

Manage Your Cashflow Better



Financial Systems

There is often the dangerous illusion that as long as you are busy producing and selling goods or services, the business must be going well and the rest will naturally follow, or can be completed later.

If you do respond 'no' to any of these questions, then they are potential 'things to do' in your business. You might like to consider ticking "add to issues".

If you tick 'yes' but think further work is required you also might like to consider ticking "add to issues".

1. Records and books

Good record-keeping and bookkeeping will help you keep on-side with the IRD, your Bank, key stakeholders. If you're able to meet your tax obligations through sensible planning you'll sleep better at night. You won't fear a tax audit and you'll know how your business is going

Assess your systems:	Yes	No	Add to issues?
Do you have efficient record keeping?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. You benchmark

Benchmarking allows you to compare how you perform with the industry as a whole. Your accountant should be able to help you source financial benchmarking information.

Assess your systems:	Yes	No	Add to issues?
Do you benchmark against other similar businesses?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you access your industry association and ask if they have benchmarking information?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. You have Cashflow control

Good cashflow forecasting will enable you to anticipate a possible cashflow problem (something all growing businesses experience from time to time) and take steps before the problem becomes a crisis.

This shows other people (lenders and suppliers) that you're in charge of your business and are managing it competently.

Assess your systems:	Yes	No	Add to issues?
Do you determine your cashflow position monthly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. You have a financial plan in place

The words “financial plan” may leave you in a cold sweat.....as they imply accountability, responsibility, measurability, work!

However a financial plan (a budget) is crucial to the success of your business. For a budget to be effective it needs to be prepared annually then have actual results compared against the budget each month.

Assess your systems:	Yes	No	Add to issues?
Do you prepare an annual budget?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you compare actual results against budget each month?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you try to ascertain the reasons for variations and actually do something about them?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. You have a rational, clear price structure

The risk is that if your pricing is not carefully determined, then you can find yourself at two ends of the spectrum (both not charging enough and losing money, or too expensive and not getting any customers).

Assess your systems:	Yes	No	Add to issues?
Do you conduct a price analysis based on your overheads once a year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you have the price lists from all your direct competitors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Creditor and Debtor control

Good creditor and debtor control will improve your cashflow (because you establish favourable terms with your suppliers and you invoice promptly and collect debt on time)

Assess your systems:	Yes	No	Add to issues?
Do you have a Credit Policy AND enforce it?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a system in place to ensure creditors (suppliers) are paid on time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Kiwi Trading Company

Profit & Loss Result for

6 months to 30 September (000's)

Profit Forecast (000's)

(A) Sales	\$565
(B) Less stock purchases	367
(C) Gross Profit (A-B)	198
<u>Less</u> Advertising	12
Power	6
Telephone/fax/internet	6
Motor Vehicle expense	12
Premises	24
Wages	66
Owners Salary	24
Sundry expenses	24
Interest	6
(D) Total expenses	\$180
Net Profit before tax (C-D)	18
<u>Less</u> tax	5
Net Profit after tax	\$13

Oct	Nov	Dec	Jan	Feb	Mar	Total
95	125	130	60	75	95	580
1						
1						
2						
4						
11						
4						
4						
1						

Assumptions:

1. Round figures calculated either up or down to the nearest whole numbers, ie. 2.4 = 2 or 2.5 = 3
2. The budgeted sales figure above includes an allowance for seasonal trading over Christmas
3. Stock purchases represent 65% of the sales for the first 3 months, then increases to 70% (supplier price rise advised)
4. Advertising is budgeted at 2.5% of sales
5. The landlord has just advised of a rent increase of 30% from 1st January.
6. All other overheads expenses are expected to be the same each month.
7. Tax is calculated at 30% (if a monthly loss is calculated, record a tax refund at this rate)

Kiwi Trading Company - Cashflow Forecast (000's)

