	
Cash paid to suppliers and employees	**(2,000)**	
Cash generated from operations *(sum)*	**7,500**	
Insterest paid	**(2,000)**	
Income taxes paid	**(3,000)**	
Net cash flows from operating activities		**2,500**

Cash flows from (used in) investing activities

Proceeds from the sale of equipment	**7,500**	**9,500**
Dividends received	**3,000**	**9,500**
Net cash flows from investing activities		**10,500**

Cash flows from (used in) financing activities

Dividends paid	**(2,500)**	
Net cash flows used in financing activities		**(2,500)**
Net increase in cash and cash equivalents		**10,500**
Cash and cash equivalents, beginning of year		**1,000**
Cash and cash equivalents, end of year		**11,500**

However it's easier to visualise if you keep the structure simple before diving deeper and laying it out on an official document.

Receipt Bank's resident Enterprise Partner Success Consultant Mel Dowie began her career as a bookkeeper and advisor.

"Understanding where your money is coming from or going to in your business is essential. 'Cash is King,' as the saying goes, and it is so true," says Mel.

She created an easy to follow system featured in her bookkeeping guide, *BookieBook* to help with better grasping your position.

Bank Balance - Current ›	**inflow**
Bank Balance - Savings ›	**inflow**
Debtors (money owed) ›	**inflow**
Creditors ›	**outflow**
Credit Card Liability ›	**outflow**
Loan Liability ›	**outflow**
Total Balance ›	

Write it down or type it out, but spend time collating your standing based on a set period of time.

USE TECHNOLOGY TO GATHER DATA

The more data, the better. This will help create a clear picture of your cash position, but how do you get it all in one place, clean and ready to use? Luckily, there is technology out there built to help you capture and control your financial data.

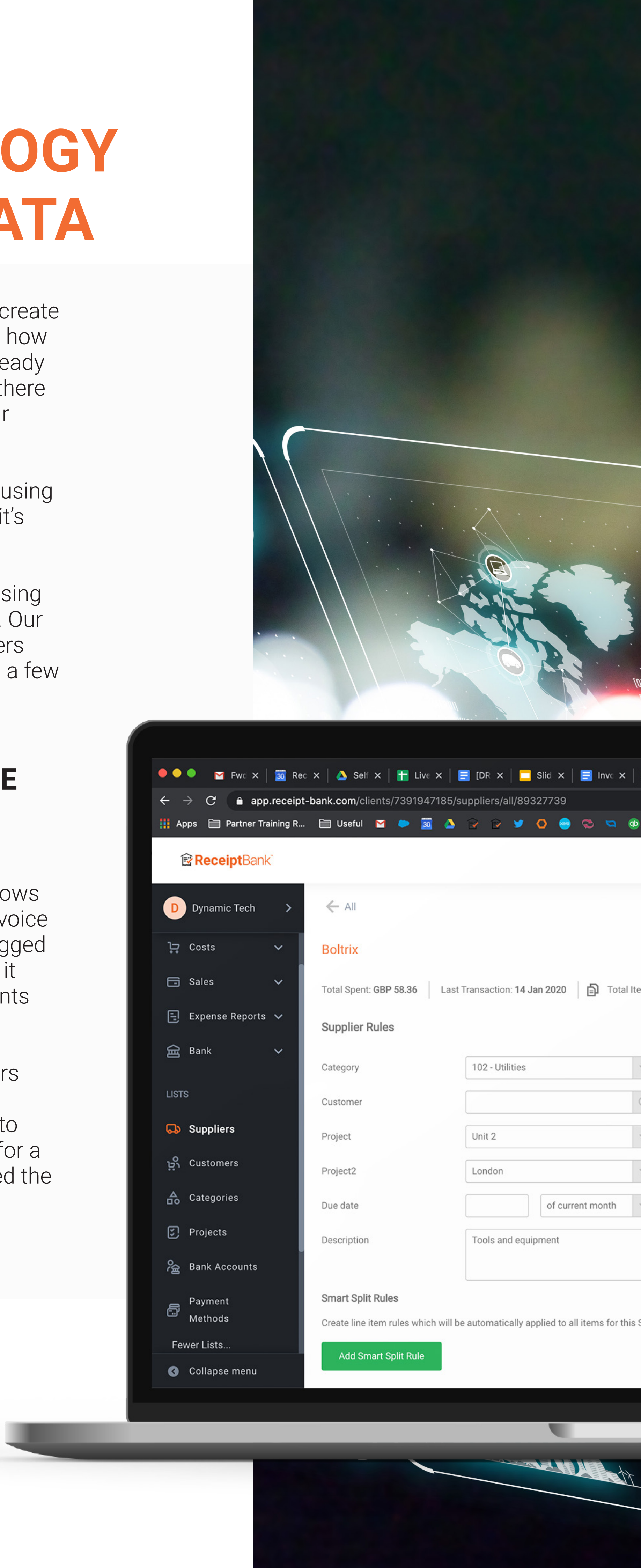
Know what you're owed and what's due using digital general ledgers like Xero and Intuit's Quickbooks.

