

A GUIDE TO CASH FLOW MANAGEMENT

This guide explains the following:

■ The key aspects of cash flow

■ Cash flow planning

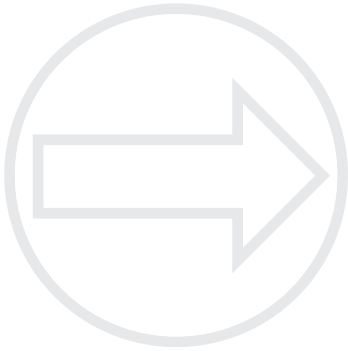
■ Managing your cash flow

■ Where to get further help

THE KEY ASPECTS OF CASH FLOW

(Inflows and outflows)

Inflows



Sales:

Sales will normally create the main inflow of cash for a business.

The key to developing a strong cash flow budget is accurately forecasting your sales. If you are an existing business, calculating the figures should be slightly easier. Have a look at last years/quarters figures, which will provide you with a firm understanding of what to expect in the future.

If you are a new business, you need to forecast your sales. Calculate the approximate volumes of products sold/services provided. Then, given your pricing structure, work out the monetary value of the total estimated sales for the year. In order to accurately plan your cash flow, it is important to be realistic with your sales figures.

- **Note: if you sell on credit, your cash inflow is delayed until you are actually paid. Effective credit control is therefore essential.**

Returns on investment:

You may find yourself in the situation of having more cash inflow than you had accounted for in your plan. If so you have a number of options, which include the following:

- Re-investing in growth.
- Repaying interest and capital to lenders e.g. the Bank
- Distributing the profits to Shareholders and directors.
- Investing elsewhere.
- Keeping some funds in reserve.

When reviewing these options, establish if your increased cash flow is periodic throughout the year or a more permanent occurrence – as this may affect your investment opportunities.

Finance:

It can sometimes make financial sense to borrow money on a short or longer term basis.

- **Short term finance is used often to manage seasonal issues such as stock ordering. This is commonly done through an overdraft or a loan.**
- **Long term finance is normally used for the purchase of fixed assets such as new equipment or office premises. Lenders will want details of your business plan to ensure that the investment is sound.**

Our Relationship and Business Managers will be able to explain the options available to you.

Useful website for further information: www.businesslink.gov.uk

At the Business Link website you can find advice about Government funding and grants for businesses.

THE KEY ASPECTS OF CASH FLOW

(Inflows and outflows)

Outflows

Expenditure:

Expenditure is the main outflow of cash. These expenditures mainly include:



Keeping complete control of your finances is essential. Bank of Scotland provide 24/7 Telephone Banking and/or Online Banking enabling you to transfer funds, pay bills and manage your standing orders and direct debits.

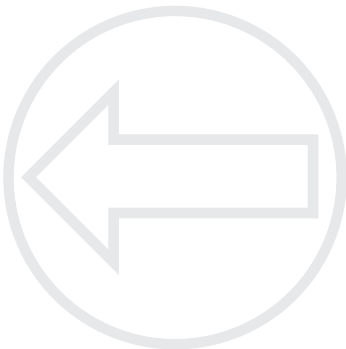
VAT and Tax:

Your business may be subject to several different taxes. These can include: income tax, VAT and stamp duty etc.

These are frequent cash outflows, which are often significant sums of money. It is essential to maintain an updated and detailed record to help you complete your returns.

VAT registered businesses should note that purchasing items just prior to a VAT period ending – rather than at the beginning – can help your cash flow, since you can offset the VAT on the purchase against the VAT you charge on sales.

Useful website for further information: www.hmrc.gov.uk HM Revenue and Customs – here you will find help if you run, or are starting up, a business or corporation.



