Coronavirus Advice for Business – 5 November 2020

CASH FLOW

We understand that cashflow will inevitably be an issue for businesses for the remainder of the year. The impact of less cash coming in from customers mixed with payments that need to be made and commitments to employees will more than likely lead to a quick deterioration in cash balances, if it hasn't done so already.

One of the first steps that we would recommend is forecasting cashflows into 2021. This doesn't need to be done with expensive software or apps but can be plotted on a piece of paper or in excel, but it does need to carefully identify on a monthly basis the cash you expect to receive and pay out. This cash flow forecast should also include estimates for various tax payments, Corporation Tax, VAT and PAYE. These can be based on your last payments as a guide.

We are often asked how to forecast cash receipts. As you want a guide to the receipts you might get, look back through bank statements or your book keeping records to see what daily, weekly or monthly averages you have been achieving and use these.

Once you have established the baseline cash position you should then look at flexing the cash receipts to allow for a slow down in money coming into the business. This will hopefully then give you an idea of where your cash position will be if things deteriorate further and people stop paying their bills.

Armed with this information, you will then be able to make some decisions about what further mitigating actions you might be able to take. Some of the other articles in this guide provide information about some grants and sources of funding that might be available to you.

It is important that you plan your cashflow carefully and where shortfalls are predicted plan to fill the gaps with mitigating actions you can take and also using the support schemes that are available.

WORKING CAPITAL

In these difficult times, the following points are intended to help maintain a fluid movement of cash into your business:

1. **Invoicing**
    - Issue invoices more regularly and consider invoicing upfront or sending interim bills.
    - Look at offering early settlement discounts, for example 5% if payment is made within 7 days to bring forward receipt of the money.
    - If taking on any new customers ensure you use a credit check report for example, Experian.
2. **Debt Collection**
    - If you use a cloud-based accounting package, look at the possibility of automating your debt collection system, for example Chaser.
    - If you have debts beyond your payment terms look at placing the invoice with a debt collection company.
    - Look at financing your debtors using invoice discounting.
    - If you have individual large sum invoices look at single invoice finance.
    - If customers are struggling to pay be flexible and allow a payment plan by way of monthly direct debit.

3. Stock

- Look at your various stock lines and operate a just in/just out system.

4. Payment to Creditors

- Contact your suppliers to discuss extending terms or agreeing a payment plan.
- If offered an early payment discount by individual suppliers, look at settling their invoices first.

5. Capital Expenditure

- If considering purchasing capital equipment, investigate leasing the equipment rather than purchasing.
- Purchase any new equipment via a hire purchase agreement.
- Extend the term of the hire purchase agreement to reduce the monthly payments.

6. Cash

- Transfer any excess cash into a deposit account.
- Look at other investment opportunities whereby you still have quick access to the funds if required.