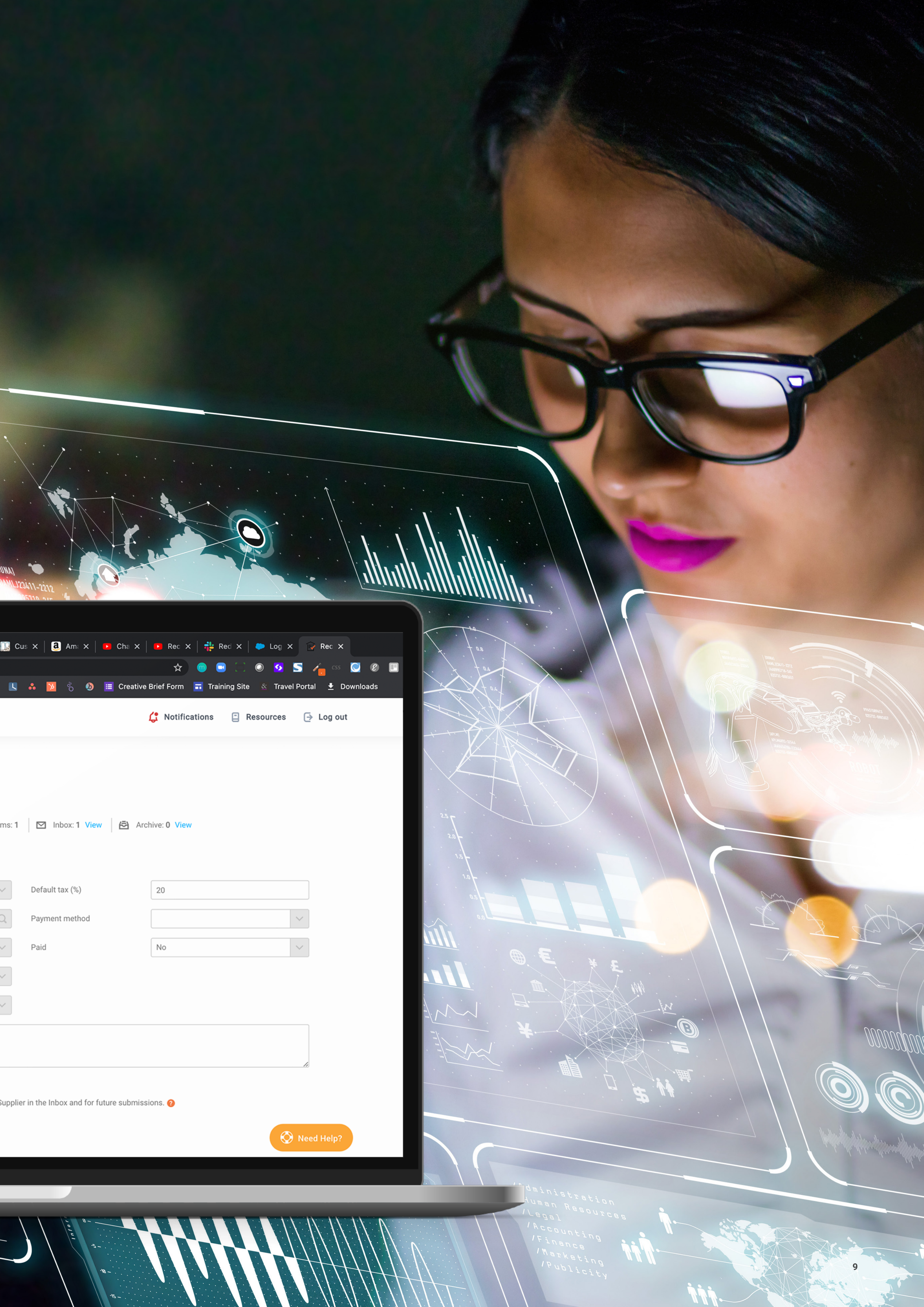
Get the data into these ledgers quickly using data capture software like Receipt Bank. Our mobile app integrates with general ledgers and creates even more cash overview in a few ways.

CLEAR ACCOUNTS PAYABLE PROCESS:

Receipt Bank uses Optical Character Recognition (OCR) technology, which allows users to snap a picture of a receipt or invoice for data extraction. This data is then plugged into your general ledger software. When it comes to accounts payables and accounts receivable, it's a very useful tool.

Features like **Supplier Rules**, allows users to build efficiencies around data entry. Eliminating the receptive task of having to type the same data in month on month for a supplier whose expense is always treated the same way. ie Rent, telephone.