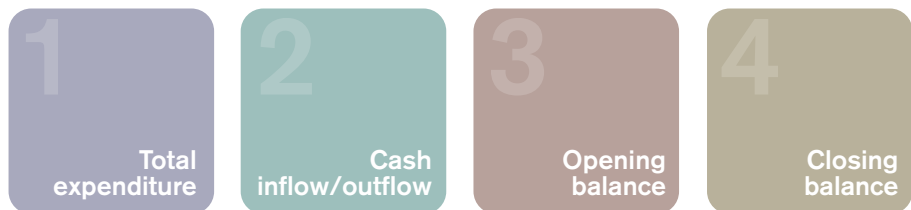
THE KEY ASPECTS OF CASH FLOW

Cash flow planning:

Cash flow planning is usually done for a 12 month period, on a monthly basis. Every business is different, so if you feel it is easier to manage a weekly forecast then do so. Remember, though, that it is important to remain aware of the overall business plan – so a weekly plan may be difficult to collate and review against the overall business objectives, on a regular basis. You may want to consider a short trial period to see what you are most comfortable with.

Your cash flow forecast should also be a document you use regularly. It should be compiled in a way that allows you to match the actual flow of cash in and out of the business with the original projections.

Your cash flow forecast should detail the following information:



A clear forecast will allow you to easily review your performance, take steps to resolve any problem areas and confidently project your likely cash flow into the future.

Please view our website for an easy to complete template, helping you to plan your cash flow.



Confidently project your likely cash flow into the future

THE KEY ASPECTS OF CASH FLOW

Managing your cash flow:

Each business is different. However, the core principles remain the same – and can be customised for your own circumstances.

Don't waste the work you put into your plan at the beginning of the year – by forgetting about it. If you use your plan correctly to place actual monthly results next to forecasts, you will have an important insight into how things are progressing. This will allow you to consider how often you need to review the plan itself. If things are going along reasonably well, you may only review the plan yearly. If you are beginning to see problem areas developing (see Operating cycle), then your review should be more regular.



Accountancy software

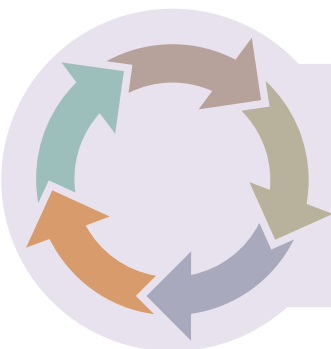
Consider purchasing accountancy software, as this will provide a structured way of collating and reviewing your cash flow and business trends. The software will also allow you to quickly produce various scenarios, given any predicted changes to your market.

Trade debtors

Look at the opportunity cost to trade debtors. The funds set aside with trade debtors belong to your business. It could be much more advantageous for the funds to be placed elsewhere and, if you are operating an overdraft, trade debtors may also cost you interest. It is recognised that offering credit is a proven way of enhancing sales volumes.

Operating cycle

One way to proactively resolve your cash flow problems is to make your operating cycle 'work smarter' or more efficiently. Ways of doing this can include the following:



- Reducing the level of excess stock on hand
- Customer management – produce a credit policy that states your payment terms
- Obtaining stock on a consignment basis, so you don't pay for it until it is sold
- Reducing the time it takes to manufacture your product, sell your product or provide your service
- Reducing costs, which will obviously increase your cash in hand and your overall profits

Useful website for further information: www.berr.gov.uk

The Business Enterprise and Regulatory Reform works with a wide range of individuals, groups and organisations to increase UK productivity and competitiveness. The site has specific information on industry sectors and links to the initiatives that the BERR offers small businesses to grow, invest and develop best practice.

THE KEY ASPECTS OF CASH FLOW

Where to get further help:

Support is available, if you need it. If you are having difficulty with your cash flow, you may want to speak to a specialist for advice – such as an accountant who specialises in such situations.

Contact details for business support organisations and further advice on cash flow can be found on: www.businesslink.gov.uk

Other useful web links:

British Chambers of Commerce: www.britishchambers.org.uk

The British Chambers of Commerce is a national network of quality-accredited Chambers of Commerce, uniquely positioned at the heart of every business community in the UK. Their Policy Unit campaigns nationally on behalf of Accredited Chambers' 135,000 members.

Federation of Small Businesses: www.fsb.org.uk

The Federation of Small Businesses (FSB) is the voice of the small business sector. Their website enables you to find out what they are saying to the media, parliament and others in the political and economic fields. The website contains information concerning the key issues facing the small business sector today.

UK Treasury: www.hm-treasury.gov.uk

The UK Treasury is the department responsible for formulating and putting into effect the UK Government's financial and economic policy. A broad overview of Government policy on a wide range of interests is available.

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