

# Improving Cash Management

By Richard Harshaw

Lodestar Consulting Systems, Inc.

© 2008 by Lodestar Consulting Systems, Inc. All rights reserved.

Cash management is managing funds internally to get maximum use of your money. One of the first things to do is make sure your company hasn't fallen into bad habits. For instance, some companies write checks for every bill the 15th of the month. Or they borrow from their banks before they absolutely need the money.

The key to establishing good cash management is realizing that you can't manage cash the way you used to.

## ★ **Set up a receipts/disbursements cash budget**

A cash budget will give you a clear picture of cash flow in your company over a short period. This budget is simply a listing of all sources of cash (both on hand and coming in soon) and all cash payments. It is sometimes called a cash flow report.

## ★ **Do a cash flow forecast and use it in planning**

A cash flow forecast tracks the ins and outs of your cash. It compares sources of funds with uses of funds within a specific time period. If sources of funds for a specific time period exceed uses, it may be a good time to finance an addition to fixed assets or build up a war chest for future bad times.

If uses of funds exceed sources, it may be an expensive time to launch a new pro-

gram. Your accountant isn't doing you justice if you're not getting a cash flow analysis.

## ★ **Require deposits on large orders**

Ask for an advance on all orders, as much as 60% of the total. This advance gives you a head start on collection and helps realize full payment. Further, this policy helps you avoid short-term borrowing.

## ★ **Get personal**

A telephone call is much quicker and more effective than collection letters.

## ★ **Play the spread**

Do you have a customer who has a fortune in cash? If so, take a look at your spread — the difference between your cost and your price. In some cases, it's better to reduce the spread and get a cash payment than it is to maintain the spread and carry a receivable. Play the spread on an account-by-account basis only. (Suppliers who offer you early payment discounts are playing the spread with you.)

## ★ **Schedule payments to suppliers according to your interest costs**

You receive a bill from a supplier with the terms 2%, 10 days; net 30 days. What's

the annual interest rate equivalent of this 2% discount? By holding your money another 20 days, and perhaps not going to the bank to borrow that money, you raise your costs by 2%.

Annualize this 20-day, 2% rate and you'll be paying a lot more than 24% a year! You are paying 2% for 20 days. Since a year contains about eighteen 20-day periods ( $360 \div 20$ ), you are paying about 18 times 2%, or 36% a year!

Discounts are big bucks, and even if you had to borrow money from the bank to get the discount, you would still be money ahead. Doesn't it make more sense to pay a bank 9% to 15% than a supplier 36%?

★ **Set up special disbursement accounts**

Maintain a special payroll account in a bank near your business. Wait until payday to fund this account. Convert a high-interest fund to cash at the last moment so you can maximize your interest.

It is also a wise idea to set up a special savings account that you fund with your payroll account. I suggest that you put 10% of your payroll deposit into this special account each time you make a payroll account deposit. You will be amazed at how fast this little fund will grow!

★ **Set up a lockbox**

A lockbox is a post office box to which your bank has access. Customers send their payments directly to the lockbox. The bank removes the checks and deposits them in your company's account the day they arrive. Since most of these checks are written on accounts in nearby banks, the funds clear

more rapidly. This procedure reduces the number of days checks are in the mail, and it reduces the time the bank spends processing incoming checks.

★ **Deposit all receipts daily**

No matter how small a deposit may seem, it is to your advantage to get the money or checks to the bank promptly. Checks will clear more rapidly, making the funds available to you faster.

★ **Collect cash on service calls**

Set up a policy to collect cash on all service calls (or better yet, sell service agreements and collect the money up front). You get the use of cash and reduced bookwork.

★ **Spread the responsibility**

To minimize the chances of embezzlement and misapplication of funds, the person who deposits the money in the bank should not be the same one who is authorized to write the checks! Also, make it a habit to review every bank deposit ticket. If you are not the primary check writer, review the check register on a regular basis.

★ **A Handy Tool**

A weekly cash flow report that can be copied and given to your bookkeeper is available on the next page. Your bookkeeper can fill it out each week and give it to you either late Friday or first thing Monday morning. It will show you how much cash you started the week with, how much of it came in, and how much went out. It can also help you predict next week's cash flow.

Good cash management begins with a weekly cash flow report. Its wise use can help you avoid cash squeezes. For instance, if your cash flow forecast for next week shows a shortage for making payroll, you can begin Monday or Tuesday to try to get cash coming in rather than waiting until Thursday afternoon and getting those familiar stomach cramps and chest tightening.

★ **Practical Cash Management**

Often, the best way to get control of an out-of-control problem is to break it down into little manageable steps. This is especially true of improving cash management in an HVAC shop. Because it often takes so long to make significant progress in cash

management, one can become discouraged and eventually lose sight of the goal if only the long-term plan is kept in mind.

Breaking the long-term cash improvement plan into weekly “bite-sized” pieces can help you keep your focus on the problem and get a more immediate handle on it.

For more information on Lodestar Consulting Systems or my seminars, check my web page ([www.lodestarconsultinginc.com](http://www.lodestarconsultinginc.com)) or check with your distributor, or write me at [Lodestar51@cox.net](mailto:Lodestar51@cox.net).

# WEEKLY FLASH REPORT

Week Ending: \_\_\_\_\_

## Cash Position

	Checking	Savings	Total
Begin Balance			
Deposits			
Transfers			
Disbursements			
End Balance			

## Accounts Receivable

	Current	30 days	60 days	90 days	120 days	151+ days	Total
This week							
Last week							

## Accounts Payable

	Current	30 days	60 days	90 days	Total
This week					
Last week					

Purchase Orders	
-----------------	--

**Field Activity**

Billings	This week				M-T-D				Budget
	Resid	Comm'l	Indust	Total	Resid	Comm'l	Indust	Total	
HVAC									
Plumbing									
Electrical									
Service									
Service Agreements									
Total									

	Backlog	Work in Progress	Callbacks
HVAC			
Plumbing			
Electrical			
Service			
Service Agreements			
Total			

	Standard Hours	Standard Pay	OT Hours	OT Pay	Total	% of Sales
HVAC						
Plumbing						
Electrical						
Service						
Service Agreements						
Total						