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It is very important for the business owner to be aware of the difference between profitability and cash flow, where profit is what remains of sales revenue after expenses have been paid. Cash flow is the money that flows in and out of a business. So a business could be profitable but have a negative cash flow and be unable to pay its bills in any particular accounting period.

A good cash flow forecast is like taking the blindfold off and it provides the business owner with something to aim for. You may not hit the target every time but at least you are heading in the right direction to ensure the business has enough cash on hand to maintain its operation. Bank managers do not like to be surprised with an eleventh hour phone call for help when the cash has run out. Your bank wants to see that you are managing the business cash flow by having a plan, that way you can provide them with advance warning of a funding requirement and at the same time identify the level of funding, when it is required, why it is required and how the resulting loan is to be serviced.

My advice for "Cash Flow Management" is to have a plan, revise it regularly and ensure it is backed up by well managed credit and stock control systems. Regularly monitor the financial "Key Performance Indicators" that measure cash flow performance such as Debtor & Stock-turn statistics. Have your financial advisers set performance standards for these.

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