	Oct	Nov	Dec	Jan	Feb	Mar	Total
CASH RECEIPTS							
Sales this month (don't add to totals)	95	125	130	60	75	95	580
25% of this month's sales							
75% of prior month's sales	70						
Loans received							
(A) Total Cash Receipts							
LESS CASH PAYMENTS							
Suppliers – on credit	60						
Advertising	2	3	3	2	2	2	14
Power	1	1	1	1	1	1	6
Telephone/fax/internet	1	1	1	1	1	1	6
Motor Vehicle expense	2	2	2	2	2	2	12
Premises costs	4	4	4	5	5	5	27
Wages	11	11	11	11	11	11	66
Owners Salary	4	4	4	4	4	4	24
Sundry Expenses	4	4	4	4	4	4	24
Interest	1	1	1	1	1	1	6
Loan Principal repayment							
Fixed Asset purchased							
Tax payments							
(B) Total Cash Payments							
(C) NET CASHFLOW (A – B)							
(D) Opening bank balance	\$5	→	→	→	→	→	
Closing bank balance (D+C)							

Assumptions:

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> 1. Round figures calculated either up or down to the nearest whole numbers 2. Sales receipts are received: 25% cash, 75% the month following 3. Our suppliers close mid-December through to 20 January, therefore we need to purchase January supplies in December 4. Suppliers paid 20th of the month following delivery | <ol style="list-style-type: none"> 5. All other expenses paid in month incurred 6. The following tax payments due: October \$4 and January \$5 7. We purchase a new delivery van for \$15,000 in November using hire purchase finance \$10,000 8. Principal payments on term loan \$2k per month. Start Dec |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Where to get Benchmarking data



Management Research Centre

Waikato Benchmarking



NZ Business Benchmarking Survey

The New Zealand Business Benchmarking Survey has been run by The University of Waikato for the past 28 years. During this time we have worked closely with accountants to provide financial benchmarking information for client advice. In response to feedback from accountants and as a natural progression in enhancing the data submission and reporting processes The University of Waikato now conducts the survey in partnership with MYOB NZ to automate these processes.

Business Classifications have been expanded through the integration of our NZ Business Benchmarking classifications with the ANZSIC 2006 structure. As we build this expanded list of business classifications, summary reports are also being returned.



The Survey provides financial ratios covering income, profitability, overhead structure, ratios per person, liquidity, and capital structure for a range of NZ industries. The results are divided into two levels. A sample of these results is accessible from the **Purchase the 2007 Survey** webpage. The first level displays the aggregate results for all businesses within each classification, showing the range of results in different percentiles, and the average result for the best three performers based on Net Profit per Working Owner. The second level provides additional breakdowns of a classification's results based on total income, net profit per working owner, and location. The median results for these sub-groups (where the sample is sufficient to include them) are displayed side by side for comparison.

Order forms can be obtained on-line at the following website

<http://wms-soros.mnqt.waikato.ac.nz/MRC/NZ+Business+Benchmarking>

Calculate your own Gross Profit Breakeven

Using the data from our Profit forecasting exercise, calculate the breakeven for:

1. The first six month results for Kiwi Trading Company
2. Using the budget figures calculate the breakeven for the second six-month period.

Calculate your Own Break-Even Point

1- Input your total overheads for year (e.g., \$12,400)

2- Input your gross profit margin for year (e.g., 30.6%)

3- We divide these and multiply by 100

Result: Your break-even point is

Your break-even point indicates the minimum level of sales or income that you need to keep your head above water and remain in business. It's a vital calculation that helps you work out if you've set your prices correctly, and that you have enough demand to cover your fixed costs.

You're calculating the point at which the gross profit or volume of sales will be enough to cover overheads, and ultimately provide you with a satisfactory income level. Depending on the type of business you're in, the break-even calculation can be based on your overall sales, or on each individual product line or major item.

We calculate the break-even point of your sales using the following formula:

Note: This calculation assumes that the gross profit margin remains the same across all business activities:

Overheads / (divided by) gross profit margin x 100 = break-even level of sales

Answer

1. Overheads \$ Divided by GP Margin % = Breakeven level of sales \$

2. Overheads \$ Divided by GP Margin % = Breakeven level of sales \$

Calculate your own Hourly rate Breakeven

Exercise:

1. Calculate the break-even using annual overheads of \$50,000 and a charge-out rate of \$35.00
2. Calculate the break-even using annual overheads of \$60,000 and a charge-out rate of \$45.00

Calculate your own break-even point

1- Input your total overheads for year (e.g., \$12,400)

2- Input your hourly charge out rate (e.g., \$80)

3- We divide these

Result: Your break-even point is

hours

Your break-even point indicates the minimum level of sales or income that you need to keep your head above water and remain in business. It's a vital calculation that helps you work out if you've set your prices correctly, and that you have enough demand to cover your fixed costs.

