

# ROGERSON KENNY

## BUSINESS ACCOUNTANTS



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## Cash Flow Monitoring is Vital for Success

Events in the past weeks in the USA and Europe have highlighted the necessity for small/medium enterprises to continue to monitor their cash flow very closely.

When you read about a major American bank losing 20% of its share value overnight, you realise the magnitude of the problem that is facing the world; there is high unemployment in the United States and there are real problems in Europe, particularly with countries such as Spain and Italy, who are now being talked about in the same context as Greece, Ireland and Portugal. All of this could lead to a tightening in the lending position of Australian banks because of the Australian banking systems' reliance on borrowing money from overseas. The Reserve Bank has left the prime bank rate at 4.75% and Dun and Bradstreet have indicated that debtors' days outstanding are now approximately 54 days. Even though this has reduced slightly, it is still well above traditional 30 day payment terms with which many businesses try to operate.

Now is the time to closely monitor the key components of cash flow control. These are:

- **Debtors** - you need to ensure that the administration for the opening of accounts for new customers in your business is being closely supervised to ensure you're not just attracting someone else's problem customers.
- Have you considered ways of reducing your debtors' days outstanding? Have you considered outsourcing debt collection? You could also try more frequent follow up of debtors or offer discount incentives for early payment.
- **Inventory** - how much money do you have tied up in your inventory system? What is your stockturn rate? Could it be improved? What do you need to do to reduce your investment in inventory? Are you building up old and damaged stock? Should you be liquidating that stock as soon as possible so as to return the cash to the business?
- **Work in Progress** - are you closely examining to ensure that jobs are being finalised and invoiced out of work in progress as soon as possible?

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- **Creditors** - whilst the prime concentration on cash flow management will always be on debtors, stock and work in progress, it is a good idea to also check creditors. What is the creditors' days outstanding? Are you taking longer to pay than what your major creditors have stipulated? If so, what would be the position if your creditors demanded payments to be made in accordance with their stipulated trading terms? What would be the position if they refused to continue to deal with you? This is happening in more and more cases around Australia at present.

The analysis of your cash flow position may indicate that you do require additional funding. If this is the case, the quicker you determine whether you're able to introduce additional funding from private resources or need to have a discussion with your bank, the better. We can assist you in these reviews and the analysis of your cash flow position. Please do not hesitate to contact us.