Creative Brief Form
Training Site
Travel Portal
Downloads
Notifications
Resources
Log out
Inbox: 1 View
Archive: 0 View
Default tax (%)
20
Payment method
Paid
No
Supplier in the Inbox and for future submissions.
Need Help?
/Legal
/Accounting
/Finance
/Marketing
/Publicity

MINDING THE GAP

WHEN A CRISIS HITS, MINDING YOUR CASH GAP IS VITAL. THE SPACE BETWEEN PURCHASING SUPPLIES OR SERVICES AND RECEIVING PAYMENT FROM CUSTOMERS CAN GET BIGGER THE LONGER IT ISN'T FILLED AND FINANCED.

Racking up interest between these two points can directly affect your profit and no one wants to see how big that snowball can get.

The smaller the gap, the better. There are a few ways to alleviate the pain of a cash gap.

1. Collect accounts receivables earlier. Use a direct debit system which determines the time between payments for you, so there is no guessing.

2. Run a receivables analysis, chase the 30 day payments and write off anyone 90 days past due. Removing bad debt can help in the long run.

3. Renegotiate supplier payment times for a longer stretch so that you can shorten the time between payables and receivables.

4. Work on a cash basis, only accept payment upfront until you have more wiggle room due to positive cashflow.

LOOKING AHEAD:
RAINY DAY PLANNING

Once you've created a cash flow statement, the next step should be a cash flow forecast.
Cash flow forecasting is the secret weapon and the self fulfilling prophecy your business requires.

The main goal of cash flow forecasting is to manage your capital better so that you can make an impact on the cash you do have per month.

It allows business owners, accountants and bookkeepers to grasp where they will be financially in the next weeks, months or years. This knowledge aids in better decision making and fewer cash shortfalls, it ensures that businesses will have the money they need if and when the sky falls.

THE CASH FLOW FORECAST

There are two main types of cash flow forecast: Direct and Indirect. Both are essential but can be adapted based on business needs. Direct may be better for businesses with fewer transactions while indirect is sometimes favoured by larger enterprises. However, every business can benefit from including both methods in their forecasting.

DIRECT FORECASTING

This is forecasting for short term goals. If you want to forecast in real time then this one is your ticket. It identifies incoming and disbursement payments down to the day and includes credit and cash transactions as well as bills, invoices and tax.

Direct forecasting is useful if you are planning over a set period of time, such as 3 - 6 months. It is also more accurate because it ignores "non-cash" transactions.

INDIRECT FORECASTING

If you're looking long term, namely over a three year period then consider indirect forecasting. While direct relies on inflows and outflows as they happen, indirect makes an informed guess based on strategic goals, existing income statements and balance sheets. It's easier to put together but not always as accurate as direct forecasting.

NOW THAT WE HAVE THE BASICS,

HOW DO YOU BEGIN TO FORECAST?

It starts with mapping it all out. For month to month or direct forecasting, list your inflows and outflows.

Indirect forecasting is more contingent on existing statements and sheets. The same direct mapping method featured below applies but instead, start with net income over a certain period then add or abstract balance sheet items that affect profitability.

INFLOWS

- **Opening bank balance** *(both current and savings)*
- **Debtors**
- **Sales Invoices**
- **Work in Progress**

OUTFLOWS

- **Creditors**
- **Drawings**
- **Credit Card / Loan Liability**
- **Expenses**
- **Savings goals**
- **Predicted cash position** *at the end of the month*

BookieBook by Mel Dowie

EXTENDING THE RUNWAY

If after creating your forecast, or planning for the next few months you realise that maintaining a consistent cash inflow may be difficult due to unforeseen circumstances like Covid-19. It's time to extend the runway. What do we mean?

It's time to consider new sources of cash beyond shrinking your business. Every business has the potential to create a new stream of revenue.

Look at your value proposition and how it can be adapted to the new needs of customers For example, many restaurants have started delivery services to make up for the lack of footfall and alcohol companies are producing hand sanitiser. Explore your options based on the inventory or services you offer.

If considering everything beyond external help hasn't produced any fruit then the government can come to your aid.

HERE ARE LINKS YOU CAN EXPLORE PER REGION:

- USA
- CANADA
- UK
- SOUTH AFRICA
- AUSTRALIA
- FRANCE

LOOKING AHEAD

SMALL BUSINESSES THROUGHOUT THE WORLD ARE THE BACKBONES OF ECONOMIES. THEY ARE DESPERATELY NEEDED AND WILL EMERGE FROM THIS CRISIS DESPITE THE FINANCIAL SHOCK FELT ALL OVER.

While an end date for the current disruption to our lives isn't certain, here's what we can recommend going forward:

- ✓ Don't make any rash decisions before taking a hard granular look at your financial position. Look for pockets of potential.
- ✓ Draft an exit plan with renewed knowledge of your finances. Making a plan can provide a much needed morale boost.
- ✓ Get in line for government financial aid as a back up and use forecasting to ensure you can pay back loans over time.
- ✓ Think long term. Your customers' needs are going to change. Use this as an opportunity to rethink your value proposition.

Beyond that, stay safe and well. **We are here to help**.

1ST FLOOR
99 CLIFTON ST
LONDON
EC2A 4LG

www.receipt-bank.com
media@receipt-bank.com

ReceiptBank™