You're calculating the point at which the volume of sales will be enough to cover overheads, and ultimately provide you with a satisfactory income level. Depending on the type of business you're in, the break-even calculation can be based on your overall sales, or on each individual product line or major item.

If you have no gross-profit percentage, and charge by the hour, then calculate the break-even point of your sales using the following formula:

Overheads/ (divided by) hourly rate = break-even point

Answer

1. Overheads \$ Divided by hourly rate = hours to breakeven *

2. Overheads \$ Divided by hourly rate = hours to breakeven *

* Realistically a business can only charge-out 1350 hours per person per annum after allowing for holiday, sickness, etc

Financial Calculations

Gross Profit Margin

Gross Profit to Sales Ratio	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	Represents the spread between the cost of producing the goods and the sales prices. An increasing ratio may indicate better control of production costs. It may also be the result of higher prices due simply to inflation, not management ability. A decreasing ratio may indicate problems with cost control or production efficiency, or the need to reduce price due to competitive pressure.
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Accounts Receivable (or Debtor) Days

Average Debtor Days (Debtor days on Hand DDOH)	$\frac{\text{Debtors}^*}{\text{Sales}} \times 365$	Indicates management's collection and credit-screening abilities. As a general rule, low or declining days on hand means greater operating efficiency than high or increasing days on hand. * Note: If there are bills receivable current, the value is to be added to the debtors figure.
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Collecting debt by Telephone

Step 1 Introduce yourself – name and firm
 Give details of the account – amount and dates
 “Is there a problem with the account?”

Step 2 If “**yes**” - Resolve the problem
 If “**No**” - ask for immediate payment

Step 3 Deal with the excuses

If they say...	You should say...
The cheque's in the mail	When was it posted? If it's not here by tomorrow, I'll come by and pickup another cheque, and you can cancel the first one
I'll post it tonight	What time would be suitable for me to call in today and pick up the cheque? Would be okay?
My accountant's got the cheque book	What time would be suitable for you and I to see him and pick up the cheque? How about?
The person who signs the cheques is away	What day will s/he be back? I'll call in atto pick up the cheque – please let him/her know
We're waiting for a big cheque ourselves	How much can you afford to pay now? When do you expect to receive the cheque? I'd be happy to accept your post dated- cheque for the balance to that date
I can't afford to make payment just yet	How much can you afford to pay now? We will accept a cheque for that now, plus a post-dated cheque to cover the difference
We've already paid that	Can you please tell us the date, cheque number, amount, and what date the cheque was presented, so that we can check our records
I didn't receive an invoice	I'll bring a copy around today, and pick up a cheque at the same time
I can't understand the invoice/statement	I'll come around and go through it with you. Once we've sorted it out, I can pick up your cheque

Remember the other options open to you include

Couriers
Direct credit
Agents
Sales Representatives

Step 4

Log all discussions and actions into your diary.
Place dates and actions in a bring-up or reminder file.

Step 5

Always follow-upand continue following-up

Remember..... “If you don’t succeed at firstkeep trying”

Solution Guides relevant to “Manage your cashflow better”

- A quick overview of grants and financial assistance
- ACC made simple
- Accounting queries and explanations
- An overview of investment funding stages
- Applying for business finance
- Calculating a charge out rate
- Calculating your discount options
- Checking the health of your business
- Depreciation made simple
- Five steps to make sure you get paid
- GST made simple
- How to collect debt
- How to raise capital for your business
- How to take a claim to the Disputes Tribunal
- Is your business attractive to investors?
- Keeping a simple cashbook
- Managing your overheads
- Pricing strategy made easy
- Seven ingredients to financial success
- Should I own or lease?
- Should you spend money chasing a debtor in court?
- Surviving difficult times
- Tax made simple
- The benefits of a profit forecast
- The benefits of cashflow forecasting
- Tips for preventing fraud
- Tips to improve your cashflow
- Understanding working capital
- Understanding your Balance sheet
- Understanding your Profit & Loss statement
- Your business insurance needs

**Download these and other Guides available at
www.anz.co.nz/bizhub**

Contact details: Stephen Caunter
E-mail: **stephen.caunter@anz.com**
Phone 03-5463409
Mob 027-2705980

